

CITY OF RANIER, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2014

**CITY OF RANIER, MINNESOTA
TABLE OF CONTENTS
DECEMBER 31, 2014**

INTRODUCTORY SECTION	
PRINCIPAL CITY OFFICIALS	1
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	2
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	5
STATEMENT OF ACTIVITIES	6
FUND FINANCIAL STATEMENTS	
BALANCE SHEET – GOVERNMENTAL FUNDS	8
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES	9
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	10
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES	11
STATEMENT OF NET POSITION – PROPRIETARY FUNDS	12
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY FUNDS	13
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	14
NOTES TO FINANCIAL STATEMENTS	15
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	32
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	33

**CITY OF RANIER, MINNESOTA
TABLE OF CONTENTS (CONTINUED)
DECEMBER 31, 2014**

FINANCIAL SECTION (CONTINUED)

SUPPLEMENTARY INFORMATION

BALANCE SHEETS - WATER AND SEWER UTILITY ENTERPRISE FUND	34
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – WATER AND SEWER UTILITY ENTERPRISE FUND	35
BALANCE SHEETS - LIQUOR STORE FUND	36
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – LIQUOR STORE FUND	37

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 <i>GOVERNMENT AUDITING STANDARDS</i>	38
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	40
SCHEDULE OF FINDINGS AND RESPONSES	41

INTRODUCTORY SECTION

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

ELECTED	NAME	TERM EXPIRES
Mayor	Dennis Wagner	12/31/2016
City Council	Todd Coulombe	12/31/2016
City Council	Tony Cole	12/31/2016
City Council	Ron Wilcox	12/31/2014
City Council	Brenda Bauer	12/31/2014
APPOINTED		
City Administrator	Sherril Gautreaux	Indefinite

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ranier (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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.

Report on the Financial Statements (Continued)

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, and each major fund of the City of Ranier as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Budgetary Comparison Schedule – General Fund 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.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ranier's basic financial statements. The Balance Sheets – Water and Sewer Utility Enterprise Fund, Statements of Revenues, Expenses and Changes in Net Position – Water and Sewer Utility Enterprise Fund, Balance Sheets – Liquor Store Fund, and Statements of Revenues, Expenses and Changes in Net Position – Liquor Store Fund 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 Ranier

Other Matters (Continued)

Other Information (Continued)

The Balance Sheets – Water and Sewer Utility Enterprise Fund, Statements of Revenues, Expenses and Changes in Net Position – Water and Sewer Utility Enterprise Fund, Balance Sheets – Liquor Store Fund, and Statements of Revenues, Expenses and Changes in Net Position – Liquor Store Fund 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 information is 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 March 11, 2015, on our consideration of the City of Ranier'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 City of Ranier's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
March 11, 2015

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BASIC FINANCIAL STATEMENTS

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Pooled Investments	\$ 260,597	\$ 439,254	\$ 699,851
Taxes Receivable			
Delinquent	7,420	-	7,420
Special Assessments Receivable			
Delinquent	299,115	-	299,115
Accounts Receivable - Net	-	27,428	27,428
Inventories	-	20,470	20,470
Prepaid Items	2,049	4,037	6,086
Capital Assets not Being Depreciated			
Land	-	976	976
Capital Assets Being Depreciated			
Buildings	246,738	183,841	430,579
Infrastructure	-	2,943,652	2,943,652
Machinery and Equipment	13,279	32,668	45,947
Accumulated Depreciation	(141,822)	(1,171,338)	(1,313,160)
Total Assets	687,376	2,480,988	3,168,364
LIABILITIES			
Accounts Payable	48,339	34,069	82,408
Salaries and Benefits Payable	4,458	4,437	8,895
Accrued Interest Payable	3,592	36,720	40,312
Unearned Revenue	43,483	-	43,483
Bonds Payable - Due Within One Year	46,000	18,000	64,000
Compensated Absences Payable - Due Within One Year	419	596	1,015
Bonds Payable - Due in More Than One Year	460,014	1,188,000	1,648,014
Compensated Absences Payable - Due in More Than One Year	1,342	8,146	9,488
Total Liabilities	607,647	1,289,968	1,897,615
NET POSITION			
Net Investment in Capital Assets	(375,348)	747,079	371,731
Restricted for			
Debt Service	108,497	-	108,497
Unrestricted	346,580	443,941	790,521
Total Net Position	\$ 79,729	\$ 1,191,020	\$ 1,270,749

See accompanying Notes to the Financial Statements.

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

Functions/Programs	Program Revenues			
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 140,338	\$ 9,128	\$ 9,805	\$ -
Public Safety	33,100	-	1,904	-
Streets and Highways	36,969	-	-	-
Culture and Recreation	54,660	-	9,299	13,546
Economic Development	129,619	-	142,864	-
Capital Outlay for Enterprise Funds	44,531	-	-	-
Interest	10,308	13,773	-	-
Total Governmental Activities	449,525	22,901	163,872	13,546
Business-Type Activities				
Liquor Store	387,076	454,605	-	-
Water	340,727	258,895	-	-
Total Business-Type Activities	727,803	713,500	-	-
Total Primary Government	\$ 1,177,328	\$ 736,401	\$ 163,872	\$ 13,546

General Revenues

Property Taxes
 Grants and Contributions not Restricted for a Particular Purpose
 Investment Earnings
 Miscellaneous
 Transfers

