

CITY OF SPRING GROVE  
SPRING GROVE, MINNESOTA  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2018

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Spring Grove, Minnesota  
Annual Financial Report  
Table of Contents  
For the Year Ended December 31, 2018

	Page No.
<b>Introductory Section</b>	
Elected and Appointed Officials	9
<b>Financial Section</b>	
Independent Auditor's Report	13
Management's Discussion and Analysis	17
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Position	31
Statement of Activities	32
Fund Financial Statements	
Governmental Funds	
Balance Sheet	36
Reconciliation of the Balance Sheet to the Statement of Net Position	37
Statement of Revenues, Expenditures and Changes in Fund Balances	38
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	39
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
General Fund	40
Proprietary Funds	
Statements of Net Position	41
Statements of Revenues, Expenses and Changes in Net Position	42
Statements of Cash Flows	43
Notes to the Financial Statements	45
<b>Required Supplementary Information</b>	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	76
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	76
Notes to the Required Supplementary Information - General Employees Retirement Fund	76
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - Public Employees Police and Fire Fund	78
Schedule of Employer's Public Employees Retirement Association Contributions - Public Employees Police and Fire Fund	78
Notes to the Required Supplementary Information - Public Employees Police and Fire Fund	78
Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios	79
Notes to the Required Supplementary Information - Fire Relief Association	79
<b>Combining and Individual Fund Financial Statements and Schedules</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet	82
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	83
Nonmajor Special Revenue Funds	
Combining Balance Sheet	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	86
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Community Building Fund	88
Cable TV Fund	89
Library Fund	91
Nonmajor Capital Projects Funds	
Combining Balance Sheet	92
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	94

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Spring Grove, Minnesota  
 Annual Financial Report  
 Table of Contents (Continued)  
 For the Year Ended December 31, 2018

	<u>Page No.</u>
General Fund	
Comparative Balance Sheets	96
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	97
Debt Service Funds	
Combining Balance Sheet	102
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	104
Summary Financial Report -	
Revenues and Expenditures for General Operations - Governmental Funds	106
<b>Other Required Reports</b>	
Independent Auditor's Report on	
Minnesota Legal Compliance	109
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 <i>Government Auditing Standards</i>	110
Schedule of Findings and Responses	112

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

INTRODUCTORY SECTION  
CITY OF SPRING GROVE  
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

THIS PAGE IS LEFT  
BLANK INTENTIONALLY



City of Spring Grove, Minnesota  
Elected and Appointed Officials  
For the Year Ended December 31, 2018

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sarah Schroeder	Mayor	12/31/20
Karen Folstad	Council	12/31/20
Travis Torgerson	Council	12/31/20
Scott Solberg	Council	12/31/18
Todd Bornholdt	Council	12/31/18

**Appointed**

Erin Konkel	City Clerk/Treasurer
-------------	----------------------

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

FINANCIAL SECTION  
CITY OF SPRING GROVE  
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

THIS PAGE IS LEFT  
BLANK INTENTIONALLY



## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Spring Grove, Minnesota

### Report on 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 Spring Grove, Minnesota (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

## Other Matters

### ***Matter of Emphasis***

As described in Note 7 to the basic financial statements, the City adopted the provision of the Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*, for the year ended December 31, 2018. Adoption of the provision of this statement results in significant changes resulting in a prior period restatement.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Employer's Contributions, the related note disclosures, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, starting on page 76 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 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***

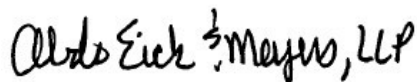
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic 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 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 our report dated on June 20, 2019, our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's 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's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
June 20, 2019

THIS PAGE IS LEFT  
BLANK INTENTIONALLY



## Management's Discussion and Analysis

As management of the City of Spring Grove, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2018.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$8,748,323 (*net position*). Of this amount, \$2,826,173 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$421,865, as compared to an increase of \$957,568 in the previous year. The majority of this increase is attributable to income from operations in the business-type activities, particularly the Water Utility and Electric Utility funds.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,021,126, a decrease of \$467,713 in comparison with the prior year. Approximately 33.9 percent of this total amount, \$685,826, is available for spending at the City's discretion although nearly half of this balance has been assigned for specific purposes. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been restricted for economic development of \$134,189, for debt service of \$465,490, for capital purchases of \$15,440 and for law enforcement of \$3,391. Committed fund balances in the City include amounts for economic development of \$354,278, for Cable TV operations of \$7,867 and for library operations of \$336,312. Additionally, amounts are reported as nonspendable as they are not available for spending as follows: prepaid items - \$18,333.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1  
Required Components of the  
City's Annual Financial Report**

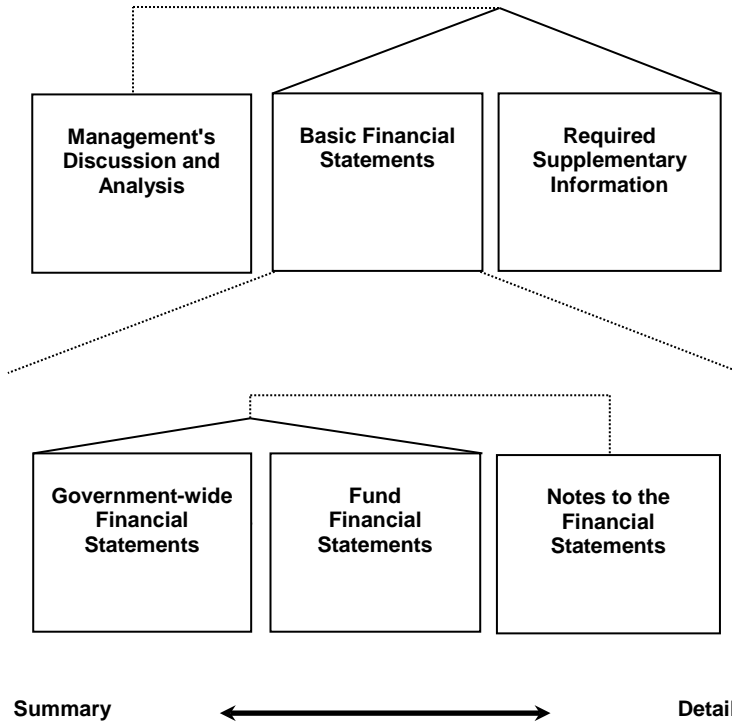


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure 2**  
**Major Features of the Government-wide and Fund Financial Statements**

	<b>Fund Financial Statements</b>		
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City’s assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, economic development, miscellaneous and interest and other costs on long-term debt. The business-type activities of the City include water utility, sewer utility, electric utility and municipal liquor store.

The government-wide financial statements can be found starting on page 31 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 23 individual governmental funds, five of which are Debt Service funds, which are reported as one fund for financial reporting purposes. 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, the Nisse Treehouse Tax Increment District 1-3, the Spring Grove Soda Tax Increment District 1-4 and the Debt Service funds, all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund. Budgetary comparison statements have been provided for the General fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found starting on page 37 of this report.

**Proprietary funds.** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water utility, sewer utility, electric utility and municipal liquor store 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 each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found starting on page 41 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 49 of this report.

**Required supplementary information.** The required supplementary information can be found starting on page 76 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules can be found starting on page 82 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$8,748,323 at the close of the most recent fiscal year.

A large portion of the City's net position (66.0 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Spring Grove's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Current and Other Assets	\$ 2,255,647	\$ 2,624,665	\$ (369,018)	\$ 2,746,617	\$ 2,581,696	\$ 164,921
Capital assets	3,975,591	3,608,314	367,277	4,115,748	4,212,949	(97,201)
Total Assets	<u>6,231,238</u>	<u>6,232,979</u>	<u>(1,741)</u>	<u>6,862,365</u>	<u>6,794,645</u>	<u>67,720</u>
Deferred Outflows of Resources						
Deferred pension resources	215,289	-	215,289	36,182	-	36,182
Long-term Liabilities						
Outstanding	2,068,156	1,926,163	141,993	1,962,076	1,911,753	50,323
Other liabilities	62,913	47,985	14,928	163,157	273,115	(109,958)
Total Liabilities	<u>2,131,069</u>	<u>1,974,148</u>	<u>156,921</u>	<u>2,125,233</u>	<u>2,184,868</u>	<u>(59,635)</u>
Deferred Inflows of Resources						
Deferred pension resources	297,106	-	297,106	43,343	-	43,343
Net Position						
Net investment in capital assets	3,395,591	2,998,314	397,277	2,373,539	2,346,908	26,631
Restricted	153,020	132,883	20,137	-	-	-
Unrestricted	469,741	1,127,634	(657,893)	2,356,432	2,262,869	93,563
Total Net Position	<u>\$ 4,018,352</u>	<u>\$ 4,258,831</u>	<u>\$ (240,479)</u>	<u>\$ 4,729,971</u>	<u>\$ 4,609,777</u>	<u>\$ 120,194</u>

An additional portion of the City's net position (1.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (32.3 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position for governmental and business-type activities.

**Governmental activities.** Governmental activities increased the City's net position by \$115,404, thereby accounting for an increase of 27.4 percent of the total growth in the net position of the City. Key elements of this increase are as follows:

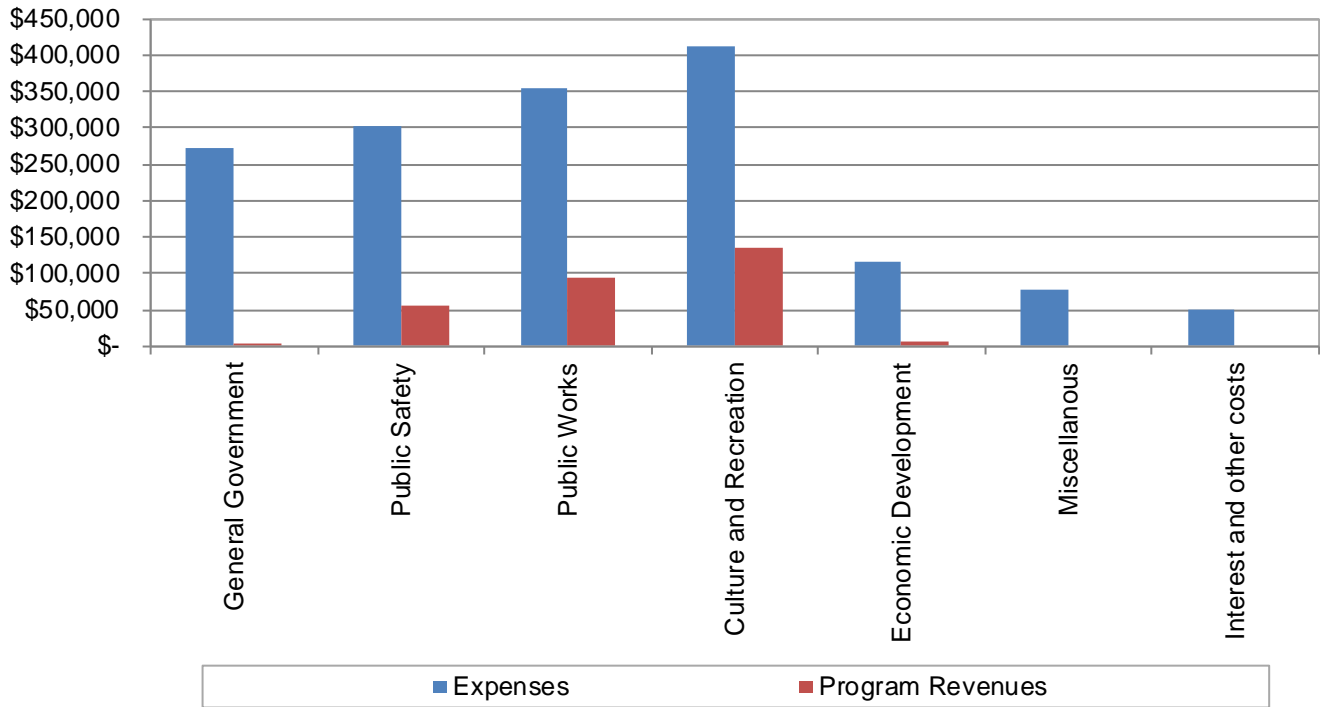
### City of Spring Grove's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 167,222	\$ 168,442	\$ (1,220)	\$ 2,594,795	\$ 2,663,272	\$ (68,477)
Operating grants and contributions	81,591	102,501	(20,910)	-	-	-
Capital grants and contributions	45,811	86,523	(40,712)	20,659	305,259	(284,600)
General revenues						
Property taxes/tax increments	643,103	632,582	10,521	-	-	-
Other taxes	10,889	10,700	189	-	-	-
Grants and contributions not restricted to specific programs	453,684	453,759	(75)	-	-	-
Unrestricted investment earnings	11,503	10,979	524	17,170	7,604	9,566
Miscellaneous	71,196	202,135	(130,939)	22,767	26,111	(3,344)
Total Revenues	<u>1,484,999</u>	<u>1,667,621</u>	<u>(182,622)</u>	<u>2,655,391</u>	<u>3,002,246</u>	<u>(346,855)</u>
Expenses						
General government	271,816	258,548	13,268	-	-	-
Public safety	301,306	343,157	(41,851)	-	-	-
Public works	352,956	364,224	(11,268)	-	-	-
Culture and recreation	412,265	400,348	11,917	-	-	-
Economic development	115,156	150,151	(34,995)	-	-	-
Miscellaneous	78,172	15,727	62,445	-	-	-
Interest and other costs	50,686	54,584	(3,898)	-	-	-
Water utility	-	-	-	209,096	200,769	8,327
Sewer utility	-	-	-	220,797	217,993	2,804
Electric utility	-	-	-	1,289,062	1,303,253	(14,191)
Municipal liquor store	-	-	-	417,213	403,545	13,668
Total Expenses	<u>1,582,357</u>	<u>1,586,739</u>	<u>(4,382)</u>	<u>2,136,168</u>	<u>2,125,560</u>	<u>10,608</u>
Change in Net Position before transfers	(97,358)	80,882	(178,240)	519,223	876,686	(357,463)
Transfers	(28,712)	241,853	(270,565)	28,712	(241,853)	270,565
Contribution of capital assets	241,474	-	241,474	(241,474)	-	(241,474)
Change in Net Position	115,404	322,735	(207,331)	306,461	634,833	(328,372)
Net Position - January 1 as Restated (Note 8)	<u>3,902,948</u>	<u>3,936,096</u>	<u>(33,148)</u>	<u>4,423,510</u>	<u>3,974,944</u>	<u>448,566</u>
Net Position - December 31	<u>\$ 4,018,352</u>	<u>\$ 4,258,831</u>	<u>\$ (240,479)</u>	<u>\$ 4,729,971</u>	<u>\$ 4,609,777</u>	<u>\$ 120,194</u>

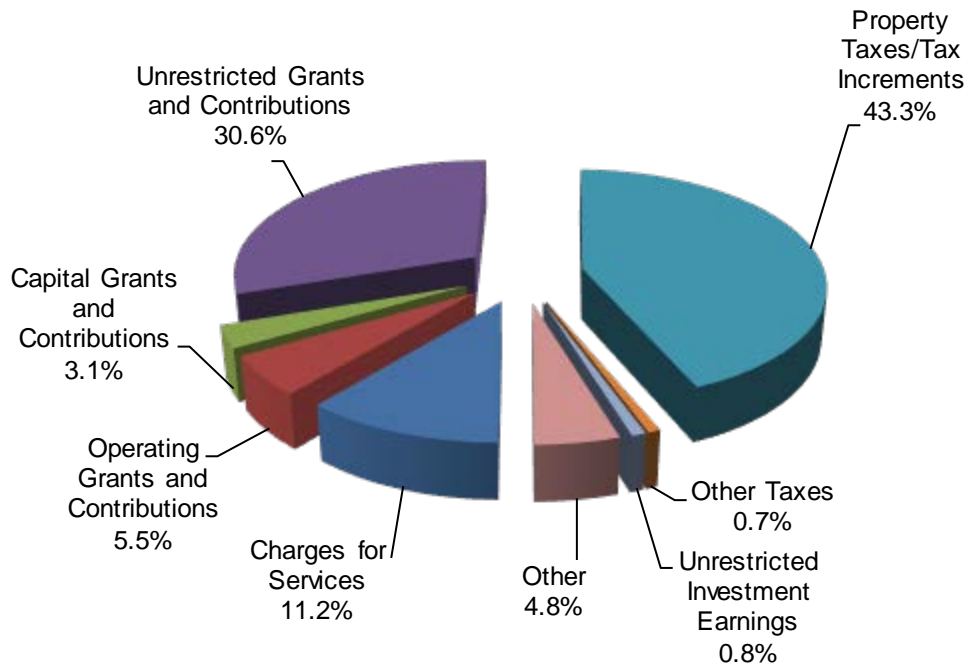
Property tax levies remained unchanged in the current year.

