

INDEPENDENT AUDITOR'S REPORT

**CITY OF RUTHTON
RUTHTON, MINNESOTA 56170**

FOR THE YEAR ENDED DECEMBER 31, 2014

**Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
PO Box 707
Pipestone, Minnesota 56164**

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City of Ruthton
Ruthton, Minnesota

MEMBERS OF THE CITY COUNCIL AND CITY OFFICIALS

Stan Townsend	Mayor
Kathy Rupp	Assistant Mayor
Stewart Peterson	Council Member
Brent Deruyter	Council Member
Harvey Velasquez	Council Member
Rochelle VanderWoude	City Clerk-Treasurer
Glen Peterson	City Attorney

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PARTNERS

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Daryl J. Kanthak, CPA

WITH THE FIRM

Amanda K. Baarson, CPA
Amy L. Mollberg, CPA
Sally A. Sterk, CPA
Blake R. Klinsing, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
Ruthton, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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 *Governmental 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 of material misstatement.

The prior year partial comparative information has been derived from the City's financial statements for the year ended December 31, 2013, and in our report dated May 1, 2014, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ruthton, Ruthton, Minnesota, as of December 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America and the respective budgetary comparison for the General Fund and the major Special Revenue Funds (Fire Department Fund and Small Cities Development Program).

The financial statements include partial prior-year comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statement for the year ended December 31, 2013, from which it was derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-14 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 the 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.

Other Information

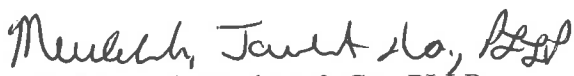
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ruthton, Ruthton, Minnesota's basic financial statements. The introductory section and individual non-major fund financial statements and schedules are presented for the purposes of additional analysis and are not a required part of the financial statements.

The individual non-major fund financial statements and schedules 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 individual non-major fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2015, on our consideration of the City of Ruthton, Ruthton, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Ruthton, Ruthton, Minnesota's internal control over financial reporting and compliance.


Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

April 30, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED DECEMBER 31, 2014

This section of the City of Ruthton's annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2014. Please read it in conjunction with the other components of the City's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 --*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. Certain comparative information between the current year (2014) and the prior year (2013) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2014 fiscal year include the following:

- Governmental Net position increased by \$26,647 or 3.2% from December 31, 2013.
- Proprietary Net position decreased by \$3,246 or 0.5% from December 31, 2013.
- Total governmental expenditures decreased by \$21,457 in comparison to fiscal year 2013, and total governmental revenues decreased by \$13,669 in comparison to fiscal year 2013.
- Total proprietary operating expenses increased by \$10,078 in comparison to fiscal year 2013, and proprietary operating revenues increased by \$18,904 in comparison to fiscal year 2013.

Overview of the Financial Statements

The financial section of the annual report consists of four parts -- Independent Auditor's Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include government-wide financial statements and fund financial statements and the notes to the financial statements.

Government-Wide Statements

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

The two government-wide statements report the City's net position and how it has changed. Net position -- the difference between the City's assets and liabilities -- is one way to measure the City's financial health or position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in government support to assess the overall health of the City.

Fund Financial Statements

The fund financial statements include more detailed information about a City's individual funds. The City maintains two types of funds.

Governmental Funds - The City's services are included in this type of fund, which generally focuses on 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the City's activities. Because this information does not encompass the additional long-term focus of the City-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

The City maintains four governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Fire Department Fund, Small Cities Development Program Fund and Cemetery Fund. The General Fund, Fire Department Fund and Small Cities Development Program Fund are considered to be major funds. The Cemetery Fund is considered to be a non-major fund.

Proprietary Funds – The City of Ruthton maintains three proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Ruthton uses the enterprise funds to account for Water, Sewer, and Garbage Operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Garbage Funds. These are considered to be major funds of the City of Ruthton.

Financial Analysis of the City as a Whole/Financial Analysis of the City's Funds (Government-Wide Statements)

As noted, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Ruthton, assets exceeded liabilities by \$1,459,387 at the close of the most recent fiscal year. This was an increase of 1.6% from the previous year total of \$1,435,986.

Table 1 is a summarized view of the City's Statement of Net Position.

Table 1
Statement of Net Position
As of December 31, 2014

	<u>Governmental Activities</u>		<u>Business -Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets						
Current and other assets	413,692	417,864	37,909	36,864	451,601	454,728
Long-term Assets			48,765	66,281	48,765	66,281
Capital assets, net of depreciation	<u>484,116</u>	<u>459,455</u>	<u>741,716</u>	<u>746,410</u>	<u>1,225,832</u>	<u>1,205,865</u>
Total Assets	<u>897,808</u>	<u>877,319</u>	<u>828,390</u>	<u>849,555</u>	<u>1,726,198</u>	<u>1,726,874</u>
Liabilities						
Current and other liabilities	6,459	6,801	134,921	132,840	141,380	139,641
Long-term liabilities	<u>40,431</u>	<u>46,247</u>	<u>85,000</u>	<u>105,000</u>	<u>125,431</u>	<u>151,247</u>
Total Liabilities	<u>46,890</u>	<u>53,048</u>	<u>219,921</u>	<u>237,840</u>	<u>266,811</u>	<u>290,888</u>
Net Assets						
Net Investment in capital assets	437,869	407,630	636,716	626,410	1,074,585	1,034,040
Restricted	109,899	108,224			109,899	108,224
Unrestricted	<u>303,150</u>	<u>308,417</u>	<u>(28,247)</u>	<u>(14,695)</u>	<u>274,903</u>	<u>293,722</u>
Net Position	<u>850,918</u>	<u>824,271</u>	<u>608,469</u>	<u>611,715</u>	<u>1,459,387</u>	<u>1,435,986</u>
Total Liabilities and Net Position	<u>897,808</u>	<u>877,319</u>	<u>828,390</u>	<u>849,555</u>	<u>1,726,198</u>	<u>1,726,874</u>

The City's financial position is the product of numerous factors. Therefore, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net position of the City.

Table 2
Change in Net Position
For the year ended December 31, 2014

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues						
Program Revenues						
Charges for Services	23,991	23,495	100,785	81,881	124,776	105,376
Operating Grants and Contributions	11,944	12,729			11,944	12,729
Capital Grants and Contributions						
General Revenues						
Property Taxes	94,354	91,839	12,992	14,134	107,346	105,973
State Aid Not						
Restricted For Specific Purposes	82,870	83,656			82,870	83,656
Unrestricted Investment Earnings	458	621	269	367	727	988
Other Revenues	<u>5,741</u>	<u>24,273</u>			<u>5,741</u>	<u>24,273</u>
Total Revenues	<u>219,358</u>	<u>236,613</u>	<u>114,046</u>	<u>96,382</u>	<u>333,404</u>	<u>332,995</u>

Table 2 – Continued

Expenses	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General Government	50,306	54,875			50,306	54,875
Public Safety	55,184	52,352			55,184	52,352
City Maintenance	34,547	37,794			34,547	37,794
Cultural Recreation	1,396	4,993			1,396	4,993
Public Works	29,082	25,387			29,082	25,387
Miscellaneous	21,113	20,486			21,113	20,486
Cemetery	1,083	4,087			1,083	4,087
Water			49,390	44,632	49,390	44,632
Sewer			52,001	48,597	52,001	48,597
Garbage			15,901	15,000	15,901	15,000
Total Expenses	<u>192,711</u>	<u>199,974</u>	<u>117,292</u>	<u>108,229</u>	<u>310,003</u>	<u>308,203</u>
Change in Net Position	<u>26,647</u>	<u>36,639</u>	<u>(3,246)</u>	<u>(11,847)</u>	<u>23,401</u>	<u>24,792</u>

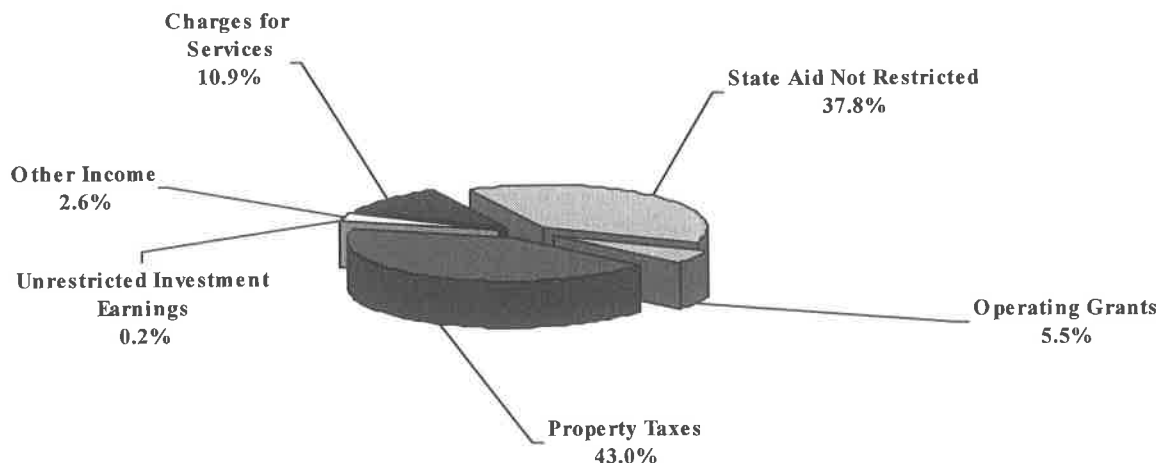
The City’s total revenue consisted of program revenues of \$136,720, property taxes of \$107,346, state aids of \$82,870, investment earnings of \$727 and miscellaneous revenues of \$5,741.

