

INDEPENDENT AUDITOR'S REPORT

**CITY OF RUTHTON
RUTHTON, MINNESOTA 56170**

FOR THE YEAR ENDED DECEMBER 31, 2018

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

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MEMBERS OF THE CITY COUNCIL AND CITY OFFICIALS

Stan Townsend	Mayor
Kathy Rupp	Assistant Mayor
Stewart Peterson	Council Member
Jim Haroldson	Council Member
Darwin Sietsema	Council Member
Rochelle VanderWoude	City Clerk-Treasurer
Ben Denton	City Attorney

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Blake R. Klinsing, CPA
Amy L. Mollberg, CPA

WITH THE FIRM

David L. Meulebroeck, 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, 2018, 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, 2017, and in our report dated July 13, 2018, 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 GASB standards related to pensions for 2018. 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, 2018, 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, 2017, 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 53-54 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

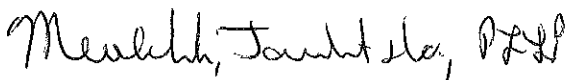
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ruthton, Ruthton, Minnesota's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for the 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 17, 2019, 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

July 17, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED DECEMBER 31, 2018

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, 2018. 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 (2018) and the prior year (2017) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2018 fiscal year include the following:

- Governmental Net position increased by \$29,523 or 3.16% from December 31, 2017.
- Proprietary Net position increased by \$13,555 or 2.20% from December 31, 2017.
- Total governmental expenditures increased by \$105,725 in comparison to fiscal year 2017, due primarily to a major building addition and Fire-hall remodel, and total governmental revenues increased by \$952 in comparison to fiscal year 2017.
- Total proprietary operating expenses decreased by \$1,764 in comparison to fiscal year 2017, and proprietary operating revenues decreased by \$2,085 in comparison to fiscal year 2017.

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.

City of Ruthton
Ruthton, Minnesota

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 \$1,591,298 at the close of the most recent fiscal year. This was an increase of 2.77% from the previous year total of \$1,548,220.

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets						
Current and other assets	454,274	519,408	74,667	58,729	528,941	578,137
Long-term Assets			12,846	15,183	12,846	15,183
Capital assets, net of depreciation	<u>559,320</u>	<u>464,423</u>	<u>628,847</u>	<u>660,214</u>	<u>1,188,167</u>	<u>1,124,637</u>
Total Assets	<u>1,013,594</u>	<u>983,831</u>	<u>716,360</u>	<u>734,126</u>	<u>1,729,954</u>	<u>1,717,957</u>
Deferred Outflows of Resources						
Related to Pensions	<u>4,329</u>	<u>12,346</u>	<u>4,980</u>	<u>14,204</u>	<u>9,309</u>	<u>26,550</u>
Total Assets and Deferred Outflows of Resources	<u>1,017,923</u>	<u>996,177</u>	<u>721,340</u>	<u>748,330</u>	<u>1,732,263</u>	<u>1,744,507</u>
Liabilities						
Current and other liabilities	8,372	1,206	21,222	32,187	29,594	33,393
Net Pension Liability	25,796	29,685	29,680	34,154	55,476	63,839
Long-term liabilities	<u>14,590</u>	<u>21,460</u>	<u>10,000</u>	<u>30,000</u>	<u>24,590</u>	<u>51,460</u>
Total Liabilities	<u>48,758</u>	<u>52,351</u>	<u>60,902</u>	<u>96,341</u>	<u>109,660</u>	<u>148,692</u>
Deferred Inflows of Resources						
Unearned Revenue			24,782	25,074	24,782	25,074
Net Pension Liability	<u>6,288</u>	<u>10,472</u>	<u>7,235</u>	<u>12,049</u>	<u>13,523</u>	<u>22,521</u>
Total Deferred Inflows of Resources	<u>6,288</u>	<u>10,472</u>	<u>32,017</u>	<u>37,123</u>	<u>38,305</u>	<u>47,595</u>
Net Position						
Net Investment in Capital Assets	537,861	436,375	598,847	610,214	1,136,708	1,046,589
Restricted	65,349	63,988			65,349	63,988
Unrestricted	<u>359,667</u>	<u>432,991</u>	<u>29,574</u>	<u>4,652</u>	<u>389,241</u>	<u>437,643</u>
Net Position	<u>962,877</u>	<u>933,354</u>	<u>628,421</u>	<u>614,866</u>	<u>1,591,298</u>	<u>1,548,220</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>1,017,923</u>	<u>996,177</u>	<u>721,340</u>	<u>748,330</u>	<u>1,739,263</u>	<u>1,744,507</u>

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

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

Table 2
Change in Net Position
For the year ended December 31, 2018

Revenues	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Program Revenues						
Charges for Services	25,688	27,082	108,580	110,665	134,268	137,747
Operating Grants and Contributions	11,575	16,776			11,575	16,776
General Revenues						
Property Taxes	106,397	114,265	14,058	12,634	120,455	126,899
State Aid Not Restricted						
For Specific Purposes	80,379	82,502			80,379	82,502
Unrestricted Investment Earnings	889	676	389	228	1,278	904
Other Revenues	<u>20,732</u>	<u>16,568</u>	<u>401</u>	<u>11,500</u>	<u>21,133</u>	<u>28,068</u>
Total Revenues	245,660	257,869	123,428	135,027	369,088	392,896
Expenses						
General Government	63,874	61,724			63,874	61,724
Public Safety	57,756	56,974			57,756	56,974
City Maintenance	24,806	25,974			24,806	25,974
Culture and Recreation	2,095	2,754			2,095	2,754
Public Works	41,955	40,572			41,955	40,572
Miscellaneous	23,529	22,631			23,529	22,631
Cemetery	2,122	3,860			2,122	3,860
Water			49,434	49,794	49,434	49,794
Sewer			43,166	44,454	43,166	44,454
Refuse			<u>17,273</u>	<u>18,154</u>	<u>17,273</u>	<u>18,154</u>
Total Expenses	<u>216,137</u>	<u>214,489</u>	<u>109,873</u>	<u>112,402</u>	<u>326,010</u>	<u>326,891</u>
Change in Net Position	<u>29,523</u>	<u>43,380</u>	<u>13,555</u>	<u>22,625</u>	<u>43,078</u>	<u>66,005</u>

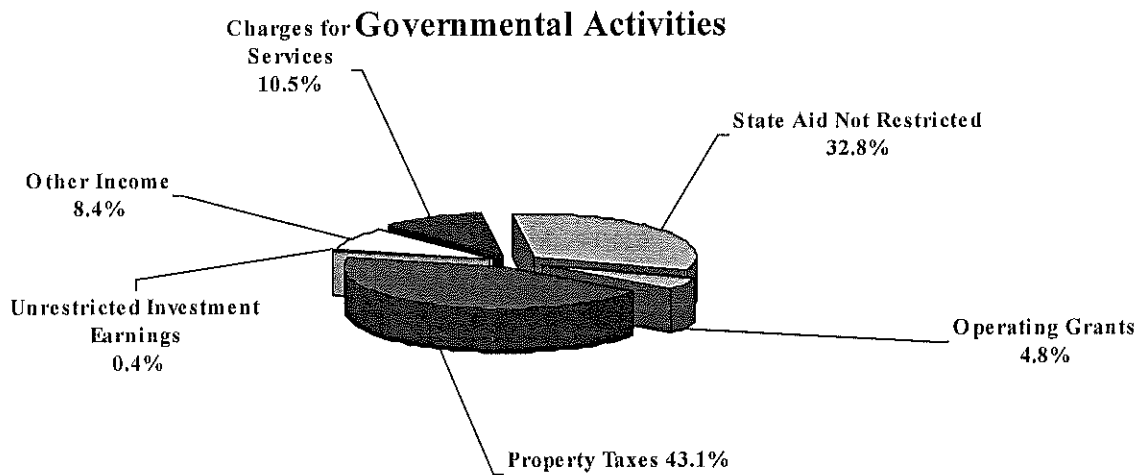
The City's total revenue consisted of program revenues of \$145,843, property taxes of \$120,455, state aids of \$80,379, investment earnings of \$1,278 and miscellaneous revenues of \$21,133.

The cost of all governmental and business-type activities this year was \$326,010.