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

### Expenses and Program Revenues - Governmental Activities



### Revenues by Source - Governmental Activities

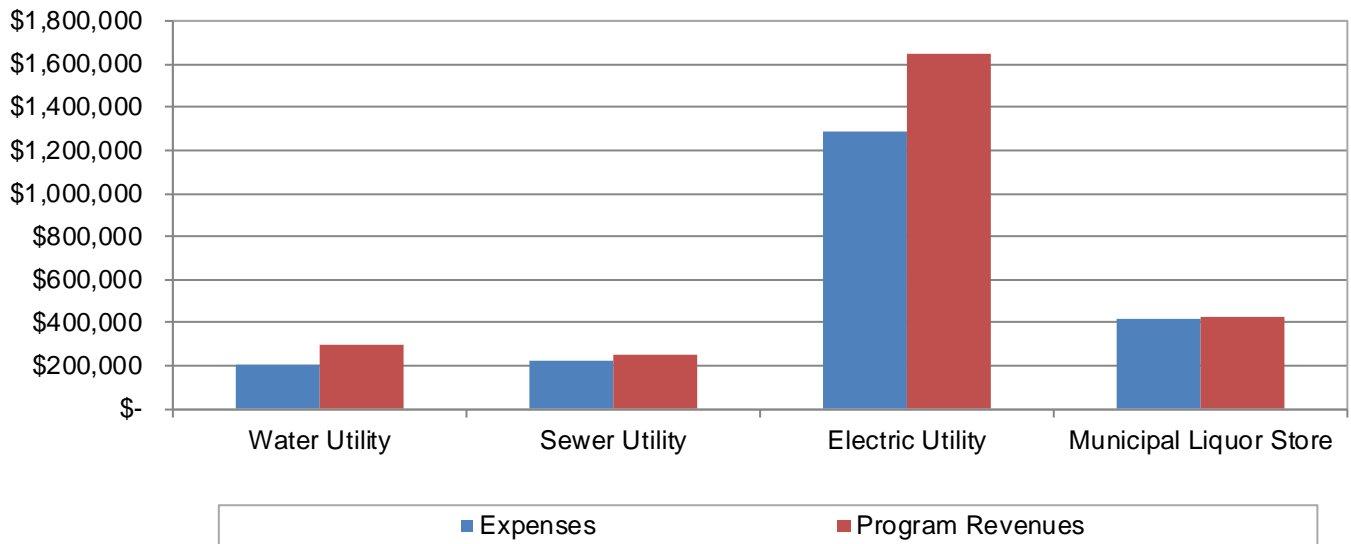


For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

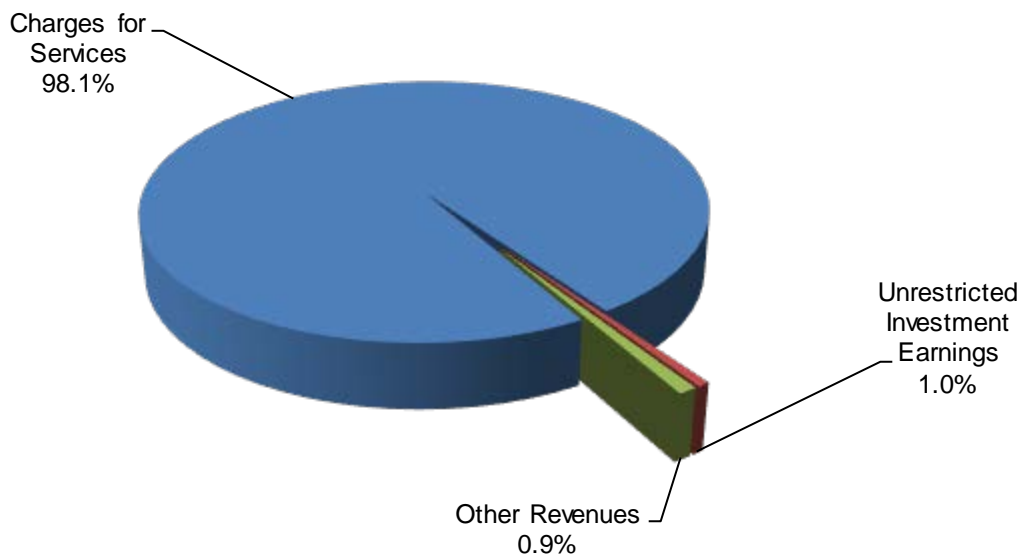
**Business-type activities.** Business-type activities increased the City's net position by \$306,461, thereby accounting for 72.6 percent of the total growth in the City's net position. Key elements of this increase are as follows:

- The Water Utility and Electric Utility funds were the strongest activities during 2018 resulting in operating income of \$130,006 and \$356,376, respectively.
- The Sewer Utility and Municipal Liquor Store funds both had operating income for the year of \$32,035 and \$6,337, respectively.

### Expenses and Program Revenues - Business-type Activities



### Revenues by Source - Business-type Activities





## Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

*General Fund* - The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$617,051, most of which was unassigned, but designed to assure that the City has adequate funding available for at least six months of General fund expenditures and for capital expenditures as detailed on the City's capital improvement plan. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 44.6 percent of fund expenditures.

The fund balance of the City's General fund decreased by \$179,294 during the current fiscal year. The key factors in this decrease were:

- Intergovernmental fire aid revenues were under budget by \$11,975.
- Current expenditures for public works were over budget by \$89,198 mainly attributable to unplanned repairs.
- Current expenditures for parks were over budget by \$19,498 mainly attributable to engineering fees for an unplanned project.
- Capital outlay was over budget by \$251,463. The majority of this was due to public works and culture and recreation being over budget by \$168,981 and \$42,096, respectively, related to unbudgeted purchase of vehicles and a playground project.
- Transfers out exceeded budget amounts by \$275,402 due to various approvals via Council Resolutions.

*Nisse Treehouse Tax Increment District 1-3* - The Nisse Treehouse Tax Increment District 1-3 has a total fund balance deficit of \$156,951. The net decrease in fund balance during the current year is \$154,951. This majority of this decrease is attributable to transfers out related to forgivable loans totaling \$155,000.

*Spring Grove Soda Tax Increment District 1-4* - The Spring Grove Soda Tax Increment District 1-4 has a total fund balance deficit of \$185,131. The net decrease in fund balance during the current year is \$177,381. This majority of this decrease is attributable to transfers related to qualifying capital expenditures in the TIF District totaling \$176,231.

*Debt Service fund* - The Debt Service fund has a total fund balance of \$465,568, which is restricted for the payment of debt service. The net increase in fund balance during the current year in the Debt Service fund was \$15,810. This increase was mainly due to property tax revenue, assessment revenue, and transfers in exceeding scheduled principal and interest payments.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$2,356,432. The total increase in net position for the funds was \$306,461. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

## General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. The budget called for an increase in fund balance of \$138,275. Revenues exceeded expectations by \$144,097 and expenditures were over budget by \$236,329 in 2018. Additionally, transfers in exceeded budget by \$50,065 and transfers out exceeded budget by \$275,402.

## Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of December 31, 2018 amounts to \$8,091,339 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 3.5 percent (a 10.2 percent increase for governmental activities and a 2.3 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Commercial park project for streets, water and sewer was completed and totaled \$730,286.
- Purchase of fire hall expansion land totaling \$97,600.
- Purchase of a building for the electric department totaling \$92,965.
- Purchase of 2018 Ford F550 cab and chassis for \$73,526.
- Construction in progress related to the Storm Water improvement project totaled \$114,785.
- Construction in progress related to the Playground project totaled \$54,528.

Additional information on the City's capital assets can be found in Note 3C starting on page 55 of this report.

### City of Spring Grove's Capital Assets (net of depreciation)

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Land	\$ 172,500	\$ 119,218	\$ 53,282	\$ 41,614	\$ 41,614	\$ -
Construction in Progress	171,703	2,390	169,313	26,130	619,471	(593,341)
Land Improvements	37,117	39,874	(2,757)	-	-	-
Buildings and Improvements	1,504,228	1,633,950	(129,722)	372,858	291,427	81,431
Systems and Infrastructure	1,672,268	1,462,248	210,020	3,307,109	2,852,525	454,584
Equipment and Machinery	417,775	350,634	67,141	368,037	407,912	(39,875)
<b>Total</b>	<b>\$ 3,975,591</b>	<b>\$ 3,608,314</b>	<b>\$ 367,277</b>	<b>\$ 4,115,748</b>	<b>\$ 4,212,949</b>	<b>\$ (97,201)</b>

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,411,000 which consisted of G.O. revenue bonds and revenue bonds. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

### City of Spring Grove's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
General Obligation Bonds	\$ 855,000	\$ 950,000	\$ (95,000)	\$ -	\$ -	\$ -
General Obligation Tax Increment Bonds	271,000	325,000	(54,000)	-	-	-
General Obligation Improvement Bonds	580,000	610,000	(30,000)	-	-	-
General Obligation Revenue Bonds	-	-	-	1,705,000	1,819,000	(114,000)
Notes Payable	-	-	-	37,209	47,041	(9,832)
<b>Total</b>	<b>\$ 1,706,000</b>	<b>\$ 1,885,000</b>	<b>\$ (179,000)</b>	<b>\$ 1,742,209</b>	<b>\$ 1,866,041</b>	<b>\$ (123,832)</b>

The City's total debt decreased by, or 8.1 percent during the current fiscal year due to the retirement of debt.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. The current debt limitation for the City is \$1,507,206. This limitation is increased by the City's debt restrictions. The City currently has no general obligation debt subject to this limit.

Additional information on the City's long-term debt can be found in Note 3E starting on page 58 of this report.

#### Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Houston County is currently 5.0 percent, which is higher than the rate of 3.2 percent a year ago. This compares unfavorably to the State's average unemployment rate of 3.9 percent and the national average rate of 4.1 percent.
- Property valuations within the City remain strong and growing.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2019 fiscal year.

#### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk/Treasurer, City of Spring Grove, 118 1<sup>st</sup> Avenue NW, Spring Grove, Minnesota 55974.

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SPRING GROVE  
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Spring Grove, Minnesota  
Statement of Net Position  
December 31, 2018

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and temporary investments	\$ 2,310,929	\$ 2,192,757	\$ 4,503,686
Receivables			
Delinquent taxes	12,846	-	12,846
Accounts	19,019	175,892	194,911
Loans, net of allowance	41,480	-	41,480
Special assessments	92,086	-	92,086
Intergovernmental	16,947	-	16,947
Internal balances	(342,082)	342,082	-
Inventories	-	34,747	34,747
Prepaid items	18,333	1,139	19,472
Net pension asset	86,089	-	86,089
Capital assets			
Nondepreciable	344,203	67,744	411,947
Depreciable, net of accumulated depreciation	3,631,388	4,048,004	7,679,392
Total Assets	<u>6,231,238</u>	<u>6,862,365</u>	<u>13,093,603</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension resources	<u>215,289</u>	<u>36,182</u>	<u>251,471</u>
<b>Liabilities</b>			
Accounts payable	32,555	125,290	157,845
Due to other governments	192	9,525	9,717
Accrued interest payable	19,413	23,038	42,451
Accrued salaries payable	9,753	5,304	15,057
Unearned revenue	1,000	-	1,000
Noncurrent liabilities			
Due within one year	207,708	145,395	353,103
Due in more than one year	1,860,448	1,816,681	3,677,129
Total Liabilities	<u>2,131,069</u>	<u>2,125,233</u>	<u>4,256,302</u>
<b>Deferred Inflows of Resources</b>			
Deferred pension resources	<u>297,106</u>	<u>43,343</u>	<u>340,449</u>
<b>Net Position</b>			
Net investment in capital assets	3,395,591	2,373,539	5,769,130
Restricted			
Economic development loans	134,189	-	134,189
Capital purchases	15,440	-	15,440
Law enforcement	3,391	-	3,391
Unrestricted	<u>469,741</u>	<u>2,356,432</u>	<u>2,826,173</u>
Total Net Position	<u>\$ 4,018,352</u>	<u>\$ 4,729,971</u>	<u>\$ 8,748,323</u>

The notes to the financial statements are an integral part of this statement.

City of Spring Grove, Minnesota  
Statement of Activities  
For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General government	\$ 271,816	\$ -	\$ 562	\$ -
Public safety	301,306	14,110	28,244	14,136
Public works	352,956	77,112	-	17,735
Culture and recreation	412,265	76,000	45,785	13,940
Economic development	115,156	-	7,000	-
Miscellaneous	78,172	-	-	-
Interest and other costs	50,686	-	-	-
<b>Total Governmental Activities</b>	<u>1,582,357</u>	<u>167,222</u>	<u>81,591</u>	<u>45,811</u>
<b>Business-type Activities</b>				
Water utility	209,096	295,694	-	-
Sewer utility	220,797	232,071	-	20,659
Electric utility	1,289,062	1,643,480	-	-
Municipal liquor store	417,213	423,550	-	-
<b>Total Business-type Activities</b>	<u>2,136,168</u>	<u>2,594,795</u>	<u>-</u>	<u>20,659</u>
<b>Total</b>	<u>\$ 3,718,525</u>	<u>\$ 2,762,017</u>	<u>\$ 81,591</u>	<u>\$ 66,470</u>

General Revenues

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Tax increments
- Franchise tax
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Other revenues

Transfers

Contribution of capital assets

Total General Revenues and Transfers

Change in Net Position

Net Position - January 1 as restated (Note 8)

Net Position, December 31

The notes to the financial statements are an integral part of this statement.



Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (271,254)		\$ (271,254)
(244,816)		(244,816)
(258,109)		(258,109)
(276,540)		(276,540)
(108,156)		(108,156)
(78,172)		(78,172)
(50,686)		(50,686)
<u>(1,287,733)</u>		<u>(1,287,733)</u>
-	\$ 86,598	86,598
-	31,933	31,933
-	354,418	354,418
-	6,337	6,337
<u>-</u>	<u>479,286</u>	<u>479,286</u>
<u>(1,287,733)</u>	<u>479,286</u>	<u>(808,447)</u>
500,652	-	500,652
117,107	-	117,107
25,344	-	25,344
10,889	-	10,889
453,684	-	453,684
11,503	17,170	28,673
71,196	22,767	93,963
(28,712)	28,712	-
241,474	(241,474)	-
<u>1,403,137</u>	<u>(172,825)</u>	<u>1,230,312</u>
115,404	306,461	421,865
<u>3,902,948</u>	<u>4,423,510</u>	<u>8,326,458</u>
<u>\$ 4,018,352</u>	<u>\$ 4,729,971</u>	<u>\$ 8,748,323</u>

The notes to the financial statements are an integral part of this statement.

