

INDEPENDENT AUDITOR'S REPORT

**CITY OF RUTHTON
RUTHTON, MINNESOTA 56170**

FOR THE YEAR ENDED DECEMBER 31, 2015

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

CONTENTS OF REPORT

	<u>PAGE</u>
INTRODUCTORY SECTION	
Members of the City Council and City Officials	1
FINANCIAL SECTION	
Independent Auditor's Report	3 - 5
Management's Discussion and Analysis	7 - 15
<u>Basic Financial Statements</u>	
Government-Wide Financial Statements	
EXHIBIT A Statement of Net Position	17
EXHIBIT B Statement of Activities	18
<u>Fund Financial Statements</u>	
EXHIBIT C Balance Sheet - Governmental Funds	20 - 21
EXHIBIT D Reconciliation of the Balance Sheet to the Statement of Net Position - Governmental Funds	22
EXHIBIT E Statement of Revenues, Expenditures and Changes In Fund Balances – Governmental Funds	23
EXHIBIT F Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – Governmental Funds	24
EXHIBIT G Statement of Revenues, Expenditures and Changes In Fund Balance – Budget and Actual – General Fund	25
EXHIBIT H Statement of Revenues, Expenditures and Changes In Fund Balance – Budget and Actual – Fire Department Fund	26
EXHIBIT I Statement of Revenues, Expenditures and Changes In Fund Balance – Budget and Actual – Small Cities Development Program Fund	27
EXHIBIT J Statement of Net Position - Proprietary Funds	28

CONTENTS OF REPORT
-Continued-

	<u>PAGE</u>
EXHIBIT K Statement of Revenues, Expenses, And Changes in Fund Net Position – Proprietary Funds	29
EXHIBIT L Statement of Cash Flows – Proprietary Funds	30 - 31
Notes to the Financial Statements	33 - 53
Schedule 1 Schedule of Employer’s Share of Net Pension Liability Defined Benefit Pension Plans	55
Schedule 2 Schedule of Employer’s Contributions Defined Benefit Pension Plans	56
 <u>Individual Fund Financial Statements and Schedules</u>	
Schedule 3 General Fund – Balance Sheet	57
Schedule 4 General Fund – Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	58 - 61
Schedule 5 Special Revenue Funds – Combining Balance Sheet	62
Schedule 6 Special Revenue Funds – Combining Statement of Revenues, Expenditures and Changes in Fund Balance	63
Schedule 7 Fire Department Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	64
Schedule 8 Small Cities Development Program Fund – Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	65
Schedule 9 Cemetery Fund – Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	66
Schedule 10 Proprietary Funds – Combining Balance Sheet	67
Schedule 11 Proprietary Funds – Combining Statement of Revenues, Expenses and Changes in Retained Earnings	68

CONTENTS OF REPORT
-Continued-

	<u>PAGE</u>
Schedule 12 Water Fund – Statement of Revenues, Expenses and Changes in Retained Earnings	69
Schedule 13 Sewer Fund – Statement of Revenues, Expenses and Changes in Retained Earnings	70
Schedule 14 Garbage Fund - Statement of Revenues, Expenses and Changes in Retained Earnings	71
 <u>Other Schedules</u>	
Schedule 15 Water Fund – \$685,000 General Obligation Refunding Bonds, Series 1999	72
Schedule 16 General Long-Term Debt - Promissory Note	73
 <u>Other Required Reports</u>	
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	75 - 77
Schedule 17 Schedule of Findings and Recommendations	78

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
Darwin Sietsema	Council Member
Rochelle VanderWoude	City Clerk-Treasurer
Glen Peterson	City Attorney

THIS
PAGE
LEFT
BLANK
INTENTIONALLY

MEULEBROECK, TAUBERT & CO., PLLP
CERTIFIED PUBLIC ACCOUNTANTS

PO Box 685
109 S Freeman Avenue
Luverne, Minnesota 56156
507 283-4055 Fax 507 283-4076
contactl@mtcocpa.com

PO Box 707
216 East Main
Pipestone, Minnesota 56164
507 825-4288 Fax 507 825-4280
contactp@mtcocpa.com

Tyler, Minnesota 56178
507 247-3939
Lake Wilson, Minnesota 56151
507 879-3538
Marshall, Minnesota 56258
507 337-0501

PARTNERS

David L. Meulebroeck, CPA
Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2014, and in our report dated April 30, 2015, 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.

Basis for Qualified Opinion

The volunteer fire relief association affiliated with the City of Ruthton has not complied with the new GASB standards related to pensions for 2015. Therefore, the City is unable to report pension amounts related to the relief association. The effects on the accompanying financial statements of the noncompliance have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, 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, 2015, 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).

Emphasis-of-Matter – Change of Accounting Principle

As described in Note 1 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board, Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board, Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 13 to the financial statements, the City has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are modified with respect to this matter.

Report on Partial Comparative Information

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, 2014, 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 7-15 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 combining and individual fund financial statements and schedules are presented for the purposes of additional analysis and are not a required part of the financial statements.

The combining and individual 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 combining and individual 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 May 25, 2016, 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

May 25, 2016

THIS
PAGE
LEFT
BLANK
INTENTIONALLY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED DECEMBER 31, 2015

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, 2015. 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 (2015) and the prior year (2014) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2015 fiscal year include the following:

- Governmental Net position increased by \$13,749 or 1.7% from December 31, 2014.
- Proprietary Net position increased by \$4,460 or 0.8% from December 31, 2014.
- Total governmental expenditures decreased by \$41,040 in comparison to fiscal year 2014, and total governmental revenues increased by \$8,177 in comparison to fiscal year 2014.
- Total proprietary operating expenses decreased by \$7,651 in comparison to fiscal year 2014, and proprietary operating revenues increased by \$1,008 in comparison to fiscal year 2014.

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 \$1,425,924 at the close of the most recent fiscal year. This was a decrease of 3.7% from the previous year total of \$1,407,715. This decrease was due primarily to the implementation of GASB 68 which required a prior period restatement of \$51,672.

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Assets						
Current and other assets	459,424	413,692	45,484	37,909	504,908	451,601
Long-term Assets			36,628	48,765	36,628	48,765
Capital assets, net of depreciation	<u>450,212</u>	<u>484,116</u>	<u>709,069</u>	<u>741,716</u>	<u>1,159,281</u>	<u>1,225,832</u>
Total Assets	<u>909,636</u>	<u>897,808</u>	<u>791,181</u>	<u>828,390</u>	<u>1,700,817</u>	<u>1,726,198</u>
Deferred Outflows of Resources						
Related to Pensions	<u>3,777</u>	—	<u>4,617</u>	—	<u>8,394</u>	—
Total Assets and Deferred Outflows of Resources	<u>913,413</u>	<u>897,808</u>	<u>795,798</u>	<u>828,390</u>	<u>1,709,211</u>	<u>1,726,198</u>
Liabilities						
Current and other liabilities	11,547	6,459	69,259	79,619	80,806	86,078
Net Pension Liability	23,321		28,504		51,825	
Long-term liabilities	<u>34,369</u>	<u>40,431</u>	<u>65,000</u>	<u>85,000</u>	<u>99,369</u>	<u>125,431</u>
Total Liabilities	<u>69,237</u>	<u>46,890</u>	<u>162,763</u>	<u>164,619</u>	<u>232,000</u>	<u>211,509</u>
Deferred Inflows of Resources						
Unearned Revenue			45,151	55,302	45,151	55,302
Net Pension Liability	<u>2,761</u>	—	<u>3,375</u>	—	<u>6,136</u>	—
Total Deferred Inflows of Resources	<u>2,761</u>		<u>48,526</u>	<u>55,302</u>	<u>51,287</u>	<u>55,302</u>
Net Position						
Net Investment in Capital Assets	409,780	437,869	624,069	636,716	1,033,849	1,074,585
Restricted	111,963	109,899			111,963	109,899
Unrestricted	<u>319,672</u>	<u>303,150</u>	<u>(39,560)</u>	<u>(28,247)</u>	<u>280,112</u>	<u>274,903</u>
Net Position	<u>841,415</u>	<u>850,918</u>	<u>584,509</u>	<u>608,469</u>	<u>1,425,924</u>	<u>1,459,387</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>913,413</u>	<u>897,808</u>	<u>795,798</u>	<u>828,390</u>	<u>1,709,211</u>	<u>1,726,198</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.