The cost of all governmental and business-type activities this year was \$310,003.

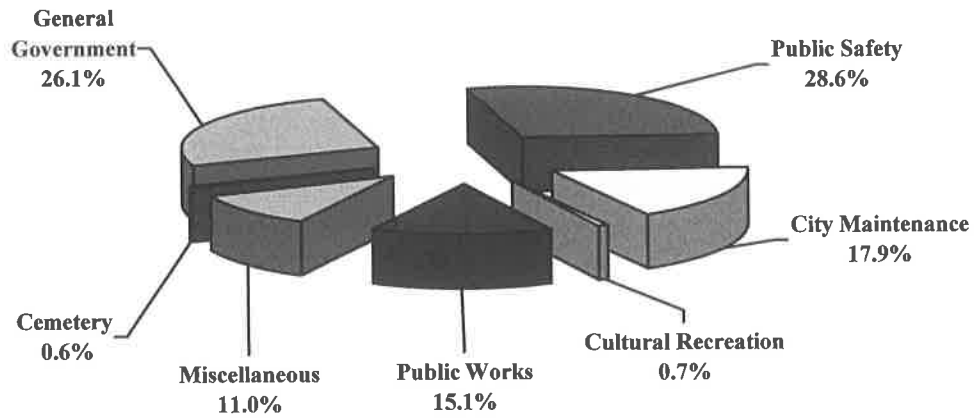
- The users of the city programs paid for 40.2%, or \$124,776, of the costs.
- The state government subsidized certain programs with grants and contributions. This totaled \$82,870, or 26.7%, of the total costs.

Figure A and Figure B show further analysis of these revenue sources and expenditure functions for Governmental activities. Figure C and D show further analysis of these revenue sources and expenditures functions for Business-Type Activities.

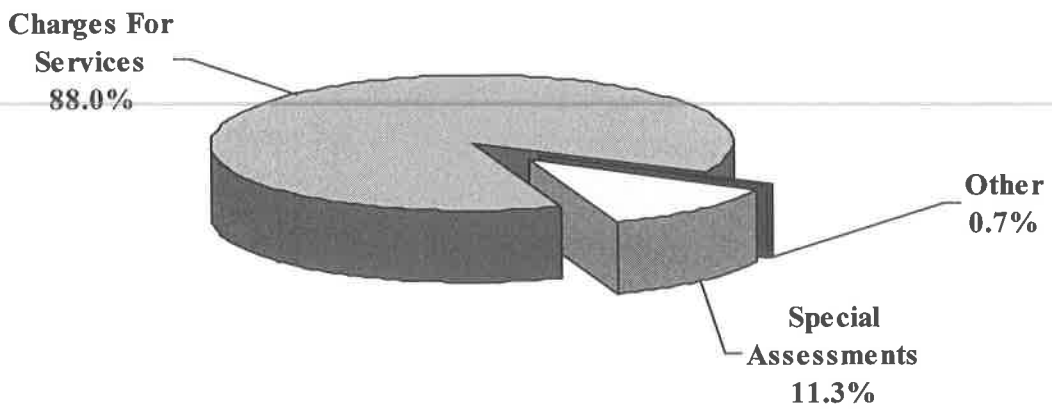
Figure A - Sources of Revenues for Fiscal Year 2014
Governmental Activities



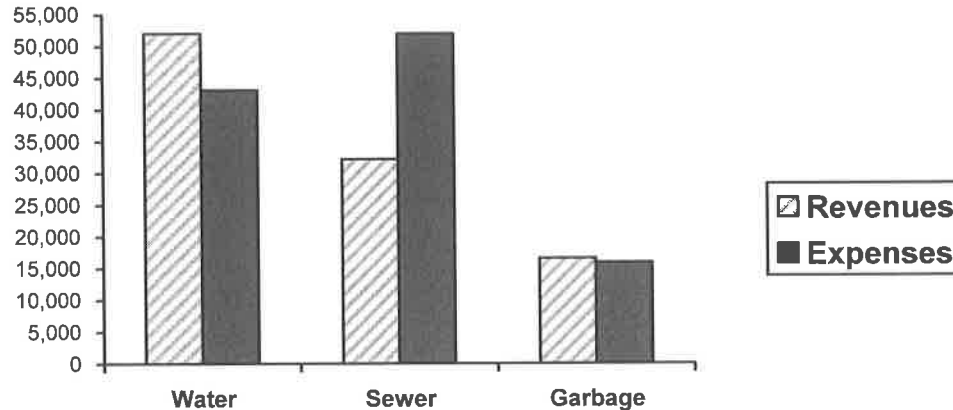
**Figure B - Expenses for Fiscal 2014
Governmental Activities**



**Figure C - Sources of Revenues for Fiscal Year 2014
Business-Type Activities**



**Figure D - Operating Revenues and Expenses for Fiscal Year 2014
Business-Type Activities**



Financial Analysis of the City's Funds (Fund Financial Statements)

Fund Balance/Net Position

The financial performance of the city as a whole is reflected in its governmental funds as well. As the city completed the year, the governmental funds reported a combined fund balance of \$404,034. The prior year fund balance was \$408,740, which is a decrease of \$4,706. The General Fund decrease of \$3,395 is due to a street overlay project. The Fire Department Fund had a decrease of \$2,986, the Small Cities Development Program Fund had an increase of \$2,438 and the Cemetery Fund had a decrease of \$763.

The proprietary funds completed the year with a combined net position of \$608,469. The prior year net position was \$611,715. The Water Fund increase of \$15,666 was due to revenues exceeding expenses. The Sewer fund decrease of \$19,596 was due to various sewer improvements and repairs, and expenditures exceeding revenues. The Garbage Fund increase of \$684 was due to revenues exceeding expenses.

Revenues and Expenditures/Expenses

Revenues of the city's governmental funds totaled \$218,244 while total expenditures were \$222,950. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	184,947	173,342	(15,000)	(3,395)
Fire Department Fund	30,539	48,525	15,000	(2,986)
Small Cities Development Program Fund	2,438	-0-	-0-	2,438
Cemetery Fund	320	1,083		(763)
Total	<u>218,244</u>	<u>222,950</u>	<u>-0-</u>	<u>(4,706)</u>

Revenues of the city's proprietary funds totaled \$100,785, total expenses were \$110,931. A summary of the revenues and expenses reported on the proprietary funds statements are as follows:

	Revenue	Expenses	Other Financing Sources (Uses)	Net Position Increase (Decrease)
Water Fund	52,040	43,047	6,673	15,666
Sewer Fund	32,166	51,983	221	(19,596)
Garbage Fund	16,579	15,901	6	684
Total	<u>100,785</u>	<u>110,931</u>	<u>6,900</u>	<u>(3,246)</u>

General Fund Budgetary Highlights

The City is not required to adopt an operating budget prior to the beginning of its fiscal year. Once the General Fund budget has been adopted, the City might amend the budget for known changes in circumstances such as legislative funding. During the fiscal year 2014, the City did not revise the original budget. The city's budget anticipated that expenditures would exceed revenues and other financing sources (uses) by \$109,361. The actual results for the year showed a deficit of \$3,395.

- Actual revenues were over budget by \$653 due to various reasons.
- Actual expenditures were under budget by \$105,313 due primarily to the public works not making equipment purchases which were budgeted for.

Capital Assets

Table 3 shows the City's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending December 31, 2014 and 2013.

**Table 3
Capital Assets**

<u>Governmental Activities</u>	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Land	27,255	27,255	
Buildings	232,951	232,951	
Equipment & Improvements	492,362	484,366	7,996
Infrastructure	1,072,797	1,025,616	47,181
Less Accumulated Depreciation	(1,341,249)	(1,310,733)	(30,516)
Total	<u>484,116</u>	<u>459,455</u>	<u>24,661</u>
Depreciation Expense	<u>37,558</u>	<u>35,608</u>	<u>1,950</u>

<u>Business-Type Activities</u>	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Land	44,519	44,519	
Water System & Equipment	835,029	806,089	28,940
Sewer System & Equipment	842,336	842,336	
Less accumulated depreciation	(980,168)	(946,534)	(33,634)
Total	<u>741,716</u>	<u>746,410</u>	<u>(4,694)</u>
Depreciation Expense	<u>33,634</u>	<u>32,334</u>	<u>1,300</u>

Capital asset activity occurring in 2014 included the purchase of fire turnout gear, lawn mower, water pump and motor, the street overlay project and water tower improvements. Disposals of capital assets during the year included the club cadet mower.

