

INDEPENDENT AUDITOR'S REPORT

**CITY OF RUTHTON
RUTHTON, MINNESOTA 56170**

FOR THE YEAR ENDED DECEMBER 31, 2016

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

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City of Ruthton
Ruthton, Minnesota

MEMBERS OF THE CITY COUNCIL AND CITY OFFICIALS

Stan Townsend	Mayor
Kathy Rupp	Assistant Mayor
Stewart Peterson	Council Member
Brent DeRuyter	Council Member
Darwin Sietsema	Council Member
Rochelle VanderWoude	City Clerk-Treasurer
Glen Peterson	City Attorney

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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

Amy L. Mollberg, CPA
Blake R. Klinsing, CPA
Bryce L. Schelhaas, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2015, and in our report dated May 25, 2016, 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 2016. 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, 2016, 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).

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, 2015, 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 and Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions on pages 7-15 and 55-56 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 June 6, 2017, 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

June 6, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED DECEMBER 31, 2016

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

Financial Highlights

Key financial highlights for the 2016 fiscal year include the following:

- Governmental Net position increased by \$48,559 or 5.8% from December 31, 2015.
- Proprietary Net position increased by \$7,732 or 1.3% from December 31, 2015.
- Total governmental expenditures increased by \$33,884 in comparison to fiscal year 2015, and total governmental revenues increased by \$14,739 in comparison to fiscal year 2015.
- Total proprietary operating expenses increased by \$15,019 in comparison to fiscal year 2015, and proprietary operating revenues increased by \$4,818 in comparison to fiscal year 2015.

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 \$1,482,215 at the close of the most recent fiscal year. This was an increase of 3.9% from the previous year total of \$1,425,924.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Assets						
Current and other assets	484,781	459,424	60,057	45,484	544,838	504,908
Long-term Assets			25,622	36,628	25,622	36,628
Capital assets, net of depreciation	<u>470,286</u>	<u>450,212</u>	<u>675,207</u>	<u>709,069</u>	<u>1,145,493</u>	<u>1,159,281</u>
Total Assets	<u>955,067</u>	<u>909,636</u>	<u>760,886</u>	<u>791,181</u>	<u>1,715,953</u>	<u>1,700,817</u>
Deferred Outflows of Resources						
Related to Pensions	<u>13,634</u>	<u>3,777</u>	<u>16,663</u>	<u>4,617</u>	<u>30,297</u>	<u>8,394</u>
Total Assets and Deferred Outflows of Resources	<u>968,701</u>	<u>913,413</u>	<u>777,549</u>	<u>795,798</u>	<u>1,746,250</u>	<u>1,709,211</u>
Liabilities						
Current and other liabilities	11,957	11,547	58,369	69,259	70,326	80,806
Net Pension Liability	36,538	23,321	44,657	28,504	81,195	51,825
Long-term liabilities	<u>28,048</u>	<u>34,369</u>	<u>45,000</u>	<u>65,000</u>	<u>73,048</u>	<u>99,369</u>
Total Liabilities	<u>76,543</u>	<u>69,237</u>	<u>148,026</u>	<u>162,763</u>	<u>224,569</u>	<u>232,000</u>
Deferred Inflows of Resources						
Unearned Revenue			34,612	45,151	34,612	45,151
Net Pension Liability	<u>2,184</u>	<u>2,761</u>	<u>2,670</u>	<u>3,375</u>	<u>4,854</u>	<u>6,136</u>
Total Deferred Inflows of Resources	<u>2,184</u>		<u>37,282</u>	<u>48,526</u>	<u>39,466</u>	<u>51,287</u>
Net Position						
Net Investment in Capital Assets	435,918	409,780	610,207	624,069	1,046,125	1,033,849
Restricted	114,172	111,963			114,172	111,963
Unrestricted	<u>339,884</u>	<u>319,672</u>	<u>(17,966)</u>	<u>(39,560)</u>	<u>321,918</u>	<u>280,112</u>
Net Position	<u>889,974</u>	<u>841,415</u>	<u>592,241</u>	<u>584,509</u>	<u>1,482,215</u>	<u>1,425,924</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>968,701</u>	<u>913,413</u>	<u>777,549</u>	<u>795,798</u>	<u>1,746,250</u>	<u>1,709,211</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.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program Revenues						
Charges for Services	26,002	22,634	106,611	101,793	132,613	124,427
Operating Grants and Contributions	11,673	11,473			11,673	11,473
General Revenues						
Property Taxes	102,432	93,553	13,735	11,328	116,167	104,881
State Aid Not Restricted						
For Specific Purposes	78,552	90,164			78,552	90,164
Unrestricted Investment Earnings	563	499	227	237	790	736
Other Revenues	<u>21,778</u>	<u>4,478</u>	<u>10,045</u>		<u>31,823</u>	<u>4,478</u>
Total Revenues	<u>241,000</u>	<u>222,801</u>	<u>130,618</u>	<u>113,358</u>	<u>371,618</u>	<u>336,159</u>
Expenses						
General Government	56,881	48,058			56,881	48,058
Public Safety	61,982	44,298			61,982	44,298
City Maintenance	21,268	63,419			21,268	63,419
Culture and Recreation	1,357	3,710			1,357	3,710
Public Works	27,867	28,950			27,867	28,950
Miscellaneous	22,331	19,814			22,331	19,814
Cemetery	755	803			775	803
Water			63,054	49,164	63,054	49,164
Sewer			42,140	43,395	42,140	43,395
Refuse			<u>17,692</u>	<u>16,339</u>	<u>17,692</u>	<u>16,339</u>
Total Expenses	<u>192,441</u>	<u>209,052</u>	<u>122,886</u>	<u>108,898</u>	<u>315,327</u>	<u>317,950</u>
Change in Net Position	<u>48,559</u>	<u>13,749</u>	<u>7,732</u>	<u>4,460</u>	<u>56,291</u>	<u>18,209</u>

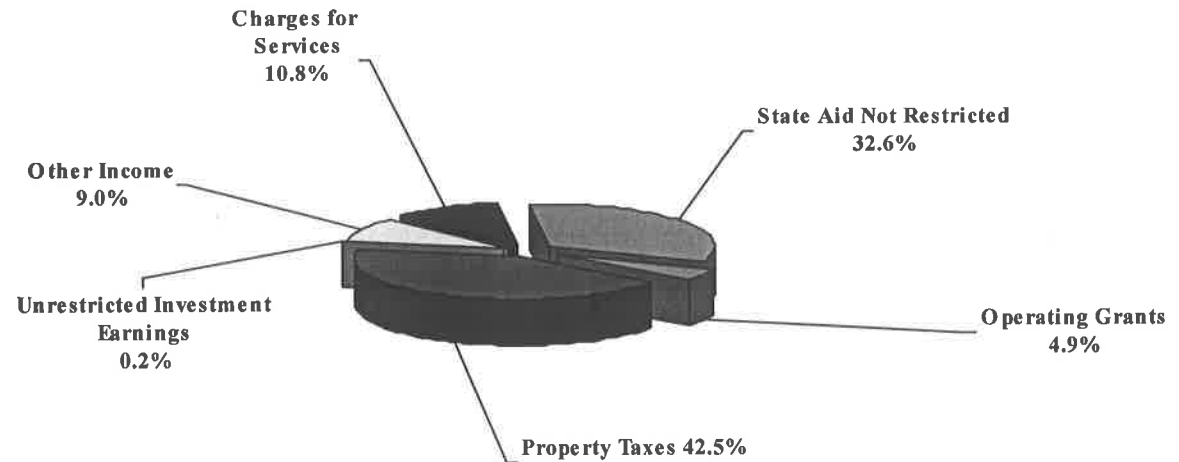
The City's total revenue consisted of program revenues of \$144,286, property taxes of \$116,167, state aids of \$78,552, investment earnings of \$790 and miscellaneous revenues of \$31,823.