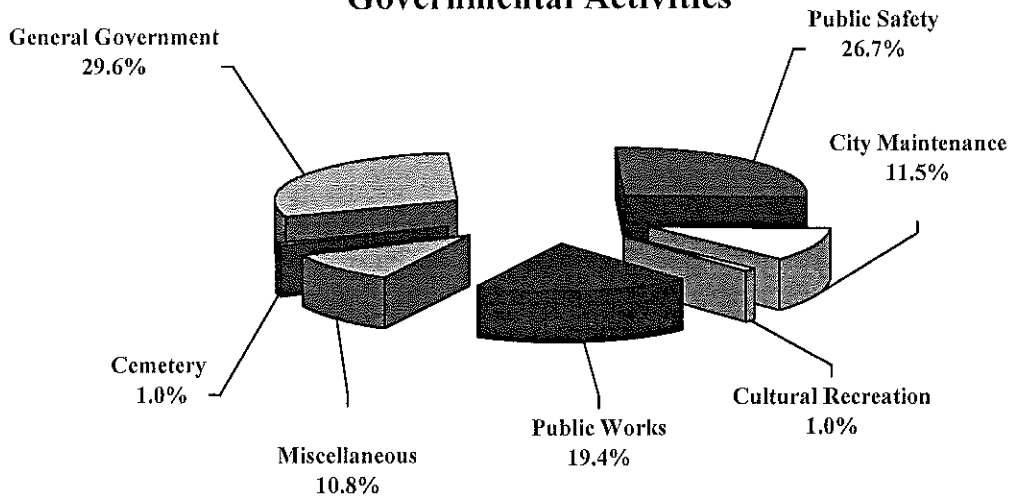
- The users of the city programs paid for 41.2%, or \$134,268, of the costs.
- The state government subsidized certain programs with grants and contributions. This totaled \$80,379, or 24.6%, of the total costs.

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.

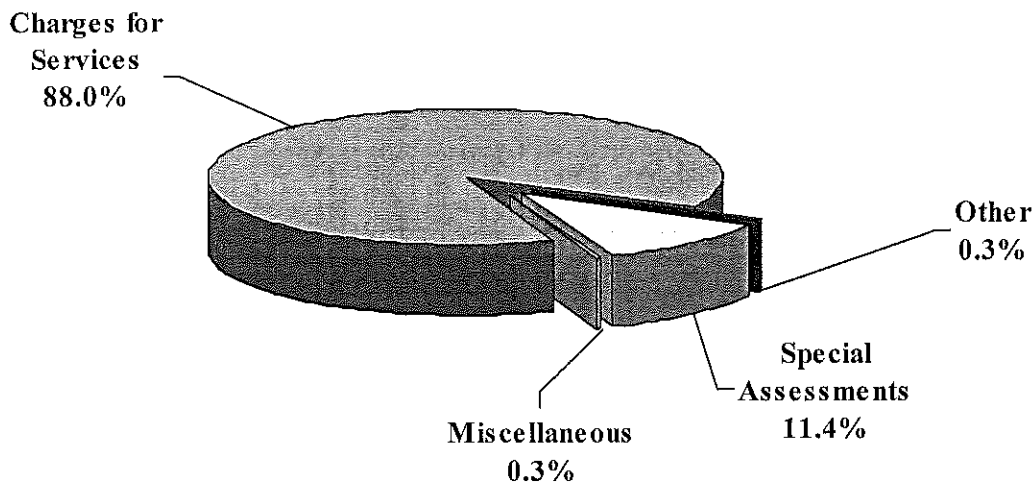
Figure A - Sources of Revenues for Fiscal Year 2018



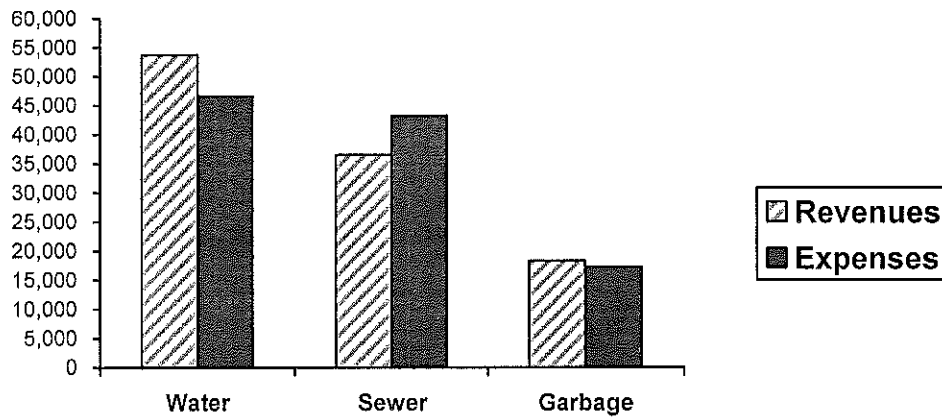
**Figure B - Expenses for Fiscal 2018
Governmental Activities**



**Figure C - Sources of Revenues for Fiscal Year 2018
Business-Type Activities**



**Figure D - Operating Revenues and Expenses for Fiscal Year 2018
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 \$445,754. The prior year fund balance was \$511,978, which is a decrease of \$66,224. The General Fund decrease of \$17,596 is due to a major building addition and Fire-hall remodel. The Fire Department Fund had a decrease of \$49,989 due to equipment purchases, the Small Cities Development Program Fund had an increase of \$1,239 and the Cemetery Fund had an increase of \$122.

The proprietary funds completed the year with a combined net position of \$628,421. The prior year net position was \$614,866. The Water Fund increased \$18,471. The Sewer fund decrease of \$5,949 was due to various expenditures exceeding revenues. The Garbage Fund increase of \$1,033 was due to revenues exceeding expenses.

Revenues and Expenditures/Expenses

Revenues of the city's governmental funds totaled \$250,566 while total expenditures were \$316,487. 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	208,442	209,681	(16,357)	(17,596)
Fire Department Fund	40,711	104,684	13,984	(49,989)
Small Cities Development Program Fund	1,198		41	1,239
Cemetery Fund	<u>215</u>	<u>2,122</u>	<u>2,029</u>	<u>122</u>
Total	<u>250,566</u>	<u>316,487</u>	<u>(303)</u>	<u>(66,224)</u>

Revenues of the city's proprietary funds totaled \$110,665, which total expenses were \$112,402. 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	53,716	46,612	11,367	18,471
Sewer Fund	36,558	43,166	659	(5,949)
Garbage Fund	<u>18,306</u>	<u>17,273</u>	<u> </u>	<u>1,033</u>
Total	<u>108,580</u>	<u>107,051</u>	<u>12,026</u>	<u>13,555</u>

General Fund Budgetary Highlights

The City is 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 2018, the City did not revise the original budget. The city's budget anticipated that expenditures would exceed revenues and other financing sources (uses) by \$36,143. The actual results for the year showed expenditures exceeding revenues by \$17,596.

- Actual revenues were over budget by \$19,303 due to various reasons.
- Actual expenditures were under budget by \$1,244 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, 2018 and 2017.

**Table 3
Capital Assets**

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
<u>Governmental Activities</u>			
Land	28,255	27,255	1,000
Buildings	381,645	252,590	129,055
Equipment & Improvements	581,789	562,015	19,774
Infrastructure	1,074,818	1,074,818	
Less accumulated depreciation	<u>(1,507,187)</u>	<u>(1,452,255)</u>	<u>(54,932)</u>
Total	<u>559,320</u>	<u>464,423</u>	<u>(94,897)</u>
Depreciation Expense	<u>54,932</u>	<u>47,249</u>	<u>7,683</u>
<u>Business-Type Activities</u>			
Land	44,519	44,519	
Water System & Equipment	841,862	841,862	
Sewer System & Equipment	860,589	856,361	4,228
Less accumulated depreciation	<u>(1,118,123)</u>	<u>(1,082,528)</u>	<u>(35,595)</u>
Total	<u>628,847</u>	<u>660,214</u>	<u>(31,367)</u>
Depreciation Expense	<u>35,595</u>	<u>34,518</u>	<u>1,077</u>

Capital asset activity occurring in 2018 included a Public Works Building Addition, Remodel of the Fire Hall, a 1992 International Fire Truck, and a 4" Trash Water Pump.