Total General Revenues

CHANGES IN NET POSITION

Net Position - Beginning of Year

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (121,405)	\$ -	\$ (121,405)
(31,196)	-	(31,196)
(36,969)	-	(36,969)
(31,815)	-	(31,815)
13,245	-	13,245
(44,531)	-	(44,531)
3,465	-	3,465
(249,206)	-	(249,206)
-	67,529	67,529
-	(81,832)	(81,832)
-	(14,303)	(14,303)
(249,206)	(14,303)	(263,509)
149,461	-	149,461
45,507	-	45,507
6	-	6
5,003	656	5,659
52,620	(52,620)	-
252,597	(51,964)	200,633
3,391	(66,267)	(62,876)
76,338	1,257,287	1,333,625
\$ 79,729	\$ 1,191,020	\$ 1,270,749

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FUND FINANCIAL STATEMENTS

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

	General Fund	2012 Capital Improvement Fund	2012A GO Utility Revenue Refunding Note Fund	2012A GO Improvement Bond Fund	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 132,445	\$ 16,063	\$ 1,446	\$ 110,643	\$ 260,597
Taxes Receivable					
Delinquent	7,420	-	-	-	7,420
Special Assessments Receivable					
Noncurrent	-	-	-	299,115	299,115
Prepaid Items	2,049	-	-	-	2,049
Total Assets	<u>\$ 141,914</u>	<u>\$ 16,063</u>	<u>\$ 1,446</u>	<u>\$ 409,758</u>	<u>\$ 569,181</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 3,808	\$ 44,531	\$ -	\$ -	\$ 48,339
Salaries and Benefits Payable	4,458	-	-	-	4,458
Unearned Revenue	43,483	-	-	-	43,483
Total Liabilities	51,749	44,531	-	-	96,280
Deferred Inflows of Resources					
Unavailable Revenue - Property Taxes	4,744	-	-	-	4,744
Unavailable Revenue - Special Assessments	-	-	-	299,115	299,115
Total Deferred Inflow of Resources	4,744	-	-	299,115	303,859
Fund Balances					
Nonspendable Prepaid Items	2,049	-	-	-	2,049
Restricted for Debt Repayment	-	-	1,446	110,643	112,089
Unassigned	83,372	(28,468)	-	-	54,904
Total Fund Balances (Deficit)	<u>85,421</u>	<u>(28,468)</u>	<u>1,446</u>	<u>110,643</u>	<u>169,042</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 141,914</u>	<u>\$ 16,063</u>	<u>\$ 1,446</u>	<u>\$ 409,758</u>	<u>\$ 569,181</u>

See accompanying Notes to Financial Statements.

**CITY OF RANIER, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS \$ 169,042

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 118,195

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflows of resources in the governmental funds. 303,859

Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Bonds Payable, Net of Unamortized Bond Premiums	\$ (506,014)	
Accrued Compensated Absences	(1,761)	
Accrued Interest Payable on General Obligation Bonds	(3,592)	(511,367)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 79,729

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

	General Fund	2012 Capital Improvement Fund	2012A GO Utility Revenue Refunding Note Fund	2012A GO Improvement Bond Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 159,227	\$ -	\$ -	\$ -	\$ 159,227
Special Assessments	-	-	-	50,437	50,437
Licenses and Permits	1,548	-	-	-	1,548
Intergovernmental	191,793	-	-	-	191,793
Charges for Services	7,580	-	-	-	7,580
Interest on Investments	6	-	-	-	6
Miscellaneous	26,330	-	-	-	26,330
Total Revenues	386,484	-	-	50,437	436,921
EXPENDITURES					
Current					
General Government	156,306	-	-	-	156,306
Public Safety	33,100	-	-	-	33,100
Streets and Highways	34,800	-	-	-	34,800
Culture and Recreation	39,878	-	-	-	39,878
Housing and Economic Development	129,619	-	-	-	129,619
Capital Outlay					
Public Works	1,199	44,531	-	-	45,730
Culture and Recreation	27,653	-	-	-	27,653
Debt Service					
Principal	-	-	11,000	35,000	46,000
Interest and Other Charges	-	-	1,620	9,019	10,639
Total Expenditures	422,555	44,531	12,620	44,019	523,725
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(36,071)	(44,531)	(12,620)	6,418	(86,804)
OTHER FINANCING SOURCES (USES)					
Transfers In	40,000	-	12,620	-	52,620
NET CHANGE IN FUND BALANCES	3,929	(44,531)	-	6,418	(34,184)
Fund Balance (Deficit) - Beginning of Year	81,492	16,063	1,446	104,225	203,226
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 85,421	\$ (28,468)	\$ 1,446	\$ 110,643	\$ 169,042

See accompanying Notes to Financial Statements.

**CITY OF RANIER, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (34,184)

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

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

Capital Outlay	\$ 38,465	
Current Year Depreciation	<u>(8,835)</u>	29,630

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(36,625)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal Repayments:		
General Obligation Bonds		46,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Accrued Interest Payable	140	
Amortization of Premiums	191	
Change in Compensated Absences	<u>(1,761)</u>	<u>(1,430)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 3,391

