

CITY OF MENAHGA, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2016

**CITY OF MENAHGA, MINNESOTA
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DECEMBER 31, 2016**

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INTRODUCTORY SECTION

**CITY OF MENAUGA, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2016**

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

<u>Position</u>	<u>Name</u>
City Administrator	Janette Bower

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FINANCIAL SECTION



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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Honorable Mayor and
Members of the City Council
City of Menahga

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

For the year ended December 31, 2016, the City restated net position in the governmental activities and fund balance in the nonmajor governmental funds to correct an error in the previously issued financial statements. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Honorable Mayor and
Members of the City Council
City of Menahga

Other Matters (Continued)

Supplementary Information (Continued)

The combining nonmajor fund financial statements, the debt service fund by bond issue financial statements and the capital projects fund by capital project financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, the debt service fund by bond issue financial statements and the capital projects fund by capital project financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2017, 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 22, 2017

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REQUIRED SUPPLEMENTARY INFORMATION

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

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, 2016. 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 (2016) and the prior year (2015) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2016 include the following:

- City-wide net position increased approximately \$923,000 over the prior year. This is due primarily to the City receiving more in intergovernmental revenue for the water treatment plant project.
- As of the close of the current year, the City's governmental funds reported combined fund balance of \$1,437,837, a decrease of \$23,612 in comparison to the prior year. Approximately 39% of this amount, or \$550,065, is restricted for economic development, debt repayment, and capital outlay. Approximately 26% of this amount, or \$373,418 is assigned for capital outlay.
- At the end of the current year, unassigned fund balance for the General Fund was \$491,094, or 45% 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.

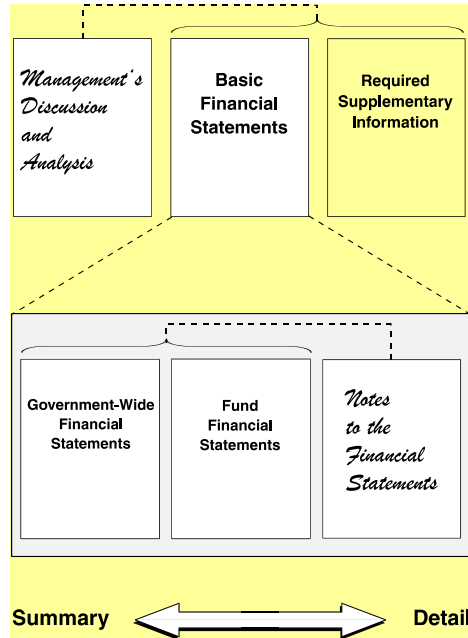
**CITY OF MENAHGA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

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, 2016**

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, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

City-Wide Statements

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

City-Wide Statements (Continued)

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

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

Fund Financial Statements

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

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

The City has three kinds of funds:

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

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's net position was \$7,926,727 on December 31, 2016 (see Table A-1).

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 3,425,858	\$ 3,691,157	\$ 1,978,531	\$ 2,099,770	\$ 5,404,389	\$ 5,790,927
Capital Assets	2,317,307	2,041,369	5,705,719	5,175,422	8,023,026	7,216,791
Total Assets	5,743,165	5,732,526	7,684,250	7,275,192	13,427,415	13,007,718
Deferred Outflows of Resources	692,449	76,929	61,463	9,961	753,912	86,890
Current Liabilities	1,431,782	754,324	292,371	740,856	1,724,153	1,495,180
Long-Term Liabilities	3,421,926	3,574,163	915,366	939,692	4,337,292	4,513,855
Total Liabilities	4,853,708	4,328,487	1,207,737	1,680,548	6,061,445	6,009,035
Deferred Inflows of Resources	164,079	66,422	29,076	11,388	193,155	77,810
Net Position						
Net Investment in Capital Assets	795,217	590,946	4,663,719	3,608,327	4,027,495	2,944,989
Restricted	1,930,601	1,975,637	-	-	1,930,601	1,975,637
Unrestricted	(1,307,991)	(1,152,037)	1,845,181	1,984,890	1,968,631	2,087,137
Total Net Position	\$ 1,417,827	\$ 1,414,546	\$ 6,508,900	\$ 5,593,217	\$ 7,926,727	\$ 7,007,763

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$3,566,565 for the year ended December 31, 2016. Property taxes and intergovernmental revenues accounted for 41% of total revenue for the year, while user charges accounted for 38% of total revenue (see Table A-2).

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program Revenues						
Charges for Services	\$ 102,162	\$ 392,177	\$ 1,249,074	\$ 1,313,792	\$ 1,351,236	\$ 1,705,969
Operating Grants and Contributions	36,556	50,146	8,224	-	44,780	50,146
Capital Grants and Contributions	236,241	89,148	1,019,220	327,080	1,255,461	416,228
General Revenues						
Property Taxes	437,443	428,983	-	-	437,443	428,983
Franchise Fees	500	500	-	-	500	500
Unrestricted State Aid	392,945	383,668	-	-	392,945	383,668
Unrestricted Investment Earnings	6,962	7,181	6,093	3,659	13,055	10,840
Gain on Sale of Capital Assets	13,401	5,306	-	-	13,401	5,306
Miscellaneous	46,547	53,488	11,197	8,959	57,744	62,447
Total Revenues	1,272,757	1,410,597	2,293,808	1,653,490	3,566,565	3,064,087
EXPENSES						
General Government	406,012	330,592	-	-	406,012	330,592
Public Safety	537,095	675,142	-	-	537,095	675,142
Public Works	185,263	188,475	-	-	185,263	188,475
Culture and Recreation	70,231	49,419	-	-	70,231	49,419
Economic Development	27,874	24,689	-	-	27,874	24,689
Interest on Long-Term Debt	104,803	224,026	-	-	104,803	224,026
Water	-	-	218,290	250,960	218,290	250,960
Sewer	-	-	266,018	303,468	266,018	303,468
Liquor Store	-	-	827,930	776,996	827,930	776,996
Total Expenses	1,331,278	1,492,343	1,312,238	1,331,424	2,643,516	2,823,767
CHANGE IN NET POSITION BEFORE TRANSFERS	(58,521)	(81,746)	981,570	322,066	923,049	240,320
Transfers	65,887	60,000	(65,887)	(60,000)	-	-
CHANGE IN NET POSITION	7,366	(21,746)	915,683	262,066	923,049	240,320
Net Position - Beginning of Year	1,414,546	1,436,292	5,593,217	5,331,151	7,007,763	6,767,443
Change in Accounting Principle	(4,085)	-	-	-	(4,085)	-
Net Position - Beginning of Year, As Restated	1,410,461	1,436,292	5,593,217	5,331,151	7,003,678	6,767,443
NET POSITION - END OF YEAR	\$ 1,417,827	\$ 1,414,546	\$ 6,508,900	\$ 5,593,217	\$ 7,926,727	\$ 7,007,763

Total revenues surpassed expenses, increasing net position \$923,049 over last year.

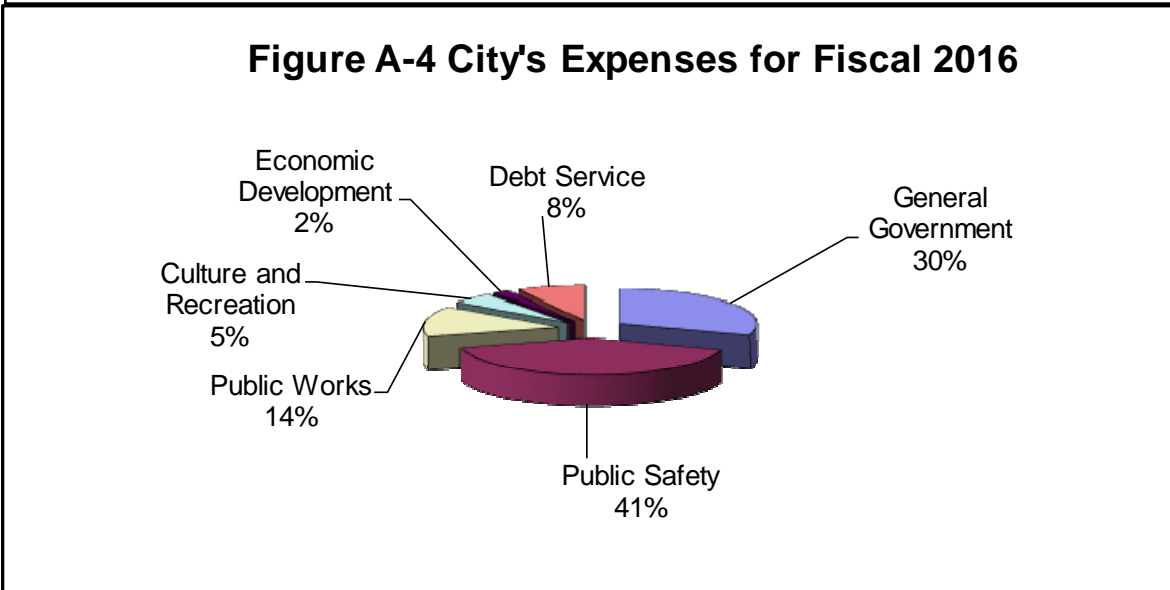
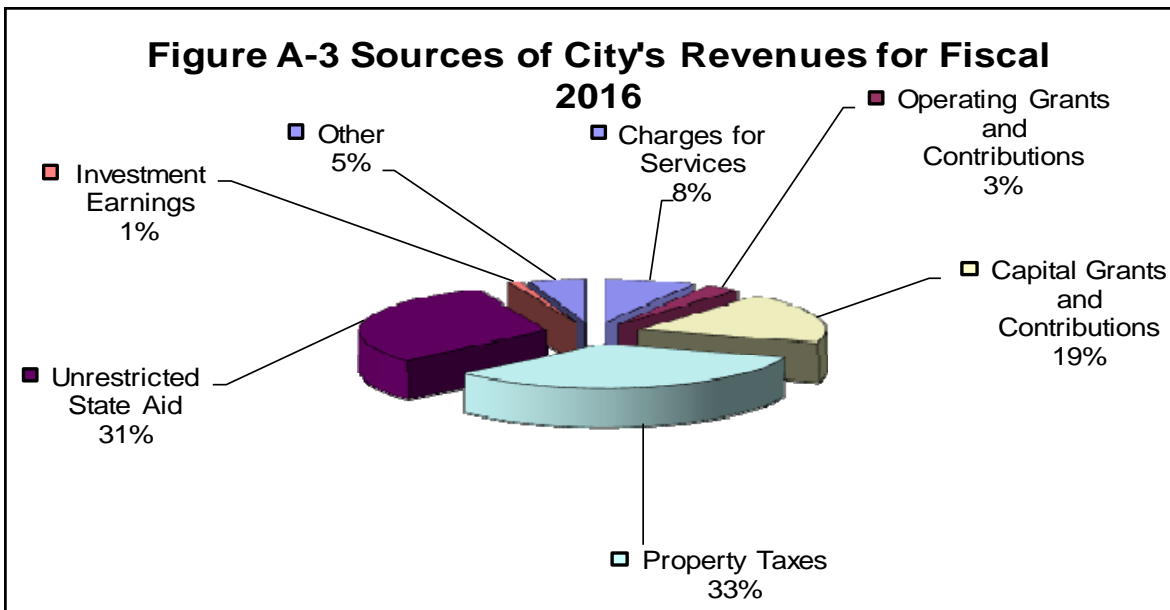
**CITY OF MENAHGA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

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 \$1,331,278.