City of Ruthton
Ruthton, Minnesota

Long-Term Liabilities

At the end of the current fiscal year, the City had total bonded debt outstanding of \$30,000 and total promissory note outstanding of \$21,459. 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, 2018

	Governmental	Business-Type	Total
	<u>Activities</u>	<u>Activities</u>	
General Obligation Refunding Bonds		30,000	30,000
Promissory Note	<u>21,459</u>	_____	<u>21,459</u>
Total Debt	<u>21,459</u>	<u>30,000</u>	<u>51,459</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, 2018

	Primary Government		Total	
	Governmental Activities	Business-Type Activities	2018	2017
<u>Assets</u>				
Cash and Investments	395,806	51,652	447,458	505,348
Accounts Receivable	2,964	8,693	11,657	11,803
Delinquent Taxes / Assessments Receivable	7,689	13,122	20,811	25,358
Notes Receivable	30,642		30,642	23,872
Prepaid Items	17,173	1,200	18,373	12,989
Long Term Assessments Receivable		12,167	12,167	12,999
Bond Discount		679	679	951
Capital Assets (net of accumulated depreciation)	559,320	628,847	1,188,167	1,124,637
Total Assets	<u>1,013,594</u>	<u>716,360</u>	<u>1,729,954</u>	<u>1,717,957</u>
<u>Deferred Outflows of Resources</u>				
Related to Pensions	4,329	4,980	9,309	26,550
Total Assets and Deferred Outflows of Resources	<u>1,017,923</u>	<u>721,340</u>	<u>1,739,263</u>	<u>1,744,507</u>
<u>Liabilities</u>				
Accounts Payable and Other Current Liabilities	1,503	1,222	2,725	6,805
Noncurrent liabilities				
Due within one year	6,869	20,000	26,869	26,588
Due in more than one year	14,590	10,000	24,590	51,460
Net Pension Liability	25,796	29,680	55,476	63,839
Total Liabilities	<u>48,758</u>	<u>60,902</u>	<u>109,660</u>	<u>148,692</u>
<u>Deferred Inflows of Resources</u>				
Unearned Revenue		24,782	24,782	25,074
Related to Pensions	6,288	7,235	13,523	22,521
Total Deferred Inflows of Resources	<u>6,288</u>	<u>32,017</u>	<u>38,305</u>	<u>47,595</u>
<u>Net Position</u>				
Net Investment in Capital Assets	537,861	598,847	1,136,708	1,046,589
Restricted for:				
Small Cities Development Program	55,830		55,830	54,591
Cemetery Fund	9,519		9,519	9,397
Unrestricted	359,667	29,574	389,241	437,643
Total Net Position	<u>962,877</u>	<u>628,421</u>	<u>1,591,298</u>	<u>1,548,220</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>1,017,923</u>	<u>721,340</u>	<u>1,739,263</u>	<u>1,744,507</u>

See accompanying notes to the financial statements.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges For Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total	
			Grants and Contributions	Grants and Contributions			2018	2017
Governmental Activities:								
General Government	63,874	10,238			(53,636)	(53,636)	(51,592)	
Public Safety	57,756	15,450	11,575		(30,731)	(30,731)	(23,248)	
City Maintenance	24,806				(24,806)	(24,806)	(25,974)	
Cultural and Recreation	2,095				(2,095)	(2,095)	(2,754)	
Public Works	41,955				(41,955)	(41,955)	(40,572)	
Miscellaneous	23,529				(23,529)	(23,529)	(22,631)	
Cemetery	2,122				(2,122)	(2,122)	(3,860)	
Total Governmental Activities	<u>216,137</u>	<u>25,688</u>	<u>11,575</u>	<u>-0-</u>	<u>(178,874)</u>	<u>-0-</u>	<u>(178,874)</u> <u>(170,631)</u>	
Business-Type Activities								
Water	49,434	53,716				4,282	4,282	
Sewer	43,166	36,558				(6,608)	(6,288)	
Garbage	17,273	18,306				1,033	481	
Total Business-Type Activities	<u>109,873</u>	<u>108,580</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,293)</u>	<u>(1,293)</u> <u>(1,737)</u>	
Total Government	<u>326,010</u>	<u>134,268</u>	<u>11,575</u>	<u>-0-</u>	<u>(178,874)</u>	<u>(1,293)</u>	<u>(180,167)</u> <u>(172,368)</u>	
General Revenues								
Property Taxes					106,397	14,058	120,455	126,899
State Aid Not Restricted to Specific Purposes					80,379		80,379	82,502
Unrestricted Investment Earnings					889	389	1,278	904
Other Revenues					20,732	401	21,133	28,068
Total General Revenues					<u>208,397</u>	<u>14,848</u>	<u>223,245</u>	<u>238,373</u>
Change in Net Position					29,523	13,555	43,078	66,005
Net Position - Beginning, As Originally Stated					<u>933,354</u>	<u>614,866</u>	<u>1,548,220</u>	<u>1,482,215</u>
Net Position - Ending					<u>962,877</u>	<u>628,421</u>	<u>1,591,298</u>	<u>1,548,220</u>

See accompanying notes to the financial statements.

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City of Ruthton
Ruthton, Minnesota

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

<u>Assets</u>	<u>General</u>	<u>Fire Department Fund</u>	<u>Small Cities Development Program Fund</u>	<u>Cemetery Fund</u>
Cash	360,681		25,606	9,519
Accounts Receivable	2,964			
Delinquent Taxes Receivable	7,689			
Due From Other Funds	8,408			
Notes Receivable			30,642	
Prepaid Items	16,005	1,168		
Total Assets	<u>395,747</u>	<u>1,168</u>	<u>56,248</u>	<u>9,519</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	1,085		418	
Due to Other Funds		8,408		
Total Liabilities	<u>1,085</u>	<u>8,408</u>	<u>418</u>	
<u>Deferred Inflows of Resources</u>				
Unavailable Revenue	7,017			
<u>Fund Balances</u>				
Fund Balance - Non-Spendable	16,005	1,168		
Fund Balance - Committed		(8,408)	55,830	9,519
Fund Balance - Unassigned	371,640			
Total Fund Balance	<u>387,645</u>	<u>(7,240)</u>	<u>55,830</u>	<u>9,519</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>395,747</u>	<u>1,168</u>	<u>56,248</u>	<u>9,519</u>

See accompanying notes to the financial statements.

Total	
Governmental Funds	
<u>2018</u>	<u>2017</u>
395,806	468,844
2,964	1,731
7,689	13,205
8,408	11,400
30,642	23,872
17,173	11,756
<u>462,682</u>	<u>530,808</u>
1,503	6,018
<u>8,408</u>	<u> </u>
9,911	6,018
7,017	12,812
17,173	11,756
56,941	105,039
<u>371,640</u>	<u>395,183</u>
<u>445,754</u>	<u>511,978</u>
<u>462,682</u>	<u>530,808</u>

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	2018		2017	
Total Governmental Fund Balances	445,754		511,978	
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	2,066,507		1,916,678	
Less: Accumulated Depreciation	<u>(1,507,187)</u>	559,320	<u>(1,452,255)</u>	464,423
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred inflows of resources in the funds.				
		7,017		12,812
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		4,329		12,346
Deferred Inflows of Resources - Related to Pensions		<u>(6,288)</u>		<u>(10,472)</u>
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	(25,796)		(29,685)	
Notes Payable	<u>(21,459)</u>	<u>(47,255)</u>	<u>(28,048)</u>	<u>(57,733)</u>
Total net position - governmental activities	<u>962,877</u>		<u>933,354</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, 2018

	General Fund	Fire Department Fund	Small Cities Development Program Fund	Cemetery Fund	Total Governmental Funds	
					2018	2017
<u>Revenues</u>						
Taxes	112,192				112,192	106,686
Licenses and Permits	2,100				2,100	2,100
State Aid	80,379	11,575			91,954	96,278
Charges for Services	4,535	13,450			17,985	17,750
Grants						3,000
Fines and Forfeits	113				113	467
Fire Calls		2,000			2,000	3,500
Miscellaneous	3,397	13,686			17,083	12,515
Pest Control	3,490				3,490	3,265
Sale of Assets	2,236			50	2,286	3,001
Donations				165	165	
Deferred Loan Payoff			1,198		1,198	1,052
Total Revenues	208,442	40,711	1,198	215	250,566	249,614
<u>Expenditures</u>						
General Government	57,193				57,193	62,481
Public Safety	10,839	87,607			98,446	56,269
City Maintenance	11,438				11,438	14,677
Cultural and Recreation	1,535				1,535	2,194
Public Works	115,635				115,635	42,330
Miscellaneous	13,041	10,488			23,529	22,631
Cemetery				2,122	2,122	3,860
Principal		6,589			6,589	6,320
Total Expenditures	209,681	104,684	-0-	2,122	316,487	210,762
Excess of Revenues (Expenditures)	(1,239)	(63,973)	1,198	(1,907)	(65,921)	38,852
<u>Other Financing Sources (Uses)</u>						
Interest Income	643	176	41	29	889	676
Interest Expense		(1,192)			(1,192)	(1,461)
Transfers In		15,000		2,000	17,000	67,500
Transfers Out	(17,000)				(17,000)	(67,500)
Total Other Financing Sources (Uses)	(16,357)	13,984	41	2,029	(303)	(785)
Net Change in Fund Balances	(17,596)	(49,989)	1,239	122	(66,224)	38,067
Fund Balance-Beginning	405,241	42,749	54,591	9,397	511,978	473,911
Fund Balance-Ending	387,645	(7,240)	55,830	9,519	445,754	511,978

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, 2018**

	2018	2017
Net Change in Governmental Fund Balances	(66,224)	38,067

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	149,829	41,386
Depreciation Expense	(54,932)	(47,249)
	94,897	(5,863)

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 where 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	6,589	6,320
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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	56	(2,723)
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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.