Long-Term Liabilities

At the end of the current fiscal year, the City had total bonded debt outstanding of \$105,000 and total promissory note outstanding of \$46,247. The entire amount of the bonded debt is general obligation refunding bonds. The entire amount of the promissory note is a general obligation of the City and will be retired through ad valorem tax levies.

**Table 4
Outstanding Debt
As of December 31, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General Obligation Refunding Bonds		105,000	105,000
Promissory Note	46,247		46,247
Total Debt	<u>46,247</u>	<u>105,000</u>	<u>151,247</u>

Factors bearing on the City's Future

The City is dependent on the State of Minnesota for a significant portion of its funding. The continuation of this funding is dependent on the actions taken by Minnesota legislature in the future.

Contacting the City's Management

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the City of Ruthton at PO Box 5, Ruthton, Minnesota, 56170.

STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Primary Government		Total	
	Governmental Activities	Business-Type Activities	2014	2013
<u>Assets</u>				
Cash and Investments	272,411	16,151	288,562	287,719
Accounts Receivable	108	9,248	9,356	10,982
Delinquent Taxes / Assessments Receivable	9,713	10,922	20,635	19,140
Due From Other Funds	58,430		58,430	45,270
Notes Receivable	58,009		58,009	75,040
Prepaid Items	15,021	1,588	16,609	16,577
Long Term Assessments Receivable		46,999	46,999	64,243
Bond Discount		1,766	1,766	2,038
Capital Assets (net of accumulated depreciation)	484,116	741,716	1,225,832	1,205,865
Total Assets	<u>897,808</u>	<u>828,390</u>	<u>1,726,198</u>	<u>1,726,874</u>
<u>Liabilities</u>				
Accounts Payable and Other Current Liabilities	643	1,189	1,832	2,493
Due To Other Funds		58,430	58,430	45,270
Unearned Revenue		55,302	55,302	71,300
Noncurrent liabilities				
Due within one year	5,816	20,000	25,816	20,578
Due in more than one year	40,431	85,000	125,431	151,247
Total Liabilities	<u>46,890</u>	<u>219,921</u>	<u>266,811</u>	<u>290,888</u>
<u>Net Position</u>				
Net Investment in Capital Assets	437,869	636,716	1,074,585	1,034,040
Restricted for:				
Small Cities Development Program	99,644		99,644	97,206
Cemetery Fund	10,255		10,255	11,018
Unrestricted	303,150	(28,247)	274,903	293,722
Total Net Position	<u>850,918</u>	<u>608,469</u>	<u>1,459,387</u>	<u>1,435,986</u>
Total Liabilities and Net Position	<u>897,808</u>	<u>828,390</u>	<u>1,726,198</u>	<u>1,726,874</u>

See accompanying notes to the financial statements.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges For Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total	
			Grants and Contributions	Grants and Contributions			2014	2013
Governmental Activities:								
General Government	50,306	7,541			(42,765)	(42,765)	(45,227)	
Public Safety	55,184	16,450	11,944		(26,790)	(26,790)	(25,776)	
City Maintenance	34,547				(34,547)	(34,547)	(37,794)	
Cultural and Recreation	1,396				(1,396)	(1,396)	(4,993)	
Public Works	29,082				(29,082)	(29,082)	(25,387)	
Miscellaneous	21,113				(21,113)	(21,113)	(20,486)	
Cemetery	1,083				(1,083)	(1,083)	(4,087)	
Total Governmental Activities	192,711	23,991	11,944	-0-	(156,776)	-0-	(156,776) (163,750)	
Business-Type Activities								
Water	49,390	52,040				2,650	2,650 (5,475)	
Sewer	52,001	32,166				(19,835)	(19,835) (21,991)	
Garbage	15,901	16,579				678	678 1,118	
Total Business-Type Activities	117,292	100,785	-0-	-0-	-0-	(16,507)	(16,507) (26,348)	
Total Government	310,003	124,776	11,944	-0-	(156,776)	(16,507)	(173,283) (190,098)	
General Revenues								
Property Taxes					94,354	12,992	107,346 105,973	
State Aid Not Restricted to Specific Purposes					82,870		82,870 83,656	
Unrestricted Investment Earnings					458	269	727 988	
Other Revenues					5,741		5,741 24,273	
Total General Revenues					183,423	13,261	196,684 214,890	
Change in Net Position					26,647	(3,246)	23,401 24,792	
Net Position - Beginning					824,271	611,715	1,435,986 1,411,194	
Net Position - Ending					850,918	608,469	1,459,387 1,435,986	

See accompanying notes to the financial statements.

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BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

<u>Assets</u>	<u>General</u>	<u>Fire Department Fund</u>	<u>Small Cities Development Program Fund</u>	<u>Cemetery Fund</u>
Cash	180,550	40,079	41,527	10,255
Accounts Receivable			108	
Delinquent Taxes Receivable	9,713			
Due From Other Funds	58,430			
Notes Receivable			58,009	
Prepaid Items	11,791	3,230		
Total Assets	<u>260,484</u>	<u>43,309</u>	<u>99,644</u>	<u>10,255</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	592	51		
<u>Deferred Inflows of Resources</u>				
Unavailable Revenue	9,015			
<u>Fund Balances</u>				
Fund Balance - Non-Spendable	11,791	3,230		
Fund Balance - Committed		40,028	99,644	10,255
Fund Balance - Unassigned	239,086			
Total Fund Equity	<u>250,877</u>	<u>43,258</u>	<u>99,644</u>	<u>10,255</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>260,484</u>	<u>43,309</u>	<u>99,644</u>	<u>10,255</u>

See accompanying notes to the financial statements.

Total	
Governmental Funds	
2014	2013
272,411	270,440
108	2,984
9,713	9,092
58,430	45,270
58,009	75,040
15,021	15,038
<u>413,692</u>	<u>417,864</u>
643	1,223
9,015	7,901
15,021	15,038
149,927	151,748
<u>239,086</u>	<u>241,954</u>
404,034	408,740
<u>413,692</u>	<u>417,864</u>

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	2014	2013
Total Governmental Fund Balances	404,034	408,740
Amounts Reported in Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of Capital Assets	1,825,365	1,770,188
Less: Accumulated Depreciation	(1,341,249) 484,116	(1,310,733) 459,455
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred inflows of resources in the funds.	9,015	7,901
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(46,247)	(51,825)
Total net position - governmental activities	850,918	824,271

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	General Fund	Fire Department Fund	Small Cities Development Program Fund	Cemetery Fund	Total Governmental Funds	
					2014	2013
Revenues						
Taxes	93,240				93,240	87,139
Licenses and Permits	2,100				2,100	2,150
State Aid	82,870	10,544			93,414	94,532
Federal Aid		1,400			1,400	
Charges for Services	3,190	13,450			16,640	16,967
Fines and Forfeits	296				296	318
Fire Calls		3,000			3,000	2,000
Miscellaneous	443	2,038			2,481	17,629
Pest Control	1,955				1,955	2,060
Sale of Assets	575			300	875	525
Insurance Proceeds						3,039
Interest Income	278	107	53	20	458	621
Donations						1,853
Deferred Loan Payoff			2,385		2,385	3,080
Total Revenues	184,947	30,539	2,438	320	218,244	231,913
Expenditures						
General Government	46,243				46,243	50,812
Public Safety	10,152	32,763			42,915	47,398
City Maintenance	69,640				69,640	89,583
Cultural and Recreation	836				836	4,433
Public Works	35,542				35,542	22,257
Miscellaneous	10,929	10,184			21,113	20,486
Cemetery				1,083	1,083	4,087
Principal		5,578			5,578	5,351
Total Expenditures	173,342	48,525	-0-	1,083	222,950	244,407
Excess of Revenues (Expenditures)	11,605	(17,986)	2,438	(763)	(4,706)	(12,494)
Other Financing Sources (Uses)						
Transfers In		15,000			15,000	15,000
Transfers Out	(15,000)				(15,000)	(15,000)
Total Other Financing Sources (Uses)	(15,000)	15,000	-0-		-0-	-0-
Net Change in Fund Balances	(3,395)	(2,986)	2,438	(763)	(4,706)	(12,494)
Fund Balance-Beginning	254,272	46,244	97,206	11,018	408,740	421,234
Fund Balance-Ending	250,877	43,258	99,644	10,255	404,034	408,740

See accompanying notes to the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	2014	2013
Net Change in Governmental Fund Balances	(4,706)	(12,494)

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, assets with an initial, individual cost of more than \$1,000.00 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Outlay	62,419	76,148
Disposal	(200)	(1,458)
Depreciation Expense	(37,558)	24,661
		(35,608)
		39,082

Governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues. The net effect of these differences is as follows:

Payment of Loan Principal	5,578	5,351
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Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.