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

FUND FINANCIAL STATEMENTS

CITY OF SPRING GROVE  
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

City of Spring Grove, Minnesota

Balance Sheet

Governmental Funds

December 31, 2018

	General	Debt Service	Nisse Treehouse Tax Increment District 1-3	Spring Grove Soda Tax Increment District 1-4	Other Governmental Funds	Totals
<b>Assets</b>						
Cash and temporary investments	\$ 596,627	\$ 508,258	\$ -	\$ -	\$ 1,206,044	\$ 2,310,929
Receivables						
Delinquent taxes	10,161	2,530	-	-	155	12,846
Accounts	16,101	-	-	-	2,918	19,019
Loans, net of allowance	-	-	-	-	41,480	41,480
Special assessments	-	92,086	-	-	-	92,086
Intergovernmental	15,148	1,799	-	-	-	16,947
Advances to other funds	-	-	-	-	43,567	43,567
Prepaid items	17,989	78	-	-	266	18,333
Total Assets	<u>\$ 656,026</u>	<u>\$ 604,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,294,430</u>	<u>\$ 2,555,207</u>
<b>Liabilities</b>						
Accounts payable	\$ 19,986	\$ -	\$ -	\$ -	\$ 12,569	\$ 32,555
Due to other governments	163	-	-	-	29	192
Advances from other funds	-	43,567	156,951	185,131	-	385,649
Accrued salaries payable	8,665	-	-	-	1,088	9,753
Unearned revenue	-	1,000	-	-	-	1,000
Total Liabilities	<u>28,814</u>	<u>44,567</u>	<u>156,951</u>	<u>185,131</u>	<u>13,686</u>	<u>429,149</u>
<b>Deferred Inflows of Resources</b>						
Unavailable revenue						
Delinquent taxes	10,161	2,530	-	-	155	12,846
Special assessments	-	92,086	-	-	-	92,086
Total Deferred Inflows of Resources	<u>10,161</u>	<u>94,616</u>	<u>-</u>	<u>-</u>	<u>155</u>	<u>104,932</u>
<b>Fund Balances</b>						
Nonspendable						
Prepaid items	17,989	78	-	-	266	18,333
Restricted						
Economic development	-	-	-	-	134,189	134,189
Debt service	-	465,490	-	-	-	465,490
Capital purchases	-	-	-	-	15,440	15,440
Law enforcement	-	-	-	-	3,391	3,391
Committed						
Economic development	-	-	-	-	354,278	354,278
Cable TV operations	-	-	-	-	7,867	7,867
Library operations	-	-	-	-	336,312	336,312
Assigned						
Capital purchases	-	-	-	-	430,124	430,124
Unassigned	599,062	-	(156,951)	(185,131)	(1,278)	255,702
Total Fund Balances	<u>617,051</u>	<u>465,568</u>	<u>(156,951)</u>	<u>(185,131)</u>	<u>1,280,589</u>	<u>2,021,126</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 656,026</u>	<u>\$ 604,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,294,430</u>	<u>\$ 2,555,207</u>

The notes to the financial statements are an integral part of this statement.

City of Spring Grove, Minnesota  
 Reconciliation of the Balance Sheet  
 to the Statement of Net Position  
 Governmental Funds  
 December 31, 2018

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

Total Fund Balances - Governmental Funds	\$ 2,021,126
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	3,975,591
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of	
Compensated absences payable	(47,421)
Pension liability	(228,646)
Bonds payable	(1,706,000)
Long-term assets are not available to pay current-period expenditures and therefore are unavailable in the funds.	
Delinquent property taxes receivable	12,846
Special assessments receivable	92,086
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	215,289
Deferred inflows of pension resources	(297,106)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(19,413)</u>
Total Net Position - Governmental Activities	<u><u>\$ 4,018,352</u></u>

The notes to the financial statements are an integral part of this statement.

City of Spring Grove, Minnesota  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2018

	General	Debt Service	Nisse Treehouse Tax Increment District 1-3	Spring Grove Soda Tax Increment District 1-4	Other Governmental Funds	Totals
<b>Revenues</b>						
Taxes	\$ 483,587	\$ 132,191	\$ 10,805	\$ -	\$ 25,428	\$ 652,011
Special assessments	-	10,265	-	-	-	10,265
Licenses and permits	5,802	-	-	-	-	5,802
Intergovernmental	463,523	-	-	-	16,475	479,998
Charges for services	154,879	-	-	-	6,615	161,494
Fines and forfeits	5,728	-	-	-	-	5,728
Investment earnings	3,266	1,145	-	-	7,092	11,503
Miscellaneous	43,733	32,182	-	-	83,823	159,738
<b>Total Revenues</b>	<u>1,160,518</u>	<u>175,783</u>	<u>10,805</u>	<u>-</u>	<u>139,433</u>	<u>1,486,539</u>
<b>Expenditures</b>						
<b>Current</b>						
General government	278,566	-	-	-	-	278,566
Public safety	258,339	-	-	-	10,390	268,729
Public works	220,783	-	-	-	-	220,783
Culture and recreation	185,684	-	-	-	150,190	335,874
Economic development	-	12,509	10,756	1,150	86,569	110,984
Miscellaneous	-	-	-	-	14,622	14,622
<b>Capital outlay</b>						
General government	3,316	-	-	-	-	3,316
Public safety	98,070	-	-	-	50,045	148,115
Public works	273,981	-	-	-	2,126	276,107
Culture and recreation	64,796	-	-	-	10,973	75,769
Miscellaneous	-	-	-	-	158	158
<b>Debt service</b>						
Principal	-	179,000	-	-	-	179,000
Interest and other costs	-	52,399	-	-	-	52,399
<b>Total Expenditures</b>	<u>1,383,535</u>	<u>243,908</u>	<u>10,756</u>	<u>1,150</u>	<u>325,073</u>	<u>1,964,422</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(223,017)</u>	<u>(68,125)</u>	<u>49</u>	<u>(1,150)</u>	<u>(185,640)</u>	<u>(477,883)</u>
<b>Other Financing Sources (Uses)</b>						
Sale of capital assets	-	-	-	-	38,882	38,882
Transfers in	319,125	83,935	-	-	358,804	761,864
Transfers out	(275,402)	-	(155,000)	(176,231)	(183,943)	(790,576)
<b>Total Other Financing Sources (Uses)</b>	<u>43,723</u>	<u>83,935</u>	<u>(155,000)</u>	<u>(176,231)</u>	<u>213,743</u>	<u>10,170</u>
<b>Net Change in Fund Balances</b>	(179,294)	15,810	(154,951)	(177,381)	28,103	(467,713)
<b>Fund Balances, January 1</b>	<u>796,345</u>	<u>449,758</u>	<u>(2,000)</u>	<u>(7,750)</u>	<u>1,252,486</u>	<u>2,488,839</u>
<b>Fund Balances, December 31</b>	<u>\$ 617,051</u>	<u>\$ 465,568</u>	<u>\$ (156,951)</u>	<u>\$ (185,131)</u>	<u>\$ 1,280,589</u>	<u>\$ 2,021,126</u>

The notes to the financial statements are an integral part of this statement.

City of Spring Grove, Minnesota  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances  
 to the Statement of Activities  
 Governmental Funds  
 For the Year Ended December 31, 2018

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

Net change in fund balances - governmental funds	\$ (467,713)
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	395,888
Depreciation expense	(198,522)
Capital contributions from business-type activities	241,474
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Book value of trade-in of capital assets	31,081
<p>The effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.</p>	
Loss on capital asset transactions	(102,644)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	179,000
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	1,713
<p>Long-term pension activity is not reported in governmental funds.</p>	
Negative pension expense	42,925
Pension revenue from state contributions	2,495
<p>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.</p>	
Property taxes	1,981
Special assessments	(6,016)
<p>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.</p>	
Compensated absences	(6,258)
Change in Net Position - Governmental Activities	\$ 115,404

The notes to the financial statements are an integral part of this statement.

City of Spring Grove, Minnesota  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 398,065	\$ 398,065	\$ 483,587	\$ 85,522
Licenses and permits	4,400	4,400	5,802	1,402
Intergovernmental	473,506	473,506	463,523	(9,983)
Charges for services	100,950	100,950	154,879	53,929
Fines and forfeits	6,000	6,000	5,728	(272)
Investment earnings	1,500	1,500	3,266	1,766
Miscellaneous	32,000	32,000	43,733	11,733
Total Revenues	<u>1,016,421</u>	<u>1,016,421</u>	<u>1,160,518</u>	<u>144,097</u>
Expenditures				
Current				
General government	342,719	342,719	278,566	64,153
Public safety	319,579	319,579	258,339	61,240
Public works	131,585	131,585	220,783	(89,198)
Culture and recreation	164,623	164,623	185,684	(21,061)
Capital outlay				
General government	4,000	4,000	3,316	684
Public safety	57,000	57,000	98,070	(41,070)
Public works	105,000	105,000	273,981	(168,981)
Culture and recreation	22,700	22,700	64,796	(42,096)
Total Expenditures	<u>1,147,206</u>	<u>1,147,206</u>	<u>1,383,535</u>	<u>(236,329)</u>
Deficiency of Revenues Under Expenditures	<u>(130,785)</u>	<u>(130,785)</u>	<u>(223,017)</u>	<u>(92,232)</u>
Other Financing Sources (Uses)				
Transfers in	269,060	269,060	319,125	50,065
Transfers out	-	-	(275,402)	(275,402)
Total Other Financing Sources (Uses)	<u>269,060</u>	<u>269,060</u>	<u>43,723</u>	<u>(225,337)</u>
Net Change in Fund Balances	138,275	138,275	(179,294)	(317,569)
Fund Balances, January 1	<u>796,345</u>	<u>796,345</u>	<u>796,345</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 934,620</u>	<u>\$ 934,620</u>	<u>\$ 617,051</u>	<u>\$ (317,569)</u>

The notes to the financial statements are an integral part of this statement.



City of Spring Grove, Minnesota  
Statements of Net Position  
Proprietary Funds  
December 31, 2018

	Business-type Activities - Enterprise Funds				
	620	625	615	609	Total
	Water Utility	Sewer Utility	Electric Utility	Municipal Liquor Store	
<b>Assets</b>					
<b>Current Assets</b>					
Cash and temporary investments	\$ 552,720	\$ 201,998	\$ 1,305,160	\$ 132,879	\$ 2,192,757
Receivables					
Accounts	23,987	19,540	132,365	-	175,892
Inventories	-	-	-	34,747	34,747
Prepaid items	43	119	578	399	1,139
<b>Total Current Assets</b>	<u>576,750</u>	<u>221,657</u>	<u>1,438,103</u>	<u>168,025</u>	<u>2,404,535</u>
<b>Noncurrent Assets</b>					
Advance to other funds - noncurrent	-	-	569,324	-	569,324
<b>Capital assets</b>					
Land	-	34,114	-	7,500	41,614
Construction in progress	15,762	10,368	-	-	26,130
Buildings and improvements	-	2,153,774	942,190	101,387	3,197,351
Systems and infrastructure	2,576,930	1,365,537	299,211	-	4,241,678
Equipment and machinery	37,232	307,765	302,876	54,680	702,553
Less accumulated depreciation	(610,704)	(2,388,809)	(979,286)	(114,779)	(4,093,578)
<b>Total Capital Assets</b> (Net of Accumulated Depreciation)	<u>2,019,220</u>	<u>1,482,749</u>	<u>564,991</u>	<u>48,788</u>	<u>4,115,748</u>
<b>Total Noncurrent Assets</b>	<u>2,019,220</u>	<u>1,482,749</u>	<u>1,134,315</u>	<u>48,788</u>	<u>4,685,072</u>
<b>Total Assets</b>	<u>2,595,970</u>	<u>1,704,406</u>	<u>2,572,418</u>	<u>216,813</u>	<u>7,089,607</u>
<b>Deferred Outflows of Resources</b>					
Deferred pension resources	5,424	5,424	13,103	12,231	36,182
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	17,229	5,282	95,120	7,659	125,290
Due to other governments	650	-	5,501	3,374	9,525
Accrued interest payable	18,297	4,741	-	-	23,038
Accrued salaries payable	799	799	1,943	1,763	5,304
Compensated absences payable - current	3,198	3,198	11,613	2,093	20,102
Bonds and notes payable - current	72,000	43,000	10,293	-	125,293
<b>Total Current Liabilities</b>	<u>112,173</u>	<u>57,020</u>	<u>124,470</u>	<u>14,889</u>	<u>308,552</u>
<b>Noncurrent Liabilities</b>					
Advance from other funds - noncurrent	-	227,242	-	-	227,242
Compensated absences payable - noncurrent	1,504	1,504	24,686	-	27,694
Pension liability	25,796	25,796	62,313	58,166	172,071
Bonds and notes payable - noncurrent	1,272,000	318,000	26,916	-	1,616,916
<b>Total Noncurrent Liabilities</b>	<u>1,299,300</u>	<u>572,542</u>	<u>113,915</u>	<u>58,166</u>	<u>2,043,923</u>
<b>Total Liabilities</b>	<u>1,411,473</u>	<u>629,562</u>	<u>238,385</u>	<u>73,055</u>	<u>2,352,475</u>
<b>Deferred Inflows of Resources</b>					
Deferred pension resources	6,498	6,498	15,696	14,651	43,343
<b>Net Position</b>					
Net investment in capital assets	675,220	1,121,749	527,782	48,788	2,373,539
Unrestricted	508,203	(47,979)	1,803,658	92,550	2,356,432
<b>Total Net Position</b>	<u>\$ 1,183,423</u>	<u>\$ 1,073,770</u>	<u>\$ 2,331,440</u>	<u>\$ 141,338</u>	<u>\$ 4,729,971</u>

The notes to the financial statements are an integral part of this statement.

City of Spring Grove, Minnesota  
Statements of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds				Total
	620	625	615	609	
	Water Utility	Sewer Utility	Electric Utility	Municipal Liquor Store	
Operating Revenues					
Charges for services	\$ 295,694	\$ 232,071	\$ 1,643,480	\$ -	\$ 2,171,245
Sales	-	-	-	423,550	423,550
Cost of sales	-	-	-	(277,399)	(277,399)
Total Operating Revenues	<u>295,694</u>	<u>232,071</u>	<u>1,643,480</u>	<u>146,151</u>	<u>2,317,396</u>
Operating Expenses					
Power production	-	-	1,088,802	-	1,088,802
Salaries and benefits	42,788	42,610	98,164	96,824	280,386
Supplies	20,584	16,149	36,945	7,481	81,159
Other services and charges	9,375	12,955	31,598	13,467	67,395
Insurance	253	719	3,451	5,941	10,364
Utilities	37,034	72,942	5,464	13,454	128,894
Depreciation	55,654	54,661	22,680	2,647	135,642
Total Operating Expenses	<u>165,688</u>	<u>200,036</u>	<u>1,287,104</u>	<u>139,814</u>	<u>1,792,642</u>
Operating Income (Loss)	<u>130,006</u>	<u>32,035</u>	<u>356,376</u>	<u>6,337</u>	<u>524,754</u>
Nonoperating Revenues (Expenses)					
Other income	348	1,221	16,962	1,708	20,239
Investment earnings	1,212	1,163	14,223	572	17,170
Rental income	-	-	-	2,528	2,528
Interest and other costs	(43,408)	(20,761)	(1,958)	-	(66,127)
Total Nonoperating Revenues (Expenses)	<u>(41,848)</u>	<u>(18,377)</u>	<u>29,227</u>	<u>4,808</u>	<u>(26,190)</u>
Income (Loss) Before Transfers	88,158	13,658	385,603	11,145	498,564
Capital Contributions (to) from Other Funds	94,454	(335,928)	-	-	(241,474)
Capital Grants and Contributions	-	20,659	-	-	20,659
Transfers In	-	179,328	75,000	-	254,328
Transfers Out	(22,500)	(22,500)	(172,616)	(8,000)	(225,616)
Change in Net Position	160,112	(144,783)	287,987	3,145	306,461
Net Position - January 1 as restated (Note 7)	<u>1,023,311</u>	<u>1,218,553</u>	<u>2,043,453</u>	<u>138,193</u>	<u>4,423,510</u>
Net Position, December 31	<u>\$ 1,183,423</u>	<u>\$ 1,073,770</u>	<u>\$ 2,331,440</u>	<u>\$ 141,338</u>	<u>\$ 4,729,971</u>

The notes to the financial statements are an integral part of this statement.