	(5,795)	7,579
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Change in Net Position of Governmental Activities	29,523	43,380
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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, 2018

	<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	107,831	107,831	112,192	4,361
Licenses and Permits	2,200	2,200	2,100	(100)
State Aid	73,051	73,051	80,379	7,328
Charges for Services	2,300	2,300	4,535	2,235
Fines and Forfeits			113	113
Miscellaneous Revenues	4,400	4,400	9,766	5,366
Total Revenues	<u>189,782</u>	<u>189,782</u>	<u>209,085</u>	<u>19,303</u>
<u>Expenditures</u>				
General Government	64,400	64,400	57,193	7,207
Public Safety	18,375	18,375	10,839	7,536
City Maintenance	60,750	60,750	11,438	49,312
Culture and Recreation	2,400	2,400	1,535	865
Public Works	52,000	52,000	115,635	(63,635)
Miscellaneous	13,000	13,000	13,041	(41)
Total Expenditures	<u>210,925</u>	<u>210,925</u>	<u>209,681</u>	<u>1,244</u>
Excess of Revenues Over Expenditures	<u>(21,143)</u>	<u>(21,143)</u>	<u>(596)</u>	<u>20,547</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	(15,000)	(15,000)	(17,000)	(2,000)
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(17,000)</u>	<u>(2,000)</u>
Net Change in Fund Balances	<u>(36,143)</u>	<u>(36,143)</u>	(17,596)	<u>18,547</u>
Fund Balance-Beginning			<u>405,241</u>	
Fund Balance-Ending			<u><u>387,645</u></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, 2018

<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	11,575	1,325
Fire Calls			2,000	2,000
Miscellaneous Revenues	250	250	13,686	13,436
Total Revenues	<u>23,950</u>	<u>23,950</u>	<u>40,711</u>	<u>16,761</u>
<u>Expenditures</u>				
Insurance	3,500	3,500	1,464	2,036
Equipment Operating Expense	5,200	5,200	26,208	(21,008)
Firemen's Relief Association Contribution	10,250	10,250	10,488	(238)
Miscellaneous	1,000	1,000	1,253	(253)
Capital Outlay	5,000	5,000	44,687	(39,687)
Utilities	4,000	4,000	3,622	378
Training and Travel Expense	1,000	1,000	3,065	(2,065)
Professional Fees	900	900	845	55
Salaries	5,000	5,000	5,641	(641)
First Responders-Supplies, Repairs			822	(822)
Fire Truck Principal	6,589	6,589	6,589	
Total Expenditures	<u>42,439</u>	<u>42,439</u>	<u>104,684</u>	<u>(62,245)</u>
Excess Revenues (Expenditures)	<u>(18,489)</u>	<u>(18,489)</u>	<u>(63,973)</u>	<u>(45,484)</u>
<u>Other Financing Sources (Uses)</u>				
Interest Income			176	176
Interest Expense	(1,192)	(1,192)	(1,192)	
Transfers In	15,000	15,000	15,000	
Total Other Financing Sources (Uses)	<u>13,808</u>	<u>13,808</u>	<u>13,984</u>	<u>176</u>
Net Change in Fund Balance	<u>(4,681)</u>	<u>(4,681)</u>	<u>(49,989)</u>	<u>(45,308)</u>
Fund Balance-Beginning			42,749	
Fund Balance-Ending			<u>(7,240)</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, 2018

	<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			41	41
Deferred Loan Payoff			1,198	1,198
Total Revenues	-0-	-0-	1,239	1,239
<u>Expenditures</u>				
Total Expenditures	-0-	-0-	-0-	-0-
<u>Other Financing Sources (Uses)</u>				
Transfers Out				15,000
Total Other Financing Sources (Uses)	-0-	-0-	-0-	15,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	-0-	-0-	1,239	16,239
Net Change in Fund Balance	-0-	-0-	1,239	16,239
Fund Balance-Beginning			54,591	
Fund Balance-Ending			55,830	

See accompanying notes to the financial statements.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018

	Water Fund	Sewer Fund	Garbage Fund	Total	
				2018	2017
Assets					
<u>Current Assets</u>					
Cash	4,526	35,247	11,879	51,652	36,504
Receivables					
Accounts	4,186	2,992	1,515	8,693	10,072
Special Assessments	13,122			13,122	12,153
Prepaid Items	1,200			1,200	1,233
Total Current Assets	<u>23,034</u>	<u>38,239</u>	<u>13,394</u>	<u>74,667</u>	<u>59,962</u>
<u>Noncurrent Assets</u>					
Long Term Assessments Receivable	12,167			12,167	12,999
Bond Discount	679			679	951
Capital Assets					
Land		44,519		44,519	44,519
Property and Equipment	841,862	860,589		1,702,451	1,698,223
Less: Accumulated Depreciation	<u>(483,911)</u>	<u>(634,212)</u>		<u>(1,118,123)</u>	<u>(1,082,528)</u>
Total Noncurrent Assets	<u>370,797</u>	<u>270,896</u>	<u>-0-</u>	<u>641,693</u>	<u>674,164</u>
Total Assets	<u>393,831</u>	<u>309,135</u>	<u>13,394</u>	<u>716,360</u>	<u>734,126</u>
Deferred Outflows of Resources					
Related to Pensions	<u>1,908</u>	<u>2,150</u>	<u>922</u>	<u>4,980</u>	<u>14,204</u>
Total Assets and Deferred Outflows of Resources	<u>395,739</u>	<u>311,285</u>	<u>14,316</u>	<u>721,340</u>	<u>748,330</u>
Liabilities					
<u>Current Liabilities</u>					
Due To Other Funds					11,400
Accounts Payable	156		540	696	787
Sales Tax Payable	112		414	526	
Current Portion of Debt	20,000			20,000	20,000
Total Current Liabilities	<u>20,268</u>		<u>954</u>	<u>21,222</u>	<u>32,187</u>
<u>Noncurrent Liabilities</u>					
Bonds Payable	10,000			10,000	30,000
Net Pension Liability	11,373	12,815	5,492	29,680	34,154
Total Noncurrent Liabilities	<u>21,373</u>	<u>12,815</u>	<u>5,492</u>	<u>39,680</u>	<u>64,154</u>
Total Liabilities	<u>41,641</u>	<u>12,815</u>	<u>6,446</u>	<u>60,902</u>	<u>96,341</u>
Deferred Inflows of Resources					
Unearned Revenue	24,782			24,782	25,074
Related to Pensions	2,772	3,124	1,339	7,235	12,049
Total Deferred Inflows of Resources	<u>27,554</u>	<u>3,124</u>	<u>1,339</u>	<u>32,017</u>	<u>37,123</u>
Net Position					
Net Investment in Capital Assets	327,951	270,896		598,847	610,214
Unrestricted	<u>(1,407)</u>	<u>24,450</u>	<u>6,531</u>	<u>29,574</u>	<u>4,652</u>
Total Net Position	<u>326,544</u>	<u>295,346</u>	<u>6,531</u>	<u>628,421</u>	<u>614,866</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>395,739</u>	<u>311,285</u>	<u>14,316</u>	<u>721,340</u>	<u>748,330</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>	
<u>Operating Revenues</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>2018</u>	<u>2017</u>
Charges for Services	53,716	36,558	18,306	108,580	110,665
Total Revenues/Gross Margin	53,716	36,558	18,306	108,580	110,665
 <u>Operating Expenses</u>					
Administration	29,952	24,231	17,273	71,456	74,297
Depreciation	16,660	18,935		35,595	34,518
Total Expenses	46,612	43,166	17,273	107,051	108,815
Operating Income (Loss)	7,104	(6,608)	1,033	1,529	1,850
 <u>Non-Operating Revenues (Expenses)</u>					
Special Assessment Income	14,058			14,058	12,634
Miscellaneous Income		401		401	
Interest Income	131	258		389	228
Refunds and Reimbursements					11,500
Amortization of Bond Discount	(272)			(272)	(272)
Interest Expense	(2,550)			(2,550)	(3,315)
Total Non-Operating Revenues (Expenses)	11,367	659		12,026	20,775
 Change in Net Position	18,471	(5,949)	1,033	13,555	22,625
Total Net Position - January 1	308,073	301,295	5,498	614,866	592,241
Total Net Position - December 31	<u>326,544</u>	<u>295,346</u>	<u>6,531</u>	<u>628,421</u>	<u>614,866</u>