The cost of all governmental and business-type activities this year was \$315,327.

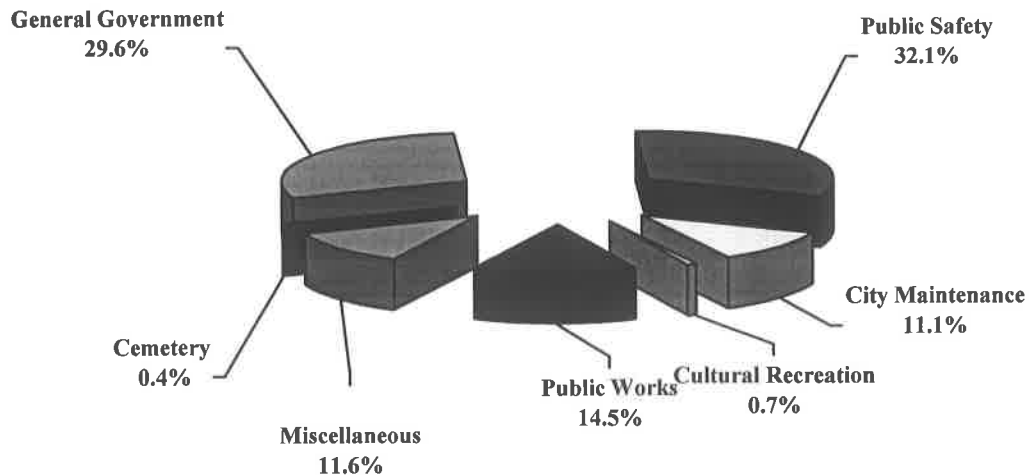
- The users of the city programs paid for 35.7%, or \$132,613, of the costs.
- The state government subsidized certain programs with grants and contributions. This totaled \$78,552, or 21.1%, of the total costs.

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.

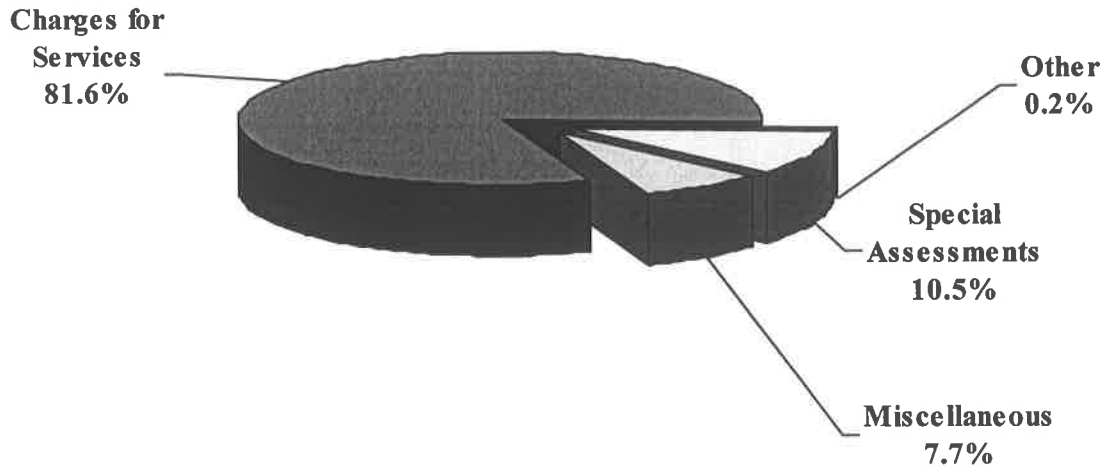
**Figure A - Sources of Revenues for Fiscal Year 2016
Governmental Activities**



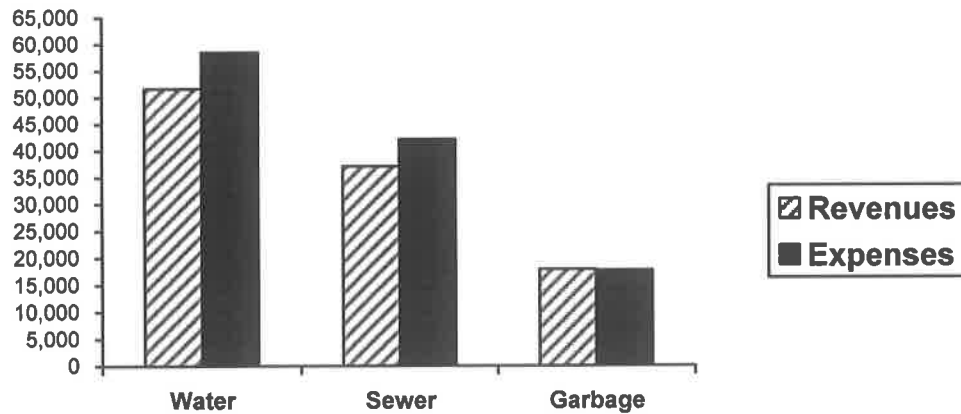
**Figure B - Expenses for Fiscal 2016
Governmental Activities**



**Figure C - Sources of Revenues for Fiscal Year 2016
Business-Type Activities**



**Figure D - Operating Revenues and Expenses for Fiscal Year 2016
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 \$473,911. The prior year fund balance was \$448,545, which is an increase of \$25,396. The General Fund decrease of \$24,911 is due to decreased expenditures. The Fire Department Fund had a decrease of \$1,754, the Small Cities Development Program Fund had an increase of \$1,594 and the Cemetery Fund had an increase of \$615.

The proprietary funds completed the year with a combined net position of \$592,241. The prior year net position was \$584,509. The Water Fund increase of \$12,332 was due to a state grant. The Sewer fund decrease of \$4,779 was due to various expenditures exceeding revenues. The Garbage Fund increase of \$179 was due to revenues exceeding expenses.

Revenues and Expenditures/Expenses

Revenues of the city's governmental funds totaled \$241,160 while total expenditures were \$215,794. 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	197,960	158,049	(15,000)	24,911
Fire Department Fund	40,236	56,990	15,000	(1,754)
Small Cities Development Program Fund	1,594	-0-	-0-	1,594
Cemetery Fund	1370	755		615
Total	<u>241,160</u>	<u>215,794</u>	<u>-0-</u>	<u>25,366</u>

Revenues of the city's proprietary funds totaled \$106,611, which total expenses were \$118,299. 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	51,646	58,467	19,153	12,332
Sewer Fund	37,094	42,140	267	(4,779)
Garbage Fund	<u>17,871</u>	<u>17,692</u>		<u>179</u>
Total	<u>106,611</u>	<u>118,299</u>	<u>19,420</u>	<u>7,732</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 2016, the City did not revise the original budget. The city's budget anticipated that expenditures would exceed revenues and other financing sources (uses) by \$29,904. The actual results for the year showed revenue exceeding expenditures by of \$39,911.

- Actual revenues were over budget by \$6,839 due to various reasons.
- Actual expenditures were under budget by \$54,815 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, 2016 and 2015.

