

Annual Financial Report

City of Spring Grove
Spring Grove, Minnesota

For the Year Ended
December 31, 2016

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CITY OF SPRING GROVE, MINNESOTA
 ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

CITY OF SPRING GROVE
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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CITY OF SPRING GROVE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2016

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sarah Schroeder	Mayor	12/31/16
Nancy Nelson	Council	12/31/16
Rachel Olerud	Council	12/31/16
Scott Solberg	Council	12/31/18
Todd Bornholdt	Council	12/31/18

APPOINTED

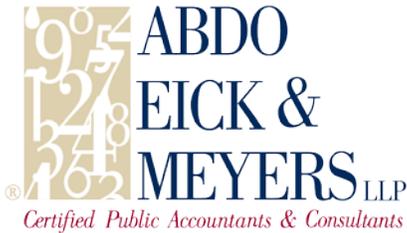
Erin Konkel	City Clerk/Treasurer
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FINANCIAL SECTION
CITY OF SPRING GROVE
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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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, 2016, 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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Unmodified
Economic Development Authority Fund	Unmodified
Debt Service Funds	Unmodified
Water Utility Fund	Qualified
Sewer Utility Fund	Qualified
Electric Utility Fund	Qualified
Municipal Liquor Store Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinions

The City has not adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, for the Public Employee Retirement Association nor the pension amounts related to the Spring Grove Fire Relief Association, in the governmental activities, business-type activities and each major proprietary fund and, accordingly, has not shown activity related to this standard. Accounting principles generally accepted in the United States of America require that pension balances be shown, which would report deferred outflows of resources, deferred inflows of resources and liabilities or assets, while changing the net position in the applicable statements.

Qualified Opinions

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinions”, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major proprietary fund and the aggregate remaining fund information of the City as of December 31, 2016, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund of the City as of December 31, 2016, and the budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the City's 2015 financial statements, and we expressed qualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information in our report dated May 10, 2016. In our opinion, the summarized comparative information presented herein for the respective proprietary fund financial statements as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated on June 14, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
June 14, 2017

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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, 2016.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$7,911,040 (*net position*). Of this amount, \$3,460,238 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$523,997, as compared to an increase of \$845,882 in the previous year. The majority of this increase is attributable to various grants and 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 \$2,626,399, an increase of \$44,628 in comparison with the prior year. Approximately 56.2 percent of this total amount, \$1,475,161, 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 \$141,114, for tax increment spending of \$21,863, for debt service of \$488,573, for capital purchases of \$8,852 and for law enforcement of \$4,058. Committed fund balances in the City include amounts for economic development of \$240,259, for Cable TV operations of \$3,706 and for library operations of \$227,906. Additionally, amounts are reported as nonspendable as they are not available for spending as follows: prepaid items - \$14,907.

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

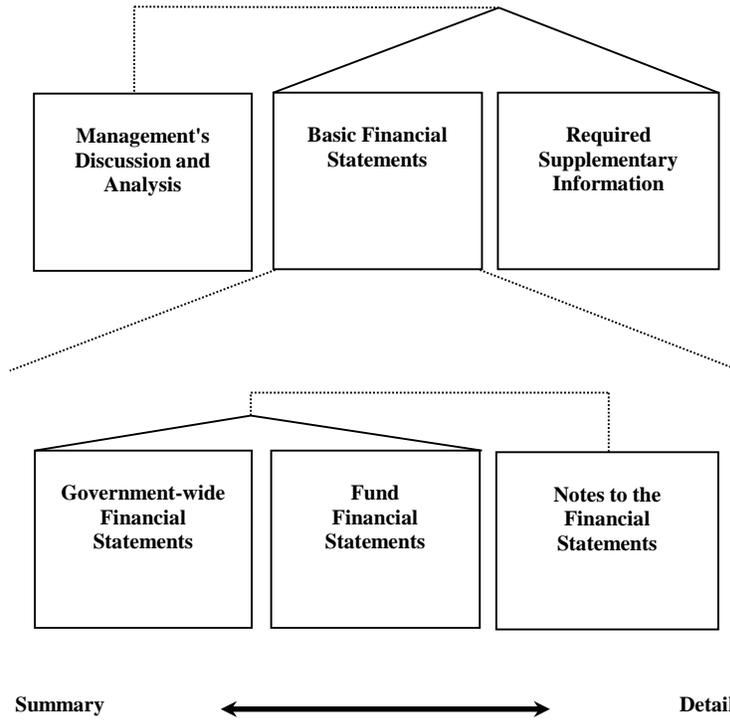


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
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"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows
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 29 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 27 individual governmental funds, seven 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 and the Debt Service funds, both 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 *combining 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 35 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 39 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 47 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 70 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 \$7,911,040 at the close of the most recent fiscal year.

A large portion of the City's net position (54.1 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		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Current and other assets	\$ 2,799,971	\$ 2,828,874	\$ (28,903)	\$ 2,620,314	\$ 2,459,628	\$ 160,686
Capital assets	3,330,167	3,444,333	(114,166)	3,527,486	3,329,706	197,780
Total assets	6,130,138	6,273,207	(143,069)	6,147,800	5,789,334	358,466
Long-term liabilities outstanding	2,117,720	2,299,848	(182,128)	2,026,503	2,141,609	(115,106)
Other liabilities	76,322	75,360	962	146,353	143,681	2,672
Total liabilities	2,194,042	2,375,208	(181,166)	2,172,856	2,285,290	(112,434)
Net position						
Net investment in capital assets	2,731,860	2,810,485	(78,625)	1,543,055	1,228,306	314,749
Restricted	175,887	366,511	(190,624)	-	-	-
Unrestricted	1,028,349	721,003	307,346	2,431,889	2,275,738	156,151
Total net position	\$ 3,936,096	\$ 3,897,999	\$ 38,097	\$ 3,974,944	\$ 3,504,044	\$ 470,900

An additional portion of the City's net position (2.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (43.7 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 \$53,097, thereby accounting for an increase of 10.1 percent of the total growth in the net position of the City. Key elements of this increase are as follows:

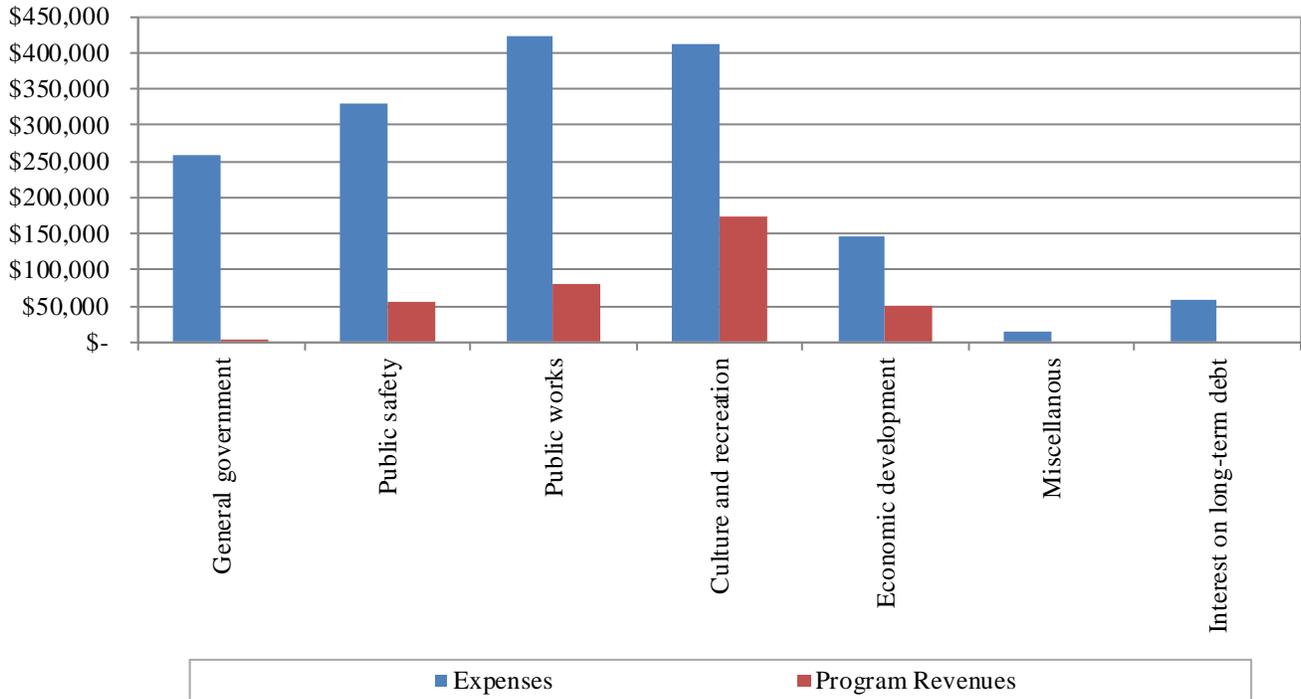
City of Spring Grove's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 210,382	\$ 187,898	\$ 22,484	\$ 2,968,843	\$ 2,857,170	\$ 111,673
Operating grants and contributions	142,006	124,387	17,619	-	-	-
Capital grants and contributions	7,424	190,367	(182,943)	-	-	-
General revenues						
Property taxes/tax increments	619,223	617,680	1,543	-	-	-
Other taxes	10,052	12,104	(2,052)	-	-	-
Grants and contributions not restricted to specific programs	436,218	431,799	4,419	-	-	-
Unrestricted investment earnings	8,987	7,813	1,174	7,545	4,740	2,805
Miscellaneous	82,578	72,891	9,687	17,185	14,144	3,041
Total revenues	1,516,870	1,644,939	(128,069)	2,993,573	2,876,054	117,519
Expenses						
General government	258,488	254,294	4,194	-	-	-
Public safety	329,276	344,875	(15,599)	-	-	-
Public works	424,116	323,688	100,428	-	-	-
Culture and recreation	412,837	425,436	(12,599)	-	-	-
Economic development	145,386	47,553	97,833	-	-	-
Miscellaneous	13,647	12,130	1,517	-	-	-
Interest and other costs	59,473	80,527	(21,054)	-	-	-
Water utility	-	-	-	230,200	195,236	34,964
Sewer utility	-	-	-	202,194	215,504	(13,310)
Electric utility	-	-	-	1,500,595	1,364,008	136,587
Municipal liquor store	-	-	-	410,234	411,860	(1,626)
Total expenses	1,643,223	1,488,503	154,720	2,343,223	2,186,608	156,615
Change in net position before transfers	(126,353)	156,436	(282,789)	650,350	689,446	(39,096)
Transfers	179,450	201,311	(21,861)	(179,450)	(201,311)	21,861
Change in net position	53,097	357,747	(304,650)	470,900	488,135	(17,235)
Net position - January 1	3,897,999	3,540,252	357,747	3,504,044	3,015,909	488,135
Prior period adjustment (note 6)	(15,000)	-	(15,000)	-	-	-
Net position - January 1 as restated	3,882,999	3,540,252	342,747	3,504,044	3,015,909	488,135
Net position - December 31	\$ 3,936,096	\$ 3,897,999	\$ 38,097	\$ 3,974,944	\$ 3,504,044	\$ 470,900

