

Annual Financial Report

City of Spring Grove
Spring Grove, Minnesota

For the Year Ended
December 31, 2017

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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, 2017

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FINANCIAL SECTION
CITY OF SPRING GROVE
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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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, 2017, 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
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, 2017, 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 and the aggregate remaining fund information of the City as of December 31, 2017, 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 2016 financial statements, and we expressed qualified opinions on the respective financial statements of the governmental activities and the business-type activities in our report dated June 14, 2017. 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, 2016, 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 17 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

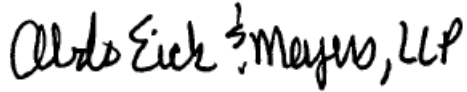
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and 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 April 30, 2018, 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
Mankato, Minnesota
April 30, 2018

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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, 2017.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$8,868,608 (*net position*). Of this amount, \$3,390,503 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$957,568, as compared to an increase of \$523,997 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 \$2,488,839, a decrease of \$137,560 in comparison with the prior year. Approximately 53.4 percent of this total amount, \$1,329,813, 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 \$92,959, for tax increment spending of \$27,001, for debt service of \$449,684, for capital purchases of \$8,852 and for law enforcement of \$4,071. Committed fund balances in the City include amounts for economic development of \$251,029, for Cable TV operations of \$4,656 and for library operations of \$305,288. Additionally, amounts are reported as nonspendable as they are not available for spending as follows: prepaid items - \$15,486.

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**

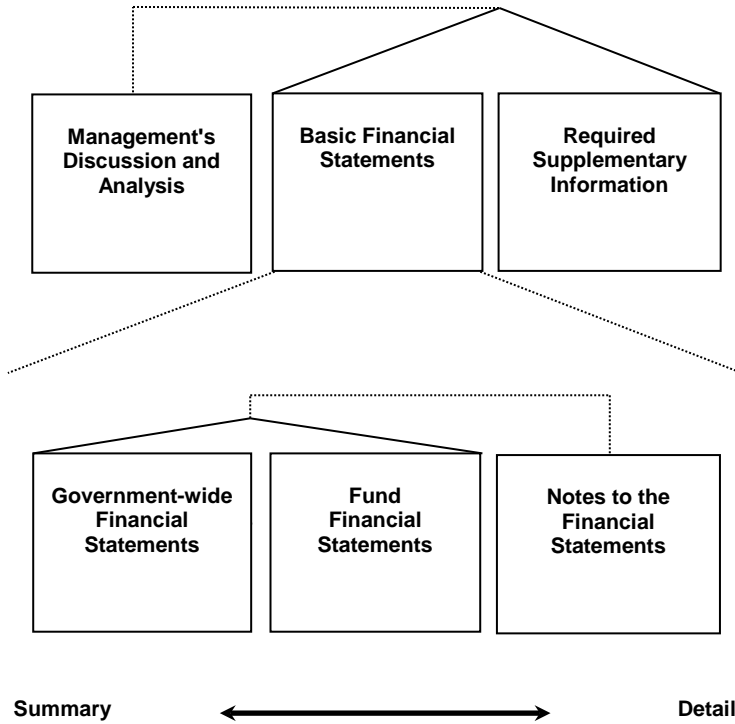


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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 31 of this report.

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

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

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

The City maintains 24 individual governmental funds, five of which are Debt Service funds, which are reported as one fund for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund 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 37 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

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

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

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 72 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$8,868,608 at the close of the most recent fiscal year.

A large portion of the City's net position (60.3 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		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Current and Other Assets	\$ 2,624,665	\$ 2,799,971	\$ (175,306)	\$ 2,581,696	\$ 2,620,314	\$ (38,618)
Capital Assets	3,608,314	3,330,167	278,147	4,212,949	3,527,486	685,463
Total Assets	<u>6,232,979</u>	<u>6,130,138</u>	<u>102,841</u>	<u>6,794,645</u>	<u>6,147,800</u>	<u>646,845</u>
Long-Term Liabilities						
Outstanding	1,926,163	2,117,720	(191,557)	1,911,753	2,026,503	(114,750)
Other Liabilities	47,985	76,322	(28,337)	273,115	146,353	126,762
Total Liabilities	<u>1,974,148</u>	<u>2,194,042</u>	<u>(219,894)</u>	<u>2,184,868</u>	<u>2,172,856</u>	<u>12,012</u>
Net Position						
Net investment in capital assets	2,998,314	2,731,860	266,454	2,346,908	1,543,055	803,853
Restricted	132,883	175,887	(43,004)	-	-	-
Unrestricted	<u>1,127,634</u>	<u>1,028,349</u>	<u>99,285</u>	<u>2,262,869</u>	<u>2,431,889</u>	<u>(169,020)</u>
Total Net Position	<u>\$ 4,258,831</u>	<u>\$ 3,936,096</u>	<u>\$ 322,735</u>	<u>\$ 4,609,777</u>	<u>\$ 3,974,944</u>	<u>\$ 634,833</u>

An additional portion of the City's net position (1.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (38.2 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 \$322,735, thereby accounting for an increase of 33.7 percent of the total growth in the net position of the City. Key elements of this increase are as follows:

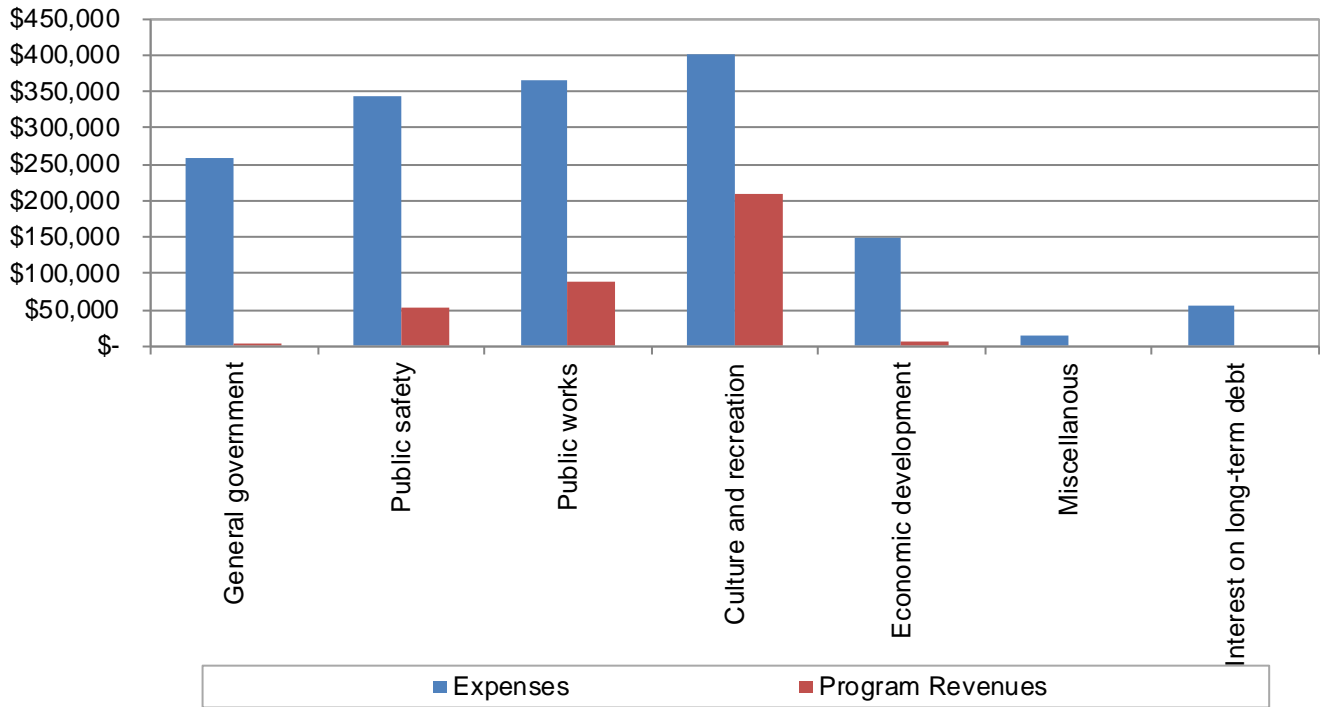
City of Spring Grove's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 168,442	\$ 210,382	\$ (41,940)	\$ 2,663,272	\$ 2,968,843	\$ (305,571)
Operating grants and contributions	102,501	142,006	(39,505)	-	-	-
Capital grants and contributions	86,523	7,424	79,099	305,259	-	305,259
General revenues						
Property taxes/tax increments	632,582	619,223	13,359	-	-	-
Other taxes	10,700	10,052	648	-	-	-
Grants and contributions not restricted to specific programs	453,759	436,218	17,541	-	-	-
Unrestricted investment earnings	10,979	8,987	1,992	7,604	7,545	59
Miscellaneous	202,135	82,578	119,557	26,111	17,185	8,926
Total Revenues	1,667,621	1,516,870	150,751	3,002,246	2,993,573	8,673
Expenses						
General government	258,548	258,488	60	-	-	-
Public safety	343,157	329,276	13,881	-	-	-
Public works	364,224	424,116	(59,892)	-	-	-
Culture and recreation	400,348	412,837	(12,489)	-	-	-
Economic development	150,151	145,386	4,765	-	-	-
Miscellaneous	15,727	13,647	2,080	-	-	-
Interest and other costs	54,584	59,473	(4,889)	-	-	-
Water utility	-	-	-	200,769	230,200	(29,431)
Sewer utility	-	-	-	217,993	202,194	15,799
Electric utility	-	-	-	1,303,253	1,500,595	(197,342)
Municipal liquor store	-	-	-	403,545	410,234	(6,689)
Total Expenses	1,586,739	1,643,223	(56,484)	2,125,560	2,343,223	(217,663)
Change in net position before transfers	80,882	(126,353)	207,235	876,686	650,350	226,336
Transfers	241,853	179,450	62,403	(241,853)	(179,450)	(62,403)
Change in Net Position	322,735	53,097	269,638	634,833	470,900	163,933
Net Position - January 1	3,936,096	3,897,999	38,097	3,974,944	3,504,044	470,900
Prior Period Adjustment	-	(15,000)	15,000	-	-	-
Net Position - January 1 as Restated	3,936,096	3,882,999	53,097	3,974,944	3,504,044	470,900
Net Position - December 31	\$ 4,258,831	\$ 3,936,096	\$ 322,735	\$ 4,609,777	\$ 3,974,944	\$ 634,833

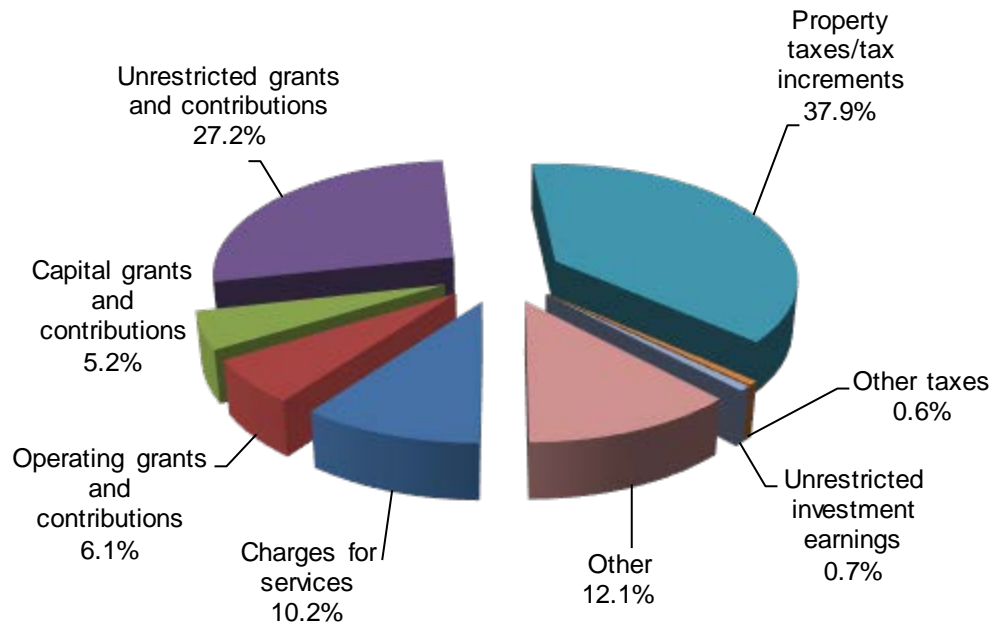
Property tax levies increased 1.7 percent for the year.