Revenues	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Program Revenues						
Charges for Services	22,634	23,991	101,793	100,785	124,427	124,776
Operating Grants and Contributions	11,473	11,944			11,473	11,944
Capital Grants and Contributions						
General Revenues						
Property Taxes	93,553	94,354	11,328	12,992	104,881	107,346
State Aid Not Restricted						
For Specific Purposes	90,164	82,870			90,164	82,870
Unrestricted Investment Earnings	499	458	237	269	736	727
Other Revenues	4,478	5,741			4,478	5,741
Total Revenues	<u>222,801</u>	<u>219,358</u>	<u>113,358</u>	<u>114,046</u>	<u>336,159</u>	<u>333,404</u>
Expenses						
General Government	48,058	50,306			48,058	50,306
Public Safety	44,298	55,184			44,298	55,184
City Maintenance	63,419	34,547			63,419	34,547
Culture and Recreation	3,710	1,396			3,710	1,396
Public Works	28,950	29,082			28,950	29,082
Miscellaneous	19,814	21,113			19,814	21,113
Cemetery	803	1,083			803	1,083
Water			49,164	49,390	49,164	49,390
Sewer			43,395	52,001	43,395	52,001
Refuse			16,339	15,901	16,339	15,901
Total Expenses	<u>209,052</u>	<u>192,711</u>	<u>108,898</u>	<u>117,292</u>	<u>317,950</u>	<u>310,003</u>
Change in Net Position	<u>13,749</u>	<u>26,647</u>	<u>4,460</u>	<u>(3,246)</u>	<u>18,209</u>	<u>23,401</u>

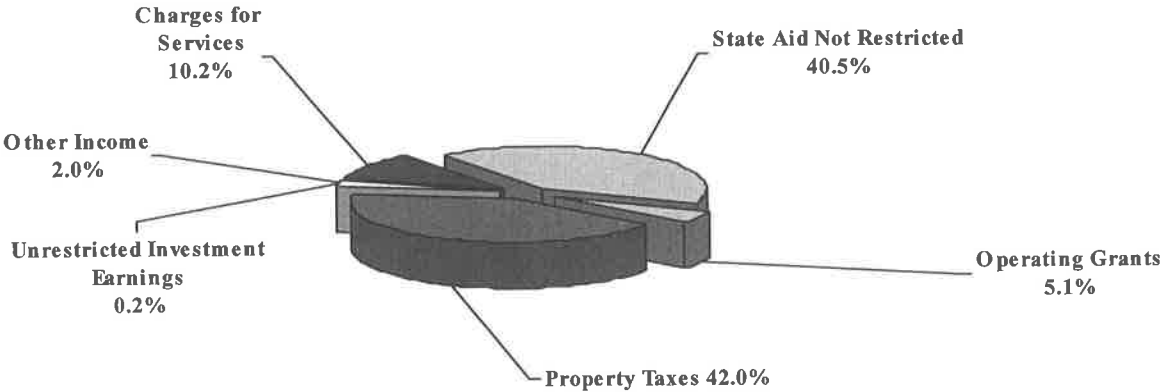
The City's total revenue consisted of program revenues of \$135,900, property taxes of \$104,881, state aids of \$90,164, investment earnings of \$736 and miscellaneous revenues of \$4,478.

The cost of all governmental and business-type activities this year was \$317,950.

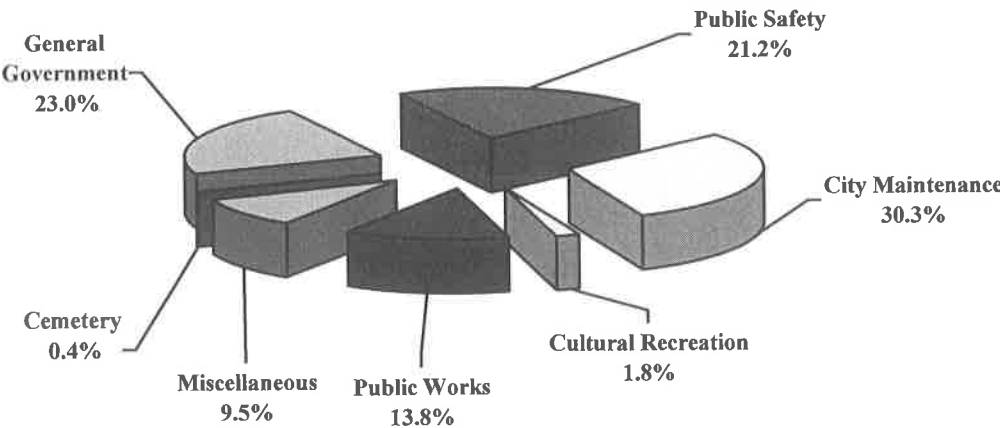
- The users of the city programs paid for 39.1%, or \$124,427, of the costs.
- The state government subsidized certain programs with grants and contributions. This totaled \$90,164, or 28.4%, of the total costs.

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.

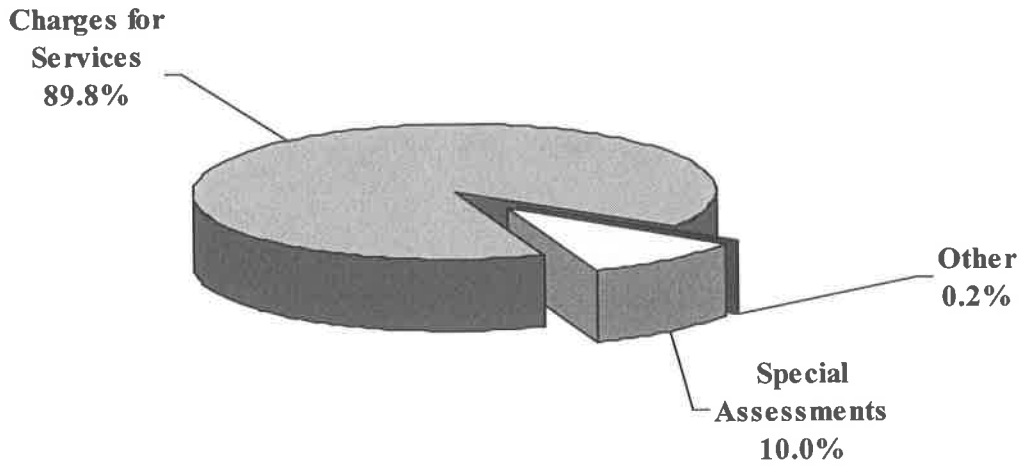
**Figure A - Sources of Revenues for Fiscal Year 2015
Governmental Activities**



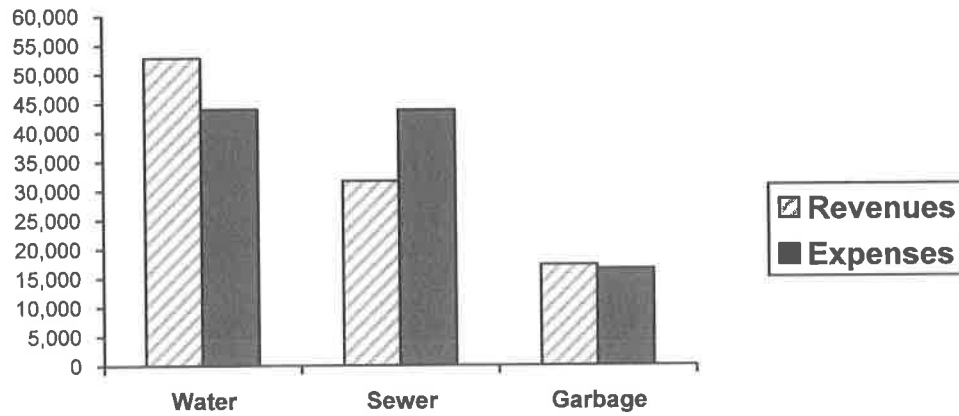
**Figure B - Expenses for Fiscal 2015
Governmental Activities**



**Figure C - Sources of Revenues for Fiscal Year 2015
Business-Type Activities**



**Figure D - Operating Revenues and Expenses for Fiscal Year 2015
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 \$448,545. The prior year fund balance was \$404,034, which is an increase of \$44,511. The General Fund increase of \$35,405 is due to decreased expenditures. The Fire Department Fund had an increase of \$7,042, the Small Cities Development Program Fund had an increase of \$2,197 and the Cemetery Fund had a decrease of \$133.

The proprietary funds completed the year with a combined net position of \$584,509. The prior year restated net position was \$580,049. The Water Fund increase of \$17,409 was due to revenues exceeding expenses. The Sewer fund decrease of \$13,902 was due to various sewer repairs, and expenditures exceeding revenues. The Garbage Fund increase of \$953 was due to revenues exceeding expenses.