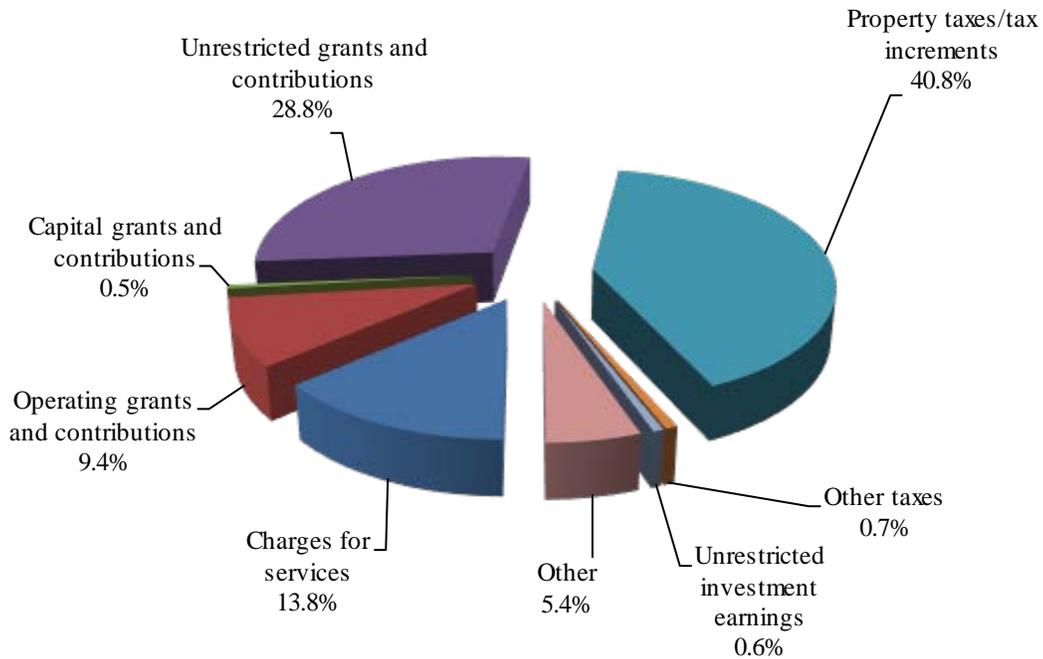
Property tax levies did not change during the year.

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

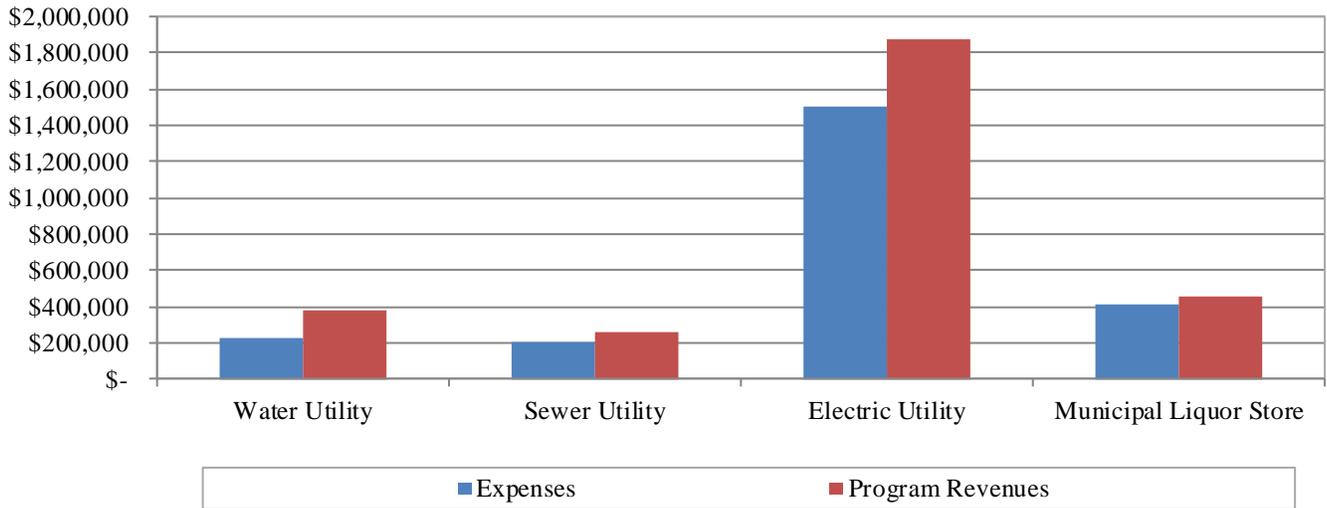


For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

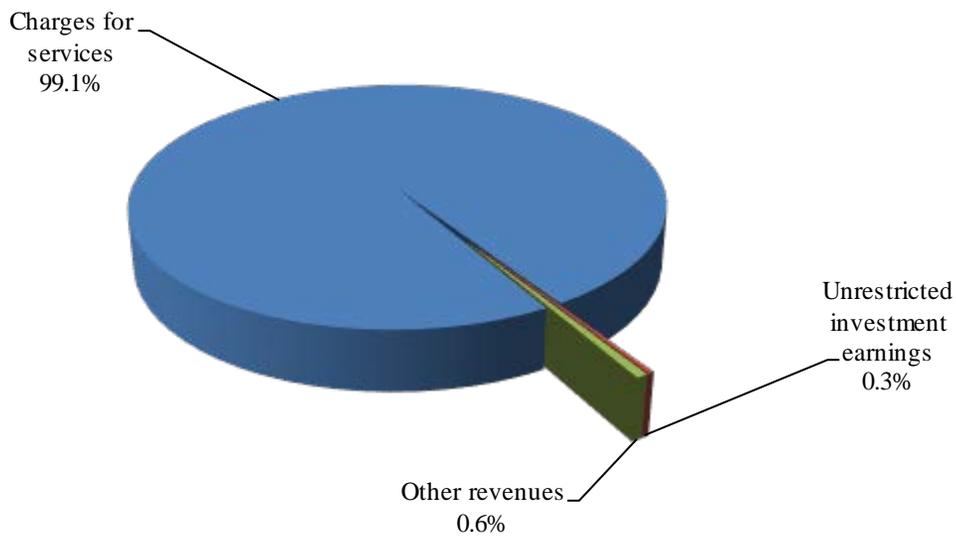
Business-type activities. Business-type activities increased the City’s net position by \$470,900, thereby accounting for 89.9 percent of the total growth in the City’s net position. Key elements of this increase are as follows:

- The Water Utility and Electric Utility funds were the strongest activities during 2016 resulting in operating income of \$195,821 and \$373,861, respectively.
- The Sewer Utility and Municipal Liquor Store funds both had operating income for the year of \$74,644 and \$42,407, 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.

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 \$908,740, 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 84.8 percent of fund expenditures.

The fund balance of the City's General fund increased by \$39,159 during the current fiscal year. The key factors in this increase were:

- Property tax revenues were over budget by \$95,251.
- Total intergovernmental aid was over budget by \$39,674 due to unbudgeted fire and ambulance retirement stipends.
- Culture and recreation charges for services revenue was over budget by \$16,562 due to increased lessons at the pool.
- Public works charges for services revenue and related recycling expenditures were both over budget due to the grossing for recycling activity in the amounts of \$50,687 and \$52,110, respectively.
- Miscellaneous other revenue was over budget by \$49,231 due to higher than anticipated insurance dividends.
- Police personal services were under budget by \$27,690 as the City was without a full-time office for a time period.
- Public works capital outlay was over budgeted by \$72,266 due to overlay and blacktopping projects.
- Culture and recreation capital outlay was over budgeted by \$43,667 due various projects including the fitness stations.
- Transfers out exceeded budget amounts by \$70,502 due to various approvals via Council Resolutions.

Debt Service fund - The Debt Service fund has a total fund balance of \$488,581, 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 \$205,270. This increase was mainly due to property tax and assessment revenue exceeding scheduled principal and interest payments and the closing of capital project funds.

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 \$2,431,889. The total increase in net position for the funds was \$470,900. 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 \$1,168. Revenues exceeded expectations by \$250,750 and expenditures were over budget by \$142,257 in 2016. Additionally, transfers out exceeded budget by \$70,502.

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, 2016 amounts to \$6,857,653 (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 1.2 percent (a 3.3 percent decrease for governmental activities and a 5.9 percent increase for business-type activities).

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

- Completion of the water main improvement project totaled \$239,413.
- Improvement of city park street lights amounted to \$32,331.
- Alley concreting costed \$18,230.
- Fest building improvements totaled \$42,377.
- Completion of the pool project for \$35,178 including \$23,350 in prior year construction in progress.
- The purchase of several vehicles for various department totaling \$47,195 including a gator, van and jet truck.

Additional information on the City's capital assets can be found in Note 3C starting on page 57 of this report.

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

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Land	\$ 119,218	\$ 119,218	\$ -	\$ 41,614	\$ 41,614	\$ -
Construction in progress	-	23,350	(23,350)	-	-	-
Land improvements	8,625	10,256	(1,631)	-	-	-
Buildings and improvements	1,569,549	1,557,477	12,072	303,315	315,201	(11,886)
Systems and infrastructure	1,368,708	1,400,642	(31,934)	2,754,065	2,589,889	164,176
Equipment and machinery	264,067	333,390	(69,323)	428,492	383,002	45,490
Total	\$ 3,330,167	\$ 3,444,333	\$ (114,166)	\$ 3,527,486	\$ 3,329,706	\$ 197,780

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,982,000 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		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
General obligation bonds	\$ 1,045,000	\$ 1,140,000	\$ (95,000)	\$ -	\$ -	\$ -
General obligation tax increment bonds	369,000	414,000	(45,000)	-	-	-
General obligation improvement bonds	640,000	670,000	(30,000)	-	-	-
General obligation revenue bonds	-	-	-	1,928,000	2,036,000	(108,000)
Notes payable	14,738	29,248	(14,510)	56,431	65,400	(8,969)
Total	<u>\$ 2,068,738</u>	<u>\$ 2,253,248</u>	<u>\$ (184,510)</u>	<u>\$ 1,984,431</u>	<u>\$ 2,101,400</u>	<u>\$ (116,969)</u>

The City’s total debt decreased by, or 6.9 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 \$1,851,957. 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 60 of this report.