**Table 3
Capital Assets**

<u>Governmental Activities</u>	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Land	27,255	27,255	
Buildings	243,690	232,951	10,739
Equipment & Improvements	544,936	497,040	47,896
Infrastructure	1,072,797	1,072,797	
Less accumulated depreciation	<u>(1,418,392)</u>	<u>(1,379,831)</u>	<u>(38,561)</u>
Total	<u>470,286</u>	<u>450,212</u>	<u>20,074</u>
Depreciation Expense	<u>42,082</u>	<u>39,659</u>	<u>2,423</u>
<u>Business-Type Activities</u>			
Land	44,519	44,519	
Water System & Equipment	836,362	836,362	
Sewer System & Equipment	842,336	842,336	
Less accumulated depreciation	<u>(1,048,010)</u>	<u>(1,014,148)</u>	<u>(33,862)</u>
Total	<u>675,207</u>	<u>709,069</u>	<u>(33,862)</u>
Depreciation Expense	<u>33,862</u>	<u>33,980</u>	<u>(118)</u>

Capital asset activity occurring in 2016 included the purchase of equipment for buildings, pickup for fire department, International plow, and generator. Disposals of capital assets during the year included the disposal of old carpet.

City of Ruthton
Ruthton, Minnesota

Long-Term Liabilities

At the end of the current fiscal year, the City had total bonded debt outstanding of \$65,000 and total promissory note outstanding of \$34,368. 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, 2016

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
General Obligation Refunding Bonds		65,000	65,000
Promissory Note	<u>34,368</u>		<u>34,368</u>
Total Debt	<u>34,368</u>	<u>65,000</u>	<u>99,368</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.

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STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Primary Government			
	Governmental	Business-Type	Total	
	Activities	Activities	2016	2015
<u>Assets</u>				
Cash and Investments	386,445	38,670	425,115	367,461
Accounts Receivable	3,042	8,421	11,463	10,004
Delinquent Taxes / Assessments Receivable	6,675	10,914	17,589	17,105
Due From Other Funds	36,511		36,511	48,108
Notes Receivable	38,945		38,945	46,370
Prepaid Items	13,163	2,052	15,215	15,860
Long Term Assessments Receivable		24,399	24,399	35,134
Bond Discount		1,223	1,223	1,494
Capital Assets (net of accumulated depreciation)	470,286	675,207	1,145,493	1,159,281
Total Assets	<u>955,067</u>	<u>760,886</u>	<u>1,715,953</u>	<u>1,700,817</u>
<u>Deferred Outflows of Resources</u>				
Related to Pensions	13,634	16,663	30,297	8,394
Total Assets and Deferred Outflows of Resources	<u>968,701</u>	<u>777,549</u>	<u>1,746,250</u>	<u>1,709,211</u>
<u>Liabilities</u>				
Accounts Payable and Other Current Liabilities	5,637	1,858	7,495	6,635
Due To Other Funds		36,511	36,511	48,108
Noncurrent liabilities				
Due within one year	6,320	20,000	26,320	26,063
Due in more than one year	28,048	45,000	73,048	99,369
Net Pension Liability	36,538	44,657	81,195	51,825
Total Liabilities	<u>76,543</u>	<u>148,026</u>	<u>224,569</u>	<u>232,000</u>
<u>Deferred Inflows of Resources</u>				
Unearned Revenue		34,612	34,612	45,151
Related to Pensions	2,184	2,670	4,854	6,136
Total Deferred Inflows of Resources	<u>2,184</u>	<u>37,282</u>	<u>39,466</u>	<u>51,287</u>
<u>Net Position</u>				
Net Investment in Capital Assets	435,918	610,207	1,046,125	1,033,849
Restricted for:				
Small Cities Development Program	103,435		103,435	101,841
Cemetery Fund	10,737		10,737	10,122
Unrestricted	339,884	(17,966)	321,918	280,112
Total Net Position	<u>889,974</u>	<u>592,241</u>	<u>1,482,215</u>	<u>1,425,924</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>968,701</u>	<u>777,549</u>	<u>1,746,250</u>	<u>1,709,211</u>

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total	
			Grants and Contributions	Grants and Contributions			2016	2015
Governmental Activities:								
General Government	56,881	9,552			(47,329)		(47,329)	(40,374)
Public Safety	61,982	16,450	11,673		(33,859)		(33,859)	(17,875)
City Maintenance	21,268				(21,268)		(21,268)	(63,419)
Cultural and Recreation	1,357				(1,357)		(1,357)	(3,710)
Public Works	27,867				(27,867)		(27,867)	(28,950)
Miscellaneous	22,331				(22,331)		(22,331)	(19,814)
Cemetery	755				(755)		(755)	(803)
Total Governmental Activities	<u>192,441</u>	<u>26,002</u>	<u>11,673</u>	<u>-0-</u>	<u>(154,766)</u>	<u>-0-</u>	<u>(154,766)</u>	<u>(174,945)</u>
Business-Type Activities								
Water	63,054	51,646				(11,408)	(11,408)	3,689
Sewer	42,140	37,094				(5,046)	(5,046)	(11,691)
Garbage	17,692	17,871				179	179	897
Total Business-Type Activities	<u>122,886</u>	<u>106,611</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(16,275)</u>	<u>(16,275)</u>	<u>(7,105)</u>
Total Government	<u>315,327</u>	<u>132,613</u>	<u>11,673</u>	<u>-0-</u>	<u>(154,766)</u>	<u>(16,275)</u>	<u>(171,041)</u>	<u>(182,050)</u>
General Revenues								
Property Taxes					102,432	13,735	116,167	104,881
State Aid Not Restricted to Specific Purposes					78,552		78,552	90,164
Unrestricted Investment Earnings					563	227	790	736
Other Revenues					21,778	10,045	31,823	4,478
Total General Revenues					<u>203,325</u>	<u>24,007</u>	<u>227,332</u>	<u>200,259</u>
Change in Net Position					48,559	7,732	56,291	18,209
Net Position - Beginning, As Originally Stated					841,415	584,509	1,425,924	1,459,387
Prior Period Adjustment								(51,672)
Net Position - Beginning, Restated								1,407,715
Net Position - Ending					<u>889,974</u>	<u>592,241</u>	<u>1,482,215</u>	<u>1,425,924</u>

See accompanying notes to the financial statements.

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BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

<u>Assets</u>	<u>General</u>	<u>Fire Department Fund</u>	<u>Small Cities Development Program Fund</u>	<u>Cemetery Fund</u>
Cash	264,413	43,446	67,849	10,737
Accounts Receivable	292	2,750		
Special Assessments Receivable				
Delinquent Taxes Receivable	6,675			
Due From Other Funds	36,511			
Notes Receivable			38,945	
Prepaid Items	10,750	2,413		
Total Assets	<u>318,641</u>	<u>48,609</u>	<u>106,794</u>	<u>10,737</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	1,606	63	3,359	
Payroll Taxes Payable	609			
<u>Deferred Inflows of Resources</u>				
Unavailable Revenue	5,233			
<u>Fund Balances</u>				
Fund Balance - Non-Spendable	10,750	2,413		
Fund Balance - Committed		46,133	103,435	10,737
Fund Balance - Unassigned	300,443			
Total Fund Balance	<u>311,193</u>	<u>48,546</u>	<u>103,435</u>	<u>10,737</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>318,641</u>	<u>48,609</u>	<u>106,794</u>	<u>10,737</u>

See accompanying notes to the financial statements.