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

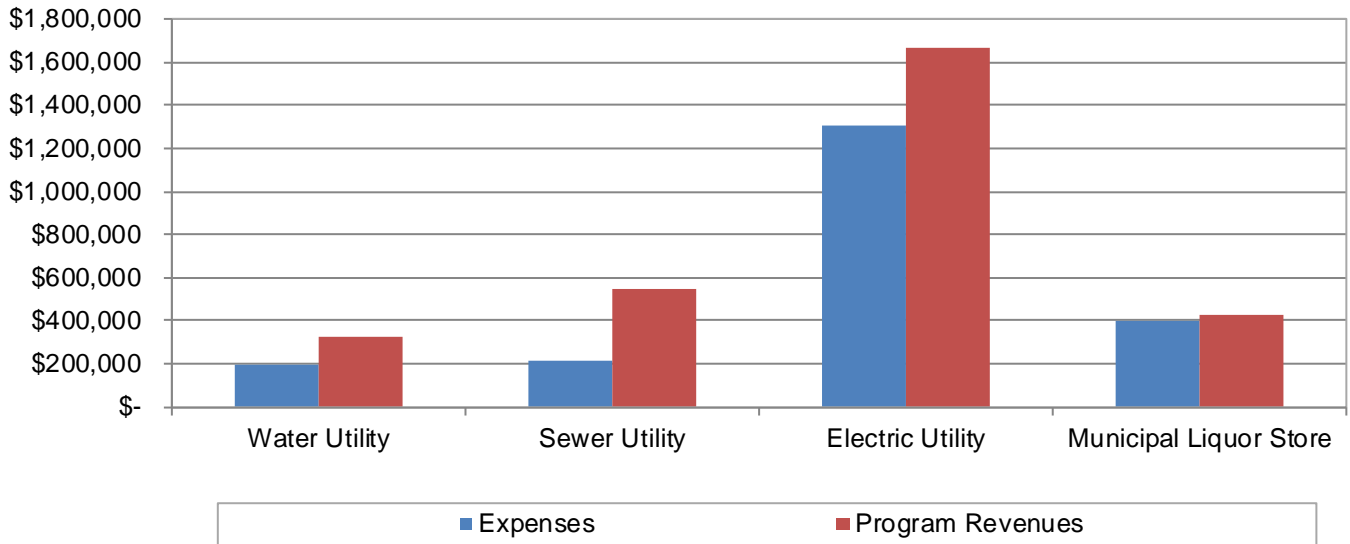


For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

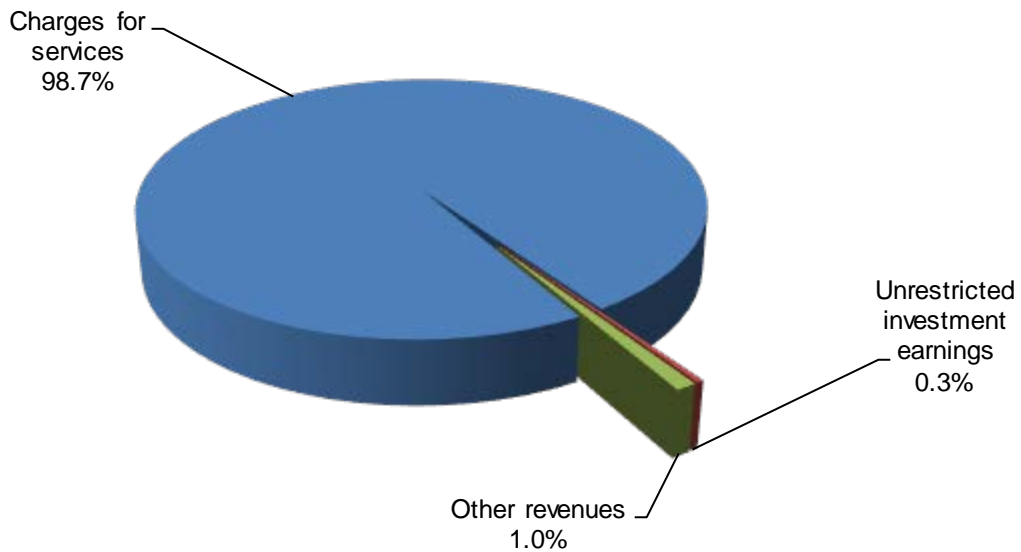
Business-type activities. Business-type activities increased the City's net position by \$634,833, thereby accounting for 66.3 percent of the total growth in the City's net position. Key elements of this increase are as follows:

- The Water Utility and Electric Utility funds were the strongest activities during 2017 resulting in operating income of \$169,195 and \$367,785, respectively.
- The Sewer Utility and Municipal Liquor Store funds both had operating income for the year of \$40,612 and \$20,007, 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 \$796,345, 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 61.2 percent of fund expenditures.

The fund balance of the City's General fund decreased by \$112,395 during the current fiscal year. The key factors in this decrease were:

- Contribution and donations revenue was over budget by \$79,822 mainly due to donations for ballpark improvements.
- Current expenditures for public works were over budget by \$89,592 mainly attributable to unplanned drainage repairs.
- Capital outlay was over budget by \$173,460. The majority of this was due to public works and culture and recreation being over budget by \$134,366 and \$46,570, respectively, related to the street portion of the water main project and ballpark improvements.
- Transfers out exceeded budget amounts by \$95,309 due to various approvals via Council Resolutions.

Debt Service fund - The Debt Service fund has a total fund balance of \$449,758, which is restricted for the payment of debt service. The net decrease in fund balance during the current year in the Debt Service fund was \$38,823. This decrease was mainly due to scheduled principal and interest payments exceeding property tax and assessment revenue due to prepayments in prior years.

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 \$2,262,869. The total increase in net position for the funds was \$634,833. 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 \$65,295. Revenues exceeded expectations by \$183,436 and expenditures were over budget by \$271,817 in 2017. Additionally, transfers out exceeded budget by \$95,309.

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, 2017 amounts to \$7,821,263 (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 14.1 percent (a 8.4 percent increase for governmental activities and a 19.4 percent increase for business-type activities).

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

- 1st Street improvements for streets and water totaled \$257,357.
- Fest building upgrades totaled \$43,862.
- Memorial Park baseball building improvements amounted to \$77,411.
- Roverud Park land improvements and transformers totaled \$79,754.
- Construction in progress related to the Commercial Park project totaled \$610,517.
- The purchase of a wheel loader and a trade in on a public works vehicle for \$167,127.

Additional information on the City's capital assets can be found in Note 3C starting on page 59 of this report.

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

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Land	\$ 119,218	\$ 119,218	\$ -	\$ 41,614	\$ 41,614	\$ -
Construction in Progress	2,390	-	2,390	619,471	-	619,471
Land Improvements	39,874	8,625	31,249	-	-	-
Buildings and Improvements	1,633,950	1,569,549	64,401	291,427	303,315	(11,888)
Systems and Infrastructure	1,462,248	1,368,708	93,540	2,852,525	2,754,065	98,460
Equipment and Machinery	350,634	264,067	86,567	407,912	428,492	(20,580)
Total	\$ 3,608,314	\$ 3,330,167	\$ 278,147	\$ 4,212,949	\$ 3,527,486	\$ 685,463

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,704,000 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		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
General Obligation Bonds	\$ 950,000	\$ 1,045,000	\$ (95,000)	\$ -	\$ -	\$ -
General Obligation Tax Increment Bonds	325,000	369,000	(44,000)	-	-	-
General Obligation Improvement Bonds	610,000	640,000	(30,000)	-	-	-
General Obligation Revenue Bonds	-	-	-	1,819,000	1,928,000	(109,000)
Notes Payable	-	14,738	(14,738)	47,041	56,431	(9,390)
Total	<u>\$ 1,885,000</u>	<u>\$ 2,068,738</u>	<u>\$ (183,738)</u>	<u>\$ 1,866,041</u>	<u>\$ 1,984,431</u>	<u>\$ (118,390)</u>

The City's total debt decreased by, or 7.5 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 \$1,432,173. 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 62 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Houston County is currently 3.2 percent, which is lower than the rate of 4.5 percent a year ago. This compares favorably to the State's average unemployment rate of 3.4 percent and the national average rate of 3.9 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 2018 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, 2017

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City of Spring Grove, Minnesota
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 2,376,749	\$ 2,052,170	\$ 4,428,919
Receivables			
Delinquent taxes	10,865	-	10,865
Accounts	18,466	182,243	200,709
Loans, net of allowance	85,219	-	85,219
Special assessments	98,102	-	98,102
Intergovernmental	22,776	305,259	328,035
Internal balances	(2,998)	2,998	-
Inventories	-	37,921	37,921
Prepaid items	15,486	1,105	16,591
Capital assets			
Nondepreciable	121,608	661,085	782,693
Depreciable, net of accumulated depreciation	3,486,706	3,551,864	7,038,570
Total Assets	<u>6,232,979</u>	<u>6,794,645</u>	<u>13,027,624</u>
Liabilities			
Accounts payable	21,219	236,488	257,707
Due to other governments	64	8,701	8,765
Accrued interest payable	21,126	23,723	44,849
Accrued salaries payable	5,576	4,203	9,779
Noncurrent liabilities			
Due within one year	201,273	142,424	343,697
Due in more than one year	1,724,890	1,769,329	3,494,219
Total Liabilities	<u>1,974,148</u>	<u>2,184,868</u>	<u>4,159,016</u>
Net Position			
Net investment in capital assets	2,998,314	2,346,908	5,345,222
Restricted			
Economic development loans	92,959	-	92,959
Tax increment	27,001	-	27,001
Capital purchases	8,852	-	8,852
Law enforcement	4,071	-	4,071
Unrestricted	<u>1,127,634</u>	<u>2,262,869</u>	<u>3,390,503</u>
Total Net Position	<u>\$ 4,258,831</u>	<u>\$ 4,609,777</u>	<u>\$ 8,868,608</u>

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, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 258,548	\$ 10	\$ -	\$ -
Public safety	343,157	16,549	35,883	-
Public works	364,224	69,226	-	19,704
Culture and recreation	400,348	79,355	64,118	66,819
Economic development	150,151	3,302	2,500	-
Miscellaneous	15,727	-	-	-
Interest and other costs	54,584	-	-	-
Total Governmental Activities	1,586,739	168,442	102,501	86,523
Business-type Activities				
Water utility	200,769	325,014	-	-
Sewer utility	217,993	246,068	-	305,259
Electric utility	1,303,253	1,668,638	-	-
Municipal liquor store	403,545	423,552	-	-
Total Business-type Activities	2,125,560	2,663,272	-	305,259
Total	\$ 3,712,299	\$ 2,831,714	\$ 102,501	\$ 391,782

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

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
\$ (258,538)		\$ (258,538)
(290,725)		(290,725)
(275,294)		(275,294)
(190,056)		(190,056)
(144,349)		(144,349)
(15,727)		(15,727)
(54,584)		(54,584)
<u>(1,229,273)</u>		<u>(1,229,273)</u>
-	\$ 124,245	124,245
-	333,334	333,334
-	365,385	365,385
-	20,007	20,007
<u>-</u>	<u>842,971</u>	<u>842,971</u>
<u>(1,229,273)</u>	<u>842,971</u>	<u>(386,302)</u>
503,385	-	503,385
120,877	-	120,877
8,320	-	8,320
10,700	-	10,700
453,759	-	453,759
10,979	7,604	18,583
59,560	26,111	85,671
142,575	-	142,575
241,853	(241,853)	-
<u>1,552,008</u>	<u>(208,138)</u>	<u>1,343,870</u>
322,735	634,833	957,568
<u>3,936,096</u>	<u>3,974,944</u>	<u>7,911,040</u>
<u>\$ 4,258,831</u>	<u>\$ 4,609,777</u>	<u>\$ 8,868,608</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, 2017