Economic Factors and Next Year’s Budgets and Rates

- The unemployment rate for Houston County is currently 4.5 percent, which is higher than the rate of 4.1 percent a year ago. This compares unfavorably to the State’s average unemployment rate of 4.1 percent and equal to the national average rate of 4.5 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 2017 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 1st Avenue NW, Spring Grove, Minnesota 55974.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SPRING GROVE
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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CITY OF SPRING GROVE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 2,455,712	\$ 2,380,318	\$ 4,836,030
Receivables			
Delinquent taxes	13,174	-	13,174
Accounts	21,212	203,515	224,727
Loans, net of allowance	126,968	-	126,968
Special assessments	106,784	-	106,784
Intergovernmental	64,390	-	64,390
Internal balances	(3,176)	3,176	-
Inventories	-	32,341	32,341
Prepaid items	14,907	964	15,871
Capital assets			
Nondepreciable	119,218	41,614	160,832
Depreciable, net of accumulated depreciation	3,210,949	3,485,872	6,696,821
TOTAL ASSETS	6,130,138	6,147,800	12,277,938
LIABILITIES			
Accounts payable	39,900	108,696	148,596
Due to other governments	8,348	9,716	18,064
Accrued interest payable	22,708	24,297	47,005
Accrued salaries payable	5,366	3,644	9,010
Noncurrent liabilities			
Due within one year	210,322	134,343	344,665
Due in more than one year	1,907,398	1,892,160	3,799,558
TOTAL LIABILITIES	2,194,042	2,172,856	4,366,898
NET POSITION			
Net investment in capital assets	2,731,860	1,543,055	4,274,915
Restricted			
Economic development loans	141,114	-	141,114
Tax increment	21,863	-	21,863
Capital purchases	8,852	-	8,852
Law enforcement	4,058	-	4,058
Unrestricted	1,028,349	2,431,889	3,460,238
TOTAL NET POSITION	\$ 3,936,096	\$ 3,974,944	\$ 7,911,040

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

CITY OF SPRING GROVE, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 258,488	\$ 30	\$ -	\$ -
Public safety	329,276	14,853	40,237	-
Public works	424,116	73,824	-	7,424
Culture and recreation	412,837	121,175	52,991	-
Economic development	145,386	500	48,778	-
Miscellaneous	13,647	-	-	-
Interest and other costs	59,473	-	-	-
Total governmental activities	1,643,223	210,382	142,006	7,424
Business-type activities				
Water utility	230,200	380,801	-	-
Sewer utility	202,194	263,766	-	-
Electric utility	1,500,595	1,871,635	-	-
Municipal liquor store	410,234	452,641	-	-
Total business-type activities	2,343,223	2,968,843	-	-
Total	\$ 3,986,446	\$ 3,179,225	\$ 142,006	\$ 7,424

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
- Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net position

Net position, January 1

Prior period adjustment (Note 6)

Net position, January 1 as restated

Net position, December 31

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

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (258,458)		\$ (258,458)
(274,186)		(274,186)
(342,868)		(342,868)
(238,671)		(238,671)
(96,108)		(96,108)
(13,647)		(13,647)
(59,473)		(59,473)
<u>(1,283,411)</u>		<u>(1,283,411)</u>
-	\$ 150,601	150,601
-	61,572	61,572
-	371,040	371,040
-	42,407	42,407
<u>-</u>	<u>625,620</u>	<u>625,620</u>
<u>(1,283,411)</u>	<u>625,620</u>	<u>(657,791)</u>
465,315	-	465,315
141,692	-	141,692
12,216	-	12,216
10,052	-	10,052
436,218	-	436,218
8,987	7,545	16,532
81,078	17,185	98,263
1,500	-	1,500
179,450	(179,450)	-
<u>1,336,508</u>	<u>(154,720)</u>	<u>1,181,788</u>
<u>53,097</u>	<u>470,900</u>	<u>523,997</u>
3,897,999	3,504,044	7,402,043
<u>(15,000)</u>	<u>-</u>	<u>(15,000)</u>
<u>3,882,999</u>	<u>3,504,044</u>	<u>7,387,043</u>
<u>\$ 3,936,096</u>	<u>\$ 3,974,944</u>	<u>\$ 7,911,040</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF SPRING GROVE
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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CITY OF SPRING GROVE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Debt Service	Other Governmental Funds	Totals
ASSETS				
Cash and temporary investments	\$ 894,926	\$ 503,751	\$ 1,057,035	\$ 2,455,712
Receivables				
Delinquent taxes	10,026	3,148	-	13,174
Accounts	17,317	-	3,895	21,212
Loans, net of allowance	-	-	126,968	126,968
Special assessments	-	106,784	-	106,784
Intergovernmental	23,612	40,778	-	64,390
Due from other funds	2,000	-	-	2,000
Advances to other funds	-	-	55,956	55,956
Prepaid items	14,640	8	259	14,907
	<u>962,521</u>	<u>654,469</u>	<u>1,244,113</u>	<u>2,861,103</u>
TOTAL ASSETS	<u>\$ 962,521</u>	<u>\$ 654,469</u>	<u>\$ 1,244,113</u>	<u>\$ 2,861,103</u>
LIABILITIES				
Accounts payable	\$ 28,402	\$ -	\$ 11,498	\$ 39,900
Due to other governments	8,297	-	51	8,348
Due to other funds	2,650	-	2,526	5,176
Advances from other funds	-	55,956	-	55,956
Accrued salaries payable	4,406	-	960	5,366
	<u>43,755</u>	<u>55,956</u>	<u>15,035</u>	<u>114,746</u>
TOTAL LIABILITIES	<u>43,755</u>	<u>55,956</u>	<u>15,035</u>	<u>114,746</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				
Delinquent taxes	10,026	3,148	-	13,174
Special assessments	-	106,784	-	106,784
	<u>10,026</u>	<u>109,932</u>	<u>-</u>	<u>119,958</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>10,026</u>	<u>109,932</u>	<u>-</u>	<u>119,958</u>
FUND BALANCES				
Nonspendable				
Prepaid items	14,640	8	259	14,907
Restricted				
Economic development	-	-	141,114	141,114
Tax increment	-	-	21,863	21,863
Debt service	-	488,573	-	488,573
Capital purchases	-	-	8,852	8,852
Law enforcement	-	-	4,058	4,058
Committed				
Economic development	-	-	240,259	240,259
Cable TV operations	-	-	3,706	3,706
Library operations	-	-	227,906	227,906
Assigned				
Capital purchases	-	-	583,659	583,659
Unassigned	894,100	-	(2,598)	891,502
	<u>908,740</u>	<u>488,581</u>	<u>1,229,078</u>	<u>2,626,399</u>
TOTAL FUND BALANCES	<u>908,740</u>	<u>488,581</u>	<u>1,229,078</u>	<u>2,626,399</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 962,521</u>	<u>\$ 654,469</u>	<u>\$ 1,244,113</u>	<u>\$ 2,861,103</u>

The notes to the financial statements are in 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, 2016

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

Total fund balances - governmental funds	\$ 2,626,399
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	3,330,167
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	(48,982)
Bonds payable	(2,068,738)
Long-term assets are not available to pay current-period expenditures and therefore are unavailable in the funds.	
Delinquent property taxes receivable	13,174
Special assessments receivable	106,784
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(22,708)</u>
Total net position - governmental activities	<u><u>\$ 3,936,096</u></u>

The notes to the financial statements are in 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, 2016

	General	Debt Service	Other Governmental Funds	Totals
REVENUES				
Taxes	\$ 464,312	\$ 141,517	\$ 22,265	\$ 628,094
Special assessments	3	66,876	-	66,879
Licenses and permits	7,758	-	500	8,258
Intergovernmental	476,354	-	12,406	488,760
Charges for services	182,614	-	-	182,614
Fines and forfeits	5,135	-	-	5,135
Investment earnings	3,056	866	5,065	8,987
Miscellaneous	74,067	25,701	85,149	184,917
TOTAL REVENUES	1,213,299	234,960	125,385	1,573,644
EXPENDITURES				
Current				
General government	246,428	-	-	246,428
Public safety	279,006	-	-	279,006
Public works	180,321	-	-	180,321
Culture and recreation	175,904	-	139,549	315,453
Economic development	-	3,401	136,823	140,224
Miscellaneous	-	-	13,647	13,647
Capital outlay				
General government	3,162	-	-	3,162
Public safety	3,840	-	16,888	20,728
Public works	114,266	-	51,901	166,167
Culture and recreation	53,667	-	48,399	102,066
Debt service				
Principal	14,510	170,000	-	184,510
Interest and other costs	490	57,764	-	58,254
TOTAL EXPENDITURES	1,071,594	231,165	407,207	1,709,966
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	141,705	3,795	(281,822)	(136,322)
OTHER FINANCING SOURCES (USES)				
Sale of assets	-	-	1,500	1,500
Transfers in	207,000	201,475	339,798	748,273
Transfers out	(309,546)	-	(259,277)	(568,823)
TOTAL OTHER FINANCING SOURCES (USES)	(102,546)	201,475	82,021	180,950
NET CHANGE IN FUND BALANCES	39,159	205,270	(199,801)	44,628
FUND BALANCES, JANUARY 1	869,581	283,311	1,443,879	2,596,771
PRIOR PERIOD ADJUSTMENT (NOTE 6)	-	-	(15,000)	(15,000)
FUND BALANCES, JANUARY 1 AS RESTATED	869,581	283,311	1,428,879	2,581,771
FUND BALANCES, DECEMBER 31	\$ 908,740	\$ 488,581	\$ 1,229,078	\$ 2,626,399

The notes to the financial statements are in 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, 2016

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

Net change in fund balances - governmental funds	\$ 44,628
<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	86,685
Depreciation expense	(200,851)
<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	184,510
<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>	
	(1,219)
<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	1,181
Special assessments	(59,455)
<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	(2,382)
	(2,382)
Change in net position - governmental activities	\$ 53,097

The notes to the financial statements are in 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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 368,669	\$ 368,669	\$ 464,312	\$ 95,643
Special assessments	-	-	3	3
Licenses and permits	4,200	4,200	7,758	3,558
Intergovernmental	436,680	436,680	476,354	39,674
Charges for services	118,000	118,000	182,614	64,614
Fines and forfeits	6,000	6,000	5,135	(865)
Investment earnings	1,500	1,500	3,056	1,556
Miscellaneous	27,500	27,500	74,067	46,567
TOTAL REVENUES	962,549	962,549	1,213,299	250,750
EXPENDITURES				
Current				
General government	247,203	247,203	246,428	775
Public safety	281,446	281,446	279,006	2,440
Public works	145,860	145,860	180,321	(34,461)
Culture and recreation	170,528	170,528	175,904	(5,376)
Capital outlay				
General government	2,800	2,800	3,162	(362)
Public safety	14,500	14,500	3,840	10,660
Public works	42,000	42,000	114,266	(72,266)
Culture and recreation	10,000	10,000	53,667	(43,667)
Debt service				
Principal	15,000	15,000	14,510	490
Interest and other costs	-	-	490	(490)
TOTAL EXPENDITURES	929,337	929,337	1,071,594	(142,257)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	33,212	33,212	141,705	108,493
OTHER FINANCING SOURCES (USES)				
Transfers in	207,000	207,000	207,000	-
Transfers out	(239,044)	(239,044)	(309,546)	(70,502)
TOTAL OTHER FINANCING SOURCES (USES)	(32,044)	(32,044)	(102,546)	(70,502)
NET CHANGE IN FUND BALANCES	1,168	1,168	39,159	37,991
FUND BALANCES, JANUARY 1	869,581	869,581	869,581	-
FUND BALANCES, DECEMBER 31	\$ 870,749	\$ 870,749	\$ 908,740	\$ 37,991

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

CITY OF SPRING GROVE, MINNESOTA
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016 AND 2015

	Business-type Activities - Enterprise Funds			
	620		625	
	Water Utility		Sewer Utility	
	2016	2015	2016	2015
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 530,635	\$ 653,648	\$ 216,672	\$ 176,527
Receivables				
Accounts	29,448	31,783	24,030	22,890
Due from other funds	2,215	3,424	159	145
Inventories	-	-	-	-
Prepaid items	37	39	68	71
TOTAL CURRENT ASSETS	562,335	688,894	240,929	199,633
NONCURRENT ASSETS				
Capital assets				
Land	-	-	34,114	34,114
Buildings and improvements	-	-	2,153,774	2,153,774
Systems and infrastructure	2,361,307	2,121,894	955,086	955,086
Equipment and machinery	37,232	37,232	290,220	263,520
Less accumulated depreciation	(502,232)	(452,406)	(2,280,846)	(2,229,677)
TOTAL NONCURRENT ASSETS	1,896,307	1,706,720	1,152,348	1,176,817
TOTAL ASSETS	2,458,642	2,395,614	1,393,277	1,376,450
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	791	2,156	150	1,558
Due to other governments	312	-	-	-
Due to other funds	3,178	3,462	4,350	7,314
Accrued interest payable	19,048	19,307	5,249	5,467
Accrued salaries payable	462	468	462	468
Compensated absences payable - current portion	2,159	2,144	2,159	2,144
Bonds payable - current portion	68,000	68,000	41,000	40,000
TOTAL CURRENT LIABILITIES	93,950	95,537	53,370	56,951
NONCURRENT LIABILITIES				
Compensated absences payable - noncurrent portion	1,344	856	1,344	856
Bonds payable - noncurrent portion	1,416,000	1,484,000	403,000	444,000
TOTAL NONCURRENT LIABILITIES	1,417,344	1,484,856	404,344	444,856
TOTAL LIABILITIES	1,511,294	1,580,393	457,714	501,807
NET POSITION				
Net investment in capital assets	412,307	154,720	708,348	692,817
Unrestricted	535,041	660,501	227,215	181,826
TOTAL NET POSITION	\$ 947,348	\$ 815,221	\$ 935,563	\$ 874,643