City of Spring Grove, Minnesota  
Statements of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds				Total
	620	625	615	609	
	Water Utility	Sewer Utility	Electric Utility	Municipal Liquor Store	
<b>Cash Flows from Operating Activities</b>					
Receipts from customers	\$ 296,624	\$ 233,395	\$ 1,647,577	\$ 423,550	\$ 2,601,146
Payments to suppliers and vendors	(67,119)	(97,691)	(1,175,803)	(307,642)	(1,648,255)
Payments to and on behalf of employees	(42,630)	(44,422)	(100,145)	(97,039)	(284,236)
Other receipts	348	1,221	16,962	4,236	22,767
Net Cash Provided (Used) by Operating Activities	<u>187,223</u>	<u>92,503</u>	<u>388,591</u>	<u>23,105</u>	<u>691,422</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
(Increase) decrease in due from other funds	2,610	185	9,510	-	12,305
Increase (decrease) in due to other funds	(3,749)	(5,051)	-	(507)	(9,307)
Transfers from other funds	-	179,328	75,000	-	254,328
Transfers to other funds	(22,500)	(22,500)	(172,616)	(8,000)	(225,616)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(23,639)</u>	<u>151,962</u>	<u>(88,106)</u>	<u>(8,507)</u>	<u>31,710</u>
<b>Cash Flows from Capital And Related Financing Activities</b>					
Acquisition of capital assets	(11,528)	(246,153)	(135,226)	-	(392,907)
Intergovernmental contributions for capital assets	-	325,918	-	-	325,918
(Increase) decrease in advance to other funds	-	-	120,676	-	120,676
Increase (decrease) in advance from other funds	-	(462,758)	-	-	(462,758)
Principal paid on bonds and notes payable	(72,000)	(42,000)	(9,832)	-	(123,832)
Interest paid on bonds and notes payable	(43,828)	(21,026)	(1,958)	-	(66,812)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(127,356)</u>	<u>(446,019)</u>	<u>(26,340)</u>	<u>-</u>	<u>(599,715)</u>
<b>Cash Flows from Investing Activities</b>					
Interest received on cash and investments	1,212	1,163	14,223	572	17,170
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	37,440	(200,391)	288,368	15,170	140,587
<b>Cash and Cash Equivalents, January 1</b>	515,280	402,389	1,016,792	117,709	2,052,170
<b>Cash and Cash Equivalents, December 31</b>	<u>\$ 552,720</u>	<u>\$ 201,998</u>	<u>\$ 1,305,160</u>	<u>\$ 132,879</u>	<u>\$ 2,192,757</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>					
Operating income (loss)	\$ 130,006	\$ 32,035	\$ 356,376	\$ 6,337	\$ 524,754
Adjustments to reconcile operating income (loss) to to net cash provided (used) by operating activities					
Other income related to operations	348	1,221	16,962	4,236	22,767
Depreciation	55,654	54,661	22,680	2,647	135,642
(Increase) decrease in assets and deferred outflows of resources					
Accounts receivable	930	1,324	4,097	-	6,351
Inventories	-	-	-	3,174	3,174
Prepaid items	(5)	3	(13)	(19)	(34)
Deferred pension resources	1,189	1,665	3,422	2,567	8,843
Increase (decrease) in liabilities and and deferred inflows of resources					
Accounts payable	(206)	5,071	(9,997)	6,926	1,794
Due to other governments	338	-	467	19	824
Accrued salaries payable	203	203	405	290	1,101
Compensated absences payable	443	443	1,072	126	2,084
Pension liability	(1,577)	(3,548)	(6,089)	(3,086)	(14,300)
Deferred pension resources	(100)	(575)	(791)	(112)	(1,578)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 187,223</u>	<u>\$ 92,503</u>	<u>\$ 388,591</u>	<u>\$ 23,105</u>	<u>\$ 691,422</u>
<b>Schedule of Noncash Investing, Capital and Financing Activities</b>					
Capital assets acquired on account	\$ 14,135	\$ -	\$ -	\$ -	\$ 14,135
Capital assets contributed by (to) other funds	<u>\$ 94,454</u>	<u>\$ (335,928)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (241,474)</u>

The notes to the financial statements are an integral part of this statement.

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 1: Summary of Significant Accounting Policies**

**A. Reporting Entity**

The City of Spring Grove, Minnesota (the City) operates under “Optional Plan A” as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Blended component units, although legally separate entities are, in substance, part of the City’s operations and so data from these units are combined with data of the primary government.

*Blended Component Unit.* The Spring Grove Economic Development Authority (EDA) was established under Minnesota statutes, 469.090 through 469.108 for the purpose of promoting economic development within the City. The seven members of the EDA’s governing board are appointed and approved by the City Council. The EDA has a December 31 year-end and is reported as a special revenue fund. Separate financial statements are not issued for the EDA. The EDA is presented as a blended component unit as the entity exclusively provides services to the City.

**B. Government-wide and Fund Financial Statements**

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 segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

## Note 1: Summary of Significant Accounting Policies (Continued)

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund 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. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 1: Summary of Significant Accounting Policies (Continued)**

The City reports the following major governmental funds:

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

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *Nisse Treehouse Tax Increment District 1-3* fund accounts for costs associated with the Nisse Treehouse development project.

The *Spring Grove Soda Tax Increment District 1-4* fund accounts for costs associated with the Spring Grove Soda development project.

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and ensures that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and ensures that user charges are sufficient to pay for those costs.

The *Electric Utility fund* accounts for the costs associated with the City's electric system and ensures that user charges are sufficient to pay for those costs.

The *Municipal Liquor Store fund* accounts for the costs associated with the City's liquor store and ensures that revenues are sufficient to pay for those costs.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewer and electric functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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 City's policy to use restricted resources first, then unrestricted resources as they are needed.

## Note 1: Summary of Significant Accounting Policies (Continued)

### D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance

#### *Deposits and Investments*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statements of cash flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.



## **Note 1: Summary of Significant Accounting Policies (Continued)**

### ***Property Taxes***

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the governmental fund financial statements.

### ***Accounts Receivable***

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2018. Since the City is generally able to certify delinquent amounts to the County for collection as special assessments, no allowance for uncollectible accounts has been provided on current receivables.

### ***Special Assessments***

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the governmental fund financial statements.

### ***Interfund Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds and component unit, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

### ***Inventories and Prepaid Items***

All inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the acquisition value of the item at the date of its donation. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City has elected not to retroactively capitalize the infrastructure of its governmental activities acquired prior to January 1, 2004 as allowed by GASB Statement No. 34.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	5 - 25
Buildings and Improvements	20 - 40
Other Improvements	5
Infrastructure	20 - 50
Machinery and Equipment	5 - 40
Vehicles	8 - 20
Other Assets	5

***Deferred Outflows of Resources***

In addition to assets, the statement of net 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 so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

***Compensated Absences***

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits through a paid time off (PTO) policy. The PTO policy allows a maximum payout total of 480 hours upon voluntary termination at \$9 per hour. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The total amount of compensated absences accrued as of December 31, 2018 was \$95,217. The General fund is typically used to liquidate governmental compensated absences payable.

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Postemployment Benefits other than Pensions***

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The City calculated its OPEB liability using the alternative measurement method, in accordance with GASB Statement 75 at January 1, 2018 and it was determined that there is no liability.

***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 except that PERA's fiscal year end is June 30. 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. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERF, PEPFF, and Spring Grove Fire Relief Association is as follows:

	Public Employees Retirement Association of Minnesota (PERA)		Fire Relief Association	Total All Plans
	GERF	PEPFF		
Pension expense	\$ 15,620	\$ 3,897	\$ (15,852)	\$ 3,665

***Long-term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized 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 received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Deferred Inflows of Resources***

In addition to liabilities, the statement of financial position and fund financial statements 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 government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

## **Note 1: Summary of Significant Accounting Policies (Continued)**

### ***Fund Balance***

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 the governmental funds. These classifications are defined as follows:

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Council modifies or rescinds the commitment by resolution.

*Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority.

*Unassigned* - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unassigned fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of fund balance when expenditures are made.

The City has not formally adopted a fund balance policy.

### ***Net Position***

Net position represents the difference between assets and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 2: Stewardship, Compliance and Accountability**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund and the Community Building, Cable TV and Library special revenue funds. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In July of each year, all departments of the City submit requests for appropriations to the City Clerk/Treasurer so that a budget may be prepared. Before September 30, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Clerk/Treasurer and are reviewed by Council. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. No budget amendments were made during the year.

**B. Excess of Expenditures Over Appropriations**

For the year ended December 31, 2018, expenditures exceeded appropriations in the following fund:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 1,147,206	\$ 1,383,535	\$ 236,329

Excess expenditures were funded by actual revenues in excess of budgeted amounts, transfers and available fund balances.

**C. Deficit Fund Equity**

The following funds had fund equity deficits at December 31, 2018:

Fund	Amount
Special Revenue	
Community Building	\$ 1,278
Nisse Treehouse Tax Increment District 1-3	156,951
Spring Grove Soda Tax Increment District 1-4	185,131

The above deficits will be eliminated through transfers from other funds and future tax increments.

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds**

**A. Deposits and Investments**

***Deposits***

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rate "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

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

At year end, the City's carrying amount of deposits was \$4,502,909 and the bank balance was \$4,645,297. The bank balance was fully covered by federal depository insurance.

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

**Cash on Hand**

Cash in the possession of the City, consisting of petty cash and change funds, totals \$777.

**Cash and Investments Summary**

A reconciliation of cash and investments as shown on the statement of net position for the City follows:

Deposits	\$ 4,502,909
Cash on Hand	<u>777</u>
Total	<u><u>\$ 4,503,686</u></u>

**B. Loans Receivable**

**Commercial Loans**

The City currently has loans to various local businesses totaling \$187,161 which are entirely forgivable leaving a net receivable balance of \$0 at December 31, 2018. All loans are forgiven after 7 years and are secured by real estate.

**Economic Development Loans**

The EDA currently has loans to various local businesses totaling \$41,480 at December 31, 2018. These loans carry an interest rate varying from 3 to 5 percent. All loans are secured by real estate.

**C. Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets not being Depreciated				
Land	\$ 119,218	\$ 97,600	\$ (44,318)	\$ 172,500
Construction in progress	2,390	169,313	-	171,703
Total Capital Assets not being Depreciated	<u>121,608</u>	<u>266,913</u>	<u>(44,318)</u>	<u>344,203</u>
Capital Assets being Depreciated				
Land improvements	59,340	-	-	59,340
Buildings and improvements	3,004,452	-	(92,717)	2,911,735
Systems and infrastructure	3,975,889	264,010	-	4,239,899
Equipment and machinery	1,652,044	174,336	(88,767)	1,737,613
Total Capital Assets being Depreciated	<u>8,691,725</u>	<u>438,346</u>	<u>(181,484)</u>	<u>8,948,587</u>
Less Accumulated Depreciation for				
Land improvements	(19,466)	(2,757)	-	(22,223)
Buildings and improvements	(1,370,502)	(65,661)	28,656	(1,407,507)
Systems and infrastructure	(2,513,641)	(53,990)	-	(2,567,631)
Equipment and machinery	(1,301,410)	(76,114)	57,686	(1,319,838)
Total Accumulated Depreciation	<u>(5,205,019)</u>	<u>(198,522)</u>	<u>86,342</u>	<u>(5,317,199)</u>
Total Capital Assets being Depreciated, Net	<u>3,486,706</u>	<u>239,824</u>	<u>(95,142)</u>	<u>3,631,388</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 3,608,314</u></u>	<u><u>\$ 506,737</u></u>	<u><u>\$ (139,460)</u></u>	<u><u>\$ 3,975,591</u></u>

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital Assets not being Depreciated				
Land	\$ 41,614	\$ -	\$ -	\$ 41,614
Construction in progress	619,471	26,130	(619,471)	26,130
<b>Total Capital Assets Not Being Depreciated</b>	<b>661,085</b>	<b>26,130</b>	<b>(619,471)</b>	<b>67,744</b>
Capital Assets being Depreciated				
Buildings and improvements	3,104,386	92,965	-	3,197,351
Systems and infrastructure	3,702,861	538,817	-	4,241,678
Equipment and machinery	702,553	-	-	702,553
<b>Total Capital Assets Being Depreciated</b>	<b>7,509,800</b>	<b>631,782</b>	<b>-</b>	<b>8,141,582</b>
Less Accumulated Depreciation for				
Buildings and improvements	(2,812,959)	(11,534)	-	(2,824,493)
Systems and infrastructure	(850,336)	(84,233)	-	(934,569)
Equipment and machinery	(294,641)	(39,875)	-	(334,516)
<b>Total Accumulated Depreciation</b>	<b>(3,957,936)</b>	<b>(135,642)</b>	<b>-</b>	<b>(4,093,578)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>3,551,864</b>	<b>496,140</b>	<b>-</b>	<b>4,048,004</b>
<b>Business-type Activities Capital Assets, Net</b>	<b>\$ 4,212,949</b>	<b>\$ 522,270</b>	<b>\$ (619,471)</b>	<b>\$ 4,115,748</b>

Depreciation expense was charged to functions/programs of the City as follows:

<b>Governmental Activities</b>	
General government	\$ 7,203
Public safety	25,853
Public works	99,451
Culture and recreation	61,843
Economic development	4,172
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 198,522</b>
<b>Business-type Activities</b>	
Water utility	\$ 55,654
Sewer utility	54,661
Electric utility	22,680
Municipal liquor store	2,647
<b>Total Depreciation Expense - Business-type Activities</b>	<b>\$ 135,642</b>



City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

**Construction Commitments**

The City has an active construction project as of December 31, 2018 relating to an improvement project as follows:

Project	Spent-to-Date	Remaining Commitment
1st Street Improvement	\$ 238,359	\$ 14,135

**D. Interfund Receivables, Payables and Transfers**

Advances from/to other funds at December 31, 2018 are as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor governmental funds	Debt service fund	\$ 43,567
Electric Utility fund	Sewer Utility fund	227,242
	Nisse Treehouse Tax Increment District 1-3	156,951
	Spring Grove Soda Tax Increment District 1-4	185,131
Total		<u>\$ 612,891</u>

The advance to the 2002 Taxable EDA Revenue Bonds debt service fund from the Aquatic Center nonmajor capital project fund was made in 2012 to fund the balloon payment on the associated EDA note. This advance will be paid back over 12 years at 4 percent interest with rental revenue. The advance to the Sewer Utility fund from the Electric utility fund was to assist in financing the commercial park lift station project. This advance will be paid back over 17 years at 4 percent interest with sewer utility revenue.

Interfund transfers for the year ended December 31, 2018, were as follows:

Funds	Transfers in					Total
	General Fund	Debt Service Funds	Nonmajor Governmental Funds	Sewer Utility	Electric Utility	
Transfers Out						
General	\$ -	\$ 9,214	\$ 266,188	\$ -	\$ -	\$ 275,402
Nisse Treehouse Tax Increment District 1-3	-	-	80,000	-	75,000	155,000
Spring Grove Soda Tax Increment District 1-4	-	-	-	176,231	-	176,231
Nonmajor Governmental funds	106,125	74,721	-	3,097	-	183,943
Water Utility	22,500	-	-	-	-	22,500
Sewer Utility	22,500	-	-	-	-	22,500
Electric Utility	160,000	-	12,616	-	-	172,616
Municipal Liquor Store	8,000	-	-	-	-	8,000
Total Transfers Out	<u>\$ 319,125</u>	<u>\$ 83,935</u>	<u>\$ 358,804</u>	<u>\$ 179,328</u>	<u>\$ 75,000</u>	<u>\$ 1,016,192</u>

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

During the year, transfers are used to 1) move revenues from the enterprise funds to the governmental funds to help reduce the tax levy and 2) move General fund resources to provide an annual subsidy to other funds. Further, during the year ended December 31, 2018, the government made the following one-time transfers:

- The Spring Grove Sofa TIF fund transferred \$176,231 to the sewer fund for the qualifying capital expenditures in the TIF District.
- The Nisse Treehouse Tax Increment District 1-3 fund transferred \$75,000 to the Electric Utility fund to cover the forgivable loan extended to Nisse Treehouse.
- The Nisse Treehouse Tax Increment District 1-3 fund transferred \$80,000 to the Small Cities Grants fund to cover the forgivable loan extended to Nisse Treehouse.

