

CITY OF RICE, MINNESOTA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2015

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

CITY OF RICE, MINNESOTA

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**INTRODUCTORY
SECTION**

**CITY OF RICE, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2015**

CITY COUNCIL

Term Expires

Dale Rogholt	Mayor	December 31, 2016
Chris Scheel	Council Member	December 31, 2016
Brian Skroch	Council Member	December 31, 2018
Paula Kampa	Council Member	December 31, 2018
Allen Voigt	Council Member	December 31, 2016

CITY OFFICIALS

Laurel Catton	City Clerk	Appointed
Rosemary Olson	City Treasurer	Appointed

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

March 10, 2016

Honorable Mayor and City Council
City of Rice
Rice, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the City of Rice, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting provisions of the State of Minnesota's Office of the State Auditor; 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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320.251.0286

Little Falls

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P.O. Box 365
Little Falls, MN 56345
320.632.6311

Albany

115 6th St.
P.O. Box 268
Albany, MN 56307
320.845.2940

Maple Lake

220 Hwy. 55 North, Ste. 4
P.O. Box 385
Maple Lake, MN 55358
320.963.5414

Monticello

114 W. 3rd St.
P.O. Box 755
Monticello, MN 55362
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Opinions

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1.C. of the financial statements, the financial statements are prepared by the City of Rice, Minnesota, on the basis of the financial reporting provisions prescribed by the State of Minnesota's Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Minnesota.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1.C. and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City of Rice, Minnesota, as of December 31, 2015, or changes in its financial position for the year then ended.

Unmodified Opinion on Regulatory Basis

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of City of Rice, Minnesota, as of December 31, 2015, and changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting practices prescribed by the State of Minnesota's Office of the State Auditor described in Note 1.C.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1.G. to the financial statements, the City of Rice, Minnesota has adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedules of City's Proportionate Share of the Net Pension Liability and City Contributions be presented to supplement the basic financial statements. Such information, though 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 of Rice, Minnesota's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2016 on our consideration of the City of Rice's internal control over financial reporting and 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 results 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 of Rice's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated March 10, 2016, on our consideration of the City of Rice's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



SCHLENNER WENNER & CO.
St. Cloud, Minnesota

BASIC FINANCIAL STATEMENTS

CITY OF RICE, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General Fund	Revolving Loan Fund	Utility Improvements	GO Improvement Bonds of 2004	Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds	Total Governmental Funds
ASSETS							
Cash, Cash Equivalents, and Investments	\$ 23,475	\$ 380,231	\$ 274,502	\$ -	\$ 241,009	\$ 23,348	\$ 942,565
Due from Other Funds	46,458	-	-	-	-	-	46,458
TOTAL ASSETS	\$ 69,933	\$ 380,231	\$ 274,502	\$ -	\$ 241,009	\$ 23,348	\$ 989,023
LIABILITIES							
Due to Other Fund	\$ -	\$ -	\$ -	\$ 24,093	\$ -	\$ 22,365	\$ 46,458
CASH FUND BALANCES							
Restricted	-	380,231	-	-	-	23,348	403,579
Committed	-	-	274,502	-	170,907	-	445,409
Assigned	-	-	-	-	70,102	-	70,102
Unassigned	69,933	-	-	(24,093)	-	(22,365)	23,475
Total Cash Fund Balances	69,933	380,231	274,502	(24,093)	241,009	983	942,565
TOTAL LIABILITIES AND CASH FUND BALANCES	\$ 69,933	\$ 380,231	\$ 274,502	\$ -	\$ 241,009	\$ 23,348	\$ 989,023

CITY OF RICE, MINNESOTA
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	Revolving Loan Fund	Utility Improvements	GO Improvement Bonds of 2004	Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds	Total Governmental Funds
RECEIPTS							
Property Taxes	\$ 364,587	\$ 5,313	\$ -	\$ 403	\$ 4,975	\$ 28,510	\$ 403,788
Special Assessments	-	-	13,977	-	-	-	13,977
Franchise Fees	18,549	-	-	-	-	-	18,549
Gravel Tax	230	-	-	-	-	-	230
Licenses, Permits and Fees	34,249	-	-	-	-	-	34,249
Intergovernmental	201,193	-	-	-	21,814	-	223,007
Charges for Services	113,686	-	-	-	3,922	-	117,608
Fines	6,713	-	-	-	-	-	6,713
Investment Income	9,348	2,928	-	-	196	-	12,472
Contributions	4,576	-	-	-	3,000	-	7,576
Miscellaneous	22,210	-	-	-	-	-	22,210
TOTAL RECEIPTS	775,341	8,241	13,977	403	33,907	28,510	860,379
DISBURSEMENTS							
Current:							
General Government:							
City Clerk	65,671	-	-	-	-	-	65,671
Council	15,276	-	-	-	-	-	15,276
Elections	499	-	-	-	-	-	499
General Government	153,633	-	-	-	1,195	-	154,828
Total General Government	235,079	-	-	-	1,195	-	236,274
Public Safety:							
Building Inspector	14,718	-	-	-	-	-	14,718
Police	181,203	-	-	-	-	-	181,203
Fire	143,609	-	-	-	-	-	143,609
Total Public Safety	339,530	-	-	-	-	-	339,530
Public Works	70,433	-	678	-	25,112	-	96,223
Economic Development	1,500	4,860	-	-	-	2,912	9,272
Parks and Recreation	-	-	-	-	25,442	-	25,442