Total	
Governmental Funds	
<u>2016</u>	<u>2015</u>
386,445	344,770
3,042	286
	533
6,675	5,743
36,511	48,108
38,945	46,370
13,163	13,614
<u>484,781</u>	<u>459,424</u>

5,028	5,484
609	

5,233	5,395
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13,163	13,614
160,305	159,752
300,443	275,179
<u>473,911</u>	<u>448,545</u>
<u>484,781</u>	<u>459,424</u>

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	2016		2015
Total Governmental Fund Balances	473,911		448,545
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	1,888,679		1,830,043
Less: Accumulated Depreciation	<u>(1,418,393)</u>	470,286	<u>(1,379,831)</u> 450,212
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred inflows of resources in the funds.			
		5,233	5,395
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		13,634	3,777
Deferred Inflows of Resources - Related to Pensions		(2,184)	(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	(36,538)		(23,321)
Notes Payable	<u>(34,368)</u>	<u>(70,906)</u>	<u>(40,432)</u> (63,753)
Total net position - governmental activities	<u>889,974</u>		<u>841,415</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Fire Department Fund	Small Cities Development Program Fund	Cemetery Fund	Total Governmental Funds	
					2016	2015
Revenues						
Taxes	102,592				102,592	97,173
Licenses and Permits	2,100				2,100	2,100
State Aid	78,552	11,673			90,225	101,637
Charges for Services	4,040	13,450			17,490	16,885
Fines and Forfeits	32				32	144
Fire Calls		3,000			3,000	1,500
Refunds and Reimbursements	952				952	
Miscellaneous	5,977	12,004			17,981	705
Pest Control	3,380				3,380	2,005
Sale of Assets				1,300	1,300	1,451
Interest Income	335	109	99	20	563	499
Donations				50	50	200
Deferred Loan Payoff			1,495		1,495	2,122
Total Revenues	197,960	40,236	1,594	1,370	241,160	226,421
Expenditures						
General Government	70,178				70,178	45,091
Public Safety	19,298	39,254			58,552	27,583
City Maintenance	8,001				8,001	50,152
Cultural and Recreation	797				797	3,150
Public Works	49,117				49,117	29,502
Miscellaneous	10,658	11,673			22,331	19,814
Cemetery				755	755	803
Principal		6,063			6,063	5,815
Total Expenditures	158,049	56,990	-0-	755	215,794	181,910
Excess of Revenues (Expenditures)	39,911	(16,754)	1,594	615	25,366	44,511
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	24,911	(1,754)	1,594	615	25,366	44,511
Fund Balance-Beginning	286,282	50,300	101,841	10,122	448,545	404,034
Fund Balance-Ending	311,193	48,546	103,435	10,737	473,911	448,545

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, 2016

	2016	2015
Net Change in Governmental Fund Balances	25,366	44,511

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

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

Capital Outlay	62,155	5,955
Disposal		(200)
Depreciation Expense	(42,082)	20,073
		(39,659)
		(33,904)

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	6,063	5,815
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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	(2,783)	947
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Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.

	(160)	(3,620)
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Change in Net Position of Governmental Activities	48,559	13,749
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See accompanying notes to the financial statements.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
-BUDGET AND ACTUAL-
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes	104,690	104,690	102,592	(2,098)
Licenses and Permits	2,200	2,200	2,100	(100)
State Aid	77,531	77,531	78,552	1,021
Charges for Services	2,300	2,300	4,040	1,740
Fines and Forfeits			32	32
Miscellaneous Revenues	4,400	4,400	10,644	6,244
Total Revenues	<u>191,121</u>	<u>191,121</u>	<u>197,960</u>	<u>6,839</u>
<u>Expenditures</u>				
General Government	59,150	59,150	70,178	(11,028)
Public Safety	17,725	17,725	19,298	(1,573)
City Maintenance	60,750	60,750	8,001	52,749
Culture and Recreation	2,400	2,400	797	1,603
Public Works	52,000	52,000	49,117	2,883
Miscellaneous	14,000	14,000	10,658	3,342
Total Expenditures	<u>206,025</u>	<u>206,025</u>	<u>158,049</u>	<u>47,976</u>
Excess of Revenues Over Expenditures	<u>(14,904)</u>	<u>(14,904)</u>	<u>39,911</u>	<u>54,815</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	
Net Change in Fund Balances	<u>(29,904)</u>	<u>(29,904)</u>	24,911	<u>54,815</u>
Fund Balance-Beginning			<u>286,282</u>	
Fund Balance-Ending			<u>311,193</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, 2016

<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	10,250	10,250	11,673	1,423
Fire Calls			3,000	3,000
Miscellaneous Revenues	250	250	12,004	11,754
Interest Income			109	109
Total Revenues	<u>23,950</u>	<u>23,950</u>	<u>40,236</u>	<u>16,286</u>
<u>Expenditures</u>				
Insurance	3,500	3,500	1,545	1,955
Equipment Operating Expense	3,500	3,500	14,641	(11,141)
Firemen's Relief Association Contribution	10,250	10,250	11,673	(1,423)
Miscellaneous	1,000	1,000	806	194
Capital Outlay	5,000	5,000	8,250	(3,250)
Utilities	4,000	4,000	2,412	1,588
Training and Travel Expense	1,000	1,000	660	340
Professional Fees	900	900	2,616	(1,716)
Salaries	5,000	5,000	5,821	(821)
First Responders-Supplies, Repairs	1,700	1,700	785	915
Fire Truck Principal	6,063	6,063	6,063	
Interest Expense	1,718	1,718	1,718	
Total Expenditures	<u>43,631</u>	<u>43,631</u>	<u>56,990</u>	<u>(13,359)</u>
Excess Revenues (Expenditures)	<u>(19,681)</u>	<u>(19,681)</u>	<u>(16,754)</u>	<u>2,927</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	
Net Change in Fund Balance	<u>(4,681)</u>	<u>(4,681)</u>	<u>(1,754)</u>	<u>2,927</u>
Fund Balance-Beginning			<u>50,300</u>	
Fund Balance-Ending			<u>48,546</u>	

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, 2016

	<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			99	99
Deferred Loan Payoff			1,495	1,495
Total Revenues	-0-	-0-	1,594	1,594
<u>Expenditures</u>				
Total Expenditures	-0-	-0-	-0-	-0-
Net Change in Fund Balance	-0-	-0-	1,594	1,594
Fund Balance-Beginning			101,841	
Fund Balance-Ending			103,435	

