

Annual Financial Statement

City of New Richland

For the Year Ended
December 31, 2018

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City of New Richland, Minnesota
Annual Financial Report
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For the Year Ended December 31, 2018

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INTRODUCTORY SECTION
CITY OF NEW RICHLAND
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

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City of New Richland, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2018

ELECTED

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|--------------|---------------------|
| Christina Gislason | Mayor | 12/31/18 |
| Chad Neitzel | Council | 12/31/20 |
| Michael Shurson | Council | 12/31/18 |
| Sarah Sundve | Council | 12/31/20 |
| Jessie Shaffer | Council | 12/31/18 |

APPOINTED

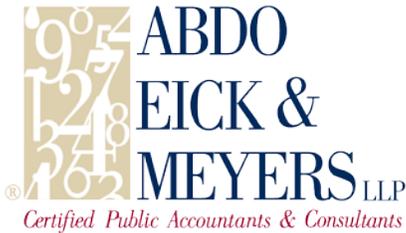
| | |
|---------------|-----------------|
| Wayne Billing | Clerk/Treasurer |
|---------------|-----------------|

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FINANCIAL SECTION
CITY OF NEW RICHLAND
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of New Richland, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of New Richland, Minnesota (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the New Richland Care Center enterprise fund which represents 23.5 percent and 87.6 percent of the assets and revenues, respectively, of the enterprise funds of the primary government. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the New Richland Care Center enterprise fund, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Basis for Qualified Opinion

The City has not adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, for the Volunteer Firefighters' Relief Association, in the governmental activities, and, accordingly, has not shown activity related to this standard. Accounting principles generally accepted in the United States of America require that pension balances be shown, which would report deferred outflows of resources, deferred inflows of resources and liabilities or assets, while changing the net position in the applicable statements

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Qualified Opinion

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion”, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City as of December 31, 2018, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

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

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis starting on page 17 and the Schedule of Employer’s Share of the Net Pension Liability and the Schedule of Employer’s Contributions and the related note disclosures starting on page 82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

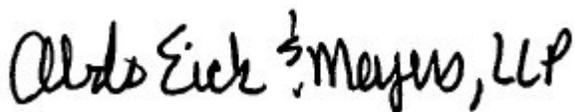
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2019 on our consideration of the City’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
June 25, 2019

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Management's Discussion and Analysis

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

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$5,916,781 (net position). Of this amount \$65,866 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$72,888. A majority of the increase is due to an increase in revenues for the governmental funds related to taxes. The Water Utility enterprise fund showed an increase in net position of \$66,173 and the Sewer Utility showed a decrease of \$57,096. The Nursing Home enterprise fund showed a decrease in net position of \$76,319 compared to an increase of \$66,083 in the prior year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,558,641, a decrease of \$229,525 in comparison with the prior year. Approximately 12.8 percent of this total amount, \$198,894, which constitutes unassigned fund balance, is available for spending at the City's discretion. The remainder of fund balance, \$1,359,747, is not available for spending because it is either 1) nonspendable (\$365,709), 2) restricted (\$497,445) or 3) assigned (\$496,593).

Overview of the Financial Statements

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

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

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

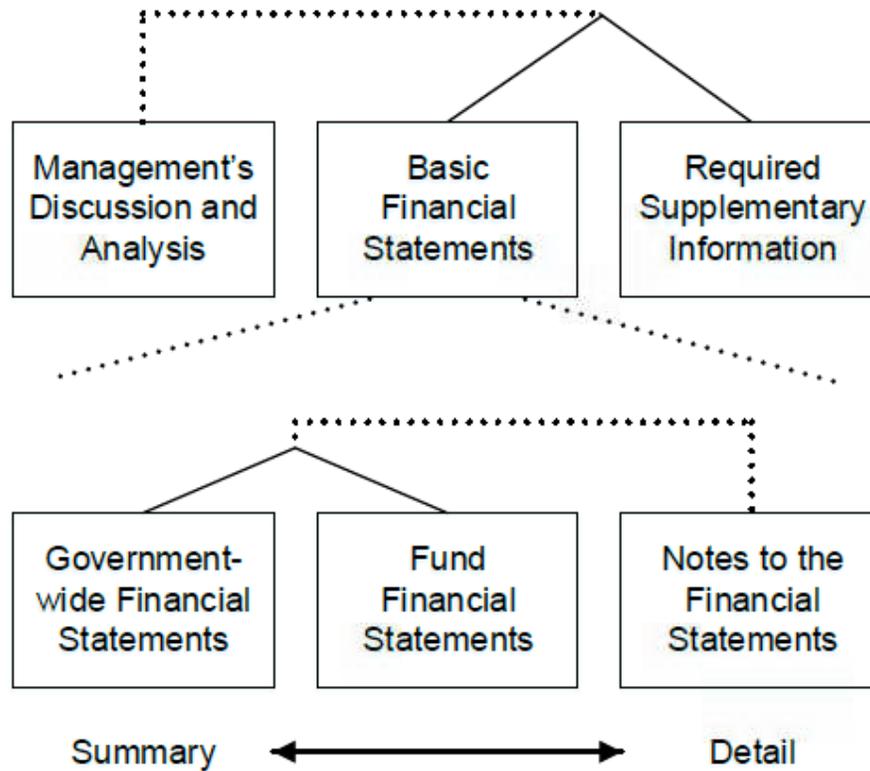


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highway, sanitation and waste removal, economic development, culture and recreation, and miscellaneous. The business-type activities of the City include water and sewer utilities, nursing home and cedar pointe housing.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority (the EDA) for which the City is financially accountable. The EDA, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

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

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

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

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

The City maintains 9 individual governmental funds, 3 of which are Debt Service funds, which are reported as one major fund for the government-wide financial statements. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Debt Service and TIF District 1-1 Homestake Subdivision, which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General and Rural Fire funds. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 36 of this report.

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

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

The basic proprietary fund financial statements can be found starting on page 44 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 53 of this report.

Required Supplementary Information. The required supplementary information can be found starting on page 82 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented following the notes to financial statements. Combining and individual fund statements and schedules can be found starting on page 88 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5,916,781 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (89.5 percent) reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of New Richland's Summary of Net Position

| | Governmental Activities | | | Business-type Activities | | |
|-----------------------------------|-------------------------|---------------------|------------------------|--------------------------|---------------------|------------------------|
| | 2018 | 2017 | Increase (Decrease) | 2018 | 2017 | Increase (Decrease) |
| Current and Other Assets | \$ 1,902,890 | \$ 2,174,408 | \$ (271,518) | \$ 1,726,875 | \$ 1,889,252 | \$ (162,377) |
| Capital Assets | 2,872,402 | 2,697,083 | 175,319 | 6,316,372 | 6,475,025 | (158,653) |
| Total Assets | <u>4,775,292</u> | <u>4,871,491</u> | <u>(96,199)</u> | <u>8,043,247</u> | <u>8,364,277</u> | <u>(321,030)</u> |
| Deferred Outflows of Resources | 241,617 | 180,339 | 61,278 | 343,999 | 445,807 | (101,808) |
| Long-term Liabilities Outstanding | 2,067,706 | 2,268,046 | (200,340) | 4,182,590 | 4,594,131 | (411,541) |
| Other Liabilities | 42,487 | 34,253 | 8,234 | 480,613 | 425,214 | 55,399 |
| Total Liabilities | <u>2,110,193</u> | <u>2,302,299</u> | <u>(192,106)</u> | <u>4,663,203</u> | <u>5,019,345</u> | <u>(356,142)</u> |
| Deferred Inflows of Resources | 274,673 | 245,222 | 29,451 | 439,305 | 451,155 | (11,850) |
| Net Investment in Capital Assets | 1,341,207 | 1,042,575 | 298,632 | 3,952,733 | 3,878,386 | 74,347 |
| Restricted | 518,363 | 551,679 | (33,316) | 38,612 | 63,076 | (24,464) |
| Unrestricted | <u>772,473</u> | <u>910,055</u> | <u>(137,582)</u> | <u>(706,607)</u> | <u>(601,878)</u> | <u>(104,729)</u> |
| Total Net Position | <u>\$ 2,632,043</u> | <u>\$ 2,504,309</u> | <u>\$ 127,734</u> | <u>\$ 3,284,738</u> | <u>\$ 3,339,584</u> | <u>\$ (54,846)</u> |

An additional portion of the City's net position (9.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of (1.1 percent) *unrestricted net position* may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all but unrestricted net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities. Governmental activities increased the City's net position by \$127,734. Key elements of this increase are as follows:

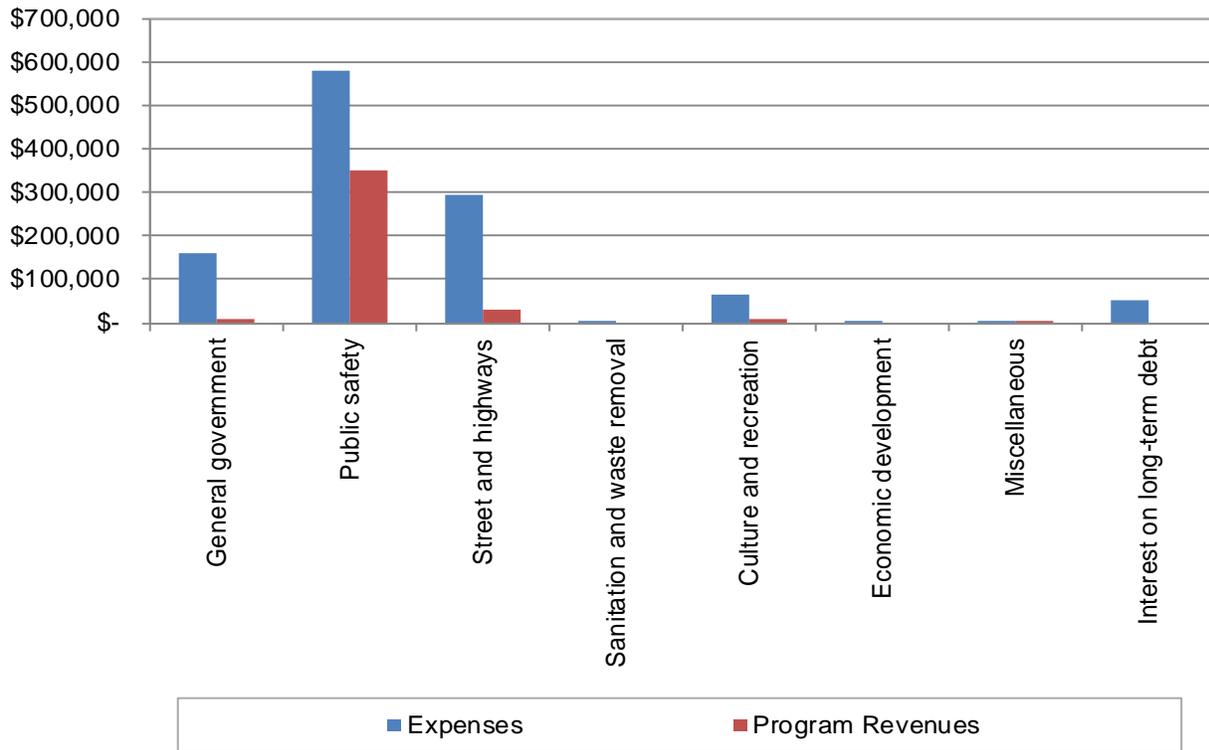
City of New Richland's Changes in Net Position