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

Business-type Activities - Enterprise Funds

615		609			
Electric Utility		Municipal Liquor Store		Totals	
2016	2015	2016	2015	2016	2015
\$ 1,508,338	\$ 1,301,002	\$ 124,673	\$ 76,120	\$ 2,380,318	\$ 2,207,297
150,037	162,882	-	-	203,515	217,555
8,958	11,568	-	-	11,332	15,137
-	-	32,341	30,438	32,341	30,438
490	616	369	-	964	726
<u>1,667,823</u>	<u>1,476,068</u>	<u>157,383</u>	<u>106,558</u>	<u>2,628,470</u>	<u>2,471,153</u>
-	-	7,500	7,500	41,614	41,614
849,225	849,225	101,387	101,387	3,104,386	3,104,386
209,712	209,712	-	-	3,526,105	3,286,692
302,876	249,349	54,680	54,680	685,008	604,781
(937,964)	(920,646)	(108,585)	(105,038)	(3,829,627)	(3,707,767)
<u>423,849</u>	<u>387,640</u>	<u>54,982</u>	<u>58,529</u>	<u>3,527,486</u>	<u>3,329,706</u>
<u>2,091,672</u>	<u>1,863,708</u>	<u>212,365</u>	<u>165,087</u>	<u>6,155,956</u>	<u>5,800,859</u>
106,878	107,723	877	978	108,696	112,415
5,626	-	3,778	3,416	9,716	3,416
-	-	628	749	8,156	11,525
-	-	-	-	24,297	24,774
1,453	1,225	1,267	915	3,644	3,076
11,358	10,669	277	707	15,953	15,664
9,390	8,969	-	-	118,390	116,969
<u>134,705</u>	<u>128,586</u>	<u>6,827</u>	<u>6,765</u>	<u>288,852</u>	<u>287,839</u>
22,830	22,679	601	154	26,119	24,545
47,041	56,431	-	-	1,866,041	1,984,431
<u>69,871</u>	<u>79,110</u>	<u>601</u>	<u>154</u>	<u>1,892,160</u>	<u>2,008,976</u>
<u>204,576</u>	<u>207,696</u>	<u>7,428</u>	<u>6,919</u>	<u>2,181,012</u>	<u>2,296,815</u>
367,418	322,240	54,982	58,529	1,543,055	1,228,306
1,519,678	1,333,772	149,955	99,639	2,431,889	2,275,738
<u>\$ 1,887,096</u>	<u>\$ 1,656,012</u>	<u>\$ 204,937</u>	<u>\$ 158,168</u>	<u>\$ 3,974,944</u>	<u>\$ 3,504,044</u>

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

CITY OF SPRING GROVE, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Business-type Activities - Enterprise Funds			
	620		625	
	Water Utility		Sewer Utility	
	2016	2015	2016	2015
OPERATING REVENUES				
Charges for services	\$ 380,801	\$ 374,379	\$ 263,766	\$ 250,750
Sales	-	-	-	-
Cost of sales	-	-	-	-
TOTAL OPERATING REVENUES	380,801	374,379	263,766	250,750
OPERATING EXPENSES				
Power production	-	-	-	-
Salaries and benefits	37,111	36,346	36,431	35,206
Supplies	50,989	21,688	15,307	32,298
Other services and charges	8,373	8,032	27,042	26,164
Insurance	225	235	413	429
Utilities	38,456	38,610	58,760	60,065
Depreciation	49,826	46,834	51,169	48,683
TOTAL OPERATING EXPENSES	184,980	151,745	189,122	202,845
OPERATING INCOME (LOSS)	195,821	222,634	74,644	47,905
NONOPERATING REVENUES (EXPENSES)				
Other income	2,375	450	1,200	250
Investment earnings	1,651	1,050	648	352
Rental income	-	-	-	-
Interest and other costs	(45,220)	(43,491)	(13,072)	(12,659)
TOTAL NONOPERATING REVENUES (EXPENSES)	(41,194)	(41,991)	(11,224)	(12,057)
INCOME (LOSS) BEFORE TRANSFERS	154,627	180,643	63,420	35,848
TRANSFERS IN	-	-	20,000	-
TRANSFERS OUT	(22,500)	(22,500)	(22,500)	(22,500)
CHANGE IN NET POSITION	132,127	158,143	60,920	13,348
NET POSITION, JANUARY 1	815,221	657,078	874,643	861,295
NET POSITION, DECEMBER 31	\$ 947,348	\$ 815,221	\$ 935,563	\$ 874,643

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

Business-type Activities - Enterprise Funds

615		609			
Electric Utility		Municipal Liquor Store		Totals	
2016	2015	2016	2015	2016	2015
\$ 1,871,635	\$ 1,811,647	\$ -	\$ -	\$ 2,516,202	\$ 2,436,776
-	-	452,641	420,394	452,641	420,394
-	-	(280,485)	(271,161)	(280,485)	(271,161)
<u>1,871,635</u>	<u>1,811,647</u>	<u>172,156</u>	<u>149,233</u>	<u>2,688,358</u>	<u>2,586,009</u>
1,232,873	1,197,547	-	-	1,232,873	1,197,547
92,326	97,310	86,717	95,407	252,585	264,269
41,783	18,026	6,046	4,968	114,125	76,980
106,010	25,908	14,685	17,089	156,110	77,193
3,063	3,787	5,874	5,980	9,575	10,431
4,401	4,911	12,880	13,384	114,497	116,970
17,318	13,296	3,547	3,871	121,860	112,684
<u>1,497,774</u>	<u>1,360,785</u>	<u>129,749</u>	<u>140,699</u>	<u>2,001,625</u>	<u>1,856,074</u>
373,861	450,862	42,407	8,534	686,733	729,935
9,776	10,126	1,981	1,714	15,332	12,540
4,718	3,019	528	319	7,545	4,740
-	-	1,853	1,604	1,853	1,604
(2,821)	(3,223)	-	-	(61,113)	(59,373)
<u>11,673</u>	<u>9,922</u>	<u>4,362</u>	<u>3,637</u>	<u>(36,383)</u>	<u>(40,489)</u>
385,534	460,784	46,769	12,171	650,350	689,446
21,196	-	-	-	41,196	-
(175,646)	(156,311)	-	-	(220,646)	(201,311)
231,084	304,473	46,769	12,171	470,900	488,135
<u>1,656,012</u>	<u>1,351,539</u>	<u>158,168</u>	<u>145,997</u>	<u>3,504,044</u>	<u>3,015,909</u>
<u>\$ 1,887,096</u>	<u>\$ 1,656,012</u>	<u>\$ 204,937</u>	<u>\$ 158,168</u>	<u>\$ 3,974,944</u>	<u>\$ 3,504,044</u>

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

CITY OF SPRING GROVE, MINNESOTA
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2016 AND 2015

	Business-type Activities - Enterprise Funds			
	Water Utility		Sewer Utility	
	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 383,136	\$ 371,762	\$ 262,626	\$ 257,687
Payments to suppliers and vendors	(99,094)	(69,431)	(102,927)	(123,526)
Payments to and on behalf of employees	(36,614)	(36,815)	(35,934)	(35,675)
Other receipts	2,375	450	1,200	250
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	249,803	265,966	124,965	98,736
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
(Increase) decrease in due from other funds	1,209	(3,424)	(14)	(145)
Increase (decrease) in due to other funds	(284)	3,462	(2,964)	7,314
Transfers from other funds	-	-	20,000	-
Transfers to other funds	(22,500)	(22,500)	(22,500)	(22,500)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(21,575)	(22,462)	(5,478)	(15,331)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(239,413)	-	(26,700)	(23,020)
Bond principal paid	(68,000)	(68,000)	(40,000)	(40,000)
Interest paid on bonds payable	(45,479)	(46,493)	(13,290)	(13,562)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(352,892)	(114,493)	(79,990)	(76,582)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on cash and investments	1,651	1,050	648	352
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(123,013)	130,061	40,145	7,175
CASH AND CASH EQUIVALENTS, JANUARY 1	653,648	523,587	176,527	169,352
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 530,635	\$ 653,648	\$ 216,672	\$ 176,527
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 195,821	\$ 222,634	\$ 74,644	\$ 47,905
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	2,375	450	1,200	250
Depreciation	49,826	46,834	51,169	48,683
(Increase) decrease in assets				
Accounts receivable	2,335	(2,617)	(1,140)	6,937
Inventories	-	-	-	-
Prepaid items	2	1,481	3	1,483
Increase (decrease) in liabilities				
Accounts payable	(1,365)	(2,347)	(1,408)	(6,053)
Due to other governments	312	-	-	-
Accrued salaries payable	(6)	(781)	(6)	(781)
Compensated absences payable	503	312	503	312
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 249,803	\$ 265,966	\$ 124,965	\$ 98,736

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

Business-type Activities - Enterprise Funds

609					
Electric Utility		Municipal Liquor Store		Totals	
2016	2015	2016	2015	2016	2015
\$ 1,884,480	\$ 1,819,413	\$ 452,641	\$ 420,394	\$ 2,982,883	\$ 2,869,256
(1,383,223)	(1,251,504)	(321,981)	(312,458)	(1,907,225)	(1,756,919)
(91,258)	(98,703)	(86,348)	(96,375)	(250,154)	(267,568)
9,776	10,126	3,834	3,318	17,185	14,144
<u>419,775</u>	<u>479,332</u>	<u>48,146</u>	<u>14,879</u>	<u>842,689</u>	<u>858,913</u>
2,610	(11,568)	-	-	3,805	(15,137)
-	-	(121)	749	(3,369)	11,525
21,196	-	-	-	41,196	-
(175,646)	(156,311)	-	-	(220,646)	(201,311)
<u>(151,840)</u>	<u>(167,879)</u>	<u>(121)</u>	<u>749</u>	<u>(179,014)</u>	<u>(204,923)</u>
(53,527)	(66,340)	-	-	(319,640)	(89,360)
(8,969)	(8,567)	-	-	(116,969)	(116,567)
(2,821)	(3,223)	-	-	(61,590)	(63,278)
<u>(65,317)</u>	<u>(78,130)</u>	<u>-</u>	<u>-</u>	<u>(498,199)</u>	<u>(269,205)</u>
4,718	3,019	528	319	7,545	4,740
207,336	236,342	48,553	15,947	173,021	389,525
<u>1,301,002</u>	<u>1,064,660</u>	<u>76,120</u>	<u>60,173</u>	<u>2,207,297</u>	<u>1,817,772</u>
<u>\$ 1,508,338</u>	<u>\$ 1,301,002</u>	<u>\$ 124,673</u>	<u>\$ 76,120</u>	<u>\$ 2,380,318</u>	<u>\$ 2,207,297</u>
\$ 373,861	\$ 450,862	\$ 42,407	\$ 8,534	\$ 686,733	\$ 729,935
9,776	10,126	3,834	3,318	17,185	14,144
17,318	13,296	3,547	3,871	121,860	112,684
12,845	7,766	-	-	14,040	12,086
-	-	(1,903)	(3,739)	(1,903)	(3,739)
126	5,056	(369)	5,201	(238)	13,221
(845)	(6,381)	(101)	(1,365)	(3,719)	(16,146)
5,626	-	362	27	6,300	27
228	(2,044)	352	(1,829)	568	(5,435)
840	651	17	861	1,863	2,136
<u>\$ 419,775</u>	<u>\$ 479,332</u>	<u>\$ 48,146</u>	<u>\$ 14,879</u>	<u>\$ 842,689</u>	<u>\$ 858,913</u>

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

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CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016

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 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 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.