See accompanying notes to the financial statements.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Water Fund	Sewer Fund	Garbage Fund	Total	
				2016	2015
Assets					
Current Assets					
Cash		28,151	10,519	38,670	22,691
Receivables					
Accounts	4,082	3,016	1,323	8,421	9,718
Special Assessments	10,914			10,914	10,829
Prepaid Items	2,052			2,052	2,246
Total Current Assets	<u>17,048</u>	<u>31,167</u>	<u>11,842</u>	<u>60,057</u>	<u>45,484</u>
Noncurrent Assets					
Long Term Assessments Receivable	24,399			24,399	35,134
Bond Discount	1,223			1,223	1,494
Capital Assets					
Land		44,519		44,519	44,519
Property and Equipment	836,362	842,336		1,678,698	1,678,698
Less: Accumulated Depreciation	(450,865)	(597,145)		(1,048,010)	(1,014,148)
Total Noncurrent Assets	<u>411,119</u>	<u>289,710</u>	<u>-0-</u>	<u>700,829</u>	<u>745,697</u>
Total Assets	<u>428,167</u>	<u>320,877</u>	<u>11,842</u>	<u>760,886</u>	<u>791,181</u>
Deferred Outflows of Resources					
Related to Pensions	<u>6,332</u>	<u>7,150</u>	<u>3,181</u>	<u>16,663</u>	<u>4,617</u>
Total Assets and Deferred Outflows of Resources	<u>434,499</u>	<u>328,027</u>	<u>15,023</u>	<u>777,549</u>	<u>795,798</u>
Liabilities					
Current Liabilities					
Due To Other Funds	36,511			36,511	48,108
Accounts Payable	148	61	432	641	649
Sales Tax Payable	114		409	523	502
Payroll Taxes Payable	265	299	130	694	
Current Portion of Debt	20,000			20,000	20,000
Total Current Liabilities	<u>57,038</u>	<u>360</u>	<u>971</u>	<u>58,369</u>	<u>69,259</u>
Noncurrent Liabilities					
Bonds Payable	45,000			45,000	65,000
Net Pension Liability	16,970	19,162	8,525	44,657	28,504
Total Noncurrent Liabilities	<u>61,970</u>	<u>19,162</u>	<u>8,525</u>	<u>89,657</u>	<u>93,504</u>
Total Liabilities	<u>119,008</u>	<u>19,522</u>	<u>9,496</u>	<u>148,026</u>	<u>162,763</u>
Deferred Inflows of Resources					
Unearned Revenue	34,612			34,612	45,151
Related to Pensions	1,014	1,146	510	2,670	3,375
Total Deferred Inflows of Resources	<u>35,626</u>	<u>1,146</u>	<u>510</u>	<u>37,282</u>	<u>48,526</u>
Net Position					
Net Investment in Capital Assets	320,497	289,710		610,207	624,069
Unrestricted	(40,632)	17,649	5,017	(17,966)	(39,560)
Total Net Position	<u>279,865</u>	<u>307,359</u>	<u>5,017</u>	<u>592,241</u>	<u>584,509</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>434,499</u>	<u>328,027</u>	<u>15,023</u>	<u>777,549</u>	<u>795,798</u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
<u>Operating Revenues</u>					
Charges for Services	51,646	37,094	17,871	106,611	101,793
Total Revenues/Gross Margin	51,646	37,094	17,871	106,611	101,793
<u>Operating Expenses</u>					
Administration	42,356	24,389	17,692	84,437	69,300
Depreciation	16,111	17,751		33,862	33,980
Total Expenses	58,467	42,140	17,692	118,299	103,280
Operating Income (Loss)	(6,821)	(5,046)	179	(11,688)	(1,487)
<u>Non-Operating Revenues (Expenses)</u>					
Special Assessment Income	13,624	111		13,735	11,328
Miscellaneous Income	45			45	
Interest Income	71	156		227	237
State Grant	10,000			10,000	
Amortization of Bond Discount	(272)			(272)	(272)
Interest Expense	(4,315)			(4,315)	(5,346)
Total Non-Operating Revenues (Expenses)	19,153	267		19,420	5,947
Change in Net Position	12,332	(4,779)	179	7,732	4,460
Total Net Position - January 1	267,533	312,138	4,838	584,509	608,469
Prior Period Adjustment					(28,420)
Total Net Position - January 1 - Restated					580,049
Total Net Position - December 31	<u>279,865</u>	<u>307,359</u>	<u>5,017</u>	<u>592,241</u>	<u>584,509</u>

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities--	
<u>Cash Flows From Operating Activities</u>	Water	Sewer
Receipts from Customers and Users	42,252	37,036
Payments to Vendors and Suppliers	(24,931)	(4,958)
Payments to Employees	(16,980)	(19,134)
Net Cash Provided By Operating Activities	341	12,944
<u>Cash Flows From Noncapital Financing Activities</u>		
Receipts From Special Assessments	24,162	111
Increase (Decrease) in Due To Other Funds	(11,597)	
Increase (Decrease) in Pension Liability	1,293	1,435
Net Cash Provided By Noncapital Financing Activities	13,858	1,546
<u>Cash Flows From Capital and Related Financing Activities</u>		
Water and Sewer System Improvements		
Principal Paid on Long-Term Debt	(20,000)	
Interest Paid on Long-Term Debt	(4,315)	
State Grant	10,000	
Miscellaneous Revenue	45	
Net Cash Used By Capital and Related Financing Activities	(14,270)	
<u>Cash Flows From Investing Activities</u>		
Interest Income	71	156
Net Cash Provided By Investing Activities	71	156
Net Increase (Decrease) in Cash and Cash Equivalents	-0-	14,646
Cash and Cash Equivalents, January 1	-0-	13,505
Cash and Cash Equivalents, December 31	-0-	28,151
Reconciliation of Operating Income To Net		
Cash Provided By Operating Activities		
Operating Income (Loss)	(6,821)	(5,046)
Depreciation	16,111	17,751
(Increase) Decrease in Accounts Receivable	1,034	(58)
(Increase) Decrease in Prepaid Items	194	
Increase (Decrease) in Accounts Payable	251	
Increase (Decrease) in Unearned Revenue	(10,428)	297
Net Cash Provided By Operating Activities	341	12,944

See accompanying notes to the financial statements.

--Enterprise Funds

Garbage	Total	
	2016	2015
18,192	97,480	91,177
(9,220)	(39,109)	(34,004)
(8,313)	(44,427)	(35,997)
<u>659</u>	<u>13,944</u>	<u>21,176</u>
	24,273	23,286
	(11,597)	(10,322)
674	3,402	(1,158)
<u>674</u>	<u>16,078</u>	<u>11,806</u>
		(1,333)
	(20,000)	(20,000)
	(4,315)	(5,346)
	10,000	
	45	
	<u>(14,270)</u>	<u>(26,679)</u>
	227	237
	<u>227</u>	<u>237</u>
1,333	15,979	6,540
9,186	22,691	16,151
<u>10,519</u>	<u>38,670</u>	<u>22,691</u>
179	(11,688)	(1,487)
	33,862	33,980
321	1,297	(470)
	194	(658)
159	410	(43)
	(10,131)	(10,146)
<u>659</u>	<u>13,944</u>	<u>21,176</u>

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 1, *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.

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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 only one item that qualifies for reporting in this category: "Related to Pensions."

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, 2016

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, 2016

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, 2015, 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, 2016

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 June 6, 2017, 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, 2016, none of the City's bank balance of \$430,724 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, 2016

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, 2016 and 2015, the City had no investments.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3 Capital Assets

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

Governmental Activities	<u>Balance</u> <u>1/1/16</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/16</u>
Capital assets not depreciated:				
Land	27,255			27,255
Capital assets depreciated:				
Buildings	232,951	10,739		243,690
Equipment & Improvements	497,040	51,417	(3,521)	544,936
Infrastructure	<u>1,072,797</u>			<u>1,072,797</u>
Total capital assets depreciated	1,802,788	<u>62,156</u>	<u>(3,521)</u>	1,861,423
Less accumulated depreciation for:				
Buildings	(136,660)	(5,642)		(142,302)
Equipment & Improvements	(391,775)	(23,010)	3,521	(411,264)
Infrastructure	(851,396)	(13,430)		(864,826)
Total accumulated depreciation	<u>(1,379,831)</u>	<u>(39,659)</u>	<u>3,521</u>	<u>(1,418,392)</u>
Total capital assets depreciated-net	<u>422,957</u>	<u>(33,704)</u>		<u>443,031</u>
Net Capital Assets	<u>450,212</u>	<u>(33,704)</u>	<u>-0-</u>	<u>470,286</u>
Business-Type Activities				
Capital assets not depreciated:				
Land	44,519			44,519
Capital assets depreciated:				
Water System & Equipment	836,362			836,362
Sewer System & Equipment	<u>842,336</u>			<u>842,336</u>
Total capital assets depreciated	1,678,698		-0-	1,678,698
Less accumulated depreciation for:				
Water System & Equipment	(434,754)	(16,111)		(450,865)
Sewer System & Equipment	<u>(579,394)</u>	<u>(17,751)</u>		<u>(597,145)</u>
Total accumulated depreciation	<u>(1,014,148)</u>	<u>(33,862)</u>	<u>-0-</u>	<u>(1,048,010)</u>
Total capital assets depreciated-net	<u>664,550</u>	<u>(33,862)</u>	<u>-0-</u>	<u>630,688</u>
Net Capital Assets	<u>709,069</u>	<u>(33,862)</u>	<u>-0-</u>	<u>675,207</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3 **Capital Assets - continued**