CITY OF RICE, MINNESOTA
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	Revolving Loan Fund	Utility Improvements	GO Improvement Bonds of 2004	Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds	Total Governmental Funds
Debt Service:							
Principal	\$ 25,000	\$ -	\$ -	\$ 104,667	\$ -	\$ -	\$ 129,667
Interest and Fiscal Charges	4,000	-	-	1,359	-	-	5,359
Total Debt Service	29,000	-	-	106,026	-	-	135,026
Capital Outlay	5,001	-	-	-	24,595	-	29,596
TOTAL DISBURSEMENTS	<u>680,543</u>	<u>4,860</u>	<u>678</u>	<u>106,026</u>	<u>76,344</u>	<u>2,912</u>	<u>871,363</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	94,798	3,381	13,299	(105,623)	(42,437)	25,598	(10,984)
OTHER FINANCING SOURCES							
Gain on Sale of Asset	<u>2,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,300</u>
NET CHANGE IN CASH FUND BALANCES	97,098	3,381	13,299	(105,623)	(42,437)	25,598	(8,684)
CASH FUND BALANCES - BEGINNING	<u>(27,165)</u>	<u>376,850</u>	<u>261,203</u>	<u>81,530</u>	<u>283,446</u>	<u>(24,615)</u>	<u>951,249</u>
CASH FUND BALANCES - ENDING	<u>\$ 69,933</u>	<u>\$ 380,231</u>	<u>\$ 274,502</u>	<u>\$ (24,093)</u>	<u>\$ 241,009</u>	<u>\$ 983</u>	<u>\$ 942,565</u>

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

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash, Cash Equivalents, and Investments	\$ 901,833	\$ 806,245	\$ 1,708,078
Accounts Receivable	<u>8,262</u>	<u>22,367</u>	<u>30,629</u>
Total Current Assets	910,095	828,612	1,738,707
Noncurrent Assets			
Capital Assets (Net)	<u>602,122</u>	<u>1,779,591</u>	<u>2,381,713</u>
TOTAL ASSETS	1,512,217	2,608,203	4,120,420
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	4,234	5,987	10,221
LIABILITIES			
Current Liabilities			
Accounts Payable	1,606	922	2,528
Accrued Expenses	2,343	3,106	5,449
Accrued Interest	-	4,278	4,278
Compensated Absences	1,332	4,671	6,003
Bonds Due within One Year	<u>-</u>	<u>61,000</u>	<u>61,000</u>
Total Current Liabilities	5,281	73,977	79,258
Noncurrent Liabilities			
Bonds Payable	-	532,000	532,000
Net Pension Liability	<u>29,695</u>	<u>43,090</u>	<u>72,785</u>
Total Noncurrent Liabilities	29,695	575,090	604,785
TOTAL LIABILITIES	34,976	649,067	684,043
DEFERRED INFLOWS OF RESOURCES			
Pensions	<u>10,763</u>	<u>15,619</u>	<u>26,382</u>
NET POSITION			
Net Investment in Capital Assets	602,122	1,186,591	1,788,713
Unrestricted	<u>868,590</u>	<u>762,913</u>	<u>1,631,503</u>
TOTAL NET POSITION	<u>\$ 1,470,712</u>	<u>\$ 1,949,504</u>	<u>\$ 3,420,216</u>

CITY OF RICE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for Services	\$ 134,095	\$ 190,915	\$ 325,010
OPERATING EXPENSES			
Personnel Services	59,735	70,179	129,914
Professional Services	7,614	4,635	12,249
Utilities	20,047	11,011	31,058
Repairs and Maintenance	23,820	10,824	34,644
Supplies	3,044	6,034	9,078
Permits and Licenses	4,899	475	5,374
Insurance	-	1,390	1,390
Other	2,558	2,032	4,590
Depreciation	<u>37,011</u>	<u>85,852</u>	<u>122,863</u>
TOTAL OPERATING EXPENSES	<u>158,728</u>	<u>192,432</u>	<u>351,160</u>
OPERATING LOSS	(24,633)	(1,517)	(26,150)
NONOPERATING REVENUES (EXPENSES)			
Hook Up Fees	14,033	15,500	29,533
Special Assessments	3,554	3,554	7,108
Investment Income	7,632	8,065	15,697
Interest Expense	<u>-</u>	<u>(12,929)</u>	<u>(12,929)</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>25,219</u>	<u>14,190</u>	<u>39,409</u>
CHANGE IN NET POSITION	586	12,673	13,259
NET POSITION-BEG. OF YEAR	1,508,319	1,992,095	3,500,414
CHANGE IN ACCOUNTING PRINCIPLE	<u>(38,193)</u>	<u>(55,264)</u>	<u>(93,457)</u>
NET POSITION-END OF YEAR	<u>\$ 1,470,712</u>	<u>\$ 1,949,504</u>	<u>\$ 3,420,216</u>

**CITY OF RICE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 143,866	\$ 186,104	\$ 329,970
Cash Paid to Suppliers	(80,430)	(52,132)	(132,562)
Cash Paid to Employees	(60,165)	(70,017)	(130,182)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,271	63,955	67,226
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Special Assessment Revenue	3,554	3,554	7,108
Other Receipts	14,033	15,500	29,533
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	17,587	19,054	36,641
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of Capital Assets	(6,900)	(6,900)	(13,800)
Bond Payments	-	(60,000)	(60,000)
Cash Paid for Interest	-	(13,362)	(13,362)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(6,900)	(80,262)	(87,162)
CASH FLOW FROM INVESTING ACTIVITIES			
Interest Income	-	433	433
Net Increase in Cash	13,958	3,180	17,138
Cash and Cash Equivalents - Beginning of Year	342,799	257,989	600,788
Cash and Cash Equivalents - End of Year	356,757	261,169	617,926
Investments	545,076	545,076	1,090,152
Cash, Cash Equivalents and Investments	\$ 901,833	\$ 806,245	\$ 1,708,078

