

CITY OF SPRING GROVE, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2014

CITY OF SPRING GROVE, MINNESOTA

TABLE OF CONTENTS

	PAGE
INTRODUCTORY SECTION	
City Officials	i
FINANCIAL SECTION	
Independent Auditor's Report	1-2
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	3
Statement of Activities	4-5
Fund Financial Statements	
Balance Sheet - Governmental Funds	6
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	7
Reconciliation of Net Position in the Government-wide Financial Statements and Fund Balances in the Fund Basis Financial Statements	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	10-14
Statement of Net Position - Proprietary Funds	15-16
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	17-18
Statement of Cash Flows - Proprietary Funds	19-20
Notes to Financial Statements	21-40
Combining and Individual Nonmajor Fund Statements and Schedules	
Combining Balance Sheet - Nonmajor Governmental Funds	41-42
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	43-44
Combining Balance Sheet - Nonmajor Capital Project Funds	45-46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Capital Project Funds	47-48
Supplementary Information	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Community Building Fund	49
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Cable Fund	50
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Library Fund	51
Enterprise Funds:	
Statement of Revenues, Expenses and Changes in Net Position - Water Fund	52
Statement of Revenues, Expenses and Changes in Net Position - Sewer Fund	53
Statement of Revenues, Expenses and Changes in Net Position - Electric Fund	54
Statement of Revenues, Expenses and Changes in Net Position - Liquor Fund	55
Auditor's Report on Compliance	56

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CITY OF SPRING GROVE, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2014

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**CITY OF SPRING GROVE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
CITY OFFICIALS**

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Allan Bruce Poole	Mayor	1/5/2015
Nancy Nelson	Council Member	1/1/2017
Lorilyn Dehning	Council Member	1/5/2015
Robert Vogel	Council Member	1/5/2015
Rachel Olerud	Council Member	1/1/2017

CITY OFFICIAL - APPOINTED

Erin Konkell	City Clerk / Treasurer
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CITY OF SPRING GROVE, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Spring Grove, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Spring Grove, Minnesota as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Spring Grove, Minnesota as of December 31, 2014, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Honorable Mayor and Members
of the City Council**
Page Two

Other Matters

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2013, from which such partial information was derived.

We have previously audited the City's 2013 financial statements and our report dated April 7, 2014, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information in Relation to the Financial Statements as a Whole

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Spring Grove, Minnesota's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
May 21, 2015

CITY OF SPRING GROVE, MINNESOTA

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

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CITY OF SPRING GROVE, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2014
With Comparative Totals for December 31, 2013

	Governmental Activities	Business-Type Activities	Totals	
			2014	2013
Assets				
Cash and investments	\$ 2,354,477	\$ 1,817,772	\$ 4,172,249	\$ 3,616,667
Receivables	140,970	229,641	370,611	379,168
Inventory		26,699	26,699	23,534
Prepaid expenses	19,476	13,947	33,423	30,061
Notes receivable	171,314		171,314	156,401
Capital assets:				
Nondepreciable	119,218	148,018	267,236	160,832
Depreciable, net	3,282,735	3,118,016	6,400,751	6,648,854
Total Assets	\$ 6,088,190	\$ 5,354,093	\$ 11,442,283	\$ 11,015,517
Liabilities and Net Position				
Liabilities				
Accounts payable	\$ 40,429	\$ 128,561	\$ 168,990	\$ 240,467
Compensated absences	39,748	38,073	77,821	73,659
Accrued liabilities	13,414	11,900	25,314	46,653
Accrued interest payable	32,468	28,679	61,147	63,090
Noncurrent liabilities:				
Due within one year	173,436	108,000	281,436	159,830
Due in more than one year	2,245,935	2,011,953	4,257,888	4,537,184
Total Liabilities	2,545,430	2,327,166	4,872,596	5,120,883
Net Position				
Net investment in capital assets	982,582	1,146,081	2,128,663	2,112,672
Unrestricted	2,560,178	1,880,846	4,441,024	3,781,962
Total Net Position	3,542,760	3,026,927	6,569,687	5,894,634
Total Liabilities and Net Position	\$ 6,088,190	\$ 5,354,093	\$ 11,442,283	\$ 11,015,517

See Notes to Financial Statements

CITY OF SPRING GROVE, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014
With Comparative Totals for the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 289,992	\$ 29,132	\$ 160	\$
Public safety	279,775	21,202	41,630	
Public works	268,999	26,385		
Culture and recreation	316,606	66,276	52,820	
Economic development	58,366		14,556	
Unallocated	6,072			
Interest on long-term debt	87,951			
Total governmental activities	1,307,761	142,995	109,166	
Business-Type activities:				
Water	144,375	358,373		
Sewer	290,498	255,729		
Light	1,319,474	1,785,575		
Liquor	386,288	373,415		
Total business-type activities	2,140,635	2,773,092		
Total	\$ 3,448,396	\$ 2,916,087	\$ 109,166	\$

General revenues:
 General property taxes
 Tax increments
 Grants and contributions not restricted to specific programs
 Interest earnings
 Miscellaneous
 Gain on sale of capital assets
 Insurance proceeds
 Transfers, net
 Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

See Notes to Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2014	2013
\$ (260,700)	\$	\$ (260,700)	\$ (184,790)
(216,943)		(216,943)	(254,733)
(242,614)		(242,614)	(222,016)
(197,510)		(197,510)	(317,653)
(43,810)		(43,810)	(38,596)
(6,072)		(6,072)	(9,384)
(87,951)		(87,951)	(66,147)
<u>(1,055,600)</u>		<u>(1,055,600)</u>	<u>(1,093,319)</u>
	213,998	213,998	74,961
	(34,769)	(34,769)	(6,488)
	466,101	466,101	374,823
	<u>(12,873)</u>	<u>(12,873)</u>	<u>(3,575)</u>
	632,457	632,457	439,721
<u>(1,055,600)</u>	<u>632,457</u>	<u>(423,143)</u>	<u>(653,598)</u>
568,722		568,722	521,314
3,775		3,775	2,382
412,874		412,874	369,228
11,415	6,607	18,022	19,357
78,969	12,894	91,863	88,649
			11,800
	2,940	2,940	67,963
293,119	<u>(293,119)</u>		
<u>1,368,874</u>	<u>(270,678)</u>	<u>1,098,196</u>	<u>1,080,693</u>
313,274	361,779	675,053	427,095
<u>3,229,486</u>	<u>2,665,148</u>	<u>5,894,634</u>	<u>5,467,539</u>
<u>\$ 3,542,760</u>	<u>\$ 3,026,927</u>	<u>\$ 6,569,687</u>	<u>\$ 5,894,634</u>

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CITY OF SPRING GROVE, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2014

CITY OF SPRING GROVE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014
With Comparative Totals for December 31, 2013

	<u>101</u> <u>General</u>	<u>Capital Project</u> <u>900</u> <u>Economic</u> <u>Development</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total Governmental Funds</u>	
				<u>2014</u>	<u>2013</u>
ASSETS					
Cash and investments	\$ 884,684	\$ 126,382	\$ 1,343,411	\$ 2,354,477	\$ 2,105,259
Loans receivable		171,314	10,195	181,509	176,676
Special assessments receivable					
Deferred			110,425	110,425	121,289
Delinquent taxes receivable	11,714		4,004	15,718	9,642
Due from other funds	2,787		3,600	6,387	6,796
Advances to other funds			67,410	67,410	72,809
Prepaid items	19,140		336	19,476	18,098
Due from other governments	3,544		1,088	4,632	11,568
	<u>3,544</u>		<u>1,088</u>	<u>4,632</u>	<u>11,568</u>
TOTAL ASSETS	<u>\$ 921,869</u>	<u>\$ 297,696</u>	<u>\$ 1,540,469</u>	<u>\$ 2,760,034</u>	<u>\$ 2,522,137</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 16,990	\$	\$ 23,388	\$ 40,378	\$ 119,564
Accrued liabilities	10,718		2,747	13,465	22,223
Due to other funds			6,387	6,387	6,796
Advances from other funds		67,410		67,410	72,809
	<u>27,708</u>	<u>67,410</u>	<u>32,522</u>	<u>127,640</u>	<u>221,392</u>
Total Liabilities	<u>27,708</u>	<u>67,410</u>	<u>32,522</u>	<u>127,640</u>	<u>221,392</u>
Deferred Inflows of Resources:					
Unavailable revenue:					
Property taxes	11,714		4,004	15,718	9,642
Special assessments			110,425	110,425	121,289
Loans receivable		171,314	10,195	181,509	176,676
	<u>11,714</u>	<u>171,314</u>	<u>124,624</u>	<u>307,652</u>	<u>307,607</u>
Total Deferred Inflows of Resources	<u>11,714</u>	<u>171,314</u>	<u>124,624</u>	<u>307,652</u>	<u>307,607</u>
Fund Balance					
Nonspendable:					
Prepaid items	19,140		336	19,476	18,098
Advances			67,410	67,410	72,809
Restricted:					
Regulation			49,189	49,189	71,583
Creditors			283,640	283,640	111,047
Committed		58,972	765,508	824,480	772,172
Assigned			230,089	230,089	191,763
Unassigned	863,307		(12,849)	850,458	755,666
	<u>863,307</u>		<u>(12,849)</u>	<u>850,458</u>	<u>755,666</u>
Total Fund Balance	<u>882,447</u>	<u>58,972</u>	<u>1,383,323</u>	<u>2,324,742</u>	<u>1,993,138</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 921,869</u>	<u>\$ 297,696</u>	<u>\$ 1,540,469</u>	<u>\$ 2,760,034</u>	<u>\$ 2,522,137</u>