Depreciation expense of \$75,944 for the year ended December 31, 2016 was charged to the following functions/programs:

Governmental Activities:

General Government	4,482
Public Safety	16,690
City Maintenance, including general infrastructure assets	13,267
Cultural and Recreation	560
Public Works	<u>7,083</u>
Total	<u>42,082</u>

Business-Type Activities:

Water	16,111
Sewer	<u>17,751</u>
Total	<u>33,862</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	\$34,368

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>
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>7,429</u>	<u>352</u>	<u>7,781</u>
Total	<u>34,368</u>	<u>4,537</u>	<u>38,905</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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	\$65,000

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>
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>65,000</u>	<u>7,905</u>	<u>72,905</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, 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>40,432</u>	<u>-0-</u>	<u>6,064</u>	<u>34,368</u>	<u>6,320</u>
Governmental Activity					
Long-Term Liabilities	<u>40,432</u>	<u>-0-</u>	<u>6,064</u>	<u>34,368</u>	<u>6,320</u>
Business-Type Activities:					
Bonds Payable:					
General Obligation Bonds	<u>85,000</u>		<u>20,000</u>	<u>65,000</u>	<u>20,000</u>
Business-Type Activity					
Long-Term Liabilities	<u>85,000</u>	<u>-0-</u>	<u>20,000</u>	<u>65,000</u>	<u>20,000</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 5 **Fund Balance Classification**

Non-Spendable Fund Balance

The City has the following non-spendable fund balances as of December 31, 2016:

General Fund	<u>10,750</u>
Fire Department Fund	<u>2,413</u>
Total Non-Spendable	<u>13,163</u>

Restricted Fund Balance

The City has no restricted fund balances as of December 31, 2016.

Committed Fund Balance

The City has the following committed fund balances as of December 31, 2016:

Fire Department Fund	46,133
Small Cities Development Program Fund	103,435
Cemetery Fund	<u>10,737</u>
Total Committed	<u>160,305</u>

Assigned Fund Balance

The City has no assigned fund balances as of December 31, 2016.

Unassigned Fund Balance

The City has the following unassigned fund balances as of December 31, 2016:

General Fund	<u>300,443</u>
Total Unassigned	<u>300,443</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016

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 2016. Coordinated Plan members contributed 6.5% of pay in 2016. In calendar year 2016, 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, 2016, were \$4,891. 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, 2016

Note 6 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

4. Pension Costs

At December 31, 2016, the City reported a liability of \$81,195 for its proportionate share of the GERP'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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0010%.

For the year ended December 31, 2016, the City recognized pension expense of \$11,254 for its proportionate share of GERP's pension expense.

At December 31, 2016, the City reported its proportionate share of GERP'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		\$4,854
Changes in actuarial assumptions	\$15,898	
Difference between projected and actual investment earnings	\$11,732	
Changes in proportion		
Contributions paid to PERA subsequent to the measurement date	\$2,667	
Total	\$30,297	\$4,854

\$2,667 reported as deferred outflows of resources related to pensions resulting from City contributions to GERP 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, 2016

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
2017	\$8,361
2018	\$5,694
2019	\$5,694
2020	\$5,694

5. Actuarial Assumptions

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

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

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, 2016, 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 2016:

- GERF 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, 2016

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, 2016

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 GERF net pension liability:	\$115,321	\$81,195	\$53,085

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 following funds had excess expenditures over budget appropriations:

Fire Department Fund	\$13,359
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Note 10 **Interfund Transfers**

The following interfund transfers occurred during 2016:

	<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, 2016

Note 11 Due To/From Other Funds

Below is a schedule of interfund receivables and payables at December 31, 2016.

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
Water Fund		36,511
General Fund	36,511	

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 net position at January 1, 2015 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.

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
DEFINED BENEFIT PENSION PLANS
DECEMBER 31, 2016

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, 2016	0.0031%	\$249,601	\$66,413	375.8%	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, 2016

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, 2016	\$4,981	\$4,981	\$0	\$66,413	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, 2016

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Cash	264,413	228,207
Special Assessment Receivable		40
Accounts Receivable	292	533
Delinquent Taxes Receivable	6,675	5,743
Due From Other Funds	36,511	48,108
Prepaid Items	10,750	11,103
Total Assets	<u>318,641</u>	<u>293,734</u>
<u>Liabilities, Deferred Inflows of Resources</u>		
<u>and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	1,606	2,057
Payroll Taxes Payable	609	
<u>Deferred Inflows of Resources</u>		
Unearned Revenue	5,233	5,395
<u>Fund Balance</u>		
Fund Balance - Non-Spendable	10,750	11,103
Fund Balance - Unassigned	300,443	275,179
Total Fund Balance	<u>311,193</u>	<u>286,282</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>318,641</u>	<u>293,734</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	For The Years Ending December 31			
	2016		Variance with Budget	2015
	Budget	Actual		Actual
Revenues				
<u>Taxes</u>				
General Property Taxes	104,690	102,592	(2,098)	97,173
Total Taxes	104,690	102,592	(2,098)	97,173
<u>Licenses and Permits</u>	2,200	2,100	(100)	2,100
<u>State Aid</u>				
Local Government Aid	75,531	75,531		77,811
Market Value Credit		623	623	637
State Police Aid	2,000	2,398	398	2,313
Other State Aid				9,403
Total State Aid	77,531	78,552	1,021	90,164
<u>Service Charges and Fines</u>				
Community Building Rent	1,000	1,080	80	1,255
Other Rental	300	670	370	440
Building and Other Permits	1,000	1,290	290	740
Interfund Service Charges		1,000	1,000	1,000
Court Fines		32	32	144
Total Service Charges and Fines	2,300	4,072	1,772	3,579
<u>Miscellaneous Revenues</u>				
Interest Income	250	335	85	312
Pest Control	3,400	3,380	(20)	2,005
Other Miscellaneous	750	5,977	5,227	459
Refunds and Reimbursements		952	952	
Sale of Asset				1,001
Total Miscellaneous Revenues	4,400	10,644	6,244	3,777
Total Revenues	191,121	197,960	6,839	196,793