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

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Loss	\$ (24,633)	\$ (1,517)	\$ (26,150)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities			
Cash Flows Reported in Other Categories:			
Depreciation	37,011	85,852	122,863
Change in Assets and Liabilities:			
Accounts Receivable	9,771	(4,811)	4,960
Accounts Payable	(18,448)	(15,731)	(34,179)
Accrued Wages	2,343	3,106	5,449
Deferred Outflows of Resources - Pension	(3,123)	(4,218)	(7,341)
Net Pension Liability	(9,609)	(13,943)	(23,552)
Deferred Inflows of Resources - Pension	10,763	15,619	26,382
Compensated Absences	(804)	(402)	(1,206)
	<u>3,271</u>	<u>63,955</u>	<u>67,226</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,271</u>	<u>\$ 63,955</u>	<u>\$ 67,226</u>

CITY OF RICE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Rice, Minnesota (the “City”), complies with accounting practices prescribed or permitted by the *Reporting and Publishing Requirements for City Financial Statements for Cities under 2,500 in Population Reporting on the Cash or Regulatory Basis of Accounting* prescribed by the State of Minnesota’s Office of the State Auditor. See Note 1.C. for additional information.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: water, sewer, recreation, public improvements, public safety, planning and zoning, and general administrative services.

1.A. FINANCIAL REPORTING ENTITY

The City’s financial reporting entity is comprised of the primary governmental unit of the City of Rice.

In determining the financial reporting entity, the City complies with the provisions of GASB No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units’ board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria describe above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units’ funds are blended into those of the City’s by appropriate activity type to compose the primary government presentation. Currently, the City has no blended component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

1.B. BASIS OF PRESENTATION

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

CITY OF RICE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued)

The City reports the following major governmental funds:

The *General Fund* is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Revolving Loan Fund is used to account for the proceeds of a grant under the Small Cities Development Program that is restricted to providing economic development loans.

Utility Improvements Fund is used to account for the proceeds of financial resources that are committed to providing for improvements in the City's water and sewer system.

General Obligation Improvement Bond of 2004 accounts for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by Proprietary Funds. Ad valorem taxes and special assessments are used for the payment of principal and interest on the City's judgment.

The City reports the following major proprietary funds:

Water Funds are used to account for business-like activities related to the water system provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Sewer Funds are used to account for business-like activities related to the sewer system provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Additionally, the government reports the following non-major fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds account for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by Proprietary Funds. Ad valorem taxes and special assessments are used for the payment of principal and interest on the City's judgment.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements have been prepared on the regulatory basis of accounting as described in the Minnesota's Office of the State Auditor's *Reporting and Publishing Requirements for City Audited Financial Statements for Cities under 2,500 in Population Reporting on the Cash or Regulatory Basis of Accounting*. Under this regulatory basis of accounting:

- In the governmental fund statements, receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. These statements do not give effect to receivables, payables, accrued expenses and inventories and, accordingly are not presented in accordance with accounting principles generally accepted in the United States of America.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

- The proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used and are presented in accordance with accounting principles generally accepted in the United States of America.

The basis differs from accounting principles generally accepted in the United States of America primarily because the City has not reported a management discussion and analysis letter, government-wide statement of net position and government-wide statement of activities and the City does not recognize governmental receipts and disbursements in accordance with the modified accrual basis of accounting.

1.D. USE OF ESTIMATES

The preparation of financial statements in conformity with regulatory basis of accounting 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. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/OUTFLOWS OF RESOURCES, AND EQUITY

Cash and Cash Equivalents

For purposes of the Statement Balances Arising from Cash Transactions and Statement of Net Position, “cash and cash equivalents” includes all demand, savings and money market accounts. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand, savings and money market accounts.

Investments

Investments are stated at their fair value as determined by quoted market prices. Short-term investments are reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. Certificates of deposit are stated at cost, plus accrued interest, which approximates fair market value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses. Purchases and sales of securities are recorded on a trade-date basis.

Receivables

In the fund financial statements, no receivables are recorded in governmental funds. In the proprietary funds, material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/OUTFLOWS OF RESOURCES, AND EQUITY
(Continued)**

Capital Assets

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations as follows:

Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 and must have an estimated useful life in excess of one year.

Governmental Statements

Capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Proprietary Statements

In the proprietary financial statements, capital assets are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Revenues, Expenses and Changes in Net Position, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the estimated useful lives of the assets using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

Buildings	10-40 years
Machinery and Equipment	5-10 years

Accounts Payable

Payables in the proprietary funds are composed almost entirely of payables to vendors.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations.

Governmental Funds

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. Bond premiums and discounts, as well as bond issuance costs, are recognized during the current period.

Proprietary Funds

Long-term debt of the proprietary funds is to be repaid from proprietary resources and is reported as liabilities in the Statement of Net Position. Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are recognized in the current period.

Net Pension Liability

The net pension liability represents the City's allocation of their pro-rata share of the statewide pension plans net pension liability.

CITY OF RICE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/OUTFLOWS OF RESOURCES, AND EQUITY
(Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the proprietary fund Statement of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This element represents an acquisition of net position that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports deferred outflows of resources in the proprietary fund Statement of Net Position in relation to the activity of the pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in that period that they become available.

See Note 4.A. for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

Equity Classifications

Governmental Fund

In the governmental fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned, though the City does not have a formal policy addressing this.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact.

Restricted – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council.

Assigned – Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

The City has adopted a formal policy under which it strives to maintain a minimum unassigned general fund balance greater than 50% of the next year's budgeted General Fund expenditures.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/OUTFLOWS OF RESOURCES, AND EQUITY
(Continued)**

Equity Classifications (Continued)

It is the City's policy to consider restricted cash fund balances to have been depleted before unrestricted cash fund balances is applied.

See Note 3.E. for additional disclosures.

Proprietary fund

In the proprietary fund financial statements, net position is displayed in three components:

Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

1.F. REVENUES, RECEIPTS, DISBURSEMENTS, AND EXPENSES

Property Tax

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of October. The County of Benton is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected.