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

ASSETS	Water and Sewer Utility Enterprise Fund	Liquor Store Fund	Total
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 332,755	\$ 106,499	\$ 439,254
Trade Accounts Receivable - Net	27,357	71	27,428
Inventories	-	20,470	20,470
Prepaid Items	507	3,530	4,037
Total Current Assets	<u>360,619</u>	<u>130,570</u>	<u>491,189</u>
NONCURRENT ASSETS			
Capital Assets			
Land	-	976	976
Buildings	-	183,841	183,841
Infrastructure	2,943,652	-	2,943,652
Machinery and Equipment	-	32,668	32,668
Accumulated Depreciation	(961,004)	(210,334)	(1,171,338)
Total Noncurrent Assets	<u>1,982,648</u>	<u>7,151</u>	<u>1,989,799</u>
Total Assets	<u>2,343,267</u>	<u>137,721</u>	<u>2,480,988</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	15,981	18,088	34,069
Salaries and Benefits Payable	842	3,595	4,437
Accrued Interest Payable	36,720	-	36,720
Compensated Absences - Due Within One Year	167	429	596
Bonds, Notes, and Capital Leases Payable - Due Within One Year	18,000	-	18,000
Total Current Liabilities	<u>71,710</u>	<u>22,112</u>	<u>93,822</u>
NONCURRENT LIABILITIES			
Compensated Absences Payable - Due in More than One Year	253	7,893	8,146
Bonds, Notes, and Capital Lease Payable - Due in More than One Year	1,188,000	-	1,188,000
Total Noncurrent Liabilities	<u>1,188,253</u>	<u>7,893</u>	<u>1,196,146</u>
Total Liabilities	<u>1,259,963</u>	<u>30,005</u>	<u>1,289,968</u>
NET POSITION			
Net Investment in Capital Assets	739,927	7,152	747,079
Unrestricted	343,377	100,564	443,941
Total Net Position	<u>\$ 1,083,304</u>	<u>\$ 107,716</u>	<u>\$ 1,191,020</u>

See accompanying Notes to Financial Statements.

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

	Water and Sewer Utility Enterprise Fund	Liquor Store Fund	Total
OPERATING REVENUES			
Sales and Charges for Services	\$ 258,120	\$ 451,019	\$ 709,139
Cost of Sales	-	187,702	187,702
Total Operating Revenues	258,120	263,317	521,437
OPERATING EXPENSES			
Wages and Benefits	33,253	122,919	156,172
Water Purchased	168,666	-	168,666
Contracted Sewer Treatment	23,844	-	23,844
Maintenance	7,507	13,695	21,202
Utilities	-	14,513	14,513
Supplies	5,432	8,824	14,256
Legal and Professional Fees	4,142	4,802	8,944
Insurance	2,110	15,868	17,978
Depreciation	53,867	4,630	58,497
Miscellaneous	5,186	14,123	19,309
Total Operating Expenses	304,007	199,374	503,381
OPERATING INCOME (LOSS)	(45,887)	63,943	18,056
NONOPERATING REVENUES (EXPENSES)			
Interest Expense and Fiscal Charges	(36,720)	-	(36,720)
Other Revenue	775	3,586	4,361
Interest Revenue	637	19	656
Total Nonoperating Revenues (Expenses)	(35,308)	3,605	(31,703)
Income (Loss) before Transfers	(81,195)	67,548	(13,647)
Transfers Out	(12,620)	(40,000)	(52,620)
CHANGE IN NET POSITION	(93,815)	27,548	(66,267)
Net Position - Beginning of Year	1,177,119	80,168	1,257,287
NET POSITION - END OF YEAR	<u>\$ 1,083,304</u>	<u>\$ 107,716</u>	<u>\$ 1,191,020</u>

See accompanying Notes to Financial Statements.

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

	Water and Sewer Utility Enterprise Fund	Liquor Store Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 285,830	\$ 451,764	\$ 737,594
Payments to Suppliers	(215,828)	(264,382)	(480,210)
Payments to Employees	(32,875)	(120,766)	(153,641)
Net Cash Provided (Used) by Operating Activities	37,127	66,616	103,743
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers Out	(12,620)	(40,000)	(52,620)
Other Miscellaneous Receipts	775	3,586	4,361
Net Cash Provided (Used) by Noncapital and Related Financing Activities	(11,845)	(36,414)	(48,259)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Debt	(18,000)	-	(18,000)
Interest Paid on Debt	(36,720)	-	(36,720)
Net Cash Provided (Used) by Capital and Related Financing Activities	(54,720)	-	(54,720)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends Received	637	19	656
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,801)	30,221	1,420
Cash and Cash Equivalents - Beginning of Year	361,556	76,278	437,834
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 332,755</u>	<u>\$ 106,499</u>	<u>\$ 439,254</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (45,887)	\$ 63,943	\$ 18,056
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	53,867	4,630	58,497
(Increase) Decrease in Assets			
Accounts Receivable	5,947	(71)	5,876
Inventory	(507)	12	(495)
Prepaid Items	-	(3,530)	(3,530)
Due from Other Funds	21,763	816	22,579
Increase (Decrease) in Liabilities			
Accounts Payable	1,566	(1,337)	229
Salaries and Benefits Payable	(42)	(6,169)	(6,211)
Compensated Absences Payable	420	8,322	8,742
Total Adjustments	83,014	2,673	85,687
Net Cash Provided (Used) by Operating Activities	<u>\$ 37,127</u>	<u>\$ 66,616</u>	<u>\$ 103,743</u>

See accompanying Notes to Financial Statements.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ranier (the City) is a municipality organized in the State of Minnesota and is governed by an elected four-member council. The City operates under a Mayor-Council form of government and provides services including public safety, public works, culture and recreation, general governmental services, water and sewer utilities, and liquor store as authorized by applicable *Minnesota Statutes*. The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies of the City.

The financial statements of the City of Ranier have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant of the City's accounting policies are described below.

A. Financial Reporting Entity

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the City's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the City. In addition, the City's financial statements are to include all component units – entities for which the City is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds of the City. There are no other entities for which the City is financially accountable.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the Primary Government as a whole. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to users of the services for support.

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 activities 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.

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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.

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 year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and compensated absences, 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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current -fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current-fiscal period. Only the portion of special assessments receivable due within the current-fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

2012 Capital Improvement Fund: Accounts for the accumulation of resources and payment of the Three Points North Project.

2012A GO Utility Revenue Refunding Note Fund: Accounts for the accumulation of resources and payment of the General Obligation Utility Revenue Refunding Note, Series 2012A.

2012A GO Improvement Bond Fund: Accounts for the accumulation of resources and payment of General Obligation Utility Revenue Refunding Note, Series 2012A.