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City of Spring Grove, Minnesota
Balance Sheet
Governmental Funds
December 31, 2017

	General	Debt Service	Other Governmental Funds	Totals
Assets				
Cash and temporary investments	\$ 753,572	\$ 494,538	\$ 1,128,639	\$ 2,376,749
Receivables				
Delinquent taxes	8,539	2,171	155	10,865
Accounts	15,965	-	2,501	18,466
Loans, net of allowance	-	-	85,219	85,219
Special assessments	-	98,102	-	98,102
Intergovernmental	17,747	5,029	-	22,776
Due from other funds	9,750	-	-	9,750
Advances to other funds	-	-	49,883	49,883
Prepaid items	15,157	74	255	15,486
Total Assets	\$ 820,730	\$ 599,914	\$ 1,266,652	\$ 2,687,296
Liabilities				
Accounts payable	\$ 8,772	\$ -	\$ 12,447	\$ 21,219
Due to other governments	22	-	42	64
Due to other funds	2,400	-	10,348	12,748
Advances from other funds	-	49,883	-	49,883
Accrued salaries payable	4,652	-	924	5,576
Total Liabilities	15,846	49,883	23,761	89,490
Deferred Inflows of Resources				
Unavailable revenue				
Delinquent taxes	8,539	2,171	155	10,865
Special assessments	-	98,102	-	98,102
Total Deferred Inflows of Resources	8,539	100,273	155	108,967
Fund Balances				
Nonspendable				
Prepaid items	15,157	74	255	15,486
Restricted				
Economic development	-	-	92,959	92,959
Tax increment	-	-	27,001	27,001
Debt service	-	449,684	-	449,684
Capital purchases	-	-	8,852	8,852
Law enforcement	-	-	4,071	4,071
Committed				
Economic development	-	-	251,029	251,029
Cable TV operations	-	-	4,656	4,656
Library operations	-	-	305,288	305,288
Assigned				
Capital purchases	-	-	559,305	559,305
Unassigned	781,188	-	(10,680)	770,508
Total Fund Balances	796,345	449,758	1,242,736	2,488,839
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 820,730	\$ 599,914	\$ 1,266,652	\$ 2,687,296

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, 2017

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

Total Fund Balances - Governmental Funds	\$ 2,488,839
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	3,608,314
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	(41,163)
Bonds payable	(1,885,000)
Long-term assets are not available to pay current-period expenditures and therefore are unavailable in the funds.	
Delinquent property taxes receivable	10,865
Special assessments receivable	98,102
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(21,126)</u>
Total Net Position - Governmental Activities	<u><u>\$ 4,258,831</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, 2017

	General	Debt Service	Other Governmental Funds	Totals
Revenues				
Taxes	\$ 504,872	\$ 121,854	\$ 18,865	\$ 645,591
Special assessments	1,028	13,603	-	14,631
Licenses and permits	4,414	-	-	4,414
Intergovernmental	472,085	-	18,851	490,936
Charges for services	156,794	-	-	156,794
Fines and forfeits	7,248	-	-	7,248
Investment earnings	3,091	1,145	6,743	10,979
Miscellaneous	111,581	27,001	66,862	205,444
Total Revenues	<u>1,261,113</u>	<u>163,603</u>	<u>111,321</u>	<u>1,536,037</u>
Expenditures				
Current				
General government	247,915	-	-	247,915
Public safety	302,295	-	-	302,295
Public works	224,977	-	-	224,977
Culture and recreation	188,772	-	152,434	341,206
Economic development	-	15,870	129,029	144,899
Miscellaneous	-	-	14,888	14,888
Capital outlay				
General government	3,127	-	-	3,127
Public safety	15,897	-	-	15,897
Public works	201,366	-	20,290	221,656
Culture and recreation	102,570	-	49,497	152,067
Economic development	-	-	6,780	6,780
Miscellaneous	-	-	839	839
Debt service				
Principal	14,738	169,000	-	183,738
Interest and other costs	262	55,904	-	56,166
Total Expenditures	<u>1,301,919</u>	<u>240,774</u>	<u>373,757</u>	<u>1,916,450</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(40,806)</u>	<u>(77,171)</u>	<u>(262,436)</u>	<u>(380,413)</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	1,000	1,000
Transfers in	202,720	38,348	343,365	584,433
Transfers out	(274,309)	-	(68,271)	(342,580)
Total Other Financing Sources (Uses)	<u>(71,589)</u>	<u>38,348</u>	<u>276,094</u>	<u>242,853</u>
Net Change in Fund Balances	(112,395)	(38,823)	13,658	(137,560)
Fund Balances, January 1	<u>908,740</u>	<u>488,581</u>	<u>1,229,078</u>	<u>2,626,399</u>
Fund Balances, December 31	<u>\$ 796,345</u>	<u>\$ 449,758</u>	<u>\$ 1,242,736</u>	<u>\$ 2,488,839</u>

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, 2017

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

Net change in fund balances - governmental funds	\$ (137,560)
<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	317,066
Depreciation expense	(188,182)
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Book value of trade-in of capital assets	7,688
Gain on trade in of capital assets	141,575
<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	183,738
<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>	
	1,582
<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	(2,309)
Special assessments	(8,682)
<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	7,819
Change in Net Position - Governmental Activities	\$ 322,735

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 507,614	\$ 507,614	\$ 504,872	\$ (2,742)
Special assessments	-	-	1,028	1,028
Licenses and permits	4,400	4,400	4,414	14
Intergovernmental	437,463	437,463	472,085	34,622
Charges for services	92,000	92,000	156,794	64,794
Fines and forfeits	6,000	6,000	7,248	1,248
Investment earnings	1,500	1,500	3,091	1,591
Miscellaneous	28,700	28,700	111,581	82,881
Total Revenues	<u>1,077,677</u>	<u>1,077,677</u>	<u>1,261,113</u>	<u>183,436</u>
Expenditures				
Current				
General government	249,462	249,462	247,915	1,547
Public safety	306,532	306,532	302,295	4,237
Public works	135,385	135,385	224,977	(89,592)
Culture and recreation	174,223	174,223	188,772	(14,549)
Capital outlay				
General government	2,000	2,000	3,127	(1,127)
Public safety	24,500	24,500	15,897	8,603
Public works	67,000	67,000	201,366	(134,366)
Culture and recreation	56,000	56,000	102,570	(46,570)
Debt service				
Principal	13,436	13,436	14,738	(1,302)
Interest and other costs	1,564	1,564	262	1,302
Total Expenditures	<u>1,030,102</u>	<u>1,030,102</u>	<u>1,301,919</u>	<u>(271,817)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>47,575</u>	<u>47,575</u>	<u>(40,806)</u>	<u>(88,381)</u>
Other Financing Sources (Uses)				
Transfers in	196,720	196,720	202,720	6,000
Transfers out	<u>(179,000)</u>	<u>(179,000)</u>	<u>(274,309)</u>	<u>(95,309)</u>
Total Other Financing Sources (Uses)	<u>17,720</u>	<u>17,720</u>	<u>(71,589)</u>	<u>(89,309)</u>
Net Change in Fund Balances	65,295	65,295	(112,395)	(177,690)
Fund Balances, January 1	<u>908,740</u>	<u>908,740</u>	<u>908,740</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 974,035</u>	<u>\$ 974,035</u>	<u>\$ 796,345</u>	<u>\$ (177,690)</u>

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, 2017 and 2016

	Business-type Activities - Business-type Activities - Enterprise Funds			
	620		625	
	Water Utility		Sewer Utility	
	2017	2016	2017	2016
Assets				
Current Assets				
Cash and temporary investments	\$ 515,280	\$ 530,635	\$ 402,389	\$ 216,672
Receivables				
Accounts	24,917	29,448	20,864	24,030
Intergovernmental	-	-	305,259	-
Due from other funds	2,610	2,215	185	159
Advance to other funds - current	-	-	-	-
Inventories	-	-	-	-
Prepaid items	38	37	122	68
Total Current Assets	<u>542,845</u>	<u>562,335</u>	<u>728,819</u>	<u>240,929</u>
Noncurrent Assets				
Advance to other funds - noncurrent	-	-	-	-
Capital assets				
Land	-	-	34,114	34,114
Construction in progress	8,954	-	610,517	-
Buildings and improvements	-	-	2,153,774	2,153,774
Systems and infrastructure	2,474,732	2,361,307	971,179	955,086
Equipment and machinery	37,232	37,232	307,765	290,220
Less accumulated depreciation	(555,050)	(502,232)	(2,334,148)	(2,280,846)
Total Capital Assets (Net of Accumulated Depreciation)	<u>1,965,868</u>	<u>1,896,307</u>	<u>1,743,201</u>	<u>1,152,348</u>
Total Noncurrent Assets	<u>1,965,868</u>	<u>1,896,307</u>	<u>1,743,201</u>	<u>1,152,348</u>
Total Assets	<u>2,508,713</u>	<u>2,458,642</u>	<u>2,472,020</u>	<u>1,393,277</u>
Liabilities				
Current Liabilities				
Accounts payable	14,411	791	116,227	150
Due to other governments	312	312	-	-
Due to other funds	3,749	3,178	5,051	4,350
Accrued interest payable	18,717	19,048	5,006	5,249
Accrued salaries payable	596	462	596	462
Advance from other funds - current	-	-	7,500	-
Compensated absences payable - current portion	2,873	2,159	2,873	2,159
Bonds and notes payable - current portion	72,000	68,000	42,000	41,000
Total Current Liabilities	<u>112,658</u>	<u>93,950</u>	<u>179,253</u>	<u>53,370</u>
Noncurrent Liabilities				
Advance from other funds - noncurrent	-	-	682,500	-
Compensated absences payable - noncurrent portion	1,386	1,344	1,386	1,344
Bonds and notes payable - noncurrent portion	1,344,000	1,416,000	361,000	403,000
Total Noncurrent Liabilities	<u>1,345,386</u>	<u>1,417,344</u>	<u>1,044,886</u>	<u>404,344</u>
Total Liabilities	<u>1,458,044</u>	<u>1,511,294</u>	<u>1,224,139</u>	<u>457,714</u>
Net Position				
Net investment in capital assets	549,868	412,307	1,340,201	708,348
Unrestricted	500,801	535,041	(92,320)	227,215
Total Net Position	<u>\$ 1,050,669</u>	<u>\$ 947,348</u>	<u>\$ 1,247,881</u>	<u>\$ 935,563</u>