December 31 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The County Auditor makes up the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity 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 remits a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year. The County Treasurer collects all taxes and assessments, except as noted above. The County Treasurer mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. REVENUES, RECEIPTS, DISBURSEMENTS, AND EXPENSES (Continued)

Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods and/or services in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary 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 items which include revenue and expenses related to capital and related to financing, noncapital financing, or investing activities.

Disbursements and Expenses

In the fund financial statements, expenditures are classified as follows:

Governmental Funds-By Character	Current (further classified by Function)
	Debt Service
	Capital Outlay
Proprietary Fund-By Operating and Nonoperating	

In the fund financial statements, governmental funds report disbursements of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. There were no interfund transfers made during the year ended December 31, 2015.

1.G. RECENTLY ISSUED ACCOUNTING STANDARDS

Effective December 31, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements incorporated the City's share of the Public Employees Retirement Association unfunded liability into the Proprietary Funds Statement of Net Position.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2.A. FUND ACCOUNTING REQUIREMENTS AND DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The City complies with all state and local laws and regulations requiring the use of separate funds.

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC or FSLIC insurance (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The City complies with such laws.

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

2.B. BUDGETARY INFORMATION

Annual budgets for the General Fund are adopted on the cash basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

Each year, all departments of the City submit requests for appropriations to the City Clerk so that a budget may be prepared. The proposed budget is presented to the Council for review. The Council adopts a preliminary maximum levy. Truth-in-taxation notices are mailed out to residents by Benton County. The Council adopts a final budget and tax levy in December.

The appropriated budget is prepared by fund, function and department. The City’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. The original and final budget, if amended, for the General Fund is presented in the supplementary information. The City has not prepared a budget for the Revolving Loan and Utility Improvements funds; which are major special revenue funds.

2.C. EXPENDITURES IN EXCESS OF BUDGET

Expenditures exceeded appropriations for the year ended December 31, 2015, as follows:

Fund	Budgeted Expenditures	Actual Expenditures	Transfers Included In Actual
General	\$ 673,650	\$ 680,543	\$ -

2.D. DEFICIT EQUITY

Cash fund balance deficits of \$24,093 and \$22,365 exist in the GO Improvement Bonds of 2004 Fund and the GO Municipal Building Refunding Bond of 1998 Fund, respectively, resulting from cumulative disbursements in excess of receipts. This results in a \$46,458 liability due to the General Fund. The funds are expected to be paid back with future property taxes and intergovernmental receipts. It is expected that such receipts will provide a positive cash fund balance in the future.

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City’s Council.

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

CITY OF RICE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At December 31, 2015, the City’s deposits, including money markets, were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance or by collateral held by the City’s agent in the City’s name.

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with 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. The City does not have any investment policies that would further limit investment choices.

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

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments (Continued)

Investment balances at December 31, 2015 are as follows:

<u>Deposit/Investment</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Percent of Total</u>
Money Market Funds	0.01	N/A	\$ 11,245	N/A	0.57
Tax-Exempt Individual Bonds	0.90	1-5 years	45,011	N/A	2.29
Taxable Individual Bonds	0.50-5.125	1-5 years	1,875,177	N/A	95.61
Taxable Individual Bonds	1.95-2.00	6-10 years	<u>29,940</u>	N/A	<u>1.53</u>
Totals			<u>\$ 1,961,373</u>		<u>100.00</u>

The investments of the City are subject to the following risks:

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk as indicated in the table above. Minnesota Statutes limit the City's investments.
- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments. At December 31, 2015, none of the underlying securities held by the City are subject to custodial credit risk because they are insured by the Securities Investor Protection Corporation (SIPC).
- Concentration risk is the risk associated with investing a significant portion of the City's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City has no formal policy limiting the amounts that may be invested in any one issuer.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment and is disclosed above by presenting maturity information. The City has no formal policy to address interest rate risk.

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

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments (Continued)

The following is a summary of cash, cash equivalents, and investments:

General Checking	\$ 588,700
Money Market	100,369
Investments (see Investments section)	<u>1,961,373</u>
 Total Cash, Cash Equivalents, and Investments	 <u>\$ 2,650,643</u>

Cash, cash equivalents, and investments are included on the basic financial statements as follows:

Cash, Cash Equivalents, and Investments - Statement of Balances Arising from Cash Transactions	\$ 942,565
Cash, Cash Equivalents, and Investments - Statement of Net Position	<u>1,708,078</u>
 Total Cash, Cash Equivalents, and Investments	 <u>\$ 2,650,643</u>

3.B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not Being Depreciated				
Land	\$ 186,636	\$ -	\$ -	\$ 186,636
Capital Assets, Being Depreciated				
Equipment	111,375	13,800	-	125,175
Water Treatment Facility	1,138,495	-	-	1,138,495
Sewer Distribution System	<u>3,188,765</u>	<u>-</u>	<u>-</u>	<u>3,188,765</u>
 Total Capital Assets				
Being Depreciated	4,438,635	13,800	-	4,452,435
Less Accumulated Depreciation for				
Equipment	64,518	6,985	-	71,503
Water Treatment Facility	553,991	33,518	-	587,509
Sewer Distribution System	<u>1,515,986</u>	<u>82,360</u>	<u>-</u>	<u>1,598,346</u>
 Total Accumulated Depreciation	 <u>2,134,495</u>	 <u>122,863</u>	 <u>-</u>	 <u>2,257,358</u>
 Total Capital Assets Being Depreciated, Net	 <u>2,304,140</u>	 <u>(109,063)</u>	 <u>-</u>	 <u>2,195,077</u>
 Business-Type Activities				
Capital Assets, Net	<u>\$ 2,490,776</u>	<u>\$ (109,063)</u>	<u>\$ -</u>	<u>\$ 2,381,713</u>

CITY OF RICE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental funds and amounts to be repaid from proprietary funds.

There are a number of limitations and restrictions contained in the general obligation bond indentures.