| | Governmental Activities | | | Business-type Activities | | |
|--|-------------------------|---------------------|------------------------|--------------------------|---------------------|------------------------|
| | 2018 | 2017 | Increase (Decrease) | 2018 | 2017 | Increase (Decrease) |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | \$ 255,691 | \$ 221,887 | \$ 33,804 | \$ 5,021,981 | \$ 4,731,420 | \$ 290,561 |
| Operating grants and contribution | 71,385 | 65,113 | 6,272 | - | 7,500 | (7,500) |
| Capital grants and contributions | 83,500 | 51,829 | 31,671 | 14,657 | 8,015 | 6,642 |
| General Revenues | | | | | | |
| Property taxes/tax increments | 460,464 | 431,450 | 29,014 | - | - | - |
| Franchise taxes | 19,952 | 19,592 | 360 | - | - | - |
| Grants and contributions not restricted to specific programs | 401,980 | 388,367 | 13,613 | 170 | 9 | 161 |
| Unrestricted investment earnings | 6,846 | 8,203 | (1,357) | 17,175 | 42,963 | (25,788) |
| Other | 3,962 | 3,516 | 446 | - | - | - |
| Gain (loss) on sale of capital assets | 1,137 | 4,169 | - | - | - | - |
| Total Revenues | 1,304,917 | 1,194,126 | 113,823 | 5,053,983 | 4,789,907 | 264,076 |
| Expenses | | | | | | |
| General government | 162,497 | 159,870 | 2,627 | - | - | - |
| Public safety | 579,686 | 533,931 | 45,755 | - | - | - |
| Streets and highways | 293,520 | 331,211 | (37,691) | - | - | - |
| Culture and recreation | 64,362 | 51,772 | 12,590 | - | - | - |
| Sanitation and waste removal | 5,398 | 3,414 | 1,984 | - | - | - |
| Economic development | 5,159 | 5,257 | (98) | - | - | - |
| Miscellaneous | 3,593 | 3,593 | - | - | - | - |
| Interest on long-term debt | 51,697 | 56,892 | (5,195) | - | - | - |
| Water utility | - | - | - | 208,703 | 197,652 | 11,051 |
| Sewer utility | - | - | - | 356,489 | 380,210 | (23,721) |
| Nursing home | - | - | - | 4,491,352 | 4,095,410 | 395,942 |
| Cedar Point housing | - | - | - | 63,556 | 47,406 | 16,150 |
| Total Expenses | 1,165,912 | 1,145,940 | 19,972 | 5,120,100 | 4,720,678 | 399,422 |
| Increase (Decrease) in Net Position Before Contributed Capital | 139,005 | 48,186 | 90,819 | (66,117) | 69,229 | (135,346) |
| Transfers | (11,271) | (11,271) | - | 11,271 | 11,271 | - |
| Change in Net Position | 127,734 | 36,915 | 90,819 | (54,846) | 80,500 | (135,346) |
| Net Position - January 1 | 2,504,309 | 2,467,394 | 36,915 | 3,339,584 | 3,259,084 | 80,500 |
| Net Position - December 31 | \$ 2,632,043 | \$ 2,504,309 | \$ 127,734 | \$ 3,284,738 | \$ 3,339,584 | \$ (54,846) |

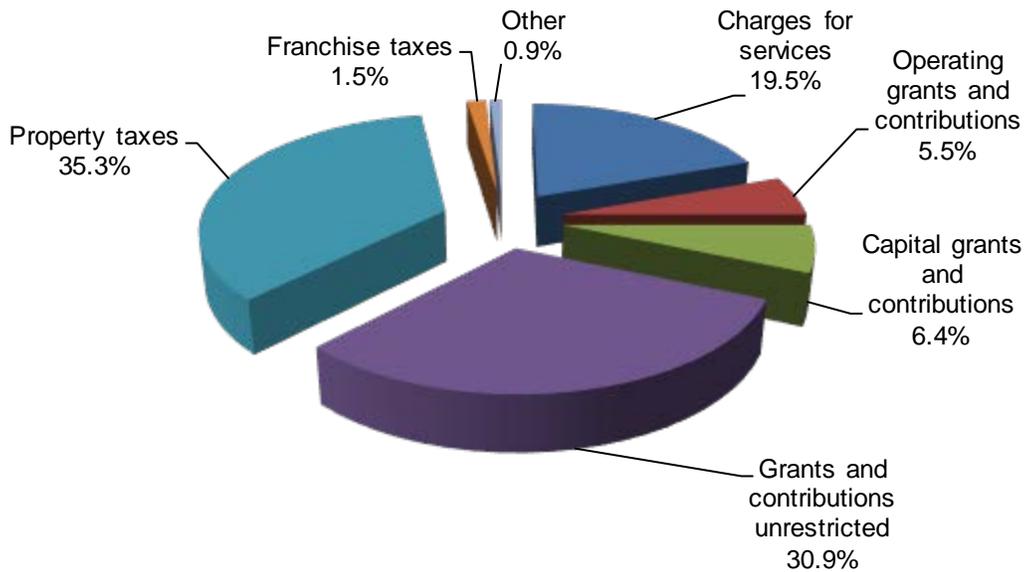
Property tax revenue increased by \$29,014 or (6.7 percent) during the year.

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

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities

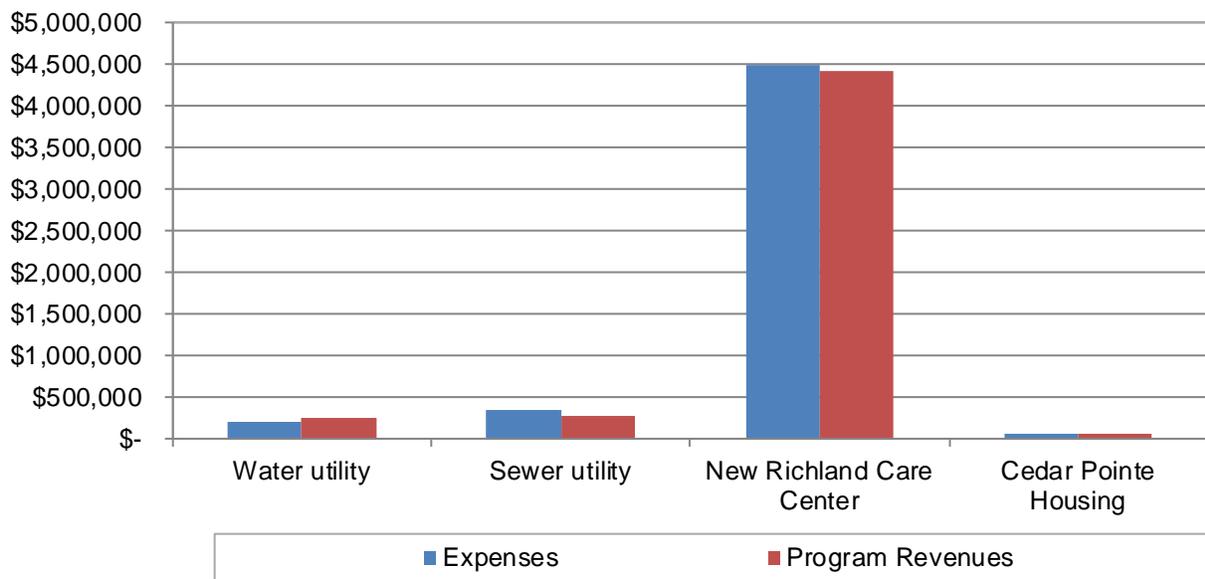


For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

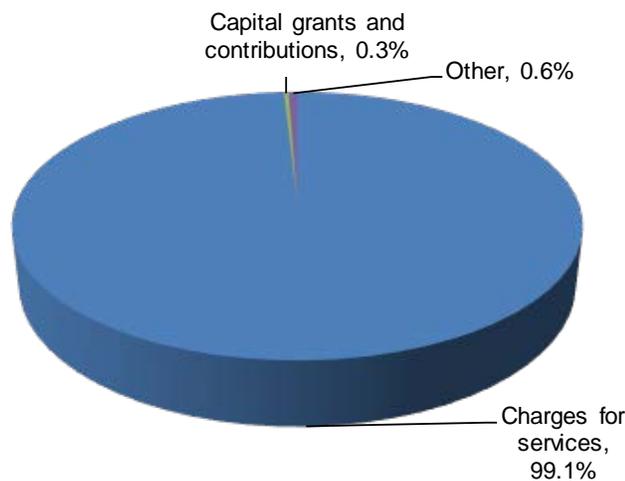
Business-type Activities. Business-type activities decreased the City's net position by \$54,846. Key elements of this increase are as follows:

- Charges for services for business-type activities on the whole increased by 6.1 percent. The Care Center had increased operating expenses of 9.7 percent.
- Revenues in the Care Center are generally determined by three factors – occupancy, acuity of residents, and reimbursement rates. Occupancy is simply a matter of how many of the Care Center's available beds are occupied. Acuity is measured by an assessment process that assigns residents to one of 48 categories called Resource Utilization Groups (RUG). The higher the RUG, the higher the rate charged. RUG assessments are assigned a weight factor ranging from .45 to 3.00, with an "average" being around 1.00. The actual overall average for any nursing home is called a "RUG Score"
- The Care Center's occupancy for fiscal 2018 and 2017 was at a level of around 93 percent and 89 percent respectively. The Care Center's RUG score was 1.03 and 1.05 for fiscal 2018 and 2017 respectively. The Care Center's higher revenues in fiscal 2018 are mainly the result of the increased occupancy from last fiscal year.

Expenses and Program Revenues - Business-type Activities



Revenues by Source Business-type Activities



Financial Analysis of the City's Funds

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

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

The General fund is the chief operating fund of the City. At the end of the current year, the unassigned fund balance of the General fund was \$519,043. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 43.6 percent of fund expenditures.

The fund balance of the City's General fund decreased by \$130,997 during the current fiscal year. The key factor to this decrease was capital outlay expenditures exceeding budget by \$200,387, the main drive of the increased expense was unbudgeted public safety expenditures related to the purchase of a new ambulance. However, the City's revenues also exceed the budget by \$123,532 which is due unbudgeted contributions and donations revenue of \$43,556

The Debt Service fund has a total fund balance of \$230,339, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the Debt Service fund was \$13,514 due to a transfer in from the TIF 1-1 Homestake Subdivision fund for future debt payments.

The TIF District 1-1 Homestake Subdivision has a total fund balance deficit of \$320,149 due to debt service transfers.

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

Unrestricted net deficit of the enterprise funds at the end of the year amounted to \$706,607 due to recognize the effects of GASB Statement No. 68 implementation. The total decrease in net position for the funds was \$54,846. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's General fund revenues were over budget by \$123,532 and actual expenditures were over budget by \$229,895 for 2018.

Significant budget variances are described below:

- Capital outlay expenditures which were over budget by \$200,387.
- Contributions and donations revenue were over budget by \$43,556
- Intergovernmental revenues were over budget by \$27,075.

Capital Asset and Debt Administration

Capital Assets. The City's net investment in capital assets for its governmental and business-type activities as of December 31, 2018, amounts to \$9,188,774 (net of accumulated depreciation). This net investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was 0.2 percent (a 6.5 percent increase for governmental activities and a 2.5 percent decrease for business-type activities).