See Notes to Financial Statements

CITY OF SPRING GROVE, MINNESOTA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2014
With Comparative Totals for the Year Ended December 31, 2013

	101 General	Capital Project	Other Governmental Funds	Total Governmental Funds	
		900 Economic Development		2014	2013
REVENUES					
General property taxes	\$ 411,781	\$	\$ 140,611	\$ 552,392	\$ 514,245
Tax increment			2,733	2,733	2,382
Licenses and permits	5,816			5,816	4,216
Special assessments			17,327	17,327	17,408
Intergovernmental revenues	454,004		29,867	483,871	689,707
Charges for services	89,663		2,777	92,440	60,888
Fines and forfeitures	6,491			6,491	5,948
Investment income	4,331		7,727	12,058	12,588
Loan repayments		16,488		16,488	26,200
Donations			36,959	36,959	22,500
Miscellaneous revenues	53,908	19,163	28,301	101,372	209,467
Total Revenues	1,025,994	35,651	266,302	1,327,947	1,565,549
EXPENDITURES					
General government	218,439			218,439	137,556
Public safety	248,770		5,408	254,178	272,127
Public works	194,534			194,534	203,254
Culture and recreation	162,369		162,144	324,513	350,446
Economic development		47,400	18,894	66,294	357,612
Capital outlay			11,601	11,601	231,635
Miscellaneous			1,500	1,500	
Debt service:					
Principal	12,392		125,000	137,392	131,815
Interest and other	2,608	2,912	75,491	81,011	71,333
Total Expenditures	839,112	50,312	400,038	1,289,462	1,755,778
Excess (deficiency) of revenues over (under) expenditures	186,882	(14,661)	(133,736)	38,485	(190,229)
OTHER FINANCING SOURCES (USES)					
Bond proceeds					700,000
Transfers in	174,000	7,000	459,677	640,677	864,737
Transfers out	(259,643)		(87,915)	(347,558)	(711,038)
Proceeds from sale of capital asset					5,700
Total Other Financing Sources (Uses)	(85,643)	7,000	371,762	293,119	859,399
Net change in fund balances	101,239	(7,661)	238,026	331,604	669,170
Fund Balance - Beginning	781,208	66,633	1,145,297	1,993,138	1,323,968
Fund Balance - Ending	\$ 882,447	\$ 58,972	\$ 1,383,323	\$ 2,324,742	\$ 1,993,138

See Notes to Financial Statements

CITY OF SPRING GROVE, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2014

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

Total governmental fund balances (page 6)		\$ 2,324,742
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 8,164,289	
Less: Accumulated depreciation	<u>(4,762,336)</u>	3,401,953
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds:		
Delinquent property taxes	\$ 15,718	
Special assessments	110,425	
Loans receivable	<u>181,509</u>	307,652
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (2,419,371)	
Compensated absences	(39,748)	
Accrued interest	<u>(32,468)</u>	<u>(2,491,587)</u>
Net position of governmental activities (page 3)		<u><u>\$ 3,542,760</u></u>

CITY OF SPRING GROVE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

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

Net change in fund balances - total governmental funds (page 7)	\$	331,604
<p>Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay - capitalized	\$ 24,137	
Depreciation expense	<u>(172,834)</u>	(148,697)
<p>Certain revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred inflows of resources, December 31, 2014	\$ 307,652	
Deferred inflows of resources, December 31, 2013	<u>(307,607)</u>	45
<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, December 31, 2014	\$ (39,748)	
Compensated absences, December 31, 2013	<u>31,099</u>	(8,649)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal retirement on long-term debt	\$ 137,392	
Amortization of bond discount	(437)	
Change in accrued interest	<u>2,016</u>	<u>138,971</u>
Change in net position of governmental activities (pages 4 and 5)	\$	<u><u>313,274</u></u>

See Notes to Financial Statements

**CITY OF SPRING GROVE, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

For the Year Ended December 31, 2014

With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget Positive (Negative)	2013 Actual Amounts
	Original	Final			
REVENUES					
Local Taxes					
General tax levy	\$ 406,153	\$ 406,153	\$ 411,781	\$ 5,628	\$ 389,047
Licenses and Permits	3,750	3,750	5,816	2,066	4,216
Intergovernmental Revenues					
Local government aid	411,372	411,372	411,372		367,822
Market value credit			212	212	116
Fire state aid			16,588	16,588	14,136
Police state aid	15,000	15,000	11,847	(3,153)	7,238
Other state aid	3,290	3,290	13,985	10,695	3,749
Total Intergovernmental	429,662	429,662	454,004	24,342	393,061
Charges for Services					
Culture and recreation	83,500	83,500	89,663	6,163	59,378
Fines and Forfeits	3,500	3,500	6,491	2,991	5,948
Investment Income	1,500	1,500	4,331	2,831	3,463
Miscellaneous Revenues					
Refunds and reimbursements	5,000	5,000	13,377	8,377	9,619
Donations	14,000	14,000	12,038	(1,962)	14,574
Other	19,150	19,150	28,493	9,343	90,343
Total Miscellaneous Revenues	38,150	38,150	53,908	15,758	114,536
TOTAL REVENUES	\$ 966,215	\$ 966,215	\$ 1,025,994	\$ 59,779	\$ 969,649

See Notes to Financial Statements

CITY OF SPRING GROVE, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2014
With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Salaries and benefits	\$ 5,921	\$ 5,921	\$ 5,923	\$ (2)	\$ 5,921
Insurance	49	49	79	(30)	668
Other services and charges	6,000	6,000	4,193	1,807	15,795
Total Mayor and Council	<u>11,970</u>	<u>11,970</u>	<u>10,195</u>	<u>1,775</u>	<u>22,384</u>
Elections	<u>1,800</u>	<u>1,800</u>	<u>1,808</u>	<u>(8)</u>	<u>(116)</u>
Professional Services					
Auditing and accounting	2,750	2,750	6,821	(4,071)	2,702
Legal	11,000	11,000	10,229	771	
Other services and charges	5,000	5,000	7,176	(2,176)	450
Total Professional Services	<u>18,750</u>	<u>18,750</u>	<u>24,226</u>	<u>(5,476)</u>	<u>3,152</u>
City Hall					
Utilities	8,000	8,000	7,031	969	3,080
Repair and maintenance	4,800	4,800	2,146	2,654	16,664
Other services and charges	51,100	51,100	33,772	17,328	7,791
Capital outlay	2,000	2,000	1,976	24	
Total City Hall	<u>65,900</u>	<u>65,900</u>	<u>44,925</u>	<u>20,975</u>	<u>27,535</u>
Financial Administration					
Salaries and benefits	127,887	127,887	127,211	676	74,933
Other services and charges	11,623	11,623	8,596	3,027	8,628
Total Administrative Coordinator	<u>139,510</u>	<u>139,510</u>	<u>135,807</u>	<u>3,703</u>	<u>83,561</u>
Planning and Zoning	<u>2,500</u>	<u>2,500</u>	<u>1,478</u>	<u>1,022</u>	<u>1,040</u>
Total General Government	<u>\$ 240,430</u>	<u>\$ 240,430</u>	<u>\$ 218,439</u>	<u>\$ 21,991</u>	<u>\$ 137,556</u>