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

Business-type Activities -
Business-type Activities - Enterprise Funds

615		609		Totals	
Electric Utility		Municipal Liquor Store			
2017	2016	2017	2016	2017	2016
\$ 1,016,792	\$ 1,508,338	\$ 117,709	\$ 124,673	\$ 2,052,170	\$ 2,380,318
136,462	150,037	-	-	182,243	203,515
-	-	-	-	305,259	-
9,510	8,958	-	-	12,305	11,332
7,500	-	-	-	7,500	-
-	-	37,921	32,341	37,921	32,341
565	490	380	369	1,105	964
<u>1,170,829</u>	<u>1,667,823</u>	<u>156,010</u>	<u>157,383</u>	<u>2,598,503</u>	<u>2,628,470</u>
682,500	-	-	-	682,500	-
-	-	7,500	7,500	41,614	41,614
-	-	-	-	619,471	-
849,225	849,225	101,387	101,387	3,104,386	3,104,386
256,950	209,712	-	-	3,702,861	3,526,105
302,876	302,876	54,680	54,680	702,553	685,008
(956,606)	(937,964)	(112,132)	(108,585)	(3,957,936)	(3,829,627)
452,445	423,849	51,435	54,982	4,212,949	3,527,486
<u>1,134,945</u>	<u>423,849</u>	<u>51,435</u>	<u>54,982</u>	<u>4,895,449</u>	<u>3,527,486</u>
2,305,774	2,091,672	207,445	212,365	7,493,952	6,155,956
105,117	106,878	733	877	236,488	108,696
5,034	5,626	3,355	3,778	8,701	9,716
-	-	507	628	9,307	8,156
-	-	-	-	23,723	24,297
1,538	1,453	1,473	1,267	4,203	3,644
-	-	-	-	7,500	-
11,270	11,358	1,576	277	18,592	15,953
9,832	9,390	-	-	123,832	118,390
<u>132,791</u>	<u>134,705</u>	<u>7,644</u>	<u>6,827</u>	<u>432,346</u>	<u>288,852</u>
-	-	-	-	682,500	-
23,957	22,830	391	601	27,120	26,119
37,209	47,041	-	-	1,742,209	1,866,041
<u>61,166</u>	<u>69,871</u>	<u>391</u>	<u>601</u>	<u>2,451,829</u>	<u>1,892,160</u>
193,957	204,576	8,035	7,428	2,884,175	2,181,012
405,404	367,418	51,435	54,982	2,346,908	1,543,055
<u>1,706,413</u>	<u>1,519,678</u>	<u>147,975</u>	<u>149,955</u>	<u>2,262,869</u>	<u>2,431,889</u>
<u>\$ 2,111,817</u>	<u>\$ 1,887,096</u>	<u>\$ 199,410</u>	<u>\$ 204,937</u>	<u>\$ 4,609,777</u>	<u>\$ 3,974,944</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, 2017 and 2016

	Business-type Activities - Enterprise Funds			
	620		625	
	Water Utility		Sewer Utility	
	2017	2016	2017	2016
Operating Revenues				
Charges for services	\$ 325,014	\$ 380,801	\$ 246,068	\$ 263,766
Sales	-	-	-	-
Cost of sales	-	-	-	-
Total Operating Revenues	<u>325,014</u>	<u>380,801</u>	<u>246,068</u>	<u>263,766</u>
Operating Expenses				
Power production	-	-	-	-
Salaries and benefits	41,985	37,111	45,059	36,431
Supplies	20,999	50,989	33,098	15,307
Other services and charges	4,246	8,373	13,487	27,042
Insurance	224	225	680	413
Utilities	35,547	38,456	59,830	58,760
Depreciation	52,818	49,826	53,302	51,169
Total Operating Expenses	<u>155,819</u>	<u>184,980</u>	<u>205,456</u>	<u>189,122</u>
Operating Income (Loss)	<u>169,195</u>	<u>195,821</u>	<u>40,612</u>	<u>74,644</u>
Nonoperating Revenues (Expenses)				
Other income	300	2,375	413	1,200
Investment earnings	1,276	1,651	1,071	648
Rental income	-	-	-	-
Interest and other costs	(44,950)	(45,220)	(12,537)	(13,072)
Total Nonoperating Revenues (Expenses)	<u>(43,374)</u>	<u>(41,194)</u>	<u>(11,053)</u>	<u>(11,224)</u>
Income (Loss) Before Transfers	125,821	154,627	29,559	63,420
Capital Grants and Contributions	-	-	305,259	-
Transfers In	-	-	-	20,000
Transfers Out	<u>(22,500)</u>	<u>(22,500)</u>	<u>(22,500)</u>	<u>(22,500)</u>
Change in Net Position	103,321	132,127	312,318	60,920
Net Position, January 1	<u>947,348</u>	<u>815,221</u>	<u>935,563</u>	<u>874,643</u>
Net Position, December 31	<u><u>\$ 1,050,669</u></u>	<u><u>\$ 947,348</u></u>	<u><u>\$ 1,247,881</u></u>	<u><u>\$ 935,563</u></u>

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

Business-type Activities - Enterprise Funds

615		609		Totals	
Electric Utility		Municipal Liquor Store			
2017	2016	2017	2016	2017	2016
\$ 1,668,638	\$ 1,871,635	\$ -	\$ -	\$ 2,239,720	\$ 2,516,202
-	-	423,552	452,641	423,552	452,641
-	-	(265,053)	(280,485)	(265,053)	(280,485)
<u>1,668,638</u>	<u>1,871,635</u>	<u>158,499</u>	<u>172,156</u>	<u>2,398,219</u>	<u>2,688,358</u>
1,120,835	1,232,873	-	-	1,120,835	1,232,873
97,772	92,326	93,574	86,717	278,390	252,585
28,454	41,783	7,111	6,046	89,662	114,125
27,541	106,010	15,701	14,685	60,975	156,110
3,315	3,063	5,934	5,874	10,153	9,575
4,294	4,401	12,625	12,880	112,296	114,497
18,642	17,318	3,547	3,547	128,309	121,860
<u>1,300,853</u>	<u>1,497,774</u>	<u>138,492</u>	<u>129,749</u>	<u>1,800,620</u>	<u>2,001,625</u>
367,785	373,861	20,007	42,407	597,599	686,733
20,554	9,776	1,750	1,981	23,017	15,332
4,635	4,718	622	528	7,604	7,545
-	-	3,094	1,853	3,094	1,853
(2,400)	(2,821)	-	-	(59,887)	(61,113)
<u>22,789</u>	<u>11,673</u>	<u>5,466</u>	<u>4,362</u>	<u>(26,172)</u>	<u>(36,383)</u>
390,574	385,534	25,473	46,769	571,427	650,350
-	-	-	-	305,259	-
-	21,196	-	-	-	41,196
<u>(165,853)</u>	<u>(175,646)</u>	<u>(31,000)</u>	<u>-</u>	<u>(241,853)</u>	<u>(220,646)</u>
224,721	231,084	(5,527)	46,769	634,833	470,900
<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>
<u>\$ 2,111,817</u>	<u>\$ 1,887,096</u>	<u>\$ 199,410</u>	<u>\$ 204,937</u>	<u>\$ 4,609,777</u>	<u>\$ 3,974,944</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, 2017 and 2016

	Business-type Activities - Enterprise Funds			
	Water Utility		Sewer Utility	
	2017	2016	2017	2016
Cash Flows from Operating Activities				
Receipts from customers	\$ 329,545	\$ 383,136	\$ 249,234	\$ 262,626
Payments to suppliers and vendors	(58,508)	(99,094)	(107,088)	(102,927)
Payments to and on behalf of employees	(41,095)	(36,614)	(44,169)	(35,934)
Other receipts	300	2,375	413	1,200
Net Cash Provided (Used) by Operating Activities	<u>230,242</u>	<u>249,803</u>	<u>98,390</u>	<u>124,965</u>
Cash Flows from Noncapital Financing Activities				
(Increase) decrease in due from other funds	(395)	1,209	(26)	(14)
Increase (decrease) in due to other funds	571	(284)	701	(2,964)
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	<u>(22,324)</u>	<u>(21,575)</u>	<u>(21,825)</u>	<u>(5,478)</u>
Cash Flows from Capital And Related Financing Activities				
Acquisition of capital assets	(111,268)	(239,413)	(528,139)	(26,700)
(Increase) decrease in advance to other funds	-	-	-	-
Increase (decrease) in advance from other funds	-	-	690,000	-
Principal paid on bonds and notes payable	(68,000)	(68,000)	(41,000)	(40,000)
Interest paid on bonds and notes payable	(45,281)	(45,479)	(12,780)	(13,290)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(224,549)</u>	<u>(352,892)</u>	<u>108,081</u>	<u>(79,990)</u>
Cash Flows from Investing Activities				
Interest received on cash and investments	1,276	1,651	1,071	648
Net Increase (Decrease) in Cash and Cash Equivalents	(15,355)	(123,013)	185,717	40,145
Cash and Cash Equivalents, January 1	530,635	653,648	216,672	176,527
Cash and Cash Equivalents, December 31	<u>\$ 515,280</u>	<u>\$ 530,635</u>	<u>\$ 402,389</u>	<u>\$ 216,672</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 169,195	\$ 195,821	\$ 40,612	\$ 74,644
Adjustments to reconcile operating income (loss) to to net cash provided (used) by operating activities				
Other income related to operations	300	2,375	413	1,200
Depreciation	52,818	49,826	53,302	51,169
(Increase) decrease in assets				
Accounts receivable	4,531	2,335	3,166	(1,140)
Inventories	-	-	-	-
Prepaid items	(1)	2	(54)	3
Increase (decrease) in liabilities				
Accounts payable	2,509	(1,365)	61	(1,408)
Due to other governments	-	312	-	-
Accrued salaries payable	134	(6)	134	(6)
Compensated absences payable	756	503	756	503
Net Cash Provided (Used) by Operating Activities	<u>\$ 230,242</u>	<u>\$ 249,803</u>	<u>\$ 98,390</u>	<u>\$ 124,965</u>
Schedule of noncash investing, capital and financing activities				
Capital assets acquired on account	\$ 11,111	\$ -	\$ 116,016	\$ -

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	
2017	2016	2017	2016	2017	2016
\$ 1,682,213	\$ 1,884,480	\$ 423,552	\$ 452,641	\$ 2,684,544	\$ 2,982,883
(1,186,867)	(1,383,223)	(312,582)	(321,981)	(1,665,045)	(1,907,225)
(96,648)	(91,258)	(92,279)	(86,348)	(274,191)	(250,154)
20,554	9,776	4,844	3,834	26,111	17,185
<u>419,252</u>	<u>419,775</u>	<u>23,535</u>	<u>48,146</u>	<u>771,419</u>	<u>842,689</u>
(552)	2,610	-	-	(973)	3,805
-	-	(121)	(121)	1,151	(3,369)
-	21,196	-	-	-	41,196
<u>(165,853)</u>	<u>(175,646)</u>	<u>(31,000)</u>	<u>-</u>	<u>(241,853)</u>	<u>(220,646)</u>
<u>(166,405)</u>	<u>(151,840)</u>	<u>(31,121)</u>	<u>(121)</u>	<u>(241,675)</u>	<u>(179,014)</u>
(47,238)	(53,527)	-	-	(686,645)	(319,640)
(690,000)	-	-	-	(690,000)	-
-	-	-	-	690,000	-
(9,390)	(8,969)	-	-	(118,390)	(116,969)
(2,400)	(2,821)	-	-	(60,461)	(61,590)
<u>(749,028)</u>	<u>(65,317)</u>	<u>-</u>	<u>-</u>	<u>(865,496)</u>	<u>(498,199)</u>
4,635	4,718	622	528	7,604	7,545
(491,546)	207,336	(6,964)	48,553	(328,148)	173,021
1,508,338	1,301,002	124,673	76,120	2,380,318	2,207,297
<u>\$ 1,016,792</u>	<u>\$ 1,508,338</u>	<u>\$ 117,709</u>	<u>\$ 124,673</u>	<u>\$ 2,052,170</u>	<u>\$ 2,380,318</u>
\$ 367,785	\$ 373,861	\$ 20,007	\$ 42,407	\$ 597,599	\$ 686,733
20,554	9,776	4,844	3,834	26,111	17,185
18,642	17,318	3,547	3,547	128,309	121,860
13,575	12,845	-	-	21,272	14,040
-	-	(5,580)	(1,903)	(5,580)	(1,903)
(75)	126	(11)	(369)	(141)	(238)
(1,761)	(845)	(144)	(101)	665	(3,719)
(592)	5,626	(423)	362	(1,015)	6,300
85	228	206	352	559	568
1,039	840	1,089	17	3,640	1,863
<u>\$ 419,252</u>	<u>\$ 419,775</u>	<u>\$ 23,535</u>	<u>\$ 48,146</u>	<u>\$ 771,419</u>	<u>\$ 842,689</u>
\$ -	\$ -	\$ -	\$ -	\$ 127,127	\$ -

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, 2017

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

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

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

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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

Deposits and Investments

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

Property Taxes

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

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

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2017. 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, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

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

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

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, 2017 was \$86,875. 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, 2017 and it was determined that there is no liability.