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

- The completion of the County Road 12 project for \$140,172.
- The purchase of a 2017 Ford ambulance in the amount of \$168,895.
- The purchase of new doors for City hall in the amount of \$55,091.
- The purchase of a 1999 International Pumper in the amount of \$46,728 for the Fire Department.

City of New Richland's Capital Assets (net of depreciation)

| | Governmental Activities | | | Business-type Activities | | |
|--|---------------------------|---------------------------|--------------------------|---------------------------|---------------------------|----------------------------|
| | 2018 | 2017 | Increase (Decrease) | 2018 | 2017 | Increase (Decrease) |
| Land | \$ 184,745 | \$ 184,745 | \$ - | \$ 60,000 | \$ 60,000 | \$ - |
| Buildings | 780,291 | 751,980 | 28,311 | 777,236 | 791,178 | (13,942) |
| Infrastructure and Other Improvements | 1,391,309 | 578,194 | 813,115 | 5,219,479 | 4,828,797 | 390,682 |
| Machinery and Equipment | 71,809 | 100,393 | (28,584) | 259,657 | 209,774 | 49,883 |
| Vehicles | 427,040 | 284,563 | 142,477 | - | - | - |
| Other Assets | 17,208 | 19,975 | (2,767) | - | - | - |
| Construction in Progress | - | 777,233 | (777,233) | - | 585,276 | (585,276) |
| Total | <u>\$2,872,402</u> | <u>\$2,697,083</u> | <u>\$ 175,319</u> | <u>\$6,316,372</u> | <u>\$6,475,025</u> | <u>\$ (158,653)</u> |

Additional information on the City of New Richland's capital assets can be found in Note 3C starting on page 64 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,794,521. Of this amount, \$1,591,500 is improvement debt, \$200,000 is tax increment debt, \$2,003,021 is revenue debt and \$360,618 is notes payable. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of New Richland's Outstanding Debt

| | Governmental Activities | | | Business-type Activities | | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | 2018 | 2017 | Increase (Decrease) | 2018 | 2017 | Increase (Decrease) |
| General Obligation Improvement Bonds | \$ 1,591,500 | \$ 1,739,500 | \$ (148,000) | \$ - | \$ - | \$ - |
| General Obligation Tax Increment Bonds | 200,000 | 260,000 | (60,000) | - | - | - |
| General Obligation Revenue Bonds | - | - | - | 2,003,021 | 2,230,021 | (227,000) |
| Notes | - | - | - | 360,618 | 366,618 | (6,000) |
| Total | <u>\$ 1,791,500</u> | <u>\$ 1,999,500</u> | <u>\$ (208,000)</u> | <u>\$ 2,363,639</u> | <u>\$ 2,596,639</u> | <u>\$ (233,000)</u> |

The City's total debt decreased by \$441,000, or 9.6 percent during the current fiscal year. Long-term debt of \$441,000 was retired during the year.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$1,315,896, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City of New Richland's long-term debt can be found in Note 3E starting on page 67 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Waseca County is currently 3.8 percent, which is an increase from a rate of 5.8 percent a year ago. This can be compared to the State's average unemployment rate of 3.0 percent and the national average rate of 3.3 percent.
- Property valuations within the City remain strong and growing.
- Inflationary trends in the region compare favorably to national indices.

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

During the current fiscal year, unassigned fund balance in the General fund increased to \$519,043. The City has appropriated \$995,968 for the 2019 fiscal year budget. It is intended that this amount of available fund balance will keep the need to raise taxes or charges during the 2018 fiscal year to a minimum.

Property taxes will remain steady in 2019.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk/Treasurer, City of New Richland, 203 N. Broadway, New Richland, Minnesota 56072.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF NEW RICHLAND
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

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City of New Richland, Minnesota
Statement of Net Position
December 31, 2018

| | Primary Government | | | Component Unit |
|--|----------------------------|-----------------------------|---------------------|--------------------------------------|
| | Governmental Activities | Business-type Activities | Total | Economic Development Authority |
| Assets | | | | |
| Cash and temporary investments | \$ 1,442,927 | \$ 663,505 | \$ 2,106,432 | \$ 65,128 |
| Investments | - | 501,395 | 501,395 | - |
| Receivables | | | | |
| Delinquent taxes | 11,684 | - | 11,684 | - |
| Accounts, net of allowance for uncollectibles | 74,147 | 546,625 | 620,772 | - |
| Loans, net of allowances | - | - | - | 73,429 |
| Special assessments | 298,742 | - | 298,742 | - |
| Intergovernmental | 5,322 | - | 5,322 | - |
| Due from primary government | - | - | - | 274,560 |
| Internal balances | 54,560 | (54,560) | - | - |
| Prepaid items | 15,508 | 25,904 | 41,412 | - |
| Residents' cash | - | 5,290 | 5,290 | - |
| Cash restricted by contributors for capital acquisitions | - | 38,716 | 38,716 | - |
| Capital assets | | | | |
| Nondepreciable assets | 184,745 | 60,000 | 244,745 | - |
| Depreciable assets, net of accumulated depreciation | 2,687,657 | 6,256,372 | 8,944,029 | - |
| Total Assets | <u>4,775,292</u> | <u>8,043,247</u> | <u>12,818,539</u> | <u>413,117</u> |
| Deferred Outflows of Resources | | | | |
| Deferred pension resources | <u>241,617</u> | <u>343,999</u> | <u>585,616</u> | <u>-</u> |
| Liabilities | | | | |
| Accounts payable | 17,708 | 107,452 | 125,160 | - |
| Due to component unit | - | 274,560 | 274,560 | - |
| Due to other governments | 1,086 | 1,649 | 2,735 | - |
| Accrued interest payable | 8,664 | 10,548 | 19,212 | - |
| Accrued salaries payable | 15,029 | 83,004 | 98,033 | - |
| Deposits payable | - | 3,400 | 3,400 | - |
| Noncurrent liabilities | | | | |
| Due within one year | 230,347 | 304,774 | 535,121 | - |
| Due in more than one year | <u>1,837,359</u> | <u>3,877,816</u> | <u>5,715,175</u> | <u>-</u> |
| Total Liabilities | <u>2,110,193</u> | <u>4,663,203</u> | <u>6,773,396</u> | <u>-</u> |
| Deferred Inflows of Resources | | | | |
| Deferred pension resources | <u>274,673</u> | <u>439,305</u> | <u>713,978</u> | <u>-</u> |
| Net Position | | | | |
| Net investment in capital assets | 1,341,207 | 3,952,733 | 5,293,940 | - |
| Restricted | | | | |
| Debt service | 518,363 | - | 518,363 | - |
| Capital acquisitions | - | 38,612 | 38,612 | - |
| Economic development | - | - | - | 347,989 |
| Unrestricted | <u>772,473</u> | <u>(706,607)</u> | <u>65,866</u> | <u>65,128</u> |
| Total Net Position | <u>\$ 2,632,043</u> | <u>\$ 3,284,738</u> | <u>\$ 5,916,781</u> | <u>\$ 413,117</u> |

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

City of New Richland, Minnesota
Statement of Activities
For the Year Ended December 31, 2018

| Functions/Programs | Expenses | Program Revenues | | |
|--|---------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities | | | | |
| General government | \$ 162,497 | \$ 9,239 | \$ 1,104 | \$ - |
| Public safety | 579,686 | 241,181 | 50,760 | 60,186 |
| Streets and highways | 293,520 | 2,168 | 12,191 | 17,334 |
| Sanitation and waste removal | 5,398 | - | - | - |
| Culture and recreation | 64,362 | 3,103 | 7,330 | - |
| Economic development | 5,159 | - | - | - |
| Miscellaneous | 3,593 | - | - | 5,980 |
| Interest on long-term debt | 51,697 | - | - | - |
| Total Governmental Activities | 1,165,912 | 255,691 | 71,385 | 83,500 |
| Business-Type Activities | | | | |
| Water utility | 208,703 | 267,719 | - | - |
| Sewer utility | 356,489 | 292,519 | - | - |
| Cedar pointe housing | 63,556 | 61,290 | - | - |
| Nursing home | 4,491,352 | 4,400,453 | - | 14,657 |
| Total Business-type Activities | 5,120,100 | 5,021,981 | - | 14,657 |
| Total Primary Government Component Unit | \$ 6,286,012 | \$ 5,277,672 | \$ 71,385 | \$ 98,157 |
| Economic Development Authority | \$ 4,531 | \$ - | \$ 8,920 | \$ - |
| Totals | \$ 6,290,543 | \$ 5,277,672 | \$ 80,305 | \$ 98,157 |

General Revenues

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Tax increments
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Miscellaneous
- Gain on sale of capital assets
- Transfers
- Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

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

| Net (Expense) Revenue and Changes in Net Position | | | Component Unit |
|--|-----------------------------|---------------------|--------------------------------------|
| Governmental Activities | Business-type Activities | Total | Economic Development Authority |
| \$ (152,154) | | \$ (152,154) | |
| (227,559) | | (227,559) | |
| (261,827) | | (261,827) | |
| (5,398) | | (5,398) | |
| (53,929) | | (53,929) | |
| (5,159) | | (5,159) | |
| 2,387 | | 2,387 | |
| (51,697) | | (51,697) | |
| <u>(755,336)</u> | | <u>(755,336)</u> | |
| | \$ 59,016 | 59,016 | |
| | (63,970) | (63,970) | |
| | (2,266) | (2,266) | |
| | <u>(76,242)</u> | <u>(76,242)</u> | |
| | <u>(83,462)</u> | <u>(83,462)</u> | |
| | <u>(83,462)</u> | <u>(838,798)</u> | |
| | | | \$ 4,389 |
| <u>(755,336)</u> | <u>(83,462)</u> | <u>(838,798)</u> | <u>4,389</u> |
| 304,577 | - | 304,577 | - |
| 134,890 | - | 134,890 | - |
| 20,997 | - | 20,997 | - |
| 19,952 | - | 19,952 | - |
| 401,980 | 170 | 402,150 | - |
| 6,846 | 17,175 | 24,021 | 566 |
| 3,962 | - | 3,962 | - |
| 1,137 | - | 1,137 | - |
| (11,271) | 11,271 | - | - |
| <u>883,070</u> | <u>28,616</u> | <u>911,686</u> | <u>566</u> |
| 127,734 | (54,846) | 72,888 | 4,955 |
| <u>2,504,309</u> | <u>3,339,584</u> | <u>5,843,893</u> | <u>408,162</u> |
| <u>\$ 2,632,043</u> | <u>\$ 3,284,738</u> | <u>\$ 5,916,781</u> | <u>\$ 413,117</u> |