See Notes to Financial Statements

CITY OF SPRING GROVE, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2014
With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Public Safety					
Police Department					
Salaries and benefits	\$ 158,226	\$ 158,226	\$ 140,630	\$ 17,596	\$ 136,886
Other services and charges	38,850	38,850	36,193	2,657	36,030
Capital outlay	500	500	2,014	(1,514)	4,211
Total Police Department	<u>197,576</u>	<u>197,576</u>	<u>178,837</u>	<u>18,739</u>	<u>177,127</u>
Fire Department					
Salaries and benefits	11,725	11,725	6,071	5,654	5,844
State fire aid			23,025	(23,025)	20,486
Other services and charges	39,075	39,075	30,513	8,562	57,683
Capital outlay	5,000	5,000		5,000	
Total Fire Department	<u>55,800</u>	<u>55,800</u>	<u>59,609</u>	<u>(3,809)</u>	<u>84,013</u>
Ambulance					
Other services and charges	<u>7,824</u>	<u>7,824</u>	<u>7,824</u>		<u>7,824</u>
Total Ambulance	<u>7,824</u>	<u>7,824</u>	<u>7,824</u>		<u>7,824</u>
Traffic Engineering					
	<u>1,500</u>	<u>1,500</u>		<u>1,500</u>	<u>42</u>
Animal Control					
	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>		<u>2,500</u>
Total Public Safety	<u>\$ 265,200</u>	<u>\$ 265,200</u>	<u>\$ 248,770</u>	<u>\$ 16,430</u>	<u>\$ 271,506</u>

See Notes to Financial Statements

**CITY OF SPRING GROVE, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

For the Year Ended December 31, 2014

With Comparative Totals for the Year Ended December 31, 2013

EXPENDITURES (Continued)	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
Public Works					
Highways and Streets					
Salaries and benefits	\$ 71,496	\$ 71,496	\$ 70,989	\$ 507	\$ 69,357
Utilities	10,468	10,468	13,690	(3,222)	10,418
Repairs and maintenance	50,950	50,950	62,642	(11,692)	41,027
Street and alley repairs	15,301	15,301	9,917	5,384	6,430
Other services and charges	28,850	28,850	37,296	(8,446)	76,022
Capital outlay	2,500	2,500	2,500	2,500	2,500
Total Highways and Streets	179,565	179,565	194,534	(14,969)	203,254
Total Public Works	179,565	179,565	194,534	(14,969)	203,254
Culture and Recreation					
Park and Recreation					
Salaries and benefits					(294)
Utilities	8,500	8,500	8,835	(335)	8,952
Other services and charges	17,000	17,000	15,628	1,372	21,138
Total Park and Recreation	25,500	25,500	24,463	1,037	29,796
Aquatic Center					
Salaries and benefits	65,128	65,128	62,404	2,724	22,426
Utilities	29,200	29,200	25,787	3,413	25,464
Other services and charges	37,722	37,722	38,854	(1,132)	88,808
Capital outlay			2,284	(2,284)	
Total Aquatic Center	132,050	132,050	129,329	2,721	136,698
Summer Recreation					
Salaries and benefits	7,686	7,686	6,136	1,550	6,174
Other services and charges	6,400	6,400	2,301	4,099	3,001
Total Summer Recreation	14,086	14,086	8,437	5,649	9,175
Library					
Salaries and benefits					(608)
Other services and charges			140	(140)	841
Total Library			140	(140)	233
Total Culture and Recreation	\$ 171,636	\$ 171,636	\$ 162,369	\$ 9,267	\$ 175,902

See Notes to Financial Statements

**CITY OF SPRING GROVE, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

For the Year Ended December 31, 2014

With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Debt Service					
Principal	\$ 15,000	\$ 15,000	\$ 12,392	\$ 2,608	\$ 11,815
Interest			2,608	(2,608)	3,185
Total Debt Service	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>		<u>15,000</u>
TOTAL EXPENDITURES	<u>871,831</u>	<u>871,831</u>	<u>839,112</u>	<u>32,719</u>	<u>803,218</u>
Excess (deficit) of revenues over (under) expenditures	<u>94,384</u>	<u>94,384</u>	<u>186,882</u>	<u>92,498</u>	<u>166,431</u>
Other Financing Sources (Uses)					
Transfers in	174,000	174,000	174,000		515,826
Transfers out			(259,643)	(259,643)	(196,864)
Sale of capital assets					200
Total Other Financing Sources (Uses)	<u>174,000</u>	<u>174,000</u>	<u>(85,643)</u>	<u>(259,643)</u>	<u>319,162</u>
Net change in fund balance	268,384	268,384	101,239	(167,145)	485,593
FUND BALANCE - Beginning	<u>781,208</u>	<u>781,208</u>	<u>781,208</u>		<u>295,615</u>
FUND BALANCE - Ending	<u>\$ 1,049,592</u>	<u>\$ 1,049,592</u>	<u>\$ 882,447</u>	<u>\$ (167,145)</u>	<u>\$ 781,208</u>

See Notes to Financial Statements

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CITY OF SPRING GROVE, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Position
December 31, 2014
With Comparative Totals for December 31, 2013

	Business-Type Activities Enterprise Funds	
	620	625
	Water Fund	Sewer Fund
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 523,587	\$ 169,352
Accounts receivable	1,427	1,340
Accrued utility revenue	27,739	28,487
Inventory		
Prepaid items	1,520	1,554
Total Current Assets	554,273	200,733
Capital assets:		
Nondepreciable		34,114
Depreciable	543,969	4,988,970
Less: Accumulated depreciation	(341,638)	(2,269,381)
Net capital assets	202,331	2,753,703
Total Assets	\$ 756,604	\$ 2,954,436
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 4,503	\$ 7,611
Accrued liabilities	1,249	1,249
Accrued interest payable		28,679
Accrued compensated absences	2,688	2,688
Current maturities of bonds payable		108,000
Total Current Liabilities	8,440	148,227
Noncurrent Liabilities:		
Bonds payable, net of current maturities		2,036,000
Less: Unamortized bond discount		(24,047)
Total Noncurrent Liabilities		2,011,953
Total Liabilities	8,440	2,160,180
NET POSITION		
Net investment in capital assets	202,331	633,750
Unrestricted	545,833	160,506
Total Net Position	748,164	794,256
TOTAL LIABILITIES AND NET POSITION	\$ 756,604	\$ 2,954,436

See Notes to Financial Statements

Business-Type Activities
Enterprise Funds

615		650		Totals	
Electric Fund	Liquor Fund	2014	2013		
\$ 1,064,660	\$ 60,173	\$ 1,817,772	\$ 1,511,408		
8,044		10,811	14,824		
162,604		218,830	201,570		
	26,699	26,699	23,534		
5,672	5,201	13,947	11,963		
<u>1,240,980</u>	<u>92,073</u>	<u>2,088,059</u>	<u>1,763,299</u>		
106,404	7,500	148,018	41,614		
1,041,182	156,067	6,730,188	6,719,578		
(899,986)	(101,167)	(3,612,172)	(3,502,156)		
<u>247,600</u>	<u>62,400</u>	<u>3,266,034</u>	<u>3,259,036</u>		
<u>\$ 1,488,580</u>	<u>\$ 154,473</u>	<u>\$ 5,354,093</u>	<u>\$ 5,022,335</u>		
\$ 114,104	\$ 2,343	\$ 128,561	\$ 122,997		
3,269	6,133	11,900	22,336		
		28,679	28,607		
32,697		38,073	42,560		
		108,000	22,000		
<u>150,070</u>	<u>8,476</u>	<u>315,213</u>	<u>238,500</u>		
		2,036,000	2,144,000		
		(24,047)	(25,313)		
		<u>2,011,953</u>	<u>2,118,687</u>		
<u>150,070</u>	<u>8,476</u>	<u>2,327,166</u>	<u>2,357,187</u>		
247,600	62,400	1,146,081	1,118,349		
<u>1,090,910</u>	<u>83,597</u>	<u>1,880,846</u>	<u>1,546,799</u>		
<u>1,338,510</u>	<u>145,997</u>	<u>3,026,927</u>	<u>2,665,148</u>		
<u>\$ 1,488,580</u>	<u>\$ 154,473</u>	<u>\$ 5,354,093</u>	<u>\$ 5,022,335</u>		

See Notes to Financial Statements

CITY OF SPRING GROVE, MINNESOTA
PROPRIETARY FUNDS
Statement of Revenues, Expenses and
Changes in Net Position
For the Year Ended December 31, 2014
With Comparative Totals for the Year Ended December 31, 2013

	Business-Type Activities	
	Enterprise Funds	
	620	625
	Water Fund	Sewer Fund
	<u> </u>	<u> </u>
Operating Revenues		
Sales and charges for services	\$ 358,373	\$ 255,729
Operating Expenses		
Cost of sales		
Power costs		
Salaries and benefits	32,242	32,242
Utilities	43,828	60,088
Repairs and maintenance	28,911	16,924
Supplies	18,102	11,684
Insurance	2,795	2,683
Depreciation and amortization	9,451	87,911
Professional services		11,751
Other operating expense	9,046	2,614
Total Operating Expenses	<u>144,375</u>	<u>225,897</u>
Operating Income (Loss)	<u>213,998</u>	<u>29,832</u>
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	1,050	558
Investment income	1,445	327
Gain on sale of assets		
Interest expense		(64,601)
Total Nonoperating Revenues (Expenses)	<u>2,495</u>	<u>(63,716)</u>
Income Before Transfers	216,493	(33,884)
Transfers in	37,440	19,846
Transfers out	(162,440)	
Change in net position	91,493	(14,038)
Net Position - Beginning of Year	<u>656,671</u>	<u>808,294</u>
Net Position - End of Year	<u>\$ 748,164</u>	<u>\$ 794,256</u>