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.

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

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, 2017, expenditures exceeded appropriations in the following fund:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 1,030,102	\$ 1,301,919	\$ 271,817
Special Revenue			
Community Building	45,794	75,354	29,560
Cable TV	9,010	9,756	746
Library	96,332	126,577	30,245

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

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 2: Stewardship, Compliance and Accountability (Continued)

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2017:

Fund	Amount
Special Revenue	
Community Building	\$ 930
Nisse Treehouse Tax Increment District 1-3	2,000
Spring Grove Soda Tax Increment District 1-4	7,750

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 \$4,427,956 and the bank balance was \$4,602,974. Of the bank balance, \$2,289,012 was covered by federal depository insurance. The remaining balance of \$2,313,962 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, 2017

Note 3: Detailed Notes on All Funds (Continued)

Cash on Hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$963.

Cash and Investments Summary

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

Deposits	\$ 4,427,956
Cash on Hand	<u>963</u>
Total	<u><u>\$ 4,428,919</u></u>

B. Loans Receivable

Commercial Loans

The City currently has loans to various local businesses totaling \$130, net of an allowance for a forgivable portion of \$267,162, at December 31, 2017. The forgivable portion is forgiven after 7 years. The loans are secured by real estate.

Economic Development Loans

The EDA currently has loans to various local businesses totaling \$85,089 at December 31, 2017. These loans carry an interest rate of 3 to 5 percent. The loans are secured by real estate.

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

C. Capital Assets

Capital asset activity for the City for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 119,218	\$ -	\$ -	\$ 119,218
Construction in progress	-	2,390	-	2,390
Total Capital Assets not being Depreciated	<u>119,218</u>	<u>2,390</u>	<u>-</u>	<u>121,608</u>
Capital Assets being Depreciated				
Land improvements	26,824	32,516	-	59,340
Buildings and improvements	2,876,399	128,053	-	3,004,452
Systems and infrastructure	3,831,958	143,931	-	3,975,889
Equipment and machinery	1,556,352	167,127	(71,435)	1,652,044
Total Capital Assets being Depreciated	<u>8,291,533</u>	<u>471,627</u>	<u>(71,435)</u>	<u>8,691,725</u>
Less Accumulated Depreciation for				
Land improvements	(18,199)	(1,267)	-	(19,466)
Buildings and improvements	(1,306,850)	(63,652)	-	(1,370,502)
Systems and infrastructure	(2,463,250)	(50,391)	-	(2,513,641)
Equipment and machinery	(1,292,285)	(72,872)	63,747	(1,301,410)
Total Accumulated Depreciation	<u>(5,080,584)</u>	<u>(188,182)</u>	<u>63,747</u>	<u>(5,205,019)</u>
Total Capital Assets being Depreciated, Net	<u>3,210,949</u>	<u>283,445</u>	<u>(7,688)</u>	<u>3,486,706</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,330,167</u>	<u>\$ 285,835</u>	<u>\$ (7,688)</u>	<u>\$ 3,608,314</u>

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

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
Construction in progress	-	619,471	-	619,471
Total Capital Assets Not Being Depreciated	41,614	619,471	-	661,085
Capital Assets being Depreciated				
Buildings and improvements	3,104,386	-	-	3,104,386
Systems and infrastructure	3,526,105	176,756	-	3,702,861
Equipment and machinery	685,008	17,545	-	702,553
Total Capital Assets Being Depreciated	7,315,499	194,301	-	7,509,800
Less Accumulated Depreciation for				
Buildings and improvements	(2,801,071)	(11,888)	-	(2,812,959)
Systems and infrastructure	(772,040)	(78,296)	-	(850,336)
Equipment and machinery	(256,516)	(38,125)	-	(294,641)
Total Accumulated Depreciation	(3,829,627)	(128,309)	-	(3,957,936)
Total Capital Assets Being Depreciated, Net	3,485,872	65,992	-	3,551,864
Business-type Activities Capital Assets, Net	\$ 3,527,486	\$ 685,463	\$ -	\$ 4,212,949

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

Governmental Activities		
General government		\$ 7,796
Public safety		23,517
Public works		94,545
Culture and recreation		57,092
Economic development		5,232
Total Depreciation Expense - Governmental Activities		\$ 188,182
Business-type Activities		
Water utility		\$ 52,818
Sewer utility		53,302
Electric utility		18,642
Municipal liquor store		3,547
Total Depreciation Expense - Business-type Activities		\$ 128,309

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Construction Commitments

The City has an active construction project as of December 31, 2017 relating to a sewer project as follows:

Project	Spent-to-Date	Remaining Commitment
Commercial Park Lift Station	\$ 520,561	\$ 102,971

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances at December 31, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 9,750
Enterprise		
Water Utility	General	93
	Nonmajor governmental funds	58
	Enterprise	
	Sewer	2,438
	Municipal Liquor Store	21
Sewer Utility	General	93
	Nonmajor governmental funds	65
	Enterprise	
	Municipal Liquor Store	27
Electric Utility	General	2,214
	Nonmajor governmental funds	475
	Enterprise	
	Water	3,749
	Sewer	2,613
	Municipal Liquor Store	459
Totals		\$ 22,055

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, (3) payments between funds are made, and (4) to temporary fund project cost until a formal agreement can be put in place.

Advances from/to other funds at December 31, 2017 are as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor governmental funds	Debt service funds	\$ 49,883
Electric Utility fund	Sewer Utility fund	690,000
Total		\$ 739,883

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

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. The advance to the Sewer Utility fund from the Electric utility fund was to assist in financing the commercial park lift station project. This advance will be paid back over 17 years at 4 percent interest with sewer utility revenue.

Interfund transfers for the year ended December 31, 2017, were as follows:

Funds	Transfers in			Total
	General Fund	Debt Service Funds	Nonmajor Governmental Funds	
Transfers Out				
General	\$ -	\$ 12,077	\$ 262,232	\$ 274,309
Nonmajor Governmental funds	-	26,271	42,000	68,271
Water Utility	22,500	-	-	22,500
Sewer Utility	22,500	-	-	22,500
Electric Utility	151,720	-	14,133	165,853
Municipal Liquor Store	6,000	-	25,000	31,000
Total Transfers Out	\$ 202,720	\$ 38,348	\$ 343,365	\$ 584,433

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, 2017, the government made the following one-time transfers:

- The General fund transferred \$28,730 to the Industrial Development fund to fund development.
- The Liquor Store fund transferred \$25,000 to the Fire Equipment fund for future capital needs.

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>\$ 950,000</u>

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

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

Year Ending December 31	G.O. Bonds Governmental Activities		
	Principal	Interest	Total
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	110,000	12,643	122,643
2023 - 2026	435,000	22,126	457,126
Total	<u>\$ 950,000</u>	<u>\$ 112,365</u>	<u>\$ 1,062,365</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.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2015A G.O. Tax Increment Refunding Bonds	\$ 414,000	2.30 %	12/07/15	02/01/23	<u>\$ 325,000</u>

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

Year Ending December 31	G.O. Tax Increment Bonds Governmental Activities		
	Principal	Interest	Total
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	60,000	1,702	61,702
2023	44,000	506	44,506
Total	<u>\$ 325,000</u>	<u>\$ 22,070</u>	<u>\$ 347,070</u>

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

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>\$ 610,000</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
2018	\$ 30,000	\$ 19,245	\$ 49,245
2019	30,000	18,631	48,631
2020	30,000	18,062	48,062
2021	30,000	17,539	47,539
2022	30,000	16,782	46,782
2023 - 2027	175,000	69,079	244,079
2028 - 2032	195,000	37,314	232,314
2033 - 2034	90,000	3,683	93,683
Total	<u>\$ 610,000</u>	<u>\$ 200,335</u>	<u>\$ 810,335</u>

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

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	\$ 49,000
2013A G.O. Improvement and Utility Refunding Bonds	2,025,000	0.75 - 4.10	07/08/13	02/01/34	<u>1,770,000</u>
Total G.O. Revenue Bonds					<u>\$ 1,819,000</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	\$ 325,014	\$ 246,068
Principal and Interest	113,281	53,780
Percentage of Revenues	34.9%	21.9%

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
2018	\$ 114,000	\$ 55,764	\$ 169,764
2019	115,000	53,529	168,529
2020	90,000	51,407	141,407
2021	90,000	49,920	139,920
2022	95,000	47,764	142,764
2023 - 2027	495,000	196,611	691,611
2028 - 2032	565,000	106,200	671,200
2033 - 2034	<u>255,000</u>	<u>10,479</u>	<u>265,479</u>
Total	<u>\$ 1,819,000</u>	<u>\$ 571,674</u>	<u>\$ 2,390,674</u>

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

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	<u>\$ 47,041</u>

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
2018	\$ 9,832	\$ 1,958	\$ 11,790
2019	10,293	1,496	11,789
2020	10,777	1,012	11,789
2021	11,283	506	11,789
2022	4,856	54	4,910
Total	<u>\$ 47,041</u>	<u>\$ 5,026</u>	<u>\$ 52,067</u>

City of Spring Grove, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds Payable					
General obligation bonds	\$ 1,045,000	\$ -	\$ (95,000)	\$ 950,000	\$ 95,000
General obligation tax increment bonds	369,000	-	(44,000)	325,000	54,000
General obligation improvement bonds	<u>640,000</u>	<u>-</u>	<u>(30,000)</u>	<u>610,000</u>	<u>30,000</u>
Total Bonds Payable	2,054,000	-	(169,000)	1,885,000	179,000
Capital Lease Payable	14,738	-	(14,738)	-	-
Compensated Absences Payable	<u>48,982</u>	<u>29,580</u>	<u>(37,399)</u>	<u>41,163</u>	<u>22,273</u>
Governmental Long-term Liabilities	<u>\$ 2,117,720</u>	<u>\$ 29,580</u>	<u>\$ (221,137)</u>	<u>\$ 1,926,163</u>	<u>\$ 201,273</u>
Business-type Activities					
Bonds Payable					
General obligation revenue bonds	\$ 1,928,000	\$ -	\$ (109,000)	\$ 1,819,000	\$ 114,000
Notes Payable	56,431	-	(9,390)	47,041	9,832
Compensated Absences Payable	<u>42,072</u>	<u>19,845</u>	<u>(16,205)</u>	<u>45,712</u>	<u>18,592</u>
Business-type Long-term Liabilities	<u>\$ 2,026,503</u>	<u>\$ 19,845</u>	<u>\$ (134,595)</u>	<u>\$ 1,911,753</u>	<u>\$ 142,424</u>

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.

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 2017. 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 2017. The City's contributions to the GERF for the years ending December 31, 2017, 2016 and 2015 were \$32,344, \$29,988 and \$26,581, 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 2017. The City was required to contribute 16.20 percent of pay for PEPFF members in calendar year 2017. The City's contributions to the PEPFF for the years ending December 31, 2017, 2016 and 2015 were \$19,180, \$15,651 and \$10,988, 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 \$47,739,100 at December 31, 2017. The City currently has \$950,000 of debt subject to this limit leaving a debt margin of \$931,857 which includes a debt service reserve of \$449,684. 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, 2017

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 2017 was \$419,173 which accounted for approximately 33.3 percent of General fund revenues.