**E. Long-term Debt**

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund special assessments related bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2012A Tax Abatement Bonds	\$ 1,435,000	2.58 %	05/15/12	02/01/26	<u>\$ 855,000</u>

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	<b>G.O. Bonds</b> Governmental Activities		
	Principal	Interest	Total
2019	\$ 100,000	\$ 20,770	\$ 120,770
2020	105,000	18,125	123,125
2021	105,000	15,416	120,416
2022	110,000	12,643	122,643
2023	110,000	9,805	119,805
2024 - 2026	<u>325,000</u>	<u>12,321</u>	<u>337,321</u>
Total	<u>\$ 855,000</u>	<u>\$ 89,080</u>	<u>\$ 944,080</u>

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

General Obligation Tax Increment Bonds

The following bonds were issued for redevelopment projects. The additional tax increments resulting from increased tax capacity of the redeveloped properties will be used to retire related debt.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2015A G.O. Tax Increment Refunding Bonds	\$ 414,000	2.30 %	12/07/15	02/01/23	<u>\$ 271,000</u>

The annual debt service requirements to maturity for general obligation tax increment bonds are as follows:

Year Ending December 31	<b>G.O. Tax Increment Bonds</b> Governmental Activities		
	Principal	Interest	Total
2019	\$ 53,000	\$ 5,624	\$ 58,624
2020	58,000	4,347	62,347
2021	56,000	3,036	59,036
2022	60,000	1,702	61,702
2023	44,000	506	44,506
Total	<u>\$ 271,000</u>	<u>\$ 15,215</u>	<u>\$ 286,215</u>

G.O. Special Assessment (Improvement) Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2013A G.O. Improvement and Utility Refunding Bonds	\$ 700,000	0.75 - 4.10 %	07/08/13	02/01/34	<u>\$ 580,000</u>

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

The annual debt service requirements to maturity for general obligation special assessment (improvement) bonds are as follows:

<u>Year Ending December 31</u>	<b>G.O. Improvement Bonds</b> Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 30,000	\$ 18,631	\$ 48,631
2020	30,000	18,062	48,062
2021	30,000	17,539	47,539
2022	30,000	16,782	46,782
2023	35,000	15,911	50,911
2024 - 2028	175,000	63,497	238,497
2029 - 2033	205,000	29,735	234,735
2034	45,000	933	45,933
<b>Total</b>	<b><u>\$ 580,000</u></b>	<b><u>\$ 181,090</u></b>	<b><u>\$ 761,090</u></b>

General Obligation Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

<u>Description</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>
2012B G.O. Sewer Revenue Bonds	\$ 162,950	2.00 %	09/01/12	09/01/19	\$ 25,000
2013A G.O. Improvement and Utility Refunding Bonds	2,025,000	0.75 - 4.10	07/08/13	02/01/34	<u>1,680,000</u>
<b>Total G.O. Revenue Bonds</b>					<b><u>\$ 1,705,000</u></b>

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

Annual revenues from charges for services, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

	Water Utility	Sewer Utility
Revenues	\$ 295,694	\$ 232,071
Principal and Interest	115,828	63,026
Percentage of Revenues	39.2%	27.2%

The annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31	<b>G.O. Revenue Bonds</b>		
	Business-type Activities		
	Principal	Interest	Total
2019	\$ 115,000	\$ 53,529	\$ 168,529
2020	90,000	51,407	141,407
2021	90,000	49,920	139,920
2022	95,000	47,764	142,764
2023	95,000	45,285	140,285
2024 - 2028	505,000	180,724	685,724
2029 - 2033	585,000	84,626	669,626
2034	130,000	2,655	132,655
Total	\$ 1,705,000	\$ 515,910	\$ 2,220,910

Notes Payable

The City has issued notes to provide funds for acquisition of equipment. These obligations are direct obligations and pledge the full faith and credit of the City. Notes currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Tri-County Electric COOP Transmitter Note	\$ 94,360	4.60 %	05/01/12	05/01/22	\$ 37,209

The annual debt service requirements to maturity for notes payable are as follows:

Year Ending December 31	<b>Note Payable</b>		
	Business-type Activities		
	Principal	Interest	Total
2019	\$ 10,293	\$ 1,496	\$ 11,789
2020	10,777	1,012	11,789
2021	11,283	506	11,789
2022	4,856	54	4,910
Total	\$ 37,209	\$ 3,068	\$ 40,277

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Bonds Payable					
General obligation bonds	\$ 950,000	\$ -	\$ (95,000)	\$ 855,000	\$ 100,000
General obligation tax increment bonds	325,000	-	(54,000)	271,000	53,000
General obligation improvement bonds	<u>610,000</u>	<u>-</u>	<u>(30,000)</u>	<u>580,000</u>	<u>30,000</u>
Total Bonds Payable	1,885,000	-	(179,000)	1,706,000	183,000
Pension Payable					
GERF	-	222,211 *	(22,593)	199,618	-
PEPFF	-	148,513 *	(33,396)	115,117	-
Compensated Absences Payable	<u>41,163</u>	<u>35,193</u>	<u>(28,935)</u>	<u>47,421</u>	<u>24,708</u>
Governmental Long-term Liabilities	<u>\$ 1,926,163</u>	<u>\$ 405,917</u>	<u>\$ (263,924)</u>	<u>\$ 2,068,156</u>	<u>\$ 207,708</u>
<b>Business-type Activities</b>					
Bonds Payable					
General obligation revenue bonds	\$ 1,819,000	\$ -	\$ (114,000)	\$ 1,705,000	\$ 115,000
Pension Payable					
GERF	-	189,801 *	(17,730)	172,071	-
Notes Payable	47,041	-	(9,832)	37,209	10,293
Compensated Absences Payable	<u>45,712</u>	<u>21,605</u>	<u>(19,521)</u>	<u>47,796</u>	<u>20,102</u>
Business-type Long-term Liabilities	<u>\$ 1,911,753</u>	<u>\$ 211,406</u>	<u>\$ (161,083)</u>	<u>\$ 1,962,076</u>	<u>\$ 145,395</u>

\* Includes January 1, 2018 pension liability balance related to GASB Statement No. 68 implementation. See Note 8 for further details.

## **Note 4: Defined Benefit Pension Plans - Statewide**

### **A. Plan Description**

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

#### General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

#### Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

### **B. Benefits Provided**

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota 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.

#### GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. 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 for 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 for 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. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. 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.

#### PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3.0 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one 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. For retirements after May 31, 2014, the first increase will be delayed two years.

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

**C. 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

Plan members were required to contribute 6.50 percent of their annual covered salary and the City was required to contribute 7.50 percent of pay for Coordinated Plan members in fiscal year 2018. The City's contributions to the GERF for the year ending December 31, 2018, 2017 and 2016 were \$33,975, \$32,344 and \$29,988, respectively. The City's contributions were equal to the required contributions for each year as set by Minnesota statute.

PEPFF Contributions

Plan members were required to contribute 10.80 percent of their annual covered salary and the City was required to contribute 16.20 percent of pay for members in fiscal year 2018. The City's contributions to the PEPFF for the years ending December 31, 2018, 2017 and 2016 were \$18,337, \$19,180 and \$15,651, respectively. The City's contributions were equal to the required contributions for each year as set by Minnesota statute.

**D. Pension Costs**

GERF Pension Costs

At December 31, 2018, the City reported a liability of \$371,689 for its proportionate share of the GERF'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 \$12,157. 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 proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 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 proportion was 0.0067 percent which was a 0.0003 percent increase from its proportion measured as of June 30, 2017.

City's proportionate share of the net pension liability	\$371,689
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>12,157</u>
Total	<u><u>\$ 383,846</u></u>

For the year ended December 31, 2018, the City recognized pension expense of \$12,784 for its proportionate share of GERF's pension expense. In addition, the City recognized \$2,835 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the GERF.

At December 31, 2018, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:



City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 9,839	\$ 13,160
Changes in Actuarial Assumptions	36,035	41,763
Net Difference Between Projected and Actual Earnings on Plan Investments	-	35,932
Changes in Proportion	14,491	2,768
Contributions to GERP Subsequent to the Measurement Date	17,795	-
Total	\$ 78,160	\$ 93,623

Deferred outflows of resources totaling \$17,795 related to pensions resulting from the City's contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

2019	\$ 13,626
2020	(15,146)
2021	(23,982)
2020	(7,756)

PEPFF Pension Costs

At December 31, 2018, the City reported a liability of \$115,117 for its proportionate share of the PEPFF's net pension liability. 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 proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 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 0.0108 percent which was a 0.0002 percent decrease from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of \$2,925 for its proportionate share of PEPFF's pension expense. The City also recognized \$972 for the year ended December 31, 2018 as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the plan. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2018, the City reported its proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 4,673	\$ 27,865
Changes in Actuarial Assumptions	148,708	169,468
Net Difference Between Projected and Actual Earnings on Plan Investments	-	24,317
Changes in Proportion	-	3,060
Contributions to PEPFF Subsequent to the Measurement Date	9,339	-
Total	\$ 162,720	\$ 224,710

Deferred outflows of resources totaling \$9,339 related to pensions resulting from the City's contributions to PEPFF 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 inflows of resources related to PEPFF pensions will be recognized in pension expense as follows:

2019		\$ 2,804
2020		(8,615)
2021		(17,321)
2020		(47,207)
2023		(990)

**E. 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 all plans 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 GERP and 1.0 percent per year for PEPFF.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the GERP plan was completed in 2015. The most recent four-year experience study for PEPFF was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

The following changes in actuarial assumptions occurred in 2018:

GERF

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

PEPFF

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	36.0 %	5.10 %
International Stocks	17.0	5.30
Bonds (Fixed Income)	20.0	0.75
Alternative Assets (Private Markets)	25.0	5.90
Cash	2.0	-
Total	100.0 %	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF and PEPFF were projected to be available to make all projected future benefit payments of current plan members. 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.

**G. 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:

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
	GERF PEPFF	\$ 604,041 246,818	\$ 371,689 115,117

**H. 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 includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**Note 5: Defined Benefit Pension Plans - Fire Relief Association**

**A. Plan Description**

The Spring Grove Fire Department (the Department) participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum [or monthly] defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2018, the plan covered 24 active firefighters and 9 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota statutes, chapter 353g.

**B. Benefits Provided**

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

**C. Contributions**

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions. The State of Minnesota contributed \$16,529 in fire state aid to the fund for the year ended December 31, 2018. Required employer contributions are calculated annually based on statutory provisions. The City made no voluntary contributions to the plan.

**D. Pension Costs**

At December 31, 2018, the City reported a net pension liability (asset) of (\$86,089) for the Volunteer Firefighter Fund. The net pension liability (asset) was measured as of December 31, 2018. The total pension liability used to calculate the net pension liability (asset) in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension liability (asset) during the year:

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2018	\$ 164,269	\$ 239,076	\$ (74,807)
Changes for the Year			
Service cost	7,679	-	7,679
Interest on pension liability (asset)	10,317	-	10,317
Actuarial experience (gains)/losses	(23,423)	-	(23,423)
Projected investment earnings	-	14,345	(14,345)
Contributions (State)	-	16,529	(16,529)
Asset (gain)/loss	-	(24,105)	24,105
Administrative costs	-	(914)	914
Total Net Changes	<u>(5,427)</u>	<u>5,855</u>	<u>(11,282)</u>
Ending Balance December 31, 2018	<u>\$ 158,842</u>	<u>\$ 244,931</u>	<u>\$ (86,089)</u>

For the year ended December 31, 2018, the City recognized negative pension expense of \$15,852.

At December 31, 2018, the City reported its deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, to the plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ 22,116
Net Difference Between Projected and Actual Earnings on Plan Investments	<u>10,591</u>	<u>-</u>
Total	<u>\$ 10,591</u>	<u>\$ 22,116</u>

Deferred outflows and deferred inflows of resources related to the plan will be recognized in pension expense as follows:

2019	\$ (3,888)
2020	(3,888)
2021	(3,888)
2022	139

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)**

**E. Actuarial Assumptions**

The total pension liability at December 31, 2018 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement Eligibility at the Later of Age 50 or 20 Years of Service	
Inflation	3.00% per year
Investment Rate of Return	6.00%

There were no changes in actuarial assumptions in 2018.

**F. Discount Rate**

The discount rate used to measure the total pension liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. 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.

**G. Pension Liability Sensitivity**

The following presents the City's net pension liability (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	<u>1 Percent Decrease (5.00%)</u>	<u>Current (6.00%)</u>	<u>1 Percent Increase (7.00%)</u>
SVF	\$ (79,631)	\$ (86,089)	\$ (92,138)

**H. Investment Policy**

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota statutes, chapter 11a and chapter 353g.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)**

**I. Asset Allocation**

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Stocks	35.0 %	5.10 %
International Stocks	15.0	5.30
Bonds	45.0	0.75
Cash	<u>5.0</u>	-
Total	<u><u>100.0 %</u></u>	

The 6.0 percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The SBI made no significant changes to their investment policy during fiscal year 2018 for the Volunteer Firefighter Fund.

**J. Pension Plan Fiduciary Net Position**

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2018, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at [www.mnpera.org](http://www.mnpera.org).

City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 6: Other Information**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

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

**B. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

**C. Legal Debt Margin**

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. As of December 31, 2018, the City is under the legal debt margin.

**D. Tax Increment Districts**

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

**E. Concentrations**

The City receives a significant amount of its annual General fund revenues from the State of Minnesota via the Local Government Aid (LGA) program. The LGA amount received in 2018 was \$429,871 which accounted for approximately 37.0 percent of General fund revenues.



City of Spring Grove, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 7: Tax Abatements**

As of December 31, 2018, the City has two agreements entered into by the City listed below that abate City property taxes. Below is information specific to each agreement:

The City entered into a tax abatement agreement in 2016 with a manufacturing company. The company previously incurred costs to build a larger facility which was funded through the Job Opportunity Building Zone program which expired in 2016. The City agreed to relieve property taxes as the tax burden prohibits future expansion and hiring plans. The agreement has an estimated return to the company of \$33,282 over the life of the agreement. The agreement was negotiated under state law (Minnesota statutes 469.1812-469.1815) and has a maximum duration dated to December 31, 2021. The calculation of taxes abated during the fiscal year is noted in the chart below.

The City entered into a tax increment financing agreement (TIF #1-3) on February 9, 2016 with a local business for the construction of a commercial daycare facility. In return, the City will reimburse the business for some costs as the City collects future tax increment for the increased property value and tax capacity related to the economic development. The pay-as-you-go agreement has a maximum return to the business of \$309,716. The agreement was negotiated under state law (Minnesota statutes 469.174-469.1799) and has a maximum duration dated to December 31, 2043. The calculation of taxes abated during the fiscal year is noted in the chart below.