See Notes to Financial Statements

Business-Type Activities
Enterprise Funds

615		650		Totals	
Electric Fund	Liquor Fund	2014	2013		
\$ 1,785,575	\$ 373,415	\$ 2,773,092	\$ 2,592,242		
	251,774	251,774	235,393		
1,160,134		1,160,134	1,106,903		
83,688	75,749	223,921	307,267		
7,363	13,559	124,838	129,855		
14,807	3,279	63,921	129,784		
9,046	3,338	42,170	68,745		
6,162	5,560	17,200	24,178		
8,282	4,373	110,017	92,136		
		11,751	13,333		
29,992	28,656	70,308	40,736		
1,319,474	386,288	2,076,034	2,148,330		
466,101	(12,873)	697,058	443,912		
11,308	2,918	15,834	16,630		
4,518	317	6,607	6,603		
			6,100		
		(64,601)	(4,191)		
15,826	3,235	(42,160)	25,142		
481,927	(9,638)	654,898	469,054		
12,423		69,709	16,694		
(200,388)		(362,828)	(170,393)		
293,962	(9,638)	361,779	315,355		
1,044,548	155,635	2,665,148	2,349,793		
\$ 1,338,510	\$ 145,997	\$ 3,026,927	\$ 2,665,148		

See Notes to Financial Statements

**CITY OF SPRING GROVE, MINNESOTA
 PROPRIETARY FUNDS
 Statement of Cash Flows**

For the Year Ended December 31, 2014
 With Comparative Totals for the Year Ended December 31, 2013

	Business-Type Activities Enterprise Funds	
	620	625
	Water Fund	Sewer Fund
Cash Flows From Operating Activities		
Cash received from customers	\$ 358,796	\$ 252,739
Cash payments to suppliers	(102,053)	(109,024)
Cash payments to employees	(34,086)	(34,086)
Net Cash Provided By Operating Activities	<u>222,657</u>	<u>109,629</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets		
Bond proceeds		
Principal payments on bonds		(22,000)
Interest paid on bonds		(64,529)
Net Cash Used In Capital and Related Financing Activities		<u>(86,529)</u>
Cash Flows From Non-Capital Financing Activities		
Transfers in from (out to) other funds	(125,000)	19,846
Other income (expense)	1,050	558
Net Cash Provided By (Used In) Non-Capital Financing Activities	<u>(123,950)</u>	<u>20,404</u>
Cash Flows From Investing Activities		
Investment earnings received	1,444	327
Net Increase (Decrease) in Cash and Cash Equivalents	100,151	43,831
Cash and Cash Equivalents, Beginning of Year	<u>423,436</u>	<u>125,521</u>
Cash and Cash Equivalents, End of Year	<u>\$ 523,587</u>	<u>\$ 169,352</u>

Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities

Operating Income (Loss)	\$ 213,998	\$ 29,832
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,451	89,177
(Increase) Decrease In:		
Accounts receivable	423	(2,990)
Inventory		
Prepaid items	274	747
Increase (Decrease) In:		
Accounts payable	355	(5,293)
Accrued liabilities	(1,844)	(1,844)
Net Cash Provided By (Used In) Operating Activities	<u>\$ 222,657</u>	<u>\$ 109,629</u>

See Notes to Financial Statements

Business-Type Activities
Enterprise Funds

615		650		Totals	
Electric Fund	Liquor Fund	2014	2013		
\$ 1,774,895	\$ 373,415	\$ 2,759,845	\$ 2,615,380		
(1,217,827)	(311,511)	(1,740,415)	(1,732,473)		
(90,323)	(80,349)	(238,844)	(293,755)		
<u>466,745</u>	<u>(18,445)</u>	<u>780,586</u>	<u>589,152</u>		
(111,356)	(5,658)	(117,014)	(2,027,600)		
			1,999,687		
		(22,000)	(21,950)		
		<u>(64,529)</u>	<u>24,416</u>		
<u>(111,356)</u>	<u>(5,658)</u>	<u>(203,543)</u>	<u>(25,447)</u>		
(187,965)		(293,119)	(153,699)		
11,308	2,918	15,834	22,730		
<u>(176,657)</u>	<u>2,918</u>	<u>(277,285)</u>	<u>(130,969)</u>		
<u>4,518</u>	<u>317</u>	<u>6,606</u>	<u>6,603</u>		
183,250	(20,868)	306,364	439,339		
<u>881,410</u>	<u>81,041</u>	<u>1,511,408</u>	<u>1,072,069</u>		
<u>\$ 1,064,660</u>	<u>\$ 60,173</u>	<u>\$ 1,817,772</u>	<u>\$ 1,511,408</u>		
\$ 466,101	\$ (12,873)	\$ 697,058	\$ 443,912		
8,282	4,373	111,283	92,136		
(10,680)		(13,247)	23,138		
	(3,165)	(3,165)	4,517		
(3,048)	43	(1,984)	905		
12,725	(2,223)	5,564	11,032		
<u>(6,635)</u>	<u>(4,600)</u>	<u>(14,923)</u>	<u>13,512</u>		
<u>\$ 466,745</u>	<u>\$ (18,445)</u>	<u>\$ 780,586</u>	<u>\$ 589,152</u>		

See Notes to Financial Statements

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CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The City of Spring Grove, Minnesota was first incorporated in 1852. The City operates under the “optional Plan A” form of government as defined by Minnesota State Statues which prescribes a Mayor-Council form of government. Four Council members are each elected to four year terms and the Mayor is elected to a two year term.

The City’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

Reporting Entity

In accordance with GASB Statement No. 14 the City’s financial statements include the primary government and the component units of the City of Spring Grove, defined as follows:

Primary Government - Includes all funds, account groups, organizations, institutions, agencies, departments, or offices which are not legally separate from the City of Spring Grove.

Component Units - Component units are legally separate organizations for which the elected officials of the City of Spring Grove are financially accountable or for which the nature or significance of their relationship with the City of Spring Grove would cause the general purpose financial statements to be misleading or incomplete.

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units’ funds are blended into those of the City’s by appropriate activity type to compose the primary government presentation. Based on these criteria, the City has one blended component unit, the Economic Development Authority (EDA).

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 City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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 financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. 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, licenses and permits, 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. 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, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year in which 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 specific 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 is recognized.

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met are recorded as unearned revenue. Grants received before time requirements are met are recorded as a deferred inflow of resources.

The City reports the following major governmental funds:

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

The *Economic Development fund* accounts for the activities of the City's Economic Development Authority.

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The City reports the following major proprietary funds:

The *Water fund* accounts for the provisions of water services to the residents of the City.

The *Sewer fund* accounts for the provisions of sewer services to the residents of the City.

The *Electric fund* accounts for the provisions of electric services to the residents of the City.

The *Liquor fund* accounts for the activities of the liquor store.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating 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.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Formal budgetary accounting is employed as a management control for funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and may be amended by formal council action. All budget appropriations lapse at the end of the fiscal year.

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Cash and Investments

Except where otherwise required, the City maintains all deposits in bank accounts in the name of the City. These deposits are invested on a short-term basis with interest income allocated to each fund based upon their relative account balance. The balances shown in each fund represents an equity interest in the commingled pool of cash and temporary cash investments which is under the management of the City. Temporary cash investments are stated at cost, which approximates market.

The City has designated cash and cash equivalents as demand deposits and all investments with an original maturity of twelve months or less.

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 2014.

Property Taxes

Property tax levies are set by the City Council in September of each year and are certified to the County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. Delinquent taxes receivable are fully offset by deferred inflows of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

The County spreads all levies over taxable property. Such taxes become a lien on January 1, following, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectable, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of July and December.

Inventories

Inventories are valued at cost using the first-in,first-out method. The cost of inventories are recorded as expense when consumed rather than when purchased.

Prepaid Items

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 FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Net Position or Equity (continued)

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Interfund loans are classified as "advances from other funds" or "advances to other funds".

Special Assessments

Assessments are levied at various times by City resolution for property owner improvements made by the City. Generally, assessment collections are deferred over a period of 15 years with interest charges of 5.30%. Revenue from these assessments is recognized when the City certifies the assessment in the government wide financial statements and as the annual installments become collectible in the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are fully offset by deferred inflows of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

Capital Assets

Capital assets, which include property, equipment, vehicles 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 recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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, net of interest earned on the invested debt proceeds over the same period.