- Some of the cost was paid by the users of the City's programs (\$102,162).
- Federal and state government payments (\$36,556) and capital grants and contributions (\$236,241) subsidized certain programs.
- Ad valorem property taxes (\$437,443) and unrestricted state grants (\$392,945) also helped fund the net costs of governmental services.



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

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	
	2016	2015	2016	2015
GOVERNMENTAL ACTIVITIES				
General Government	\$ 406,012	\$ 330,592	\$ (357,958)	\$ (274,769)
Public Safety	537,095	675,142	(277,315)	(324,416)
Public Works	185,263	188,475	(139,667)	(96,087)
Culture and Recreation	70,231	49,419	(53,674)	(34,867)
Economic Development	27,874	24,689	(22,968)	(6,707)
Interest and Fiscal Charges on Debt Service	104,803	224,026	(104,737)	(224,026)
Total	<u>\$ 1,331,278</u>	<u>\$ 1,492,343</u>	<u>\$ (956,319)</u>	<u>\$ (960,872)</u>
BUSINESS-TYPE ACTIVITIES				
Water	\$ 218,290	\$ 250,960	\$ 939,462	\$ 251,653
Sewer	266,018	303,468	(3,540)	(9,637)
Liquor Store	827,930	776,996	28,358	67,432
Total	<u>\$ 1,312,238</u>	<u>\$ 1,331,424</u>	<u>\$ 964,280</u>	<u>\$ 309,448</u>

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL

Governmental Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$1,437,837.

Revenues for the City's governmental funds were \$1,457,945, while total expenditures were \$1,743,135. Other financing sources (uses) totaled \$261,578.

The General Fund's fund balance decreased \$34,519 from the prior year. This is due to an increase in transfers out and capital outlay. Most of the capital outlay was supported with additional grant revenue.

The Debt Service Fund's fund balance decreased \$16,957, due to taxes and special assessments collections not being sufficient to cover current year principal and interest payments.

The Capital Projects Fund's fund balance increased \$28,227, due to additional money being set aside for specific capital outlay.

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

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

Business-Type Funds

Net position increased by \$942,574 in the Water Fund due to an increase in intergovernmental revenues in 2016.

Net position decreased by \$459 in the Sewer Fund due to a decrease in charges for services along with an increase in expenses offset with a decrease in transfers out.

Net position decreased by \$26,432 in the Municipal Liquor Fund due to an increase in expenses related to the pension liability. Transfers out were also higher than the prior year by approximately \$6,000.

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, 2016	December 31, 2015	Increase (Decrease)	Percent
Taxes	\$ 305,769	\$ 307,333	\$ (1,564)	(0.5)%
Special Assessments	-	174	(174)	-
Licenses and Permits	1,435	1,215	220	18.1
Intergovernmental	632,796	449,664	183,132	40.7
Charges for Services	74,562	79,426	(4,864)	(6.1)
Fines and Forfeits	8,654	13,102	(4,448)	(33.9)
Interest	2,137	2,340	(203)	(8.7)
Miscellaneous and Other	34,644	302,318	(267,674)	(88.5)
Total General Fund Revenues	<u>\$ 1,059,997</u>	<u>\$ 1,155,572</u>	<u>\$ (95,575)</u>	(8.3)

Total General Fund revenue decreased by \$95,575 or 8.3%, from the previous year. The primary reason for the decrease is a reimbursement of \$275,000 from equitable cost sharing in the prior year that did not occur in the current year due to regulation changes.

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

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

General Fund (Continued)

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2016	December 31, 2015	Increase (Decrease)	Percent
General Government	\$ 237,523	\$ 219,290	\$ 18,233	8.3 %
Public Safety	350,778	585,010	(234,232)	(40.0)
Highway and Streets	118,938	104,657	14,281	13.6
Culture and Recreation	53,050	39,265	13,785	35.1
Miscellaneous	99,025	70,398	28,627	40.7
Capital Outlay	230,353	24,473	205,880	841.3
Total Expenditures	\$ 1,089,667	\$ 1,043,093	\$ 46,574	4.5

The General Fund's expenditures increased by \$46,574, or 4.5% from 2015. This increase is due to an increase in capital outlay for the purchase of turnout gear in which the City received grant money to purchase this equipment.

General Fund Budgetary Highlights

Over the course of the year, the City revised the annual operating budget once in February.

- Actual revenues were higher than expected due to an increase in intergovernmental revenue.
- The actual expenditures were \$266,666 more than budget due to capital outlay items purchased through capital lease financing.

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 continues to wrap up their water treatment plant project during the current year and they also issued a capital lease for a new grader for the City.

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

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

General Fund (Continued)

CAPITAL ASSETS

By the end of 2016, the City had invested approximately \$8,023,026 (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 \$379,667 (including the enterprise funds).

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 51,786	\$ 51,786	\$ 81,854	\$ 81,854	\$ 133,640	\$ 133,640
Construction-in-Progress	-	3,702	-	1,135,701	-	1,139,403
Buildings	500,271	500,271	384,585	384,585	884,856	884,856
Equipment	1,713,528	1,274,096	202,439	185,029	1,915,967	1,459,125
Infrastructure	1,731,859	1,731,859	-	-	1,731,859	1,731,859
Land Improvements	-	-	12,846	12,846	12,846	12,846
Distribution and Collection System	-	-	9,726,760	7,862,397	9,726,760	7,862,397
Less: Accumulated Depreciation	(1,680,137)	(1,520,345)	(4,702,765)	(4,486,990)	(6,382,902)	(6,007,335)
Total	\$ 2,317,307	\$ 2,041,369	\$ 5,705,719	\$ 5,175,422	\$ 8,023,026	\$ 7,216,791

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

LONG-TERM LIABILITIES

At year-end, the City had \$4,777,491 in long-term liabilities outstanding.

- The City's governmental activities and business-type activities general obligation bonds decreased \$333,191 due to regularly scheduled principal payments.
- The City issued a capital lease for the purchase of a grader in the current year.

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

	2016	2015	Percentage Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds	\$ 3,485,000	\$ 3,785,000	(7.9)%
Capital Lease	179,451	-	N/A
Add: Bond Premiums	71,040	76,611	(7.3)
Total Governmental Activities	<u>\$ 3,735,491</u>	<u>\$ 3,861,611</u>	(3.3)
BUSINESS-TYPE ACTIVITIES			
General Obligation Bonds	<u>\$ 1,042,000</u>	<u>\$ 1,075,191</u>	(3.1)
Total City-Wide Debt	<u>\$ 4,777,491</u>	<u>\$ 4,936,802</u>	(3.2)

FACTORS BEARING ON THE CITY'S FUTURE

Two major projects were completed in 2016. Both projects have increased the efficiencies of the City's utility systems:

- The Water Treatment Rehabilitation Project was financed through Public Facilities Authority (PFA) with an 80% principal forgiveness loan (grant) and a 20% loan. The project finished under budget at \$1,620,621.19 (\$33,478.81 under budget).
- The Main Lift Station Replacement Project was completed the spring of 2016 for a total project cost of \$245,000, loan will be paid for through sewer user fees.

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

FACTORS BEARING ON THE CITY'S FUTURE (CONTINUED)

The 2017 Fee Schedule was adopted and includes new and updated fees for utilities. Those fees include:

- Increased late fees for unpaid utilities;
- A fee for duplicate utility bills;
- A fee for certification of delinquent utility accounts to the County; and
- Monthly water and wastewater rates are the same for all users.

The housing market remains stable, with an increased demand for rental homes. Various private entities have approached the City regarding new utility services to support development of rental utilities.

Dollar General completed their building project in 2016, with their doors opening March 2017.

Essentia Health finished and opened their new clinic in 2016. The new clinic more than doubles the size of the old clinic.

The City receive an increase in Local Government Aid (LGA) in 2016. The amount increased by \$2,457. In 2017, the City will receive \$357,939. This amount is an increase of \$1,216 over 2016.

Economic development opportunities continue to increase as the Menahga based civic organizations continue to pursue activities benefiting Menahga.

Per the Minnesota State Demographer, the City of Menahga's population is steadily increasing; 2010 Census – 1,306, 2013 Estimate – 1,330 and 2015 Estimate – 1,352.

Per Minnesota Department of Employment & Economic Development (DEED), Wadena County's March 2017 unemployment rate was 7.4%, a decrease from 8.3% for the same period in 2016.