Governmental Funds:

As of December 31, 2015, the long-term debt of the financial reporting entity consists of the following:

Certificate of Indebtedness					
Issue Date	Original Amount	Annual Payment	Interest Rate(s)	Maturity Date	Remaining Amount
12/12	\$ 250,000	\$25,000	2.00%	12/22	\$ 175,000
Total Certificate of Indebtedness					\$ 175,000
Debt Due Within One Year					25,000
Debt Due After One Year					\$ 150,000

Proprietary Funds:

As of December 31, 2015, the long-term debt of the financial reporting entity consists of the following:

General Obligation Note					
Issue Date	Original Amount	Annual Payment	Interest Rate(s)	Maturity Date	Remaining Amount
9/04	\$ 1,153,293	\$52,673 - \$71,000	1.98%	08/24	\$ 593,000
Total General Obligation Note					\$ 593,000
Debt Due Within One Year					61,000
Debt Due After One Year					\$ 532,000

All bonds are direct obligations of the City and pledge the full faith and credit of the City.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Funds:					
General Obligation Bonds	\$ 104,667	\$ -	\$ (104,667)	\$ -	\$ -
Certificate of Indebtedness	200,000	-	(25,000)	175,000	25,000
Total Governmental Funds	\$ 304,667	\$ -	\$ (129,667)	\$ 175,000	\$ 25,000
Proprietary Funds:					
General Obligation Note	\$ 653,000	\$ -	\$ (60,000)	\$ 593,000	\$ 61,000

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

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. DEBT (Continued)

Changes in Long-Term Debt (Continued)

Governmental fund debt is typically funded through the General Fund and Debt Service Funds and proprietary fund debt is funded through the Sewer Fund.

Annual Debt Service Requirements

At December 31, 2015, the estimated annual debt service requirements to maturity including principal and interest are as follows:

Years Ending December 31,	Governmental Funds		
	Principal	Interest	Total
2016	\$ 25,000	\$ 1,750	\$ 26,750
2017	25,000	1,500	26,500
2018	25,000	1,250	26,250
2019	25,000	1,000	26,000
2020	25,000	750	25,750
2021-2022	<u>50,000</u>	<u>750</u>	<u>50,750</u>
Total	<u>\$ 175,000</u>	<u>\$ 7,000</u>	<u>\$ 182,000</u>

Years Ending December 31,	Proprietary Funds		
	Principal	Interest	Total
2016	\$ 61,000	\$ 11,741	\$ 72,741
2017	62,000	10,534	72,534
2018	63,000	9,306	72,306
2019	65,000	8,059	73,059
2020	66,000	6,772	72,772
2021-2024	<u>276,000</u>	<u>13,801</u>	<u>289,801</u>
Total	<u>\$ 593,000</u>	<u>\$ 60,213</u>	<u>\$ 653,213</u>

Interest and fiscal charge expense totals \$5,359 in the Statement of Receipts, Disbursements and Changes in Cash Fund Balances-Governmental Funds. Interest expense totals \$12,929 in the Statement of Revenues, Expenses and Changes in Net Position-Proprietary Funds.

3.D. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances consist of the following at December 31, 2015:

Short-Term Balances			
Due to Fund	Due from Fund	Amount	Reason
General	GO Improvement Bond of 2004	\$ 24,093	Supplement Negative Cash
General	Nonmajor Debt Service	<u>22,365</u>	Supplement Negative Cash
Total Short-Term Balances		<u>\$ 46,458</u>	

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

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. FUND BALANCES

At December 31, 2015, governmental fund balances consists of the following:

	General Fund	Debt Service	Special Revenue Funds	Total Governmental Funds
Restricted for:				
Debt Service	\$ -	\$ 23,348	\$ -	\$ 23,348
Special Revenue - Revolving Loan	-	-	380,231	380,231
Total Restricted	-	23,348	380,231	403,579
Committed for:				
Special Revenue	-	-	445,409	445,409
Assigned for:				
Special Revenue	-	-	70,102	70,102
Unassigned	69,933	(46,458)	-	23,475
Total Fund Balances	\$ 69,933	\$ (23,110)	\$ 895,742	\$ 942,565

NOTE 4 OTHER NOTES

4.A. DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Descriptions

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

General Employees Retirement Fund (GERF)

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

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

NOTE 4 OTHER NOTES (Continued)

4.A. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

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 paragraph is current provisions and applies 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.

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% 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.

Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$11,529, of which \$6,656 came from the City's proprietary funds. The City's contributions were equal to the required contributions as set by State Statute.

CITY OF RICE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 OTHER NOTES (Continued)

4.A. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Pension Costs

GERF Pension Costs

At December 31, 2015, the proportionate share of the GERF's net pension liability allocated to the City was \$124,380, of which \$72,785 was reported in the City's proprietary funds. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City'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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0024 percent at the end of the measurement period and 0.0035 percent for the beginning of the period. The portion of this proportionate share attributable to the City's proprietary funds at the measurement date was 58.59 percent.

For the year ended December 31, 2015, the City recognized pension expense of \$2,146 for the portion of its proportionate share of GERF's pension expense associated with the City's proprietary funds.