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Business-Type Activities--</u>	
	<u>Water</u>	<u>Sewer</u>
<u>Cash Flows From Operating Activities</u>		
Receipts from Customers and Users	54,533	37,093
Payments to Vendors and Suppliers	(14,017)	(6,629)
Payments to Employees	(15,800)	(17,843)
Net Cash Provided By Operating Activities	<u>24,716</u>	<u>12,621</u>
<u>Cash Flows From Noncapital Financing Activities</u>		
Receipts From Special Assessments	13,629	
Increase (Decrease) in Due To Other Funds	(11,400)	
Net Cash Provided By Noncapital Financing Activities	<u>2,229</u>	
<u>Cash Flows From Capital and Related Financing Activities</u>		
Water and Sewer System Improvements		(4,228)
Principal Paid on Long-Term Debt	(20,000)	
Interest Paid on Long-Term Debt	(2,550)	
Miscellaneous Revenue		401
Net Cash (Used) By Capital and Related Financing Activities	<u>(22,550)</u>	<u>(3,827)</u>
<u>Cash Flows From Investing Activities</u>		
Interest Income	131	258
Net Cash Provided By Investing Activities	<u>131</u>	<u>258</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,526	9,052
Cash and Cash Equivalents, January 1	-0-	26,195
Cash and Cash Equivalents, December 31	<u>4,526</u>	<u>35,247</u>
<u>Reconciliation of Operating Income To Net</u>		
<u>Cash Provided By Operating Activities</u>		
Operating Income (Loss)	7,104	(6,608)
Depreciation	16,660	18,935
(Increase) Decrease in Accounts Receivable	817	535
(Increase) Decrease in Prepaid Items	33	
Increase (Decrease) in Accounts Payable	14	(214)
Increase (Decrease) in Sales Tax Payable	112	
Increase (Decrease) in Pension Liability	(24)	(27)
Net Cash Provided By Operating Activities	<u>24,716</u>	<u>12,621</u>

See accompanying notes to the financial statements.

--Enterprise Funds

<u>Garbage</u>	<u>Total</u>	
	<u>2018</u>	<u>2017</u>
18,333	109,959	109,014
(9,013)	(29,659)	(33,982)
<u>(7,750)</u>	<u>(41,393)</u>	<u>(39,232)</u>
<u>1,570</u>	<u>38,907</u>	<u>35,800</u>
	13,629	1,857
	<u>(11,400)</u>	<u>(13,711)</u>
	<u>2,229</u>	<u>(11,854)</u>
	(4,228)	(19,525)
	(20,000)	(15,000)
	(2,550)	(3,315)
	<u>401</u>	<u>11,500</u>
	<u>(26,377)</u>	<u>(26,340)</u>
	<u>389</u>	<u>228</u>
	<u>389</u>	<u>228</u>
<u>1,570</u>	<u>15,148</u>	<u>(2,166)</u>
<u>10,309</u>	<u>36,504</u>	<u>38,670</u>
<u>11,879</u>	<u>51,652</u>	<u>36,504</u>
1,033	1,529	1,850
	35,595	34,518
27	1,379	(1,651)
109	142	819
	(200)	(1,071)
414	526	
<u>(13)</u>	<u>(64)</u>	<u>1,335</u>
<u>1,570</u>	<u>38,907</u>	<u>35,800</u>

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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. **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.

C. **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*.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

C. Basic Financial Statements Presentation

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.

D. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 1 Summary of Significant Accounting Policies - continued

D. Basis of Accounting and Measurement Focus - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

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

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.

E. **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.

F. **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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

G. **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.

H. **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.

I. **Notes Receivable**

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

J. **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.

K. **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.

L. **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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

L. **Capital Assets – continued**

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.

M. **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.

N. **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.

O. **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:

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

O. **Fund Equity – continued**

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.

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.

P. **Net Position**

Net position represent the difference between assets and liabilities in the government-wide and Fiduciary Fund financial statements. Net investment in 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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

P. **Net Position - continued**

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.

Q. **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, 2017, from which the summarized information was derived.

R. **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.

S. **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.

T. **Subsequent Events**

Subsequent events have been evaluated through July 13, 2019, 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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 2 **Deposits and Investments-continued**

A. **Deposits - continued**

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, 2018, none of the City's bank balance of \$459,838 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.

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, 2018 and 2017, the City had no investments.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 3 Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows:

Governmental Activities	<u>Balance</u> <u>1/1/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/18</u>
Capital assets not depreciated:				
Land	27,255	1,000		28,255
Capital assets depreciated:				
Buildings	252,590	129,055		381,645
Equipment & Improvements	562,015	19,774		581,789
Infrastructure	<u>1,074,818</u>	<u> </u>	<u> </u>	<u>1,074,818</u>
Total capital assets depreciated	1,889,423	148,829		2,038,252
Less accumulated depreciation for:				
Buildings	(147,722)	(10,332)		(158,054)
Equipment & Improvements	(426,389)	(30,907)		(457,296)
Infrastructure	<u>(878,144)</u>	<u>(13,693)</u>	<u> </u>	<u>(891,837)</u>
Total accumulated depreciation	<u>(1,452,255)</u>	<u>(54,932)</u>	<u> </u>	<u>(1,507,187)</u>
Total capital assets depreciated-net	<u>437,168</u>	<u>93,897</u>	<u>-0-</u>	<u>531,065</u>
Net Capital Assets	<u>464,423</u>	<u>94,897</u>	<u>-0-</u>	<u>559,320</u>
 Business-Type Activities				
Capital assets not depreciated:				
Land	44,519			44,519
Capital assets depreciated:				
Water System & Equipment	841,862			841,862
Sewer System & Equipment	<u>856,361</u>	<u>4,228</u>	<u> </u>	<u>860,589</u>
Total capital assets depreciated	1,698,223	4,228		1,702,451
Less accumulated depreciation for:				
Water System & Equipment	(467,251)	(16,660)		(483,911)
Sewer System & Equipment	<u>(615,277)</u>	<u>(18,935)</u>	<u> </u>	<u>(634,212)</u>
Total accumulated depreciation	<u>(1,082,528)</u>	<u>(35,595)</u>	<u> </u>	<u>(1,118,123)</u>
Total capital assets depreciated-net	<u>615,695</u>	<u>(31,367)</u>	<u> </u>	<u>584,328</u>
Net Capital Assets	<u>660,214</u>	<u>(31,367)</u>	<u>-0-</u>	<u>628,847</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 3 Capital Assets - continued

Depreciation expense of \$81,767 for the year ended December 31, 2018 was charged to the following functions/programs:

Governmental Activities:

General Government	7,737
Public Safety	23,149
City Maintenance, including general infrastructure assets	13,368
Cultural and Recreation	560
Public Works	<u>10,118</u>
Total	<u>54,932</u>

Business-Type Activities:

Water	16,660
Sewer	<u>18,935</u>
Total	<u>35,595</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 Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Year-End Balance</u>
\$85,000 Promissory Note	\$85,000	4.25%	2/9/06	2/9/21	\$21,459

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>21,459</u>	<u>1,884</u>	<u>23,343</u>

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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

	<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	\$30,000

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>
2019	20,000	1,530	21,530
2020	<u>10,000</u>	<u>510</u>	<u>10,510</u>
Total	<u>30,000</u>	<u>2,040</u>	<u>32,040</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, 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:					
Pension Benefits	29,685		3,889	25,796	
Promissory Note	<u>28,048</u>	<u>-0-</u>	<u>6,589</u>	<u>21,459</u>	<u>6,869</u>
Governmental Activity					
Long-Term Liabilities	<u>57,733</u>	<u>-0-</u>	<u>10,478</u>	<u>47,255</u>	<u>6,869</u>
Business-Type Activities:					
Pension Benefits	34,154		4,474	29,680	
Bonds Payable:					
General Obligation Bonds	<u>50,000</u>		<u>20,000</u>	<u>30,000</u>	<u>20,000</u>
Business-Type Activity					
Long-Term Liabilities	<u>84,154</u>	<u>-0-</u>	<u>24,474</u>	<u>59,680</u>	<u>20,000</u>

Note 5 **Fund Balance Classification**

Non-Spendable Fund Balance

The City has the following non-spendable fund balances as of December 31, 2018:

General Fund	16,005
Fire Department Fund	<u>1,168</u>
Total Non-Spendable	<u>17,173</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 5 **Fund Balance Classification - continued**

Restricted Fund Balance

The City has no restricted fund balances as of December 31, 2018.