	City Tax Rate (Year of Establishment)	Captured Tax Capacity	Amount of Taxes Abated During the Year
Tax Abatement Agreements			
LaX Fabricating, Ltd.			\$ 9,213
Tax Increment Districts (PAYGO)			
TIF District #1-3 (Nisse Treehouse)	119.645%	\$ 40,449	48,395
Total			\$ 57,608

**Note 8: Change in Accounting Principle**

During fiscal year 2018, the City implemented several accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), including Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2017 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 4.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2017 balances to the December 31, 2018 financial statements:

Fund	Net Position December 31, 2017 as Previously Reported	Prior Period Restatement	Net Position January 1, 2018 as Restated
Governmental Activities	\$ 4,258,831	\$ (355,883)	\$ 3,902,948
Business-type Activities	\$ 4,609,777	\$ (186,267)	\$ 4,423,510
Business-type Activities			
Water	\$ 1,050,669	\$ (27,358)	\$ 1,023,311
Sewer	1,247,881	(29,328)	1,218,553
Electric	2,111,817	(68,364)	2,043,453
Municipal Liquor Store	199,410	(61,217)	138,193
Total Business-type Activities	\$ 4,609,777	\$ (186,267)	\$ 4,423,510

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPRING GROVE  
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

City of Spring Grove, Minnesota  
Required Supplementary Information  
For the Year End December 31, 2018

**Schedule of Employer's Share of PERA Net Pension Liability - General Employee Retirement Fund**

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2018	0.0067 %	\$ 371,689	\$ 12,157	\$ 383,846	\$ 451,184	85.1 %	79.5 %
6/30/2017	0.0064	408,572	5,118	413,690	395,376	104.6	75.9
6/30/2016	0.0064	519,648	6,804	526,452	384,253	137.0	68.9
6/30/2015	0.0064	342,046	-	342,046	363,159	94.2	78.2

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of Employer's PERA Contributions - General Employee Retirement Fund**

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/2018	\$ 33,975	\$ 33,975	\$ -	\$ 453,004	7.5 %
12/31/2017	32,344	32,344	-	431,257	7.5
12/31/2016	29,988	29,988	-	399,839	7.5
12/31/2015	28,399	28,399	-	378,653	7.5

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Notes to the Required Supplementary Information - General Employee Retirement Fund**

Changes in actuarial assumptions

2018 - The mortality 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.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

City of Spring Grove, Minnesota  
Required Supplementary Information (Continued)  
For the Year End December 31, 2018

**Notes to the Required Supplementary Information - General Employee Retirement Fund (Continued)**

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in plan provisions

2017 - The State's special funding contribution increased from \$6 million to \$16 million.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

City of Spring Grove, Minnesota  
 Required Supplementary Information (Continued)  
 For the Year End December 31, 2018

**Schedule of Employer's Share of PERA Net Pension Liability - Public Employee Police and Fire Fund**

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2018	0.0108 %	\$ 115,117	\$ -	\$ 115,117	\$ 113,809	101.1 %	88.8 %
6/30/2017	0.0110	148,513	-	148,513	108,117	120.3	85.4
6/30/2016	0.0110	441,449	-	441,449	104,790	120.3	63.9
6/30/2015	0.0110	124,986	-	124,986	103,320	120.3	86.6

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of Employer's PERA Contributions - Public Employees Police and Fire Fund**

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/2018	\$ 18,337	\$ 18,337	\$ -	\$ 113,190	16.2 %
12/31/2017	19,180	19,180	-	118,398	16.2
12/31/2016	15,651	15,651	-	96,611	16.2
12/31/2015	15,808	15,808	-	97,580	16.2

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Notes to the Required Supplementary Information - Public Employees Police and Fire Fund**

Changes in actuarial assumptions

2018 - The mortality projection scale was changed from MP-2016 to MP-2017. As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.6 percent to 7.5 percent.

City of Spring Grove, Minnesota  
 Required Supplementary Information (Continued)  
 For the Year End December 31, 2018

**Notes to the Required Supplementary Information - Public Employees Police and Fire Fund (Continued)**

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 5.6 percent. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

Changes in plan provisions

2015 - The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

**Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios**

	2018 (Fire Relief Report Date 2017)
<b>Total Pension Liability</b>	
Service cost	\$ 7,679
Interest on pension liability (asset)	10,317
Actuarial experience (gains)/losses	<u>(23,423)</u>
<b>Net Change in Total Pension Liability</b>	<u>(5,427)</u>
<b>Total Pension Liability - January 1</b>	<u>164,269</u>
<b>Total Pension Liability - December 31 (a)</b>	<u><u>\$ 158,842</u></u>
<b>Plan Fiduciary Net Position</b>	
Nonemployer contributions	\$ 16,529
Projected investment return	14,345
Gain (loss)	(24,105)
Administrative expenses	<u>(914)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<u>5,855</u>
<b>Plan Fiduciary Net Position - January 1</b>	<u>239,076</u>
<b>Plan Fiduciary Net Position - December 31 (b)</b>	<u><u>\$ 244,931</u></u>
<b>Fire Relief's Net Pension Liability (Asset) - December 31 (a-b)</b>	<u><u>\$ (86,089)</u></u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a)</b>	154.20%
<b>Covered Payroll</b>	N/A
<b>Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered Payroll</b>	N/A

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

THIS PAGE IS LEFT  
BLANK INTENTIONALLY



COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF SPRING GROVE  
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

City of Spring Grove, Minnesota  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 December 31, 2018

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
<b>Assets</b>			
Cash and temporary investments	\$ 578,487	\$ 627,557	\$ 1,206,044
Delinquent taxes	155	-	155
Receivables			
Accounts	2,918	-	2,918
Loans, net of allowance	41,480	-	41,480
Advances to other funds	-	43,567	43,567
Prepaid items	266	-	266
	<u>623,306</u>	<u>671,124</u>	<u>1,294,430</u>
Total Assets	<u>\$ 623,306</u>	<u>\$ 671,124</u>	<u>\$ 1,294,430</u>
<b>Liabilities</b>			
Accounts payable	\$ 12,569	\$ -	\$ 12,569
Due to other governments	29	-	29
Accrued salaries payable	1,088	-	1,088
Total Liabilities	<u>13,686</u>	<u>-</u>	<u>13,686</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue			
Delinquent taxes	155	-	155
	<u>155</u>	<u>-</u>	<u>155</u>
<b>Fund Balances</b>			
Nonspendable			
Prepaid items	266	-	266
Restricted			
Economic development	134,189	-	134,189
Capital purchases	-	15,440	15,440
Law enforcement	-	3,391	3,391
Committed			
Economic development	205,085	149,193	354,278
Cable TV operations	7,867	-	7,867
Library operations	263,336	72,976	336,312
Assigned			
Capital purchases	-	430,124	430,124
Unassigned	(1,278)	-	(1,278)
Total Fund Balances	<u>609,465</u>	<u>671,124</u>	<u>1,280,589</u>
Total Liabilities and Fund Balances	<u>\$ 623,306</u>	<u>\$ 671,124</u>	<u>\$ 1,294,430</u>

City of Spring Grove, Minnesota  
 Nonmajor Governmental Funds  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 For the Year Ended December 31, 2018

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
Revenues			
Taxes	\$ 25,428	\$ -	\$ 25,428
Intergovernmental	16,475	-	16,475
Charges for services	-	6,615	6,615
Investment earnings	3,037	4,055	7,092
Miscellaneous	48,087	35,736	83,823
Total Revenues	93,027	46,406	139,433
Expenditures			
Current			
Public safety	-	10,390	10,390
Culture and recreation	150,190	-	150,190
Economic development	86,569	-	86,569
Miscellaneous	7,531	7,091	14,622
Capital outlay			
Public safety	-	50,045	50,045
Public works	-	2,126	2,126
Culture and recreation	10,973	-	10,973
Miscellaneous	158	-	158
Total Expenditures	255,421	69,652	325,073
Deficiency of Revenues Over (Under) Expenditures	(162,394)	(23,246)	(185,640)
Other Financing Sources (Uses)			
Sale of capital assets	38,882	-	38,882
Transfers in	261,188	97,616	358,804
Transfers out	(41,540)	(142,403)	(183,943)
Total Other Financing Sources (Uses)	258,530	(44,787)	213,743
Net Change in Fund Balances	96,136	(68,033)	28,103
Fund Balances, January 1	513,329	739,157	1,252,486
Fund Balances, December 31	\$ 609,465	\$ 671,124	\$ 1,280,589

City of Spring Grove, Minnesota  
 Nonmajor Special Revenue Funds  
 Combining Balance Sheet  
 December 31, 2018

	<b>260/265</b>	<b>270</b>	<b>290</b>	<b>295</b>
	Small Cities Grants	Community Building	Economic Development Authority	EDA Revolving Loan
<b>Assets</b>				
Cash and temporary investments	\$ 92,709	\$ -	\$ 27,357	\$ 177,757
Delinquent taxes	-	-	-	-
Receivables				
Accounts	-	-	-	-
Loans, net of allowance	-	-	-	41,480
Prepaid items	-	-	119	-
<b>Total Assets</b>	<b><u>\$ 92,709</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 27,476</u></b>	<b><u>\$ 219,237</u></b>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 1,177	\$ 29	\$ -
Due to other governments	-	29	-	-
Accrued salaries payable	-	72	-	-
<b>Total Liabilities</b>	<b><u>-</u></b>	<b><u>1,278</u></b>	<b><u>29</u></b>	<b><u>-</u></b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue				
Delinquent taxes	-	-	-	-
<b>Fund Balances</b>				
<b>Nonspendable</b>				
Prepaid items	-	-	119	-
<b>Restricted</b>				
Economic development	92,709	-	-	41,480
<b>Committed</b>				
Economic development	-	-	27,328	177,757
Cable TV operations	-	-	-	-
Library operations	-	-	-	-
Unassigned	-	(1,278)	-	-
<b>Total Fund Balances</b>	<b><u>92,709</u></b>	<b><u>(1,278)</u></b>	<b><u>27,447</u></b>	<b><u>219,237</u></b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b><u>\$ 92,709</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 27,476</u></b>	<b><u>\$ 219,237</u></b>

<b>318</b>	<b>610</b>	<b>630</b>	
Bender Tax Increment District 1-2	Cable TV	Library	Total Nonmajor Funds
\$ -	\$ 5,107	\$ 275,557	\$ 578,487
155	-	-	155
-	2,918	-	2,918
-	-	-	41,480
-	-	147	266
<u>\$ 155</u>	<u>\$ 8,025</u>	<u>\$ 275,704</u>	<u>\$ 623,306</u>
\$ -	\$ 158	\$ 11,205	\$ 12,569
-	-	-	29
-	-	1,016	1,088
-	158	12,221	13,686
<u>155</u>	<u>-</u>	<u>-</u>	<u>155</u>
-	-	147	266
-	-	-	134,189
-	-	-	205,085
-	7,867	-	7,867
-	-	263,336	263,336
-	-	-	(1,278)
<u>-</u>	<u>7,867</u>	<u>263,483</u>	<u>609,465</u>
<u>\$ 155</u>	<u>\$ 8,025</u>	<u>\$ 275,704</u>	<u>\$ 623,306</u>

City of Spring Grove, Minnesota  
 Nonmajor Special Revenue Funds  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 For the Year Ended December 31, 2018

	260/265	270	290	295
	Small Cities Grants	Community Building	Economic Development Authority	EDA Revolving Loan
Revenues				
Taxes				
Tax increments	\$ -	\$ -	\$ -	\$ -
Franchise fees	-	-	-	-
Intergovernmental				
County library aid	-	-	-	-
Investment earnings	131	-	130	1,809
Miscellaneous				
Rents	-	5,982	2,485	-
Contributions and donations	-	100	7,000	-
Other	4,838	-	-	-
Total Revenues	<u>4,969</u>	<u>6,082</u>	<u>9,615</u>	<u>1,809</u>
Expenditures				
Current				
Culture and recreation	-	26,865	-	-
Economic development	130	-	76,588	9,851
Miscellaneous	-	-	-	-
Capital outlay				
Culture and recreation	-	4,253	-	-
Miscellaneous	-	-	-	-
Total Expenditures	<u>130</u>	<u>31,118</u>	<u>76,588</u>	<u>9,851</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,839</u>	<u>(25,036)</u>	<u>(66,973)</u>	<u>(8,042)</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	38,882	-
Transfers in	80,000	24,688	53,500	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>80,000</u>	<u>24,688</u>	<u>92,382</u>	<u>-</u>
Net Change in Fund Balances	84,839	(348)	25,409	(8,042)
Fund Balances, January 1	<u>7,870</u>	<u>(930)</u>	<u>2,038</u>	<u>227,279</u>
Fund Balances, December 31	<u>\$ 92,709</u>	<u>\$ (1,278)</u>	<u>\$ 27,447</u>	<u>\$ 219,237</u>

318	610	630	
Bender Tax Increment District 1-2	Cable TV	Library	Total Nonmajor Funds
\$ 14,539	\$ -	\$ -	\$ 14,539
-	10,889	-	10,889
-	-	16,475	16,475
-	11	956	3,037
-	-	-	8,467
-	-	27,500	34,600
-	-	182	5,020
<u>14,539</u>	<u>10,900</u>	<u>45,113</u>	<u>93,027</u>
-	-	123,325	150,190
-	-	-	86,569
-	7,531	-	7,531
-	-	6,720	10,973
-	158	-	158
<u>-</u>	<u>7,689</u>	<u>130,045</u>	<u>255,421</u>
<u>14,539</u>	<u>3,211</u>	<u>(84,932)</u>	<u>(162,394)</u>
-	-	-	38,882
-	-	103,000	261,188
<u>(41,540)</u>	<u>-</u>	<u>-</u>	<u>(41,540)</u>
<u>(41,540)</u>	<u>-</u>	<u>103,000</u>	<u>258,530</u>
(27,001)	3,211	18,068	96,136
<u>27,001</u>	<u>4,656</u>	<u>245,415</u>	<u>513,329</u>
<u>\$ -</u>	<u>\$ 7,867</u>	<u>\$ 263,483</u>	<u>\$ 609,465</u>

City of Spring Grove, Minnesota  
Community Building Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for the Year Ended December 31, 2017)

	2018				2017
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Miscellaneous					
Rents	5,000	5,000	5,982	982	7,033
Contributions and donations	-	-	100	100	2,300
Other	-	-	-	-	187
Total Revenues	<u>5,000</u>	<u>5,000</u>	<u>6,082</u>	<u>1,082</u>	<u>9,520</u>
Expenditures					
Current					
Culture and recreation					
Personal services	5,044	5,044	4,156	888	4,256
Supplies	6,800	6,800	5,789	1,011	7,319
Other services and charges	15,150	15,150	16,920	(1,770)	18,556
Capital outlay					
Culture and recreation	12,000	12,000	4,253	7,747	45,223
Total Expenditures	<u>38,994</u>	<u>38,994</u>	<u>31,118</u>	<u>7,876</u>	<u>75,354</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(33,994)	(33,994)	(25,036)	8,958	(65,834)
Other Financing Sources					
Transfers in	<u>30,000</u>	<u>30,000</u>	<u>24,688</u>	<u>(5,312)</u>	<u>65,502</u>
Net Change in Fund Balances	(3,994)	(3,994)	(348)	3,646	(332)
Fund Balances, January 1	<u>(930)</u>	<u>(930)</u>	<u>(930)</u>	<u>-</u>	<u>(598)</u>
Fund Balances, December 31	<u>\$ (4,924)</u>	<u>\$ (4,924)</u>	<u>\$ (1,278)</u>	<u>\$ 3,646</u>	<u>\$ (930)</u>



City of Spring Grove, Minnesota  
Cable TV Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for the Year Ended December 31, 2017)

	2018				2017
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Franchise fees	\$ 9,000	\$ 9,000	\$ 10,889	\$ 1,889	\$ 10,700
Investment earnings	10	10	11	1	6
Total Revenues	<u>9,010</u>	<u>9,010</u>	<u>10,900</u>	<u>1,890</u>	<u>10,706</u>
Expenditures					
Current					
Miscellaneous					
Personal services	8,071	8,071	7,531	540	8,917
Capital outlay					
Miscellaneous	950	950	158	792	839
Total Expenditures	<u>9,021</u>	<u>9,021</u>	<u>7,689</u>	<u>1,332</u>	<u>9,756</u>
Net Change in Fund Balances	(11)	(11)	3,211	3,222	950
Fund Balances, January 1	<u>4,656</u>	<u>4,656</u>	<u>4,656</u>	-	<u>3,706</u>
Fund Balances, December 31	<u>\$ 4,645</u>	<u>\$ 4,645</u>	<u>\$ 7,867</u>	<u>\$ 3,222</u>	<u>\$ 4,656</u>

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Spring Grove, Minnesota  
Library Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for the Year Ended December 31, 2017)

	2018				2017
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Intergovernmental					
County library aid	\$ 15,000	\$ 15,000	\$ 16,475	\$ 1,475	\$ 16,351
Investment earnings	500	500	956	456	485
Miscellaneous					
Contributions and donations	36,000	36,000	27,500	(8,500)	45,000
Other	-	-	182	182	-
Total Revenues	<u>51,500</u>	<u>51,500</u>	<u>45,113</u>	<u>(6,387)</u>	<u>61,836</u>
Expenditures					
Current					
Culture and recreation					
Library					
Personal services	71,146	71,146	65,057	6,089	65,484
Supplies	1,663	1,663	1,051	612	1,818
Other services and charges	81,873	81,873	57,217	24,656	55,001
Capital outlay					
Culture and recreation	12,598	12,598	6,720	5,878	4,274
Total Expenditures	<u>167,280</u>	<u>167,280</u>	<u>130,045</u>	<u>37,235</u>	<u>126,577</u>
Deficiency of Revenues Over (Under) Expenditures	(115,780)	(115,780)	(84,932)	30,848	(64,741)
Other Financing Sources					
Transfers in	<u>103,000</u>	<u>103,000</u>	<u>103,000</u>	<u>-</u>	<u>103,000</u>
Net Change in Fund Balances	(12,780)	(12,780)	18,068	30,848	38,259
Fund Balances, January 1	<u>245,415</u>	<u>245,415</u>	<u>245,415</u>	<u>-</u>	<u>207,156</u>
Fund Balances, December 31	<u>\$ 232,635</u>	<u>\$ 232,635</u>	<u>\$ 263,483</u>	<u>\$ 30,848</u>	<u>\$ 245,415</u>