Revenues and Expenditures/Expenses

Revenues of the city's governmental funds totaled \$226,421 while total expenditures were \$181,910. 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	196,793	146,388	(15,000)	35,405
Fire Department Fund	26,761	34,719	15,000	7,042
Small Cities Development Program Fund	2,197	-0-	-0-	2,197
Cemetery Fund	370	803		(133)
Total	<u>226,421</u>	<u>181,910</u>	<u>-0-</u>	<u>44,511</u>

Revenues of the city's proprietary funds totaled \$101,793, which total expenses were \$103,280. 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	52,853	43,568	8,124	17,409
Sewer Fund	31,704	43,373	(2,233)	(13,902)
Garbage Fund	<u>17,236</u>	<u>16,339</u>	<u>56</u>	<u>953</u>
Total	<u>101,793</u>	<u>103,280</u>	<u>5,947</u>	<u>4,460</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 2015, the City did not revise the original budget. The city's budget anticipated that expenditures would exceed revenues and other financing sources (uses) by \$35,271. The actual results for the year showed revenue exceeding expenditures by of \$35,405.

- Actual revenues were over budget by \$14,809 due to various reasons.
- Actual expenditures were under budget by \$70,676 due to various reasons.

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, 2015 and 2014.

**Table 3
Capital Assets**

<u>Governmental Activities</u>	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Land	27,255	27,255	
Buildings	232,951	232,951	
Equipment & Improvements	497,040	492,362	4,678
Infrastructure	1,072,797	1,072,797	
Less accumulated depreciation	<u>(1,379,831)</u>	<u>(1,341,249)</u>	<u>(38,582)</u>
Total	<u>450,212</u>	<u>484,116</u>	<u>(33,904)</u>
Depreciation Expense	<u>39,659</u>	<u>37,558</u>	<u>2,101</u>
<u>Business-Type Activities</u>			
Land	44,519	44,519	
Water System & Equipment	836,362	835,029	1,033
Sewer System & Equipment	842,336	842,336	
Less accumulated depreciation	<u>(1,014,148)</u>	<u>(980,168)</u>	<u>(33,980)</u>
Total	<u>709,069</u>	<u>741,716</u>	<u>(32,647)</u>
Depreciation Expense	<u>37,558</u>	<u>33,634</u>	<u>3,924</u>

Capital asset activity occurring in 2015 included the purchase of a lawn mower, mosquito sprayer and water pump. Disposals of capital assets during the year included the sale of a lawn mower.

Long-Term Liabilities

At the end of the current fiscal year, the City had total bonded debt outstanding of \$85,000 and total promissory note outstanding of \$40,432. 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, 2015**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General Obligation Refunding Bonds		85,000	85,000
Promissory Note	<u>40,432</u>		<u>40,432</u>
Total Debt	<u>40,432</u>	<u>85,000</u>	<u>125,432</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.

THIS
PAGE
LEFT
BLANK
INTENTIONALLY

STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Primary Government			
	Governmental	Business-Type	Total	
	Activities	Activities	2015	2014
<u>Assets</u>				
Cash and Investments	344,770	22,691	367,461	288,562
Accounts Receivable	286	9,718	10,004	9,356
Delinquent Taxes / Assessments Receivable	6,276	10,829	17,105	20,635
Due From Other Funds	48,108		48,108	58,430
Notes Receivable	46,370		46,370	58,009
Prepaid Items	13,614	2,246	15,860	16,609
Long Term Assessments Receivable		35,134	35,134	46,999
Bond Discount		1,494	1,494	1,766
Capital Assets (net of accumulated depreciation)	450,212	709,069	1,159,281	1,225,832
Total Assets	<u>909,636</u>	<u>791,181</u>	<u>1,700,817</u>	<u>1,726,198</u>
<u>Deferred Outflows of Resources</u>				
Related to Pensions	<u>3,777</u>	<u>4,617</u>	<u>8,394</u>	
Total Assets and Deferred Outflows of Resources	<u><u>913,413</u></u>	<u><u>795,798</u></u>	<u><u>1,709,211</u></u>	<u><u>1,726,198</u></u>
<u>Liabilities</u>				
Accounts Payable and Other Current Liabilities	5,484	1,151	6,635	1,832
Due To Other Funds		48,108	48,108	58,430
Noncurrent liabilities				
Due within one year	6,063	20,000	26,063	25,816
Due in more than one year	34,369	65,000	99,369	125,431
Net Pension Liability	23,321	28,504	51,825	
Total Liabilities	<u>69,237</u>	<u>162,763</u>	<u>232,000</u>	<u>211,509</u>
<u>Deferred Inflows of Resources</u>				
Unearned Revenue		45,151	45,151	55,302
Related to Pensions	<u>2,761</u>	<u>3,375</u>	<u>6,136</u>	
Total Deferred Inflows of Resources	<u><u>2,761</u></u>	<u><u>48,526</u></u>	<u><u>51,287</u></u>	<u><u>55,302</u></u>
<u>Net Position</u>				
Net Investment in Capital Assets	409,780	624,069	1,033,849	1,074,585
Restricted for:				
Small Cities Development Program	101,841		101,841	99,644
Cemetery Fund	10,122		10,122	10,255
Unrestricted	<u>319,672</u>	<u>(39,560)</u>	<u>280,112</u>	<u>274,903</u>
Total Net Position	<u><u>841,415</u></u>	<u><u>584,509</u></u>	<u><u>1,425,924</u></u>	<u><u>1,459,387</u></u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>913,413</u></u>	<u><u>795,798</u></u>	<u><u>1,709,211</u></u>	<u><u>1,726,198</u></u>

See accompanying notes to the financial statements.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Functions</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>			
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
							<u>2015</u>	<u>2014</u>
Governmental Activities:								
General Government	48,058	7,684			(40,374)		(40,374)	(42,765)
Public Safety	44,298	14,950	11,473		(17,875)		(17,875)	(26,790)
City Maintenance	63,419				(63,419)		(63,419)	(34,547)
Cultural and Recreation	3,710				(3,710)		(3,710)	(1,396)
Public Works	28,950				(28,950)		(28,950)	(29,082)
Miscellaneous	19,814				(19,814)		(19,814)	(21,113)
Cemetery	803				(803)		(803)	(1,083)
Total Governmental Activities	<u>209,052</u>	<u>22,634</u>	<u>11,473</u>	<u>-0-</u>	<u>(174,945)</u>	<u>-0-</u>	<u>(174,945)</u>	<u>(156,776)</u>
Business-Type Activities								
Water	49,164	52,853				3,689	3,689	2,650
Sewer	43,395	31,704				(11,691)	(11,691)	(19,835)
Garbage	16,339	17,236				897	897	678
Total Business-Type Activities	<u>108,898</u>	<u>101,793</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(7,105)</u>	<u>(7,105)</u>	<u>(16,507)</u>
Total Government	<u>317,950</u>	<u>124,427</u>	<u>11,473</u>	<u>-0-</u>	<u>(174,945)</u>	<u>(7,105)</u>	<u>(182,050)</u>	<u>(173,283)</u>
General Revenues								
Property Taxes					93,553	11,328	104,881	107,346
State Aid Not Restricted to Specific Purposes					90,164		90,164	82,870
Unrestricted Investment Earnings					499	237	736	727
Other Revenues					4,478		4,478	5,741
Total General Revenues					<u>188,694</u>	<u>11,565</u>	<u>200,259</u>	<u>196,684</u>
Change in Net Position					13,749	4,460	18,209	23,401
Net Position - Beginning, As Originally Stated					850,918	608,469	1,459,387	
Prior Period Adjustment					(23,252)	(28,420)	(51,672)	
Net Position - Beginning, Restated					<u>827,666</u>	<u>580,049</u>	<u>1,407,715</u>	<u>1,435,986</u>
Net Position - Ending					<u>841,415</u>	<u>584,509</u>	<u>1,425,924</u>	<u>1,459,387</u>

See accompanying notes to the financial statements.