Committed Fund Balance

The City has the following committed fund balances as of December 31, 2018:

Fire Department Fund	(8,408)
Small Cities Development Program Fund	55,830
Cemetery Fund	<u>9,519</u>
Total Committed	<u>56,941</u>

Assigned Fund Balance

The City has no assigned fund balances as of December 31, 2018.

Unassigned Fund Balance

The City has the following unassigned fund balances as of December 31, 2018:

General Fund	
Total Unassigned	<u>371,640</u>

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.

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. 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, 2018

Note 6 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

2. Benefits Provided

GERF Benefits

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate of Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient, who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018 were \$5,047. The City's contributions were equal to the required contributions as set by state statute.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 6 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

4. Pension Costs

At December 31, 2018, the City reported a liability of \$55,476 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,762. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was .0010% which was the same as the proportionate share measured as of June 30, 2017.

City's Proportionate share of the net pension liability	\$55,476
State of Minnesota's proportionate share of the net pension Liability associated with the City	<u>\$ 1,762</u>
Total	<u>\$57,238</u>

For the year ended December 31, 2018, the City recognized pension expense of \$3,217 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$411 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 6 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

Pension Costs - continued

At December 31, 2018, the City reported its proportionate share of GERF'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	\$1,469	\$1,618
Changes in actuarial assumptions	\$5,300	\$6,234
Difference between projected and actual investment earnings		\$5,671
Changes in proportion		
Contributions paid to PERA subsequent to the measurement date	\$2,540	
Total	\$9,309	\$13,523

\$9,309 reported as deferred outflows of resources related to pensions resulting from City contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2019	\$1,906
2020	(\$3,001)
2021	(\$4,502)
2022	(\$1,158)

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 6 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

5. Actuarial Assumptions - continued

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in plan provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 6 Defined Benefit Pension Plans - continued

B. Public Employees Retirement Association (PERA) - continued

5. Actuarial Assumptions - continued

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric real rates of return for each major asset class are summarized in the following table.

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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	.75%
Alternative Assets	20%	5.90%
Cash	2%	0.0%
Total	100%	

6. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.5%. 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, 2018

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 (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the GERF net pension liability:	\$90,155	\$55,476	\$26,849

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	\$62,245
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Note 10 **Interfund Transfers**

The following interfund transfers occurred during 2018:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	\$ 17,000	
Fire Department Fund		\$ 15,000
Cemetery		\$ 2,000

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 11 Due To/From Other Funds

Below is a schedule of interfund receivables and payables at December 31, 2018.

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
Fire Department Fund		8,408
General Fund	8,408	

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

Note 12 Deficit Fund Balances

The following funds had deficit fund balances at December 31, 2018:

Fire Department Fund	\$7,240
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This deficit will be eliminated by future revenues in the Fire Department Fund.

Note 13 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.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
DEFINED BENEFIT PENSION PLANS
DECEMBER 31, 2018

Fiscal Year Ending	Employer's Proportion Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City of Ruhton (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the City of Ruhton (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a+b)/c	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>PERA:</u>							
June 30, 2016	0.0010%	\$81,195	\$1,047	\$82,242	\$66,413	123.8%	78.2%
June 30, 2017	0.0010%	\$63,839	\$816	\$64,655	\$55,920	115.6%	75.9%
June 30, 2018	0.0010%	\$55,476	\$1,762	\$57,238	\$68,027	81.5%	79.5%

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, 2018

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%
December 31, 2017	\$4,194	\$4,194	\$0	\$55,920	7.50%
December 31, 2018	\$5,102	\$5,102	\$0	\$68,027	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, 2018

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash	360,681	382,500
Accounts Receivable	2,964	1,731
Delinquent Taxes Receivable	7,689	13,205
Due From Other Funds	8,408	11,400
Prepaid Items	16,005	10,058
Total Assets	<u>395,747</u>	<u>418,894</u>
<u>Liabilities, Deferred Inflows of Resources</u>		
<u>and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	1,085	841
Total Liabilities	<u>1,085</u>	<u>841</u>
<u>Deferred Inflows of Resources</u>		
Unearned Revenue	7,017	12,812
<u>Fund Balance</u>		
Fund Balance - Non-Spendable	16,005	10,058
Fund Balance - Unassigned	371,640	395,183
Total Fund Balance	<u>387,645</u>	<u>405,241</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>395,747</u>	<u>418,894</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	For The Years Ending December 31			
	2018		2017	
	Budget	Actual	Variance with Budget	Actual
<u>Revenues</u>				
<u>Taxes</u>				
General Property Taxes	107,831	112,192	4,361	106,686
Total Taxes	107,831	112,192	4,361	106,686
 <u>Licenses and Permits</u>	 2,200	 2,100	 (100)	 2,100
 <u>State Aid</u>				
Local Government Aid	71,051	71,051		73,271
Market Value Credit		257	257	211
State Police Aid		2,958	2,958	2,922
Other State Aid	2,000	6,113	4,113	6,098
Total State Aid	73,051	80,379	7,328	82,502
 <u>Service Charges and Fines</u>				
Community Building Rent	1,000	2,115	1,115	1,780
Other Rental	300	550	250	375
Building and Other Permits	1,000	870	(130)	1,145
Interfund Service Charges		1,000	1,000	1,000
Court Fines		113	113	467
Total Service Charges and Fines	2,300	4,648	2,348	4,767
 <u>Miscellaneous Revenues</u>				
Donations	3,400		(3,400)	
Interest Income	250	643	393	441
Pest Control		3,490	3,490	3,265
Other Miscellaneous	750	3,397	2,647	2,289
Sale of Asset		2,236	2,236	3,001
Total Miscellaneous Revenues	4,400	9,766	5,366	8,996
Total Revenues	189,782	209,085	19,303	205,051

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

For The Years Ending December 31

	<u>2018</u>		<u>2017</u>	
	<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	3,500	1,000	3,270
Mayor and Council	650	857	(207)	1,282
Clerk-Treasurer Salary	24,150	22,556	1,594	21,164
Clerk-Treasurer Training and Travel	1,000	50	950	45
Assessor	2,000	2,043	(43)	1,999
Legal and Auditing	7,000	8,495	(1,495)	9,511
Payroll Taxes and Benefits	4,000	3,685	315	3,443
Printing and Publishing	500	1,313	(813)	861
Equipment and Improvements	4,500		4,500	9,819
City Office Supplies	5,000	2,638	2,362	2,513
City Office Utilities	7,000	5,510	1,490	7,759
City Office Miscellaneous	4,000	5,833	(1,833)	815
Elections	100	713	(613)	
Total General Government	<u>64,400</u>	<u>57,193</u>	<u>7,207</u>	<u>62,481</u>
<u>Public Safety</u>				
Police Protection	9,150	9,114	36	8,681
Firemen's Relief Contribution	425	425		425
First Responders-Annual Contribution	1,300	1,300		1,300
Real Estate Rehabilitation	7,500		7,500	65
Total Public Safety	<u>18,375</u>	<u>10,839</u>	<u>7,536</u>	<u>10,471</u>
<u>City Maintenance</u>				
Street Lighting	9,000	7,366	1,634	7,469
Snow Removal	1,250	70	1,180	708
Street Improvements	50,000	3,702	46,298	4,093
Street Supplies	500	300	200	2,407
Total City Maintenance	<u>60,750</u>	<u>11,438</u>	<u>49,312</u>	<u>14,677</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	For The Years Ending December 31			
	2018			2017
	<u>Budget</u>	<u>Actual</u>	<u>Variance with Budget</u>	<u>Actual</u>
<u>Expenditures - continued</u>				
<u>Culture and Recreation</u>				
Park Contracted Services				1,116
Park Utilities	800	629	171	589
Park Repairs and Maintenance	1,300	606	694	169
Park Miscellaneous	300	300		320
Total Culture and Recreation	<u>2,400</u>	<u>1,535</u>	<u>865</u>	<u>2,194</u>
 <u>Public Works</u>				
Public Works Salary	9,500	9,192	308	8,294
Payroll Taxes and Benefits	1,500	1,327	173	1,254
Utilities	10,000	6,337	3,663	5,549
Repairs and Maintenance	15,000	13,902	1,098	16,233
Miscellaneous	1,000	33	967	
Capital Outlay	15,000	84,844	(69,844)	11,000
Total Public Works	<u>52,000</u>	<u>115,635</u>	<u>(63,635)</u>	<u>42,330</u>
 <u>Miscellaneous</u>				
Insurance	9,000	10,977	(1,977)	10,242
Miscellaneous	4,000	2,064	1,936	1,108
Total Miscellaneous	<u>13,000</u>	<u>13,041</u>	<u>(41)</u>	<u>11,350</u>
Total Expenditures	<u>210,925</u>	<u>209,681</u>	<u>1,244</u>	<u>143,503</u>
 Excess Revenues (Expenditures)	 (21,143)	 (596)	 20,547	 61,548