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.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Greenwood Connections
ASSETS				
Cash and Cash Equivalents	\$ 1,411,753	\$ 1,782,982	\$ 3,194,735	\$ 347,830
Temporary Investments	-	-	-	113,723
Receivables				
Taxes	26,370	-	26,370	-
Accounts	1,980	55,024	57,004	547,164
Special Assessments	1,293,502	39,256	1,332,758	-
Loans	27,584	-	27,584	-
Accrued Interest	304	157	461	-
Note Receivable from Component Unit	565,000	-	565,000	-
Inventory	-	88,117	88,117	-
Prepaid Items	36,968	12,995	49,963	145,490
Noncurrent Cash and Investments	-	-	-	269,612
Net Pension Asset	62,397	-	62,397	-
Capital Assets				
Land and Construction in Progress	51,786	81,854	133,640	-
Other Capital Assets, Net of Depreciation	2,265,521	5,623,865	7,889,386	3,151,376
Total Assets	<u>5,743,165</u>	<u>7,684,250</u>	<u>13,427,415</u>	<u>4,575,195</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	692,449	61,463	753,912	1,491,171
LIABILITIES				
Current Liabilities				
Accounts Payable	15,064	3,126	18,190	101,364
Accrued Liabilities	5,642	3,740	9,382	431,269
Accrued Interest Payable	36,974	3,860	40,834	5,476
Due to Other Governments	668	6,740	7,408	-
Long-Term Liabilities				
Net Pension Liability	1,037,874	131,536	1,169,410	3,775,569
Due within One Year	335,560	143,369	478,929	50,000
Due to the Primary Government	-	-	-	565,000
Due in More than One Year, Net of Unamortized Discount	3,421,926	915,366	4,337,292	-
Total Liabilities	<u>4,853,708</u>	<u>1,207,737</u>	<u>6,061,445</u>	<u>4,928,678</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related	164,079	29,076	193,155	356,034
NET POSITION				
Net Investment in Capital Assets	795,217	4,663,719	4,027,495	2,536,376
Restricted For:				
Debt Repayment	1,611,125	-	1,611,125	-
Economic Development	223,811	-	223,811	-
Capital Outlay	8,638	-	8,638	22,754
Fire Relief Net Pension Asset	87,027	-	87,027	-
Unrestricted	<u>(1,307,991)</u>	<u>1,845,181</u>	<u>1,968,631</u>	<u>(1,777,476)</u>
Total Net Position	<u>\$ 1,417,827</u>	<u>\$ 6,508,900</u>	<u>\$ 7,926,727</u>	<u>\$ 781,654</u>

See accompanying Notes to Financial Statements.

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 406,012	\$ 9,869	\$ 38,185	\$ -
Public Safety	537,095	67,420	(1,695)	194,055
Public Works	185,263	3,410	-	42,186
Culture and Recreation	70,231	16,557	-	-
Economic Development	27,874	4,906	-	-
Debt Service	104,803	-	66	-
Total Governmental Activities	1,331,278	102,162	36,556	236,241
Business-Type Activities				
Water	218,290	152,813	95	1,004,844
Sewer	266,018	248,007	95	14,376
Liquor	827,930	848,254	8,034	-
Total Business-Type Activities	1,312,238	1,249,074	8,224	1,019,220
Total Primary Government	\$ 2,643,516	\$ 1,351,236	\$ 44,780	\$ 1,255,461
Component Unit				
Greenwood Connections	\$ 6,532,553	\$ 6,388,862	\$ -	\$ 19,605

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

Prior Period Restatement

Net Position - Beginning of Year, As Restated

Net Position - End of Year

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Greenwood Connections
\$ (357,958)	\$ -	\$ (357,958)	\$ -
(277,315)	-	(277,315)	-
(139,667)	-	(139,667)	-
(53,674)	-	(53,674)	-
(22,968)	-	(22,968)	-
(104,737)	-	(104,737)	-
<u>(956,319)</u>	<u>-</u>	<u>(956,319)</u>	<u>-</u>
-	939,462	939,462	-
-	(3,540)	(3,540)	-
-	28,358	28,358	-
<u>-</u>	<u>964,280</u>	<u>964,280</u>	<u>-</u>
(956,319)	964,280	7,961	-
-	-	-	(124,086)
437,443	-	437,443	-
500	-	500	-
392,945	-	392,945	-
6,962	6,093	13,055	4,381
46,547	11,197	57,744	14,051
13,401	-	13,401	-
65,887	(65,887)	-	-
<u>963,685</u>	<u>(48,597)</u>	<u>915,088</u>	<u>18,432</u>
7,366	915,683	923,049	(105,654)
1,414,546	5,593,217	7,007,763	887,308
(4,085)	-	(4,085)	-
<u>1,410,461</u>	<u>5,593,217</u>	<u>7,003,678</u>	<u>887,308</u>
<u>\$ 1,417,827</u>	<u>\$ 6,508,900</u>	<u>\$ 7,926,727</u>	<u>\$ 781,654</u>

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FUND FINANCIAL STATEMENTS

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

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND
ASSETS			
Cash and Cash Equivalents	\$ 576,068	\$ 348,910	\$ 299,247
Receivables			
Taxes	20,333	6,037	-
Accounts	1,980	-	-
Special Assessments	350	1,293,152	-
Loans	-	-	-
Interest	304	-	-
Notes Receivable from Component Unit	-	565,000	-
Due from Other Funds	5,020	-	-
Advance to Other Funds	-	-	82,809
Prepaid Items	36,968	-	-
Total Assets	<u>\$ 641,023</u>	<u>\$ 2,213,099</u>	<u>\$ 382,056</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ 6,376	\$ -	\$ -
Accrued Liabilities	5,642	-	-
Due to Other Funds	-	-	-
Due to Other Governments	668	-	-
Advance from Other Funds	82,809	-	-
Total Liabilities	95,495	-	-
Deferred Inflows of Resources			
Unavailable for Property Taxes	17,116	5,040	-
Unavailable for Notes Receivable	-	565,000	-
Unavailable for Loans	-	-	-
Unavailable for Special Assessments	350	1,289,160	-
Total Deferred Inflows of Resources	17,466	1,859,200	-
Fund Balances			
Nonspendable			
Prepaid Items	36,968	-	-
Restricted for Economic Development	-	-	-
Restricted for Debt Repayment	-	353,899	-
Restricted for Capital Outlay	-	-	8,638
Assigned for Capital Outlay	-	-	373,418
Unassigned	491,094	-	-
Total Fund Balances	<u>528,062</u>	<u>353,899</u>	<u>382,056</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 641,023</u>	<u>\$ 2,213,099</u>	<u>\$ 382,056</u>

See accompanying Notes to Financial Statements

NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 187,528	\$ 1,411,753
-	26,370
-	1,980
-	1,293,502
27,584	27,584
-	304
-	565,000
-	5,020
-	82,809
-	36,968
<u>\$ 215,112</u>	<u>\$ 3,451,290</u>
\$ 8,688	\$ 15,064
-	5,642
5,020	5,020
-	668
-	82,809
<u>13,708</u>	<u>109,203</u>
-	22,156
-	565,000
27,584	27,584
-	1,289,510
<u>27,584</u>	<u>1,904,250</u>
-	36,968
187,528	187,528
-	353,899
-	8,638
-	373,418
(13,708)	477,386
<u>173,820</u>	<u>1,437,837</u>
<u>\$ 215,112</u>	<u>\$ 3,451,290</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, 2016**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 1,437,837

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. 2,317,307

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. 1,904,250

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. (36,974)

Net pension asset/liability and related-deferred inflows and outflows of resources are recorded only on the statement of net position. Balances at year-end are:

Net Pension Liability	\$ (1,037,874)	
Deferred Inflows of Resources - Pension Related	(164,079)	
Net Pension Asset	62,397	
Deferred Outflows of Resources - Pension Related	<u>692,449</u>	(447,107)

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

Bonds Payable	(3,485,000)	
Capital Lease	(179,451)	
Unamortized Discounts and Premiums	(71,040)	
Compensated Absences Payable	<u>(21,995)</u>	<u>(3,757,486)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,417,827

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

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND
REVENUES			
Taxes	\$ 305,769	\$ 111,262	\$ -
Tax Increments	-	-	-
Licenses and Permits	1,435	-	-
Intergovernmental	632,796	-	-
Charges for Services	74,562	-	-
Fines and Forfeits	8,654	-	-
Special Assessments	-	189,472	-
Interest	2,137	994	3,028
Collections on Notes Receivable	-	65,698	-
Miscellaneous	34,644	-	-
Total Revenues	1,059,997	367,426	3,028
EXPENDITURES			
Current			
General Government	237,523	-	-
Public Safety	350,778	-	-
Public Works	118,938	-	-
Culture and Recreation	53,050	-	-
Economic Development	-	-	-
Miscellaneous	99,025	750	-
Capital Outlay	230,353	-	220,863
Debt Service			
Principal	-	300,000	-
Interest	-	103,891	-
Fiscal Agent Fees	-	2,450	-
Total Expenditures	1,089,667	407,091	220,863
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(29,670)	(39,665)	(217,835)
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Assets	13,401	-	-
Capital Lease Proceeds	5,013	-	177,277
Transfers In	94,375	22,708	103,160
Transfers Out	(117,638)	-	(34,375)
Total Other Financing Sources (Uses)	(4,849)	22,708	246,062
NET CHANGE IN FUND BALANCES	(34,519)	(16,957)	28,227
Fund Balances - Beginning of Year	562,581	370,856	353,829
Prior Period Restatement	-	-	-
Fund Balances - Beginning of Year, As Restated	562,581	370,856	353,829
FUND BALANCES - END OF YEAR	\$ 528,062	\$ 353,899	\$ 382,056

See accompanying Notes to Financial Statements

NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ 417,031
21,719	21,719
-	1,435
-	632,796
-	74,562
-	8,654
-	189,472
869	7,028
-	65,698
4,906	39,550
<u>27,494</u>	<u>1,457,945</u>
-	237,523
-	350,778
-	118,938
-	53,050
18,687	18,687
6,827	106,602
-	451,216
-	300,000
-	103,891
-	2,450
<u>25,514</u>	<u>1,743,135</u>
1,980	(285,190)
-	13,401
-	182,290
-	220,243
<u>(2,343)</u>	<u>(154,356)</u>
<u>(2,343)</u>	<u>261,578</u>
(363)	(23,612)
178,268	1,465,534
<u>(4,085)</u>	<u>(4,085)</u>
<u>174,183</u>	<u>1,461,449</u>
<u>\$ 173,820</u>	<u>\$ 1,437,837</u>

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**CITY OF MENAUGA, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (23,612)

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	\$ 439,830	
Depreciation Expense	<u>(163,892)</u>	275,938

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

Issuance of Debt	(182,290)	
Repayment of Refunded Bonds	300,000	
Repayment of Debt Principal	2,839	
Change in Accrued Interest Expense	(3,284)	
Amortization of Bond Premium/Discount	<u>5,571</u>	122,836

In the statement of activities, compensated absences 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		4,100
--------------------------------	--	-------

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

(169,787)

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

Deferred Inflows of Resources - December 31, 2015	(2,106,359)	
Deferred Inflows of Resources - December 31, 2016	<u>1,904,250</u>	<u>(202,109)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 7,366