THIS
PAGE
LEFT
BLANK
INTENTIONALLY

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

<u>Assets</u>	<u>General</u>	<u>Fire Department Fund</u>	<u>Small Cities Development Program Fund</u>	<u>Cemetery Fund</u>
Cash	228,207	47,611	58,830	10,122
Accounts Receivable	40	246		
Special Assessments Receivable	533			
Delinquent Taxes Receivable	5,743			
Due From Other Funds	48,108			
Notes Receivable			46,370	
Prepaid Items	11,103	2,511		
Total Assets	<u>293,734</u>	<u>50,368</u>	<u>105,200</u>	<u>10,122</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	2,057	68	3,359	
<u>Deferred Inflows of Resources</u>				
Unavailable Revenue	5,395			
<u>Fund Balances</u>				
Fund Balance - Non-Spendable	11,103	2,511		
Fund Balance - Committed		47,789	101,841	10,122
Fund Balance - Unassigned	275,179			
Total Fund Balance	<u>286,282</u>	<u>50,300</u>	<u>101,841</u>	<u>10,122</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>293,734</u>	<u>50,368</u>	<u>105,200</u>	<u>10,122</u>

See accompanying notes to the financial statements.

Total	
Governmental Funds	
2015	2014
344,770	272,411
286	108
533	
5,743	9,713
48,108	58,430
46,370	58,009
13,614	15,021
<u>459,424</u>	<u>413,692</u>

5,484	643
-------	-----

5,395	9,015
-------	-------

13,614	15,021
159,752	149,927
275,179	239,086
<u>448,545</u>	<u>404,034</u>
<u>459,424</u>	<u>413,692</u>

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	2015	2014
Total Governmental Fund Balances	448,545	404,034
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	1,830,043	1,825,365
Less: Accumulated Depreciation	(1,379,831) 450,212	(1,341,249) 484,116
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred inflows of resources in the funds.		
	5,395	9,015
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources - Related to Pensions	3,777	
Deferred Inflows of Resources - Related to Pensions	(2,761)	
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Pension Liability	(23,321)	
Notes Payable	(40,432) (63,753)	(46,247)
Total net position - governmental activities	841,415	850,918

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	Fire Department Fund	Small Cities Development Program Fund	Cemetery Fund	Total Governmental Funds	
					2015	2014
Revenues						
Taxes	97,173				97,173	93,240
Licenses and Permits	2,100				2,100	2,100
State Aid	90,164	11,473			101,637	93,414
Federal Aid						1,400
Charges for Services	3,435	13,450			16,885	16,640
Fines and Forfeits	144				144	296
Fire Calls		1,500			1,500	3,000
Miscellaneous	459	246			705	2,481
Pest Control	2,005				2,005	1,955
Sale of Assets	1,001			450	1,451	875
Interest Income	312	92	75	20	499	458
Donations				200	200	
Deferred Loan Payoff			2,122		2,122	2,385
Total Revenues	196,793	26,761	2,197	670	226,421	218,244
Expenditures						
General Government	45,091				45,091	46,243
Public Safety	10,152	17,431			27,583	42,915
City Maintenance	50,152				50,152	69,640
Cultural and Recreation	3,150				3,150	836
Public Works	29,502				29,502	35,542
Miscellaneous	8,341	11,473			19,814	21,113
Cemetery				803	803	1,083
Principal		5,815			5,815	5,578
Total Expenditures	146,388	34,719	-0-	803	181,910	222,950
Excess of Revenues (Expenditures)	50,405	(7,958)	2,197	(133)	44,511	(4,706)
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-
Net Change in Fund Balances	35,405	7,042	2,197	(133)	44,511	(4,706)
Fund Balance-Beginning	250,877	43,258	99,644	10,255	404,034	408,740
Fund Balance-Ending	286,282	50,300	101,841	10,122	448,545	404,034

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, 2015**

	2015	2014
Net Change in Governmental Fund Balances	44,511	(4,706)

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	5,955	62,419
Disposal	(200)	(200)
Depreciation Expense	(39,659)	(37,558)
	(33,904)	24,661

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	5,815	5,578
---------------------------	-------	-------

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

Increase in Pension Liability	947	
-------------------------------	-----	--

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.

	(3,620)	1,114
--	---------	-------

Change in Net Position of Governmental Activities	13,749	26,647
---	--------	--------

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, 2015

<u>Revenues</u>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		
Taxes	95,173	95,173	97,173	2,000
Licenses and Permits	2,200	2,200	2,100	(100)
State Aid	79,661	79,661	90,164	10,503
Charges for Services	1,700	1,700	3,435	1,735
Fines and Forfeits			144	144
Miscellaneous Revenues	3,250	3,250	3,777	527
Total Revenues	<u>181,984</u>	<u>181,984</u>	<u>196,793</u>	<u>14,809</u>
<u>Expenditures</u>				
General Government	57,450	57,450	45,091	12,359
Public Safety	17,655	17,655	10,152	7,503
City Maintenance	60,750	60,750	50,152	10,598
Culture and Recreation	2,400	2,400	3,150	(750)
Public Works	52,000	52,000	29,502	22,498
Miscellaneous	12,000	12,000	8,341	3,659
Total Expenditures	<u>202,255</u>	<u>202,255</u>	<u>146,388</u>	<u>55,867</u>
Excess of Revenues Over Expenditures	<u>(20,271)</u>	<u>(20,271)</u>	<u>50,405</u>	<u>70,676</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	(15,000)	(15,000)	(15,000)	
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	
Net Change in Fund Balances	<u>(35,271)</u>	<u>(35,271)</u>	35,405	<u>70,676</u>
Fund Balance-Beginning			<u>250,877</u>	
Fund Balance-Ending			<u>286,282</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, 2015

<u>Revenues</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with 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	11,473	4,473
Fire Calls			1,500	1,500
Miscellaneous Revenues	250	250	246	(4)
Interest Income	150	150	92	(58)
Total Revenues	20,850	20,850	26,761	5,911
<u>Expenditures</u>				
Insurance	3,500	3,500	1,670	1,830
Equipment Operating Expense	3,500	3,500	2,670	830
Firemen's Relief Association Contribution	7,000	7,000	11,473	(4,473)
Miscellaneous	1,030	1,030	207	823
Capital Outlay	5,000	5,000		5,000
Utilities	4,000	4,000	3,608	392
Training and Travel Expense	1,000	1,000	1,120	(120)
Professional Fees	900	900	620	280
Salaries	5,000	5,000	4,898	102
First Responders-Supplies, Repairs	1,700	1,700	673	1,027
Fire Truck Principal	5,815	5,815	5,815	
Interest Expense	1,965	1,965	1,965	
Total Expenditures	40,410	40,410	34,719	5,691
Excess Revenues (Expenditures)	(19,560)	(19,560)	(7,958)	11,602
<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	(4,560)	(4,560)	7,042	11,602
Fund Balance-Beginning			43,258	
Fund Balance-Ending			50,300	

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, 2015

	<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			75	75
Deferred Loan Payoff			2,122	2,122
Total Revenues	-0-	-0-	2,197	2,197
<u>Expenditures</u>				
Total Expenditures	-0-	-0-	-0-	-0-
Net Change in Fund Balance	-0-	-0-	2,197	2,197
Fund Balance-Beginning			99,644	
Fund Balance-Ending			101,841	