At December 31, 2015, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 6,271
Differences between projected and actual investment earnings	11,775	-
Changes in proportionate share	-	38,754
Contributions paid to PERA subsequent to the measurement date	5,895	-
Total City Deferred Outflows/Inflows	\$ 17,670	\$ 45,025
Proprietary Funds Deferred Outflows/Inflows	\$ 10,221	\$ 26,382

The City contributed a total of \$5,895 to the GERF subsequent to the measurement date and during the year ended December 31, 2015, of which \$3,231 was paid from proprietary funds and has been reported as deferred outflows of resources. Other amounts reported as deferred outflows and inflows of resources in the proprietary funds related to GERF pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense
2016	\$ (7,069)
2017	\$ (7,069)
2018	\$ (7,069)
2019	\$ 1,725

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

NOTE 4 OTHER NOTES (Continued)

4.A. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Assumptions	Rates
Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1.00% effective every January 1st until 2034, then 2.50%.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERS was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. There were no changes in actuarial assumptions in 2015.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	<u>2%</u>	0.50%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.90%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

NOTE 4 OTHER NOTES (Continued)

4.A. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Entire City	\$195,570	\$124,380	\$65,589
Proprietary Funds	\$114,593	\$72,785	\$38,432

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.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

4.C. COMMITMENTS

Contracts

In 2007, the City purchased land and financed the purchase price of \$100,000 through the Revolving Loan Trust Fund. The City has been levying \$10,000 per year to reimburse the fund for the past nine years and has one year remaining.

Pay-as-You-Go-Tax Increment Financing

The City has entered into a Pay-as-You-Go developer agreement to finance a tax increment project. Such projects are financed with the developers of the projects. The note is not a general obligation of the City as it is payable only to the extent of future tax increments received. As such, these obligations do not appear on the City's financial statements. At December 31, 2015, the outstanding Pay-as-You-Go debt with the developer is \$224,046. Once completed, the Developer will be reimbursed for the property, site improvements, and administrative costs in an amount not to exceed \$226,000, together with interest of 5.00%, until all costs are reimbursed by December 15, 2026.

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

NOTE 4 OTHER NOTES (Continued)

4.D. TAX INCREMENT FINANCING

The City is the administering authority for the following tax increment financing district:

Name of District:	TIF 1-8 Roach Rental Townhomes
Type of District:	Housing
Authorizing Law:	MN Statutes Sections 469.174
Year Established:	2011
Duration of District:	27 Years
Original Base Net Tax Capacity:	\$ <u>289</u>
Current Net Tax Capacity:	\$ <u>20,150</u>
Captured Net Tax Capacity:	
Retained by City	\$ <u>19,861</u>
Shared with Other Taxing Districts	\$ <u>-</u>
Total Notes Issued:	
Pay as you go Debt	\$ 226,000
Less: Cumulative Amounts Redeemed	<u>(1,954)</u>
Total Notes Outstanding-December 31, 2015	\$ <u>224,046</u>

4.E. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended December 31, 2015, the City determined adjustments to beginning proprietary fund net position were necessary to conform to the financial statement presentation prescribed under newly adopted standards previously discussed in Note 1.G. Adjustments were made to record the proprietary funds portion of City’s proportionate share of the Public Employees Retirement Association’s net pension liability at the beginning of the year and to record deferred outflows for the City’s contributions to the plan during the period of July 1, 2014 to December 30, 2014.

The following table depicts the impact of the change in accounting principle on proprietary fund beginning net position:

	Water Fund	Sewer Fund
Beginning Net Position	\$ 1,508,319	\$ 1,992,095
Net Pension Liability at 1/1/15	(39,304)	(57,033)
Deferred Outflows for Pension Contributions	<u>1,111</u>	<u>1,769</u>
Beginning Net Position - Restated	<u>\$ 1,470,126</u>	<u>\$ 1,936,831</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF RICE, MINNESOTA
SCHEDULE OF CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS (Presented Prospectively)

For the Fiscal Year Ended June 30	City's Portion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered- Employee Payroll (b)	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015 PERA	0.0024%	\$ 124,380	\$ 137,373	90.5%	78.2%

SCHEDULE OF CITY CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)

For the Calendar Year Ended December 31	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2015 PERA	\$ 11,529	\$ 11,529	-	\$ 150,342	7.7%

SUPPLEMENTARY INFORMATION

**CITY OF RICE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
	<u> </u>	<u> </u>	<u> </u>
RESOURCES (INFLOWS):			
Property Taxes	\$ 368,000	\$ 364,587	\$ (3,413)
Franchise Fees	17,000	18,549	1,549
Gravel Tax	-	230	230
Licenses, Permits and Fees	146,600	34,249	(112,351)
Intergovernmental	174,437	201,193	26,756
Charges for Services	93,975	113,686	19,711
Fines	8,900	6,713	(2,187)
Investment Income	120	9,348	9,228
Contributions	-	4,576	4,576
Miscellaneous	1,300	22,210	20,910
AMOUNTS AVAILABLE	<u>810,332</u>	<u>775,341</u>	<u>(34,991)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
Current:			
General Government:			
City Clerk	83,460	65,671	(17,789)
Council	10,362	15,276	4,914
Elections	1,230	499	(731)
General Government	179,237	153,633	(25,604)
Public Safety:			
Building Inspector	12,713	14,718	2,006
Police	157,167	181,203	24,036
Fire	130,795	143,609	12,814
Public Works	68,412	70,433	2,021
Economic Development	1,275	1,500	225
Debt Service:			
Principal	25,000	25,000	-
Interest and Fiscal Charges	4,000	4,000	-
Capital Outlay	-	5,001	5,001
TOTAL CHARGES	<u>673,650</u>	<u>680,543</u>	<u>6,893</u>
OTHER FINANCING SOURCES			
Gain on Sale of Asset	-	2,300	2,300
NET CHANGE IN CASH FUND BALANCE	<u>\$ 136,682</u>	97,098	<u>\$ (41,884)</u>
CASH FUND BALANCE - BEGINNING		<u>(27,165)</u>	
CASH FUND BALANCE - ENDING		<u>\$ 69,933</u>	

CITY OF RICE, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS -
NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	<u>General Improvement</u>	<u>Recreation</u>	<u>Park Dedication</u>	<u>Total Nonmajor Special Revenue Governmental Funds</u>
ASSETS				
Cash, Cash Equivalents, and Investments	\$ 123,847	\$ 70,102	\$ 47,060	\$ 241,009
CASH FUND BALANCES				
Committed	123,847	-	47,060	170,907
Assigned	<u>-</u>	<u>70,102</u>	<u>-</u>	<u>70,102</u>
TOTAL CASH FUND BALANCES	<u>\$ 123,847</u>	<u>\$ 70,102</u>	<u>\$ 47,060</u>	<u>\$ 241,009</u>