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>For The Years Ending December 31</u>			<u>2017</u>
	<u>2018</u>		<u>Variance with Budget</u>	
<u>Other Financing Sources (Uses)</u>	<u>Budget</u>	<u>Actual</u>		
Transfers In				50,000
Transfers Out	(15,000)	(17,000)	(2,000)	(17,500)
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(17,000)</u>	<u>(2,000)</u>	<u>32,500</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>(36,143)</u>	(17,596)	<u>18,547</u>	94,048
Fund Balance-January 1		405,241		311,193
Fund Balance-December 31		<u>387,645</u>		<u>405,241</u>

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
December 31, 2018

	Small Cities			Totals	
	Fire Department Fund	Development Program Fund	Cemetery Fund	2018	2017
<u>Assets</u>					
Cash		25,606	9,519	35,125	86,344
Prepaid Items	1,168			1,168	1,698
Notes Receivable		30,642		30,642	23,872
Total Assets	<u>1,168</u>	<u>56,248</u>	<u>9,519</u>	<u>66,935</u>	<u>111,914</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>					
<u>Liabilities</u>					
Accounts Payable		418		418	5,177
Due to Other Funds	8,408			8,408	
Total Liabilities	<u>8,408</u>	<u>418</u>		<u>8,826</u>	<u>5,177</u>
<u>Fund Balance</u>					
Fund Balance - Non-Spendable	1,168			1,168	1,698
Fund Balance - Committed	(8,408)	55,830	9,519	56,941	105,039
Total Fund Balance	<u>(7,240)</u>	<u>55,830</u>	<u>9,519</u>	<u>58,109</u>	<u>106,737</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>1,168</u>	<u>56,248</u>	<u>9,519</u>	<u>66,935</u>	<u>111,914</u>

SPECIAL REVENUE FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Small Cities			Totals	
	Fire Department Fund	Development Program Fund	Cemetery Fund	2018	2017
<u>Revenues</u>					
Rural Fire Protection	13,450			13,450	13,450
Firemen's Relief Aid-State	11,575			11,575	13,776
Fire Calls	2,000			2,000	3,500
Grants					3,000
Sale of Lots			50	50	
Donations			165	165	
Miscellaneous Revenues	13,686			13,686	10,226
Deferred Loan Payoff		1,198		1,198	1,052
Total Revenues	<u>40,711</u>	<u>1,198</u>	<u>215</u>	<u>42,124</u>	<u>45,004</u>
<u>Expenditures</u>					
Public Safety	87,607			87,607	45,798
Firemen's Relief Association	10,488			10,488	11,281
Fire Truck Principal	6,589			6,589	6,320
Cemetery			2,122	2,122	3,860
Total Expenditures	<u>104,684</u>	<u>-0-</u>	<u>2,122</u>	<u>106,806</u>	<u>67,259</u>
Excess Revenues (Expenditures)	(63,973)	1,198	(1,907)	(64,682)	(22,255)
<u>Other Financing Sources (Uses)</u>					
Interest Income	176	41	29	246	235
Interest Expense	(1,192)			(1,192)	(1,461)
Transfers In	15,000		2,000	17,000	17,500
Transfers Out					(50,000)
Total Other Financing Sources (Uses)	<u>13,984</u>	<u>41</u>	<u>2,029</u>	<u>16,054</u>	<u>(33,726)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(49,989)	1,239	122	(48,628)	(55,981)
Fund Balance-January 1	<u>42,749</u>	<u>54,591</u>	<u>9,397</u>	<u>106,737</u>	<u>162,718</u>
Fund Balance-December 31	<u>(7,240)</u>	<u>55,830</u>	<u>9,519</u>	<u>58,109</u>	<u>106,737</u>

FIRE DEPARTMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

For The Years Ending December 31

	<u>2018</u>		<u>Variance with Budget</u>	<u>2017</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
<u>Revenues</u>				
Rural Fire Protection	13,450	13,450		13,450
Firemen's Relief Aid-State	10,250	11,575	1,325	13,776
Grants				3,000
Fire Calls		2,000	2,000	3,500
Miscellaneous Revenues	250	13,686	13,436	10,226
Total Revenues	<u>23,950</u>	<u>40,711</u>	<u>16,761</u>	<u>43,952</u>
<u>Expenditures</u>				
Insurance	3,500	1,464	2,036	1,649
Equipment Operating Expense	5,200	26,208	(21,008)	13,845
Firemen's Relief Association Contributions	10,250	10,488	(238)	11,281
Miscellaneous	1,000	1,253	(253)	2,932
Capital Outlay	5,000	44,687	(39,687)	13,900
Utilities	4,000	3,622	378	3,452
Training and Travel Expense	1,000	3,065	(2,065)	3,069
Professional Fees	900	845	55	720
Salaries	5,000	5,641	(641)	5,529
First Responders-Supplies, Repairs		822	(822)	702
Fire Truck Principal	6,589	6,589		6,320
Total Expenditures	<u>42,439</u>	<u>104,684</u>	<u>(62,245)</u>	<u>63,399</u>
Excess Revenues (Expenditures)	(18,489)	(63,973)	(45,484)	(19,447)
<u>Other Financing Sources (Uses)</u>				
Interest Income		176	176	111
Interest Expense	(1,192)	(1,192)		(1,461)
Transfers In	15,000	15,000		15,000
Total Other Financing Sources (Uses)	<u>13,808</u>	<u>13,984</u>	<u>176</u>	<u>13,650</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>(4,681)</u>	<u>(49,989)</u>	<u>(45,308)</u>	<u>(5,797)</u>
Fund Balance-January 1		<u>42,749</u>		<u>48,546</u>
Fund Balance-December 31		<u>(7,240)</u>		<u>42,749</u>

SMALL CITIES DEVELOPMENT PROGRAM FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>For The Years Ending December 31</u>			<u>2017</u>
	<u>2018</u>	<u>Variance</u>		
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>with Budget</u>	<u>Actual</u>
Interest Income		41	41	104
Deferred Loan Payoff		1,198	1,198	1,052
Total Revenues	-0-	1,239	1,239	1,156
 <u>Expenditures</u>				
Total Expenditures	-0-	-0-	-0-	-0-
 Excess Revenues (Expenditures)	-0-	1,239	1,239	1,156
 <u>Other Financing Sources (Uses)</u>				
Transfers Out				(50,000)
Total Other Financing Sources (Uses)	-0-	-0-	-0-	(50,000)
 Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	-0-	1,239	1,239	(48,844)
Fund Balance-January 1		54,591		103,435
Fund Balance-December 31		55,830		54,591

CEMETERY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>For The Years Ending December 31</u>			<u>2017</u> <u>Actual</u>
	<u>2018</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>with Budget</u>	
<u>Revenues</u>				
Sale of Lots	600	50	(550)	
Interest Income	100	29	(71)	20
Donations		165	165	
Total Revenues	<u>700</u>	<u>244</u>	<u>(456)</u>	<u>20</u>
<u>Expenditures</u>				
Gasoline	5,000	308	4,692	624
Labor		1,778	(1,778)	2,691
Miscellaneous		36	(36)	36
Printing and Publishing				509
Total Expenditures	<u>5,000</u>	<u>2,122</u>	<u>2,878</u>	<u>3,860</u>
Excess Revenues (Expenditures)	(4,300)	(1,878)	2,422	(3,840)
<u>Other Financing Sources (Uses)</u>				
Transfers In		2,000	2,000	2,500
Total Other Financing Sources (Uses)		<u>2,000</u>	<u>2,000</u>	<u>2,500</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>(4,300)</u>	122	<u>4,422</u>	(1,340)
Fund Balance-January 1		9,397		10,737
Fund Balance-December 31		<u>9,519</u>		<u>9,397</u>