See accompanying notes to the financial statements.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
<u>Assets</u>					
<u>Current Assets</u>					
Cash		13,505	9,186	22,691	16,151
Receivables					
Accounts	5,116	2,958	1,644	9,718	9,248
Special Assessments	10,718	111		10,829	10,922
Prepaid Items	2,246			2,246	1,588
Total Current Assets	<u>18,080</u>	<u>16,574</u>	<u>10,830</u>	<u>45,484</u>	<u>37,909</u>
<u>Noncurrent Assets</u>					
Long Term Assessments Receivable	35,134			35,134	46,999
Bond Discount	1,494			1,494	1,766
Capital Assets					
Land		44,519		44,519	44,519
Property and Equipment	836,362	842,336		1,678,698	1,677,365
Less: Accumulated Depreciation	(434,754)	(579,394)		(1,014,148)	(980,168)
Total Noncurrent Assets	<u>438,236</u>	<u>307,461</u>	<u>-0-</u>	<u>745,697</u>	<u>790,481</u>
Total Assets	<u>456,316</u>	<u>324,035</u>	<u>10,830</u>	<u>791,181</u>	<u>828,390</u>
<u>Deferred Outflows of Resources</u>					
Related to Pensions	1,755	1,985	877	4,617	
Total Assets and Deferred Outflows of Resources	<u>458,071</u>	<u>326,020</u>	<u>11,707</u>	<u>795,798</u>	<u>828,390</u>
<u>Liabilities</u>					
<u>Current Liabilities</u>					
Due To Other Funds	48,108			48,108	58,430
Accounts Payable	154	63	432	649	750
Sales Tax Payable	122		380	502	439
Current Portion of Debt	20,000			20,000	20,000
Total Current Liabilities	<u>68,384</u>	<u>63</u>	<u>812</u>	<u>69,259</u>	<u>79,619</u>
<u>Noncurrent Liabilities</u>					
Bonds Payable	65,000			65,000	85,000
Net Pension Liability	10,831	12,257	5,416	28,504	
Total Noncurrent Liabilities	<u>75,831</u>	<u>12,257</u>	<u>5,416</u>	<u>93,504</u>	<u>85,000</u>
Total Liabilities	<u>144,215</u>	<u>12,320</u>	<u>6,228</u>	<u>162,763</u>	<u>164,619</u>
<u>Deferred Inflows of Resources</u>					
Unearned Revenue	45,040	111		45,151	55,302
Related to Pensions	1,283	1,451	641	3,375	
Total Deferred Inflows of Resources	<u>46,323</u>	<u>1,562</u>	<u>641</u>	<u>48,526</u>	<u>55,302</u>
<u>Net Position</u>					
Net Investment in Capital Assets	316,608	307,461		624,069	636,716
Unrestricted	(49,075)	4,677	4,838	(39,560)	(28,247)
Total Net Position	<u>267,533</u>	<u>312,138</u>	<u>4,838</u>	<u>584,509</u>	<u>608,469</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>458,071</u>	<u>326,020</u>	<u>11,707</u>	<u>795,798</u>	<u>828,390</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, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
<u>Operating Revenues</u>					
Charges for Services	52,853	31,704	17,236	101,793	100,785
Total Revenues/Gross Margin	<u>52,853</u>	<u>31,704</u>	<u>17,236</u>	<u>101,793</u>	<u>100,785</u>
<u>Operating Expenses</u>					
Administration	27,524	25,437	16,339	69,300	77,297
Depreciation	16,044	17,936		33,980	33,634
Total Expenses	<u>43,568</u>	<u>43,373</u>	<u>16,339</u>	<u>103,280</u>	<u>110,931</u>
Operating Income (Loss)	9,285	(11,669)	897	(1,487)	(10,146)
<u>Non-Operating Revenues (Expenses)</u>					
Special Assessment Income	13,645	(2,365)	48	11,328	12,992
Interest Income	74	155	8	237	269
Amortization of Bond Discount	(272)			(272)	(272)
Interest Expense	(5,323)	(23)		(5,346)	(6,089)
Total Non-Operating Revenues (Expenses)	<u>8,124</u>	<u>(2,233)</u>	<u>56</u>	<u>5,947</u>	<u>6,900</u>
Change in Net Position	17,409	(13,902)	953	4,460	(3,246)
Total Net Position - January 1	260,924	338,260	9,285	608,469	611,715
Prior Period Adjustment	(10,800)	(12,220)	(5,400)	(28,420)	
Total Net Position - January 1 - Restated	<u>250,124</u>	<u>326,040</u>	<u>3,885</u>	<u>580,049</u>	
Total Net Position - December 31	<u><u>267,533</u></u>	<u><u>312,138</u></u>	<u><u>4,838</u></u>	<u><u>584,509</u></u>	<u><u>608,469</u></u>

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Business-Type Activities--	
<u>Cash Flows From Operating Activities</u>	Water	Sewer
Receipts from Customers and Users	42,465	31,544
Payments to Vendors and Suppliers	(14,336)	(9,811)
Payments to Employees	(13,813)	(15,626)
Net Cash Provided By Operating Activities	14,316	6,107
<u>Cash Flows From Noncapital Financing Activities</u>		
Receipts From Special Assessments	23,029	209
Increase (Decrease) in Due To Other Funds	(10,322)	
Increase (Decrease) in Pension Liability	(441)	(497)
Net Cash Provided By Noncapital Financing Activities	12,266	(288)
<u>Cash Flows From Capital and Related Financing Activities</u>		
Water and Sewer System Improvements	(1,333)	
Principal Paid on Long-Term Debt	(20,000)	
Interest Paid on Long-Term Debt	(5,323)	(23)
Net Cash Used By Capital and Related Financing Activities	(26,656)	(23)
<u>Cash Flows From Investing Activities</u>		
Interest Income	74	155
Net Cash Provided By Investing Activities	74	155
Net Increase (Decrease) in Cash and Cash Equivalents	-0-	5,951
Cash and Cash Equivalents, January 1	-0-	7,554
Cash and Cash Equivalents, December 31	-0-	13,505
Reconciliation of Operating Income To Net		
Cash Provided By Operating Activities		
Operating Income (Loss)	9,285	(11,669)
Depreciation	16,044	17,936
(Increase) Decrease in Accounts Receivable	(331)	(71)
(Increase) Decrease in Prepaid Items	(658)	
Increase (Decrease) in Accounts Payable	33	
Increase (Decrease) in Unearned Revenue	(10,057)	(89)
Net Cash Provided By Operating Activities	14,316	6,107

See accompanying notes to the financial statements.

--Enterprise Funds

Garbage	Total	
	2015	2014
17,168	91,177	83,537
(9,857)	(34,004)	(41,094)
(6,558)	(35,997)	(36,333)
<u>753</u>	<u>21,176</u>	<u>6,110</u>
48	23,286	29,362
	(10,322)	13,160
(220)	(1,158)	
<u>(172)</u>	<u>11,806</u>	<u>42,522</u>
	(1,333)	(28,940)
	(20,000)	(15,000)
	(5,346)	(6,089)
	<u>(26,679)</u>	<u>(50,029)</u>
8	237	269
<u>8</u>	<u>237</u>	<u>269</u>
589	6,540	(1,128)
8,597	16,151	17,279
<u>9,186</u>	<u>22,691</u>	<u>16,151</u>
897	(1,487)	(10,146)
	33,980	33,634
(68)	(470)	(1,250)
	(658)	(49)
(76)	(43)	(81)
	(10,146)	(15,998)
<u>753</u>	<u>21,176</u>	<u>6,110</u>

THIS PAGE
LEFT BLANK
INTENTIONALLY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 fiscal year 2015, the City adopted new accounting guidance by implementing the provision of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. See Note 1.T. in the notes to the financial statements for additional information regarding the City's pensions.

Restatement of December 31, 2014 net position was required as a result of adopting this change in accounting principle. See Note 13 in the notes to the financial statements for additional information regarding the accounting change restatement.

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2014, 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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1 Summary of Significant Accounting Policies - continued

T. Pensions

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

U. Subsequent Events

Subsequent events have been evaluated through May 25, 2016, which is the date the financial statements were available to be issued.

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, 2015, none of the City's bank balance of \$368,638 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, 2015

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, 2015 and 2014, the City had no investments.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3 Capital Assets

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

	<u>Balance</u> <u>1/1/15</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/15</u>
Governmental Activities				
Capital assets not depreciated:				
Land	27,255			27,255
Capital assets depreciated:				
Buildings	232,951			232,951
Equipment & Improvements	492,362	5,955	(1,277)	497,040
Infrastructure	<u>1,072,797</u>			<u>1,072,797</u>
Total capital assets depreciated	1,798,110	5,955	(1,277)	1,802,788
Less accumulated depreciation for:				
Buildings	(131,287)	(5,373)		(136,660)
Equipment & Improvements	(371,996)	(20,856)	1,077	(391,775)
Infrastructure	<u>(837,966)</u>	<u>(13,430)</u>		<u>(851,396)</u>
Total accumulated depreciation	<u>(1,341,249)</u>	<u>(39,659)</u>	<u>1,077</u>	<u>(1,379,831)</u>
Total capital assets depreciated-net	<u>456,861</u>	<u>(33,704)</u>	<u>(200)</u>	<u>422,957</u>
Net Capital Assets	<u>484,116</u>	<u>(33,704)</u>	<u>(200)</u>	<u>450,212</u>
Business-Type Activities				
Capital assets not depreciated:				
Land	44,519			44,519
Capital assets depreciated:				
Water System & Equipment	835,029	1,333		836,362
Sewer System & Equipment	<u>842,336</u>			<u>842,336</u>
Total capital assets depreciated	1,677,365	1,333	-0-	1,678,698
Less accumulated depreciation for:				
Water System & Equipment	(418,710)	(16,044)		(434,754)
Sewer System & Equipment	<u>(561,458)</u>	<u>(17,936)</u>		<u>(579,394)</u>
Total accumulated depreciation	<u>(980,168)</u>	<u>(33,980)</u>	<u>-0-</u>	<u>(1,014,148)</u>
Total capital assets depreciated-net	<u>697,197</u>	<u>(32,647)</u>	<u>-0-</u>	<u>664,550</u>
Net Capital Assets	<u>741,716</u>	<u>(32,647)</u>	<u>-0-</u>	<u>709,069</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3 **Capital Assets - continued**