CITY OF RICE, MINNESOTA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES -
NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>General Improvement</u>	<u>Recreation</u>	<u>Park Dedication</u>	<u>Total Nonmajor Special Revenue Governmental Funds</u>
RECEIPTS				
Property Taxes	\$ 4,966	\$ 9	\$ -	\$ 4,975
Intergovernmental	21,814	-	-	21,814
Charges for Services	-	3,922	-	3,922
Investment Income	-	196	-	196
Contributions	-	3,000	-	3,000
TOTAL RECEIPTS	<u>26,780</u>	<u>7,127</u>	<u>-</u>	<u>33,907</u>
DISBURSEMENTS				
Current:				
General Government	1,195	-	-	1,195
Public Works	25,112	-	-	25,112
Parks and Recreation	-	18,619	6,823	25,442
Capital Outlay	3,995	-	20,600	24,595
TOTAL DISBURSEMENTS	<u>30,302</u>	<u>18,619</u>	<u>27,423</u>	<u>76,344</u>
DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS	(3,522)	(11,492)	(27,423)	(42,437)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	-	4,429	4,429
Operating Transfers Out	-	(4,429)	-	(4,429)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(4,429)</u>	<u>4,429</u>	<u>-</u>
NET CHANGE IN CASH FUND BALANCES	(3,522)	(15,921)	(22,994)	(42,437)
CASH FUND BALANCES - BEGINNING	<u>127,369</u>	<u>86,023</u>	<u>70,054</u>	<u>283,446</u>
CASH FUND BALANCES - ENDING	<u>\$ 123,847</u>	<u>\$ 70,102</u>	<u>\$ 47,060</u>	<u>\$ 241,009</u>

CITY OF RICE, MINNESOTA
COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS -
NONMAJOR DEBT SERVICE GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	<u>GO Municipal Building Refunding Bonds of 1998</u>	<u>Tax Increment District No. 8</u>	<u>Total Nonmajor Debt Service Governmental Funds</u>
ASSETS			
Cash, Cash Equivalents, and Investments	\$ -	\$ 23,348	\$ 23,348
LIABILITIES			
Due to Other Funds	\$ 22,365	\$ -	\$ 22,365
CASH FUND BALANCES			
Restricted	-	23,348	23,348
Unassigned	<u>(22,365)</u>	<u>-</u>	<u>(22,365)</u>
Total Fund Balance	<u>(22,365)</u>	<u>23,348</u>	<u>983</u>
TOTAL LIABILITIES AND TOTAL CASH FUND BALANCES			
	<u>\$ -</u>	<u>\$ 23,348</u>	<u>\$ 23,348</u>

CITY OF RICE, MINNESOTA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES -
NONMAJOR DEBT SERVICE GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	GO Municipal Building Refunding Bonds of 1998	Tax Increment District No. 8	Total Nonmajor Debt Service Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
RECEIPTS			
Property Taxes	\$ 221	\$ 28,289	\$ 28,510
DISBURSEMENTS			
Current:			
Economic Development	<u> -</u>	<u> 2,912</u>	<u> 2,912</u>
NET CHANGE IN CASH FUND BALANCES	221	25,377	25,598
CASH FUND BALANCES - BEGINNING	<u> (22,586)</u>	<u> (2,029)</u>	<u> (24,615)</u>
CASH FUND BALANCES - ENDING	<u><u> (22,365)</u></u>	<u><u> 23,348</u></u>	<u><u> 983</u></u>

**CITY OF RICE, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2015
(UNAUDITED)**

	Issue Date	Interest Rate	Maturity Date	Initial Authorized Issue	Outstanding Balance 01/01/15	Issued	Paid	Outstanding Balance 12/31/15	Principal Due in 2016
GOVERNMENTAL DEBTS									
<u>General Obligation Bonds</u>									
2004A General Obligation Improvement Bonds	05/27/04	4.40%	2/1/2019	\$ 325,000	\$ 104,667	\$ -	\$ 104,667	\$ -	\$ -
<u>Certificates of Indebtedness</u>									
2012 Certificates of Indebtedness	12/28/12	2.00%	12/28/2022	250,000	200,000	-	25,000	175,000	25,000
TOTAL GOVERNMENTAL DEBTS				575,000	304,667	-	129,667	175,000	25,000
ENTERPRISE DEBT									
2004 General Obligation Revenue Note (PFA)	09/23/04	1.98%	8/20/2024	1,153,293	653,000	-	60,000	593,000	61,000
TOTAL INDEBTEDNESS				<u>\$ 1,728,293</u>	<u>\$ 957,667</u>	<u>\$ -</u>	<u>\$ 189,667</u>	<u>\$ 768,000</u>	<u>\$ 86,000</u>

**CITY OF RICE, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2015
(UNAUDITED)**

<u>Fund</u>	<u>Item and Purpose</u>	<u>Amount</u>
General	Taxes	\$ 1,521
General	Fire Contracts and Calls	3,850
General	Court Fines	710
General	Building Permits	423
General	Police Tickets	16
General Improvement	Taxes	46
Debt Service	Taxes	171
Water	Customer Charges	8,262
Sewer	Customer Charges	22,367
		<u>\$ 37,366</u>

CITY OF RICE, MINNESOTA
SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES
DECEMBER 31, 2015
(UNAUDITED)