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 2016. 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, 2016

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 estimated 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

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, 2016 was \$91,054. The General fund is typically used to liquidate governmental compensated absences payable.

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 45 at January 1, 2016 and it was determined that there is no liability.

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 for the General fund.

CITY OF SPRING GROVE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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”.

Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year’s presentation.

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, 2016, expenditures exceeded appropriations in the following fund:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 929,337	\$ 1,071,594	\$ 142,257
Special Revenue			
Cable TV	\$ 9,000	\$ 9,352	\$ 352

Excess expenditures were funded by actual revenues in excess of budgeted amounts.

CITY OF SPRING GROVE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED

C. Deficit fund equity

The following funds had fund equity deficits at December 31, 2016:

Fund	Amount
Special Revenue	
Community Building	\$ 598
Nisse Treehouse Tax Increment District 1-3	2,000

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

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.

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 \$4,834,908 and the bank balance was \$4,931,612. Of the bank balance, \$2,469,385 was covered by federal depository insurance. The remaining balance of \$2,462,227 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City has not adopted a formal investment policy outlining objectives and procedures for investing idle funds or to address the above risks.

Cash on hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$1,122.

Cash and investments summary

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

Deposits	\$ 4,834,908
Cash on hand	<u>1,122</u>
Total	<u><u>\$ 4,836,030</u></u>

B. Loans receivable

Commercial loans

The City currently has loans to various local businesses totaling \$746, net of an allowance for a forgivable portion of \$80,000, at December 31, 2016. Monthly payments on the loans total approximately \$170 including interest at 3 percent with a payback period of 5 years. The loans are secured by real estate.

Economic development loans

The EDA currently has loans to various local businesses totaling \$126,222, net of an allowance for a forgivable portion of \$255,627, at December 31, 2016. The loans are secured by real estate.

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 119,218	\$ -	\$ -	\$ 119,218
Construction in progress	23,350	-	(23,350)	-
 Total capital assets not being depreciated	 142,568	 -	 (23,350)	 119,218
Capital assets being depreciated				
Land improvements	26,824	-	-	26,824
Buildings and improvements	2,798,844	77,555	-	2,876,399
Systems and infrastructure	3,813,728	18,230	-	3,831,958
Equipment and machinery	1,587,834	14,250	(45,732)	1,556,352
 Total capital assets being depreciated	 8,227,230	 110,035	 (45,732)	 8,291,533
Less accumulated depreciation for				
Land improvements	(16,568)	(1,631)	-	(18,199)
Buildings and improvements	(1,241,367)	(65,483)	-	(1,306,850)
Systems and infrastructure	(2,413,086)	(50,164)	-	(2,463,250)
Equipment and machinery	(1,254,444)	(83,573)	45,732	(1,292,285)
 Total accumulated depreciation	 (4,925,465)	 (200,851)	 45,732	 (5,080,584)
 Total capital assets being depreciated, net	 3,301,765	 (90,816)	 -	 3,210,949
 Governmental activities capital assets, net	 \$ 3,444,333	 \$ (90,816)	 \$ (23,350)	 \$ 3,330,167

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 41,614	\$ -	\$ -	\$ 41,614
Capital assets being depreciated				
Buildings and improvements	3,104,386	-	-	3,104,386
Systems and infrastructure	3,286,692	239,413	-	3,526,105
Equipment and machinery	604,781	80,227	-	685,008
Total capital assets being depreciated	6,995,859	319,640	-	7,315,499
Less accumulated depreciation for				
Buildings and improvements	(2,789,185)	(11,886)	-	(2,801,071)
Systems and infrastructure	(696,803)	(75,237)	-	(772,040)
Equipment and machinery	(221,779)	(34,737)	-	(256,516)
Total accumulated depreciation	(3,707,767)	(121,860)	-	(3,829,627)
Total capital assets being depreciated, net	3,288,092	197,780	-	3,485,872
Business-type activities capital assets, net	<u>\$ 3,329,706</u>	<u>\$ 197,780</u>	<u>\$ -</u>	<u>\$ 3,527,486</u>

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

Governmental activities	
General government	\$ 7,796
Public safety	37,748
Public works	94,960
Culture and recreation	55,185
Economic development	5,162
Total depreciation expense - governmental activities	<u>\$ 200,851</u>
Business-type activities	
Water utility	\$ 49,826
Sewer utility	51,169
Electric utility	17,318
Municipal liquor store	3,547
Total depreciation expense - business-type activities	<u>\$ 121,860</u>

CITY OF SPRING GROVE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Interfund receivables, payables, and transfers

The composition of interfund balances at December 31, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
General	Debt Service funds	\$ 2,000
Enterprise		
Water Utility	General	74
	Nonmajor governmental funds	40
	Enterprise	
	Sewer	2,079
	Municipal Liquor Store	22
Sewer Utility	General	86
	Nonmajor governmental funds	47
	Enterprise	
	Municipal Liquor Store	26
Electric Utility	General	2,491
	Nonmajor governmental funds	438
	Enterprise	
	Water	3,178
	Sewer	2,272
	Municipal Liquor Store	579
Totals		\$ 13,332

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

Advances from/to other funds at December 31, 2016 are as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor governmental funds	Debt service funds	\$ 55,956

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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.

Funds	Transfers in					Total
	General Fund	Debt Service Funds	Nonmajor Governmental Funds	Sewer Utility	Electric Utility	
Transfers out						
General	\$ -	\$ -	\$ 309,546	\$ -	\$ -	\$ 309,546
Nonmajor Governmental funds	-	201,475	16,606	20,000	21,196	259,277
Water Utility	22,500	-	-	-	-	22,500
Sewer Utility	22,500	-	-	-	-	22,500
Electric Utility	162,000	-	13,646	-	-	175,646
Total transfers out	\$ 207,000	\$ 201,475	\$ 339,798	\$ 20,000	\$ 21,196	\$ 789,469

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, 2016, the government made the following one-time transfers:

- The Four Seasons Acres capital project fund transferred \$3,606 to the Contingency fund to close the fund.
- The Highway 44 capital project fund transferred \$153,616 to the Debt Service fund to close the fund.
- The Vehicle Replacement capital project fund transferred \$20,000 to the Sewer Utility fund and \$21,196 to the Electric fund to finance vehicle purchases.

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>\$ 1,045,000</u>

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

<u>Year Ending December 31</u>	G.O. Bonds Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 95,000	\$ 25,736	\$ 120,736
2018	95,000	23,285	118,285
2019	100,000	20,770	120,770
2020	105,000	18,125	123,125
2021	105,000	15,416	120,416
2022 - 2026	<u>545,000</u>	<u>34,769</u>	<u>579,769</u>
Total	<u>\$ 1,045,000</u>	<u>\$ 138,101</u>	<u>\$ 1,183,101</u>

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.

<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>
2015A G.O. Tax Increment Refunding Bonds	\$ 414,000	2.30 %	12/07/15	02/01/23	<u>\$ 369,000</u>

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

<u>Year Ending December 31</u>	G.O. Tax Increment Bonds Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 44,000	\$ 7,982	\$ 51,982
2018	54,000	6,855	60,855
2019	53,000	5,624	58,624
2020	58,000	4,347	62,347
2021	56,000	3,036	59,036
2022 - 2023	<u>104,000</u>	<u>2,208</u>	<u>106,208</u>
Total	<u>\$ 369,000</u>	<u>\$ 30,052</u>	<u>\$ 399,052</u>

CITY OF SPRING GROVE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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>\$ 640,000</u>

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

Year Ending December 31	G.O. Improvement Bonds Governmental Activities		
	Principal	Interest	Total
2017	\$ 30,000	\$ 19,590	\$ 49,590
2018	30,000	19,245	49,245
2019	30,000	18,825	48,825
2020	30,000	18,330	48,330
2021	30,000	17,730	47,730
2022 - 2026	170,000	76,195	246,195
2027 - 2031	190,000	47,526	237,526
2032 - 2034	130,000	10,695	140,695
Total	<u>\$ 640,000</u>	<u>\$ 228,136</u>	<u>\$ 868,136</u>

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2012B G.O. Sewer Revenue Bonds	\$ 162,950	2.00 %	09/01/12	09/01/19	\$ 73,000
2013A G.O. Improvement and Utility Refunding Bonds	2,025,000	0.75 - 4.10	07/08/13	02/01/34	<u>1,855,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 1,928,000</u></u>

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	\$ 380,801	\$ 263,766
Principal and interest	113,479	53,290
Percentage of revenues	29.8%	20.2%

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

Year Ending December 31	G.O. Revenue Bonds Business-type Activities		
	Principal	Interest	Total
2017	\$ 109,000	\$ 58,061	\$ 167,061
2018	114,000	56,604	170,604
2019	115,000	54,864	169,864
2020	90,000	52,879	142,879
2021	90,000	51,079	141,079
2022 - 2026	485,000	219,106	704,106
2027 - 2031	550,000	136,777	686,777
2032 - 2034	<u>375,000</u>	<u>30,670</u>	<u>405,670</u>
Total	<u><u>\$ 1,928,000</u></u>	<u><u>\$ 660,040</u></u>	<u><u>\$ 2,588,040</u></u>

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Capital leases

The City leased a rescue truck under a capital lease. The following is a summary of equipment under capitalized leases:

	Governmental Activities
Asset	
Equipment and machinery	\$ 118,200
Less: Accumulated depreciation	(117,215)
Total	\$ 985

The following capital lease obligation was issued to finance the purchase of capital equipment. The rescue truck lease is being paid for by the General fund.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2007 Pierce Rescue Truck	\$ 116,451	4.80 %	02/20/07	02/20/17	\$ 14,738

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

Year Ending December 31	Governmental Activities
2017	\$ 15,000
Less: amount representing interest	(262)
Present value of minimum lease payments	\$ 14,738

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	\$ 56,431

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

Year Ending December 31	Note Payable Business-type Activities		
	Principal	Interest	Total
2017	\$ 9,390	\$ 2,400	\$ 11,790
2018	9,831	1,958	11,789
2019	10,293	1,496	11,789
2020	10,777	1,012	11,789
2021	11,283	506	11,789
2022	4,857	54	4,911
Total	<u>\$ 56,431</u>	<u>\$ 7,426</u>	<u>\$ 63,857</u>

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 1,140,000	\$ -	\$ (95,000)	\$ 1,045,000	\$ 95,000
General obligation tax increment bonds	414,000	-	(45,000)	369,000	44,000
General obligation improvement bonds	670,000	-	(30,000)	640,000	30,000
Total bonds payable	2,224,000	-	(170,000)	2,054,000	169,000
Capital lease payable	29,248	-	(14,510)	14,738	14,738
Compensated absences payable	46,600	31,530	(29,148)	48,982	26,584
Governmental long-term liabilities	<u>\$ 2,299,848</u>	<u>\$ 31,530</u>	<u>\$ (213,658)</u>	<u>\$ 2,117,720</u>	<u>\$ 210,322</u>
Business-type activities					
Bonds payable					
General obligation revenue bonds	\$ 2,036,000	\$ -	\$ (108,000)	\$ 1,928,000	\$ 109,000
Notes payable	65,400	-	(8,969)	56,431	9,390
Compensated absences payable	40,209	22,209	(20,346)	42,072	15,953
Business-type long-term liabilities	<u>\$ 2,141,609</u>	<u>\$ 22,209</u>	<u>\$ (137,315)</u>	<u>\$ 2,026,503</u>	<u>\$ 134,343</u>

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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.