Property, plant and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	<u>Useful Life in Years</u>
Buildings and Improvements	20 - 40
Infrastructure	20 - 50
Land Improvements	5 - 20
Machinery, Equipment and Vehicles	5 - 20
Other Assets	5

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Net Position or Equity (continued)

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of enterprise funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

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 statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Concentration of Credit Risk

Financial instruments which expose the City to a concentration of credit risk consist primarily of cash investments and accounts and loans receivable. The City's accounts and loans receivable are concentrated geographically, as for the most part, amounts are due from individuals residing in and businesses located in the City of Spring Grove, Minnesota.

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Net Position or Equity (continued)

Net Position / Fund Balance

In the government-wide and proprietary financial statements, net position are classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that do not meet the definition of “net investment in capital assets” or “restricted net position.”

The City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City Council through formal action and remain binding unless removed by the City Council by subsequent formal action.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assigned fund balances to be used for specific purposes when appropriate.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has not adopted a minimum fund balance policy.

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2014, the City's cash and investments consisted of the following items, all of which are held in an internal cash and investment pool:

<u>Cash and Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Fair Value</u>
Cash	None	N/A	\$ 1,139,989
Demand Deposits	None	N/A	1,100
Money Market Savings	None	N/A	2,706,186
Non-Negotiable CD's	2015	Unrated	<u>324,974</u>
Total			<u>\$ 4,172,249</u>

Investments Authorized by Minnesota Statutes

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- a) Direct obligations or obligations guaranteed by the United States or its agencies.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c) General obligations of the State of Minnesota or its municipalities.
- d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer in to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Collateralization of Cash Deposits

The City's deposits are entirely covered by federal depository insurance or by collateral held by the City's custodial banks in the City's name.

Minnesota Statutes require that all City deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state or local government obligations and legal investments. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

Interest Rate Risk

The City does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City has no investment policy that would limit its investment choices.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

3. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2014 are as follows:

<u>Fund</u>	<u>Houston County</u>
General	\$ 3,544
Debt Service - Aquatic Center	767
Debt Service - Highway 44 GO Improvement	321
Total	<u>\$ 4,632</u>

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets

Capital asset activity for the year ended December 31, 2014 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 119,218	\$	\$	\$ 119,218
Total capital assets, not being depreciated	119,218			119,218
Capital assets, being depreciated:				
Buildings/improvements	2,790,844	8,000		2,798,844
Machinery and equipment	903,378	15,141		918,519
Vehicles	614,528	996		615,524
Infrastructure	3,685,360			3,685,360
Land improvements	26,824			26,824
Total capital assets, being depreciated	8,020,934	24,137		8,045,071
Less accumulated depreciation for:				
Buildings/improvements	1,105,689	67,839		1,173,528
Machinery and equipment	822,757	11,643		834,400
Vehicles	330,723	44,494		375,217
Infrastructure	2,318,028	46,727		2,364,755
Land improvements	12,305	2,131		14,436
Total accumulated depreciation	4,589,502	172,834		4,762,336
Total capital assets, being depreciated, net	3,431,432	(148,697)		3,282,735
Governmental activities capital assets, net	\$ 3,550,650	\$ (148,697)	\$	\$ 3,401,953

Governmental Activities:

General government	\$ 21,169
Public safety	31,260
Public works	61,812
Culture and recreation	53,431
Economic development	5,162
Total depreciation expense - governmental activities	\$ 172,834

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 41,614	\$	\$	\$ 41,614
Work in process		106,404		106,404
Total capital assets, not being depreciated	41,614	106,404		148,018
Capital assets, being depreciated:				
Buildings and improvements	3,104,386			3,104,386
Equipment	471,744	10,610		482,354
Vehicles	29,500			29,500
Infrastructure	3,113,948			3,113,948
Total capital assets, being depreciated	6,719,578	10,610		6,730,188
Less accumulated depreciation for:				
Buildings and improvements	2,765,410	11,887		2,777,297
Equipment	149,589	29,069		178,658
Vehicles	29,500			29,500
Infrastructure	557,657	69,061		626,718
Total accumulated depreciation	3,502,156	110,017		3,612,173
Total capital assets, being depreciated, net	3,217,422	(99,407)		3,118,015
Business-type activities capital assets, net	\$ 3,259,036	\$ 6,997	\$	\$ 3,266,033

Business-Type Activities:

Water	\$ 9,451
Sewer	87,911
Electric	8,282
Liquor	4,373
Total depreciation expense - business-type activities	\$ 110,017

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Long-Term Debt

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the schedule of bonds payable and compensated absences.

General Obligation Bond:

General Obligation Bonds are serviced by the Tax Increment Funds. This bond is backed by the full faith and credit of the City.

General Obligation Note:

General Obligation Note is serviced by the Aquatic Center Fund. This bond is backed by the full faith and credit of the City.

Revenue Notes:

The Revenue notes are payable primarily from sewer fund user fees and special assessments and are backed by the full faith and credit of the City.

Capital Lease:

A capital lease related to the purchase of a Fire Department Pumper is paid by the General Fund.

A summary of interest rates, maturities and December 31, 2014 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2014
General Obligation Bonds:			
Series 2005A Tax Increment	4.50%	2022	\$ 105,000
Series 2007A Tax Increment	3.80%	2023	325,000
Series 2013A GO Improvement	0.75% - 4.10%	2034	700,000
General Obligation Note:			
Series 2012A Tax Abatement	2.58%	2026	1,255,000
Revenue Notes:			
Series 2012B	2.00%	2019	119,000
Series 2013A	0.75% - 4.10%	2034	2,025,000
Capital Lease	4.89%	2017	42,684
Total			<u>\$ 4,571,684</u>

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Long-Term Debt (Continued)

The changes in the Long-Term Debt of the City during the year ended December 31, 2014 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds:					
Series 2005A Tax Increment	\$ 115,000	\$	\$ 10,000	\$ 105,000	\$ 10,000
Series 2007A Tax Increment	350,000		25,000	325,000	25,000
Series 2013A GO Improvement	700,000			700,000	30,000
General Obligation Note:					
Series 2012A Tax Abatement	1,345,000		90,000	1,255,000	95,000
Capital Lease	55,076		12,392	42,684	13,436
Unamortized Discount	(8,750)		(437)	(8,313)	
Compensated Absences	31,099	8,649		39,748	
Governmental Activities Long-term Liabilities	<u>2,587,425</u>	<u>8,649</u>	<u>136,955</u>	<u>2,459,119</u>	<u>173,436</u>
BUSINESS-TYPE ACTIVITIES					
Revenue Notes:					
Series 2012B GO Revenue	141,000		22,000	119,000	23,000
Series 2013A GO Revenue	2,025,000			2,025,000	85,000
Unamortized Discount	(25,313)		(1,266)	(24,047)	
Compensated Absences	42,560		4,487	38,073	
Business-type Activities Long-term Liabilities	<u>2,183,247</u>		<u>25,221</u>	<u>2,158,026</u>	<u>108,000</u>
Total	<u>\$ 4,770,672</u>	<u>\$ 8,649</u>	<u>\$ 162,176</u>	<u>\$ 4,617,145</u>	<u>\$ 281,436</u>

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2014 are summarized below.

Years	General Obligation Bonds		General Obligation Note		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2015	\$ 65,000	\$ 37,648	\$ 95,000	\$ 31,154	\$ 13,436	\$ 1,564
2016	70,000	35,850	95,000	28,703	14,072	929
2017	70,000	33,893	95,000	26,252	14,738	262
2018	80,000	31,613	95,000	23,801		
2019	80,000	29,010	100,000	21,286		
2020-2024	375,000	100,977	540,000	65,536		
2025-2029	180,000	57,044	235,000	6,119		
2030-2034	210,000	21,522				
Totals	<u>\$ 1,130,000</u>	<u>\$ 347,555</u>	<u>\$ 1,255,000</u>	<u>\$ 202,851</u>	<u>\$ 42,246</u>	<u>\$ 2,755</u>
<u>Business-Type Activities</u>						
2015			\$ 108,000	\$ 60,065		
2016			108,000	58,904		
2017			109,000	57,573		
2018			114,000	55,973		
2019			115,000	54,121		
2020-2024			465,000	237,922		
2025-2029			520,000	164,278		
2029-2033			605,000	61,874		
			<u>\$ 2,144,000</u>	<u>\$ 750,708</u>		

The City is subject to a statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes, net of debt service cash and investments available to pay these bonds. The limitation is three percent of the City's estimated market valuation. At December 31, 2014 the City did not exceed the statutory limitation.