City of Spring Grove, Minnesota  
 Nonmajor Capital Projects Funds  
 Combining Balance Sheet  
 December 31, 2018

	<b>405</b>	<b>420</b>	<b>425</b>	<b>430</b>
	Fire Equipment	Police Forfeiture	Streets	Aquatic Center
<b>Assets</b>				
Cash and temporary investments	\$ 61,304	\$ 3,391	\$ 77,080	\$ 219,124
Advances to other funds	-	-	-	43,567
<b>Total Assets</b>	<b><u>\$ 61,304</u></b>	<b><u>\$ 3,391</u></b>	<b><u>\$ 77,080</u></b>	<b><u>\$ 262,691</u></b>
<b>Fund Balances</b>				
<b>Restricted</b>				
Capital purchases	\$ -	\$ -	\$ -	\$ 3,540
Law enforcement	-	3,391	-	-
<b>Committed</b>				
Fire equipment	49,403	-	-	-
Future projects	-	-	20,893	-
<b>Assigned</b>				
Capital purchases	11,901	-	56,187	259,151
<b>Total Fund Balances</b>	<b><u>\$ 61,304</u></b>	<b><u>\$ 3,391</u></b>	<b><u>\$ 77,080</u></b>	<b><u>\$ 262,691</u></b>

<b>435</b>	<b>460</b>	<b>475</b>	<b>476</b>	
Vehicle Replacement	Contingency	Conservation Improvements	Commercial Conservation Improvements	Total Nonmajor Funds
\$ 200,738	\$ 37,839	\$ 16,142	\$ 11,939	\$ 627,557
-	-	-	-	43,567
<u>\$ 200,738</u>	<u>\$ 37,839</u>	<u>\$ 16,142</u>	<u>\$ 11,939</u>	<u>\$ 671,124</u>
\$ 11,900	\$ -	\$ -	\$ -	\$ 15,440
-	-	-	-	3,391
99,790	-	-	-	149,193
-	25,606	14,538	11,939	72,976
<u>89,048</u>	<u>12,233</u>	<u>1,604</u>	<u>-</u>	<u>430,124</u>
<u>\$ 200,738</u>	<u>\$ 37,839</u>	<u>\$ 16,142</u>	<u>\$ 11,939</u>	<u>\$ 671,124</u>

City of Spring Grove, Minnesota  
 Nonmajor Capital Projects Funds  
 Combining Statement of Revenues, Expenditures  
 and Changes in Fund Balances  
 For the Year Ended December 31, 2018

	<b>405</b>	<b>420</b>	<b>425</b>	<b>430</b>
	Fire Equipment	Police Forfeiture	Streets	Aquatic Center
<b>Revenues</b>				
Charges for services				
Public works	\$ -	\$ -	\$ 6,615	\$ -
Interest earnings	109	10	258	2,757
Miscellaneous				
Contributions and donations	14,136	9,700	-	-
<b>Total Revenues</b>	<u>14,245</u>	<u>9,710</u>	<u>6,873</u>	<u>2,757</u>
<b>Expenditures</b>				
Current				
Public safety	-	10,390	-	-
Miscellaneous	-	-	-	-
Capital outlay				
Public safety	50,045	-	-	-
Public works	-	-	-	-
<b>Total Expenditures</b>	<u>50,045</u>	<u>10,390</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(35,800)</u>	<u>(680)</u>	<u>6,873</u>	<u>2,757</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	50,000	-	-	-
Transfers out	-	-	-	(33,181)
<b>Total Other Financing Sources (Uses)</b>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>(33,181)</u>
Net Change in Fund Balances	14,200	(680)	6,873	(30,424)
Fund Balances, January 1	<u>47,104</u>	<u>4,071</u>	<u>70,207</u>	<u>293,115</u>
Fund Balances, December 31	<u>\$ 61,304</u>	<u>\$ 3,391</u>	<u>\$ 77,080</u>	<u>\$ 262,691</u>

<b>435</b>	<b>460</b>	<b>475</b>	<b>476</b>	<b>Total</b>
Vehicle Replacement	Contingency	Conservation Improvements	Commercial Conservation Improvements	Nonmajor Funds
\$ -	\$ -	\$ -	\$ -	\$ 6,615
739	117	37	28	4,055
11,900	-	-	-	35,736
<u>12,639</u>	<u>117</u>	<u>37</u>	<u>28</u>	<u>46,406</u>
-	-	-	-	10,390
-	-	1,365	5,726	7,091
-	-	-	-	50,045
2,126	-	-	-	2,126
<u>2,126</u>	<u>-</u>	<u>1,365</u>	<u>5,726</u>	<u>69,652</u>
<u>10,513</u>	<u>117</u>	<u>(1,328)</u>	<u>(5,698)</u>	<u>(23,246)</u>
25,000	10,000	6,308	6,308	97,616
(109,222)	-	-	-	(142,403)
<u>(84,222)</u>	<u>10,000</u>	<u>6,308</u>	<u>6,308</u>	<u>(44,787)</u>
(73,709)	10,117	4,980	610	(68,033)
<u>274,447</u>	<u>27,722</u>	<u>11,162</u>	<u>11,329</u>	<u>739,157</u>
<u>\$ 200,738</u>	<u>\$ 37,839</u>	<u>\$ 16,142</u>	<u>\$ 11,939</u>	<u>\$ 671,124</u>

City of Spring Grove, Minnesota  
 General Fund  
 Comparative Balance Sheets  
 December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 596,627	\$ 753,572
Receivables		
Delinquent taxes	10,161	8,539
Accounts	16,101	15,965
Intergovernmental	15,148	17,747
Due from other funds	-	9,750
Prepaid items	17,989	15,157
Total Assets	\$ 656,026	\$ 820,730
<b>Liabilities</b>		
Accounts payable	\$ 19,986	\$ 8,772
Due to other funds	-	2,400
Due to other governments	163	22
Accrued salaries payable	8,665	4,652
Total Liabilities	28,814	15,846
<b>Deferred Inflows of Resources</b>		
Unavailable revenue		
Delinquent taxes	10,161	8,539
<b>Fund Balances</b>		
Nonspendable		
Prepaid items	17,989	15,157
Unassigned	599,062	781,188
Total Fund Balances	617,051	796,345
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 656,026	\$ 820,730



City of Spring Grove, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued on the Following Pages)  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for the Year Ended December 31, 2017)

	2018			2017	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 398,065	\$ 398,065	\$ 483,587	\$ 85,522	\$ 491,737
Excess tax increments	-	-	-	-	13,135
Total Taxes	<u>398,065</u>	<u>398,065</u>	<u>483,587</u>	<u>85,522</u>	<u>504,872</u>
Special assessments	-	-	-	-	1,028
Licenses and permits					
Business	3,400	3,400	4,200	800	3,270
Nonbusiness	1,000	1,000	1,602	602	1,144
Total Licenses and Permits	<u>4,400</u>	<u>4,400</u>	<u>5,802</u>	<u>1,402</u>	<u>4,414</u>
Intergovernmental					
State					
Local government aid	429,716	429,716	429,716	-	419,173
Property tax credits and aids	-	-	155	155	456
Fire aid	13,875	13,875	1,900	(11,975)	19,237
Police aid	15,625	15,625	16,414	789	15,649
Ambulance aid	-	-	-	-	3,000
Other State aids	14,290	14,290	15,338	1,048	14,570
Total Intergovernmental	<u>473,506</u>	<u>473,506</u>	<u>463,523</u>	<u>(9,983)</u>	<u>472,085</u>
Charges for services					
Public safety	13,000	13,000	8,382	(4,618)	9,301
Public works	22,250	22,250	70,497	48,247	68,226
Culture and recreation	65,700	65,700	76,000	10,300	79,267
Total Charges For Services	<u>100,950</u>	<u>100,950</u>	<u>154,879</u>	<u>53,929</u>	<u>156,794</u>
Fines and forfeits	6,000	6,000	5,728	(272)	7,248
Investment earnings	1,500	1,500	3,266	1,766	3,091
Miscellaneous					
Rents	10,000	10,000	6,886	(3,114)	6,886
Contributions and donations	5,500	5,500	15,825	10,325	81,822
Other	16,500	16,500	21,022	4,522	22,873
Total Miscellaneous	<u>32,000</u>	<u>32,000</u>	<u>43,733</u>	<u>11,733</u>	<u>111,581</u>
Total Revenues	<u>1,016,421</u>	<u>1,016,421</u>	<u>1,160,518</u>	<u>144,097</u>	<u>1,261,113</u>

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Spring Grove, Minnesota  
 General Fund  
 Schedule of Revenues, Expenditures and Changes in Fund Balances -  
 Budget and Actual (Continued)  
 For the Year Ended December 31, 2018  
 (With Comparative Actual Amounts for the Year Ended December 31, 2017)

	2018			2017	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures					
Current					
General government					
Mayor and Council					
Personal services	\$ 5,981	\$ 5,981	\$ 6,010	\$ (29)	\$ 6,011
Supplies	-	-	-	-	61
Other services and charges	8,950	8,950	6,975	1,975	6,093
Total Mayor and Council	<u>14,931</u>	<u>14,931</u>	<u>12,985</u>	<u>1,946</u>	<u>12,165</u>
Election					
Personal services	1,004	1,004	1,708	(704)	-
Supplies	500	500	970	(470)	-
Other services and charges	196	196	469	(273)	-
Total Election	<u>1,700</u>	<u>1,700</u>	<u>3,147</u>	<u>(1,447)</u>	<u>-</u>
Administration					
Personal services	237,988	237,988	178,587	59,401	147,103
Supplies	2,900	2,900	3,046	(146)	4,768
Other services and charges	85,200	85,200	80,801	4,399	83,879
Total Administration	<u>326,088</u>	<u>326,088</u>	<u>262,434</u>	<u>63,654</u>	<u>235,750</u>
Total General Government	<u>342,719</u>	<u>342,719</u>	<u>278,566</u>	<u>64,153</u>	<u>247,915</u>
Public safety					
Police					
Personal services	221,493	221,493	181,156	40,337	183,541
Supplies	11,750	11,750	7,561	4,189	4,559
Other services and charges	20,900	20,900	19,940	960	22,902
Total Police	<u>254,143</u>	<u>254,143</u>	<u>208,657</u>	<u>45,486</u>	<u>211,002</u>
Fire					
Personal services	19,536	19,536	13,906	5,630	29,001
Supplies	7,800	7,800	5,593	2,207	10,501
Other services and charges	27,100	27,100	17,625	9,475	25,923
Total Fire	<u>54,436</u>	<u>54,436</u>	<u>37,124</u>	<u>17,312</u>	<u>65,425</u>
Ambulance					
Other services and charges	<u>8,000</u>	<u>8,000</u>	<u>7,824</u>	<u>176</u>	<u>22,824</u>
Animal control					
Other services and charges	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Civil defense					
Supplies	<u>500</u>	<u>500</u>	<u>2,234</u>	<u>(1,734)</u>	<u>544</u>
Total Public Safety	<u>319,579</u>	<u>319,579</u>	<u>258,339</u>	<u>61,240</u>	<u>302,295</u>

City of Spring Grove, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued)  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for the Year Ended December 31, 2017)

	2018			2017	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (continued)					
Current (continued)					
Public works					
Street maintenance					
Personal services	\$ 76,285	\$ 76,285	\$ 83,886	\$ (7,601)	\$ 92,194
Supplies	30,900	30,900	58,671	(27,771)	64,703
Other services and charges	24,400	24,400	36,362	(11,962)	19,638
Total Street Maintenance	<u>131,585</u>	<u>131,585</u>	<u>178,919</u>	<u>(47,334)</u>	<u>176,535</u>
Recycling					
Other services	-	-	41,864	(41,864)	48,442
Total Public Works	<u>131,585</u>	<u>131,585</u>	<u>220,783</u>	<u>(89,198)</u>	<u>224,977</u>
Culture and recreation					
Summer recreation					
Personal services	9,258	9,258	11,965	(2,707)	12,466
Supplies	1,200	1,200	850	350	1,107
Other services and charges	4,800	4,800	1,809	2,991	780
Total Summer Recreation	<u>15,258</u>	<u>15,258</u>	<u>14,624</u>	<u>634</u>	<u>14,353</u>
Swimming pool					
Personal services	68,590	68,590	74,240	(5,650)	76,298
Supplies	20,150	20,150	16,452	3,698	16,887
Other services and charges	37,125	37,125	37,370	(245)	47,938
Total Swimming Pool	<u>125,865</u>	<u>125,865</u>	<u>128,062</u>	<u>(2,197)</u>	<u>141,123</u>
Parks					
Personal services	300	300	656	(356)	397
Supplies	7,100	7,100	14,442	(7,342)	10,628
Other services and charges	16,100	16,100	27,900	(11,800)	22,271
Total Parks	<u>23,500</u>	<u>23,500</u>	<u>42,998</u>	<u>(19,498)</u>	<u>33,296</u>
Total Culture and Recreation	<u>164,623</u>	<u>164,623</u>	<u>185,684</u>	<u>(21,061)</u>	<u>188,772</u>
Total Current	<u>958,506</u>	<u>958,506</u>	<u>943,372</u>	<u>15,134</u>	<u>963,959</u>

City of Spring Grove, Minnesota  
 General Fund  
 Schedule of Revenues, Expenditures and Changes in Fund Balances -  
 Budget and Actual (Continued)  
 For the Year Ended December 31, 2018  
 (With Comparative Actual Amounts for the Year Ended December 31, 2017)

	2018			2017	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (continued)					
Capital outlay					
General government	\$ 4,000	\$ 4,000	\$ 3,316	\$ 684	\$ 3,127
Public safety	57,000	57,000	98,070	(41,070)	15,897
Public works	105,000	105,000	273,981	(168,981)	201,366
Culture and recreation	22,700	22,700	64,796	(42,096)	102,570
Total Capital Outlay	<u>188,700</u>	<u>188,700</u>	<u>440,163</u>	<u>(251,463)</u>	<u>322,960</u>
Debt service					
Principal	-	-	-	-	14,738
Interest and other costs	-	-	-	-	262
Total Debt Service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>
Total Expenditures	<u>1,147,206</u>	<u>1,147,206</u>	<u>1,383,535</u>	<u>(236,329)</u>	<u>1,301,919</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(130,785)</u>	<u>(130,785)</u>	<u>(223,017)</u>	<u>(92,232)</u>	<u>(40,806)</u>
Other Financing Sources (Uses)					
Transfers in	269,060	269,060	319,125	50,065	202,720
Transfers out	-	-	(275,402)	(275,402)	(274,309)
Total Other Financing Sources (Uses)	<u>269,060</u>	<u>269,060</u>	<u>43,723</u>	<u>(225,337)</u>	<u>(71,589)</u>
Net Change in Fund Balances	138,275	138,275	(179,294)	(317,569)	(112,395)
Fund Balances, January 1	<u>796,345</u>	<u>796,345</u>	<u>796,345</u>	<u>-</u>	<u>908,740</u>
Fund Balances, December 31	<u>\$ 934,620</u>	<u>\$ 934,620</u>	<u>\$ 617,051</u>	<u>\$ (317,569)</u>	<u>\$ 796,345</u>

City of Spring Grove, Minnesota  
Debt Service Funds  
Combining Balance Sheet  
December 31, 2018