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

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

GERF benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. 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.

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 percent of average salary for each year of service.

For PEPFF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

CITY OF SPRING GROVE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The City's contributions to the GERF for the years ending December 31, 2016, 2015 and 2014 were \$29,988, \$26,581 and \$23,111, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

PEPFF contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. The City was required to contribute 16.20 percent of pay for PEPFF members in calendar year 2016. The City's contributions to the PEPFF for the years ending December 31, 2016, 2015 and 2014 were \$15,651, \$10,988 and \$7,898, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

D. 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.

Note 5: 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

The City's statutory debt limit is three percent of the estimated market value within the City of \$61,731,900 at December 31, 2016. The City currently has \$1,045,000 of debt subject to this limit leaving a debt margin of \$1,338,889 which includes a debt service reserve of \$531,932. Debt financed partially or entirely by special assessments or debt that is incurred for improvements of the proprietary funds is excluded from this computation by statute.

CITY OF SPRING GROVE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 5: OTHER INFORMATION - CONTINUED

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 2016 was \$418,390 which accounted for approximately 34.5 percent of General fund revenues.

Note 6: PRIOR PERIOD ADJUSTMENT

During 2016, a prior period adjustment was needed to adjust the remaining portion of an economic development loan paid off in years prior to 2016.

Fund	December 31, 2016		
	Fund Balance December 31, 2015 as Previously Reported	Prior Period Adjustment	Fund Balance January 1, 2016 as Restated
Governmental activities	\$ 3,897,999	\$ (15,000)	\$ 3,882,999
Governmental fund EDA Revolving Loan	\$ 261,981	\$ (15,000)	\$ 246,981

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF SPRING GROVE
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

CITY OF SPRING GROVE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
ASSETS			
Cash and temporary investments	\$ 433,362	\$ 623,673	\$ 1,057,035
Receivables			
Accounts	3,895	-	3,895
Loans, net of allowance	126,968	-	126,968
Advances to other funds	-	55,956	55,956
Prepaid items	259	-	259
	<u>564,484</u>	<u>679,629</u>	<u>1,244,113</u>
TOTAL ASSETS	<u>\$ 564,484</u>	<u>\$ 679,629</u>	<u>\$ 1,244,113</u>
LIABILITIES			
Accounts payable	\$ 11,498	\$ -	\$ 11,498
Due to other governments	51	-	51
Due to other funds	2,526	-	2,526
Accrued salaries payable	960	-	960
	<u>15,035</u>	<u>-</u>	<u>15,035</u>
TOTAL LIABILITIES	<u>15,035</u>	<u>-</u>	<u>15,035</u>
FUND BALANCES			
Nonspendable			
Prepaid items	259	-	259
Restricted			
Economic development	141,114	-	141,114
Tax increment	21,863	-	21,863
Capital purchases	-	8,852	8,852
Law enforcement	-	4,058	4,058
Committed			
Economic development	178,092	62,167	240,259
Cable TV operations	3,706	-	3,706
Library operations	207,013	20,893	227,906
Assigned			
Capital purchases	-	583,659	583,659
Unassigned	(2,598)	-	(2,598)
	<u>549,449</u>	<u>679,629</u>	<u>1,229,078</u>
TOTAL FUND BALANCES	<u>549,449</u>	<u>679,629</u>	<u>1,229,078</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 564,484</u>	<u>\$ 679,629</u>	<u>\$ 1,244,113</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, 2016

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
REVENUES			
Taxes	\$ 22,265	\$ -	\$ 22,265
Licenses and permits	500	-	500
Intergovernmental	12,406	-	12,406
Investment earnings	918	4,147	5,065
Miscellaneous	85,149	-	85,149
TOTAL REVENUES	121,238	4,147	125,385
EXPENDITURES			
Current			
Culture and recreation	139,549	-	139,549
Economic development	136,823	-	136,823
Miscellaneous	9,352	4,295	13,647
Capital outlay			
Public safety	-	16,888	16,888
Public works	-	51,901	51,901
Culture and recreation	48,399	-	48,399
TOTAL EXPENDITURES	334,123	73,084	407,207
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(212,885)	(68,937)	(281,822)
OTHER FINANCING SOURCES (USES)			
Sale of assets	-	1,500	1,500
Transfers in	182,546	157,252	339,798
Transfers out	(24,226)	(235,051)	(259,277)
TOTAL OTHER FINANCING SOURCES (USES)	158,320	(76,299)	82,021
NET CHANGE IN FUND BALANCES	(54,565)	(145,236)	(199,801)
FUND BALANCES, JANUARY 1	619,014	824,865	1,443,879
PRIOR PERIOD ADJUSTMENT (NOTE 6)	(15,000)	-	(15,000)
FUND BALANCES, JANUARY 1 AS RESTATED	604,014	824,865	1,428,879
FUND BALANCES, DECEMBER 31	\$ 549,449	\$ 679,629	\$ 1,229,078

CITY OF SPRING GROVE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	260/265 Small Cities Grants	270 Community Building	280 Industrial Development	290 Economic Development Authority
ASSETS				
Cash and temporary investments	\$ 14,146	\$ -	\$ 13,260	\$ 40,498
Receivables				
Accounts	-	-	-	-
Loans, net of allowance	746	-	-	-
Prepaid items	-	-	-	116
TOTAL ASSETS	\$ 14,892	\$ -	\$ 13,260	\$ 40,614
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 50
Due to other governments	-	51	-	-
Due to other funds	-	451	-	75
Accrued salaries payable	-	96	-	13
TOTAL LIABILITIES	-	598	-	138
FUND BALANCES				
Nonspendable				
Prepaid items	-	-	-	116
Restricted				
Economic development	14,892	-	-	-
Tax increment	-	-	-	-
Committed				
Economic development	-	-	13,260	40,360
Cable TV operations	-	-	-	-
Library operations	-	-	-	-
Unassigned	-	(598)	-	-
TOTAL FUND BALANCES	14,892	(598)	13,260	40,476
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,892	\$ -	\$ 13,260	\$ 40,614

295 EDA Revolving Loan	318 Bender Tax Increment District 1-2	240 Nisse Treehouse Tax Increment District 1-3	610 Cable TV	630 Library	Total Nonmajor Funds
\$ 124,472	\$ 21,863	\$ -	\$ (189)	\$ 219,312	\$ 433,362
-	-	-	3,895	-	3,895
126,222	-	-	-	-	126,968
-	-	-	-	143	259
<u>\$ 250,694</u>	<u>\$ 21,863</u>	<u>\$ -</u>	<u>\$ 3,706</u>	<u>\$ 219,455</u>	<u>\$ 564,484</u>
\$ -	\$ -	\$ -	\$ -	\$ 11,448	\$ 11,498
-	-	-	-	-	51
-	-	2,000	-	-	2,526
-	-	-	-	851	960
-	-	2,000	-	12,299	15,035
-	-	-	-	143	259
126,222	-	-	-	-	141,114
-	21,863	-	-	-	21,863
124,472	-	-	-	-	178,092
-	-	-	3,706	-	3,706
-	-	-	-	207,013	207,013
-	-	(2,000)	-	-	(2,598)
<u>250,694</u>	<u>21,863</u>	<u>(2,000)</u>	<u>3,706</u>	<u>207,156</u>	<u>549,449</u>
<u>\$ 250,694</u>	<u>\$ 21,863</u>	<u>\$ -</u>	<u>\$ 3,706</u>	<u>\$ 219,455</u>	<u>\$ 564,484</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, 2016

	260/265 Small Cities Grants	270 Community Building	280 Industrial Development	290 Economic Development Authority
REVENUES				
Taxes				
Tax increments	\$ -	\$ -	\$ -	\$ -
Franchise fees	-	-	-	-
Licenses and permits				
Nonbusiness	-	-	-	500
Intergovernmental				
County library aid	-	-	-	-
Investment earnings	344	2	32	80
Miscellaneous				
Rents	-	6,787	-	6,540
Contributions and donations	-	210	-	27,764
Other	-	-	-	-
TOTAL REVENUES	344	6,999	32	34,884
EXPENDITURES				
Current				
Culture and recreation	-	23,474	-	-
Economic development	85,270	-	-	49,553
Miscellaneous	-	-	-	-
Capital outlay				
Culture and recreation	-	43,972	-	-
TOTAL EXPENDITURES	85,270	67,446	-	49,553
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(84,926)	(60,447)	32	(14,669)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	39,546	-	40,000
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	39,546	-	40,000
NET CHANGE IN FUND BALANCES	(84,926)	(20,901)	32	25,331
FUND BALANCES, JANUARY 1	99,818	20,303	13,228	15,145
PRIOR PERIOD ADJUSTMENT (NOTE 6)	-	-	-	-
FUND BALANCES, JANUARY 1 AS RESTATED	99,818	20,303	13,228	15,145
FUND BALANCES, DECEMBER 31	<u>\$ 14,892</u>	<u>\$ (598)</u>	<u>\$ 13,260</u>	<u>\$ 40,476</u>

295 EDA Revolving Loan	318 Bender Tax Increment District 1-2	240 Nisse Treehouse Tax Increment District 1-3	610 Cable TV	630 Library	Total Nonmajor Funds
\$ -	\$ 12,213	\$ -	\$ -	\$ -	\$ 12,213
-	-	-	10,052	-	10,052
-	-	-	-	-	500
-	-	-	-	12,406	12,406
-	44	-	6	410	918
-	-	-	-	-	13,327
-	-	-	-	40,135	68,109
3,713	-	-	-	-	3,713
<u>3,713</u>	<u>12,257</u>	<u>-</u>	<u>10,058</u>	<u>52,951</u>	<u>121,238</u>
-	-	-	-	116,075	139,549
-	-	2,000	-	-	136,823
-	-	-	9,352	-	9,352
-	-	-	-	4,427	48,399
-	-	2,000	9,352	120,502	334,123
<u>3,713</u>	<u>12,257</u>	<u>(2,000)</u>	<u>706</u>	<u>(67,551)</u>	<u>(212,885)</u>
-	-	-	-	103,000	182,546
-	(24,226)	-	-	-	(24,226)
-	(24,226)	-	-	103,000	158,320
<u>3,713</u>	<u>(11,969)</u>	<u>(2,000)</u>	<u>706</u>	<u>35,449</u>	<u>(54,565)</u>
261,981	33,832	-	3,000	171,707	619,014
(15,000)	-	-	-	-	(15,000)
<u>246,981</u>	<u>33,832</u>	<u>-</u>	<u>3,000</u>	<u>171,707</u>	<u>604,014</u>
<u>\$ 250,694</u>	<u>\$ 21,863</u>	<u>\$ (2,000)</u>	<u>\$ 3,706</u>	<u>\$ 207,156</u>	<u>\$ 549,449</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, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Investment earnings	\$ -	\$ -	\$ 2	\$ 2	\$ -
Miscellaneous					
Rents	4,500	4,500	6,787	2,287	8,327
Contributions and donations	-	-	210	210	220
Other	-	-	-	-	3,160
TOTAL REVENUES	4,500	4,500	6,999	2,499	11,707
EXPENDITURES					
Current					
Culture and recreation					
Personal services	5,044	5,044	2,969	2,075	4,021
Supplies	6,800	6,800	6,614	186	6,038
Other services and charges	15,200	15,200	13,891	1,309	17,725
Capital outlay					
Culture and recreation	42,000	42,000	43,972	(1,972)	7,668
TOTAL EXPENDITURES	69,044	69,044	67,446	1,598	35,452
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(64,544)	(64,544)	(60,447)	4,097	(23,745)
OTHER FINANCING SOURCES					
Transfers in	69,044	69,044	39,546	(29,498)	48,000
NET CHANGE IN FUND BALANCES	4,500	4,500	(20,901)	(25,401)	24,255
FUND BALANCES, JANUARY 1	20,303	20,303	20,303	-	(3,952)
FUND BALANCES, DECEMBER 31	\$ 24,803	\$ 24,803	\$ (598)	\$ (25,401)	\$ 20,303