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Individual Fund Disclosures

Transfers during the year ended December 31, 2014 were as follows:

	Transfers In	Transfers Out
	\$	\$
General Fund	174,000	259,643
Special Revenue Funds:		
Small Cities Development	6,212	
Community Building	34,000	
Library	104,804	
Industrial Development		7,000
Debt Service Fund:		
Tax Abatement	12,324	
Aquatic Center	26,740	2,749
2007 Tax Increment	9,327	
Bender Tax Increment	5,828	15,156
Hwy 44 GO Improvement	182,874	32,720
Capital Project Funds:		
Economic Development	7,000	
Fire	9,814	4,814
Library		1,485
Aquatic Center		23,991
Vehicle Replacement	50,000	
Contingency	10,000	
Conservation Improvement	7,754	
Enterprise Funds:		
Electric	12,423	200,388
Water	37,440	162,440
Sewer	19,846	
Total Transfers	<u>\$ 710,386</u>	<u>\$ 710,386</u>

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Individual Fund Disclosures (Continued)

The amounts due to and from other funds at December 31, 2014, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 2,787	\$
Special Revenue Fund:		
Cable		2,047
Capital Project Fund:		
Four Season Acres	3,600	
Debt Service Fund:		
Tax Increment Bluff Country		4,340
	<u>\$ 6,387</u>	<u>\$ 6,387</u>

The amounts advanced to and from other funds at December 31, 2014, at the individual fund level are summarized below:

	Advances To Other Funds	Advances From Other Funds
Capital Project Funds:		
Aquatic Center	\$ 67,410	\$
Economic Development		67,410
	<u>\$ 67,410</u>	<u>\$ 67,410</u>

At December 31, 2014 the following funds have deficit fund equity:

Special Revenue Fund:		
Community Building		\$ (3,952)
Cable		(2,171)
Debt Service Fund:		
Tax Increment Bluff Country		(6,703)

The City intends to fund accumulated deficits through additional revenue sources.

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Fund Equity

Governmental fund balance was committed at December 31, 2014 to the following:

Aquatic Center	\$ 281,052
Vehicle replacement	233,089
Highway 44 project	163,304
Police forfeiture	3,207
Fire department	11,460
Street department	48,939
Parks	8,912
Four Seasons project	3,600
Conservation Improvement	3,445
Contingency	8,500
Economic development	<u>58,972</u>
Total committed fund balance	<u>\$ 824,480</u>

8. Pension Plans

A. Defined Benefit Pension Plans – Statewide

Plan Description

All full-time and certain part-time employees of the City of Spring Grove, Minnesota are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

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. All new members must participate in the Coordinated Plan. All police officers, fire-fighters peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement 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 10 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 10 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 all PEPFF members, and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement is the age for unreduced Social Security benefits capped at 66 for Coordinated Members hired on or after July 1, 1989. A reduced retirement benefit is also available to eligible members seeking early retirement.

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Pension Plans (Continued)

Plan Description (continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the web at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 9.6% of their annual covered salary in 2014. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members and 7.25% for Coordinated Plan GERF Members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$23,111, \$28,802, and \$28,202, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$7,898, \$8,063, and \$13,464, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

B. Defined Benefit Pension Plan – Volunteer Fire Relief Association

Plan Description

The City contributes to the Spring Grove Fire Relief Association ("Association"), a single employer public employee retirement system that acts as a common investment and administrator for the City's firefighters. Volunteer firefighters of the City are members of the Spring Grove Fire Relief Association. Association members are eligible to receive a partial lump sum pension benefit after 10 years of service and are fully vested after 20 years of service, the lump sum benefit increases for each year of service over 20. These benefit provisions are consistent with enabling State Statutes.

Volunteers of the fire department are not required to contribute to the relief association. If a member leaves the department before 10 years of service, they are not eligible for any pension benefit. The City may levy property taxes at the direction of and for the benefit of the Fire Relief Association and passes through state aids allocated to the plan, all in accordance with enabling State Statutes.

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Pension Plans (Continued)

Related Party Investments

During 2014 and as of December 31, 2014 the Association held no securities issued by the City or other related parties.

Funding Status and Progress

Financial requirements of the Fire Relief Association are determined using the State of Minnesota Schedules I-II-III for lump sum pension plans used for computation of State Fire Aids. The computations are not based upon actuarial computations and no attempts have been made to provide such analysis. The estimated pension benefit obligation as of December 31, 2014 is shown below:

Total plan assets	\$	190,704
Total accrued liability		<u>185,276</u>
Assets in Excess of Plan Liability	\$	<u><u>5,428</u></u>

Contributions Required and Contributions Made

Financial requirements of the Relief Association are determined on a computation based on member years of service. The City's minimum obligation is the financial requirement for the year less Association investment earnings and State aids. The funding strategy should provide sufficient resources to pay relief association benefits on a timely basis. Total contributions made by the City to the Association in 2014 amounted to \$6,437. The contributed amount was determined as described above and was based on the Association's requirements as of December 31, 2014.

The computation of the pension contribution requirements for 2014 was based on the same assumptions, benefit provision, lump sum funding method, and other significant factors used to determine pension contributions requirements in previous years.

Ten-Year Historical Trend Information

Ten-year historical trend information related to the pension plan is unavailable.

9. 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. The City carries insurance for employee health, liability, property, and automotive insurance through the League of Minnesota Cities Insurance Trust (LMCIT). Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There were no reductions in insurance coverage in 2014.

CITY OF SPRING GROVE, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Risk Management (Continued)

The City participates in a group workers' compensation plan of the LMCIT, which is a public entity risk pool currently operating as a common risk management and insurance program for member Minnesota Cities. All cities participating in the plan are jointly and severally liable for all claims and expenses of the plan. The LMCIT workers' compensation plan is self-sustaining based on the premiums charged, total contributions, plus compounded earnings on those contributions will be sufficient to satisfy claims liabilities and other expenses of the plan. The LMCIT plan participates in the Workers' Compensation Reinsurance Association with coverage of \$1,500,000 per claim for plan year 2014. The amount of any liability in excess of plan assets may be assessed to participating Cities in a method and amount determined by the LMCIT.

10. Subsequent Events

In preparing these financial statements, the City of Spring Grove, Minnesota has evaluated events and transactions for potential recognition of disclosures through May 21, 2015, the date the financial statements were available to be issued.

11. Accounting Standards Issued But Not Yet Adopted

GASB 68, "Accounting and Financial Reporting for Pensions", will be effective for the City beginning with its year ending December 31, 2015. This statement requires the reporting of unfunded pension liabilities in the government wide and proprietary financial statements. Management has not determined the impact adoption of this new standard will have on the City's financial position.

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CITY OF SPRING GROVE, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS
DECEMBER 31, 2014

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CITY OF SPRING GROVE, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2014

**CITY OF SPRING GROVE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014**

	Special Revenue Funds					
	260/265 Small Cities Development	250 Community Development	280 Industrial Development	270 Community Building	610 Cable	630 Library
ASSETS						
Cash and investments	\$ 82,561		\$ 13,194	\$ 6,354		\$ 144,931
Loans Receivable	10,195					
Deferred						
Delinquent taxes receivable						
Due from other funds						
Advances to other funds						
Prepaid items					23	313
Due from other governments						
TOTAL ASSETS	\$ 92,756		\$ 13,194	\$ 6,354	\$ 23	\$ 145,244
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE						
Liabilities						
Accounts payable	\$	\$	\$	\$ 9,911	\$	\$ 8,392
Accrued liabilities				395	147	2,205
Due to other funds					2,047	
Total Liabilities				10,306	2,194	10,597
Deferred Inflows of Resources						
Unavailable revenue:						
Property taxes						
Special assessments						
Loans receivable	10,195					
Total Deferred Inflows of Resources	10,195					
Fund Balance:						
Nonspendable:						
Prepaid items					23	313
Advances						
Restricted:						
Tax increment districts						
Creditors						
Committed						
Assigned	82,561		13,194			134,334
Unassigned				(3,952)	(2,194)	
Total Fund Balance	82,561		13,194	(3,952)	(2,171)	134,647
TOTAL LIABILITIES AND FUND BALANCE	\$ 92,756		\$ 13,194	\$ 6,354	\$ 23	\$ 145,244

Debt Service Funds						Capital Project Funds Total	Total Nonmajor Governmental Funds 2014
314 Tax Increment Bluff Country	315 Aquatic Center	316 Tax Abatement	317 2007 Tax Increment	318 Bender Tax Increment	354 Hwy 44 GO Improvement		
\$	\$ 110,055	\$	\$ 10,462	\$ 38,727	\$ 172,497	\$ 764,630	\$ 1,343,411
			110,425				10,195
16	2,968		27		993		110,425
						3,600	4,004
						67,410	3,600
							67,410
							336
	767				321		1,088
<u>\$ 16</u>	<u>\$ 113,790</u>	<u>\$</u>	<u>\$ 120,914</u>	<u>\$ 38,727</u>	<u>\$ 173,811</u>	<u>\$ 835,640</u>	<u>\$ 1,540,469</u>
\$ 2,363	\$	\$	\$	\$	\$	\$ 2,722	\$ 23,388
4,340							2,747
							6,387
<u>6,703</u>						<u>2,722</u>	<u>32,522</u>
16	2,968		27		993		4,004
			110,425				110,425
							10,195
<u>16</u>	<u>2,968</u>		<u>110,452</u>		<u>993</u>		<u>124,624</u>
							336
						67,410	67,410
			10,462	38,727			49,189
	110,822				172,818		283,640
						765,508	765,508
							230,089
<u>(6,703)</u>							<u>(12,849)</u>
<u>(6,703)</u>	<u>110,822</u>		<u>10,462</u>	<u>38,727</u>	<u>172,818</u>	<u>832,918</u>	<u>1,383,323</u>
<u>\$ 16</u>	<u>\$ 113,790</u>	<u>\$</u>	<u>\$ 120,914</u>	<u>\$ 38,727</u>	<u>\$ 173,811</u>	<u>\$ 835,640</u>	<u>\$ 1,540,469</u>