	1,114	4,700
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Change in Net Position of Governmental Activities	26,647	36,639
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See accompanying notes to the financial statements.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-BUDGET AND ACTUAL-
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Revenues</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Taxes	95,173	95,173	93,240	(1,933)
Licenses and Permits	2,200	2,200	2,100	(100)
State Aid	81,971	81,971	82,870	899
Charges for Services	1,700	1,700	3,190	1,490
Fines and Forfeits			296	296
Miscellaneous Revenues	3,250	3,250	3,251	1
Total Revenues	<u>184,294</u>	<u>184,294</u>	<u>184,947</u>	<u>653</u>
<u>Expenditures</u>				
General Government	59,150	59,150	46,243	12,907
Public Safety	17,655	17,655	10,152	7,503
City Maintenance	100,450	100,450	69,640	30,810
Culture and Recreation	2,400	2,400	836	1,564
Public Works	87,000	87,000	35,542	51,458
Miscellaneous	12,000	12,000	10,929	1,071
Total Expenditures	<u>278,655</u>	<u>278,655</u>	<u>173,342</u>	<u>105,313</u>
Excess of Revenues Over Expenditures	<u>(94,361)</u>	<u>(94,361)</u>	<u>11,605</u>	<u>105,966</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In				
Transfers Out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	
Net Change in Fund Balances	<u>(109,361)</u>	<u>(109,361)</u>	<u>(3,395)</u>	<u>105,966</u>
Fund Balance-Beginning			<u>254,272</u>	
Fund Balance-Ending			<u>250,877</u>	

See accompanying notes to the financial statements.

FIRE DEPARTMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-BUDGET AND ACTUAL-
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Revenues</u>	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Rural Fire Protection	13,450	13,450	13,450	
Firemen's Relief Aid-State	7,000	7,000	10,544	3,544
Fire Calls			3,000	3,000
Federal Grant			1,400	1,400
Miscellaneous Revenues	250	250	2,038	1,788
Interest Income	200	200	107	(93)
Total Revenues	20,900	20,900	30,539	9,639
<u>Expenditures</u>				
Insurance	3,500	3,500	1,956	1,544
Equipment Operating Expense	3,500	3,500	6,990	(3,490)
Firemen's Relief Association Contribution	7,000	7,000	10,184	(3,184)
Miscellaneous	1,030	1,030	80	950
Capital Outlay	5,000	5,000	8,844	(3,844)
Utilities	4,000	4,000	3,538	462
Training and Travel Expense	1,000	1,000	2,474	(1,474)
Professional Fees	900	900	650	250
Salaries	5,000	5,000	5,103	(103)
First Responders-Supplies, Repairs	1,700	1,700	925	775
Fire Truck Principal	5,578	5,578	5,578	
Interest Expense	2,203	2,203	2,203	
Total Expenditures	40,411	40,411	48,525	(8,114)
Excess Revenues (Expenditures)	(19,511)	(19,511)	(17,986)	1,525
<u>Other Financing Sources (Uses)</u>				
Transfers In	15,000	15,000	15,000	
Total Other Financing Sources (Uses)	15,000	15,000	15,000	
Net Change in Fund Balance	(4,511)	(4,511)	(2,986)	1,525
Fund Balance-Beginning			46,244	
Fund Balance-Ending			43,258	

See accompanying notes to the financial statements.

SMALL CITIES DEVELOPMENT PROGRAM FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-BUDGET AND ACTUAL-
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Interest Income			53	53
Deferred Loan Payoff			2,385	2,385
Total Revenues	-0-	-0-	2,438	2,438
<u>Expenditures</u>				
Total Expenditures	-0-	-0-	-0-	-0-
Net Change in Fund Balance	-0-	-0-	2,438	2,438
Fund Balance-Beginning			97,206	
Fund Balance-Ending			99,644	

See accompanying notes to the financial statements.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>	
				<u>2014</u>	<u>2013</u>
<u>Assets</u>					
<u>Current Assets</u>					
Cash		7,554	8,597	16,151	17,279
Receivables					
Accounts	4,785	2,887	1,576	9,248	7,998
Special Assessments	10,717	205		10,922	10,048
Prepaid Items	1,588			1,588	1,539
Total Current Assets	<u>17,090</u>	<u>10,646</u>	<u>10,173</u>	<u>37,909</u>	<u>36,864</u>
<u>Noncurrent Assets</u>					
Long Term Assessments Receivable	44,519	2,480		46,999	64,243
Bond Discount	1,766			1,766	2,038
Capital Assets					
Land		44,519		44,519	44,519
Property and Equipment	835,029	842,336		1,677,365	1,648,425
Less: Accumulated Depreciation	<u>(418,710)</u>	<u>(561,458)</u>		<u>(980,168)</u>	<u>(946,534)</u>
Total Noncurrent Assets	<u>462,604</u>	<u>327,877</u>	<u>-0-</u>	<u>790,481</u>	<u>812,691</u>
Total Assets	<u>479,694</u>	<u>338,523</u>	<u>10,173</u>	<u>828,390</u>	<u>849,555</u>
<u>Liabilities</u>					
<u>Current Liabilities</u>					
Due To Other Funds	58,430			58,430	45,270
Accounts Payable	140	58	552	750	834
Sales Tax Payable	103		336	439	436
Unearned Revenue	55,097	205		55,302	71,300
Current Portion of Debt	20,000			20,000	15,000
Total Current Liabilities	<u>133,770</u>	<u>263</u>	<u>888</u>	<u>134,921</u>	<u>132,840</u>
<u>Noncurrent Liabilities</u>					
Bonds Payable	<u>85,000</u>			<u>85,000</u>	<u>105,000</u>
Total Noncurrent Liabilities	<u>85,000</u>	<u>-0-</u>	<u>-0-</u>	<u>85,000</u>	<u>105,000</u>
Total Liabilities	<u>218,770</u>	<u>263</u>	<u>888</u>	<u>219,921</u>	<u>237,840</u>
<u>Net Position</u>					
Net Investment in Capital Assets	311,319	325,397		636,716	626,410
Unrestricted	<u>(50,395)</u>	<u>12,863</u>	<u>9,285</u>	<u>(28,247)</u>	<u>(14,695)</u>
Total Net Position	<u>260,924</u>	<u>338,260</u>	<u>9,285</u>	<u>608,469</u>	<u>611,715</u>
Total Liabilities and Net Position	<u>479,694</u>	<u>338,523</u>	<u>10,173</u>	<u>828,390</u>	<u>849,555</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Water	Sewer	Garbage	Total	
	Fund	Fund	Fund	2014	2013
<u>Operating Revenues</u>					
Charges for Services	52,040	32,166	16,579	100,785	81,881
Total Revenues/Gross Margin	52,040	32,166	16,579	100,785	81,881
<u>Operating Expenses</u>					
Administration	27,718	33,678	15,901	77,297	68,519
Depreciation	15,329	18,305		33,634	32,334
Total Expenses	43,047	51,983	15,901	110,931	100,853
Operating Income (Loss)	8,993	(19,817)	678	(10,146)	(18,972)
<u>Non-Operating Revenues (Expenses)</u>					
Special Assessment Income	12,928	64		12,992	14,134
Interest Income	88	175	6	269	367
Amortization of Bond Discount	(272)			(272)	(272)
Interest Expense	(6,071)	(18)		(6,089)	(7,104)
Total Non-Operating Revenues (Expenses)	6,673	221	6	6,900	7,125
Change in Net Position	15,666	(19,596)	684	(3,246)	(11,847)
Total Net Position - January 1	245,258	357,856	8,601	611,715	623,562
Total Net Position - December 31	260,924	338,260	9,285	608,469	611,715

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-Type Activities--	
<u>Cash Flows From Operating Activities</u>	Water	Sewer
Receipts from Customers and Users	35,257	31,745
Payments to Vendors and Suppliers	(13,790)	(17,908)
Payments to Employees	(13,939)	(15,770)
Net Cash Provided By Operating Activities	7,528	(1,933)
<u>Cash Flows From Noncapital Financing Activities</u>		
Receipts From Special Assessments	29,235	127
Increase (Decrease) in Due To Other Funds	13,160	
(Increase) Decrease in Due From Other Funds		
Net Cash Provided By Noncapital Financing Activities	42,395	127
<u>Cash Flows From Capital and Related Financing Activities</u>		
Water and Sewer System Improvements	(28,940)	
Principal Paid on Long-Term Debt	(15,000)	
Interest Paid on Long-Term Debt	(6,071)	(18)
Net Cash Used By Capital and Related Financing Activities	(50,011)	(18)
<u>Cash Flows From Investing Activities</u>		
Interest Income	88	175
Net Cash Provided By Investing Activities	88	175
Net Increase (Decrease) in Cash and Cash Equivalents	-0-	(1,649)
Cash and Cash Equivalents, January 1	-0-	9,203
Cash and Cash Equivalents, December 31	-0-	7,554
Reconciliation of Operating Income To Net		
Cash Provided By Operating Activities		
Operating Income (Loss)	8,993	(19,817)
Depreciation	15,329	18,305
(Increase) Decrease in Accounts Receivable	(848)	(358)
(Increase) Decrease in Prepaid Items	(49)	
Increase (Decrease) in Accounts Payable	38	
Increase (Decrease) in Unearned Revenue	(15,935)	(63)
Net Cash Provided By Operating Activities	7,528	(1,933)

See accompanying notes to the financial statements.