Note 6: Tax Abatements

As of December 31, 2017, the City has one agreement entered into by the City listed below that abates City property taxes. Below is information specific to the agreement:

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

	<u>City Tax Rate (Year of Establishment)</u>	<u>Captured Tax Capacity</u>	<u>Amount of Taxes Abated During the Year</u>
Tax Abatement Agreements LaX Fabricating, Ltd.			<u>\$ 12,078</u>

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF SPRING GROVE
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Spring Grove, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2017

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
Assets			
Cash and temporary investments	\$ 439,365	\$ 689,274	\$ 1,128,639
Delinquent taxes	155	-	155
Receivables			
Accounts	2,501	-	2,501
Loans, net of allowance	85,219	-	85,219
Advances to other funds	-	49,883	49,883
Prepaid items	255	-	255
	<u>527,495</u>	<u>739,157</u>	<u>1,266,652</u>
Total Assets	\$ 527,495	\$ 739,157	\$ 1,266,652
Liabilities			
Accounts payable	\$ 12,447	\$ -	\$ 12,447
Due to other governments	42	-	42
Due to other funds	10,348	-	10,348
Accrued salaries payable	924	-	924
Total Liabilities	23,761	-	23,761
Deferred Inflows of Resources			
Delinquent taxes	155	-	155
Fund Balances			
Nonspendable			
Prepaid items	255	-	255
Restricted			
Economic development	92,959	-	92,959
Tax increment	27,001	-	27,001
Capital purchases	-	8,852	8,852
Law enforcement	-	4,071	4,071
Committed			
Economic development	144,113	106,916	251,029
Cable TV operations	4,656	-	4,656
Library operations	245,275	60,013	305,288
Assigned			
Capital purchases	-	559,305	559,305
Unassigned			
Total Fund Balances	<u>(10,680)</u>	<u>-</u>	<u>(10,680)</u>
	<u>503,579</u>	<u>739,157</u>	<u>1,242,736</u>
Total Liabilities and Fund Balances	\$ 527,495	\$ 739,157	\$ 1,266,652

City of Spring Grove, Minnesota
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 For the Year Ended December 31, 2017

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
Revenues			
Taxes	\$ 18,865	\$ -	\$ 18,865
Intergovernmental	18,851	-	18,851
Investment earnings	2,914	3,829	6,743
Miscellaneous	66,862	-	66,862
Total Revenues	<u>107,492</u>	<u>3,829</u>	<u>111,321</u>
Expenditures			
Current			
Culture and recreation	152,434	-	152,434
Economic development	129,029	-	129,029
Miscellaneous	8,917	5,971	14,888
Capital outlay			
Public works	-	20,290	20,290
Culture and recreation	49,497	-	49,497
Economic development	6,780	-	6,780
Miscellaneous	839	-	839
Total Expenditures	<u>347,496</u>	<u>26,261</u>	<u>373,757</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(240,004)</u>	<u>(22,432)</u>	<u>(262,436)</u>
Other Financing Sources (Uses)			
Sale of capital assets	-	1,000	1,000
Transfers in	239,231	104,134	343,365
Transfers out	(45,097)	(23,174)	(68,271)
Total Other Financing Sources (Uses)	<u>194,134</u>	<u>81,960</u>	<u>276,094</u>
Net Change in Fund Balances	(45,870)	59,528	13,658
Fund Balances, January 1	<u>549,449</u>	<u>679,629</u>	<u>1,229,078</u>
Fund Balances, December 31	<u>\$ 503,579</u>	<u>\$ 739,157</u>	<u>\$ 1,242,736</u>

City of Spring Grove, Minnesota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2017

	260/265	270	280	290
	Small Cities Grants	Community Building	Industrial Development	Economic Development Authority
Assets				
Cash and temporary investments	\$ 7,740	\$ -	\$ -	\$ 2,698
Delinquent taxes	-	-	-	-
Receivables				
Accounts	-	-	-	-
Loans, net of allowance	130	-	-	-
Prepaid items	-	-	-	115
Total Assets	\$ 7,870	\$ -	\$ -	\$ 2,813
Liabilities				
Accounts payable	\$ -	\$ 322	\$ -	\$ 682
Due to other governments	-	42	-	-
Due to other funds	-	505	-	93
Accrued salaries payable	-	61	-	-
Total Liabilities	-	930	-	775
Deferred Inflows of Resources				
Unavailable revenue				
Delinquent taxes	-	-	-	-
Fund Balances				
Nonspendable				
Prepaid items	-	-	-	115
Restricted				
Economic development	7,870	-	-	-
Tax increment	-	-	-	-
Committed				
Economic development	-	-	-	1,923
Cable TV operations	-	-	-	-
Library operations	-	-	-	-
Unassigned	-	(930)	-	-
Total Fund Balances	7,870	(930)	-	2,038
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 7,870	\$ -	\$ -	\$ 2,813

295	318	240	245	610	630	
EDA Revolving Loan	Bender Tax Increment District 1-2	Nisse Treehouse Tax Increment District 1-3	Spring Grove Soda Tax Increment District 1-4	Cable TV	Library	Total Nonmajor Funds
\$ 142,190	\$ 27,001	\$ -	\$ -	\$ 2,155	\$ 257,581	\$ 439,365
-	155	-	-	-	-	155
-	-	-	-	2,501	-	2,501
85,089	-	-	-	-	-	85,219
-	-	-	-	-	140	255
<u>\$ 227,279</u>	<u>\$ 27,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,656</u>	<u>\$ 257,721</u>	<u>\$ 527,495</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,443	\$ 12,447
-	-	-	-	-	-	42
-	-	2,000	7,750	-	-	10,348
-	-	-	-	-	863	924
-	-	2,000	7,750	-	12,306	23,761
-	155	-	-	-	-	155
-	-	-	-	-	140	255
85,089	-	-	-	-	-	92,959
-	27,001	-	-	-	-	27,001
142,190	-	-	-	-	-	144,113
-	-	-	-	4,656	-	4,656
-	-	-	-	-	245,275	245,275
-	-	(2,000)	(7,750)	-	-	(10,680)
<u>227,279</u>	<u>27,001</u>	<u>(2,000)</u>	<u>(7,750)</u>	<u>4,656</u>	<u>245,415</u>	<u>503,579</u>
<u>\$ 227,279</u>	<u>\$ 27,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,656</u>	<u>\$ 257,721</u>	<u>\$ 527,495</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, 2017

	260/265	270	280	290
	Small Cities Grants	Community Building	Industrial Development	Economic Development Authority
Revenues				
Taxes				
Tax increments	\$ -	\$ -	\$ -	\$ -
Franchise fees	-	-	-	-
Intergovernmental				
County library aid	-	-	-	-
Other grants	-	-	-	2,500
Investment earnings	37	-	11	55
Miscellaneous				
Rents	-	7,033	-	4,570
Contributions and donations	-	2,300	-	-
Other	4,470	187	-	3,302
Total Revenues	<u>4,507</u>	<u>9,520</u>	<u>11</u>	<u>10,427</u>
Expenditures				
Current				
Culture and recreation	-	30,131	-	-
Economic development	11,529	-	-	84,085
Miscellaneous	-	-	-	-
Capital outlay				
Culture and recreation	-	45,223	-	-
Economic development	-	-	-	6,780
Miscellaneous	-	-	-	-
Total Expenditures	<u>11,529</u>	<u>75,354</u>	<u>-</u>	<u>90,865</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,022)</u>	<u>(65,834)</u>	<u>11</u>	<u>(80,438)</u>
Other Financing Sources (Uses)				
Transfers in	-	65,502	28,729	42,000
Transfers out	-	-	(42,000)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>65,502</u>	<u>(13,271)</u>	<u>42,000</u>
Net Change in Fund Balances	(7,022)	(332)	(13,260)	(38,438)
Fund Balances, January 1	<u>14,892</u>	<u>(598)</u>	<u>13,260</u>	<u>40,476</u>
Fund Balances, December 31	<u>\$ 7,870</u>	<u>\$ (930)</u>	<u>\$ -</u>	<u>\$ 2,038</u>

295	318	240	245	610	630	
EDA Revolving Loan	Bender Tax Increment District 1-2	Nisse Treehouse Tax Increment District 1-3	Spring Grove Soda Tax Increment District 1-4	Cable TV	Library	Total Nonmajor Funds
\$ -	\$ 8,165	\$ -	\$ -	\$ -	\$ -	\$ 8,165
-	-	-	-	10,700	-	10,700
-	-	-	-	-	16,351	16,351
-	-	-	-	-	-	2,500
2,250	70	-	-	6	485	2,914
-	-	-	-	-	-	11,603
-	-	-	-	-	45,000	47,300
-	-	-	-	-	-	7,959
<u>2,250</u>	<u>8,235</u>	<u>-</u>	<u>-</u>	<u>10,706</u>	<u>61,836</u>	<u>107,492</u>
-	-	-	-	-	122,303	152,434
25,665	-	-	7,750	-	-	129,029
-	-	-	-	8,917	-	8,917
-	-	-	-	-	4,274	49,497
-	-	-	-	-	-	6,780
-	-	-	-	839	-	839
<u>25,665</u>	<u>-</u>	<u>-</u>	<u>7,750</u>	<u>9,756</u>	<u>126,577</u>	<u>347,496</u>
<u>(23,415)</u>	<u>8,235</u>	<u>-</u>	<u>(7,750)</u>	<u>950</u>	<u>(64,741)</u>	<u>(240,004)</u>
-	-	-	-	-	103,000	239,231
-	(3,097)	-	-	-	-	(45,097)
-	(3,097)	-	-	-	103,000	194,134
(23,415)	5,138	-	(7,750)	950	38,259	(45,870)
<u>250,694</u>	<u>21,863</u>	<u>(2,000)</u>	<u>-</u>	<u>3,706</u>	<u>207,156</u>	<u>549,449</u>
<u>\$ 227,279</u>	<u>\$ 27,001</u>	<u>\$ (2,000)</u>	<u>\$ (7,750)</u>	<u>\$ 4,656</u>	<u>\$ 245,415</u>	<u>\$ 503,579</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, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ 2
Miscellaneous					
Rents	5,000	5,000	7,033	2,033	6,787
Contributions and donations	-	-	2,300	2,300	210
Other	-	-	187	187	-
Total Revenues	<u>5,000</u>	<u>5,000</u>	<u>9,520</u>	<u>4,520</u>	<u>6,999</u>
Expenditures					
Current					
Culture and recreation					
Personal services	5,044	5,044	4,256	788	2,969
Supplies	6,800	6,800	7,319	(519)	6,614
Other services and charges	15,150	15,150	18,556	(3,406)	13,891
Capital outlay					
Culture and recreation	18,800	18,800	45,223	(26,423)	43,972
Total Expenditures	<u>45,794</u>	<u>45,794</u>	<u>75,354</u>	<u>(29,560)</u>	<u>67,446</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(40,794)	(40,794)	(65,834)	(25,040)	(60,447)
Other Financing Sources					
Transfers in	<u>41,000</u>	<u>41,000</u>	<u>65,502</u>	<u>24,502</u>	<u>39,546</u>
Net Change in Fund Balances	206	206	(332)	(538)	(20,901)
Fund Balances, January 1	<u>(598)</u>	<u>(598)</u>	<u>(598)</u>	<u>-</u>	<u>20,303</u>
Fund Balances, December 31	<u><u>\$ (392)</u></u>	<u><u>\$ (392)</u></u>	<u><u>\$ (930)</u></u>	<u><u>\$ (538)</u></u>	<u><u>\$ (598)</u></u>