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER	SEWER	MUNICIPAL LIQUOR	TOTALS
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 795,594	\$ 812,523	\$ 174,865	\$ 1,782,982
Receivables				
Accounts	20,454	29,674	4,896	55,024
Accrued Interest	100	57	-	157
Special Assessments	15,155	24,101	-	39,256
Inventories	-	-	88,117	88,117
Prepaid Items	2,906	2,851	7,238	12,995
Total Current Assets	834,209	869,206	275,116	1,978,531
NONCURRENT ASSETS				
Capital Assets				
Land	23,071	24,994	33,789	81,854
Building and Improvements	5,060,419	4,666,341	397,431	10,124,191
Machinery and Equipment	78,451	62,464	61,524	202,439
	5,161,941	4,753,799	492,744	10,408,484
Less: Accumulated Depreciation	(1,981,490)	(2,387,235)	(334,040)	(4,702,765)
Net Capital Assets	3,180,451	2,366,564	158,704	5,705,719
Total Assets	4,014,660	3,235,770	433,820	7,684,250
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	11,381	11,381	38,701	61,463
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	304	545	2,277	3,126
Salaries and Wages Payable	611	611	2,518	3,740
Due to Other Governments	141	38	6,561	6,740
Accrued Interest Payable	1,035	2,825	-	3,860
Accrued Compensated Absences	1,592	1,592	5,185	8,369
Bonds Payable	15,000	120,000	-	135,000
Total Current Liabilities	18,683	125,611	16,541	160,835
LONG-TERM LIABILITIES				
Bonds Payable (Net of Unamortized Bond Discounts)	267,000	640,000	-	907,000
Net Pension Liability	24,359	24,359	82,818	131,536
Accrued Compensated Absences	1,591	1,591	5,184	8,366
Total Long-Term Liabilities	292,950	665,950	88,002	1,046,902
Total Liabilities	311,633	791,561	104,543	1,207,737
DEFERRED INFLOWS OF RESOURCES				
Pension Related	5,385	5,385	18,306	29,076
NET POSITION				
Net Investment in Capital Assets	2,898,451	1,606,564	158,704	4,663,719
Unrestricted	810,572	843,641	190,968	1,845,181
Total Net Position	\$ 3,709,023	\$ 2,450,205	\$ 349,672	\$ 6,508,900

See accompanying Notes to Financial Statements.

CITY OF MENAHA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER	SEWER	MUNICIPAL LIQUOR	TOTALS
SALES AND COST OF SALES				
Sales	\$ -	\$ -	\$ 848,254	\$ 848,254
Cost of Sales	-	-	(530,340)	(530,340)
Gross Profit	-	-	317,914	317,914
OPERATING REVENUES				
Charges for Services	152,813	248,007	-	400,820
Miscellaneous	95	95	8,034	8,224
Total Operating Revenues	152,908	248,102	8,034	409,044
OPERATING EXPENSES				
Personal Services	62,780	62,779	192,085	317,644
Materials and Supplies	22,306	17,399	24,868	64,573
Repairs and Maintenance	19,987	40,157	13,491	73,635
Insurance	6,749	6,508	19,647	32,904
Contract Services - Other	4,564	4,157	12,455	21,176
Depreciation	84,363	120,280	11,132	215,775
Licenses and Permits	207	353	595	1,155
Utilities	12,701	5,417	19,817	37,935
Miscellaneous Expense	4,633	57	3,500	8,190
Total Operating Expenses	218,290	257,107	297,590	772,987
OPERATING INCOME (LOSS)	(65,382)	(9,005)	28,358	(46,029)
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental Revenues	996,200	-	-	996,200
Special Assessments	8,644	14,376	-	23,020
Investment Earnings	2,613	2,769	711	6,093
Interest	-	(8,911)	-	(8,911)
Miscellaneous	499	312	10,386	11,197
Total Nonoperating Revenues (Expenses)	1,007,956	8,546	11,097	1,027,599
INCOME BEFORE TRANSFERS	942,574	(459)	39,455	981,570
TRANSFERS OUT	-	-	(65,887)	(65,887)
CHANGE IN NET POSITION	942,574	(459)	(26,432)	915,683
Net Position - Beginning of Year	2,766,449	2,450,664	376,104	5,593,217
NET POSITION - END OF YEAR	<u>\$ 3,709,023</u>	<u>\$ 2,450,205</u>	<u>\$ 349,672</u>	<u>\$ 6,508,900</u>

See accompanying Notes to Financial Statements.

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER	SEWER	MUNICIPAL LIQUOR	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 161,606	\$ 262,307	\$ 860,467	\$ 1,284,380
Cash Paid to Employees for Services	(54,159)	(54,158)	(176,428)	(284,745)
Cash Paid to Suppliers for Goods and Services	(80,715)	(77,155)	(630,480)	(788,350)
Net Cash Provided (Used) by Operating Activities	26,732	130,994	53,559	211,285
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intergovernmental	1,172,807	-	-	1,172,807
Transfers to Other Funds	-	-	(65,887)	(65,887)
Other Miscellaneous Receipts	499	312	10,386	11,197
Net Cash Provided (Used) by Noncapital Financing Activities	1,173,306	312	(55,501)	1,118,117
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(1,086,291)	(144,927)	(6,758)	(1,237,976)
Proceeds from Issuance of Long-Term Debt	109,629	-	-	109,629
Special Assessments	3,446	5,686	-	9,132
Interest Paid	(164)	(7,325)	-	(7,489)
Principal Payments on Long-Term Debt	(12,820)	(130,000)	-	(142,820)
Net Cash Provided (Used) by Capital and Related Financing Activities	(986,200)	(276,566)	(6,758)	(1,269,524)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Received	2,563	2,769	711	6,043
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	216,401	(142,491)	(7,989)	65,921
Cash and Cash Equivalents - Beginning of Year	579,193	955,014	182,854	1,717,061
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 795,594	\$ 812,523	\$ 174,865	\$ 1,782,982

See accompanying Notes to Financial Statements.

CITY OF MENAHGA, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER	SEWER	MUNICIPAL LIQUOR	TOTALS
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (65,382)	\$ (9,005)	\$ 28,358	\$ (46,029)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	84,363	120,280	11,132	215,775
(Increase) Decrease in Assets:				
Accounts Receivable	8,986	14,517	4,179	27,682
Inventories	-	-	(6,990)	(6,990)
Prepaid Items	1,909	2,074	(184)	3,799
Deferred Outflows - Pension	(9,787)	(9,787)	(31,928)	(51,502)
Increase (Decrease) in Liabilities:				
Accounts Payable	(11,474)	(5,178)	1,142	(15,510)
Accrued Liabilities	221	221	1,313	1,755
Deposits Payable	(288)	(312)	-	(600)
Accrued Compensated Absences	1,252	1,252	(414)	2,090
Due to Other Governments	(3)	(3)	265	259
Net Pension Liability	13,372	13,372	36,124	62,868
Deferred Inflows - Pension	3,563	3,563	10,562	17,688
Net Cash Provided (Used) by Operating Activities	<u>\$ 26,732</u>	<u>\$ 130,994</u>	<u>\$ 53,559</u>	<u>\$ 211,285</u>

See accompanying Notes to Financial Statements.

**CITY OF MENAHGA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2016**

	<u>Agency Fund</u>
ASSETS	
Cash and Investments	<u>\$ 12,215</u>
LIABILITIES	
Cash Held for Other Agencies	<u>\$ 12,215</u>

See accompanying Notes to Financial Statements.

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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, 2016. 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, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the primary government, except for fiduciary activities, and its component unit. These statements include the financial activities of the overall City government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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

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

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and the fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

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

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following fiduciary fund type:

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

CITY OF MENAUGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Cash and Cash Equivalents

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

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

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

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

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

3. Long-Term Interfund Receivables/Payables

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

4. Accounts Receivable

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

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Taxes Receivable

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

Property Tax Collection Calendar

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

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

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

Within 30 days after the May settlement, the county treasurer is required to pay 70% 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% 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, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Special Assessments (Continued)

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

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

7. Inventory

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

8. Prepaid Items

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

9. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government with an initial, individual cost of more than described in the table below. Infrastructure assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capitalized interest for December 31, 2016 was \$1,619.

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Capital Assets (Continued)

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

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

10. Deferred Outflows of Resources

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

11. Compensated Absences

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

12. Long-Term Obligations

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

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

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

13. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

14. Pensions

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

15. Net Position and Fund Balance

Net position represents the difference between assets, deferred inflows/outflows of resources, and liabilities in the government-wide financial statements, the proprietary fund statements, and the fiduciary fund statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. A reclassification of \$1,648,401 was made between this net position class and unrestricted net position in the column on the statement of net position to recognize the portion of debt attributable to capital assets contributed from governmental activities to business-type activities. Net position is reported as restricted in the government-wide financial statements and proprietary fund statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

15. Net Position and Fund Balance (Continued)

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

16. Use of Estimates

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. Budgetary Information

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

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

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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

Expenditures exceeded the appropriations in the General Fund by \$268,210 during the year ended December 31, 2016. The overages were considered by the City's management to be the result of necessary expenditures critical to operations and were approved by the Council.

B. Deficit Fund Equity

The following funds have a deficit fund balance at December 31, 2016:

Safe Routes to School	\$	3,292
Tax Increment Finance District 1-4		50
Tax Increment Finance District 1-6		10,366

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

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

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

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits (Continued)

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

The City's deposits in banks at December 31, 2016 were entirely covered by federal depository insurance or by pledged collateral held by the bank's agent in the City's name in amounts equal to at least 110% of the amount in excess of the federal depository insurance, as required by Minnesota Statutes.

2. Investments

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

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

**CITY OF MENAUGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

At December 31, 2016, the City did not have any investments. Deposits consist of the following at December 31, 2016:

	Carrying Value
Cash and cash equivalents	
Checking	\$ 2,403,750
Petty Cash	3,200
Certificates of Deposit	800,000
Total	\$ 3,206,950

	Balance
Cash and Cash Equivalents - Governmental Funds	\$ 1,411,753
Cash and Cash Equivalents - Proprietary Funds	1,782,982
Cash and Cash Equivalents - Agency Fund	12,215
Total Cash and Cash Equivalents	\$ 3,206,950

3. Interfund Receivables, Payables, and Transfers

At December 31, 2016, due from/to other funds were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 5,020

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, 2016, were as follows:

	Transfer In:			
	Primary Government			
	General Fund	Capital Projects Fund	Debt Service Funds	Total
Transfer Out:				
Primary Government				
General Fund	\$ -	\$ 94,930	\$ 22,708	\$ 117,638
Capital Projects Fund	34,375	-	-	34,375
Nonmajor Funds	-	2,343	-	2,343
Liquor Fund	60,000	5,887	-	65,887
Total	\$ 94,375	\$ 103,160	\$ 22,708	\$ 220,243

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Interfund Receivables, Payables, and Transfers (Continued)

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

Interfund advances for the year ended December 31, 2016, were as follows:

Advance To	Advance From	Amount
General Fund	Capital Projects Fund	\$ 82,809

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.