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	For The Years Ending December 31			
	2016		2015	
	<u>Budget</u>	<u>Actual</u>	<u>Variance with Budget</u>	<u>Actual</u>
<u>Expenditures</u>				
<u>General Government</u>				
Mayor and Council Salaries	4,500	3,135	1,365	2,955
Mayor and Council	650	708	(58)	697
Clerk-Treasurer Salary	19,000	21,963	(2,963)	18,481
Clerk-Treasurer Training and Travel	1,000	892	108	40
Assessor	2,000	2,000		1,997
Legal and Auditing	7,000	4,840	2,160	4,690
Payroll Taxes and Benefits	3,000	3,581	(581)	3,026
Printing and Publishing	500	222	278	180
Equipment and Improvements	4,500	18,822	(14,322)	1,862
City Office Supplies	5,000	2,587	2,413	1,998
City Office Utilities	7,000	7,002	(2)	7,204
City Office Miscellaneous	3,000	3,418	(418)	1,914
Elections	2,000	1,008	992	47
Total General Government	<u>59,150</u>	<u>70,178</u>	<u>(11,028)</u>	<u>45,091</u>
<u>Public Safety</u>				
Police Protection	8,500	8,427	73	8,427
Firemen's Relief Contribution	425	425		425
First Responders-Annual Contribution	1,300	1,300		1,300
Real Estate Rehabilitation	7,500	9,146	(1,646)	
Total Public Safety	<u>17,725</u>	<u>19,298</u>	<u>(1,573)</u>	<u>10,152</u>
<u>City Maintenance</u>				
Street Lighting	9,000	4,394	4,606	7,543
Snow Removal	1,250	1,348	(98)	988
Street Improvements	50,000	2,000	48,000	41,464
Street Supplies	500	259	241	157
Total City Maintenance	<u>60,750</u>	<u>8,001</u>	<u>52,749</u>	<u>50,152</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	For The Years Ending December 31			
	2016		Variance with Budget	2015
	Budget	Actual		Actual
<u>Expenditures - continued</u>				
<u>Culture and Recreation</u>				
Park Utilities	800	527	273	699
Park Repairs and Maintenance	1,300	37	1,263	1,758
Park Miscellaneous	300	233	67	693
Total Culture and Recreation	<u>2,400</u>	<u>797</u>	<u>1,603</u>	<u>3,150</u>
<u>Public Works</u>				
Public Works Salary	9,500	8,735	765	8,116
Payroll Taxes and Benefits	1,500	1,325	175	1,230
Utilities		1,784	(1,784)	4,264
Repairs and Maintenance	16,000	14,828	1,172	9,755
Miscellaneous	10,000	2,437	7,563	182
Equipment Purchases	15,000	20,008	(5,008)	5,955
Total Public Works	<u>52,000</u>	<u>49,117</u>	<u>2,883</u>	<u>29,502</u>
<u>Miscellaneous</u>				
Insurance	9,000	9,069	(69)	8,077
Miscellaneous	5,000	1,589	3,411	264
Total Miscellaneous	<u>14,000</u>	<u>10,658</u>	<u>3,342</u>	<u>8,341</u>
Total Expenditures	<u>206,025</u>	<u>158,049</u>	<u>47,976</u>	<u>146,388</u>
 Excess Revenues (Expenditures)	 (14,904)	 39,911	 54,815	 50,405

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	For The Years Ending December 31			2015
	2016		Variance with Budget	
	Budget	Actual		
<u>Other Financing Sources (Uses)</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)	(29,904)	24,911	54,815	35,405
Fund Balance-January 1		286,282		250,877
Fund Balance-December 31		311,193		286,282

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	Small Cities			Totals	
	Fire Department Fund	Development Program Fund	Cemetery Fund	2016	2015
<u>Assets</u>					
Cash	43,446	67,849	10,737	122,032	116,563
Accounts Receivable	2,750			2,750	246
Prepaid Items	2,413			2,413	2,511
Notes Receivable		38,945		38,945	46,370
Total Assets	<u>48,609</u>	<u>106,794</u>	<u>10,737</u>	<u>166,140</u>	<u>165,690</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>					
<u>Liabilities</u>					
Accounts Payable	63	3,359		3,422	3,427
<u>Deferred Inflows of Resources</u>					
Total Deferred Inflows of Resources	-0-	-0-	-0-	-0-	-0-
<u>Fund Balance</u>					
Fund Balance - Non-Spendable	2,413			2,413	2,511
Fund Balance - Committed	46,133	103,435	10,737	160,305	159,752
Total Fund Balance	<u>48,546</u>	<u>103,435</u>	<u>10,737</u>	<u>162,718</u>	<u>162,263</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>48,609</u>	<u>106,794</u>	<u>10,737</u>	<u>166,140</u>	<u>165,690</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2016

	Small Cities			Totals	
	Fire Department Fund	Development Program Fund	Cemetery Fund	2016	2015
<u>Revenues</u>					
Rural Fire Protection	13,450			13,450	13,450
Firemen's Relief Aid-State	11,673			11,673	11,473
Fire Calls	3,000			3,000	1,500
Miscellaneous Revenues	12,004			12,004	246
Sale of Lots			1,300	1,300	450
Interest Income	109	99	20	228	187
Donations			50	50	200
Deferred Loan Payoff		1,495		1,495	2,122
Total Revenues	40,236	1,594	1,370	43,200	29,628
<u>Expenditures</u>					
Public Safety	39,254			39,254	17,431
Firemen's Relief Association	11,673			11,673	11,473
Fire Truck Principal	6,063			6,063	5,815
Cemetery			755	755	803
Total Expenditures	56,990	-0-	755	57,745	35,522
Excess Revenues (Expenditures)	(16,754)	1,594	615	(14,545)	(5,894)
<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	(1,754)	1,594	615	455	9,106
Fund Balance-January 1	50,300	101,841	10,122	162,263	153,157
Fund Balance-December 31	48,546	103,435	10,737	162,718	162,263

FIRE DEPARTMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>For The Years Ending December 31</u>			<u>2015</u>
	<u>2016</u>	<u>Variance</u>		
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>with Budget</u>	<u>Actual</u>
Rural Fire Protection	13,450	13,450		13,450
Firemen's Relief Aid-State	10,250	11,673	1,423	11,473
Fire Calls		3,000	3,000	1,500
Miscellaneous Revenues	250	12,004	11,754	246
Interest Income		109	109	92
Total Revenues	<u>23,950</u>	<u>40,236</u>	<u>16,286</u>	<u>26,761</u>
<u>Expenditures</u>				
Insurance	3,500	1,545	1,955	1,670
Equipment Operating Expense	3,500	14,641	(11,141)	2,670
Firemen's Relief Association Contributions	10,250	11,673	(1,423)	11,473
Miscellaneous	1,000	806	194	207
Capital Outlay	5,000	8,250	(3,250)	
Utilities	4,000	2,412	1,588	3,608
Training and Travel Expense	1,000	660	340	1,120
Professional Fees	900	2,616	(1,716)	620
Salaries	5,000	5,821	(821)	4,898
First Responders-Supplies, Repairs	1,700	785	915	673
Fire Truck Principal	6,063	6,063		5,815
Interest Expense	1,718	1,718		1,965
Total Expenditures	<u>43,631</u>	<u>56,990</u>	<u>(13,359)</u>	<u>34,719</u>
Excess Revenues (Expenditures)	(19,681)	(16,754)	2,927	(7,958)
<u>Other Financing Sources (Uses)</u>				
Transfers In	15,000	15,000		15,000
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>15,000</u>		<u>15,000</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>(4,681)</u>	(1,754)	<u>2,927</u>	7,042
Fund Balance-January 1		<u>50,300</u>		<u>43,258</u>
Fund Balance-December 31		<u>48,546</u>		<u>50,300</u>

SMALL CITIES DEVELOPMENT PROGRAM FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	For The Years Ending December 31			2015
	2016		Variance with Budget	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>		
Interest Income		99	99	75
Deferred Loan Payoff		1,495	1,495	2,122
Total Revenues	-0-	1,594	1,594	2,197
<u>Expenditures</u>				
Total Expenditures	-0-	-0-	-0-	-0-
Excess Revenues (Expenditures)	-0-	1,594	1,594	2,197
Fund Balance-January 1		101,841		99,644
Fund Balance-December 31		103,435		101,841

CEMETERY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	For The Years Ending December 31			
	2016		Variance with Budget	2015
	Budget	Actual		Actual
<u>Revenues</u>				
Sale of Lots	600	1,300	700	450
Interest Income	200	20	(180)	20
Donations		50	50	200
Total Revenues	800	1,370	570	670
 <u>Expenditures</u>				
Gasoline	550	198	352	268
Labor	600	495	105	535
Miscellaneous		62	(62)	
Total Expenditures	1,150	755	457	803
Excess Revenues (Expenditures)	(350)	615	1,027	(133)
Fund Balance-January 1		10,122		10,255
Fund Balance-December 31		10,737		10,122