Depreciation expense of \$73,639 for the year ended December 31, 2015 was charged to the following functions/programs:

Governmental Activities:

General Government	3,914
Public Safety	16,715
City Maintenance, including general infrastructure assets	13,267
Cultural and Recreation	560
Public Works	<u>5,203</u>
Total	<u><u>39,659</u></u>

Business-Type Activities:

Water	16,044
Sewer	<u>17,936</u>
Total	<u><u>33,980</u></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	\$40,432

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>
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	7,161	620	7,781
2021	<u>7,430</u>	<u>351</u>	<u>7,781</u>
Total	<u><u>40,432</u></u>	<u><u>6,254</u></u>	<u><u>46,686</u></u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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	\$85,000

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>
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>85,000</u>	<u>12,220</u>	<u>97,220</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, 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	<u>46,247</u>	<u>-0-</u>	<u>5,815</u>	<u>40,432</u>	<u>6,063</u>
Governmental Activity					
Long-Term Liabilities	<u>46,247</u>	<u>-0-</u>	<u>5,815</u>	<u>40,432</u>	<u>6,063</u>
Business-Type Activities:					
Bonds Payable:					
General Obligation Bonds	<u>105,000</u>		<u>20,000</u>	<u>85,000</u>	<u>20,000</u>
Business-Type Activity					
Long-Term Liabilities	<u>105,000</u>	<u>-0-</u>	<u>20,000</u>	<u>85,000</u>	<u>20,000</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 5 **Fund Balance Classification**

Non-Spendable Fund Balance

The City has the following non-spendable fund balances as of December 31, 2015:

General Fund	11,103
Fire Department Fund	<u>2,511</u>
Total Non-Spendable	<u>13,614</u>

Restricted Fund Balance

The City has no restricted fund balances as of December 31, 2015.

Committed Fund Balance

The City has the following committed fund balances as of December 31, 2015:

Fire Department Fund	47,789
Small Cities Development Program Fund	101,841
Cemetery Fund	<u>10,122</u>
Total Committed	<u>159,752</u>

Assigned Fund Balance

The City has no assigned fund balances as of December 31, 2015.

Unassigned Fund Balance

The City has the following unassigned fund balances as of December 31, 2015:

General Fund	<u>275,179</u>
Total Unassigned	<u>275,179</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6 **Defined Benefit Pension Plans**

A. **Public Employees Retirement Association (PERA)**

1. Plan Description

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

1. General Employees Retirement Plan (GERF)

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

2. Benefits Provided

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6 **Defined Benefit Pension Plans - continued**

A. **Public Employees Retirement Association (PERA) - continued**

2. Benefits Provided

GERF Benefits

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

3. Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2015. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2015, the City was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The City's contributions to the GERF for the year ended December 31, 2015, were \$6,962. The City's contributions were equal to the required contributions for each year as set by state statute.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

4. Pension Costs

At December 31, 2015, the City reported a liability of \$51,825 for its proportionate share of the GERS's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0010%.

For the year ended December 31, 2015, the City recognized pension expense of \$5,734 for its proportionate share of GERS's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience		\$2,613
Changes in actuarial assumptions		
Difference between projected and actual investment earnings	\$4,906	
Changes in proportion		\$3,523
Contributions paid to PERA subsequent to the measurement date	\$3,488	
Total	\$8,394	\$6,136

\$3,488 reported as deferred outflows of resources related to pensions resulting from City contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6 **Defined Benefit Pension Plans - continued**

A. **Public Employees Retirement Association (PERA) - continued**

4. Pension Costs - continued

Deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$451
2017	\$451
2018	\$451
2019	\$451
2020	\$454

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2015. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2015:

- GEF and MERF: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.
- PECF: The single discount rate was changed from 7.43% to 7.90%

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

5. Actuarial Assumptions - continued

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERP net pension liability:	\$81,488	\$51,825	\$27,329

8. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. 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.

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 city had no funds had excess expenditures over budget appropriations.

Note 10 Interfund Transfers

The following interfund transfers occurred during 2015:

	<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, 2015

Note 11 Due To/From Other Funds

Below is a schedule of interfund receivables and payables at December 31, 2015.

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
Water Fund		48,108
General Fund	48,108	

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.

Note 13 Prior Period Adjustment

The beginning net position of the City has been decreased to reflect a change in account principle. As mentioned in Note 1, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which records the City's proportionate share of collective net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense on the City's government-wide financial statements. Beginning governmental activities net position has been restated from \$850,918 to \$827,666, a decrease of \$23,252. Beginning business-type net position has been restated from \$608,469 to \$580,049, a decrease of \$28,420. Prior year partial comparative information does not reflect this change in accounting principle because the cost-sharing multiple-employer defined benefit pension plans in which the City participates have not made this information available.

THIS
PAGE
LEFT
BLANK
INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
DEFINED BENEFIT PENSION PLANS
DECEMBER 31, 2015

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>PERA:</u>					
June 30, 2015	0.0031%	\$160,658	\$186,920	86.0%	78.2%

See Note 6, Defined Benefit Pension Plans, for more information.

Governmental Accounting Standards Board Statement 68 was implemented in 2015.

The City will report the above RSI information prospectively as the information becomes available.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
DEFINED BENEFIT PENSION PLANS
DECEMBER 31, 2015

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
<u>PERA:</u>					
December 31, 2015	\$14,019	\$14,019	\$0	\$186,920	7.50%

See Note 6, Defined Benefit Pension Plans, for more information.

Governmental Accounting Standards Board Statement 68 was implemented in 2015.
The City will report the above RSI information prospectively as the information becomes available.

GENERAL FUND
BALANCE SHEET
DECEMBER 31, 2015

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Cash	228,207	180,550
Accounts Receivable	40	
Special Assessment Receivable	533	
Delinquent Taxes Receivable	5,743	9,713
Due From Other Funds	48,108	58,430
Prepaid Items	11,103	11,791
Total Assets	<u>293,734</u>	<u>260,484</u>
<u>Liabilities, Deferred Inflows of Resources</u>		
<u>and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	2,057	592
<u>Deferred Inflows of Resources</u>		
Unearned Revenue	5,395	9,015
<u>Fund Balance</u>		
Fund Balance - Non-Spendable	11,103	11,791
Fund Balance - Unassigned	275,179	239,086
Total Fund Balance	<u>286,282</u>	<u>250,877</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>293,734</u>	<u>260,484</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015

	For The Years Ending December 31			
	2015			2014
	Budget	Actual	Variance with Budget	Actual
<u>Revenues</u>				
<u>Taxes</u>				
General Property Taxes	95,173	97,173	2,000	93,240
Total Taxes	95,173	97,173	2,000	93,240
 <u>Licenses and Permits</u>	 2,200	 2,100	 (100)	 2,100
 <u>State Aid</u>				
Local Government Aid	77,811	77,811		80,121
Market Value Credit		637	637	401
State Police Aid	1,850	2,313	463	2,348
Other State Aid		9,403	9,403	
Total State Aid	79,661	90,164	10,503	82,870
 <u>Service Charges and Fines</u>				
Community Building Rent	1,200	1,255	55	1,130
Other Rental	300	440	140	420
Building and Other Permits	200	740	540	640
Interfund Service Charges		1,000	1,000	1,000
Court Fines		144	144	296
Total Service Charges and Fines	1,700	3,579	1,879	3,486
 <u>Miscellaneous Revenues</u>				
Interest Income	500	312	(188)	148
Pest Control	2,000	2,005	5	1,955
Other Miscellaneous	750	459	(291)	573
Sale of Asset		1,001	1,001	575
Total Miscellaneous Revenues	3,250	3,777	527	3,251
Total Revenues	181,984	196,793	14,809	184,947

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015

	For The Years Ending December 31			
	2015		2014	
	Budget	Actual	Variance with Budget	Actual
<u>Expenditures</u>				
<u>General Government</u>				
Mayor and Council Salaries	4,500	2,955	1,545	3,050
Mayor and Council	650	697	(47)	632
Clerk-Treasurer Salary	19,000	18,481	519	18,073
Clerk-Treasurer Training and Travel	1,000	40	960	922
Assessor	2,000	1,997	3	2,000
Legal and Auditing	7,000	4,690	2,310	4,540
Payroll Taxes and Benefits	3,000	3,026	(26)	2,918
Printing and Publishing	500	180	320	121
Equipment and Improvements	4,500	1,862	2,638	1,434
City Office Supplies	5,000	1,998	3,002	1,686
City Office Utilities	7,000	7,204	(204)	8,418
City Office Miscellaneous	3,000	1,914	1,086	1,811
Elections	300	47	253	638
Total General Government	57,450	45,091	12,359	46,243
<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	7,543	1,457	7,216
Snow Removal	1,250	988	262	1,122
Street Improvements	50,000	41,464	8,536	60,411
Street Supplies	500	157	343	891
Total City Maintenance	60,750	50,152	10,598	69,640