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

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FUND FINANCIAL STATEMENTS

CITY OF NEW RICHLAND
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

City of New Richland, Minnesota

Balance Sheet
Governmental Funds
December 31, 2018

| | General | Debt Service | TIF District 1-1 Homestake Subdivision |
|---|----------------------------|--------------------------|--|
| Assets | | | |
| Cash and temporary investments | \$ 702,392 | \$ 228,677 | \$ 52 |
| Receivables | | | |
| Delinquent taxes | 11,684 | - | - |
| Accounts, net of allowance for uncollectibles | 70,557 | - | - |
| Special assessments | 2,054 | 296,688 | - |
| Intergovernmental | 3,660 | 1,662 | - |
| Advances to other funds | 350,201 | - | - |
| Prepaid items | 13,467 | - | - |
| | <u>1,154,015</u> | <u>527,027</u> | <u>52</u> |
| Total Assets | <u>\$ 1,154,015</u> | <u>\$ 527,027</u> | <u>\$ 52</u> |
| Liabilities | | | |
| Accounts payable | \$ 13,223 | \$ - | \$ - |
| Due to other governments | 1,086 | - | - |
| Advances from other funds | - | - | 320,201 |
| Accrued salaries payable | 15,029 | - | - |
| Total Liabilities | <u>29,338</u> | <u>-</u> | <u>320,201</u> |
| Deferred Inflows of Resources | | | |
| Unavailable revenue - property taxes | 11,684 | - | - |
| Unavailable revenue - special assessments | 2,054 | 296,688 | - |
| Total Deferred Inflows of Resources | <u>13,738</u> | <u>296,688</u> | <u>-</u> |
| Fund Balances | | | |
| Nonspendable | | | |
| Advances to other funds | 350,201 | - | - |
| Prepaid items | 13,467 | - | - |
| Restricted | | | |
| Debt service | - | 230,339 | - |
| Future capital outlay | - | - | - |
| Assigned | | | |
| Fire protection | - | - | - |
| Future capital outlay | 228,228 | - | - |
| Renovation | - | - | - |
| Unassigned | 519,043 | - | (320,149) |
| Total Fund Balances | <u>1,110,939</u> | <u>230,339</u> | <u>(320,149)</u> |
| | <u>\$ 1,154,015</u> | <u>\$ 527,027</u> | <u>\$ 52</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 1,154,015</u> | <u>\$ 527,027</u> | <u>\$ 52</u> |

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

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 511,806 | \$ 1,442,927 |
| - | 11,684 |
| 3,590 | 74,147 |
| - | 298,742 |
| - | 5,322 |
| 24,560 | 374,761 |
| 2,041 | 15,508 |
| <u>\$ 541,997</u> | <u>\$ 2,223,091</u> |
| | |
| \$ 4,485 | \$ 17,708 |
| - | 1,086 |
| - | 320,201 |
| - | 15,029 |
| <u>4,485</u> | <u>354,024</u> |
| | |
| - | 11,684 |
| - | 298,742 |
| <u>-</u> | <u>310,426</u> |
| | |
| - | 350,201 |
| 2,041 | 15,508 |
| | |
| - | 230,339 |
| 267,106 | 267,106 |
| | |
| 188,361 | 188,361 |
| 79,183 | 307,411 |
| 821 | 821 |
| - | 198,894 |
| <u>537,512</u> | <u>1,558,641</u> |
| | |
| <u>\$ 541,997</u> | <u>\$ 2,223,091</u> |

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

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

| | |
|---|----------------------------|
| Total Fund Balances - Governmental Funds | \$ 1,558,641 |
| Amounts reported for governmental activities in the statement of net position are different because | |
| Net capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds. | 2,872,402 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. | |
| Long-term liabilities at year-end consist of | |
| Compensated absences payable | (25,988) |
| Pension liability | (243,417) |
| Bonds payable | (1,791,500) |
| Unamortized bond premium | (6,801) |
| Long-term assets are not available to pay current-period expenditures and, therefore, are delayed in the funds. | |
| Delinquent property taxes | 11,684 |
| Special assessments | 298,742 |
| Governmental funds do not report long-term amounts related to pensions. | |
| Deferred outflows of pension resources | 241,617 |
| Deferred inflows of pension resources | (274,673) |
| Governmental funds do not report a liability for accrued interest until due and payable. | <u>(8,664)</u> |
| Total Net Position - Governmental Activities | <u><u>\$ 2,632,043</u></u> |

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

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

| | General | Debt Service | TIF District 1-1 Homestake Subdivision |
|--|---------------------|-------------------|--|
| Revenues | | | |
| Taxes | \$ 326,954 | \$ 134,890 | \$ 20,997 |
| Special assessments | 384 | 67,161 | |
| Licenses and permits | 12,913 | - | |
| Intergovernmental | 458,488 | - | |
| Charges for services | 185,188 | - | - |
| Fines and forfeits | 3,052 | - | |
| Investment earnings | 6,244 | - | - |
| Miscellaneous | 64,430 | - | - |
| Total Revenues | <u>1,057,653</u> | <u>202,051</u> | <u>20,997</u> |
| Expenditures | | | |
| Current | | | |
| General government | 158,912 | - | - |
| Public safety | 472,391 | - | - |
| Streets and highways | 181,831 | - | - |
| Sanitation and waste removal | 5,398 | - | - |
| Culture and recreation | 48,554 | - | - |
| Economic development | 5,000 | - | 149 |
| Capital outlay | | | |
| General government | 56,455 | - | - |
| Public safety | 215,848 | - | - |
| Streets and highways | 46,813 | - | - |
| Culture and recreation | 514 | - | - |
| Debt service | | | |
| Principal | - | 208,000 | - |
| Interest and other | - | 54,337 | - |
| Total Expenditures | <u>1,191,716</u> | <u>262,337</u> | <u>149</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(134,063)</u> | <u>(60,286)</u> | <u>20,848</u> |
| Other Financing Sources (Uses) | | | |
| Sale of capital assets | 14,637 | - | - |
| Transfers in | - | 73,800 | - |
| Transfers out | (11,571) | - | (73,800) |
| Total Other Financing Sources (Uses) | <u>3,066</u> | <u>73,800</u> | <u>(73,800)</u> |
| Net Changes in Fund Balances | (130,997) | 13,514 | (52,952) |
| Fund Balances, January 1 | <u>1,241,936</u> | <u>216,825</u> | <u>(267,197)</u> |
| Fund Balances, December 31 | <u>\$ 1,110,939</u> | <u>\$ 230,339</u> | <u>\$ (320,149)</u> |

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

| Other Governmental Funds | Totals |
|--------------------------------|---------------------|
| \$ - | \$ 482,841 |
| - | 67,545 |
| - | 12,913 |
| - | 458,488 |
| 48,700 | 233,888 |
| - | 3,052 |
| 602 | 6,846 |
| 32,841 | 97,271 |
| <u>82,143</u> | <u>1,362,844</u> |
| - | 158,912 |
| 28,655 | 501,046 |
| - | 181,831 |
| - | 5,398 |
| - | 48,554 |
| 10 | 5,159 |
| - | 56,455 |
| 27,501 | 243,349 |
| 85,367 | 132,180 |
| - | 514 |
| - | 208,000 |
| - | 54,337 |
| <u>141,533</u> | <u>1,595,735</u> |
| <u>(59,390)</u> | <u>(232,891)</u> |
| - | 14,637 |
| 300 | 74,100 |
| - | <u>(85,371)</u> |
| <u>300</u> | <u>3,366</u> |
| (59,090) | (229,525) |
| <u>596,602</u> | <u>1,788,166</u> |
| <u>\$ 537,512</u> | <u>\$ 1,558,641</u> |

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

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

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

| | |
|---|--------------|
| Net Change in Fund Balances - Governmental Funds | \$ (229,525) |
| <p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p> | |
| Capital outlay | 371,030 |
| Depreciation expense | (164,148) |
| <p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net position</p> | |
| Sale of capital assets | (31,563) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are delayed and amortized in the statement of activities.</p> | |
| Principal repayments | 208,000 |
| Amortization of premium of bonds | 680 |
| <p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p> | |
| | 1,960 |
| <p>Long-term pension activity is not reported in governmental funds.</p> | |
| Negative pension expense | 21,981 |
| Direct aid contributions | 1,941 |
| <p>Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unearned in the funds.</p> | |
| <p>Certain revenues are recognized as soon as they are earned. Under the modified accrual to liquidate liabilities of the current period.</p> | |
| Special assessments | (50,211) |
| Property taxes | (1,976) |
| <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 | (435) |
| Change in Net Position - Governmental Activities | \$ 127,734 |

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

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

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 317,922 | \$ 317,922 | \$ 326,954 | \$ 9,032 |
| Special assessments | - | - | 384 | 384 |
| Licenses and permits | 15,219 | 15,219 | 12,913 | (2,306) |
| Intergovernmental | 431,413 | 431,413 | 458,488 | 27,075 |
| Charges for services | 161,647 | 161,647 | 185,188 | 23,541 |
| Fines and forfeits | 500 | 500 | 3,052 | 2,552 |
| Investment earnings | 4,045 | 4,045 | 6,244 | 2,199 |
| Miscellaneous | 3,375 | 3,375 | 64,430 | 61,055 |
| Total Revenues | <u>934,121</u> | <u>934,121</u> | <u>1,057,653</u> | <u>123,532</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 162,310 | 163,060 | 158,912 | 4,148 |
| Public safety | 459,647 | 459,747 | 472,391 | (12,644) |
| Streets and highways | 166,483 | 166,483 | 181,831 | (15,348) |
| Sanitation and waste removal | 3,800 | 3,800 | 5,398 | (1,598) |
| Culture and recreation | 48,238 | 49,488 | 48,554 | 934 |
| Economic development | - | - | 5,000 | (5,000) |
| Capital outlay | | | | |
| General government | 5,808 | 5,808 | 56,455 | (50,647) |
| Public safety | 20,236 | 22,235 | 215,848 | (193,613) |
| Streets and highways | 90,200 | 90,200 | 46,813 | 43,387 |
| Sanitation and waste removal | | | | |
| Culture and recreation | 1,000 | 1,000 | 514 | 486 |
| Total Expenditures | <u>957,722</u> | <u>961,821</u> | <u>1,191,716</u> | <u>(229,895)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(23,601)</u> | <u>(27,700)</u> | <u>(134,063)</u> | <u>(106,363)</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of capital assets | - | - | 14,637 | 14,637 |
| Transfers out | (12,300) | (12,300) | (11,571) | 729 |
| Total Other Financing Sources (Uses) | <u>(12,300)</u> | <u>(12,300)</u> | <u>3,066</u> | <u>15,366</u> |
| Net Changes in Fund Balances | (35,901) | (40,000) | (130,997) | (90,997) |
| Fund Balances, January 1 | <u>1,241,936</u> | <u>1,241,936</u> | <u>1,241,936</u> | <u>-</u> |
| Fund Balances, December 31 | <u>\$ 1,206,035</u> | <u>\$ 1,201,936</u> | <u>\$ 1,110,939</u> | <u>\$ (90,997)</u> |

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

City of New Richland, Minnesota
Statement of Net Position (Continued on the Following Pages)
Proprietary Funds
December 31, 2018

| | Business-type Activities - Enterprise Funds | | |
|---|---|-------------------------|--------------------------------|
| | 601 Water Utility | 602 Sewer Utility | 610 Cedar Pointe Housing |
| Assets | | | |
| Current Assets | | | |
| Cash and temporary investments | \$ 101,064 | \$ 207,706 | \$ 55,594 |
| Investments | - | - | - |
| Accounts receivable, net of allowance for uncollectibles | 28,717 | 35,974 | - |
| Prepaid items | 415 | - | 347 |
| Total Current Assets | 130,196 | 243,680 | 55,941 |
| Noncurrent Assets | | | |
| Cash restricted by contributors for capital acquisitions | - | - | - |
| Residents' cash | - | - | - |
| Capital assets | | | |
| Land | - | - | 60,000 |
| Land improvements | - | - | - |
| Buildings | 32,938 | - | 752,426 |
| Utility systems | 3,123,588 | 6,735,605 | - |
| Machinery and equipment | 20,175 | 5,797 | - |
| Vehicles | 4,161 | - | - |
| Less accumulated depreciation | (1,331,789) | (3,379,242) | (258,126) |
| Total Capital Assets (Net of Accumulated Depreciation) | 1,849,073 | 3,362,160 | 554,300 |
| Total Noncurrent Assets | 1,849,073 | 3,362,160 | 554,300 |
| Total Assets | 1,979,269 | 3,605,840 | 610,241 |
| Deferred Outflows of Resources | | | |
| Deferred pension resources | 5,979 | - | - |