PROPRIETARY FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2018

<u>Assets</u>	Water	Sewer	Garbage	Totals	
	Fund	Fund	Fund	2018	2017
Cash	4,526	35,247	11,879	51,652	36,504
Accounts Receivable	4,186	2,992	1,515	8,693	10,072
Prepaid Items	1,200			1,200	1,233
Current Assessments Receivable	11,230			11,230	10,398
Delinquent Assessments Receivable	1,892			1,892	1,755
Long Term Assessments Receivable	12,167			12,167	12,999
Bond Discount	679			679	951
Water System and Equipment	841,862			841,862	841,862
Accumulated Depreciation	(483,911)			(483,911)	(467,251)
Sewer System and Improvements		860,589		860,589	856,361
Accumulated Depreciation		(634,212)		(634,212)	(615,277)
Land		44,519		44,519	44,519
Related to Pensions	1,908	2,150	922	4,980	14,204
Total Assets	395,739	311,285	14,316	721,340	748,330
 <u>Liabilities and Fund Equity</u>					
<u>Liabilities</u>					
Due to Other Funds					11,400
Accounts Payable	156		540	696	787
Sales Tax Payable	112		414	526	
Unearned Revenue	24,782			24,782	25,074
Related to Pensions	2,772	3,124	1,339	7,235	12,049
Bonds Payable	30,000			30,000	50,000
Net Pension Liability	11,373	12,815	5,492	29,680	34,154
Total Liabilities	69,195	15,939	7,785	92,919	133,464
 <u>Fund Equity</u>					
Retained Earnings	326,544	295,346	6,531	628,421	614,866
Total Liabilities and Fund Equity	395,739	311,285	14,316	721,340	748,330

PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Totals</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>2018</u>	<u>2017</u>
<u>Revenues</u>					
Sewer Charge		36,558		36,558	38,166
Water and Garbage Collection	53,716		18,306	72,022	72,499
Total Operating Revenues	<u>53,716</u>	<u>36,558</u>	<u>18,306</u>	<u>108,580</u>	<u>110,665</u>
<u>Expenses</u>					
Administrative			36	36	36
Garbage Collection Fees			5,736	5,736	5,995
Maintenance and Operational	10,255	3,657		13,912	12,471
Dues	275			275	275
Insurance	1,474			1,474	2,298
Special Fees and Taxes	1,582		1,641	3,223	4,148
Salaries	13,742	15,495	6,729	35,966	33,955
Payroll Taxes and Benefits	2,058	2,321	1,008	5,387	6,466
City Clean-Up			2,123	2,123	2,168
Utilities		2,257		2,257	5,231
Miscellaneous	65			65	254
Depreciation	16,661	18,936		35,597	34,518
Interfund Service Charges	500	500		1,000	1,000
Total Operating Expense	<u>46,612</u>	<u>43,166</u>	<u>17,273</u>	<u>107,051</u>	<u>108,815</u>
Operating Income (Loss)	7,104	(6,608)	1,033	1,529	1,850
<u>Non-Operating Revenues (Expenses)</u>					
Special Assessment Income	14,058			14,058	12,634
Miscellaneous Income		401		401	
Interest Income	131	258		389	228
Refunds and Reimbursements					11,500
Amortization of Bond Discount	(272)			(272)	(272)
Interest Expense	(2,550)			(2,550)	(3,315)
Total Non-Operating Revenues (Expenses)	<u>11,367</u>	<u>659</u>		<u>12,026</u>	<u>20,775</u>
Net Income (Loss)	18,471	(5,949)	1,033	13,555	22,625
Retained Earnings-January 1	<u>308,073</u>	<u>301,295</u>	<u>5,498</u>	<u>614,866</u>	<u>592,241</u>
Retained Earnings-December 31	<u><u>326,544</u></u>	<u><u>295,346</u></u>	<u><u>6,531</u></u>	<u><u>628,421</u></u>	<u><u>614,866</u></u>

WATER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Revenues</u>	<u>2018</u>	<u>2017</u>
Water Collection	53,716	53,864
Total Operating Revenues	<u>53,716</u>	<u>53,864</u>
<u>Expenses</u>		
Maintenance and Operational	10,255	9,050
Dues	275	275
Insurance	1,474	2,298
Special Fees and Taxes	1,582	1,561
Salaries	13,742	12,977
Payroll Taxes and Benefits	2,058	2,570
Utilities		336
Miscellaneous	66	254
Depreciation	16,660	16,386
Interfund Service Charges	500	500
Total Operating Expense	<u>46,612</u>	<u>46,207</u>
Operating Income (Loss)	7,104	7,657
<u>Non-Operating Revenues (Expenses)</u>		
Special Assessment Income	14,058	12,566
Interest Income	131	72
State Grant		11,500
Amortization of Bond Discount	(272)	(272)
Interest Expense	(2,550)	(3,315)
Total Non-Operating Revenues (Expenses)	<u>11,367</u>	<u>20,551</u>
Net Income (Loss)	18,471	28,208
Retained Earnings-January 1	<u>308,073</u>	<u>279,865</u>
Retained Earnings-December 31	<u><u>326,544</u></u>	<u><u>308,073</u></u>

SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Revenues</u>	<u>2018</u>	<u>2017</u>
Sewer Charge	36,558	38,166
Total Operating Revenues	<u>36,558</u>	<u>38,166</u>
<u>Expenses</u>		
Maintenance and Operational	3,657	3,421
Utilities	2,258	4,895
Salaries	15,495	14,636
Payroll Taxes and Benefits	2,321	2,870
Depreciation	18,935	18,132
Interfund Service Charges	500	500
Total Operating Expense	<u>43,166</u>	<u>44,454</u>
Operating Income (Loss)	(6,608)	(6,288)
<u>Non-Operating Revenues (Expenses)</u>		
Miscellaneous Revenue	401	
Special Assessment Income		68
Interest Income	258	156
Total Non-Operating Revenues (Expenses)	<u>659</u>	<u>224</u>
Net Income (Loss)	(5,949)	(6,064)
Retained Earnings-January 1	<u>301,295</u>	<u>307,359</u>
Retained Earnings-December 31	<u><u>295,346</u></u>	<u><u>301,295</u></u>

GARBAGE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Revenues</u>	<u>2018</u>	<u>2017</u>
Garbage Collection	18,306	18,635
Total Operating Revenues	<u>18,306</u>	<u>18,635</u>
<u>Expenses</u>		
Administrative	36	36
Garbage Collection Fees	5,736	5,995
Special Fees and Taxes	1,641	2,587
Salaries	6,729	6,342
Payroll Taxes and Benefits	1,008	1,026
City Clean-Up	2,123	2,168
Total Operating Expense	<u>17,273</u>	<u>18,154</u>
Net Income	1,033	481
Retained Earnings-January 1	5,498	5,017
Retained Earnings-December 31	<u>6,531</u>	<u>5,498</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>
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>30,000.00</u>	<u>2,040.00</u>	<u>32,040.00</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>
					21,459.19
02-09-19	4.25%	6,868.98	912.02	7,781.00	14,590.21
02-09-20	4.25%	7,160.92	620.08	7,781.00	7,429.29
02-09-21	4.25%	7,429.29	351.70	7,781.00	0.00
Totals		<u>21,459.19</u>	<u>1,883.80</u>	<u>23,343.00</u>	

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

Honorable Mayor and
Members of the City Council
Ruthton, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ruthton, Ruthton, Minnesota as of and for the year ended December 31, 2018, 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 17, 2019.

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 (2018-I and 2018-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 Cities*, 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.

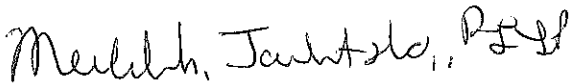
In connection with our audit, nothing came to our attention that caused us to believe that the City of Ruthton, Ruthton, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the schedule of findings and recommendations. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Ruthton, Ruthton, Minnesota's noncompliance with the above reference provisions.

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

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

Purpose of this Report

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


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

June 17, 2019

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

2018-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.

2018-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.