The City reports the following major proprietary funds:

Water and Sewer Utility Enterprise Fund – The Water and Sewer Utility Enterprise Fund accounts for the provision of water and sewer services to the City's residents and businesses.

Liquor Store Fund – The Liquor Store Fund accounts for the activities of the City's on and off sale liquor operations.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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 and 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.

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.

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

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

1. Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Cash balances are invested to the extent available in various securities as authorized by *Minnesota Statutes*. Investment earnings are recorded in the individual fund carrying the investment. Investments are stated at fair value.

2. Investments

Investments are accounted for at fair value in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Income from investments, including changes in fair value of investments, is recognized when earned. Investments for the City consist of certificates of deposit.

3. Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. The City's Enterprise Funds extend credit to customers on an unsecured basis. The Enterprise Funds establish an allowance for doubtful accounts based on the status of accounts receivable at year-end, historical losses, and existing economic conditions. Management has determined that an allowance for doubtful accounts is not necessary as of December 31, 2014. Delinquent accounts are assessed through the property tax system.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Property Tax and Special Assessments

Property taxes are levied by action of the City Council based upon the approved budget for the General Fund and requirements of the bond agreements for the Debt Service Funds. The General Fund levy is limited in amount by State Statute. Special assessments are levied by action of the City Council based upon approved projects. Property taxes levied January 1, and due May 15 and October 15, are used to finance current operations. The City receives its taxes in three installments, in July, December, and the January following the tax year for which the taxes were levied.

5. Inventory

Inventories held by the Enterprise Funds are valued at the lower of cost, (first-in, first-out basis), or market. The City had no significant inventories in the governmental funds.

6. Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items. That portion of the relevant funds' balances equal to the prepaid items is considered nonspendable if the amounts are considered to be material.

7. Capital Assets

Capital assets, which include land, property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not known. Contributed assets, including those from the federal government, are recorded at estimated fair value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The City defines capital assets as infrastructure with an initial cost of more than \$50,000 and other assets with an initial cost of more than \$5,000 and useful lives of more than one year. Costs incurred for repairs and maintenance are expensed as incurred. Straight-line depreciation is used based on the following estimated useful lives:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Capital Assets (Continued)

Assets	Years
Buildings and Improvements	10-40
Machinery and Equipment	5-7
Infrastructure	40

8. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Amounts that are expected to be liquidated with expendable available financial resources are reported as expenditures and a fund liability of the governmental fund that will pay them. Vacation leave and other employee benefit amounts of proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees. Employees are not compensated for unused sick pay upon termination.

9. 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 straight line 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, 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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Fund Balance and Net Position

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 that are inherently nonspendable or assets that will never be converted to cash or will not be converted to cash soon enough to affect the current period. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is 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 a 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. 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 does not have a formally adopted fund balance policy, therefore, when committed, assigned, and unassigned fund balance is available for use, the City will use committed, assigned, and finally unassigned fund balance.

In the financial statements, proprietary funds and government wide statement of net position, equity is presented in three components. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there is limitation imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is presented as unrestricted.

11. Deferred Inflows of Resources

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses

1. Revenues

In the fund financial statements, property taxes are recognized to the extent they are collected and received in the current period or within the period of availability. Portions paid by the state in the form of market value credit aid, and other state tax credits are included in intergovernmental revenues. Delinquent property taxes receivable which have not been recognized as revenue are equally offset in the fund financial statements by deferred inflows.

Licenses and permits, charges for services, fines, forfeits, and miscellaneous revenues are recorded as revenues when measurable and available.

Special assessments principal and interest earnings are recorded as revenues in the same manner as property taxes.

Property Tax Collection Calendar

The City levies its property taxes 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 collection to the City. All taxes not collected as of December 31 are shown as delinquent taxes receivable.

The County Auditor prepares 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 payments paid directly to the City.

The County Auditor provides 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 balances by October 15.

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

Any adjustments or abatements to either the current or any prior year levy are adjusted through the current year general property tax revenues. Property taxes not collected by the County and remitted to the City within 60 days of year-end are classified as delinquent and not considered measurable and available and are fully offset by deferred inflows of resources in the governmental fund financial statements. Delinquent taxes receivable represent the past six years of uncollected tax years. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

2. Expenditures

Expenditure recognition for governmental fund types includes only amounts represented by current liabilities. Since noncurrent liabilities do not affect net current assets, they are not recognized as governmental fund expenditures or liabilities. They are reported as liabilities on the statement of net position.

3. Expenses

Proprietary funds recognize expenses when they are incurred.

F. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements 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 or expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Expenditures in Excess of Appropriations

At December 31, 2014, the City's General Fund had expenditures of \$422,555, which exceed the final budgeted expenditures of \$303,703 by \$118,852. These excess expenditures were primarily funded by existing fund balance and additional federal grants.

B. Deficit Fund Balance/Net Position

At December 31, 2014, the following funds had deficit fund balances/net position:

Fund	Amount
2012 Capital Improvement Fund	\$ (28,468)

The City intends to recover the deficits with future levies.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

Cash and Investments

The cash balances of substantially all funds are pooled for the purpose of increasing earnings through investment activities. Fund investments are reported at their fair value at December 31, 2014, based on market prices. Total investment earnings for 2014 were \$662.

Deposits

In accordance with applicable Minnesota State Statutes, the City maintains deposits at financial institutions authorized by the City Council. All such depositories are members of the Federal Reserve System. *Minnesota Statutes* require that all deposits be protected by insurance, surety bond, or collateral. The fair value of collateral pledge must equal 110 percent of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; issued of the U.S. government agency; general obligations of local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issue 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 department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk – Deposits – In the case of deposits, custodial credit risk is the risk that in the event of 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.