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

Business-type Activities -
Enterprise Funds

| New Richland Care Center | Total |
|-----------------------------|--------------------|
| \$ 299,141 | \$ 663,505 |
| 501,395 | 501,395 |
| 481,934 | 546,625 |
| 25,142 | 25,904 |
| <u>1,307,612</u> | <u>1,737,429</u> |
| | |
| 38,716 | 38,716 |
| <u>5,290</u> | <u>5,290</u> |
| | |
| - | 60,000 |
| 111,618 | 111,618 |
| 2,118,752 | 2,904,116 |
| - | 9,859,193 |
| 997,250 | 1,023,222 |
| - | 4,161 |
| <u>(2,676,781)</u> | <u>(7,645,938)</u> |
| | |
| <u>550,839</u> | <u>6,316,372</u> |
| | |
| <u>594,845</u> | <u>6,360,378</u> |
| | |
| <u>1,902,457</u> | <u>8,097,807</u> |
| | |
| <u>338,020</u> | <u>343,999</u> |

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

City of New Richland, Minnesota
Statement of Net Position (Continued)
Proprietary Funds
December 31, 2018

| | Business-type Activities - Enterprise Funds | | |
|---|---|-------------------------|--------------------------------|
| | 601 Water Utility | 602 Sewer Utility | 610 Cedar Pointe Housing |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 6,109 | \$ 4,000 | \$ 133 |
| Due to other governments | 1,649 | - | - |
| Accrued interest payable | 5,206 | 5,342 | - |
| Accrued salaries payable | 977 | - | - |
| Compensated absences payable - current portion | 1,060 | - | - |
| Deposits payable | - | - | 3,400 |
| Notes payable - current portion | 6,000 | 6,000 | - |
| Bonds payable - current portion | 128,500 | 105,000 | - |
| Total Current Liabilities | <u>149,501</u> | <u>120,342</u> | <u>3,533</u> |
| Noncurrent Liabilities | | | |
| Compensated absences payable - noncurrent portion | 1,143 | - | - |
| Pension liability | 22,139 | - | - |
| Advances from other funds | 24,560 | - | 30,000 |
| Advances from component unit | - | 24,560 | 250,000 |
| Residents' cash | - | - | - |
| Notes payable - noncurrent portion | 41,000 | 41,000 | 266,618 |
| Bonds payable - noncurrent portion | 417,522 | 1,351,999 | - |
| Total Noncurrent Liabilities | <u>506,364</u> | <u>1,417,559</u> | <u>546,618</u> |
| Total Liabilities | <u>655,865</u> | <u>1,537,901</u> | <u>550,151</u> |
| Deferred Inflows of Resources | | | |
| Deferred pension resources | 5,866 | - | - |
| Net Position | | | |
| Net investment in capital assets | 1,256,051 | 1,858,161 | 287,682 |
| Restricted for capital acquisitions | - | - | - |
| Unrestricted | 67,466 | 209,778 | (227,592) |
| Total Net Position | <u>\$ 1,323,517</u> | <u>\$ 2,067,939</u> | <u>\$ 60,090</u> |

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

Business-type Activities -
Enterprise Funds

| New Richland Care Center | Total |
|-----------------------------|--------------|
| \$ 91,920 | \$ 102,162 |
| - | 1,649 |
| - | 10,548 |
| 82,027 | 83,004 |
| 58,214 | 59,274 |
| - | 3,400 |
| - | 12,000 |
| - | 233,500 |
| 232,161 | 505,537 |
| - | 1,143 |
| 1,736,395 | 1,758,534 |
| - | 54,560 |
| - | 274,560 |
| 5,290 | 5,290 |
| - | 348,618 |
| - | 1,769,521 |
| 1,741,685 | 4,212,226 |
| 1,973,846 | 4,717,763 |
| 433,439 | 439,305 |
| 550,839 | 3,952,733 |
| 38,612 | 38,612 |
| (756,259) | (706,607) |
| \$ (166,808) | \$ 3,284,738 |

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

City of New Richland, Minnesota
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2018

| | Business-type Activities - Enterprise Funds | | |
|--|---|-------------------------|--------------------------------|
| | 601 Water Utility | 602 Sewer Utility | 610 Cedar Pointe Housing |
| Operating Revenues | | | |
| Charges for services | \$ 267,719 | \$ 292,519 | \$ 61,265 |
| Other operating income | - | - | 25 |
| Total Operating Revenues | <u>267,719</u> | <u>292,519</u> | <u>61,290</u> |
| Operating Expenses | | | |
| Salaries and benefits | 39,538 | - | - |
| Supplies and repairs | 37,401 | 3,233 | - |
| Other services and charges | 18,159 | 150,222 | 18,397 |
| Insurance | 2,087 | - | 5,470 |
| Utilities | 23,979 | - | 5,799 |
| Nursing services | - | - | - |
| Other care related services | - | - | - |
| Ancillary services | - | - | - |
| Dietary | - | - | - |
| Laundry | - | - | - |
| Housekeeping | - | - | - |
| Plant operations and maintenance | - | - | 14,578 |
| Property and related | - | - | - |
| Depreciation | 71,285 | 185,984 | 19,293 |
| General and administrative | - | - | - |
| Employee benefits | - | - | - |
| Total Operating Expenses | <u>192,449</u> | <u>339,439</u> | <u>63,537</u> |
| Operating Income (Loss) | <u>75,270</u> | <u>(46,920)</u> | <u>(2,247)</u> |
| Nonoperating Revenues (Expenses) | | | |
| Other income | 170 | - | - |
| Investment income | 1,351 | 1,239 | 5 |
| Refunds and reimbursements | 338 | - | - |
| Interest expense | (16,592) | (17,050) | (19) |
| Total Nonoperating Revenues (Expenses) | <u>(14,733)</u> | <u>(15,811)</u> | <u>(14)</u> |
| Income (Loss) Before Contributions and Transfers | 60,537 | (62,731) | (2,261) |
| Capital Contributions | - | - | - |
| Transfers In | <u>5,636</u> | <u>5,635</u> | <u>-</u> |
| Change in Net Position | 66,173 | (57,096) | (2,261) |
| Net Position, January 1 | <u>1,257,344</u> | <u>2,125,035</u> | <u>62,351</u> |
| Net Position, December 31 | <u>\$ 1,323,517</u> | <u>\$ 2,067,939</u> | <u>\$ 60,090</u> |

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

Business-type Activities -
Enterprise Funds

| New Richland Care Center | Total |
|-----------------------------|--------------|
| \$ 4,369,366 | \$ 4,990,869 |
| 31,087 | 31,112 |
| 4,400,453 | 5,021,981 |
| - | 39,538 |
| - | 40,634 |
| - | 186,778 |
| - | 7,557 |
| - | 29,778 |
| 1,851,787 | 1,851,787 |
| 208,946 | 208,946 |
| 266,084 | 266,084 |
| 437,418 | 437,418 |
| 63,719 | 63,719 |
| 75,714 | 75,714 |
| 227,343 | 241,921 |
| 155,710 | 155,710 |
| 135,261 | 411,823 |
| 445,030 | 445,030 |
| 624,340 | 624,340 |
| 4,491,352 | 5,086,777 |
| (90,899) | (64,796) |
| - | 170 |
| 14,580 | 17,175 |
| - | 338 |
| - | (33,661) |
| 14,580 | (15,978) |
| (76,319) | (80,774) |
| 14,657 | 14,657 |
| - | 11,271 |
| (61,662) | (54,846) |
| (105,146) | 3,339,584 |
| \$ (166,808) | \$ 3,284,738 |

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

City of New Richland, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2018

| | Business-type Activities - Enterprise Funds | | |
|--|---|-------------------------|--------------------------------|
| | 601 Water Utility | 602 Sewer Utility | 610 Cedar Pointe Housing |
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$ 266,561 | \$ 285,179 | \$ 61,294 |
| Payments to suppliers and vendors | (81,566) | (148,778) | (44,563) |
| Payments to and on behalf of employees | (41,067) | - | - |
| Other receipts | 508 | - | - |
| Net Cash Provided (Used) by Operating Activities | <u>144,436</u> | <u>136,401</u> | <u>16,731</u> |
| Cash Flows from Capital and Related Financing Activities | | | |
| Principal paid on long term debt | (126,000) | (107,000) | - |
| Interest paid on long term debt | (17,875) | (17,536) | (19) |
| Advance from other funds | (5,072) | - | - |
| Advance from component unit | - | (5,072) | - |
| Contributions | - | - | - |
| Acquisition of capital assets | (38,072) | (31,346) | - |
| Transfers in | 5,636 | 5,635 | - |
| Net Cash Used by Capital and Related Financing Activities | <u>(181,383)</u> | <u>(155,319)</u> | <u>(19)</u> |
| Cash Flows from Investing Activities | | | |
| Interest received on cash and investments | 1,351 | 1,239 | 5 |
| Increase (decrease) in cash restricted by contributors for capital acquisitions | - | - | - |
| Purchase of investments | - | - | - |
| Net Cash Provided (Used) by Investing Activities | <u>1,351</u> | <u>1,239</u> | <u>5</u> |
| Net Increase (Decrease) in Cash and Temporary Investments | (35,596) | (17,679) | 16,717 |
| Cash and Temporary Investments, January 1 | <u>136,660</u> | <u>225,385</u> | <u>38,877</u> |
| Cash and Temporary Investments, December 31 | <u>\$ 101,064</u> | <u>\$ 207,706</u> | <u>\$ 55,594</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Operating income (loss) | \$ 75,270 | \$ (46,920) | \$ (2,247) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Other income related to operations | 508 | - | - |
| Depreciation | 71,285 | 185,984 | 19,293 |
| (Increase) decrease in assets | | | |
| Accounts receivable | (1,485) | (7,340) | - |
| Intergovernmental receivable | 327 | - | - |
| Third party payer settlements receivable | - | - | - |
| Prepaid items | 476 | 10,238 | (305) |
| (Increase) decrease in deferred outflows of resources | | | |
| Deferred pension resources | 1,050 | - | - |
| Increase (decrease) in liabilities | | | |
| Accounts payable | (1,240) | (5,561) | (14) |
| Due to other governments | 824 | - | - |
| Accrued salaries payable | 228 | - | - |
| Compensated absences payable | 354 | - | - |
| Pension liability | (2,106) | - | - |
| Deposits payable | - | - | 4 |
| (Increase) decrease in deferred inflows of resources | | | |
| Deferred pension resources | (1,055) | - | - |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 144,436</u> | <u>\$ 136,401</u> | <u>\$ 16,731</u> |

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

Business-type Activities -
Enterprise Funds

| New Richland Care Center | Total |
|-----------------------------|-------------------|
| \$ 4,281,198 | \$ 4,894,232 |
| (4,379,785) | (4,654,692) |
| - | (41,067) |
| 31,087 | 31,595 |
| <u>(67,500)</u> | <u>230,068</u> |
| - | (233,000) |
| - | (35,430) |
| - | (5,072) |
| - | (5,072) |
| 14,657 | 14,657 |
| (183,752) | (253,170) |
| - | 11,271 |
| <u>(169,095)</u> | <u>(505,816)</u> |
| 885 | 3,480 |
| 24,360 | 24,360 |
| <u>(1,260)</u> | <u>(1,260)</u> |
| 23,985 | 26,580 |
| (212,610) | (249,168) |
| 511,751 | 912,673 |
| <u>\$ 299,141</u> | <u>\$ 663,505</u> |
| \$ (90,899) | \$ (64,796) |
| - | 508 |
| 135,261 | 411,823 |
| (89,581) | (98,406) |
| - | 327 |
| 1,413 | 1,413 |
| (4,542) | 5,867 |
| 100,758 | 101,808 |
| 59,925 | 53,110 |
| - | 824 |
| 7,749 | 7,977 |
| (4,388) | (4,034) |
| (172,401) | (174,507) |
| - | 4 |
| <u>(10,795)</u> | <u>(11,850)</u> |
| <u>\$ (67,500)</u> | <u>\$ 230,068</u> |

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

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City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of New Richland (the City) operates under "Optional Plan A" as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Blended component units, although legally separate entities are in substance, part of the City's operations and so data from these units are combined with data of the primary government. The blended component unit presented has a September 30 year end.