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, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Franchise fees	\$ 9,000	\$ 9,000	\$ 10,052	\$ 1,052	\$ 12,104
Investment earnings	-	-	6	6	-
TOTAL REVENUES	<u>9,000</u>	<u>9,000</u>	<u>10,058</u>	<u>1,058</u>	<u>12,104</u>
EXPENDITURES					
Current					
Miscellaneous					
Personal services	5,873	5,873	9,147	(3,274)	5,854
Supplies	350	350	205	145	-
Other services and charges	-	-	-	-	240
Capital outlay					
Miscellaneous	<u>2,777</u>	<u>2,777</u>	<u>-</u>	<u>2,777</u>	<u>839</u>
TOTAL EXPENDITURES	<u>9,000</u>	<u>9,000</u>	<u>9,352</u>	<u>(352)</u>	<u>6,933</u>
NET CHANGE IN FUND BALANCES	-	-	706	706	5,171
FUND BALANCES, JANUARY 1	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>-</u>	<u>(2,171)</u>
FUND BALANCES, DECEMBER 31	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 3,706</u>	<u>\$ 706</u>	<u>\$ 3,000</u>

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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, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental					
County library aid	\$ 15,000	\$ 15,000	\$ 12,406	\$ (2,594)	\$ 14,936
Investment earnings	500	500	410	(90)	374
Miscellaneous					
Contributions and donations	36,000	36,000	40,135	4,135	36,000
Other	-	-	-	-	259
TOTAL REVENUES	51,500	51,500	52,951	1,451	51,569
EXPENDITURES					
Current					
Culture and recreation					
Library					
Personal services	69,568	69,568	57,956	11,612	55,040
Supplies	1,663	1,663	911	752	1,852
Other services and charges	66,873	66,873	57,208	9,665	54,668
Capital outlay					
Culture and recreation	16,598	16,598	4,427	12,171	5,949
TOTAL EXPENDITURES	154,702	154,702	120,502	34,200	117,509
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(103,202)	(103,202)	(67,551)	35,651	(65,940)
OTHER FINANCING SOURCES					
Transfers in	103,000	103,000	103,000	-	103,000
NET CHANGE IN FUND BALANCES	(202)	(202)	35,449	35,651	37,060
FUND BALANCES, JANUARY 1	171,707	171,707	171,707	-	134,647
FUND BALANCES, DECEMBER 31	\$ 171,505	\$ 171,505	\$ 207,156	\$ 35,651	\$ 171,707

CITY OF SPRING GROVE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	314	315	316
	2005A Tax Increment Bonds	2012A Tax Abatement Bonds	Tax Abatement
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and temporary investments	\$ -	\$ 85,706	\$ -
Receivables			
Delinquent taxes	-	2,265	-
Special assessments			
Delinquent	-	-	-
Noncurrent	-	-	-
Intergovernmental	-	962	-
Prepaid items	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ -</u></u>	<u><u>\$ 88,933</u></u>	<u><u>\$ -</u></u>
LIABILITIES			
Advance from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue			
Delinquent taxes	-	2,265	-
Special assessments	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u> </u>	<u>2,265</u>	<u> </u>
FUND BALANCES			
Nonspendable			
Prepaid items	-	-	-
Restricted			
Debt service	-	86,668	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u> </u>	<u>86,668</u>	<u> </u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ -</u></u>	<u><u>\$ 88,933</u></u>	<u><u>\$ -</u></u>

317 2007A Tax Increment Bonds	354 2013A G.O. Improvement Bonds	319 2015A Tax Increment Refunding Bonds	320 2002 Taxable EDA Revenue Bonds	Total
\$ -	\$ 375,434	\$ 30,014	\$ 12,597	\$ 503,751
-	871	12	-	3,148
-	98	-	-	98
-	87,367	19,319	-	106,686
-	1,177	38,639	-	40,778
-	-	-	8	8
<u>\$ -</u>	<u>\$ 464,947</u>	<u>\$ 87,984</u>	<u>\$ 12,605</u>	<u>\$ 654,469</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,956</u>	<u>\$ 55,956</u>
-	871	12	-	3,148
-	87,465	19,319	-	106,784
-	88,336	19,331	-	109,932
-	-	-	8	8
-	376,611	68,653	(43,359)	488,573
-	376,611	68,653	(43,351)	488,581
<u>\$ -</u>	<u>\$ 464,947</u>	<u>\$ 87,984</u>	<u>\$ 12,605</u>	<u>\$ 654,469</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, 2016

	314 2005A Tax Increment Bonds	315 2012A Tax Abatement Bonds	316 Tax Abatement
REVENUES			
Taxes			
Property taxes	\$ -	\$ 100,061	\$ -
Tax increments	-	-	-
Special assessments	-	-	-
Investment earnings	10	89	-
Miscellaneous			
Rents	-	-	-
Other	17,301	-	-
	<u>17,311</u>	<u>100,150</u>	<u>-</u>
TOTAL REVENUES	<u>17,311</u>	<u>100,150</u>	<u>-</u>
EXPENDITURES			
Current			
Economic development	-	-	-
Debt service			
Principal	-	95,000	-
Interest and other costs	-	28,587	-
	<u>-</u>	<u>123,587</u>	<u>-</u>
TOTAL EXPENDITURES	<u>-</u>	<u>123,587</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>17,311</u>	<u>(23,437)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	23,633	-
Transfers out	(12,501)	-	-
	<u>(12,501)</u>	<u>23,633</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(12,501)</u>	<u>23,633</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	4,810	196	-
FUND BALANCES, JANUARY 1	<u>(4,810)</u>	<u>86,472</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u>\$ -</u>	<u>\$ 86,668</u>	<u>\$ -</u>

317 2007A Tax Increment Bonds	354 2013A G.O. Improvement Bonds	319 2015A Tax Increment Refunding Bonds	320 2002 Taxable EDA Revenue Bonds	Total
\$ -	\$ 41,453	\$ -	\$ -	\$ 141,514
-	-	3	-	3
-	7,632	59,244	-	66,876
-	657	68	42	866
-	-	-	8,400	8,400
-	-	-	-	17,301
-	49,742	59,315	8,442	234,960
-	-	-	3,401	3,401
-	30,000	45,000	-	170,000
-	20,831	5,874	2,472	57,764
-	50,831	50,874	5,873	231,165
-	(1,089)	8,441	2,569	3,795
-	153,616	58,584	-	235,833
(21,857)	-	-	-	(34,358)
(21,857)	153,616	58,584	-	201,475
(21,857)	152,527	67,025	2,569	205,270
21,857	224,084	1,628	(45,920)	283,311
<u>\$ -</u>	<u>\$ 376,611</u>	<u>\$ 68,653</u>	<u>\$ (43,351)</u>	<u>\$ 488,581</u>

CITY OF SPRING GROVE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	405	420	425	430	435
	Fire Equipment	Police Forfeiture	Streets	Aquatic Center	Vehicle Replacement
ASSETS					
Cash and temporary investments	\$ 17,034	\$ 4,058	\$ 70,041	\$ 257,494	\$ 243,109
Advances to other funds	-	-	-	55,956	-
TOTAL ASSETS	\$ 17,034	\$ 4,058	\$ 70,041	\$ 313,450	\$ 243,109
FUND BALANCES					
Restricted					
Capital purchases	\$ 5,312	\$ -	\$ -	\$ 3,540	\$ -
Law enforcement	-	4,058	-	-	-
Committed					
Fire equipment	-	-	-	-	47,206
Future projects	-	-	20,893	-	-
Assigned					
Capital purchases	11,722	-	49,148	309,910	195,903
TOTAL FUND BALANCES	\$ 17,034	\$ 4,058	\$ 70,041	\$ 313,450	\$ 243,109

440	454	460	475	476	
Four Seasons Acres	Highway 44 Project	Contingency	Conservation Improvements	Commercial Conservation Improvements	Total Nonmajor Funds
\$ -	\$ -	\$ 17,664	\$ 7,446	\$ 6,827	\$ 623,673
-	-	-	-	-	55,956
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,664</u>	<u>\$ 7,446</u>	<u>\$ 6,827</u>	<u>\$ 679,629</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,852
-	-	-	-	-	4,058
-	-	5,606	2,528	6,827	62,167
-	-	-	-	-	20,893
-	-	12,058	4,918	-	583,659
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,664</u>	<u>\$ 7,446</u>	<u>\$ 6,827</u>	<u>\$ 679,629</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, 2016

	405	420	425	430	435
	Fire Equipment	Police Forfeiture	Streets	Aquatic Center	Vehicle Replacement
REVENUES					
Interest earnings	\$ 51	\$ 11	\$ 107	\$ 3,109	\$ 602
EXPENDITURES					
Current					
Miscellaneous	-	-	-	-	-
Capital outlay					
Public safety	16,888	-	-	-	-
Public works	-	-	49,107	-	2,794
TOTAL EXPENDITURES	16,888	-	49,107	-	2,794
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(16,837)	11	(49,000)	3,109	(2,192)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	-	-	1,500
Transfers in	5,000	-	70,000	-	50,000
Transfers out	-	-	-	(23,633)	(41,196)
TOTAL OTHER FINANCING SOURCES (USES)	5,000	-	70,000	(23,633)	10,304
NET CHANGE IN FUND BALANCES	(11,837)	11	21,000	(20,524)	8,112
FUND BALANCES, JANUARY 1	28,871	4,047	49,041	333,974	234,997
FUND BALANCES, DECEMBER 31	\$ 17,034	\$ 4,058	\$ 70,041	\$ 313,450	\$ 243,109

440	454	460	475	476	
Four Seasons Acres	Highway 44 Project	Contingency	Conservation Improvements	Commercial Conservation Improvements	Total Nonmajor Funds
\$ 6	\$ 196	\$ 47	\$ 14	\$ 4	\$ 4,147
-	-	-	4,295	-	4,295
-	-	-	-	-	16,888
-	-	-	-	-	51,901
-	-	-	4,295	-	73,084
6	196	47	(4,281)	4	(68,937)
-	-	-	-	-	1,500
-	-	18,606	6,823	6,823	157,252
(3,606)	(153,616)	(13,000)	-	-	(235,051)
(3,606)	(153,616)	5,606	6,823	6,823	(76,299)
(3,600)	(153,420)	5,653	2,542	6,827	(145,236)
3,600	153,420	12,011	4,904	-	824,865
\$ -	\$ -	\$ 17,664	\$ 7,446	\$ 6,827	\$ 679,629