PROPRIETARY FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

<u>Assets</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	Totals	
				<u>2016</u>	<u>2015</u>
Cash		28,151	10,519	38,670	22,691
Accounts Receivable	4,082	3,016	1,323	8,421	9,718
Prepaid Items	2,052			2,052	2,246
Current Assessments Receivable	9,703			9,703	9,056
Delinquent Assessments Receivable	1,211			1,211	1,773
Long Term Assessments Receivable	24,399			24,399	35,134
Bond Discount	1,223			1,223	1,494
Water System and Equipment	836,362			836,362	836,362
Accumulated Depreciation	(450,865)			(450,865)	(434,754)
Sewer System and Improvements		842,336		842,336	842,336
Accumulated Depreciation		(597,145)		(597,145)	(579,394)
Land		44,519		44,519	44,519
Related to Pensions	6,332	7,150	3,181	16,663	4,617
Total Assets	<u>434,499</u>	<u>328,027</u>	<u>15,023</u>	<u>777,549</u>	<u>795,798</u>
<u>Liabilities and Fund Equity</u>					
<u>Liabilities</u>					
Due to Other Funds	36,511			36,511	48,108
Accounts Payable	148	61	432	641	649
Sales Tax Payable	114		409	523	502
Payroll Taxes Payable	265	299	130	694	
Unearned Revenue	34,612			34,612	45,151
Related to Pensions	1,014	1,146	510	2,670	3,375
Bonds Payable	65,000			65,000	85,000
Net Pension Liability	16,970	19,162	8,525	44,657	28,504
Total Liabilities	<u>154,634</u>	<u>20,668</u>	<u>10,006</u>	<u>185,308</u>	<u>211,289</u>
<u>Fund Equity</u>					
Retained Earnings	279,865	307,359	5,017	592,241	584,509
Total Liabilities and Fund Equity	<u>434,499</u>	<u>328,027</u>	<u>15,023</u>	<u>777,549</u>	<u>795,798</u>

PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Revenues</u>	Water	Sewer	Garbage	Totals	
	Fund	Fund	Fund	2016	2015
Sewer Charge		37,094		37,094	31,704
Water and Garbage Collection	51,646		17,871	69,517	70,089
Total Operating Revenues	51,646	37,094	17,871	106,611	101,793
<u>Expenses</u>					
Administrative			36	36	
Garbage Collection Fees			5,628	5,628	5,770
Maintenance and Operational	9,975	2,051	73	12,099	14,675
Insurance	2,656			2,656	1,970
Special Fees and Taxes	1,550		1,613	3,163	3,093
Salaries	13,619	15,366	6,631	35,616	32,267
Payroll Taxes and Benefits	3,361	3,768	1,682	8,811	3,730
City Clean-Up			2,029	2,029	2,244
Utilities		2,704		2,704	4,119
Capital Outlay	10,286			10,286	
Miscellaneous	409			409	432
Depreciation	16,111	17,751		33,862	33,980
Interfund Service Charges	500	500		1,000	1,000
Total Operating Expense	58,467	42,140	17,692	118,299	103,280
Operating Income (Loss)	(6,821)	(5,046)	179	(11,688)	(1,487)
<u>Non-Operating Revenues (Expenses)</u>					
Special Assessment Income	13,624	111		13,735	11,328
Miscellaneous Income	45			45	
Interest Income	71	156		227	237
State Grant	10,000			10,000	
Amortization of Bond Discount	(272)			(272)	(272)
Interest Expense	(4,315)			(4,315)	(5,346)
Total Non-Operating Revenues (Expenses)	19,153	267		19,420	5,947
Net Income (Loss)	12,332	(4,779)	179	7,732	4,460
Retained Earnings-January 1	267,533	312,138	4,838	584,509	608,469
Prior Period Adjustment					(28,420)
Retained Earnings-January 1 - Restated					580,049
Retained Earnings-December 31	279,865	307,359	5,017	592,241	584,509

WATER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Revenues</u>	<u>2016</u>	<u>2015</u>
Water Collection	51,646	52,853
Total Operating Revenues	<u>51,646</u>	<u>52,853</u>
<u>Expenses</u>		
Maintenance and Operational	9,975	9,226
Insurance	2,656	1,970
Special Fees and Taxes	1,550	1,583
Salaries	13,619	12,379
Payroll Taxes and Benefits	3,361	1,434
Capital Outlay	10,286	
Miscellaneous	409	432
Depreciation	16,111	16,044
Interfund Service Charges	500	500
Total Operating Expense	<u>58,467</u>	<u>43,568</u>
Operating Income (Loss)	(6,821)	9,285
<u>Non-Operating Revenues (Expenses)</u>		
Special Assessment Income	13,624	13,645
Miscellaneous Income	45	
Interest Income	71	74
State Grant	10,000	
Amortization of Bond Discount	(272)	(272)
Interest Expense	(4,315)	(5,323)
Total Non-Operating Revenues (Expenses)	<u>19,153</u>	<u>8,124</u>
Net Income (Loss)	12,332	17,409
Retained Earnings-January 1	267,533	260,924
Prior Period Adjustment		(10,800)
Retained Earnings-January 1 - Restated		250,124
Retained Earnings-December 31	<u><u>279,865</u></u>	<u><u>267,533</u></u>

SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Revenues</u>	<u>2016</u>	<u>2015</u>
Sewer Charge	37,094	31,704
Total Operating Revenues	<u>37,094</u>	<u>31,704</u>
<u>Expenses</u>		
Maintenance and Operational	2,051	5,192
Utilities	2,704	4,119
Salaries	15,366	14,002
Payroll Taxes and Benefits	3,768	1,624
Depreciation	17,751	17,936
Interfund Service Charges	500	500
Total Operating Expense	<u>42,140</u>	<u>43,373</u>
Operating Income (Loss)	(5,046)	(11,669)
<u>Non-Operating Revenues (Expenses)</u>		
Special Assessment Income	111	(2,365)
Interest Income	156	155
Interest Expense		(23)
Total Non-Operating Revenues (Expenses)	<u>267</u>	<u>(2,233)</u>
Net Income (Loss)	(4,779)	(13,902)
Retained Earnings-January 1	312,138	338,260
Prior Period Adjustment		(12,220)
Retained Earnings-January 1 - Restated		<u>326,040</u>
Retained Earnings-December 31	<u>307,359</u>	<u>312,138</u>

GARBAGE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Revenues</u>	<u>2016</u>	<u>2015</u>
Garbage Collection	17,871	17,236
Total Operating Revenues	<u>17,871</u>	<u>17,236</u>
<u>Expenses</u>		
Administrative	36	
Garbage Collection Fees	5,628	5,770
Special Fees and Taxes	1,613	1,510
Maintenance and Operational	73	257
Salaries	6,631	5,886
Payroll Taxes and Benefits	1,682	672
City Clean-Up	2,029	2,244
Total Operating Expense	<u>17,692</u>	<u>16,339</u>
Operating Income (Loss)	179	897
<u>Non-Operating Revenues (Expenses)</u>		
Special Assessment Income		48
Interest Income		8
Total Non-Operating Revenues (Expenses)	<u> </u>	<u>56</u>
Net Income	179	953
Retained Earnings-January 1	4,838	9,285
Prior Period Adjustment		(5,400)
Retained Earnings-January 1 - Restated		3,885
Retained Earnings-December 31	<u>5,017</u>	<u>4,838</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>
					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>65,000.00</u>	<u>7,905.00</u>	<u>72,905.00</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>
					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	14,590.20
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>34,368.49</u>	<u>4,536.52</u>	<u>38,905.00</u>	

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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

Amy L. Mollberg, CPA
Blake R. Klinsing, CPA
Bryce L. Schelhaas, 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, 2016, 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 June 6, 2017.

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 (2016-I and 2016-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

June 6, 2017

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

2016-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.

2016-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.