Discretely Presented Component Unit. The Economic Development Authority (Authority) was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the Council. The criterion that results in the EDA being reported as a discretely presented component unit include 1) a five member board unit consisting of two City council member and three council appointed community volunteers and 2) the ability of the City to impose its will on the EDA by significantly influencing the program, projects, activities or level of service performed by the EDA by approving the EDA's budget. The Authority is reported as a discretely presented component unit as a governmental fund type. Separate financial statements are not issued for this component unit.

The New Richland Care Center enterprise fund financial statements reflect the years ended September 30, 2018.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. 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. Likewise, the City is reported separately from certain legally separate *component units* for which the City is financially accountable.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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.

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

The *TIF District 1-1 Homestake Subdivision fund* accounts for the public improvements that are allowable under pooled tax increment funding laws in the state.

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary funds:

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

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

The *Cedar Pointe Housing fund* accounts for the costs associated with the City's housing project and to insure that user charges are sufficient to pay for those costs.

The *New Richland Care Center fund* accounts for the cost associated with the City's nursing home facility and to insure that user charges are sufficient to pay for those costs.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Deposits and Investments

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

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

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's recurring fair value measurements are listed in detail on page 62 and are valued using quoted market prices (Level 1 inputs).

The City has not adopted a formal investment policy that addresses interest rate and credit risk.

Property Taxes

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

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by an unavailable revenue liability for delinquent taxes not received within 60 days after year end in the fund financial statements.

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2018. The City annually certifies delinquent utility accounts to the County for collection. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible accounts at December 31, 2018 was approximately \$25,000 in the Care Center fund and \$35,983 for Ambulance receivables.

Special Assessments

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

Interfund Receivables and Payables

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

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

Inventories and Prepaid Items

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

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

Restricted Assets

Restricted assets consist cash restricted by contributors for capital acquisitions. Contributions of cash for capital additions are maintained in several checking accounts until expended for their intended purpose.

Capital Assets

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

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at acquisition value of the item at the date of its donation.

For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

| Assets | Amount |
|----------------------------|-----------|
| Land and Land Improvements | \$ 10,000 |
| Other Improvements | 10,000 |
| Buildings and Improvements | 5,000 |
| Machinery and Equipment | 2,000 |
| Vehicles | 5,000 |
| Infrastructure | 50,000 |
| Other Assets | 500 |

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.

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

| Assets | Years |
|----------------------------|---------|
| Land Improvements | 3 - 20 |
| Buildings and Improvements | 20 - 40 |
| Sewer and Water Systems | 5 - 30 |
| Equipment | 3 - 15 |

Deferred Outflows of Resources

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

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The total amount of compensated absences accrued for 2018 was \$86,405. The General fund is typically used to liquidate governmental compensated absences payable.

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Postemployment Benefits Other Than Pensions

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the City's fiscal year 2018. Statement No. 75 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. During the year 2018, the City calculated its OPEB liability using the alternative measurement method and determined that the calculated liability was immaterial. At this point, the City anticipates it will not incur material future explicit or implicit OPEB costs for its employees and therefore, no liability will be recorded.

Long-term Obligations

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

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERF and PEPFF are as follows:

| | Public Employees Retirement Association of Minnesota (PERA) | | Total All Plans |
|-----------------|--|----------|--------------------|
| | GERF | PEPFF | |
| Pension Expense | \$ 5,837 | \$ 4,301 | \$ 10,138 |

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

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

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

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

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

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

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

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 50 percent of budgeted operating expenditures for cash-flow timing needs.

Net Position

Net positions represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net positions are displayed in three components:

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

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Clerk/Treasurer. The legal level of budgetary control is the fund level. Budgeted amounts are as originally adopted or as amended by the Council. No budget amendments were made during 2018.

B. Excess of Expenditures Over Appropriations

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

| Fund | Budget | Actual | Excess of Expenditures Over Appropriations |
|-----------------|------------|--------------|--|
| General | \$ 961,821 | \$ 1,191,716 | \$ 229,895 |
| Special Revenue | | | |
| Rural fire | 49,270 | 56,156 | 6,886 |

The expenditures were funded by revenues over budget and available fund balances.

C. Deficit Fund Equity

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

| Fund | Amount |
|-------------------------------------|------------|
| Special Revenue | |
| TIF District 1-1 Homestake Division | \$ 320,149 |
| Enterprise Funds | |
| New Richland Care Center | 166,808 |

The above deficits will be eliminated through future tax increments and charges for services.

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was \$2,215,455 and the bank balance was \$2,228,584 . The bank balance was covered by federal depository insurance totaling \$570,393 . Of the remaining balance was collateralized with securities held by the pledging financial institution's trust department in the City's name. The primary government and component unit's deposits are pooled.

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

Cash and Investments Summary

As of December 31, 2018, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

| Types of Investments | Credit Quality/ Ratings | Segmented Time Distribution | Amount | Fair Value Measurement Using | | |
|---|----------------------------|--------------------------------|-------------------|------------------------------|-------------|-------------|
| | | | | Level 1 | Level 2 | Level 3 |
| Non-Pooled Investments at Amortized Costs | | | | | | |
| Non-Negotiable Certificates of Deposit | N/A | N/A | \$ 12,631 | | | |
| Non-Pooled Investments at Fair Value | | | | | | |
| Mutual Funds | N/A | N/A | 317,479 | \$ 317,479 | \$ - | \$ - |
| Equities | Aaa | N/A | 171,285 | 171,285 | - | - |
| Total Investments | | | <u>\$ 501,395</u> | <u>\$ 488,764</u> | <u>\$ -</u> | <u>\$ -</u> |

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

| | Primary Government | Component Unit - EDA | Total |
|---|-----------------------|-------------------------|---------------------|
| Deposits | \$ 2,150,327 | \$ 65,128 | \$ 2,215,455 |
| Petty Cash | 111 | - | 111 |
| Investments | 501,395 | | 501,395 |
| Total Deposits and Investments | <u>\$ 2,651,833</u> | <u>\$ 65,128</u> | <u>\$ 2,716,961</u> |
| Cash and Temporary Investments | \$ 2,106,432 | \$ 65,128 | \$ 2,171,560 |
| Investments | 501,395 | - | 501,395 |
| Residents' Cash | 5,290 | - | 5,290 |
| Cash Restricted By Contributors For Capital Acquisitions | 38,716 | - | 38,716 |
| Total | <u>\$ 2,651,833</u> | <u>\$ 65,128</u> | <u>\$ 2,716,961</u> |

Residents' and Employees Cash

Residents' and employees' cash consists of cash held in checking accounts for the New Richland Care Center's residents and employees.

B. Loans Receivable

Commercial Loans

The City currently has a loan to a local business totaling \$3,000 at December 31, 2018, all of which is forgivable in two years after final distribution.

Flood Recovery Loans

The City currently has loans to various local businesses totaling \$35,970, net of an allowance for approximately one half of the original amount, the forgivable portions of \$91,612, at December 31, 2018. Interest free monthly payments on the notes total approximately \$900 over ten years. The loans are secured by real estate.

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

Revolving Economic Recovery Loans

The City currently has loans to various local businesses totaling \$34,459 at December 31, 2018. The loan is not forgivable. The remaining balance will be paid back to the City over 5 years with an interest rate of 3 percent.

C. Capital assets

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|---------------------|---------------------|
| Governmental Activities | | | | |
| Capital Assets not being Depreciated | | | | |
| Land | \$ 184,745 | \$ - | \$ - | \$ 184,745 |
| Construction in progress | 777,233 | 85,366 | (862,599) | - |
| Total Capital Assets not being Depreciated | <u>961,978</u> | <u>85,366</u> | <u>(862,599)</u> | <u>184,745</u> |
| Capital Assets, Being Depreciated | | | | |
| Buildings and improvements | 1,048,964 | 55,091 | - | 1,104,055 |
| Infrastructure | 1,039,682 | 862,599 | - | 1,902,281 |
| Machinery and equipment | 355,893 | - | - | 355,893 |
| Vehicles | 968,353 | 230,573 | (106,157) | 1,092,769 |
| Other assets | 45,674 | - | - | 45,674 |
| Total Capital Assets being Depreciated | <u>3,458,566</u> | <u>1,148,263</u> | <u>(106,157)</u> | <u>4,500,672</u> |
| Less Accumulated Depreciation for | | | | |
| Buildings and improvements | (296,984) | (26,780) | - | (323,764) |
| Infrastructure | (461,488) | (49,484) | - | (510,972) |
| Machinery and equipment | (255,500) | (28,584) | - | (284,084) |
| Vehicles | (683,790) | (56,533) | 74,594 | (665,729) |
| Other assets | (25,699) | (2,767) | - | (28,466) |
| Total Accumulated Depreciation | <u>(1,723,461)</u> | <u>(164,148)</u> | <u>74,594</u> | <u>(1,813,015)</u> |
| Total Capital Assets being Depreciated, Net | <u>1,735,105</u> | <u>984,115</u> | <u>(31,563)</u> | <u>2,687,657</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 2,697,083</u> | <u>\$ 1,069,481</u> | <u>\$ (894,162)</u> | <u>\$ 2,872,402</u> |