4. Note Receivable

The City issued debt for Greenwood Connections. A note receivable from the component unit has been recorded in the financial statements of the City, with a balance of \$565,000 as of December 31, 2016. The terms of the repayment of this note by the component unit corresponds to the City's repayment of the related debt described in Note 3, B, 1.

**CITY OF MENAUGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the Primary Government (governmental activities) for the year ended December 31, 2016, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 51,786	\$ -	\$ -	\$ 51,786
Construction in Progress	3,702	38,401	42,103	-
Total Capital Assets, Not Being Depreciated:	55,488	38,401	42,103	51,786
Capital Assets, Being Depreciated				
Buildings	500,271	-	-	500,271
Equipment	1,274,096	443,532	4,100	1,713,528
Infrastructure	1,731,859	-	-	1,731,859
Total Capital Assets, Being Depreciated	3,506,226	443,532	4,100	3,945,658
Less Accumulated Depreciation for				
Buildings	238,664	11,754	-	250,418
Equipment	951,905	106,371	4,100	1,054,176
Infrastructure	329,776	45,767	-	375,543
Total Accumulated Depreciation	1,520,345	163,892	4,100	1,680,137
Total Capital Assets, Being Depreciated, Net	1,985,881	279,640	-	2,265,521
Governmental Activities Capital Assets, Net	<u>\$ 2,041,369</u>	<u>\$ 318,041</u>	<u>\$ 42,103</u>	<u>\$ 2,317,307</u>

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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, 2016, 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	1,135,701	766,171	1,901,872	-
Total Capital Assets, Not Being Depreciated	1,217,555	766,171	1,901,872	81,854
Capital Assets, Being Depreciated				
Land Improvements	12,846	-	-	12,846
Building and Improvements	384,585	-	-	384,585
Equipment	185,029	17,410	-	202,439
Distribution and Collection System	7,862,397	1,901,872	-	9,726,760
Total Capital Assets, Being Depreciated	8,444,857	1,919,282	-	10,326,630
Less Accumulated Depreciation For				
Land Improvements	12,846	-	-	12,846
Building and Improvements	255,296	9,780	-	265,076
Equipment	178,069	6,076	-	184,145
Distribution and Collection System	4,040,779	199,919	-	4,240,698
Total Accumulated Depreciation	4,486,990	215,775	-	4,702,765
Total Capital Assets, Being Depreciated, Net	3,957,867	1,703,507	-	5,623,865
Business-Type Activities Capital Assets, Net	<u>\$ 5,175,422</u>	<u>\$ 2,469,678</u>	<u>\$ 1,901,872</u>	<u>\$ 5,705,719</u>

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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	\$ 28,819
Public Safety	72,464
Public Works	52,548
Culture and Recreation	10,061
Total Depreciation Expense - Governmental Activities	<u>\$ 163,892</u>

Business-Type Activities:

Water	\$ 84,363
Sewer	120,280
Liquor	11,132
Total Depreciation Expense - Business-Type Activities	<u>\$ 215,775</u>

**CITY OF MENAUGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

1. Long-Term Debt

Primary Government

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. Improvement Bonds, Series 2006	4.05%	\$ 375,000	\$ 45,000
G.O. Improvement Bonds, Series 2012A	2.0-3.0%	815,000	565,000
G.O. Improvement Bonds, Series 2012A	2.0-2.38%	185,000	100,000
G.O. Improvement Bonds, Series 2013A	3.0-4.0%	1,980,000	1,770,000
G.O. Improvement Bonds, Series 2013B	3.0-4.0%	270,000	240,000
G.O. Improvement Refunding Bonds, Series 2015B	0.85-3.0%	830,000	<u>765,000</u>
Total Primary Government General Obligation Bonds			3,485,000
 CAPITAL LEASE			
Catepillar Grader Lease	2.75%	182,290	<u>179,451</u>
Total Long-Term Debt - Governmental Activities			3,664,451
 BUSINESS-TYPE ACTIVITIES			
GENERAL OBLIGATION REVENUE BONDS			
G.O. Sewer Revenue Bonds, Series 2015A	0.5-1.5%	275,000	235,000
G.O. Sewer Refunding Bonds, Series 2015A	0.5-1.5%	615,000	525,000
PFA Clean Water Revolving Loan 2015	0.28-2.88%	297,370	<u>282,000</u>
Total Long-Term Debt - Business-Type Activities			<u>1,042,000</u>
Total Government-Wide Long-Term Liabilities			<u><u>\$ 4,706,451</u></u>

**CITY OF MENAUGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Other Long-Term Liabilities

A summary of long-term debt transactions for the year ended December 31, 2016, is as follows:

PRIMARY GOVERNMENT	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds, Including					
Refunding Bonds	\$ 3,785,000	\$ -	\$ 300,000	\$ 3,485,000	\$ 290,000
Capital Lease	-	182,290	2,839	179,451	34,562
Add: Unamortized Premiums	76,611	-	5,571	71,040	-
Compensated Absences	26,095	42,471	46,571	21,995	10,998
Governmental Activity Long-Term Liabilities	<u>\$ 3,887,706</u>	<u>\$ 224,761</u>	<u>\$ 354,981</u>	<u>\$ 3,757,486</u>	<u>\$ 335,560</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds	\$ 1,075,191	\$ 109,629	\$ 142,820	\$ 1,042,000	\$ 135,000
Compensated Absences	14,645	17,023	14,933	16,735	8,369
Business-Type Activity Long-Term Liabilities	<u>\$ 1,089,836</u>	<u>\$ 126,652</u>	<u>\$ 157,753</u>	<u>\$ 1,058,735</u>	<u>\$ 143,369</u>

**CITY OF MENAUGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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
2017	\$ 290,000	\$ 101,384	\$ 391,384
2018	250,000	95,646	345,646
2019	260,000	89,496	349,496
2020	260,000	83,970	343,970
2021	265,000	76,446	341,446
2022-2026	1,370,000	261,351	1,631,351
2027-2030	790,000	47,956	837,956
Total	<u>\$ 3,485,000</u>	<u>\$ 756,249</u>	<u>\$ 4,241,249</u>

	General Obligation Bonds		
	Business-Type Activities		
	Principal	Interest	Total
2017	\$ 133,551	\$ 11,278	\$ 144,829
2018	139,000	10,405	149,405
2019	144,000	9,140	153,140
2020	139,000	7,635	146,635
2021	144,000	5,995	149,995
2022-2026	204,000	11,240	215,240
2027-2031	77,000	5,540	82,540
2032-2035	64,000	1,600	65,600
Total	<u>\$ 1,044,551</u> *	<u>\$ 62,833</u>	<u>\$ 1,107,384</u>

* This amount includes the full \$297,370 of the 2015 PFA Revenue Note issued to the City, which is comprised of \$294,820 that has been drawn by the City as of December 31, 2016 and \$2,550 which is what is left to be drawn.

2. Risk Management

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

**CITY OF MENAUGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Risk Management (Continued)

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

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

NOTE 4 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

**CITY OF MENAUGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

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

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

B. Benefits Provided

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

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

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

1. General Employees Plan Benefits

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

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. Police and Fire Plan Benefits

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

C. Contributions

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

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City contributions to the General Employees Fund for the year ended December 31, 2016, were \$28,072. The contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$25,194. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$487,170 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing City and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$6,385. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016 the City's proportion share was .0060% which was an increase of .0007% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$44,268 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$1,904 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of the General Employee's Plan deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 39,575
Changes of Assumptions	95,388	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	92,467	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	26,004	68,114
City Contributions Made Subsequent to the Measurement Date	13,786	-
Total	<u>\$ 227,645</u>	<u>\$ 107,689</u>

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

\$13,786 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2017	\$ 16,430
2018	16,430
2019	55,713
2020	17,597

2. Police and Fire Fund Pension Costs

At December 31, 2016, the City reported a liability of \$682,240 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016 the City's proportion was 0.017% which was an increase of 0.001% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$118,227 for its proportionate share of the Police and Fire Plan's pension expense. The City also recognized \$1,530 for the year ended December 31, 2016, as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

At December 31, 2016, the City's proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources is as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 78,266
Changes of Assumptions	375,466	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	104,114	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	9,354	7,200
City Contributions Made Subsequent to the Measurement Date	12,703	-
Total	<u>\$ 501,637</u>	<u>\$ 85,466</u>

\$12,703 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2017	\$ 86,390
2018	86,390
2019	86,390
2020	77,976
2021	66,322

**CITY OF MENAUGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

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

Inflation	2.75% per Year
Active Member Payroll Growth	3.50% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for the General Employees Plan and Police and Fire Plan, and 2.5% for all years for the Correctional Plan.

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

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

Police and Fire Fund

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

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

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

**CITY OF MENAUGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

G. Pension Liability Sensitivity

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

Description	1% Decrease	Current Discount Rate	1% Increase
City Proportionate Share of the GERF	(6.5%)	(7.5%)	(8.5%)
Net Pension Liability:	\$ 691,926	\$ 487,170	\$ 318,507
City Proportionate Share of the PEPFF	(4.6%)	(5.6%)	(6.6%)
Net Pension Liability:	955,045	682,240	459,337

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org

**CITY OF MENAHGA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN

A. Plan Description

Firefighters of the City of Menahga are members of the Menahga Firefighters Relief Association (Association). The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes, Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2015, membership includes 22 active participants and 2 deferred employees entitled to benefit but not yet receiving them.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$1,300 for each year of active Fire Department service but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

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

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$1,300 for each year the member was an active member of the Menahga Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

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

**CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

B. Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from state aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). The minimum contribution from the City and state aid is determined as follows:

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

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$13,732 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2015. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2015 was \$-0-.

**CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

C. Pension Costs

At December 31, 2015, the most current information available, the City reported an asset of \$62,397 for the Association's net pension asset. The net pension asset was measured as of December 31, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$28,987 for the year ended December 31, 2016. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ -
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	7,898	-
City Contributions Subsequent to the Measurement Date	16,732	-
Total	<u>\$ 24,630</u>	<u>\$ -</u>

**CITY OF MENAUGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

C. Pension Costs (Continued)

The City contributions to the Association subsequent to the measurement date, \$16,732 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2017	\$ 1,801
2018	1,801
2019	1,801
2020	2,495

D. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	December 31, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
	Closed
Actuarial Assumptions:	
Discount Rate	4.50%
Investment Rate of Return	4.50%
20-Year Municipal Bond Yield	3.50%
Age of Service Retirement	50

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

**CITY OF MENAUGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

D. Actuarial Assumptions (Continued)

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Allocation at December 31, 2015	Long-term Expected Real Rate of Return
Cash	10.00 %	2.00 %
Fixed Income	68.00	4.00
Equities	22.00	7.50
Total Portfolio	<u>100.00 %</u>	4.50

E. Discount Rate

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

F. Pension Asset Sensitivity

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

	1% Decrease	Selected Discount Rate	1% Increase
Net Pension Liability (Asset)	\$ (54,168)	\$ (62,397)	\$ (70,387)
Discount Rate	3.50%	4.50%	5.50%

**CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

G. Plan's Fiduciary Net Position

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

	<u>December 31, 2015</u>
Assets	
Cash	\$ 8,768
Certificates of Deposit	12,982
State Board of Investments	256,959
Mutual Funds	55,113
Accounts Receivable	1,000
Total Assets	\$ 334,822
 Net Position	
Unrestricted	\$ 334,822
 Revenues	
Fire State Aid	\$ 13,532
State 10% Supplemental Reimbursement	2,000
Municipal Contribution	-
Investment Earnings	2,148
Total Revenues	17,680
 Expenses	
Pension Distributions	-
Investment Expense	-
Administrative Expense	-
Total Expenses	-
Change in Net Position	17,680
Beginning Net Position	317,142
Ending Net Position	\$ 334,822

**CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

G. Plan's Fiduciary Net Position (Continued)

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

	Measurement Date December 31, 2015
<u>Total Pension Liability</u>	
Service Cost	\$ 13,568
Interest	9,773
Plan Changes	31,918
Net Change in Total Pension Liability	55,259
Total Pension Liability - Beginning	217,166
Total Pension Liability - Ending (a)	272,425
<u>Plan Fiduciary Net Position</u>	
Municipal Contributions	2,000
State Contributions	13,532
Net Investment Income	14,621
Other Changes	-
Gain or Loss	(12,473)
Net Change in Fiduciary Net Position	17,680
Fiduciary Net Position - Beginning	317,142
Fiduciary Net Position - Ending (b)	334,822
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	\$ (62,397)

Detailed information about the pension plan' fiduciary net position is available in a separately-issued financial report. That report may be obtained by calling Menahga City Hall at (218)-564-4557.

**CITY OF MENAUGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DISCRETE COMPONENT UNIT

Greenwood Connections

Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by Greenwood Connections (the Organization). The Organization's fiscal year ended on September 30, 2016.

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.

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, 2016, 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.

**CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

Greenwood Connections (Continued)

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 three 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.

Restricted Net Position – must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Facility.

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

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.

**CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

Greenwood Connections (Continued)

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, 2016**

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

Greenwood Connections (Continued)

Contributions

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

Deposits

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

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

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

The Organizations deposits at September 30, 2016 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, 2016**

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

Greenwood Connections (Continued)

Capital Assets

Capital asset activity for the year ended September 31, 2016, was as follows:

	Balance September 30, 2015	Additions and Transfers	Retirements/ Transfers	Balance September 30, 2016
GREENWOOD CONNECTIONS				
Capital Assets, Not Being Depreciated				
Land	\$ 87,340	\$ -	\$ -	\$ 87,340
Capital Assets, Being Depreciated				
Land Improvements	56,748	-	-	56,748
Building and Improvements	5,723,204	61,868	-	5,785,072
Equipment	1,132,931	31,160	28,012	1,136,079
Total Capital Assets, Being Depreciated	6,912,883	93,028	28,012	6,977,899
Less Accumulated Depreciation	(3,765,300)	(175,435)	(26,872)	(3,913,863)
Total Capital Assets, Depreciated, Net	3,147,583	(82,407)	1,140	3,064,036
Business-Type Activities Capital Assets, Net	<u>\$ 3,234,923</u>	<u>\$ (82,407)</u>	<u>\$ 1,140</u>	<u>\$ 3,151,376</u>

Long-Term Debt

The long-term debt obligations outstanding at year-end September 30, 2016 are summarized as follows:

	Range of Interest Rates	Original Issue	September 30, 2016
G.O. Bonds, Series 2012	2.00%	\$ 815,000	<u>\$ 615,000</u>

**CITY OF MENAUGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

Greenwood Connections (Continued)

Long-Term Debt (Continued)

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

	Greenwood Connections		
	Long-Term Debt		
	Principal	Interest	Total
2017	\$ 50,000	\$ 15,000	\$ 65,000
2018	50,000	14,000	64,000
2019	50,000	13,000	63,000
2020	55,000	12,000	67,000
2021	55,000	10,000	65,000
2022-2026	290,000	31,000	321,000
2027	65,000	1,000	66,000
Total	\$ 615,000	\$ 96,000	\$ 711,000

Pensions

Plan Description

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

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

Benefits Provided

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

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

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

**CITY OF MENAUGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

Greenwood Connections (Continued)

Pensions (Continued)

Benefits Provided (Continued)

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

Contributions

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The Organization was required to contribution 11.78% of pay from the Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The Organization's contributions to the General Employees Fund for the fiscal year ended September 30, 2016 was \$216,392. The Organization's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs

At September 30, 2016, the Organization reported a liability of \$3,775,569 for its proportionate share of the General Employees Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Organization's proportion of the net pension liability was based on the Organization's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 to June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At September 30, 2016, the Organization's proportion was .0465%, which was an increase of .0048% from its proportion measured as of September 30, 2015.

CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Greenwood Connections (Continued)

Pensions (Continued)

Pension Costs (Continued)

For the year ended September 30, 2016, the Organization recognized pension expense of \$492,040, for its proportionate share of General Employee Fund's pension expense.

At September 30, 2016, the Organization reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 11,174	\$ 306,711
Changes of Assumptions	814,299	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	421,517	-
Changes in Proportion and Differences Between Organizations Contributions and Proportionate Share of Contributions	190,083	49,323
Organization Contributions Made Subsequent to the Measurement Date	54,098	-
Total	<u>\$ 1,491,171</u>	<u>\$ 356,034</u>

\$54,098 reported as deferred outflows of resources related to pensions resulting from Organization contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended September 30,	Pension Expense Amount
2017	\$ 301,457
2018	215,244
2019	427,958
2020	136,380
2021	-
Total	<u>\$ 1,081,039</u>

**CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

Greenwood Connections (Continued)

Pensions (Continued)

Actuarial Assumptions

The total pension liability in the September 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per Year
Active Member Payroll Growth	3.50% per Year
Investment Rate of Return	7.50%

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

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

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

**CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

Greenwood Connections (Continued)

Pensions (Continued)

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

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

Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

Greenwood Connections (Continued)

Pensions (Continued)

Pension Liability Sensitivity

The following presents the Organization's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Organization's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

Description	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Organization Proportionate Share of the GERP Net Pension Liability at September 30, 2016:	\$ 5,362,427	\$ 3,775,569	\$ 2,161,110

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Litigations, Claims, and Disputes

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

CITY OF MENAHGA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 7 TAX ABATEMENTS

The City has one pay-as-you-go tax increment financing districts with a local business to promote economic development within the City as authorized under Minnesota Statute §469.174. The City is currently collecting tax increments that are paid through the property tax collection process. Collections on the district will stop as of December 31, 2040. The requirement for the business to receive the excess tax increments from the City is to perform improvements on the owned property. The increment taxes are based on the increase of the property value after the improvements are made. The agreement calls for 90% of the property tax increments collected to be returned to the developers. For the year ended December 31, 2016, the City paid excess tax increment in the amount of \$17,376. No other commitments were made by the City as part of these agreements.

NOTE 8 PRIOR PERIOD RESTATEMENT

The City restated beginning net position in the governmental activities and in the nonmajor governmental funds by a reduction of \$4,085 due to agency cash and activity being recorded within the City's activity. These transactions are not transactions of the City and should not be included in the City's activity. The cash related to this agency is not cash of the City, rather a liability to the City that will have to be repaid at a point in time.

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

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

	Measurement Date December 31, 2015	Measurement Date December 31, 2014
<u>Total Pension Liability</u>		
Service Cost	\$ 13,568	\$ 13,237
Interest	9,773	8,767
Plan Changes	31,918	-
Net Change in Total Pension Liability	<u>55,259</u>	<u>22,004</u>
Total Pension Liability - Beginning	<u>217,166</u>	<u>195,162</u>
Total Pension Liability - Ending (a)	272,425	217,166
<u>Plan Fiduciary Net Position</u>		
Municipal Contributions	2,000	2,000
State Contributions	13,532	12,857
Net Investment Income	14,621	13,188
Other Changes	-	3,467
Gain or Loss	(12,473)	-
Net Change in Fiduciary Net Position	<u>17,680</u>	<u>31,512</u>
Fiduciary Net Position - Beginning	<u>317,142</u>	<u>285,630</u>
Fiduciary Net Position - Ending (b)	<u>334,822</u>	<u>317,142</u>
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (62,397)</u>	<u>\$ (99,976)</u>
Fiduciary Net Position as a percentage of the Total Pension Liability	122.90%	146.04%
Covered-Employee Payroll	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	N/A	N/A

**CITY OF MENAUGA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016**

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
REVENUES				
Taxes	\$ 319,614	\$ 319,614	\$ 305,769	\$ (13,845)
Licenses and Permits	950	950	1,435	485
Intergovernmental	429,909	429,909	632,796	202,887
Charges for Services	68,891	68,891	74,562	5,671
Fines and Forfeits	10,100	10,100	8,654	(1,446)
Interest	6,015	6,015	2,137	(3,878)
Miscellaneous	7,000	7,000	34,644	27,644
Total Revenues	<u>842,479</u>	<u>842,479</u>	<u>1,059,997</u>	<u>217,518</u>
EXPENDITURES				
Current				
General Government				
Mayor and Council	14,800	14,800	12,845	(1,955)
Administration	169,078	173,806	177,962	4,156
Elections	1,750	1,750	2,177	427
Contractual Services	22,535	22,535	25,032	2,497
Governmental Buildings	21,900	21,900	19,507	(2,393)
Total General Government	<u>230,063</u>	<u>234,791</u>	<u>237,523</u>	<u>2,732</u>
Public Safety				
Police Protection	262,825	262,825	265,045	2,220
Fire Protection	41,450	41,450	66,059	24,609
Other Protection	-	-	19,674	19,674
Total Public Safety	<u>304,275</u>	<u>304,275</u>	<u>350,778</u>	<u>46,503</u>
Public Works				
Street Maintenance	117,205	117,205	118,938	1,733
Culture and Recreation				
Beach	19,910	19,910	11,528	(8,382)
Parks	23,570	23,570	41,522	17,952
Total Culture and Recreation	<u>43,480</u>	<u>43,480</u>	<u>53,050</u>	<u>9,570</u>
Miscellaneous				
Unallocated Insurance	57,250	57,250	72,513	15,263
Taxes and Assessments	25,550	25,550	26,512	962
Total Miscellaneous	<u>82,800</u>	<u>82,800</u>	<u>99,025</u>	<u>16,225</u>
Debt Service				
Principal	5,950	5,950	-	(5,950)

See accompanying Note to Required Supplementary Information.