--Enterprise Funds

Garbage	Total	
	2014	2013
16,535	83,537	73,511
(9,396)	(41,094)	(32,726)
(6,624)	(36,333)	(36,423)
<u>515</u>	<u>6,110</u>	<u>4,362</u>
	29,362	22,000
	13,160	32,872
		<u>12,398</u>
	<u>42,522</u>	<u>67,270</u>
	(28,940)	(52,018)
	(15,000)	(20,000)
	(6,089)	(7,104)
	<u>(50,029)</u>	<u>(79,122)</u>
<u>6</u>	<u>269</u>	<u>367</u>
<u>6</u>	<u>269</u>	<u>367</u>
521	(1,128)	(7,123)
<u>8,076</u>	<u>17,279</u>	<u>24,402</u>
<u>8,597</u>	<u>16,151</u>	<u>17,279</u>
678	(10,146)	(18,972)
	33,634	32,334
(44)	(1,250)	(955)
	(49)	10
(119)	(81)	(640)
	(15,998)	(7,415)
<u>515</u>	<u>6,110</u>	<u>4,362</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies**

A. **Basis of Presentation**

The financial statements of the City of Ruthton have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. **Changes in Accounting Principles**

During 2013, the City adopted new accounting guidance by implementing the provisions of GASB Statement No. 65. GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources certain items previously reported as assets and liabilities. See Note 1.N. in the notes to the financial statements for additional information regarding the Authority's deferred inflows/outflows of resources.

C. **Financial Reporting Entity**

The City of Ruthton, Ruthton, Minnesota, was formed and operates pursuant to applicable Minnesota laws and statutes. The City of Ruthton operates under an elected Mayor and four member Council form of government. The Council has control over all activities related to the City of Ruthton.

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the government is considered to be financially accountable.

Component units are legally separate entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the City.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies - continued**

D. Basic Financial Statements Presentation

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities* which normally are supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

E. Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Federal revenue is recorded in the year in which the related expenditure is made. Other miscellaneous revenue (except investment earnings) is recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies - continued**

E. **Basis of Accounting and Measurement Focus - continued**

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

The City reports unavailable revenue on its balance sheet. Unavailable revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unavailable revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurring qualified expenditures. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for unavailable revenue is removed and revenue is recognized.

Description of Funds

The City reports the following **major governmental funds**:

General Fund

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

Fire Department Fund

This fund accounts for the activities and expenses related to the City's fire department.

Small Cities Development Program Fund

This fund accounts for the activity related to the remaining balances on the small cities grants made to various business and individuals.

The government reports the following **major proprietary funds**:

Water Fund

The Water Fund is used to account for the operation, maintenance, and capital improvements of the City's water system.

Sewer Fund

The Sewer Fund is used to account for the operation, maintenance, and capital improvements of the City's sewer system.

Garbage Fund

The garbage fund is used to account for the operation, maintenance, and capital improvement of the City's garbage disposal system.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies - continued**

E. **Basis of Accounting and Measurement Focus - 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 government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 revenues of the City's enterprise funds are charges to customers for sales 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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

F. **Budgets and Budgetary Accounting**

The budgeted amounts included in the statement of revenues and expenditures were accounted for and presented on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. The budgets are prepared by city personnel and approved by the council. Encumbrances are not considered in the budget process or in the regular city accounting.

Once a budget is approved, it can be amended by city personnel with approval by the council. Amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies - continued**

G. **Cash and Temporary Investments**

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less is reported at amortized cost. Other investments are reported at fair value.

The City uses the average cash balance method of allocating investment income to the various funds.

H. **Accounts Receivable**

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the City. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

I. **Assessments Receivable**

Assessments receivable consist of the portion of improvements made by the City and charged against the properties affected. These assessments are payable with interest over a period of years.

J. **Notes Receivable**

Notes Receivable represents amounts receivable from individuals and businesses for funds furnished to them for rehabilitation.

K. **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as expenditure at the time of consumption.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies - continued**

L. **Property Tax Recognition**

The levy certification is made in December of each year. The tax levy is collectible as of January 2nd of the following year and the taxes are due to the county treasurer in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes.

The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. The County provides tax settlements to Cities and other taxing districts three times a year in January, June and December. Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable.

M. **Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as those with an initial, individual cost of \$1,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 20 to 40 years for buildings and improvements, 5 to 20 years for equipment and vehicles, and 20 to 40 years for public domain infrastructure. Land is not depreciated.

N. **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the City has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 **Summary of Significant Accounting Policies – continued**

O. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs, if material, are reported as an expense in the period incurred.

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

P. Fund Equity

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the city is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

Non-Spendable Fund Balance

Fund balance amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The City's highest level of decision making authority is the city council. In order to establish, modify or rescind a committed fund balance amount, the council would need to approve the action at a council meeting.

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The city council has delegated the authority to assign fund balance amounts to the city clerk. Assigned amounts or changes to assigned amounts are presented to the council for review.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 Summary of Significant Accounting Policies - continued

P. Fund Equity - continued

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

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

When any combination of committed, assigned, and unassigned resources are available for use, it is the city's policy to use committed resources first, then assigned, then unassigned resources as they are needed.

Q. Net Position

Net position represent the difference between assets and liabilities in the government-wide and Fiduciary Fund financial statements. Net investment capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

R. Certain Comparative Data and Reclassifications

Certain comparative total data for the prior year have been presented in the government-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

S. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

T. Subsequent Events

Subsequent events have been evaluated through April 30, 2015, which is the date the financial statements were available to be issued.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 2 **Deposits and Investments**

A. **Deposits**

Minnesota Stat. 118A.02 and 118A.04 authorize the City to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the 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.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2014, none of the City's bank balance of \$296,259 was exposed to custodial credit risk because it was insured and properly collateralized with securities held by the pledging financial institution's trust department or agent in the city's name.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 2 Deposits and Investments - continued

B. Investments

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the City:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the years ended December 31, 2014 and 2013, the City had no investments.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3 Capital Assets

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

Governmental Activities	<u>Balance</u>			<u>Balance</u>
	<u>1/1/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/14</u>
Capital assets not depreciated:				
Land	27,255			27,255
Capital assets depreciated:				
Buildings	232,951			232,951
Equipment & Improvements	484,366	15,238	(7,242)	492,362
Infrastructure	<u>1,025,616</u>	<u>47,181</u>		<u>1,072,797</u>
Total capital assets depreciated	1,742,933	62,419	(7,242)	1,798,110
Less accumulated depreciation for:				
Buildings	(125,914)	(5,373)		(131,287)
Equipment & Improvements	(359,104)	(19,934)	7,042	(371,996)
Infrastructure	<u>(825,715)</u>	<u>(12,251)</u>		<u>(837,966)</u>
Total accumulated depreciation	<u>(1,310,733)</u>	<u>(37,558)</u>	<u>7,042</u>	<u>(1,341,249)</u>
Total capital assets depreciated-net	<u>432,200</u>	<u>24,861</u>	<u>(200)</u>	<u>456,861</u>
Net Capital Assets	<u>459,455</u>	<u>24,861</u>	<u>(200)</u>	<u>484,116</u>
Business-Type Activities				
Capital assets not depreciated:				
Land	44,519			44,519
Capital assets depreciated:				
Water System & Equipment	806,089	28,940		835,029
Sewer System & Equipment	<u>842,336</u>			<u>842,336</u>
Total capital assets depreciated	1,648,425	28,940	-0-	1,677,365
Less accumulated depreciation for:				
Water System & Equipment	(403,381)	(15,329)		(418,710)
Sewer System & Equipment	<u>(543,153)</u>	<u>(18,305)</u>		<u>(561,458)</u>
Total accumulated depreciation	<u>(946,534)</u>	<u>(33,634)</u>	<u>-0-</u>	<u>(980,168)</u>
Total capital assets depreciated-net	<u>701,891</u>	<u>(4,694)</u>	<u>-0-</u>	<u>697,197</u>
Net Capital Assets	<u>746,410</u>	<u>(4,694)</u>	<u>-0-</u>	<u>741,716</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3 Capital Assets - continued

Depreciation expense of \$71,192 for the year ended December 31, 2014 was charged to the following functions/programs:

Governmental Activities:

General Government	4,063
Public Safety	17,265
City Maintenance, including general infrastructure assets	12,087
Cultural and Recreation	560
Public Works	<u>3,583</u>
Total	<u>37,558</u>

Business-Type Activities:

Water	15,329
Sewer	<u>18,305</u>
Total	<u>33,634</u>

Note 4 Long-Term Debt

General Long-Term Debt

A. Promissory Note

The City entered into a promissory note agreement with Rural Development to assist in the purchase of a fire truck.