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-------------------|---------------------|---------------------|
| Business-Type Activities | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 60,000 | \$ - | \$ - | \$ 60,000 |
| Construction in progress | 585,276 | 65,582 | (650,858) | - |
| Total Capital Assets not being Depreciated | <u>645,276</u> | <u>65,582</u> | <u>(650,858)</u> | <u>60,000</u> |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 111,617 | - | - | 111,617 |
| Buildings | 2,820,697 | 83,419 | - | 2,904,116 |
| Utility systems | 9,208,335 | 650,857 | - | 9,859,192 |
| Machinery and equipment | 919,054 | 104,170 | - | 1,023,224 |
| Vehicles | 4,161 | - | - | 4,161 |
| Total Capital Assets being Depreciated | <u>13,063,864</u> | <u>838,446</u> | <u>-</u> | <u>13,902,310</u> |
| Less Accumulated Depreciation For | | | | |
| Land improvements | (85,400) | (5,285) | - | (90,685) |
| Buildings | (2,029,519) | (97,361) | - | (2,126,880) |
| Utility systems | (4,405,755) | (254,890) | - | (4,660,645) |
| Machinery and equipment | (709,280) | (54,287) | - | (763,567) |
| Vehicles | (4,161) | - | - | (4,161) |
| Total Accumulated Depreciation | <u>(7,234,115)</u> | <u>(411,823)</u> | <u>-</u> | <u>(7,645,938)</u> |
| Total Capital Assets being Depreciated, Net | <u>5,829,749</u> | <u>426,623</u> | <u>-</u> | <u>6,256,372</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 6,475,025</u> | <u>\$ 492,205</u> | <u>\$ (650,858)</u> | <u>\$ 6,316,372</u> |

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

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

Governmental Activities

| | |
|------------------------|----------|
| General government | \$ 5,336 |
| Public safety | 70,694 |
| Streets and highways | 66,807 |
| Culture and recreation | 17,718 |
| Miscellaneous | 3,593 |
| | 3,593 |

| | |
|--|------------|
| Total Depreciation Expense - Governmental Activities | \$ 164,148 |
|--|------------|

Business-Type Activities

| | |
|----------------------|-----------|
| Water utility | \$ 71,285 |
| Sewer utility | 185,984 |
| Cedar Pointe housing | 19,293 |
| Nursing home | 135,261 |
| | 135,261 |

| | |
|---|------------|
| Total Depreciation Expense - Business-type Activities | \$ 411,823 |
|---|------------|

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances at December 31, 2018 is as follows:

Advances from/to Other Funds

| Receivable Fund | Payable Fund | Amount |
|---|--|------------|
| General - Primary Government | TIF District 1-1 Homestake Subdivision - Primary Government | \$ 320,201 |
| | Cedar Pointe Housing - Primary Government | 30,000 |
| Capital Improvement Fund - Primary Government | Water Fund - Primary Government | 24,560 |
| EDA - Component Unit | Cedar Pointe Housing - Primary Government | 250,000 |
| | Sewer Fund - Primary Government | 24,560 |
| Totals | | \$ 649,321 |

The Cedar Pointe Housing fund is carrying a liability to the General fund for a loan used for a land acquisition. The original balance on the advance was \$60,000 and half of it was repaid during 2005. The Cedar Pointe Housing fund also owes the Economic Development Authority \$250,000 which is being held by the EDA for the purpose of satisfying a grant agreement. In 2018, The General fund loaned the TIF District 1-1 Homestake Subdivision an additional \$53,000 to cover the fund's cash deficit. In 2017, 2016 and 2015, the general fund also loaned the TIF District \$47,935, \$50,560 and \$57,408, respectively to cover the fund's cash deficit, these advances total \$320,201. In 2015, the Capital Improvement Fund loaned the Water Fund \$33,602 to cover the utility extension to the Dollar General site, these funds will be paid back with future tax abatement revenue, the current balance of this inter fund loan is \$24,560. In 2015, the Economic Development Authority loaned the Sewer Fund \$33,602 to cover the utility extension to the Dollar General site, these funds will be paid back with future tax abatement revenue, the current balance of this inter fund loan is \$24,560.

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

Interfund Transfers

| | Transfers in Primary | | | | Total |
|--|-------------------------|-----------------------------------|------------------|------------------|------------------|
| | Government | | Enterprise | | |
| | Debt Service Fund | Nonmajor Governmental Funds | Water Utility | Sewer Utility | |
| Transfers Out | | | | | |
| Governmental General fund | \$ - | \$ 300 | \$ 5,635 | \$ 5,636 | \$ 11,571 |
| TIF District 1-1 Homestead Subdivision | 73,800 | - | - | - | 73,800 |
| | <u>\$ 73,800</u> | <u>\$ 300</u> | <u>\$ 5,635</u> | <u>\$ 5,636</u> | <u>\$ 85,371</u> |
| Total Transfers Out | <u>\$ 73,800</u> | <u>\$ 300</u> | <u>\$ 5,635</u> | <u>\$ 5,636</u> | <u>\$ 85,371</u> |

For the year ended December 31, 2018, the City made the following transfers:

A transfer of \$300 was made from the General fund to the Oddfellows Building fund in accordance with the City's 2018 operating budget.

A transfer of \$73,800 was made from TIF District 1-1 Homestake Subdivision to 2009 G.O. Refunding for the fund's debt service payments.

A transfer of \$5,635 was made to the Water Utility fund for the tax collection from the Dollar general project to pay for prior construction costs.

A transfer of \$5,636 was made to the Sewer Utility fund for the tax collection from the Dollar general project to pay for prior construction costs.

E. Long-term Debt

General Obligation Bonds

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

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

General Obligation Special Assessment (Improvement) Bonds

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

| Description | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|---|--------------------------|------------------|---------------|------------------|---------------------------|
| G.O. Improvement Bonds of 2010A | \$ 166,000 | 4.00 % | 07/01/10 | 02/01/26 | \$ 99,000 |
| G.O. Improvement Refunding Bonds of 2012A | 424,500 | 0.75 - 2.40 | 06/01/12 | 02/01/24 | 237,500 |
| G.O. Improvement Bonds of 2014A | 1,655,000 | 1.75 - 3.30 | 08/01/14 | 12/01/29 | <u>1,255,000</u> |
| Total G.O. Special Assessment Bonds | | | | | <u>\$ 1,591,500</u> |

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

| Year Ending December 31, | General Obligation Improvement Bonds | | |
|-----------------------------|---|-------------------|---------------------|
| | Governmental Activities | | |
| | Principal | Interest | Total |
| 2019 | \$ 155,500 | \$ 42,762 | \$ 198,262 |
| 2020 | 155,500 | 39,794 | 195,294 |
| 2021 | 155,500 | 36,306 | 191,806 |
| 2022 | 166,500 | 32,660 | 199,160 |
| 2023 | 172,500 | 28,397 | 200,897 |
| 2024 - 2028 | 661,000 | 79,674 | 740,674 |
| 2029 | <u>125,000</u> | <u>4,125</u> | <u>129,125</u> |
| Total | <u>\$ 1,591,500</u> | <u>\$ 263,718</u> | <u>\$ 1,855,218</u> |

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

General Obligation Tax Increment Bonds

These bonds were issued for development and redevelopment projects. The additional tax revenue resulting from increased tax capacity of the redeveloped properties is used to retire the related debt.

| Description | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|--|--------------------------|------------------|---------------|------------------|---------------------------|
| G.O. Improvement Refunding Bonds of 2009 | \$ 675,000 | 1.00 - 3.30 % | 11/02/09 | 02/01/21 | <u>\$ 200,000</u> |

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

| Year Ending December 31, | G.O. Tax Increment Bonds Governmental Activities | | |
|-----------------------------|--|------------------|-------------------|
| | Principal | Interest | Total |
| 2019 | \$ 65,000 | \$ 5,463 | \$ 70,463 |
| 2020 | 65,000 | 3,383 | 68,383 |
| 2021 | <u>70,000</u> | <u>1,154</u> | <u>71,154</u> |
| Total | <u>\$ 200,000</u> | <u>\$ 10,000</u> | <u>\$ 210,000</u> |

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

G.O. Revenue Bonds

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

| Description | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|---|--------------------------|------------------|---------------|------------------|---------------------------|
| G.O. Water Revenue Bonds of 2003 (PFA) | \$ 1,365,000 | 2.74 % | 07/15/03 | 08/20/22 | \$ 318,522 |
| G.O. Sewer Revenue Bonds of 2011 (PFA) | 2,142,894 | 1.00 | 08/29/11 | 08/20/31 | 1,456,999 |
| G.O. Improvement Refunding Bonds of 2012A | 360,500 | 0.75 - 2.40 | 06/01/12 | 02/01/23 | <u>227,500</u> |
| Total G.O. Revenue Bonds | | | | | <u>\$ 2,003,021</u> |

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

| Year Ending December 31, | G.O. Revenue Bonds Business-type Activities | | |
|-----------------------------|---|-------------------|---------------------|
| | Principal | Interest | Total |
| 2019 | \$ 233,500 | \$ 27,643 | \$ 261,143 |
| 2020 | 238,500 | 23,522 | 262,022 |
| 2021 | 241,500 | 19,186 | 260,686 |
| 2022 | 216,021 | 14,694 | 230,715 |
| 2023 | 155,500 | 10,821 | 166,321 |
| 2024 - 2028 | 565,000 | 34,700 | 599,700 |
| 2029 - 2031 | <u>353,000</u> | <u>7,090</u> | <u>360,090</u> |
| Total | <u>\$ 2,003,021</u> | <u>\$ 137,656</u> | <u>\$ 2,140,677</u> |

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

| | Water | Sewer | Cedar Pointe Housing |
|------------------------|------------|------------|-------------------------|
| Revenues | \$ 267,719 | \$ 292,519 | \$ 61,290 |
| Principal and Interest | 143,875 | 124,536 | 19 |
| Percentage of Revenues | 53.7% | 42.6% | 0.0% |

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

Notes Payable

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

| Description | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|---------------------------------------|--------------------------|------------------|---------------|------------------|---------------------------|
| MHFA Mortgage | \$ 106,618 | 0.00 % | 02/23/04 | 02/01/34 | \$ 106,618 |
| GMHF Mortgage | 160,000 | 0.00 | 02/23/04 | 02/01/34 | 160,000 |
| G.O. Utility Revenue Note of 2017A | 100,000 | 2.65 | 07/10/17 | 02/01/25 | <u>94,000</u> |
| Total Notes Payable | | | | | <u><u>\$ 360,618</u></u> |

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

| Year Ending December 31, | Notes Payable Business-type Activities | | |
|-----------------------------|--|------------------------|--------------------------|
| | Principal | Interest | Total |
| 2019 | \$ 12,000 | \$ 2,332 | \$ 14,332 |
| 2020 | 13,000 | 2,001 | 15,001 |
| 2021 | 13,000 | 1,656 | 14,656 |
| 2022 | 14,000 | 1,299 | 15,299 |
| 2023 | 14,000 | 927 | 14,927 |
| 2024 - 2028 | 28,000 | 742 | 28,742 |
| 2029 - 2033 | - | - | - |
| 2034 | <u>266,618</u> | <u>-</u> | <u>266,618</u> |
| Total | <u><u>\$ 360,618</u></u> | <u><u>\$ 8,957</u></u> | <u><u>\$ 369,575</u></u> |