At December 31, 2014, all of the City's deposits were fully insured and/or collateralized as required by *Minnesota Statutes* §118A.03.

The City does not have a formal investment policy.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Capital Assets

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

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Being Depreciated				
Buildings	\$ 208,273	\$ 38,465	\$ -	\$ 246,738
Machinery and Equipment	13,279	-	-	13,279
Total Capital Assets Being Depreciated	<u>221,552</u>	<u>38,465</u>	<u>-</u>	<u>260,017</u>
Less: Accumulated Depreciation for				
Buildings	120,679	7,864	-	128,543
Machinery and Equipment	12,308	971	-	13,279
Total Accumulated Depreciation	<u>132,987</u>	<u>8,835</u>	<u>-</u>	<u>141,822</u>
Governmental Activities Capital Assets, Net	<u>\$ 88,565</u>	<u>\$ 29,630</u>	<u>\$ -</u>	<u>\$ 118,195</u>

The following is a summary of the Proprietary Fund capital assets at December 31, 2014:

	Beginning Balance	Additions	Disposals	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 976	\$ -	\$ -	\$ 976
Capital Assets Being Depreciated				
Buildings	183,841	-	-	183,841
Infrastructure	2,943,652	-	-	2,943,652
Machinery and Equipment	32,668	-	-	32,668
Total Capital Assets Being Depreciated	<u>3,160,161</u>	<u>-</u>	<u>-</u>	<u>3,160,161</u>
Less: Accumulated Depreciation for				
Buildings	173,036	4,630	-	177,666
Infrastructure	907,137	53,867	-	961,004
Machinery and Equipment	32,668	-	-	32,668
Total Accumulated Depreciation	<u>1,112,841</u>	<u>58,497</u>	<u>-</u>	<u>1,171,338</u>
Total Capital Assets Being Depreciated, Net	<u>2,047,320</u>	<u>(58,497)</u>	<u>-</u>	<u>1,988,823</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,048,296</u>	<u>\$ (58,497)</u>	<u>\$ -</u>	<u>\$ 1,989,799</u>

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Capital Assets (Continued)

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

Governmental Activities:	
General Government	\$ 4,520
Public Works	970
Culture and Recreation	3,345
Total Depreciation Expense - Governmental Activities	\$ 8,835
Business-Type Activities:	
Liquor Enterprise	\$ 4,630
Water and Sewer Utility	53,867
Total Depreciation Expense - Business-Type Activities	\$ 58,497

C. Interfund Receivables, Payables and Transfers

Interfund Transfers

The composition of interfund transfers as of December 31, 2014 consisted of transfers from the Liquor Enterprise Fund to the General Fund of \$40,000 for operations and from the Water and Sewer Utility Fund to the 2012A GO Utility Revenue Refunding Note Fund of \$12,620 for debt service.

D. Liabilities

1. Long-Term Debt

General Obligation Bonds

The issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for both general government and proprietary activities. Bonds issued to provide funds for proprietary activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

General obligation bonds are direct obligations and pledge the full-faith and credit of the City. Assets of the Debt Service Funds, together with scheduled future ad valorem tax levies, tax increments and special assessments, are dedicated for the retirement of these bonds.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Liabilities (Continued)

2. Components of Long-Term Debt

	Authorized and Issued	Outstanding	Due in 2015 Principal
GOVERNMENTAL ACTIVITIES			
\$480,000 G.O. Improvement Bonds, Series 2012A, Due in Annual Installments of \$35,000 to \$45,000 through February 2025, Interest at 0.75 to 2.75% Payable Semiannually.	\$ 480,000	\$ 445,000	\$ 35,000
\$79,600 G.O. Utility Revenue Refunding Note, Series 2012A, Due in Annual Installments of \$9,600 to \$13,000 through December 2019, Plus Interest at 2.40% Payable Semiannually.	79,600	59,000	11,000
Total General Obligation Bonds, Including Refunding Bonds	559,600	504,000	46,000
Plus: Unamortized Premium	-	2,014	-
Total Long-Term Debt - Governmental Activities	559,600	506,014	46,000
BUSINESS-TYPE ACTIVITIES			
Revenue Bonds			
\$1,241,000 G.O. Water Revenue Bond, Series 2011, Due in Annual Installments of \$17,000 to \$53,000 Through January 2051 Plus Interest at 3.00% Payable Semiannually.	1,241,000	1,206,000	18,000
Total Government-Wide Long-Term Liabilities	\$ 1,800,600	\$ 1,712,014	\$ 64,000

3. Changes in Long-Term Debt

	December 31, 2013	Additions	Retirements	December 31, 2014	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Debt	\$ 550,000	\$ -	\$ 46,000	\$ 504,000	\$ 46,000
Plus: Unamortized Premiums	2,205	-	191	2,014	-
Compensated Absences Payable	3,982	4,523	6,744	1,761	419
Total Governmental Activities	\$ 556,187	\$ 4,523	\$ 52,935	\$ 507,775	\$ 46,419
BUSINESS-TYPE ACTIVITIES					
Revenue Notes	\$ 1,224,000	\$ -	\$ 18,000	\$ 1,206,000	\$ 18,000
Compensated Absences Payable	10,649	9,085	10,992	8,742	596
Total Business-Type Activities	\$ 1,234,649	\$ 9,085	\$ 28,992	\$ 1,214,742	\$ 18,596

Compensated absences are paid as described in Note 1.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Liabilities (Continued)

4. Minimum Debt Payments

The annual requirements to amortize general obligation debt outstanding are as follows:

Year	Governmental Activities		
	G.O. Bonds		
	Principal	Interest	Total
2015	\$ 46,000	\$ 9,562	\$ 55,562
2016	51,000	9,017	60,017
2017	52,000	8,311	60,311
2018	52,000	7,463	59,463
2019	53,000	6,615	59,615
2020 -2024	205,000	19,386	224,386
2025	45,000	619	45,619
Total	\$ 504,000	\$ 60,973	\$ 564,973