City of Spring Grove, Minnesota
Cable TV Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Franchise fees	\$ 9,000	\$ 9,000	\$ 10,700	\$ 1,700	\$ 10,052
Investment earnings	10	10	6	(4)	6
Total Revenues	<u>9,010</u>	<u>9,010</u>	<u>10,706</u>	<u>1,696</u>	<u>10,058</u>
Expenditures					
Current					
Miscellaneous					
Personal services	5,883	5,883	8,917	(3,034)	9,147
Supplies	350	350	-	350	205
Capital outlay					
Miscellaneous	<u>2,777</u>	<u>2,777</u>	<u>839</u>	<u>1,938</u>	<u>-</u>
Total Expenditures	<u>9,010</u>	<u>9,010</u>	<u>9,756</u>	<u>(746)</u>	<u>9,352</u>
Net Change in Fund Balances	-	-	950	950	706
Fund Balances, January 1	<u>3,706</u>	<u>3,706</u>	<u>3,706</u>	-	<u>3,000</u>
Fund Balances, December 31	<u>\$ 3,706</u>	<u>\$ 3,706</u>	<u>\$ 4,656</u>	<u>\$ 950</u>	<u>\$ 3,706</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, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Intergovernmental					
County library aid	\$ 15,000	\$ 15,000	\$ 16,351	\$ 1,351	\$ 12,406
Investment earnings	500	500	485	(15)	410
Miscellaneous					
Contributions and donations	36,000	36,000	45,000	9,000	40,135
Total Revenues	<u>51,500</u>	<u>51,500</u>	<u>61,836</u>	<u>10,336</u>	<u>52,951</u>
Expenditures					
Current					
Culture and recreation					
Library					
Personal services	15,198	15,198	65,484	(50,286)	57,956
Supplies	1,663	1,663	1,818	(155)	911
Other services and charges	66,873	66,873	55,001	11,872	57,208
Capital outlay					
Culture and recreation	12,598	12,598	4,274	8,324	4,427
Total Expenditures	<u>96,332</u>	<u>96,332</u>	<u>126,577</u>	<u>(30,245)</u>	<u>120,502</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(44,832)	(44,832)	(64,741)	(19,909)	(67,551)
Other Financing Sources					
Transfers in	103,000	103,000	103,000	-	103,000
Net Change in Fund Balances	58,168	58,168	38,259	(19,909)	35,449
Fund Balances, January 1	207,156	207,156	207,156	-	171,707
Fund Balances, December 31	<u>\$ 265,324</u>	<u>\$ 265,324</u>	<u>\$ 245,415</u>	<u>\$ (19,909)</u>	<u>\$ 207,156</u>

City of Spring Grove, Minnesota
 Nonmajor Capital Projects Funds
 Combining Balance Sheet
 December 31, 2017

	405	420	425	430
	Fire Equipment	Police Forfeiture	Streets	Aquatic Center
Assets				
Cash and temporary investments	\$ 47,104	\$ 4,071	\$ 70,207	\$ 243,232
Advances to other funds	-	-	-	49,883
Total Assets	<u>\$ 47,104</u>	<u>\$ 4,071</u>	<u>\$ 70,207</u>	<u>\$ 293,115</u>
Fund Balances				
Restricted				
Capital purchases	\$ 5,312	\$ -	\$ -	\$ 3,540
Law enforcement	-	4,071	-	-
Committed				
Fire equipment	30,000	-	-	-
Future projects	-	-	20,893	-
Assigned				
Capital purchases	11,792	-	49,314	289,575
Total Fund Balances	<u>\$ 47,104</u>	<u>\$ 4,071</u>	<u>\$ 70,207</u>	<u>\$ 293,115</u>

435	460	475	476	
Vehicle Replacement	Contingency	Conservation Improvements	Commercial Conservation Improvements	Total Nonmajor Funds
\$ 274,447	\$ 27,722	\$ 11,162	\$ 11,329	\$ 689,274
-	-	-	-	49,883
<u>\$ 274,447</u>	<u>\$ 27,722</u>	<u>\$ 11,162</u>	<u>\$ 11,329</u>	<u>\$ 739,157</u>
\$ -	\$ -	\$ -	\$ -	\$ 8,852
-	-	-	-	4,071
76,916	-	-	-	106,916
-	15,606	9,595	13,919	60,013
197,531	12,116	1,567	(2,590)	559,305
<u>\$ 274,447</u>	<u>\$ 27,722</u>	<u>\$ 11,162</u>	<u>\$ 11,329</u>	<u>\$ 739,157</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, 2017

	405	420	425	430
	Fire Equipment	Police Forfeiture	Streets	Aquatic Center
Revenues				
Interest earnings	\$ 70	\$ 13	\$ 166	\$ 2,839
Expenditures				
Current				
Miscellaneous	-	-	-	-
Capital outlay				
Public works	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	70	13	166	2,839
Other Financing Sources (Uses)				
Sale of capital assets	-	-	-	-
Transfers in	30,000	-	-	-
Transfers out	-	-	-	(23,174)
Total Other Financing Sources (Uses)	30,000	-	-	(23,174)
Net Change in Fund Balances	30,070	13	166	(20,335)
Fund Balances, January 1	17,034	4,058	70,041	313,450
Fund Balances, December 31	\$ 47,104	\$ 4,071	\$ 70,207	\$ 293,115

435	460	475	476	Total
Vehicle Replacement	Contingency	Conservation Improvements	Commercial Conservation Improvements	Nonmajor Funds
\$ 628	\$ 58	\$ 30	\$ 25	\$ 3,829
-	-	3,381	2,590	5,971
20,290	-	-	-	20,290
<u>20,290</u>	<u>-</u>	<u>3,381</u>	<u>2,590</u>	<u>26,261</u>
<u>(19,662)</u>	<u>58</u>	<u>(3,351)</u>	<u>(2,565)</u>	<u>(22,432)</u>
1,000	-	-	-	1,000
50,000	10,000	7,067	7,067	104,134
-	-	-	-	(23,174)
<u>51,000</u>	<u>10,000</u>	<u>7,067</u>	<u>7,067</u>	<u>81,960</u>
31,338	10,058	3,716	4,502	59,528
<u>243,109</u>	<u>17,664</u>	<u>7,446</u>	<u>6,827</u>	<u>679,629</u>
<u>\$ 274,447</u>	<u>\$ 27,722</u>	<u>\$ 11,162</u>	<u>\$ 11,329</u>	<u>\$ 739,157</u>

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City of Spring Grove, Minnesota
 General Fund
 Comparative Balance Sheets
 December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 753,572	\$ 894,926
Receivables		
Delinquent taxes	8,539	10,026
Accounts	15,965	17,317
Intergovernmental	17,747	23,612
Due from other funds	9,750	2,000
Prepaid items	15,157	14,640
 Total Assets	 \$ 820,730	 \$ 962,521
Liabilities		
Accounts payable	\$ 8,772	\$ 28,402
Due to other funds	2,400	2,650
Due to other governments	22	8,297
Accrued salaries payable	4,652	4,406
Total Liabilities	15,846	43,755
Deferred Inflows of Resources		
Unavailable revenue		
Delinquent taxes	8,539	10,026
Fund Balances		
Nonspendable		
Prepaid items	15,157	14,640
Unassigned	781,188	894,100
Total Fund Balances	796,345	908,740
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 \$ 820,730	 \$ 962,521

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, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual Amounts		Actual
	Original	Final			Amounts
Revenues					
Taxes					
Property taxes	\$ 507,614	\$ 507,614	\$ 491,737	\$ (15,877)	\$ 463,920
Excess tax increments	-	-	13,135	13,135	392
Total taxes	<u>507,614</u>	<u>507,614</u>	<u>504,872</u>	<u>(2,742)</u>	<u>464,312</u>
Special assessments	-	-	1,028	1,028	3
Licenses and permits					
Business	3,400	3,400	3,270	(130)	6,470
Nonbusiness	1,000	1,000	1,144	144	1,288
Total Licenses and permits	<u>4,400</u>	<u>4,400</u>	<u>4,414</u>	<u>14</u>	<u>7,758</u>
Intergovernmental					
State					
Local government aid	419,173	419,173	419,173	-	418,390
Property tax credits and aids	-	-	456	456	481
Fire aid	1,375	1,375	19,237	17,862	36,131
Police aid	1,915	1,915	2,244	329	1,915
Ambulance aid	-	-	3,000	3,000	3,000
Other State aids	15,000	15,000	27,975	12,975	16,437
Total intergovernmental	<u>437,463</u>	<u>437,463</u>	<u>472,085</u>	<u>34,622</u>	<u>476,354</u>
Charges for services					
General government	250	250	-	(250)	99
Public safety	13,000	13,000	9,301	(3,699)	9,718
Public works	22,250	22,250	68,226	45,976	73,735
Culture and recreation	56,500	56,500	79,267	22,767	99,062
Total charges for services	<u>92,000</u>	<u>92,000</u>	<u>156,794</u>	<u>64,794</u>	<u>182,614</u>
Fines and forfeits	6,000	6,000	7,248	1,248	5,135
Investment earnings	1,500	1,500	3,091	1,591	3,056
Miscellaneous					
Rents	10,000	10,000	6,886	(3,114)	6,886
Contributions and donations	2,000	2,000	81,822	79,822	22,563
Other	16,700	16,700	22,873	6,173	44,618
Total miscellaneous	<u>28,700</u>	<u>28,700</u>	<u>111,581</u>	<u>82,881</u>	<u>74,067</u>
Total revenues	<u>1,077,677</u>	<u>1,077,677</u>	<u>1,261,113</u>	<u>183,436</u>	<u>1,213,299</u>

City of Spring Grove, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures					
Current					
General government					
Mayor and Council					
Personal services	\$ 6,021	\$ 6,021	\$ 6,011	\$ 10	\$ 5,998
Supplies	-	-	61	(61)	-
Other services and charges	5,950	5,950	6,093	(143)	10,425
Total mayor and council	11,971	11,971	12,165	(194)	16,423
Election					
Personal services	1,004	1,004	-	1,004	1,647
Supplies	500	500	-	500	284
Other services and charges	196	196	-	196	157
Total election	1,700	1,700	-	1,700	2,088
Administration					
Personal services	147,691	147,691	147,103	588	140,449
Supplies	2,900	2,900	4,768	(1,868)	3,010
Other services and charges	85,200	85,200	83,879	1,321	84,458
Total administration	235,791	235,791	235,750	41	227,917
Total general government	249,462	249,462	247,915	1,547	246,428
Public safety					
Police					
Personal services	212,546	212,546	183,541	29,005	163,320
Supplies	11,750	11,750	4,559	7,191	5,217
Other services and charges	20,900	20,900	22,902	(2,002)	25,026
Total police	245,196	245,196	211,002	34,194	193,563
Fire					
Personal services	19,536	19,536	29,001	(9,465)	43,743
Supplies	4,650	4,650	10,501	(5,851)	4,842
Other services and charges	26,150	26,150	25,923	227	23,484
Total fire	50,336	50,336	65,425	(15,089)	72,069
Ambulance					
Other services and charges	8,000	8,000	22,824	(14,824)	10,824
Animal control					
Other services and charges	2,500	2,500	2,500	-	2,550
Civil defense					
Supplies	500	500	544	(44)	-
Total public safety	306,532	306,532	302,295	4,237	279,006

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, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (continued)					
Current (continued)					
Public works					
Street maintenance					
Personal services	\$ 80,085	\$ 80,085	\$ 92,194	\$ (12,109)	\$ 80,309
Supplies	30,900	30,900	64,703	(33,803)	28,424
Other services and charges	24,400	24,400	19,638	4,762	19,478
Total street maintenance	<u>135,385</u>	<u>135,385</u>	<u>176,535</u>	<u>(41,150)</u>	<u>128,211</u>
Recycling					
Other services	-	-	48,442	(48,442)	52,110
Total Public works	<u>135,385</u>	<u>135,385</u>	<u>224,977</u>	<u>(89,592)</u>	<u>180,321</u>
Culture and recreation					
Summer recreation					
Personal services	9,258	9,258	12,466	(3,208)	10,155
Supplies	1,200	1,200	1,107	93	987
Other services and charges	4,800	4,800	780	4,020	824
Total summer recreation	<u>15,258</u>	<u>15,258</u>	<u>14,353</u>	<u>905</u>	<u>11,966</u>
Swimming pool					
Personal services	68,590	68,590	76,298	(7,708)	70,856
Supplies	17,650	17,650	16,887	763	24,785
Other services and charges	38,625	38,625	47,938	(9,313)	38,666
Total swimmingpPool	<u>124,865</u>	<u>124,865</u>	<u>141,123</u>	<u>(16,258)</u>	<u>134,307</u>
Parks					
Personal services	-	-	397	(397)	346
Supplies	18,000	18,000	10,628	7,372	7,893
Other services and charges	16,100	16,100	22,271	(6,171)	21,232
Total parks	<u>34,100</u>	<u>34,100</u>	<u>33,296</u>	<u>804</u>	<u>29,471</u>
Library					
Other services and charges	-	-	-	-	160
Total culture and recreation	<u>174,223</u>	<u>174,223</u>	<u>188,772</u>	<u>(14,549)</u>	<u>175,904</u>
Total current	<u>865,602</u>	<u>865,602</u>	<u>963,959</u>	<u>(98,357)</u>	<u>881,659</u>