This promissory note is a direct obligation of the City and pledges the full faith and credit of the government. The debt is a general obligation of the City and will be retired through ad valorem tax levies.

	<u>Original</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Year-End</u> <u>Balance</u>
\$85,000 Promissory Note	\$85,000	4.25%	2/9/06	2/9/21	\$46,247

Annual requirements to maturity for the promissory note is as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	5,816	1,965	7,781
2016	6,063	1,718	7,781
2017	6,320	1,461	7,781
2018	6,589	1,192	7,781
2019	6,869	912	7,781
2020-2021	<u>14,590</u>	<u>972</u>	<u>15,562</u>
Total	<u>46,247</u>	<u>8,220</u>	<u>54,467</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 4 **Long-Term Debt - continued**
Proprietary Fund Debt

B. General Obligation Refunding Bonds

These bonds were issued to finance capital improvements to the Water System. These bonds will be retired from net revenue of the enterprise funds.

	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Year-End Balance</u>
\$685,000 General Obligation Refunding Bonds, Series 1999	\$305,000	3.8-5.1%	5/1/99	1/1/21	\$105,000

Annual requirements to maturity for general obligation refunding bonds are as follows:

<u>Year Ending December 31</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	20,000	5,315	25,315
2016	20,000	4,315	24,315
2017	15,000	3,315	18,315
2018	20,000	2,550	22,550
2019	20,000	1,530	21,530
2020	<u>10,000</u>	<u>510</u>	<u>10,510</u>
Total	<u>105,000</u>	<u>17,535</u>	<u>122,535</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Promissory Note	51,825	-0-	5,578	46,247	5,816
Governmental Activity					
Long-Term Liabilities	<u>51,825</u>	<u>-0-</u>	<u>5,578</u>	<u>46,247</u>	<u>5,816</u>
Business-Type Activities:					
Bonds Payable:					
General Obligation Bonds	120,000		15,000	105,000	20,000
Business-Type Activity					
Long-Term Liabilities	<u>120,000</u>	<u>-0-</u>	<u>15,000</u>	<u>105,000</u>	<u>20,000</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 5 **Fund Balance Classification**

Non-Spendable Fund Balance

The City has the following non-spendable fund balances as of December 31, 2014:

General Fund	11,791
Fire Department Fund	<u>3,230</u>
Total Non-Spendable	<u>15,021</u>

Restricted Fund Balance

The City has no restricted fund balances as of December 31, 2014.

Committed Fund Balance

The City has the following committed fund balances as of December 31, 2014:

Fire Department Fund	40,028
Small Cities Development Program Fund	99,644
Cemetery Fund	<u>10,255</u>
Total Committed	<u>149,927</u>

Assigned Fund Balance

The City has no assigned fund balances as of December 31, 2014.

Unassigned Fund Balance

The City has the following unassigned fund balances as of December 31, 2014:

General Fund	<u>239,086</u>
Total Unassigned	<u>239,086</u>

Note 6 **Pension Plan**

A. Public Employees Retirement Association (PERA)

1. Plan Description

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

PERF 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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 6 Pension Plan - continued

A. Public Employees Retirement Association (PERA) - continued

1. 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 10 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 10 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.

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—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 PERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 6 Pension Plan - continued

A. Public Employees Retirement Association (PERA) - continued

2. 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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012, were \$4,179, \$4,266, and \$4,048, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

Note 7 Vacation and Sick Leave

The city does not have any employees who qualify for vacation or sick leave benefits.

Note 8 Postemployment Benefits Other Than Pension Benefits (OPEB)

The city has no liability for postemployment benefits other than pension benefits.

Note 9 Excess of Expenditures Over Appropriations

The following funds had excess expenditures over budget appropriations:

Fire Department Fund	\$ 8,114
Cemetery Fund	\$ 58

Note 10 Interfund Transfers

The following interfund transfers occurred during 2014:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	\$ 15,000	
Fire Department Fund		\$ 15,000

Transfers are primarily used to move funds to finance various programs in accordance with budgetary authorizations.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 11 Due To/From Other Funds

Below is a schedule of interfund receivables and payables at December 31, 2014.

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
Water Fund		58,430
General Fund	58,430	

The interfund receivable/payable was created to record the pooled cash that was overdrawn in the water fund.

Note 12 Risk Management

The City is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the League of Minnesota Cities Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

GENERAL FUND
BALANCE SHEET
DECEMBER 31, 2014

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Cash	180,550	196,322
Accounts Receivable		50
Delinquent Taxes Receivable	9,713	9,092
Due From Other Funds	58,430	45,270
Prepaid Items	11,791	12,318
Total Assets	<u>260,484</u>	<u>263,052</u>
<u>Liabilities, Deferred Inflows of Resources</u>		
<u>and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	592	879
<u>Deferred Inflows of Resources</u>		
Unearned Revenue	9,015	7,901
<u>Fund Balance</u>		
Fund Balance - Non-Spendable	11,791	12,318
Fund Balance - Unassigned	239,086	241,954
Total Fund Balance	<u>250,877</u>	<u>254,272</u>
<hr/>		
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>260,484</u>	<u>263,052</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	For The Years Ending December 31			
	2014		2013	
	Budget	Actual	Variance with Budget	Actual
<u>Revenues</u>				
<u>Taxes</u>				
General Property Taxes	95,173	93,240	(1,933)	87,139
Total Taxes	95,173	93,240	(1,933)	87,139
 <u>Licenses and Permits</u>	 2,200	 2,100	 (100)	 2,150
 <u>State Aid</u>				
Local Government Aid	80,121	80,121		80,121
Market Value Credit		401	401	167
Other State Aid	1,850	2,348	498	3,368
Total State Aid	81,971	82,870	899	83,656
 <u>Service Charges and Fines</u>				
Community Building Rent	1,200	1,010	(190)	1,265
Other Rental	300	540	240	310
Building and Other Permits	200	640	440	692
Interfund Service Charges		1,000	1,000	1,000
Court Fines		296	296	318
Total Service Charges and Fines	1,700	3,486	1,786	3,585
 <u>Miscellaneous Revenues</u>				
Donations				1,853
Interest Income	500	278	(222)	412
Pest Control	2,000	1,955	(45)	2,060
Other Miscellaneous	750	443	(307)	3,282
Sale of Asset		575	575	
Total Miscellaneous Revenues	3,250	3,251	1	7,607
Total Revenues	184,294	184,947	653	184,137

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	For The Years Ending December 31			
	2014			2013
	Budget	Actual	Variance with Budget	Actual
<u>Expenditures</u>				
<u>General Government</u>				
Mayor and Council Salaries	4,500	3,050	1,450	2,815
Mayor and Council	650	632	18	621
Clerk-Treasurer Salary	19,000	18,073	927	19,338
Clerk-Treasurer Training and Travel	1,000	922	78	369
Assessor	2,000	2,000		1,999
Legal and Auditing	7,000	4,540	2,460	6,747
Payroll Taxes and Benefits	3,000	2,918	82	3,097
Printing and Publishing	500	121	379	355
Equipment and Improvements	4,500	1,434	3,066	1,404
City Office Supplies	5,000	1,686	3,314	2,970
City Office Utilities	7,000	8,418	(1,418)	8,131
City Office Miscellaneous	3,000	1,811	1,189	2,721
Elections	2,000	638	1,362	245
Total General Government	59,150	46,243	12,907	50,812
<u>Public Safety</u>				
Police Protection	8,430	8,427	3	8,427
Firemen's Relief Contribution	425	425		425
First Responders-Annual Contribution	1,300	1,300		1,300
Real Estate Rehabilitation	7,500		7,500	
Total Public Safety	17,655	10,152	7,503	10,152
<u>City Maintenance</u>				
Street Lighting	9,000	7,216	1,784	8,116
Snow Removal	1,250	1,122	128	1,143
Street Improvements	90,000	60,411	29,589	80,174
Street Supplies	200	891	(691)	150
Total City Maintenance	100,450	69,640	30,810	89,583