Year	Business-Type Activities		
	Revenue Bonds		
	Principal	Interest	Total
2015	\$ 18,000	\$ 36,180	\$ 54,180
2016	19,000	35,640	54,640
2017	19,000	35,070	54,070
2018	20,000	34,500	54,500
2019	21,000	33,900	54,900
2020 -2024	112,000	159,840	271,840
2025 -2029	131,000	141,930	272,930
2030 -2034	150,000	121,200	271,200
2035 -2039	175,000	97,200	272,200
2040 -2044	202,000	69,390	271,390
2045 -2049	235,000	37,170	272,170
2050 -2051	104,000	4,710	108,710
Total	\$ 1,206,000	\$ 806,730	\$ 2,012,730

The City has pledged future revenues from the Water and Sewer Utility Enterprise Fund, net of specified operating expenses, to repay \$79,600 of the Series 2012A G.O. Utility Revenue Refunding Note. Proceeds from the Bonds were used to meet the General Obligation Water Revenue Note, Series 2010A expiring debt obligation. Principal and interest on the bonds are payable through 2019, from the Water and Sewer Utility Enterprise Fund water revenues. If these revenues are insufficient to meet the principal and interest payments, the City has the authority to levy a special tax to meet the shortfall. The total principal and interest remaining to be paid on the note is \$63,032. Principal and interest paid for the current year and water revenues was \$12,620 and \$205,444, respectively.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. 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 (Primary Government) has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss, including employee health insurance. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining.

The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment is estimated to be immaterial based on worker's compensation rates and salaries for the year ended December 31, 2014.

NOTE 4 PENSION PLANS

Public Employees Retirement Association

Plan Description

All full-time and certain part-time employees of the City of Ranier are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) that is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

NOTE 4 PENSION PLANS (CONTINUED)

Public Employees Retirement Association (Continued)

Plan Description (Continued)

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

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. That report may be obtained on the web at mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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

NOTE 4 PENSION PLAN (CONTINUED)

Public Employees Retirement Association (Continued)

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2014. The City of Ranier is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERP members, 7.25 percent for Coordinated Plan GERP members. The City's contributions to the GERP for the years ending December 31, 2014, 2013, and 2012 were as follows:

Year	General Employees Retirement Fund
2014	\$ 13,711
2013	14,530
2012	12,109

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

NOTE 5 COMMITMENTS AND CONTINGENCIES

The City participates in numerous State and Federal grant programs, which are governed by various rule and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collection of any related receivable at December 31, 2014 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such obligations.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 157,328	\$ 157,328	\$ 159,227	\$ 1,899
Licenses and Permits				
Business License	1,803	1,803	1,538	(265)
Building Permits	-	-	10	10
Total Licenses and Permits	<u>1,803</u>	<u>1,803</u>	<u>1,548</u>	<u>(255)</u>
Intergovernmental				
Federal	-	-	131,530	131,530
Local Government Aid	45,478	45,478	45,479	1
State Police Aid	8,584	8,584	14,784	6,200
Total Intergovernmental	<u>54,062</u>	<u>54,062</u>	<u>191,793</u>	<u>137,731</u>
Charges for Services				
Other Charges for Services	5,010	5,010	7,580	2,570
Interest on Investments	-	-	6	6
Miscellaneous				
Donations	8,500	8,500	9,327	827
Other Miscellaneous Income	7,000	7,000	17,003	10,003
Total Miscellaneous	<u>15,500</u>	<u>15,500</u>	<u>26,330</u>	<u>10,830</u>
Total Revenues	<u>233,703</u>	<u>233,703</u>	<u>386,484</u>	<u>152,781</u>
EXPENDITURES				
CURRENT				
General Government				
Mayor and City Council	9,750	9,750	9,084	(666)
City Clerk and Treasurer	95,100	95,100	59,531	(35,569)
Attorney Fees	1,100	1,100	1,064	(36)
City Hall	60,919	60,919	72,403	11,484
Professional Services	14,200	14,200	10,182	(4,018)
Tourism	5,000	5,000	4,042	(958)
Total General Government	<u>186,069</u>	<u>186,069</u>	<u>156,306</u>	<u>(29,763)</u>
Public Safety				
Police Protection	3,600	3,600	3,600	-
Fire Protection	29,500	29,500	29,500	-
Total Public Safety	<u>33,100</u>	<u>33,100</u>	<u>33,100</u>	<u>-</u>
Streets and Highways				
Street Lighting	12,000	12,000	11,522	(478)
Street Maintenance	33,000	33,000	23,278	(9,722)
Total Streets and Highway	<u>45,000</u>	<u>45,000</u>	<u>34,800</u>	<u>(10,200)</u>
Culture and Recreation				
Park	25,200	25,200	39,878	14,678
Housing and Economic Development				
Economic Development	6,334	6,334	129,619	123,285
CAPITAL OUTLAY				
Streets and Highways	-	-	1,199	1,199
Culture and Recreation	8,000	8,000	27,653	19,653
Total Capital Outlay	<u>8,000</u>	<u>8,000</u>	<u>28,852</u>	<u>20,852</u>
Total Expenditures	<u>303,703</u>	<u>303,703</u>	<u>422,555</u>	<u>118,852</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(70,000)	(70,000)	(36,071)	33,929
OTHER FINANCING SOURCES (USES)				
Transfers In	70,000	70,000	40,000	(30,000)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>3,929</u>	<u>\$ 3,929</u>
Fund Balance - Beginning of Year			81,492	
FUND BALANCE - END OF YEAR			<u>\$ 85,421</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

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**CITY OF RANIER, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY
INFORMATION
DECEMBER 31, 2014**

I. BUDGETARY INFORMATION

The follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Public hearings are conducted at the Council's chambers in the municipal building.
- b. On or before December 28, the final budget is legally enacted by Council resolution and the final property tax levy certified to the County Auditor.
- c. Management is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Reported budget amounts are as originally adopted or amended by the City Council.
- d. The City has legally adopted budgets for the General Fund. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the department level. All amounts over budget have been approved by the City Council through the disbursement process. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. The City is not legally required to adopt an annual budget for any funds other than the General Fund.
- e. Budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.

II. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At December 31, 2014, the City's General Fund had expenditures of \$422,555, which exceed the final budgeted expenditures of \$303,703 by \$118,852. These excess expenditures were primarily funded by existing fund balance and additional federal grants.

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SUPPLEMENTARY INFORMATION

CITY OF RANIER, MINNESOTA
BALANCE SHEETS
WATER AND SEWER UTILITY ENTERPRISE FUND
DECEMBER 31, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2013)

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 332,755	\$ 361,556
Trade Accounts Receivable - Net	27,357	32,563
Due from Other Governments	-	741
Due from Other Funds	-	21,763
Prepaid Items	507	-
Total Current Assets	360,619	416,623
NONCURRENT ASSETS		
Capital Assets		
Infrastructure	2,943,652	2,943,652
Accumulated Depreciation	(961,004)	(907,137)
Total Noncurrent Assets	1,982,648	2,036,515
Total Assets	2,343,267	2,453,138
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	15,981	14,415
Salaries and Benefits Payable	842	-
Accrued Interest Payable	36,720	-
Accrued Expenses	-	37,604
Compensated Absences - Due Within One Year	167	-
Bonds, Notes, and Capital Leases		
Payable - Due Within One Year	18,000	18,000
Total Current Liabilities	71,710	70,019
NONCURRENT LIABILITIES		
Compensated Absences Payable -		
Due in More than One Year	253	-
Bonds, Notes, and Capital Lease		
Payable - Due in More than One Year	1,188,000	1,206,000
Total Noncurrent Liabilities	1,188,253	1,206,000
Total Liabilities	1,259,963	1,276,019
NET POSITION		
Net Investment in Capital Assets	776,648	812,515
Unrestricted	306,656	364,604
Total Net Position	\$ 1,083,304	\$ 1,177,119

CITY OF RANIER, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
WATER AND SEWER UTILITY ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2013)

	2014	2013
OPERATING REVENUES		
Sales and Charges for Services	\$ 258,120	\$ 270,105
OPERATING EXPENSES		
Wages and Benefits	33,253	25,004
Water Purchased	168,666	152,021
Contracted Sewer Treatment	23,844	21,366
Maintenance	7,507	3,236
Supplies	5,432	4,473
Legal and Professional Fees	4,142	3,388
Insurance	2,110	1,612
Depreciation	53,867	48,117
Miscellaneous	5,186	11,855
Total Operating Expenses	304,007	271,072
OPERATING INCOME (LOSS)	(45,887)	(967)
NONOPERATING REVENUES (EXPENSES)		
Interest Expense and Fiscal Charges	(36,720)	(36,618)
Other Revenue	775	182
Interest Revenue	637	1,975
Total Nonoperating Revenues (Expenses)	(35,308)	(34,461)
Income (Loss) before Transfers and Capital Contributions	(81,195)	(35,428)
Transfers Out	(12,620)	(12,440)
Income (Loss) before Capital Contributions	(93,815)	(47,868)
Capital Contributions	-	11,687
CHANGE IN NET POSITION	(93,815)	(36,181)
Net Position - Beginning of Year	1,177,119	1,213,300
NET POSITION - END OF YEAR	\$ 1,083,304	\$ 1,177,119

CITY OF RANIER, MINNESOTA
BALANCE SHEETS
LIQUOR STORE FUND
DECEMBER 31, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2013)

ASSETS	2014	2013
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 106,499	\$ 76,278
Trade Accounts Receivable - Net	71	-
Inventories	20,470	20,482
Due from Other Funds	-	816
Prepaid Items	3,530	-
Total Current Assets	130,570	97,576
NONCURRENT ASSETS		
Capital Assets		
Land	976	976
Buildings	183,841	183,841
Machinery and Equipment	32,668	32,668
Accumulated Depreciation	(210,334)	(205,704)
Total Noncurrent Assets	7,151	11,781
Total Assets	137,721	109,357
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	18,088	19,425
Salaries and Benefits Payable	3,595	-
Accrued Expenses	-	9,764
Compensated Absences - Due Within One Year	429	-
Total Current Liabilities	22,112	29,189
NONCURRENT LIABILITIES		
Compensated Absences Payable - Due in More than One Year	7,893	-
Total Liabilities	30,005	29,189
NET POSITION		
Net Investment in Capital Assets	437,192	11,781
Restricted	-	-
Unrestricted	(329,476)	68,387
Total Net Position	\$ 107,716	\$ 80,168

CITY OF RANIER, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
LIQUOR STORE FUND
YEAR ENDED DECEMBER 31, 2014
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2013)

	2014	2013
OPERATING REVENUES		
Sales and Charges for Services	\$ 451,019	\$ 415,438
Cost of Sales	187,702	167,627
Gross Profit	263,317	247,811
OPERATING EXPENSES		
Wages and Benefits	122,919	147,150
Maintenance	13,695	17,510
Utilities	14,513	12,742
Supplies	8,824	6,072
Legal and Professional Fees	4,802	4,063
Insurance	15,868	16,249
Bad Debt Expense	-	1,031
Depreciation	4,630	5,414
Miscellaneous	14,123	13,301
Total Operating Expenses	199,374	223,532
OPERATING INCOME (LOSS)	63,943	24,279
NONOPERATING REVENUES (EXPENSES)		
Other Revenue	3,586	854
Interest Revenue	19	19
Total Nonoperating Revenues (Expenses)	3,605	873
Income (Loss) before Transfers and Capital Contributions	67,548	25,152
Transfers Out	(40,000)	(30,000)
CHANGE IN NET POSITION	27,548	(4,848)
Net Position - Beginning of Year	80,168	85,016
NET POSITION - END OF YEAR	\$ 107,716	\$ 80,168

OTHER REPORTS SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ranier (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Ranier's basic financial statements, and have issued our report thereon dated March 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Ranier'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 of Ranier's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Ranier's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2014-001 through 2014-006 to be material weaknesses.