City of Spring Grove, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (continued)					
Capital outlay					
General government	\$ 2,000	\$ 2,000	\$ 3,127	\$ (1,127)	\$ 3,162
Public safety	24,500	24,500	15,897	8,603	3,840
Public works	67,000	67,000	201,366	(134,366)	114,266
Culture and recreation	56,000	56,000	102,570	(46,570)	53,667
Total capital outlay	<u>149,500</u>	<u>149,500</u>	<u>322,960</u>	<u>(173,460)</u>	<u>174,935</u>
Debt service					
Principal	13,436	13,436	14,738	(1,302)	14,510
Interest and other costs	1,564	1,564	262	1,302	490
Total debt service	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Total expenditures	<u>1,030,102</u>	<u>1,030,102</u>	<u>1,301,919</u>	<u>(271,817)</u>	<u>1,071,594</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>47,575</u>	<u>47,575</u>	<u>(40,806)</u>	<u>(88,381)</u>	<u>141,705</u>
Other Financing Sources (Uses)					
Transfers in	196,720	196,720	202,720	6,000	207,000
Transfers out	<u>(179,000)</u>	<u>(179,000)</u>	<u>(274,309)</u>	<u>(95,309)</u>	<u>(309,546)</u>
Total other financing sources (uses)	<u>17,720</u>	<u>17,720</u>	<u>(71,589)</u>	<u>(89,309)</u>	<u>(102,546)</u>
Net Change in Fund Balances	65,295	65,295	(112,395)	(177,690)	39,159
Fund Balances, January 1	<u>908,740</u>	<u>908,740</u>	<u>908,740</u>	<u>-</u>	<u>869,581</u>
Fund Balances, December 31	<u>\$ 974,035</u>	<u>\$ 974,035</u>	<u>\$ 796,345</u>	<u>\$ (177,690)</u>	<u>\$ 908,740</u>

City of Spring Grove, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2017

	315	330	354
	2012A Tax Abatement Bonds	LaX Fabricating Tax Abatement	2013A G.O. Improvement Bonds
Assets			
Cash and temporary investments	\$ 83,863	\$ -	\$ 359,631
Receivables			
Delinquent taxes	1,639	-	522
Special assessments			
Noncurrent	-	-	81,601
Intergovernmental	1,641	-	3,388
Prepaid items	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u><u>\$ 87,143</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 445,142</u></u>
Liabilities			
Advance from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred Inflow of Resources			
Unavailable revenue			
Delinquent taxes	1,639	-	522
Special assessments	-	-	81,601
Total Deferred Inflows of Resources	<u>1,639</u>	<u>-</u>	<u>82,123</u>
Fund Balances			
Nonspendable			
Prepaid items	-	-	-
Restricted			
Debt service	<u>85,504</u>	<u>-</u>	<u>363,019</u>
Total Fund Balances	<u>85,504</u>	<u>-</u>	<u>363,019</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u><u>\$ 87,143</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 445,142</u></u>

319 2015A Tax Increment Refunding Bonds	320 2002 Taxable EDA Revenue Bonds	Total
\$ 42,183	\$ 8,861	\$ 494,538
10	-	2,171
16,501	-	98,102
-	-	5,029
-	74	74
<u>\$ 58,694</u>	<u>\$ 8,935</u>	<u>\$ 599,914</u>
<u>\$ -</u>	<u>\$ 49,883</u>	<u>\$ 49,883</u>
10	-	2,171
16,501	-	98,102
<u>16,511</u>	<u>-</u>	<u>100,273</u>
-	74	74
42,183	(41,022)	449,684
<u>42,183</u>	<u>(40,948)</u>	<u>449,758</u>
<u>\$ 58,694</u>	<u>\$ 8,935</u>	<u>\$ 599,914</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, 2017

	315	330	354
	2012A Tax Abatement Bonds	LaX Fabricating Tax Abatement	2013A G.O. Improvement Bonds
	<u> </u>	<u> </u>	<u> </u>
Revenues			
Taxes			
Property taxes	\$ 96,709	\$ -	\$ 25,145
Special assessments	-	-	9,760
Investment earnings	89	-	927
Miscellaneous			
Rents	-	-	-
Other	-	-	-
Total Revenues	<u>96,798</u>	<u>-</u>	<u>35,832</u>
Expenditures			
Current			
Economic development	-	12,077	-
Debt service			
Principal	95,000	-	30,000
Interest and other costs	26,136	-	19,424
Total Expenditures	<u>121,136</u>	<u>12,077</u>	<u>49,424</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(24,338)</u>	<u>(12,077)</u>	<u>(13,592)</u>
Other Financing Sources (Uses)			
Transfers in	<u>23,174</u>	<u>12,077</u>	<u>-</u>
Net Change in Fund Balances	(1,164)	-	(13,592)
Fund Balances, January 1	<u>86,668</u>	<u>-</u>	<u>376,611</u>
Fund Balances, December 31	<u>\$ 85,504</u>	<u>\$ -</u>	<u>\$ 363,019</u>

319 2015A Tax Increment Refunding Bonds	320 2002 Taxable EDA Revenue Bonds	Total
\$ -	\$ -	\$ 121,854
3,843	-	13,603
95	34	1,145
-	8,400	8,400
18,601	-	18,601
<u>22,539</u>	<u>8,434</u>	<u>163,603</u>
-	3,793	15,870
44,000	-	169,000
8,106	2,238	55,904
<u>52,106</u>	<u>6,031</u>	<u>240,774</u>
<u>(29,567)</u>	<u>2,403</u>	<u>(77,171)</u>
<u>3,097</u>	<u>-</u>	<u>38,348</u>
(26,470)	2,403	(38,823)
<u>68,653</u>	<u>(43,351)</u>	<u>488,581</u>
<u>\$ 42,183</u>	<u>\$ (40,948)</u>	<u>\$ 449,758</u>

City of Spring Grove, Minnesota
 Summary Financial Report
 Revenues and Expenditures For General Operations
 Governmental Funds
 For the Years Ended December 31, 2017 and 2016

	Total		Percent Increase (Decrease)
	2017	2016	
Revenues			
Taxes	\$ 645,591	\$ 628,094	2.79 %
Special assessments	14,631	66,879	(78.12)
Licenses and permits	4,414	8,258	(46.55)
Intergovernmental	490,936	488,760	0.45
Charges for services	156,794	182,614	(14.14)
Fines and forfeits	7,248	5,135	41.15
Investment earnings	10,979	8,987	22.17
Miscellaneous	205,444	184,917	11.10
	<u>\$ 1,536,037</u>	<u>\$ 1,573,644</u>	<u>(2.39) %</u>
Total Revenues	<u>\$ 1,536,037</u>	<u>\$ 1,573,644</u>	<u>(2.39) %</u>
Per capita	\$ 1,178	\$ 1,202	(2.02) %
Expenditures			
Current			
General government	\$ 247,915	\$ 246,428	0.60 %
Public safety	302,295	279,006	8.35
Public works	224,977	180,321	24.76
Culture and recreation	341,206	315,453	8.16
Economic development	144,899	140,224	3.33
Miscellaneous	14,888	13,647	9.09
Capital outlay			
General government	3,127	3,162	(1.11)
Public safety	15,897	20,728	(23.31)
Public works	221,656	166,167	33.39
Culture and recreation	152,067	102,066	48.99
Economic development	6,780	-	N/A
Miscellaneous	839	-	N/A
Debt service			
Principal	183,738	184,510	(0.42)
Interest and other costs	56,166	58,254	(3.58)
	<u>\$ 1,916,450</u>	<u>\$ 1,709,966</u>	<u>12.08 %</u>
Total Expenditures	<u>\$ 1,916,450</u>	<u>\$ 1,709,966</u>	<u>12.08 %</u>
Per capita	\$ 1,470	\$ 1,306	12.51 %
Total Long-term Indebtedness	\$ 1,885,000	\$ 2,068,738	(8.88) %
Per capita	1,446	1,580	(8.53)
General Fund Balance - December 31	\$ 796,345	\$ 908,740	(12.37) %
Per capita	611	694	(12.03)

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

OTHER REQUIRED REPORTS

CITY OF SPRING GROVE
SPRING GROVE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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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, 2017, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2018.

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.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
April 30, 2018



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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 30, 2018.

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 2017-005 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 2017-001, 2017-002, 2017-003 and 2017-004 to be a significant deficiencies.

Compliance and Other Matters

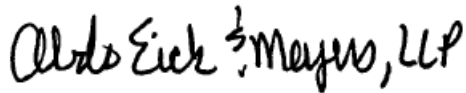
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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
April 30, 2018

City of Spring Grove, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2017

<u>Finding</u>	<u>Description</u>
2017-001	Segregation of Duties
<i>Condition:</i>	During our audit we reviewed internal control procedures over disbursements, cash receipts, utility billing and payroll and found the City to have limited segregation of duties in these areas as noted below.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.

Internal Control Over Disbursements

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

Management Response:

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

Internal Control Over Cash Receipts

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

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The 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, 2017

<u>Finding</u>	<u>Description</u>
2017-001	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, 2017

<u>Finding</u>	<u>Description</u>
2017-002	Internal Control Over Municipal Liquor Store Operations
<i>Condition:</i>	During our audit we reviewed procedures over cash receipts and inventory at the municipal liquor store and found the City to have limited segregation of duties related to this area.
<i>Criteria:</i>	As a result of the small number of staff, the Liquor Store Manager sets up and maintains customers, approves new accounts, receives and endorses checks and currency, generates billing statements, maintains receipts and billing records and posts transactions to the general ledger.
<i>Cause:</i>	The Liquor Store Manager is responsible for ordering, receiving and maintaining inventory.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and incorrect record keeping.
<i>Recommendation:</i>	We recommend the City consider implementing a timely review of inventory records that allows for continual monitoring of inventory. An inventory report could be attached to every vendor invoice showing all merchandise was properly entered into the inventory system. We also recommend the Liquor Store Manager review the recording process for on-sale transactions and promotional inventory received from vendors.

Management Response:

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

2017-003	Internal Control Over Swim Center Operations
<i>Condition:</i>	During our audit we reviewed procedures over cash receipts at the swim center and found the City to have limited segregation of duties related to this area.
<i>Criteria:</i>	As a result of the small number of staff, the Pool Manager sets up and maintains customers, approves new accounts, receives checks and currency, generates billing statements, and maintains receipts and billing records.
<i>Cause:</i>	The Pool Manager is also responsible for collecting cash receipts which were not deposited timely in the City's bank account.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and incorrect record keeping.
<i>Recommendation:</i>	We recommend the City consider implementing a timely review of receipt records that allows for continual monitoring of cash receipts. Cash deposits should be made on a daily basis and a detailed review of receipt reconciliation from the pool software.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The 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, 2017

<u>Finding</u>	<u>Description</u>
2017-004	Financial Report Preparation
<i>Condition:</i>	We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	
	For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

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City of Spring Grove, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2017

<u>Finding</u>	<u>Description</u>
2017-005	Material Audit Adjustments
<i>Condition:</i>	During our audit, material audit adjustments were needed for the following reasons: Material audit entries were required to adjust the coding and allocation of debt activity, to remove activity from closed funds, to adjust various capital asset activity, to move loan receivables between funds and to adjust the coding of an interfund advance.
<i>Criteria:</i>	Such adjustments should be detected and made by the City's personnel.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accruals and year-end adjustments without auditor assistance.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.
<i>Management Response:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed. 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.