<u>Fund</u>	<u>Vendor</u>	<u>Item and Purpose</u>	<u>Amount</u>	
General	MN Dept. of Revenue	Sales & Use Tax	\$ 93	
	MN Unemployment	Q4 Benefits	2,857	
	Heartland	CC Processing Fee	83	
	Bremer Bank	Account Analysis	124	
	MCSI	Copier Contract/Supplies	240	
	MN Power	Elec - Hall	266	
	Xcel Energy	Gas - Hall	284	
	MN Power	Elec - Mnt	37	
	Xcel Energy	Gas - Mnt	112	
	MN Power	Elec - OVH	113	
	Xcel Energy	Gas - OVH	323	
	MN Power	Elec - Storage	7	
	Wright Express	Fuel	117	
	Marine Rescue	PD Throw Bags	38	
	Kelm & Reuter	Dec Legal Fees	1,246	
	Holiday Inn	Police Conference	250	
	Verizon	PD Squad	35	
	Verizon	Cell Phone	50	
	Janski, Scott	PD Phones	178	
	Verizon	Cell Phone	50	
	All Spec Services	Dec Building Permit Fee	328	
	MN Dept. of L and I	Building Permit Surcharge	81	
	MN Power	Elec - Siren	7	
	Tri County Humane	Animal Control	107	
	Holiday Fleet	Fuel	49	
	Holiday Fleet	Fuel	55	
	PM Service	Lawnmower Repairs	40	
	Rice Hardware Hank	Supplies	266	
	Rice Automotive	Truck Repair	156	
	East Central Energy	Elec - streets FOD	45	
	MN Power	Elec - St Lights 3	390	
MN Power	Elec - St Lights 1	75		
MN Power	Elec - St Lights 2	318		
MN Power	Elec - Xmas Lights	102		
Little Rock Elect	St Light Repair	3,136		
MN Power	St Light Repair	<u>50</u>		
		\$	11,708	
Fire Fund	Premium Waters	Fire Supplies	7	
	Med-Tech Resource	Fire Supplies	83	
	Oxygen Service	Fire Supplies	59	
	Bound Tree	Fire Supplies	95	
	Emergency Response	Fire Supplies	39	
	Cardmember/Canvas	Fire Software	312	
	Verizon	Cell Phone	50	
	Emergency Response	Fire Hose Repair	<u>586</u>	
				1,231
Recreation	Xcel Energy	Gas - Lions	85	
	MN Power	Elec - Ball Fields	14	
	MN Power	Elec - Hockey Rink	<u>90</u>	
			189	
Tax Increment District No. 8	Rice Townhomes, LLC	Developer Payment	<u>27,034</u>	27,034
Water	Hawkins	Chlorine	25	
	Gopher State OneCall	Locates	29	
	MN Dept. of Revenue	Sales & Use Tax	414	
	Verizon	Cell Phone	50	
	MN Power	Elec - Water	804	
	Xcel Energy	Gas - Water	<u>284</u>	
			1,606	
Sewer	Stearns DHIA	Testing	390	
	Verizon	Cell Phone	50	
	East Central Energy	Elec - Lift Station (Pond)	142	
	East Central Energy	Elec - Lift Station (118th)	94	
	East Central Energy	Elec - Lift Station (30th)	39	
MN Power	Elec - Lift Stations	<u>207</u>		
			922	
		\$	<u>42,690</u>	

OTHER REPORTS

**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**

March 10, 2016

Honorable Mayor and City Council
City of Rice
Rice, 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 each major fund and the aggregate remaining fund information of the City of Rice (the "City") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Rice's basic financial statements and have issued our report thereon dated March 10, 2016.

Internal Control Over Financial Reporting

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

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

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 entity'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 to be material weaknesses: 2012-01 and 2012-02.

St. Cloud

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P.O. Box 1496
St. Cloud, MN 56302
320.251.0286

Little Falls

109 E. Broadway
P.O. Box 365
Little Falls, MN 56345
320.632.6311

Albany

115 6th St.
P.O. Box 268
Albany, MN 56307
320.845.2940

Maple Lake

220 Hwy. 55 North, Ste. 4
P.O. Box 385
Maple Lake, MN 55358
320.963.5414

Monticello

114 W. 3rd St.
P.O. Box 755
Monticello, MN 55362
763.295.5070

Compliance and Other Matters

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

City's Response to Findings

The City of Rice's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Schlenner Wenner & Co.".

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**CITY OF RICE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2015**

Finding 2012-01 – Segregation of Duties

Criteria or Specific Requirement: Internal control that supports the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate controls over the access of such financial data.

Condition: The City does not have adequate segregation of accounting duties.

Context: This finding impacts the internal control for all significant accounting functions.

Effect: The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate record, process and report financial data consistent with the assertions of management in the financial statements.

Recommendation: Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Management's Response: Management agrees with our recommendation.

Finding 2012-02 – Material Audit Adjustments

Criteria or Specific Requirement: The City is required to report accurate financial information.

Condition: Schlenner Wenner & Co. posted material audit adjustments. These adjustments were reviewed by management and management has taken responsibility for them. However, we believe that management would require additional training in accounting principles generally accepted in the United States of America to adequately apply such standards internally.

Context: This finding impacts the financial statements and disclosures of the City.

Effect: The inability to properly prepare the City's trial balances would result in improper financial reporting.

Recommendation: While the City may not have adequate controls in place to eliminate this finding, the City should adopt an internal control policy to document its annual review of the adjustments and provide additional training to staff.

Management's Response: The City will continue to have Schlenner Wenner & Co. prepare certain audit adjustments, however, the City plans on establishing a written internal control policy to document the annual review of the adjustments and schedules.

**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

March 10, 2016

Honorable Mayor and City Council
City of Rice
Rice, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of each major fund, and the aggregate remaining fund information of the City of Rice, Minnesota (the "City") as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2016.

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

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

This report is intended solely for the information and use of those charged with governance and management of the City of Rice, Minnesota and the State Auditor and is not intended to be and should not be used by anyone other than these specified users.

Schlenner Wenner & Co.

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