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015

For The Years Ending December 31

	<u>2015</u>		<u>2014</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Variance with Budget</u>	<u>Actual</u>
<u>Expenditures - continued</u>				
<u>Culture and Recreation</u>				
Park Utilities	800	699	101	665
Park Repairs and Maintenance	1,300	1,758	(458)	36
Park Miscellaneous	300	693	(393)	135
Total Culture and Recreation	<u>2,400</u>	<u>3,150</u>	<u>(750)</u>	<u>836</u>
 <u>Public Works</u>				
Public Works Salary	9,500	8,116	1,384	7,959
Payroll Taxes and Benefits	1,500	1,230	270	1,186
Utilities	10,000	4,264	5,736	6,220
Repairs and Maintenance	15,000	9,755	5,245	9,893
Miscellaneous	1,000	182	818	41
Equipment Purchases	15,000	5,955	9,045	10,243
Total Public Works	<u>52,000</u>	<u>29,502</u>	<u>22,498</u>	<u>35,542</u>
 <u>Miscellaneous</u>				
Insurance	7,000	8,077	(1,077)	9,896
Miscellaneous	5,000	264	4,736	1,033
Total Miscellaneous	<u>12,000</u>	<u>8,341</u>	<u>3,659</u>	<u>10,929</u>
Total Expenditures	<u>202,255</u>	<u>146,388</u>	<u>55,867</u>	<u>173,342</u>
 Excess Revenues (Expenditures)	(20,271)	50,405	70,676	11,605

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015

	For The Years Ending December 31			2014
	2015		Variance with Budget	
<u>Other Financing Sources (Uses)</u>	<u>Budget</u>	<u>Actual</u>		
Transfers Out	(15,000)	(15,000)	_____	(15,000)
Total Other Financing Sources (Uses)	(15,000)	(15,000)	_____	(15,000)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>(35,271)</u>	35,405	<u>70,676</u>	(3,395)
Fund Balance-January 1		<u>250,877</u>		<u>254,272</u>
Fund Balance-December 31		<u>286,282</u>		<u>250,877</u>

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2015

	Fire	Small Cities		Totals	
	Department	Development		2015	2014
<u>Assets</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>		
Cash	47,611	58,830	10,122	116,563	91,861
Accounts Receivable	246			246	108
Prepaid Items	2,511			2,511	3,230
Notes Receivable		46,370		46,370	58,009
Total Assets	<u>50,368</u>	<u>105,200</u>	<u>10,122</u>	<u>165,690</u>	<u>153,208</u>
<u>Liabilities, Deferred Inflows of</u>					
<u>Resources and Fund Balances</u>					
<u>Liabilities</u>					
Accounts Payable	68	3,359		3,427	51
<u>Deferred Inflows of Resources</u>					
Total Deferred Inflows of Resources	-0-	-0-	-0-	-0-	-0-
<u>Fund Balance</u>					
Fund Balance - Non-Spendable	2,511			2,511	3,230
Fund Balance - Committed	47,789	101,841	10,122	159,752	149,927
Total Fund Balance	<u>50,300</u>	<u>101,841</u>	<u>10,122</u>	<u>162,263</u>	<u>153,157</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>50,368</u>	<u>105,200</u>	<u>10,122</u>	<u>165,690</u>	<u>153,208</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2015

	Fire	Small Cities Development	Cemetery	Totals	
	Department Fund	Program Fund		2015	2014
<u>Revenues</u>					
Rural Fire Protection	13,450			13,450	13,450
Firemen's Relief Aid-State	11,473			11,473	10,544
Fire Calls	1,500			1,500	3,000
Federal Grant					1,400
Miscellaneous Revenues	246			246	2,038
Sale of Lots			450	450	300
Interest Income	92	75	20	187	180
Donations			200	200	
Deferred Loan Payoff		2,122		2,122	2,385
Total Revenues	26,761	2,197	670	29,628	33,297
<u>Expenditures</u>					
Public Safety	17,431			17,431	32,763
Firemen's Relief Association	11,473			11,473	10,184
Fire Truck Principal	5,815			5,815	5,578
Cemetery			803	803	1,083
Total Expenditures	34,719	-0-	803	35,522	49,608
Excess Revenues (Expenditures)	(7,958)	2,197	(133)	(5,894)	(16,311)
<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	7,042	2,197	(133)	9,106	(1,311)
Fund Balance-January 1	43,258	99,644	10,255	153,157	154,468
Fund Balance-December 31	50,300	101,841	10,122	162,263	153,157

FIRE DEPARTMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015

	For The Years Ending December 31			
	2015		Variance with Budget	2014
	Budget	Actual		Actual
<u>Revenues</u>				
Rural Fire Protection	13,450	13,450		13,450
Firemen's Relief Aid-State	7,000	11,473	4,473	10,544
Fire Calls		1,500	1,500	3,000
Federal Grant				1,400
Miscellaneous Revenues	250	246	(4)	2,038
Interest Income	150	92	(58)	107
Total Revenues	20,850	26,761	5,911	30,539
<u>Expenditures</u>				
Insurance	3,500	1,670	1,830	1,956
Equipment Operating Expense	3,500	2,670	830	6,990
Firemen's Relief Association Contributions	7,000	11,473	(4,473)	10,184
Miscellaneous	1,030	207	823	80
Capital Outlay	5,000		5,000	8,844
Utilities	4,000	3,608	392	3,538
Training and Travel Expense	1,000	1,120	(120)	2,474
Professional Fees	900	620	280	650
Salaries	5,000	4,898	102	5,103
First Responders-Supplies, Repairs	1,700	673	1,027	925
Fire Truck Principal	5,815	5,815		5,578
Interest Expense	1,965	1,965		2,203
Total Expenditures	40,410	34,719	5,691	48,525
Excess Revenues (Expenditures)	(19,560)	(7,958)	11,602	(17,986)
<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
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(4,560)	7,042	11,602	(2,986)
Fund Balance-January 1		43,258		46,244
Fund Balance-December 31		50,300		43,258

SMALL CITIES DEVELOPMENT PROGRAM FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015

	For The Years Ending December 31			
	2015		Variance	2014
	<u>Budget</u>	<u>Actual</u>	<u>with Budget</u>	<u>Actual</u>
<u>Revenues</u>				
Interest Income		75	75	53
Deferred Loan Payoff		2,122	2,122	2,385
Total Revenues	-0-	2,197	2,197	2,438
<u>Expenditures</u>				
Total Expenditures	-0-	-0-	-0-	-0-
Excess Revenues (Expenditures)	-0-	2,197	2,197	2,438
Fund Balance-January 1		99,644		97,206
Fund Balance-December 31		<u>101,841</u>		<u>99,644</u>

CEMETERY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015

	For The Years Ending December 31			2014
	2015	Variance		
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>with Budget</u>	<u>Actual</u>
Sale of Lots	450	450		300
Interest Income	200	20	(180)	20
Donations		200	200	
Total Revenues	<u>650</u>	<u>670</u>	<u>20</u>	<u>320</u>
<u>Expenditures</u>				
Gasoline	425	268	157	518
Labor	600	535	65	565
Total Expenditures	<u>1,025</u>	<u>803</u>	<u>222</u>	<u>1,083</u>
Excess Revenues (Expenditures)	<u>(375)</u>	(133)	<u>242</u>	(763)
Fund Balance-January 1		<u>10,255</u>		<u>11,018</u>
Fund Balance-December 31		<u>10,122</u>		<u>10,255</u>