CITY OF SPRING GROVE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	Special Revenue Funds					
	260/265 Small Cities Development	250 Community Development	280 Industrial Development	270 Community Building	610 Cable	630 Library
REVENUES						
General property taxes	\$	\$	\$	\$	\$	\$
Tax increment						
Special assessments						
Intergovernmental revenues						15,311
Charges for services						
Investment income	345		97			752
Donations						15,000
Miscellaneous revenues	9,255			9,549	9,248	249
TOTAL REVENUES	9,600		97	9,549	9,248	31,312
EXPENDITURES						
General government						
Public safety						
Culture and recreation				46,548	10,933	104,663
Economic development		1,998				
Capital outlay						
Miscellaneous						
Debt Service:						
Principal						
Interest and other						
TOTAL EXPENDITURES		1,998		46,548	10,933	104,663
Excess (deficiency) of revenues over (under) expenditures	9,600	(1,998)	97	(36,999)	(1,685)	(73,351)
OTHER FINANCING SOURCES (USES)						
Transfers in	6,212			34,000		104,804
Transfers out			(7,000)			
Total other financing sources (uses)	6,212		(7,000)	34,000		104,804
Net change in fund balances	15,812	(1,998)	(6,903)	(2,999)	(1,685)	31,453
Fund Balance - Beginning	66,749	1,998	20,097	(953)	(486)	103,194
Fund Balance - Ending	\$ 82,561	\$	\$ 13,194	\$ (3,952)	\$ (2,171)	\$ 134,647

Debt Service Funds						Capital Project Funds Total	Total Nonmajor Governmental Funds
314 Tax Increment Bluff Country	315 Aquatic Center	316 Tax Abatement	317 2007 Tax Increment	318 Bender Tax Increment	354 Hwy 44 GO Improvement		
\$ (29)	\$ 99,665	\$	\$	\$ 2,733	\$ 40,975	\$	\$ 140,611
14,556			17,327				2,733
	34			219	643	2,777	17,327
						5,637	29,867
						21,959	2,777
							7,727
							36,959
							28,301
14,527	99,699		17,327	2,952	41,618	30,373	266,302
						5,408	5,408
		12,324					162,144
						4,572	18,894
						11,601	11,601
						1,500	1,500
10,000	90,000		25,000				125,000
4,950	33,915		14,762		21,864		75,491
14,950	123,915	12,324	39,762		21,864	23,081	400,038
(423)	(24,216)	(12,324)	(22,435)	2,952	19,754	7,292	(133,736)
	26,740	12,324	9,327	5,828	182,874	77,568	459,677
	(2,749)			(15,156)	(32,720)	(30,290)	(87,915)
	23,991	12,324	9,327	(9,328)	150,154	47,278	371,762
(423)	(225)		(13,108)	(6,376)	169,908	54,570	238,026
(6,280)	111,047		23,570	45,103	2,910	778,348	1,145,297
\$ (6,703)	\$ 110,822	\$	\$ 10,462	\$ 38,727	\$ 172,818	\$ 832,918	\$ 1,383,323

**CITY OF SPRING GROVE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
December 31, 2014**

	405	410	415	420	425
	Fire	Library	Parks	Police Forfeiture	Streets
ASSETS					
Cash and investments	\$ 11,460	\$	\$ 8,912	\$ 3,207	\$ 48,939
Due from other funds					
Advances to other funds					
TOTAL ASSETS	\$ 11,460	\$	\$ 8,912	\$ 3,207	\$ 48,939
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Accounts payable	\$	\$	\$	\$	\$
Total Liabilities					
Fund Balance:					
Nonspendable:					
Advances					
Committed	11,460		8,912	3,207	48,939
Total Fund Balance	11,460		8,912	3,207	48,939
TOTAL LIABILITIES, DEFERRED INFLOWS OR RESOURCES AND FUND BALANCE	\$ 11,460	\$	\$ 8,912	\$ 3,207	\$ 48,939

430	435	440	454	460	475	Total Capital Project Funds
Aquatic Center	Vehicle Replacement	Four Seasons	Highway 44 Project	Contingency	Conservation Improvement	
\$ 281,052	\$ 233,089	\$ 3,600	\$ 166,026	\$ 8,500	\$ 3,445	\$ 764,630
67,410						3,600
						67,410
<u>\$ 348,462</u>	<u>\$ 233,089</u>	<u>\$ 3,600</u>	<u>\$ 166,026</u>	<u>\$ 8,500</u>	<u>\$ 3,445</u>	<u>\$ 835,640</u>
\$	\$	\$	\$ 2,722	\$	\$	\$ 2,722
			2,722			2,722
67,410						67,410
281,052	233,089	3,600	163,304	8,500	3,445	765,508
348,462	233,089	3,600	163,304	8,500	3,445	832,918
<u>\$ 348,462</u>	<u>\$ 233,089</u>	<u>\$ 3,600</u>	<u>\$ 166,026</u>	<u>\$ 8,500</u>	<u>\$ 3,445</u>	<u>\$ 835,640</u>

CITY OF SPRING GROVE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR CAPITAL PROJECT FUNDS
For the Year Ended December 31, 2014

	405	410	415	420	425
	Fire	Library	Parks	Police Forfeiture	Streets
REVENUES					
Charges for services	\$ 500	\$	\$	\$ 2,277	\$
Investment income	75	6	47		245
Donations					
TOTAL REVENUES	575	6	47	2,277	245
EXPENDITURES					
Public safety	5,313			95	
Economic development					
Capital outlay					
Miscellaneous					
TOTAL EXPENDITURES	5,313			95	
Excess (deficiency) of revenues over (under) expenditures	(4,738)	6	47	2,182	245
OTHER FINANCING SOURCES (USES)					
Transfers in	9,814				
Transfers out	(4,814)	(1,485)			
Total other financing sources (uses)	5,000	(1,485)			
Net change in fund balances	262	(1,479)	47	2,182	245
Fund Balance - Beginning	11,198	1,479	8,865	1,025	48,694
Fund Balance - Ending	\$ 11,460	\$	\$ 8,912	\$ 3,207	\$ 48,939

430	435	440	454	460	475	Total Capital Project Funds
Aquatic Center	Vehicle Replacement	Four Seasons	Highway 44 Project	Contingency	Conservation Improvement	
\$	\$	\$	\$	\$	\$	\$ 2,777
4,162	1,102					5,637
21,959						21,959
26,121	1,102					30,373
						5,408
					4,572	4,572
			11,601			11,601
				1,500		1,500
			11,601	1,500	4,572	23,081
26,121	1,102		(11,601)	(1,500)	(4,572)	7,292
	50,000			10,000	7,754	77,568
(23,991)						(30,290)
(23,991)	50,000			10,000	7,754	47,278
2,130	51,102		(11,601)	8,500	3,182	54,570
346,332	181,987	3,600	174,905		263	778,348
\$ 348,462	\$ 233,089	\$ 3,600	\$ 163,304	\$ 8,500	\$ 3,445	\$ 832,918

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CITY OF SPRING GROVE, MINNESOTA