Honorable Mayor and
Members of the City Council
City of Ranier

Compliance and Other Matters

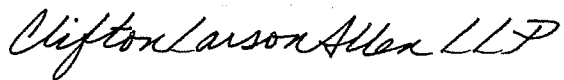
As part of obtaining reasonable assurance about whether the City of Ranier's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

City of Ranier's Responses to Findings

The City of Ranier's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City of Ranier'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
March 11, 2015

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ranier (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 11, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute 6.65, contains seven main 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 of Ranier, failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Ranier'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

CliftonLarsonAllen LLP

Brainerd, Minnesota
March 11, 2015

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

MATERIAL WEAKNESSES:

2014-001 Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP)
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: 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.

Context: Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures.

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

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

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

Management Response: The City will continue to evaluate whether an internal control policy over financial reporting would be beneficial.

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

MATERIAL WEAKNESSES (CONTINUED):

2014-002 Disbursement Controls

Criteria: Standard internal control procedures recommend that controls are in place over dual signatures on checks.

Condition: As part of the audit, we noted that the City Administrator has access to the Mayor's signature stamp and is the other required signature.

Context: Management has informed us the City Administrator has access to the Mayor's signature stamp, negating the control requiring dual signatures on checks.

Cause: Due to the inability of Mayor to be at the City when checks are written.

Effect: The lack of controls over the Mayor's signature stamp can lead to unauthorized payments and the ability of the City to control cash and prevent fraud.

Recommendation: We recommend the Mayor take physical control of the signature stamp in order to properly control when it is used or develop alternative procedures to segregate signators.

Management Response: The City will work on a process to control possession over the signature stamp and alternative approval procedures.

2014-003 Lack of Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that an individual has responsibility to execute a transaction, have physical access to the related assets, and has responsibility or authority to record the transaction.

Condition: There is a lack of sufficient segregation of duties within the city as the City Administrator has access to the general ledger, access to physical assets, signature authority on bank accounts, and authority to record transactions.

Context: Management has informed us the size and budget of the City limit the number of personnel performing these duties.

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

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

Recommendation: We recommend the accounting responsibilities should be reviewed periodically and consideration be given to improving the segregation of duties. We acknowledge the fact that the City's opportunity for improving segregation of duties is limited by cost-benefit consideration.

Management Response: The City will continue to explore the possibility of further segregation of duties within the City while simultaneously considering the costs and benefits of increased segregation.

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

MATERIAL WEAKNESSES (CONTINUED):

2014-004 Disbursement Controls

Criteria: Standard internal control procedures recommend that all disbursements should have supporting documents that support the amount being paid.

Condition: We were not presented with supporting documentation for one of 25 disbursements tested.

Context: Management contacted the vendor for a price prior to preparing the check to the vendor for the amount quoted. The City could not provide the vendor receipt for the transaction.

Cause: Unknown

Effect: Without proper supporting documents for all purchases being maintained, the City is at an increased risk of funds being disbursed that are not in accordance with the City's policies and goals.

Recommendation: We recommend management develop and implement a process to ensure all disbursements have proper supporting documents provided to the City and maintained to support all payments being made.

Management Response: City management will work on developing policies and procedures to implement that ensure all disbursements are properly supported.

2014-005 Controls Over Journal Entry Process

Criteria: Standard internal controls suggest all journal entries performed be reviewed by someone other than the preparer.

Condition: During testing of journal entries, it was noted there is no review or approval process over journal entries.

Context: Management has informed us that they do not have an internal control policy in place over the review and approval of journal entries.

Cause: Unknown

Effect: The design of the controls over the journal entry process would affect the ability of the City to prevent or detect errors, fraud, or misappropriation of assets in a timely manner.

Recommendation: We recommend City management review the controls over the journal entry process and ensure journal entries are being reviewed by someone other than the preparer.

Management Response: City management will work on developing policies and procedures to implement that ensure all journal entries are properly reviewed and approved.

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

MATERIAL WEAKNESSES (CONTINUED):

2014-006 Material Audit Adjustments

Criteria: City management is responsible for establishing and maintaining internal controls for the proper recording of all the City's receipts and disbursements.

Condition: As part of the audit, we proposed account reclassification entries relating to the coding of receipts and disbursements, accruals and recording the effect of prior period accruals, capital asset adjustments, and other reclassifications. These entries indicate a lack of controls over the year-end financial reporting process. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.

Context: Management has stated the City has a limited number of personnel to perform the required entries for the year-end financial reporting process.

Cause: The City has a limited number of personnel.

Effect: The design of the internal controls over recording receipts and disbursement, including reclassifications, could affect the City's ability to detect or prevent a misappropriation of assets or fraudulent activity.

Recommendation: We recommend City management be consistently aware of all procedures and processes involved in recording receipts, disbursements, and reclassifications, and develop internal control policies to ensure proper recording of these items.

Management Response: City management will work on eliminating the need for audit adjustments.