**CITY OF MENAUGA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016**

	<u>BUDGET ORIGINAL</u>	<u>BUDGET FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE WITH BUDGET OVER (UNDER)</u>
EXPENDITURES (Continued)				
Capital Outlay				
Capital Equipment	\$ 34,500	\$ 34,500	\$ 230,353	\$ 195,853
Total Expenditures	<u>818,273</u>	<u>823,001</u>	<u>1,089,667</u>	<u>266,666</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	24,206	19,478	(29,670)	(49,148)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-	-	13,401	13,401
Transfers In	60,000	60,000	94,375	34,375
Transfers Out	(79,200)	(79,200)	(117,638)	(38,438)
Capital Lease Proceeds	-	-	5,013	5,013
Total Other Financing Sources (Uses)	<u>(19,200)</u>	<u>(19,200)</u>	<u>(4,849)</u>	<u>14,351</u>
NET CHANGE IN FUND BALANCE	<u>\$ 5,006</u>	<u>\$ 278</u>	<u>(34,519)</u>	<u>\$ (34,797)</u>
Fund Balance - Beginning of Year			<u>562,581</u>	
FUND BALANCE - END OF YEAR			<u>\$ 528,062</u>	

NOTE TO SCHEDULE

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

CITY OF MENAHGA, MINNESOTA
SCHEDULE OF CITY PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2016

	<u>Measurement Date</u> <u>June 30, 2016</u>	<u>Measurement Date</u> <u>June 30, 2015</u>
GERF		
City's Proportion of the Net Pension Liability	0.0060%	0.0053%
City's Proportionate Share of the Net Pension Liability	\$ 487,170	\$ 274,674
State's Proportionate Share of the Net Pension Liability Associated with the City	\$ 6,385	\$ -
City's Covered-Employee Payroll	\$ 375,022	\$ 312,532
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	129.90%	87.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.90%	78.20%
PEPFF		
City's Proportion of the Net Pension Liability	0.0170%	0.0160%
City's Proportionate Share of the Net Pension Liability	\$ 682,240	\$ 181,797
City's Covered-Employee Payroll	\$ 159,642	\$ 147,500
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	427.36%	123.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.90%	82.30%

**CITY OF MENAUGA, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
GERF			
Contractually Required Contribution	\$ 28,072	\$ 24,477	\$ 23,668
Contributions in Relation to the Contractually Required Contribution	<u>(28,072)</u>	<u>(24,477)</u>	<u>(23,668)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 374,293	\$ 326,360	\$ 326,455
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.25%
PEPFF			
Contractually Required Contribution	\$ 25,194	\$ 24,373	\$ 22,253
Contributions in Relation to the Contractually Required Contribution	<u>(25,194)</u>	<u>(24,373)</u>	<u>(22,253)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 155,519	\$ 150,451	\$ 145,444
Contributions as a Percentage of Covered Employee Payroll	16.20%	16.20%	15.30%
FIRE RELIEF ASSOCIATION PLAN			
Statutorily Required Contribution	\$ -	\$ -	\$ -
Contributions in Relation to the Statutorily Required Contribution	<u>16,732</u>	<u>2,000</u>	<u>2,000</u>
Contribution Deficiency (Excess)	<u>\$ 16,732</u>	<u>\$ 2,000</u>	<u>\$ 2,000</u>
City's Covered-Employee Payroll	N/A	N/A	N/A
Contributions as a Percentage of Covered Employee Payroll	N/A	N/A	N/A

Note: Information is required to be presented for ten years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

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SUPPLEMENTARY INFORMATION

**COMBINING FUND
FINANCIAL STATEMENTS**

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

	SPECIAL REVENUE FUNDS		
	ECONOMIC DEVELOPMENT REVOLVING LOANS	SAFE ROUTES TO SCHOOL	TAX INCREMENT FINANCE DISTRICT 1-1
ASSETS			
Cash and Cash Equivalents	\$ 169,783	\$ -	\$ 17,745
Receivables			
Loans	27,584		-
Total Assets	<u>\$ 197,367</u>	<u>\$ -</u>	<u>\$ 17,745</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	3,292	-
Total Liabilities	-	3,292	-
Deferred Inflows of Resources			
Unavailable for Loans	27,584	-	-
Fund Balance			
Restricted for Economic Development	169,783	-	17,745
Unassigned	-	(3,292)	-
Total Fund Balance (Deficit)	<u>169,783</u>	<u>(3,292)</u>	<u>17,745</u>
Total Liabilities and Fund Balance	<u>\$ 197,367</u>	<u>\$ -</u>	<u>\$ 17,745</u>

SPECIAL REVENUE FUNDS

TAX INCREMENT FINANCE DISTRICT 1-5	TAX INCREMENT FINANCE DISTRICT 1-4	TAX INCREMENT FINANCE DISTRICT 1-6	TOTAL
\$ -	\$ -	\$ -	\$ 187,528
-	-	-	27,584
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,112</u>
\$ -	\$ -	\$ 8,688	\$ 8,688
-	50	1,678	5,020
-	50	10,366	13,708
-	-	-	27,584
-	-	-	187,528
-	(50)	(10,366)	(13,708)
-	(50)	(10,366)	173,820
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,112</u>

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

	SPECIAL REVENUE FUNDS		
	ECONOMIC DEVELOPMENT REVOLVING LOANS	SAFE ROUTES TO SCHOOL	TAX INCREMENT FINANCE DISTRICT 1-1
REVENUES			
Tax Increments	\$ -	\$ -	\$ -
Interest	812	-	57
Miscellaneous	4,906	-	-
Total Revenues	<u>5,718</u>	<u>-</u>	<u>57</u>
EXPENDITURES			
Current			
Economic Development	-	-	336
Miscellaneous	-	-	-
Capital Outlay	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>336</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,718	-	(279)
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	5,718	-	(279)
Fund Balances - Beginning of Year	168,150	(3,292)	18,024
Prior Period Restatement	(4,085)	-	-
Fund Balances - Beginning of Year, as Restated	<u>164,065</u>	<u>(3,292)</u>	<u>18,024</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 169,783</u>	<u>\$ (3,292)</u>	<u>\$ 17,745</u>

SPECIAL REVENUE FUNDS

TAX INCREMENT FINANCE DISTRICT 1-5	TAX INCREMENT FINANCE DISTRICT 1-4	TAX INCREMENT FINANCE DISTRICT 1-6	TOTAL
\$ 2,343	\$ -	\$ 19,376	\$ 21,719
-	-	-	869
-	-	-	4,906
<u>2,343</u>	<u>-</u>	<u>19,376</u>	<u>27,494</u>
975	-	17,376	18,687
-	-	6,827	6,827
-	-	-	-
<u>975</u>	<u>-</u>	<u>24,203</u>	<u>25,514</u>
1,368	-	(4,827)	1,980
<u>(2,343)</u>	<u>-</u>	<u>-</u>	<u>(2,343)</u>
(975)	-	(4,827)	(363)
975	(50)	(5,539)	178,268
-	-	-	(4,085)
<u>975</u>	<u>(50)</u>	<u>(5,539)</u>	<u>174,183</u>
<u>\$ -</u>	<u>\$ (50)</u>	<u>\$ (10,366)</u>	<u>\$ 173,820</u>

**CITY OF MENAUGA, MINNESOTA
BALANCE SHEET
DEBT SERVICE FUND BY BOND ISSUE
DECEMBER 31, 2016**

DEBT SERVICE FUND					
	1996 WATER/SEWER DEBT SERVICE	1998 NURSING HOME DEBT SERVICE	2006 G.O. BONDS DEBT SERVICE	2009 G.O. BONDS DEBT SERVICE	2003 G.O. BONDS DEBT SERVICE
ASSETS					
Cash and Cash Equivalents	\$ 117,015	\$ 24,452	\$ (125,697)	\$ 50,373	\$ 1
Receivables					
Taxes	-	-	-	497	-
Special Assessments	150,655	-	143,547	281,530	1,217
Notes Receivable from Component Unit	-	565,000	-	-	-
Total Assets	<u>\$ 267,670</u>	<u>\$ 589,452</u>	<u>\$ 17,850</u>	<u>\$ 332,400</u>	<u>\$ 1,218</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Deferred Inflows of Resources					
Unavailable for Property Taxes	\$ -	\$ -	\$ -	\$ 400	\$ -
Unavailable for Notes Receivable	-	565,000	-	-	-
Unavailable for Special Assessments	150,655	-	143,547	278,893	1,217
Total Deferred Inflows of Resources	<u>150,655</u>	<u>565,000</u>	<u>143,547</u>	<u>279,293</u>	<u>1,217</u>
Fund Balance (Deficit)					
Restricted for Debt Repayment	117,015	24,452	-	-	-
Unassigned	-	-	(125,697)	53,107	1
Total Fund Balance (Deficit)	<u>117,015</u>	<u>24,452</u>	<u>(125,697)</u>	<u>53,107</u>	<u>1</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 267,670</u>	<u>\$ 589,452</u>	<u>\$ 17,850</u>	<u>\$ 332,400</u>	<u>\$ 1,218</u>