	<b>315</b>	<b>330</b>	<b>354</b>
	2012A Tax Abatement Bonds	LaX Fabricating Tax Abatement	2013A G.O. Improvement Bonds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets</b>			
Cash and temporary investments	\$ 90,750	\$ -	\$ 344,967
Receivables			
Delinquent taxes	1,940	-	580
Special assessments			
Noncurrent	-	-	78,554
Intergovernmental	1,306	-	460
Prepaid items	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<b><u>\$ 93,996</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 424,561</u></b>
<b>Liabilities</b>			
Advances from other funds	\$ -	\$ -	\$ -
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Deferred Inflow of Resources</b>			
Unavailable revenue			
Delinquent taxes	1,940	-	580
Special assessments	<u>-</u>	<u>-</u>	<u>78,554</u>
<b>Total Deferred Inflows of Resources</b>	<b><u>1,940</u></b>	<b><u>-</u></b>	<b><u>79,134</u></b>
<b>Fund Balances</b>			
Nonspendable			
Prepaid items	-	-	-
Restricted			
Debt service	<u>92,056</u>	<u>-</u>	<u>345,427</u>
<b>Total Fund Balances</b>	<b><u>92,056</u></b>	<b><u>-</u></b>	<b><u>345,427</u></b>
<b>Total Liabilities, Deferred Inflows of       Resources and Fund Balances</b>	<b><u>\$ 93,996</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 424,561</u></b>

<b>319</b> 2015A Tax Increment Refunding Bonds	<b>320</b> 2002 Taxable EDA Revenue Bonds	Total
\$ 62,119	\$ 10,422	\$ 508,258
10	-	2,530
13,532	-	92,086
33	-	1,799
<u>-</u>	<u>78</u>	<u>78</u>
<u>\$ 75,694</u>	<u>\$ 10,500</u>	<u>\$ 604,751</u>
\$ -	\$ 43,567	\$ 43,567
-	1,000	1,000
<u>-</u>	<u>44,567</u>	<u>44,567</u>
10	-	2,530
<u>13,532</u>	<u>-</u>	<u>92,086</u>
<u>13,542</u>	<u>-</u>	<u>94,616</u>
-	78	78
<u>62,152</u>	<u>(34,145)</u>	<u>465,490</u>
<u>62,152</u>	<u>(34,067)</u>	<u>465,568</u>
<u>\$ 75,694</u>	<u>\$ 10,500</u>	<u>\$ 604,751</u>

City of Spring Grove, Minnesota  
Debt Service Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended December 31, 2018

	<b>315</b> 2012A Tax Abatement Bonds	<b>330</b> LaX Fabricating Tax Abatement	<b>354</b> 2013A G.O. Improvement Bonds
Revenues			
Taxes			
Property taxes	\$ 91,992	\$ -	\$ 24,756
Excess tax increments	-	-	-
Special assessments	-	-	6,422
Investment earnings	63	-	970
Miscellaneous			
Rents	-	-	-
Other	-	-	-
Total Revenues	<u>92,055</u>	<u>-</u>	<u>32,148</u>
Expenditures			
Current			
Economic development	-	9,213	-
Debt service			
Principal	95,000	-	30,000
Interest and other costs	23,685	-	19,740
Total Expenditures	<u>118,685</u>	<u>9,213</u>	<u>49,740</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(26,630)	(9,213)	(17,592)
Other Financing Sources			
Transfers in	<u>33,182</u>	<u>9,213</u>	<u>-</u>
Net Change in Fund Balances	6,552	-	(17,592)
Fund Balances, January 1	<u>85,504</u>	<u>-</u>	<u>363,019</u>
Fund Balances, December 31	<u>\$ 92,056</u>	<u>\$ -</u>	<u>\$ 345,427</u>



<b>319</b>	<b>320</b>	
2015A Tax Increment Refunding Bonds	2002 Taxable EDA Revenue Bonds	Total
\$ -	\$ -	\$ 116,748
15,443	-	15,443
3,843	-	10,265
80	32	1,145
-	12,000	12,000
20,182	-	20,182
<u>39,548</u>	<u>12,032</u>	<u>175,783</u>
140	3,156	12,509
54,000	-	179,000
6,979	1,995	52,399
<u>61,119</u>	<u>5,151</u>	<u>243,908</u>
(21,571)	6,881	(68,125)
<u>41,540</u>	<u>-</u>	<u>83,935</u>
19,969	6,881	15,810
<u>42,183</u>	<u>(40,948)</u>	<u>449,758</u>
<u>\$ 62,152</u>	<u>\$ (34,067)</u>	<u>\$ 465,568</u>

City of Spring Grove, Minnesota  
 Summary Financial Report  
 Revenues and Expenditures for General Operations  
 Governmental Funds  
 For the Years Ended December 31, 2018 and 2017

	Total		Percent Increase (Decrease)
	2018	2017	
<b>Revenues</b>			
Taxes	\$ 652,011	\$ 645,591	0.99 %
Special assessments	10,265	14,631	(29.84)
Licenses and permits	5,802	4,414	31.45
Intergovernmental	479,998	490,936	(2.23)
Charges for services	161,494	156,794	3.00
Fines and forfeits	5,728	7,248	(20.97)
Investment earnings	11,503	10,979	4.77
Miscellaneous	159,738	205,444	(22.25)
<b>Total Revenues</b>	<b>\$ 1,486,539</b>	<b>\$ 1,536,037</b>	<b>(3.22) %</b>
Per capita	\$ 1,143	\$ 1,178	(2.92) %
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 278,566	\$ 247,915	12.36 %
Public safety	268,729	302,295	(11.10)
Public works	220,783	224,977	(1.86)
Culture and recreation	335,874	341,206	(1.56)
Economic development	110,984	144,899	(23.41)
Miscellaneous	14,622	14,888	(1.79)
<b>Capital outlay</b>			
General government	3,316	3,127	6.04
Public safety	148,115	15,897	831.72
Public works	276,107	221,656	24.57
Culture and recreation	75,769	152,067	(50.17)
Economic development	-	6,780	(100.00)
Miscellaneous	158	839	(81.17)
<b>Debt service</b>			
Principal	179,000	183,738	(2.58)
Interest and other costs	52,399	56,166	(6.71)
<b>Total Expenditures</b>	<b>\$ 1,964,422</b>	<b>\$ 1,916,450</b>	<b>2.50 %</b>
Per capita	\$ 1,511	\$ 1,470	2.82 %
<b>Total Long-term Indebtedness</b>	<b>\$ 1,706,000</b>	<b>\$ 1,885,000</b>	<b>(9.50) %</b>
Per capita	1,312	1,446	(9.22)
<b>General Fund Balance - December 31</b>	<b>\$ 617,051</b>	<b>\$ 796,345</b>	<b>(22.51) %</b>
Per capita	475	611	(22.28)

The purpose of this report is to provide a summary of financial information concerning the City of Spring Grove to interested citizens. The complete financial statements may be examined at City Hall, 118 1st Avenue NW. Questions about this report should be directed to Erin Konkel, City Clerk/Treasurer (507-498-5221).

OTHER REQUIRED REPORTS

CITY OF SPRING GROVE  
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

THIS PAGE IS LEFT  
BLANK INTENTIONALLY



INDEPENDENT AUDITOR'S REPORT ON  
MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Spring Grove, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spring Grove, Minnesota (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2019.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described as findings 2018-006, 2018-007, and 2018-008 on the schedule of findings and responses. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*Abdo Eick & Meyers, LLP*

ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
June 20, 2019



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 City Council  
City of Spring Grove, 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 accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spring Grove, Minnesota (the City), 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, and have issued our report thereon dated June 20, 2019.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-005 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003 and 2018-004 to be a significant deficiencies.

## Compliance and Other Matters

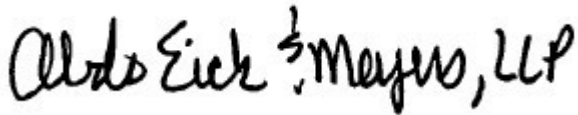
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

## The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## 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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
June 20, 2019

City of Spring Grove, Minnesota  
Schedule of Findings and Responses  
For the Year Ended December 31, 2018

<u>Finding</u>	<u>Description</u>
<b>2018-001</b>	<b>Segregation of Duties</b>
<i>Condition:</i>	During our audit we reviewed internal control procedures over disbursements, cash receipts, utility billing and payroll and found the City to have limited segregation of duties in these areas as noted below.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.

**Internal Control Over Disbursements**

<i>Cause:</i>	As a result of the small number of staff, the City Clerk/Treasurer sets up and maintains vendors, prepares checks, mails checks to vendors, maintains the purchase journal and accounts payable records, posts transactions to the general ledger and reconciles bank accounts.
<i>Recommendation:</i>	While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend that an individual, separate from the City Clerk/Treasurer, review bank reconciliations for accuracy and timeliness of preparation. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City added a City Administrator position to help address the issue. Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures and regular review of budget comparisons.

**Internal Control Over Cash Receipts**

<i>Cause:</i>	As a result of the small number of staff, the City Clerk/Treasurer opens the mail, receives and endorses checks and currency, sets up and maintains customers, maintains receipts journal and accounts receivable records and posts transactions to the general ledger.
<i>Recommendation:</i>	While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitors all financial information. Additional controls might include obtaining and reviewing monthly receipt information and reviewing the bank reconciliation.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City added a City Administrator position to help address the issue. The Council has addressed this circumstance by active participation in the City's affairs and is continually monitoring financial information. This includes regular review of budget comparisons.



City of Spring Grove, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2018

<u>Finding</u>	<u>Description</u>
<b>2018-001</b>	<b>Segregation of Duties (Continued)</b>

**Internal Control Over Utility Billing**

*Cause:* As a result of the small number of staff, the Deputy Clerk sets up and maintains customers, approves new accounts, receives and endorses checks and currency, generates billing statements, maintains utility receipts journal and utility billing records and posts transactions to the general ledger.

*Recommendation:* While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitors all financial information. Additional controls might include obtaining and reviewing monthly utility receipt information and reviewing the bank reconciliation.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City added a City Administrator position to help address the issue. The Council has addressed this circumstance by active participation in the City's affairs and is continually monitoring financial information. This includes regular review of budget comparisons.

**Internal Control Over Payroll**

*Cause:* As a result of the small number of staff, the City Clerk/Treasurer sets up and maintains employee records, runs the payroll, prepares payroll checks, posts activity to the general ledger, issues checks to employees, reconciles bank accounts, prepares payroll tax returns and maintains the payroll records.

*Recommendation:* We recommend that in addition to approving payroll disbursements and wage rates the City Council review amounts earned and accrued for compensated absences on an annual basis to compensate for control deficiencies with respect to payroll accruals. Additional controls might include review of payroll registers, earnings records, payroll reports, etc.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City added a City Administrator position to help address the issue. The Council has addressed this circumstance by active participation in the City's affairs and is continually monitoring financial information.

City of Spring Grove, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2018

<u>Finding</u>	<u>Description</u>
<b>2018-002</b>	<b>Internal Control Over Municipal Liquor Store Operations</b>
<i>Condition:</i>	During our audit we reviewed procedures over cash receipts and inventory at the municipal liquor store and found the City to have limited segregation of duties related to this area.
<i>Criteria:</i>	As a result of the small number of staff, the Liquor Store Manager sets up and maintains customers, approves new accounts, receives and endorses checks and currency, generates billing statements, maintains receipts and billing records and posts transactions to the general ledger.
<i>Cause:</i>	The Liquor Store Manager is responsible for ordering, receiving and maintaining inventory.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and incorrect record keeping.
<i>Recommendation:</i>	We recommend the City consider implementing a timely review of inventory records that allows for continual monitoring of inventory. An inventory report could be attached to every vendor invoice showing all merchandise was properly entered into the inventory system. We also recommend the Liquor Store Manager review the recording process for on-sale transactions and promotional inventory received from vendors.

*Management Response:*

The City will continue to look for ways to improve their internal control over cash receipts and inventory and closely monitor municipal liquor store daily operations. The City added a City Administrator position to help address the issue. The Council has addressed this circumstance by active participation in the City's affairs and is continually monitoring financial information.

<b>2018-003</b>	<b>Internal Control Over Swim Center Operations</b>
<i>Condition:</i>	During our audit we reviewed procedures over cash receipts at the swim center and found the City to have limited segregation of duties related to this area.
<i>Criteria:</i>	As a result of the small number of staff, the Pool Manager sets up and maintains customers, approves new accounts, receives checks and currency, generates billing statements, and maintains receipts and billing records.
<i>Cause:</i>	The Pool Manager is also responsible for collecting cash receipts which were not deposited timely in the City's bank account.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and incorrect record keeping.
<i>Recommendation:</i>	We recommend the City consider implementing a timely review of receipt records that allows for continual monitoring of cash receipts. Cash deposits should be made on a daily basis and a detailed review of receipt reconciliation from the pool software.

*Management Response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The City added a City Administrator position to help address the issue. The Council has addressed this circumstance by active participation in the City's affairs and is continually monitoring financial information.

City of Spring Grove, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2018

<u>Finding</u>	<u>Description</u>
<b>2018-004</b>	<b>Financial Report Preparation</b>
<i>Condition:</i>	We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	
	For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

City of Spring Grove, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2018

<u>Finding</u>	<u>Description</u>
<b>2018-005</b>	<b>Material Audit Adjustments</b>
<i>Condition:</i>	During our audit, material audit adjustments were needed for the following reasons:  Material audit entries were required to remove activity from closed funds, to adjust capital asset activity, and to adjust unearned revenue activity.
<i>Criteria:</i>	Such adjustments should be detected and made by the City's personnel.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accruals and year-end adjustments without auditor assistance.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

*Management Response:*

We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed. The City Clerk/Treasurer is willing to take the necessary steps to improve each year and will continue to monitor all financial activity including adjusting account balances as needed to prevent material misstatements from occurring.

<b>2018-006</b>	<b>Outstanding Checks</b>
<i>Condition:</i>	During our audit procedures, it was noted the City had outstanding payroll checks over one year old.
<i>Criteria:</i>	Minnesota statute §348.38 subdivision 3 states that all intangible personal property held for the owner by any government or political subdivision or agency, which has remained unclaimed by the owner for more than one year is presumed abandoned and is reportable pursuant to section §345.41 if it meets certain criteria.
<i>Cause:</i>	The City had outstanding checks which fit the above criteria.
<i>Effect:</i>	The City is out of compliance with Minnesota statute §348.38 subdivision 3.
<i>Recommendation:</i>	We recommend that the City follow the statute listed above and report the abandoned property to the State.

*Management Response:*

There is no disagreement with this finding. The City will take action to avoid similar occurrence in the following year.

City of Spring Grove, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2018

<u>Finding</u>	<u>Description</u>
<b>2018-007</b>	<b>Responsible Contractor</b>
<i>Condition:</i>	During our audit we reviewed the City's procedures for contracting and bidding and noted the current practice has procedures to be updated to improve compliance with state statutes.
<i>Criteria:</i>	Minnesota statute requires that the City reviews the verification that the contractor meets the minimum criteria for a "responsible contractor" outlined in §16C.285 subdivision 3 for each construction contract in excess of \$50,000.
<i>Cause:</i>	The City awarded a contract in excess of \$50,000 without verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. §16C.285.
<i>Effect:</i>	The City is out of compliance with Minnesota statute §16C285 subdivision 3.
<i>Recommendation:</i>	We recommend that the City verifies that all responsible contractors who have been awarded a contract in excess of \$50,000 meet the minimum requirements set forth in Minn. Stat. § 16C.285. We recommend that the City follow the statute listed above and report the abandoned property to the State.

*Management Response:*

There is no disagreement with this finding. The City will review contracts and verify the responsible contractors meet minimum requirements set by state statutes going forward.

<b>2018-008</b>	<b>Loan Monitoring</b>
<i>Condition:</i>	During our audit, we reviewed the City's procedures monitoring loan activity relating to business subsidies.
<i>Criteria:</i>	Minnesota statute requires that the City reviews goals and criteria established in business subsidy agreements as outlined in §116J.993-§116J.995.
<i>Cause:</i>	The City agreed to a business subsidy of \$260,000 without documented review of the goals as set forth in the development agreement.
<i>Effect:</i>	The City is out of compliance with Minnesota statutes §116J.993-§116J.995.
<i>Recommendation:</i>	We recommend that the City establish monitoring procedures to ensure terms of development agreements are met and document.

*Management Response:*

There is no disagreement with this finding. The City will monitor future business subsidy agreements set by state statutes going forward.