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CITY OF SPRING GROVE, MINNESOTA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 894,926	\$ 858,431
Receivables		
Delinquent taxes	10,026	9,023
Accounts	17,317	18,234
Intergovernmental	23,612	16,936
Due from other funds	2,000	4,810
Prepaid items	14,640	8,947
TOTAL ASSETS	\$ 962,521	\$ 916,381
LIABILITIES		
Accounts payable	\$ 28,402	\$ 10,538
Due to other funds	2,650	2,842
Due to other governments	8,297	13,225
Accrued salaries payable	4,406	11,172
TOTAL LIABILITIES	43,755	37,777
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue		
Delinquent taxes	10,026	9,023
FUND BALANCES		
Nonspendable		
Prepaid items	14,640	8,947
Unassigned	894,100	860,634
TOTAL FUND BALANCES	908,740	869,581
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 962,521	\$ 916,381

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, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016			2015	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Property taxes	\$ 368,669	\$ 368,669	\$ 463,920	\$ 95,251	\$ 464,767
Excess tax increments	-	-	392	392	-
Total taxes	368,669	368,669	464,312	95,643	464,767
Special assessments	-	-	3	3	1,071
Licenses and permits					
Business	3,200	3,200	6,470	3,270	3,830
Nonbusiness	1,000	1,000	1,288	288	1,256
Total licenses and permits	4,200	4,200	7,758	3,558	5,086
Intergovernmental					
State					
Local government aid	418,390	418,390	418,390	-	416,552
Property tax credits and aids	-	-	481	481	164
Fire aid	2,000	2,000	36,131	34,131	36,133
Police aid	1,290	1,290	1,915	625	2,560
Ambulance aid	-	-	3,000	3,000	3,000
Other State aids	15,000	15,000	16,437	1,437	34,505
Total state	436,680	436,680	476,354	39,674	492,914
Charges for services					
General government	500	500	99	(401)	408
Public safety	13,000	13,000	9,718	(3,282)	23,726
Public works	22,000	22,000	73,735	51,735	64,445
Culture and recreation	82,500	82,500	99,062	16,562	89,258
Total charges for services	118,000	118,000	182,614	64,614	177,837
Fines and forfeits	6,000	6,000	5,135	(865)	6,159
Investment earnings	1,500	1,500	3,056	1,556	2,885
Miscellaneous					
Rents	10,000	10,000	6,886	(3,114)	6,933
Contributions and donations	-	-	450	450	11,250
Other	17,500	17,500	66,731	49,231	32,505
Total miscellaneous	27,500	27,500	74,067	46,567	50,688
TOTAL REVENUES	962,549	962,549	1,213,299	250,750	1,201,407

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, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016			Variance with Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES					
Current					
General government					
Mayor and Council					
Personal services	\$ 5,971	\$ 5,971	\$ 5,998	\$ (27)	\$ 6,014
Other services and charges	6,900	6,900	10,425	(3,525)	6,298
Total Mayor and Council	12,871	12,871	16,423	(3,552)	12,312
Election					
Personal services	1,004	1,004	1,647	(643)	-
Supplies	500	500	284	216	-
Other services and charges	196	196	157	39	-
Total election	1,700	1,700	2,088	(388)	-
Administration					
Personal services	144,532	144,532	140,449	4,083	144,307
Supplies	2,900	2,900	3,010	(110)	1,940
Other services and charges	85,200	85,200	84,458	742	85,049
Total administration	232,632	232,632	227,917	4,715	231,296
Total general government	247,203	247,203	246,428	775	243,608
Public safety					
Police					
Personal services	191,010	191,010	163,320	27,690	180,393
Supplies	10,750	10,750	5,217	5,533	7,866
Other services and charges	20,900	20,900	25,026	(4,126)	13,577
Total police	222,660	222,660	193,563	29,097	201,836
Fire					
Personal services	17,036	17,036	43,743	(26,707)	40,404
Supplies	4,650	4,650	4,842	(192)	3,662
Other services and charges	26,100	26,100	23,484	2,616	26,628
Total fire	47,786	47,786	72,069	(24,283)	70,694
Ambulance					
Other services and charges	8,000	8,000	10,824	(2,824)	10,824
Animal control					
Other services and charges	2,500	2,500	2,550	(50)	2,500
Civil defense					
Supplies	500	500	-	500	-
Total public safety	281,446	281,446	279,006	2,440	285,854

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, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016			Variance with Final Budget	2015
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Public works					
Street maintenance					
Personal services	\$ 76,310	\$ 76,310	\$ 80,309	\$ (3,999)	\$ 76,614
Supplies	45,150	45,150	28,424	16,726	34,073
Other services and charges	24,400	24,400	19,478	4,922	31,142
Total street maintenance	145,860	145,860	128,211	17,649	141,829
Recycling					
Other services	-	-	52,110	(52,110)	44,287
Total public works	145,860	145,860	180,321	(34,461)	186,116
Culture and recreation					
Summer recreation					
Personal services	9,258	9,258	10,155	(897)	\$ 9,238
Supplies	1,200	1,200	987	213	1,575
Other services and charges	4,800	4,800	824	3,976	1,960
Total summer recreation	15,258	15,258	11,966	3,292	12,773
Swimming pool					
Personal services	65,090	65,090	70,856	(5,766)	63,064
Supplies	20,400	20,400	24,785	(4,385)	24,436
Other services and charges	35,680	35,680	38,666	(2,986)	42,637
Total swimming pool	121,170	121,170	134,307	(13,137)	130,137
Parks					
Personal services	-	-	346	(346)	1,836
Supplies	18,000	18,000	7,893	10,107	9,669
Other services and charges	16,100	16,100	21,232	(5,132)	30,437
Total parks	34,100	34,100	29,471	4,629	41,942
Total culture and recreation	170,528	170,528	175,904	(5,376)	184,852
Total current	845,037	845,037	881,659	(36,622)	900,430

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, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Capital outlay					
General government	\$ 2,800	\$ 2,800	\$ 3,162	\$ (362)	\$ 665
Public safety	14,500	14,500	3,840	10,660	30,378
Public works	42,000	42,000	114,266	(72,266)	160,961
Culture and recreation	10,000	10,000	53,667	(43,667)	54,933
Total capital outlay	69,300	69,300	174,935	(105,635)	246,937
Debt service					
Principal	15,000	15,000	14,510	490	13,436
Interest and other costs	-	-	490	(490)	1,564
Total debt service	15,000	15,000	15,000	-	15,000
TOTAL EXPENDITURES	929,337	929,337	1,071,594	(142,257)	1,162,367
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	33,212	33,212	141,705	108,493	39,040
OTHER FINANCING SOURCES (USES)					
Transfers in	207,000	207,000	207,000	-	196,919
Transfers out	(239,044)	(239,044)	(309,546)	(70,502)	(248,825)
TOTAL OTHER FINANCING SOURCES (USES)	(32,044)	(32,044)	(102,546)	(70,502)	(51,906)
NET CHANGE IN FUND BALANCES	1,168	1,168	39,159	37,991	(12,866)
FUND BALANCES, JANUARY 1	869,581	869,581	869,581	-	882,447
FUND BALANCES, DECEMBER 31	\$ 870,749	\$ 870,749	\$ 908,740	\$ 37,991	\$ 869,581

CITY OF SPRING GROVE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Total		Percent Increase (Decrease)
	2016	2015	
REVENUES			
Taxes	\$ 628,094	\$ 633,509	(0.85) %
Special assessments	66,879	92,381	(27.61)
Licenses and permits	8,258	5,086	62.37
Intergovernmental	488,760	507,850	(3.76)
Charges for services	182,614	180,609	1.11
Fines and forfeits	5,135	6,999	(26.63)
Investment earnings	8,987	7,813	15.03
Miscellaneous	184,917	152,103	21.57
TOTAL REVENUES	\$ 1,573,644	\$ 1,586,350	(0.80) %
Per capita	\$ 1,202	\$ 1,216	(1.10) %
EXPENDITURES			
Current			
General government	\$ 246,428	\$ 243,608	1.16 %
Public safety	279,006	285,854	(2.40)
Public works	180,321	186,116	(3.11)
Culture and recreation	315,453	324,196	(2.70)
Economic development	140,224	41,821	235.30
Miscellaneous	13,647	11,291	20.87
Capital outlay			
General government	3,162	665	375.49
Public safety	20,728	65,681	(68.44)
Public works	166,167	194,248	(14.46)
Culture and recreation	102,066	68,550	48.89
Economic development	-	570	(100.00)
Miscellaneous	-	839	(100.00)
Debt service			
Principal	184,510	193,436	(4.61)
Interest and other costs	58,254	91,506	(36.34)
TOTAL EXPENDITURES	\$ 1,709,966	\$ 1,708,381	0.09 %
Per capita	\$ 1,306	\$ 1,309	(0.21) %
Total Long-term Indebtedness	\$ 2,068,738	\$ 2,253,248	(8.19) %
Per capita	1,580	1,727	(8.47)
General Fund Balance - December 31	\$ 908,740	\$ 869,581	4.50 %
Per capita	694	666	4.18

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 Konkell, City Clerk/Treasurer (507-498-5221).

OTHER REQUIRED REPORTS

CITY OF SPRING GROVE
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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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, 2016, and the related notes to the financial statements, and have issued our report thereon dated June 14, 2017.

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*. 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.

Aldo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
June 14, 2017



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, 2016, 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 14, 2017.

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 2016-005 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 2016-001, 2016-002, 2016-003 and 2016-004 to be a significant deficiencies.

Compliance and Other Matters

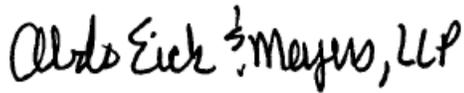
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 14, 2017

CITY OF SPRING GROVE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding

Description

2016-001

Segregation of duties

Condition: 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.

Criteria: 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.

Effect: The existence of this limited segregation of duties increases the risk of fraud.

Internal control over disbursements

Cause: 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.

Recommendation: 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 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

Cause: 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.

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 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 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, 2016

Finding

Description

2016-001

Segregation of duties - continued

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 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 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, 2016

Finding

Description

2016-002

Internal control over municipal liquor store operations

- Condition:* 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.
- Criteria:* 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.
- Cause:* The Liquor Store Manager is responsible for ordering, receiving and maintaining inventory.
- Effect:* The existence of this limited segregation of duties increases the risk of fraud and incorrect record keeping.
- Recommendation:* 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 Council has addressed this circumstance by active participation in the City's affairs and is continually monitoring financial information.

2016-003

Internal control over swim center operations

- Condition:* 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.
- Criteria:* 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.
- Cause:* The Pool Manager is also responsible for collecting cash receipts which were not deposited timely in the City's bank account.
- Effect:* The existence of this limited segregation of duties increases the risk of fraud and incorrect record keeping.
- Recommendation:* 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 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, 2016

Finding

Description

2016-004

Financial report preparation

Condition: 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.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause: 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.

Effect: 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.

Recommendation: 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.

Management response:

For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

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CITY OF SPRING GROVE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding

Description

2016-005

Material accounting/audit adjustments

Condition: During our audit, material accounting/audit adjustments were needed for the following reasons:

Material accounting/audit entries were required to adjust the coding and allocation of debt activity, to adjust the coding and allocation of capital asset activity, to record additional accounts payable, to record additional accounts receivable, to record prepaid assessments and to adjust the closing of funds.

Criteria: Such adjustments should be detected and made by the City's personnel.

Cause: City staff has not prepared a year-end trial balance reflecting all necessary accruals and year-end adjustments without auditor assistance.

Effect: 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.

Recommendation: 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.