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2014

**CITY OF SPRING GROVE, MINNESOTA
COMMUNITY BUILDING FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

For the Year Ended December 31, 2014

With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget Positive (Negative)	2013 Actual Amounts
	Original	Final			
REVENUES					
Rent	\$ 4,400	\$ 4,400	\$ 7,439	\$ 3,039	\$ 4,395
Donations			160	160	
Other			1,950	1,950	7,353
Total Revenues	<u>4,400</u>	<u>4,400</u>	<u>9,549</u>	<u>5,149</u>	<u>11,748</u>
EXPENDITURES					
Salary	7,357	7,357	7,248	(109)	319
Utilities	10,535	10,535	11,717	1,182	10,848
Cleaning	6,000	6,000	5,728	(272)	5,007
Equipment and building repair	1,000	1,000	378	(622)	1,711
Refunds and reimbursements			2,290	2,290	1,079
Other	3,600	3,600	5,573	1,973	8,554
Capital outlay	9,908	9,908	13,614	3,706	19,096
Total Expenditures	<u>38,400</u>	<u>38,400</u>	<u>46,548</u>	<u>8,148</u>	<u>46,614</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(34,000)</u>	<u>(34,000)</u>	<u>(36,999)</u>	<u>(2,999)</u>	<u>(34,866)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	<u>34,000</u>	<u>34,000</u>	<u>34,000</u>		<u>34,212</u>
Total other financing sources (uses)	<u>34,000</u>	<u>34,000</u>	<u>34,000</u>		<u>34,212</u>
Net change in fund balances			<u>(2,999)</u>	<u>(2,999)</u>	<u>(654)</u>
Fund Balance - Beginning	<u>(953)</u>	<u>(953)</u>	<u>(953)</u>		<u>(299)</u>
Fund Balance - Ending	<u>\$ (953)</u>	<u>\$ (953)</u>	<u>\$ (3,952)</u>	<u>\$ (2,999)</u>	<u>\$ (953)</u>

**CITY OF SPRING GROVE, MINNESOTA
CABLE FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

For the Year Ended December 31, 2014

With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget Positive (Negative)	2013 Actual Amounts
	Original	Final			
REVENUES					
Franchise fees	\$ 8,800	\$ 8,800	\$ 9,248	\$ 448	\$ 8,701
EXPENDITURES					
Salary	5,630	5,630	7,267	1,637	8,191
Other	350	350		(350)	753
Capital outlay	2,820	2,820	3,666	846	1,367
Total Expenditures	<u>8,800</u>	<u>8,800</u>	<u>10,933</u>	<u>2,133</u>	<u>10,311</u>
Net change in fund balances			<u>(1,685)</u>	<u>(1,685)</u>	<u>(1,610)</u>
Fund Balance - Beginning	<u>(486)</u>	<u>(486)</u>	<u>(486)</u>		<u>1,124</u>
Fund Balance - Ending	<u>\$ (486)</u>	<u>\$ (486)</u>	<u>\$ (2,171)</u>	<u>\$ (1,685)</u>	<u>\$ (486)</u>

**CITY OF SPRING GROVE, MINNESOTA
LIBRARY FUND**

**Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

For the Year Ended December 31, 2014

With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget Positive (Negative)	2013 Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$ 11,000	\$ 11,000	\$ 15,311	\$ 4,311	\$ 15,599
Investment income			752	752	431
Donations	20,000	20,000	15,000	(5,000)	22,500
Other			249	249	
Total Revenues	<u>31,000</u>	<u>31,000</u>	<u>31,312</u>	<u>312</u>	<u>38,530</u>
EXPENDITURES					
Salary	61,447	61,447	54,012	(7,435)	55,273
Office supplies	2,413	2,413	373	(2,040)	40
Rent	38,862	38,862	34,600	(4,262)	32,720
Dues and fees	4,841	4,841	3,763	(1,078)	3,481
Programming	12,300	12,300	8,322	(3,978)	9,195
Other	4,358	4,358	3,593	(765)	1,910
Capital outlay	10,000	10,000		(10,000)	10,000
Total Expenditures	<u>134,221</u>	<u>134,221</u>	<u>104,663</u>	<u>(29,558)</u>	<u>112,619</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(103,221)</u>	<u>(103,221)</u>	<u>(73,351)</u>	<u>29,870</u>	<u>(74,089)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	<u>103,319</u>	<u>103,319</u>	<u>104,804</u>	<u>1,485</u>	<u>103,319</u>
Total other financing sources (uses)	<u>103,319</u>	<u>103,319</u>	<u>104,804</u>	<u>1,485</u>	<u>103,319</u>
Net change in fund balances	<u>98</u>	<u>98</u>	<u>31,453</u>	<u>31,355</u>	<u>29,230</u>
Fund Balance - Beginning	<u>103,194</u>	<u>103,194</u>	<u>103,194</u>		<u>73,964</u>
Fund Balance - Ending	<u>\$ 103,292</u>	<u>\$ 103,292</u>	<u>\$ 134,647</u>	<u>\$ 31,355</u>	<u>\$ 103,194</u>

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CITY OF SPRING GROVE, MINNESOTA
WATER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2014 and 2013

	2014	2013
<hr/>		
Operating Revenue		
Charges for services	\$ 358,373	\$ 336,825
<hr/>		
Operating Expenses		
Salaries and benefits	32,242	52,242
Utilities	43,828	45,756
Repairs and maintenance	28,911	91,322
Supplies	18,102	49,393
Insurance	2,795	3,166
Depreciation and amortization	9,451	12,458
Other operating expense	9,046	7,527
Total Operating Expenses	<hr/> 144,375	<hr/> 261,864
Operating Income	<hr/> 213,998	<hr/> 74,961
Nonoperating Revenues		
Miscellaneous revenue	1,050	3,340
Investment income	1,445	1,639
Total Nonoperating Revenues	<hr/> 2,495	<hr/> 4,979
INCOME BEFORE TRANSFERS	216,493	79,940
Transfers in	37,440	
Transfers out	<hr/> (162,440)	<hr/> (2,705)
Change in net position	91,493	77,235
Net Position - Beginning of Year	<hr/> 656,671	<hr/> 579,436
Net Position - End of Year	<hr/> <hr/> \$ 748,164	<hr/> <hr/> \$ 656,671

CITY OF SPRING GROVE, MINNESOTA
SEWER FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenue		
Charges for services	\$ 255,729	\$ 226,308
Operating Expenses		
Salaries and benefits	32,242	52,241
Utilities	60,088	64,265
Repairs and maintenance	16,924	11,593
Supplies	11,684	8,970
Insurance	2,683	6,735
Depreciation and amortization	87,911	67,346
Professional services	11,751	13,333
Other operating expense	2,614	4,122
Total Operating Expenses	225,897	228,605
Operating Income	29,832	(2,297)
Nonoperating Revenues (Expenses)		
Miscellaneous revenue	558	150
Investment income	327	193
Interest expense	(64,601)	(4,191)
Total Nonoperating Revenues (Expenses)	(63,716)	(3,848)
LOSS BEFORE TRANSFERS	(33,884)	(6,145)
Transfers in	19,846	
Transfers out		(6,920)
Change in net position	(14,038)	(13,065)
Net Position - Beginning of Year	808,294	821,359
Net Position - End of Year	\$ 794,256	\$ 808,294

CITY OF SPRING GROVE, MINNESOTA
ELECTRIC FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenue		
Charges for services	\$ 1,785,575	\$ 1,662,332
Operating Expenses		
Power costs	1,160,134	1,106,903
Salaries and benefits	83,688	116,701
Utilities	7,363	5,145
Repairs and maintenance	14,807	21,312
Supplies	9,046	7,725
Insurance	6,162	5,897
Depreciation and amortization	8,282	8,282
Other operating expense	29,992	15,544
Total Operating Expenses	1,319,474	1,287,509
Operating Income	466,101	374,823
Nonoperating Revenues		
Miscellaneous revenue	11,308	9,180
Investment income	4,518	4,073
Gain on sale of assets		6,100
Total Nonoperating Revenues	15,826	19,353
INCOME BEFORE TRANSFERS	481,927	394,176
Transfers in	12,423	14,794
Transfers out	(200,388)	(160,768)
Change in net position	293,962	248,202
Net Position - Beginning of Year	1,044,548	796,346
Net Position - End of Year	\$ 1,338,510	\$ 1,044,548

CITY OF SPRING GROVE, MINNESOTA
LIQUOR FUND
Statement of Revenues, Expenses
and Changes in Net Position
For the Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenue		
Sales	\$ 373,415	\$ 366,777
Cost of sales	251,774	235,393
Gross Profit	121,641	131,384
Operating Expenses		
Salaries and benefits	75,749	86,083
Utilities	13,559	14,689
Repairs and maintenance	3,279	5,557
Supplies	3,338	2,657
Insurance	5,560	8,380
Depreciation and amortization	4,373	4,050
Other operating expense	28,656	13,543
Total Operating Expenses	134,514	134,959
Operating Loss	(12,873)	(3,575)
Nonoperating Revenues		
Miscellaneous revenue	2,918	3,960
Investment income	317	698
Total Nonoperating Revenues	3,235	4,658
INCOME BEFORE TRANSFERS	(9,638)	1,083
Transfers in		1,900
Change in net position	(9,638)	2,983
Net Position - Beginning of Year	155,635	152,652
Net Position - End of Year	\$ 145,997	\$ 155,635

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MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Spring Grove, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the City of Spring Grove, Minnesota as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated May 21, 2015.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Spring Grove, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Spring Grove, Minnesota's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of City of Spring Grove, Minnesota and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Schaffer and Associates, Ltd.

Rochester, Minnesota
May 21, 2015