PROPRIETARY FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2015

<u>Assets</u>	Water	Sewer	Garbage	Totals	
	Fund	Fund	Fund	2015	2014
Cash		13,505	9,186	22,691	16,151
Accounts Receivable	5,116	2,958	1,644	9,718	9,248
Prepaid Items	2,246			2,246	1,588
Current Assessments Receivable	9,056			9,056	8,336
Delinquent Assessments Receivable	1,662	111		1,773	2,586
Long Term Assessments Receivable	35,134			35,134	46,999
Bond Discount	1,494			1,494	1,766
Water System and Equipment	836,362			836,362	835,029
Accumulated Depreciation	(434,754)			(434,754)	(418,710)
Sewer System and Improvements		842,336		842,336	842,336
Accumulated Depreciation		(579,394)		(579,394)	(561,458)
Land		44,519		44,519	44,519
Related to Pensions	1,755	1,985	877	4,617	
Total Assets	458,071	326,020	11,707	795,798	828,390
 <u>Liabilities and Fund Equity</u>					
<u>Liabilities</u>					
Due to Other Funds	48,108			48,108	58,430
Accounts Payable	154	63	432	649	750
Sales Tax Payable	122		380	502	439
Unearned Revenue	45,040	111		45,151	55,302
Related to Pensions	1,283	1,451	641	3,375	
Bonds Payable	85,000			85,000	105,000
Net Pension Liability	10,831	12,257	5,416	28,504	
Total Liabilities	190,538	13,882	6,869	211,289	219,921
 <u>Fund Equity</u>					
Retained Earnings	267,533	312,138	4,838	584,509	608,469
Total Liabilities and Fund Equity	458,071	326,020	11,707	795,798	828,390

PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Totals</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>2015</u>	<u>2014</u>
<u>Revenues</u>					
Sewer Charge		31,704		31,704	32,166
Water and Garbage Collection	52,853		17,236	70,089	68,619
Total Operating Revenues	<u>52,853</u>	<u>31,704</u>	<u>17,236</u>	<u>101,793</u>	<u>100,785</u>
<u>Expenses</u>					
Garbage Collection Fees			5,770	5,770	5,296
Maintenance and Operational	9,226	5,192	257	14,675	22,943
Insurance	1,970			1,970	1,808
Special Fees and Taxes	1,583		1,510	3,093	2,981
Salaries	12,379	14,002	5,886	32,267	31,625
Payroll Taxes and Benefits	1,434	1,624	672	3,730	4,708
City Clean-Up			2,244	2,244	2,277
Utilities		4,119		4,119	4,224
Miscellaneous	432			432	435
Depreciation	16,044	17,936		33,980	33,634
Interfund Service Charges	500	500		1,000	1,000
Total Operating Expense	<u>43,568</u>	<u>43,373</u>	<u>16,339</u>	<u>103,280</u>	<u>110,931</u>
Operating Income (Loss)	9,285	(11,669)	897	(1,487)	(10,146)
<u>Non-Operating Revenues (Expenses)</u>					
Special Assessment Income	13,645	(2,365)	48	11,328	12,992
Interest Income	74	155	8	237	269
Amortization of Bond Discount	(272)			(272)	(272)
Interest Expense	(5,323)	(23)		(5,346)	(6,089)
Total Non-Operating Revenues (Expenses)	<u>8,124</u>	<u>(2,233)</u>	<u>56</u>	<u>5,947</u>	<u>6,900</u>
Net Income (Loss)	17,409	(13,902)	953	4,460	(3,246)
Retained Earnings-January 1	260,924	338,260	9,285	608,469	611,715
Prior Period Adjustment	(10,800)	(12,220)	(5,400)	(28,420)	
Retained Earnings-January 1 - Restated	<u>250,124</u>	<u>326,040</u>	<u>3,885</u>	<u>580,049</u>	
Retained Earnings-December 31	<u><u>267,533</u></u>	<u><u>312,138</u></u>	<u><u>4,838</u></u>	<u><u>584,509</u></u>	<u><u>608,469</u></u>

WATER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Revenues</u>	<u>2015</u>	<u>2014</u>
Water Collection	<u>52,853</u>	<u>52,040</u>
Total Operating Revenues	52,853	52,040
<u>Expenses</u>		
Maintenance and Operational	9,226	9,505
Insurance	1,970	1,808
Special Fees and Taxes	1,583	1,531
Salaries	12,379	12,133
Payroll Taxes and Benefits	1,434	1,806
Miscellaneous	432	435
Depreciation	16,044	15,329
Interfund Service Charges	<u>500</u>	<u>500</u>
Total Operating Expense	<u>43,568</u>	<u>43,047</u>
Operating Income (Loss)	9,285	8,993
<u>Non-Operating Revenues (Expenses)</u>		
Special Assessment Income	13,645	12,928
Interest Income	74	88
Amortization of Bond Discount	(272)	(272)
Interest Expense	<u>(5,323)</u>	<u>(6,071)</u>
Total Non-Operating Revenues (Expenses)	<u>8,124</u>	<u>6,673</u>
Net Income (Loss)	17,409	15,666
Retained Earnings-January 1	260,924	
Prior Period Adjustment	(10,800)	
Retained Earnings-January 1 - Restated	<u>250,124</u>	<u>245,258</u>
Retained Earnings-December 31	<u><u>267,533</u></u>	<u><u>260,924</u></u>

SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Revenues</u>	<u>2015</u>	<u>2014</u>
Sewer Charge	31,704	32,166
Total Operating Revenues	<u>31,704</u>	<u>32,166</u>
<u>Expenses</u>		
Maintenance and Operational	5,192	13,184
Utilities	4,119	4,224
Salaries	14,002	13,726
Payroll Taxes and Benefits	1,624	2,044
Depreciation	17,936	18,305
Interfund Service Charges	500	500
Total Operating Expense	<u>43,373</u>	<u>51,983</u>
Operating Income (Loss)	(11,669)	(19,817)
<u>Non-Operating Revenues (Expenses)</u>		
Special Assessment Income	(2,365)	64
Interest Income	155	175
Interest Expense	(23)	(18)
Total Non-Operating Revenues (Expenses)	<u>(2,233)</u>	<u>221</u>
Net Income (Loss)	(13,902)	(19,596)
Retained Earnings-January 1	338,260	
Prior Period Adjustment	(12,220)	
Retained Earnings-January 1 - Restated	<u>326,040</u>	<u>357,856</u>
Retained Earnings-December 31	<u><u>312,138</u></u>	<u><u>338,260</u></u>

GARBAGE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Revenues</u>	<u>2015</u>	<u>2014</u>
Garbage Collection	17,236	16,579
Total Operating Revenues	<u>17,236</u>	<u>16,579</u>
<u>Expenses</u>		
Garbage Collection Fees	5,770	5,296
Special Fees and Taxes	1,510	1,450
Maintenance and Operational	257	254
Salaries	5,886	5,766
Payroll Taxes and Benefits	672	858
City Clean-Up	2,244	2,277
Total Operating Expense	<u>16,339</u>	<u>15,901</u>
Operating Income (Loss)	897	678
<u>Non-Operating Revenues (Expenses)</u>		
Special Assessment Income	48	
Interest Income	8	6
Total Non-Operating Revenues (Expenses)	<u>56</u>	<u>6</u>
Net Income	953	684
Retained Earnings-January 1	9,285	
Prior Period Adjustment	(5,400)	
Retained Earnings-January 1 - Restated	3,885	8,601
Retained Earnings-December 31	<u><u>4,838</u></u>	<u><u>9,285</u></u>

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>
01-01-16					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>85,000.00</u>	<u>12,220.00</u>	<u>97,220.00</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>
					40,431.16
02-09-16	4.25%	6,062.68	1,718.32	7,781.00	34,368.48
02-09-17	4.25%	6,320.34	1,460.66	7,781.00	28,048.14
02-09-18	4.25%	6,588.95	1,192.05	7,781.00	21,459.19
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	7,429.29
02-09-21	4.25%	7,429.30	351.72	7,781.00	0.00
Totals		<u>40,431.16</u>	<u>6,254.85</u>	<u>46,686.00</u>	

THIS
PAGE
LEFT
BLANK
INTENTIONALLY

MEULEBROECK, TAUBERT & CO., PLLP
CERTIFIED PUBLIC ACCOUNTANTS

PO Box 685
109 S Freeman Avenue
Luverne, Minnesota 56156
507 283-4055 Fax 507 283-4076
contactl@mtcocpa.com

PO Box 707
216 East Main
Pipestone, Minnesota 56164
507 825-4288 Fax 507 825-4280
contactp@mtcocpa.com

Tyler, Minnesota 56178
507 247-3939
Lake Wilson, Minnesota 56151
507 879-3538
Marshall, Minnesota 56258
507 337-0501

PARTNERS

David L. Meulebroeck, CPA
Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
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
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, 2015, 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 May 25, 2016.

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 (2015-I and 2015-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

May 25, 2016

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-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.

2015-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.