DEBT SERVICE FUND

2004 G.O. BONDS DEBT SERVICE	1990 G.O. CITY HALL BONDS	2012A FIRE TRUCK	2013 STREET & UTILITY DEBT SERVICE	2015 IMPROVEMENT REFUNDING GO BONDS	TOTAL DEBT SERVICE FUND
\$ 1,838	\$ 265	\$ -	\$ 321,567	\$ (40,904)	\$ 348,910
422	427	-	3,677	1,014	6,037
7,073	-	-	709,130	-	1,293,152
-	-	-	-	-	565,000
<u>\$ 9,333</u>	<u>\$ 692</u>	<u>\$ -</u>	<u>\$ 1,034,374</u>	<u>\$ (39,890)</u>	<u>\$ 2,213,099</u>
\$ 398	\$ 423	\$ -	\$ 2,993	\$ 826	\$ 5,040
-	-	-	-	-	565,000
5,718	-	-	709,130	-	1,289,160
<u>6,116</u>	<u>423</u>	<u>-</u>	<u>712,123</u>	<u>826</u>	<u>1,859,200</u>
-	-	-	322,251	(40,716)	423,002
3,217	269	-	-	-	(69,103)
<u>3,217</u>	<u>269</u>	<u>-</u>	<u>322,251</u>	<u>(40,716)</u>	<u>353,899</u>
<u>\$ 9,333</u>	<u>\$ 692</u>	<u>\$ -</u>	<u>\$ 1,034,374</u>	<u>\$ (39,890)</u>	<u>\$ 2,213,099</u>

**CITY OF MENAUGA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
DEBT SERVICE BY BOND ISSUE
YEAR ENDED DECEMBER 31, 2016**

	DEBT SERVICE FUND				
	1996	1998	2006	2009	2003
	WATER/SEWER DEBT SERVICE	NURSING HOME DEBT SERVICE	G.O. BONDS DEBT SERVICE	G.O. BONDS DEBT SERVICE	G.O. BONDS DEBT SERVICE
REVENUES					
Taxes	\$ 192	\$ -	\$ -	\$ (103)	\$ -
Special Assessments	27,271	-	17,373	50,271	-
Interest	349	-	-	66	-
Collections on Notes Receivable	-	65,698	-	-	-
Total Revenues	<u>27,812</u>	<u>65,698</u>	<u>17,373</u>	<u>50,234</u>	<u>-</u>
EXPENDITURES					
Current					
Miscellaneous	-	-	-	-	-
Debt Service					
Principal	-	50,000	45,000	-	-
Interest	-	15,331	2,734	-	-
Fiscal Agent Fees	-	367	-	451	-
Total Expenditures	<u>-</u>	<u>65,698</u>	<u>47,734</u>	<u>451</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	27,812	-	(30,361)	49,783	-
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	-	-	-
NET CHANGE IN FUND BALANCE	27,812	-	(30,361)	49,783	-
Fund Balance (Deficit) - Beginning of Year	<u>89,203</u>	<u>24,452</u>	<u>(95,336)</u>	<u>3,324</u>	<u>1</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 117,015</u>	<u>\$ 24,452</u>	<u>\$ (125,697)</u>	<u>\$ 53,107</u>	<u>\$ 1</u>

DEBT SERVICE FUND

2004 G.O. BONDS DEBT SERVICE	1990 G.O. CITY HALL BONDS	2012A FIRE TRUCK	2013 STREET & UTILITY DEBT SERVICE	2015 IMPROVEMENT REFUNDING GO BONDS	TOTAL DEBT SERVICE FUND
\$ 1,068	\$ (96)	\$ -	\$ 78,374	\$ 31,827	\$ 111,262
1,818	-	-	92,739	-	189,472
8	-	-	571	-	994
-	-	-	-	-	65,698
<u>2,894</u>	<u>(96)</u>	<u>-</u>	<u>171,684</u>	<u>31,827</u>	<u>367,426</u>
-	-	-	750	-	750
-	-	20,000	120,000	65,000	300,000
-	-	2,625	72,038	11,163	103,891
-	-	83	1,000	549	2,450
<u>-</u>	<u>-</u>	<u>22,708</u>	<u>193,788</u>	<u>76,712</u>	<u>407,091</u>
2,894	(96)	(22,708)	(22,104)	(44,885)	(39,665)
<u>-</u>	<u>-</u>	<u>22,708</u>	<u>-</u>	<u>-</u>	<u>22,708</u>
2,894	(96)	-	(22,104)	(44,885)	(16,957)
<u>323</u>	<u>365</u>	<u>-</u>	<u>344,355</u>	<u>4,169</u>	<u>370,856</u>
<u>\$ 3,217</u>	<u>\$ 269</u>	<u>\$ -</u>	<u>\$ 322,251</u>	<u>\$ (40,716)</u>	<u>\$ 353,899</u>

**CITY OF MENAHGA, MINNESOTA
BALANCE SHEET
CAPITAL PROJECTS FUND BY CAPITAL PROJECT
DECEMBER 31, 2016**

	CAPITAL PROJECTS FUND			TOTAL CAPITAL PROJECTS FUND
	CAPITAL EQUIPMENT	2009 IMPROVEMENTS PROJECT	2013 STREET AND UTILITY IMPROVEMENT	
ASSETS				
Cash and Cash Equivalents	\$ 313,634	\$ (23,025)	\$ 8,638	\$ 299,247
Advance to Other Funds	82,809	-	-	82,809
Total Assets	<u>\$ 396,443</u>	<u>\$ (23,025)</u>	<u>\$ 8,638</u>	<u>\$ 382,056</u>
FUND BALANCE				
Fund Balance				
Restricted for Capital Outlay	\$ -	\$ -	\$ 8,638	\$ 8,638
Assigned for Capital Outlay	396,443	-	-	396,443
Unassigned	-	(23,025)	-	(23,025)
Total Fund Balance (Deficit)	<u>\$ 396,443</u>	<u>\$ (23,025)</u>	<u>\$ 8,638</u>	<u>\$ 382,056</u>

**CITY OF MENAHGA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUND BY CAPITAL PROJECT
YEAR ENDED DECEMBER 31, 2016**

	CAPITAL PROJECTS FUND			TOTAL CAPITAL PROJECTS FUND
	CAPITAL EQUIPMENT	2009 IMPROVEMENTS PROJECT	2013 STREET AND UTILITY IMPROVEMENT	
REVENUES				
Interest	\$ 3,028	\$ -	\$ -	\$ 3,028
EXPENDITURES				
Capital Outlay	220,863	-	-	220,863
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(217,835)	-	-	(217,835)
OTHER FINANCING SOURCES (USES)				
Capital Lease Proceeds	177,277	-	-	177,277
Transfers In	103,160	-	-	103,160
Transfers Out	(34,375)	-	-	(34,375)
Total Other Financing Sources (Uses)	246,062	-	-	246,062
NET CHANGE IN FUND BALANCE	28,227	-	-	28,227
Fund Balance (Deficit) - Beginning of Year	368,216	(23,025)	8,638	353,829
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 396,443	\$ (23,025)	\$ 8,638	\$ 382,056

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OTHER REPORTS SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Menahga (the City), as of and for the year ended December 31, 2016, 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 22, 2017.

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Honorable Mayor and
Members of the City Council
City of Menahga

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001 through 2016-003 that we consider 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 questioned costs. 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 22, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Menahga's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Honorable Mayor and
Members of the City Council
City of Menahga

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-004. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-004 that we consider to be a material weakness.

Honorable Mayor and
Members of the City Council
City of Menahga

Report on Internal Control Over Compliance (Continued)

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
May 22, 2017

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**CITY OF MENAHGA, MINNESOTA
 SHCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED DECEMBER 31, 2016**

FEDERAL AGENCY/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
PRIMARY GOVERNMENT				
ENVIRONMENTAL PROTECTION AGENCY				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-15-0008-R-FY16	\$ 1,078,476	\$ -
U.S. DEPARTMENT OF HOMELAND SECURITY				
State Domestic Preparedness Equipment Support Program	97.004	N/A	174,381	-
Total Federal Awards			<u>\$ 1,252,857</u>	<u>\$ -</u>

Notes to schedule of expenditures of federal awards:

1. The schedule of expenditures of federal awards presents the activity of federal award programs expended by the City of Menahga. The City's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting, in which revenues are recognized as soon as they are both measurable and available, and expenditures are recorded when the related liability is incurred. The City has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.
3. N/A - The pass-through entity identifying number is unknown.

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

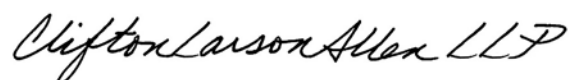
We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the 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, 2016, 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 22, 2017.

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

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

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

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
May 22, 2017

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**CITY OF MENAHGA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016**

A. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X none reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes none reported
- Significant deficiency(ies) identified? yes X none reported

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

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

Identification of major programs:

CFDA Numbers
66.468

Name of Federal Program or Cluster
Capitalization Grants for Drinking Water
State Revolving Funds

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

Auditee qualified as low-risk auditee? yes X no

CITY OF MENAUGA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

2016-001

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.

Questioned Costs: None noted

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.

Repeat Finding: The finding was a repeat finding from the prior year identified as Finding 2015-001.

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.

Views of Responsible Officials and Planned Corrective Actions: There is no disagreement with the finding. The City will continue to explore further segregation of duties within the City office.

**CITY OF MENAHGA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

2016-002

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.

Questioned Costs: None noted

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.

Repeat Finding: The finding was a repeat finding from the prior year identified as Finding 2015-002.

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.

Views of Responsible Officials and Planned Corrective Actions: There is no disagreement with the finding. The City Clerk/Treasurer plans to assume full responsibility for all accrual adjustments prepared to present the financial statement on accrual basis and to eliminate the audit finding as time permits.

**CITY OF MENAUGA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

2016-003 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.

Questioned Costs: None noted

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.

Repeat Finding: The finding was a repeat finding from the prior year identified as Finding 2015-003.

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

Views of Responsible Officials and Planned Corrective Actions: There is no disagreement with the finding. The City Clerk/Treasurer plans to assume full responsibility for all financial statement amounts and disclosures to eliminate the audit finding as time permits.

**CITY OF MENAUGA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2016-004 CONTROLS AND COMPLIANCE OVER THE PROCUREMENT POLICY AND
PROCESS FOR CAPITALIZATION GRANTS FOR DRINKING WATER STATE
REVOLVING FUNDS (CFDA #66.468); GRANT PERIOD – YEAR ENDED
DECEMBER 31, 2016

Criteria: Management is responsible for establishing and maintaining internal controls and compliance over the City's procurement process. The City is required to adopt a new federal procurement policy or elect a two year grace period and use the old policy.

Condition and Context: The City does not have a new policy or an old policy in place over the procurement process.

Questioned Costs: None noted

Cause: The City was not aware of the requirement to have a policy in place.

Effect: The City is out of compliance with the Uniform Guidance.

Repeat Finding: Finding was not a repeat finding from prior year.

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

Views of Responsible Officials: There is no disagreement with the finding.

Corrective Action Plan: A plan has been implemented.

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

None Noted.