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	For The Years Ending December 31			
	2014		2013	
	Budget	Actual	Variance with Budget	Actual
<u>Expenditures - continued</u>				
<u>Culture and Recreation</u>				
Park Utilities	800	665	135	633
Park Repairs and Maintenance	1,300	36	1,264	3,522
Park Miscellaneous	300	135	165	278
Total Culture and Recreation	<u>2,400</u>	<u>836</u>	<u>1,564</u>	<u>4,433</u>
<u>Public Works</u>				
Public Works Salary	9,500	7,959	1,541	7,804
Payroll Taxes and Benefits	1,500	1,186	314	1,162
Utilities	10,000	6,220	3,780	5,249
Repairs and Maintenance	10,000	9,893	107	8,042
Miscellaneous	1,000	41	959	
Equipment Purchases	55,000	10,243	44,757	
Total Public Works	<u>87,000</u>	<u>35,542</u>	<u>51,458</u>	<u>22,257</u>
<u>Miscellaneous</u>				
Insurance	7,000	9,896	(2,896)	8,021
Miscellaneous	5,000	1,033	3,967	1,590
Total Miscellaneous	<u>12,000</u>	<u>10,929</u>	<u>1,071</u>	<u>9,611</u>
Total Expenditures	<u>278,655</u>	<u>173,342</u>	<u>105,313</u>	<u>186,848</u>
Excess Revenues (Expenditures)	(94,361)	11,605	105,966	(2,711)

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	For The Years Ending December 31			
	2014			2013
	<u>Budget</u>	<u>Actual</u>	<u>Variance with Budget</u>	<u>Actual</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In				3,923
Transfers Out	(15,000)	(15,000)		(15,000)
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(15,000)</u>		<u>(11,077)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>(109,361)</u>	(3,395)	<u>105,966</u>	(13,788)
Fund Balance-January 1		254,272		268,060
Fund Balance-December 31		<u>250,877</u>		<u>254,272</u>

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014

	Small Cities			Totals	
	Fire Department Fund	Development Program Fund	Cemetery Fund	2014	2013
<u>Assets</u>					
Cash	40,079	41,527	10,255	91,861	74,118
Accounts Receivable		108		108	2,934
Prepaid Items	3,230			3,230	2,720
Notes Receivable		58,009		58,009	75,040
Total Assets	<u>43,309</u>	<u>99,644</u>	<u>10,255</u>	<u>153,208</u>	<u>154,812</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>					
<u>Liabilities</u>					
Accounts Payable	51			51	344
<u>Deferred Inflows of Resources</u>					
Total Deferred Inflows of Resources	-0-	-0-	-0-	-0-	-0-
<u>Fund Balance</u>					
Fund Balance - Non-Spendable	3,230			3,230	2,720
Fund Balance - Committed	40,028	99,644	10,255	149,927	151,748
Total Fund Equity	<u>43,258</u>	<u>99,644</u>	<u>10,255</u>	<u>153,157</u>	<u>154,468</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>43,309</u>	<u>99,644</u>	<u>10,255</u>	<u>153,208</u>	<u>154,812</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2014

	Small Cities			Totals	
	Fire Department Fund	Development Program Fund	Cemetery Fund	2014	2013
<u>Revenues</u>					
Rural Fire Protection	13,450			13,450	13,700
Firemen's Relief Aid-State	10,544			10,544	10,876
Fire Calls	3,000			3,000	2,000
Federal Grant	1,400			1,400	
Miscellaneous Revenues	2,038			2,038	14,347
Sale of Lots			300	300	525
Interest Income	107	53	20	180	209
Insurance Proceeds					3,039
Deferred Loan Payoff		2,385		2,385	3,080
Total Revenues	30,539	2,438	320	33,297	47,776
<u>Expenditures</u>					
Public Safety	32,763			32,763	37,246
Firemen's Relief Association	10,184			10,184	10,875
Fire Truck Principal	5,578			5,578	5,351
Cemetery			1,083	1,083	4,087
Total Expenditures	48,525	-0-	1,083	49,608	57,559
Excess Revenues (Expenditures)	(17,986)	2,438	(763)	(16,311)	(9,783)
<u>Other Financing Sources (Uses)</u>					
Transfers In	15,000			15,000	15,000
Total Other Financing Sources (Uses)	15,000	-0-	-0-	15,000	15,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses					
Other Financing Uses	(2,986)	2,438	(763)	(1,311)	5,217
Fund Balance-January 1	46,244	97,206	11,018	154,468	149,251
Fund Balance-December 31	43,258	99,644	10,255	153,157	154,468

FIRE DEPARTMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>For The Years Ending December 31</u>			
	<u>2014</u>	<u>2013</u>	<u>Variance</u>	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>with Budget</u>	<u>Actual</u>
Rural Fire Protection	13,450	13,450		13,700
Firemen's Relief Aid-State	7,000	10,544	3,544	10,876
Fire Calls		3,000	3,000	2,000
Federal Grant		1,400	1,400	
Miscellaneous Revenues	250	2,038	1,788	14,347
Interest Income	200	107	(93)	138
Insurance Proceeds				3,039
Total Revenues	<u>20,900</u>	<u>30,539</u>	<u>9,639</u>	<u>44,100</u>
<u>Expenditures</u>				
Insurance	3,500	1,956	1,544	2,228
Equipment Operating Expense	3,500	6,990	(3,490)	8,347
Firemen's Relief Association Contributions	7,000	10,184	(3,184)	10,875
Miscellaneous	1,030	80	950	80
Capital Outlay	5,000	8,844	(3,844)	13,710
Utilities	4,000	3,538	462	3,811
Training and Travel Expense	1,000	2,474	(1,474)	1,015
Professional Fees	900	650	250	900
Salaries	5,000	5,103	(103)	4,155
First Responders-Supplies, Repairs	1,700	925	775	570
Fire Truck Principal	5,578	5,578		5,351
Interest Expense	2,203	2,203		2,430
Total Expenditures	<u>40,411</u>	<u>48,525</u>	<u>(8,114)</u>	<u>53,472</u>
Excess Revenues (Expenditures)	(19,511)	(17,986)	1,525	(9,372)
<u>Other Financing Sources (Uses)</u>				
Transfers In	15,000	15,000		15,000
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>15,000</u>		<u>15,000</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>(4,511)</u>	<u>(2,986)</u>	<u>1,525</u>	5,628
Fund Balance-January 1		46,244		40,616
Fund Balance-December 31		<u>43,258</u>		<u>46,244</u>

SMALL CITIES DEVELOPMENT PROGRAM FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	For The Years Ending December 31			2013
	2014		Variance with Budget	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>		
Interest Income		53	53	41
Deferred Loan Payoff		2,385	2,385	3,080
Total Revenues	-0-	2,438	2,438	3,121
<u>Expenditures</u>				
Total Expenditures	-0-	-0-	-0-	-0-
Excess Revenues (Expenditures)	-0-	2,438	2,438	3,121
Fund Balance-January 1		97,206		94,085
Fund Balance-December 31		99,644		97,206

CEMETERY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	For The Years Ending December 31			2013
	2014		Variance with Budget	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>		
Sale of Lots	450	300	(150)	525
Interest Income	200	20	(180)	30
Total Revenues	650	320	(330)	555
<u>Expenditures</u>				
Gasoline	425	518	(93)	201
Maintenance and Supplies				3,331
Labor	600	565	35	555
Total Expenditures	1,025	1,083	(58)	4,087
Excess Revenues (Expenditures)	(375)	(763)	(388)	(3,532)
Fund Balance-January 1		11,018		14,550
Fund Balance-December 31		10,255		11,018

PROPRIETARY FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014

<u>Assets</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Totals</u>	
				<u>2014</u>	<u>2013</u>
Cash		7,554	8,597	16,151	17,279
Accounts Receivable	4,785	2,887	1,576	9,248	7,998
Prepaid Items	1,588			1,588	1,539
Current Assessments Receivable	8,336			8,336	7,146
Delinquent Assessments Receivable	2,381	205		2,586	2,902
Long Term Assessments Receivable	44,519	2,480		46,999	64,243
Bond Discount	1,766			1,766	2,038
Water System and Equipment	835,029			835,029	806,089
Accumulated Depreciation	(418,710)			(418,710)	(403,381)
Sewer System and Improvements		842,336		842,336	842,336
Accumulated Depreciation		(561,458)		(561,458)	(543,153)
Land		44,519		44,519	44,519
Total Assets	<u>479,694</u>	<u>338,523</u>	<u>10,173</u>	<u>828,390</u>	<u>849,555</u>
<u>Liabilities and Fund Equity</u>					
<u>Liabilities</u>					
Due to Other Funds	58,430			58,430	45,270
Accounts Payable	140	58	552	750	834
Sales Tax Payable	103		336	439	436
Unearned Revenue	55,097	205		55,302	71,300
Bonds Payable	105,000			105,000	120,000
Total Liabilities	<u>218,770</u>	<u>263</u>	<u>888</u>	<u>219,921</u>	<u>237,840</u>
<u>Fund Equity</u>					
Retained Earnings	260,924	338,260	9,285	608,469	611,715
Total Liabilities and Fund Equity	<u>479,694</u>	<u>338,523</u>	<u>10,173</u>	<u>828,390</u>	<u>849,555</u>

PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Revenues</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Totals</u>	
				<u>2014</u>	<u>2013</u>
Sewer Charge		32,166		32,166	26,606
Water and Garbage Collection	52,040		16,579	68,619	55,275
Total Operating Revenues	<u>52,040</u>	<u>32,166</u>	<u>16,579</u>	<u>100,785</u>	<u>81,881</u>
<u>Expenses</u>					
Garbage Collection Fees			5,296	5,296	5,257
Maintenance and Operational	9,505	13,184	254	22,943	14,899
Insurance	1,808			1,808	1,810
Special Fees and Taxes	1,531		1,450	2,981	2,768
Salaries	12,133	13,726	5,766	31,625	31,699
Payroll Taxes and Benefits	1,806	2,044	858	4,708	4,724
City Clean-Up			2,277	2,277	1,550
Utilities		4,224		4,224	4,360
Miscellaneous	435			435	452
Depreciation	15,329	18,305		33,634	32,334
Interfund Service Charges	500	500		1,000	1,000
Total Operating Expense	<u>43,047</u>	<u>51,983</u>	<u>15,901</u>	<u>110,931</u>	<u>100,853</u>
Operating Income (Loss)	8,993	(19,817)	678	(10,146)	(18,972)
<u>Non-Operating Revenues (Expenses)</u>					
Special Assessment Income	12,928	64		12,992	14,134
Interest Income	88	175	6	269	367
Amortization of Bond Discount	(272)			(272)	(272)
Interest Expense	(6,071)	(18)		(6,089)	(7,104)
Total Non-Operating Revenues (Expenses)	<u>6,673</u>	<u>221</u>	<u>6</u>	<u>6,900</u>	<u>7,125</u>
Net Income (Loss)	15,666	(19,596)	684	(3,246)	(11,847)
Retained Earnings-January 1	<u>245,258</u>	<u>357,856</u>	<u>8,601</u>	<u>611,715</u>	<u>623,562</u>
Retained Earnings-December 31	<u><u>260,924</u></u>	<u><u>338,260</u></u>	<u><u>9,285</u></u>	<u><u>608,469</u></u>	<u><u>611,715</u></u>

WATER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Revenues</u>	<u>2014</u>	<u>2013</u>
Water Collection	<u>52,040</u>	<u>39,157</u>
Total Operating Revenues	<u>52,040</u>	<u>39,157</u>
<u>Expenses</u>		
Maintenance and Operational	9,505	5,025
Insurance	1,808	1,810
Special Fees and Taxes	1,531	1,336
Salaries	12,133	12,127
Payroll Taxes and Benefits	1,806	1,807
Miscellaneous	435	429
Depreciation	15,329	14,232
Interfund Service Charges	<u>500</u>	<u>500</u>
Total Operating Expense	<u>43,047</u>	<u>37,266</u>
Operating Income (Loss)	8,993	1,891
<u>Non-Operating Revenues (Expenses)</u>		
Special Assessment Income	12,928	13,903
Interest Income	88	120
Amortization of Bond Discount	(272)	(272)
Interest Expense	<u>(6,071)</u>	<u>(7,094)</u>
Total Non-Operating Revenues (Expenses)	<u>6,673</u>	<u>6,657</u>
Net Income (Loss)	15,666	8,548
Retained Earnings-January 1	<u>245,258</u>	<u>236,710</u>
Retained Earnings-December 31	<u><u>260,924</u></u>	<u><u>245,258</u></u>

SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Revenues</u>	<u>2014</u>	<u>2013</u>
Sewer Charge	32,166	26,606
Total Operating Revenues	32,166	26,606
<u>Expenses</u>		
Maintenance and Operational	13,184	9,897
Utilities	4,224	4,360
Salaries	13,726	13,688
Payroll Taxes and Benefits	2,044	2,040
Depreciation	18,305	18,102
Interfund Service Charges	500	500
Total Operating Expense	51,983	48,587
Operating Income (Loss)	(19,817)	(21,981)
<u>Non-Operating Revenues (Expenses)</u>		
Special Assessment Income	64	175
Interest Income	175	237
Interest Expense	(18)	(10)
Total Non-Operating Revenues (Expenses)	221	402
Net Income (Loss)	(19,596)	(21,579)
Retained Earnings-January 1	357,856	379,435
Retained Earnings-December 31	338,260	357,856

GARBAGE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Revenues</u>	<u>2014</u>	<u>2013</u>
Garbage Collection	16,579	16,118
Total Operating Revenues	16,579	16,118
<u>Expenses</u>		
Garbage Collection Fees	5,296	5,257
Special Fees and Taxes	1,450	1,432
Maintenance and Operational	254	
Salaries	5,766	5,884
Payroll Taxes and Benefits	858	877
City Clean-Up	2,277	1,550
Total Operating Expense	15,901	15,000
Operating Income (Loss)	678	1,118
<u>Non-Operating Revenues (Expenses)</u>		
Special Assessment Income		56
Interest Income	6	10
Total Non-Operating Revenues (Expenses)	6	66
Net Income (Loss)	684	1,184
Retained Earnings-January 1	8,601	7,417
Retained Earnings-December 31	9,285	8,601

WATER FUND
\$685,000 GENERAL OBLIGATION REFUNDING BONDS, SERIES 1999

The following schedule represents the amount of interest and principal that is due January 1 and July 1 of each year. Interest varies from 3.8 - 5.1% throughout the term of the bond.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>	<u>Balance Due</u>
01-01-15					105,000.00
07-01-15	5.00%		2,657.50	2,657.50	105,000.00
01-01-16	5.00%	20,000.00	2,657.50	22,657.50	85,000.00
07-01-16	5.00%		2,157.50	2,157.50	85,000.00
01-01-17	5.00%	20,000.00	2,157.50	22,157.50	65,000.00
07-01-17	5.00%		1,657.50	1,657.50	65,000.00
01-01-18	5.10%	15,000.00	1,657.50	16,657.50	50,000.00
07-01-18	5.10%		1,275.00	1,275.00	50,000.00
01-01-19	5.10%	20,000.00	1,275.00	21,275.00	30,000.00
07-01-19	5.10%		765.00	765.00	30,000.00
01-01-20	5.10%	20,000.00	765.00	20,765.00	10,000.00
07-01-20	5.10%		255.00	255.00	10,000.00
01-01-21	5.10%	10,000.00	255.00	10,255.00	0.00
Totals		<u>105,000.00</u>	<u>17,535.00</u>	<u>122,535.00</u>	

GENERAL LONG-TERM DEBT
RURAL DEVELOPMENT PROMISSORY NOTE

The following schedule represents the amount of interest and principal that is due February 9 of each year. Interest is 4.25% throughout the term of the bond.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>	<u>Balance Due</u>
					46,246.68
02-09-15	4.25%	5,815.52	1,965.48	7,781.00	40,431.16
02-09-16	4.25%	6,062.68	1,718.32	7,781.00	34,368.49
02-09-17	4.25%	6,320.34	1,460.66	7,781.00	28,048.15
02-09-18	4.25%	6,588.95	1,192.05	7,781.00	21,459.20
02-09-19	4.25%	6,868.98	912.02	7,781.00	14,590.21
02-09-20	4.25%	7,160.92	620.08	7,781.00	7,429.30
02-09-21	4.25%	7,429.30	351.74	7,781.02	0.00
Totals		<u>46,246.68</u>	<u>8,220.34</u>	<u>54,467.02</u>	

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INDEPENDENT AUDITOR'S 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
Ruthton, 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, each major fund, and the aggregate remaining fund information of the City of Ruthton, Ruthton, Minnesota as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Ruthton, Ruthton, Minnesota's basic financial statements, and have issued our report thereon dated April 30, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be material weaknesses (2014-I and 2014-II).

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. 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 of Ruthton, Ruthton, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the schedule of findings and recommendations. 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 Ruthton, Ruthton, Minnesota's noncompliance with the above reference provisions.

City of Ruthton, Ruthton, Minnesota's Response to Findings

The City of Ruthton, Ruthton, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The City of Ruthton, Ruthton, Minnesota'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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

April 30, 2015

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014

2014-I Lack of segregation of duties.

Condition: The City has limited personnel available to perform accounting duties.

Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by separate individuals.

Recommendation: The City should design internal controls to provide for proper segregation of duties.

Response: This is not unusual in a City of this size. The City has studied the situation and found that it is economically infeasible to design the system of internal control to adequately provide for the segregation of duties. The Council will monitor personnel duties.

2014-II Lack of expertise by City personnel to prepare financial statements in accordance with generally accepted accounting principles.

Condition: The City personnel lack the expertise to prepare financial statements in accordance with generally accepted accounting principles.

Criteria: Internal controls should be in place that provide reasonable assurance that financial statements are prepared in accordance with generally accepted accounting principles.

Effect: City personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Recommendation: The City should provide personnel with adequate training to develop expertise to prepare financial statements in accordance with generally accepted accounting principles.

Response: This is not unusual in a City of this size. It is economically infeasible for the City to provide the necessary training for personnel to acquire and maintain this expertise.