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Governmental Activities | | | | | |
| Bonds Payable | | | | | |
| General obligation special assessment bonds | \$ 1,739,500 | \$ - | \$ (148,000) | \$ 1,591,500 | \$ 155,500 |
| General obligation tax increment bonds | 260,000 | - | (60,000) | 200,000 | 65,000 |
| Unamortized bond premiums | 7,481 | - | (680) | 6,801 | - |
| Pension Liability | | | | | |
| GERF | 154,505 | 3,041 | (13,257) | 144,289 | - |
| PEPFF | 81,007 | 34,841 | (16,720) | 99,128 | - |
| Compensated Absences Payable | <u>25,553</u> | <u>20,303</u> | <u>(19,868)</u> | <u>25,988</u> | <u>9,847</u> |
| Governmental Activities Long-Term Liabilities | <u>\$ 2,268,046</u> | <u>\$ 58,185</u> | <u>\$ (258,525)</u> | <u>\$ 2,067,706</u> | <u>\$ 230,347</u> |
| Business-Type Activities | | | | | |
| Bonds Payable | | | | | |
| General obligation revenue bonds | \$ 2,230,021 | \$ - | \$ (227,000) | \$ 2,003,021 | \$ 233,500 |
| Notes Payable | 366,618 | - | (6,000) | 360,618 | 12,000 |
| Pension Liability | | | | | |
| GERF | 1,933,041 | 409 | (174,916) | 1,758,534 | - |
| Compensated Absences Payable | <u>64,451</u> | <u>1,895</u> | <u>(5,929)</u> | <u>60,417</u> | <u>59,274</u> |
| Business-type Activities Long-term Liabilities | <u>\$ 4,594,131</u> | <u>\$ 2,304</u> | <u>\$ (413,845)</u> | <u>\$ 4,182,590</u> | <u>\$ 304,774</u> |

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 4: Defined Benefit Pension Plan - Statewide

A. Plan Description

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

General Employees Retirement Fund (GERF)

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

Public Employees Police and Fire Fund (PEPFF)

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

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

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

PEPFF benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

C. Contributions

Minnesota statutes chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Plan members were required to contribute 6.50 percent of their annual covered salary and the City was required to contribute 7.50 percent of pay for Coordinated Plan members in fiscal year 2018. The City's contributions to the GERF for the years ending December 31, 2018, 2017 and 2016 were \$172,817, \$160,345 and \$157,993, respectively. The City's contributions were equal to the required contributions for each year as set by Minnesota statute.

PEPFF Contributions

Plan members were required to contribute 10.80 percent of their annual covered salary and the City was required to contribute 16.20 percent of pay for members in fiscal year 2018. The City's contributions to the PEPFF for the years ending December 31, 2018, 2017 and 2016 were \$17,124, \$12,603 and \$12,679, respectively. The City's contributions were equal to the required contributions for each year as set by Minnesota statute.

D. Pension Costs

GERF Pension Costs

At December 31, 2018, the City reported a liability of \$1,902,823 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$62,548. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 0.0343 percent which was an increase of 0.0018 percent from its proportion measured as of June 30, 2017.

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

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

| | |
|--|-----------------------------------|
| City's Proportionate Share of the Net Pension Liability | \$ 1,902,823 |
| State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City | <u>62,548</u> |
| Total | <u><u>\$ 1,965,371</u></u> |

For the year ended December 31, 2018, the City recognized pension expense of \$4,563 for its proportionate share of GERP's pension expense. In addition, the City recognized \$1,274 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the GERP.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Experience | \$ 50,381 | \$ 57,141 |
| Changes in Actuarial Assumptions | 182,228 | 213,801 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | - | 193,570 |
| Changes in Proportion | 95,578 | 13,028 |
| Contributions to GERP Subsequent to the Measurement Date | <u>54,776</u> | <u>-</u> |
| Total | <u><u>\$ 382,963</u></u> | <u><u>\$ 477,540</u></u> |

Deferred outflows of resources totaling \$54,776 related to pensions resulting from the City's contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

| | |
|------|-----------|
| 2019 | \$ 86,172 |
| 2020 | (68,068) |
| 2021 | (127,737) |
| 2022 | (39,720) |

PEPFF Pension Costs

At December 31, 2018, the City reported a liability of \$99,128 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 0.0093 percent which was an increase of 0.0033 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension revenue of \$3,464 for its proportionate share of PEPFF's pension expense. The City also recognized \$837 for the year ended December 31, 2018 as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the plan. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

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

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Experience | \$ 4,015 | \$ 34,581 |
| Changes in Actuarial Assumptions | 130,525 | 145,930 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | - | 9,098 |
| Changes in Proportion | 59,433 | 46,829 |
| Contributions to PEPFF Subsequent to the Measurement Date | 8,680 | - |
| | \$ 202,653 | \$ 236,438 |
| Total | | |

Deferred outflows of resources totaling \$8,680 related to pensions resulting from the City's contributions to PEPFF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to PEPFF pensions will be recognized in pension expense as follows:

| | |
|------|----------|
| 2019 | \$ 3,996 |
| 2020 | (6,382) |
| 2021 | (17,247) |
| 2022 | (32,604) |
| 2023 | 9,772 |

E. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for GERF and 1.0 percent per year for PEPFF.

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

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

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

The following changes in actuarial assumptions occurred in 2018:

GERF

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

PEPFF

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--------------------------------------|------------------------------|---|
| Domestic Stocks | 36.00 % | 5.10 % |
| International Stocks | 17.00 | 5.30 |
| Bonds (Fixed Income) | 20.00 | 0.75 |
| Alternative Assets (Private Markets) | 25.00 | 5.90 |
| Cash | <u>2.00</u> | - |
| Total | <u><u>100.00 %</u></u> | |

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

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

F. Discount Rate

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

G. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

| | City Proportionate Share of NPL | | |
|-------|---------------------------------|-----------------|-------------------------------|
| | 1 Percent Decrease (6.50%) | Current (7.50%) | 1 Percent Increase (8.50%) |
| GERF | \$ 3,092,331 | \$ 1,902,823 | \$ 920,919 |
| PEPFF | 212,538 | 99,128 | 5,344 |

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Note 5: Defined Benefit Pension Plan - Fire Relief Association

A. Plan Description

All members of the New Richland Fire Department (the Department) are covered by a defined benefit plan administered by the New Richland Firefighters' Relief Association (the Association). The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

The Association issues a publicly available financial report. The report may be obtained by writing to New Richland Firefighters' Relief Association, 203 N. Broadway, New Richland, MN 56072.

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

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

B. Funding Policy

The financial requirements of the Special fund are determined in accordance with section 69.772 of Minnesota statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 20 years of service, and 10 years of Association membership or upon death. The City's annual pension cost for the current year and related information for the plan is as follows:

| | | |
|-------------------------------|----|---------------------|
| Annual Pension Cost | \$ | 23,111 |
| Contributions Made | | |
| City (required) | | 450 |
| State aid | | 22,661 |
| Actuarial Valuation Date | | 12/31/18 |
| Actuarial Cost Method | | Entry age normal |
| Amortization Method | | Level dollar closed |
| Remaining Amortization Period | | |
| Normal cost | | 20 years |
| Prior service cost | | 10 years |
| Asset Valuation Method | | Market |
| Actuarial Assumptions | | |
| Investment rate of return | | 5% |
| Projected salary increases | | N/A |
| Inflation rate | | N/A |
| Cost of living adjustments | | None |

Three Year Trend Information

| Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|----------------|---------------------------------|-------------------------------------|---------------------------|
| 12/31/18 | \$ 23,111 | 100.0 % | \$ - |
| 12/31/17 | 23,463 | 100.0 | - |
| 12/31/16 | 23,596 | 100.0 | - |

Required Supplementary Information

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Assets in Excess of (Unfunded) Accrued Liability | Funded Rate | Pension Benefit Per Year of Service |
|--------------------------------|---------------------------------|-----------------------------------|--|----------------|--|
| 12/31/18 | \$ 366,878 | \$ 302,592 | \$ 64,286 | 121.2 % | \$ 1,200 |
| 12/31/17 | 319,413 | 274,824 | 44,589 | 116.2 | 1,200 |
| 12/31/16 | 282,045 | 252,432 | 29,613 | 111.7 | 1,200 |
| 12/31/15 | 241,861 | 227,256 | 14,605 | 106.4 | 1,200 |
| 12/31/14 | 240,881 | 197,560 | 43,321 | 121.9 | 1,000 |

City of New Richland, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 6: Other Information

A. Risk Management

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

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

B. Contingent Liabilities

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

C. Maintenance Contract

The City has contracted for the maintenance of its Water and Sewer plants with People Service. The maintenance agreement commenced on January 1, 2013 and will remain in effect for 5 years. Monthly payments under the agreement are currently \$10,087. These payments are adjusted annually on January 1 in relation to the consumer price index.

D. Legal Debt Margin

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

Note 7: Commitments and Contingencies

A. Tax Increment Districts

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

B. Concentrations

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2018 was \$401,496 . This accounted for 37.96 percent of General fund revenue.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEW RICHLAND
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

City of New Richland, Minnesota
 Required Supplementary Information
 For the Year Ended December 31, 2018

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

| Fiscal Year Ending | City's Proportion of the Net Pension Liability | City's Proportionate Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability Associated with the City (b) | Total (a+b) | City's Covered Payroll (c) | City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------------|--|---|---|--------------|----------------------------|--|--|
| 06/30/18 | 0.0343 % | \$ 1,902,823 | \$ 62,548 | \$ 1,965,371 | \$ 2,286,916 | 83.2 % | 79.5 % |
| 06/30/17 | 0.0325 | 2,087,546 | 26,206 | 2,113,752 | 2,134,705 | 97.8 | 75.9 |
| 06/30/16 | 0.0321 | 2,606,390 | 34,124 | 2,640,514 | 2,097,876 | 124.2 | 68.9 |
| 06/30/15 | 0.0328 | 1,699,866 | - | 1,699,866 | 1,952,320 | 87.1 | 78.2 |

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

Schedule of Employer's PERA Contributions - General Employees Retirement Fund

| Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | City's Covered Payroll (c) | Contributions as a Percentage of Covered Payroll (b/c) |
|-------------|---------------------------------------|--|--|----------------------------|--|
| 12/31/18 | \$ 172,817 | \$ 172,817 | \$ - | \$ 2,304,233 | 7.5 % |
| 12/31/17 | 160,345 | 160,345 | - | 2,139,080 | 7.5 |
| 12/31/16 | 157,993 | 157,993 | - | 2,106,566 | 7.5 |
| 12/31/15 | 129,230 | 129,230 | - | 1,946,147 | 6.6 |

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

City of New Richland, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2018

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

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

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

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

Changes in Plan Provisions

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

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

City of New Richland, Minnesota
 Required Supplementary Information (Continued)
 For the Year Ended December 31, 2018

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

| Fiscal Year Ending | City's Proportion of the Net Pension Liability | City's Proportionate Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability Associated with the City (b) | Total (a+b) | City's Covered Payroll (c) | City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------------|--|---|---|-------------|----------------------------|--|--|
| 06/30/18 | 0.0093 % | \$ 99,128 | \$ - | \$ 99,128 | \$ 98,407 | 100.7 % | 88.8 % |
| 06/30/17 | 0.0060 | 81,007 | - | \$ 81,007 | 63,105 | 128.4 | 85.4 |
| 06/30/16 | 0.0100 | 401,317 | - | \$ 401,317 | 100,264 | 400.3 | 63.9 |
| 06/30/15 | 0.0100 | 113,623 | - | 113,623 | 88,932 | 127.8 | 86.6 |

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

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

| Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | City's Covered Payroll (c) | Contributions as a Percentage of Covered Payroll (b/c) |
|-------------|---------------------------------------|--|--|----------------------------|--|
| 12/31/18 | \$ 17,124 | \$ 17,124 | \$ - | \$ 105,706 | 16.2 % |
| 12/31/17 | 12,603 | 12,603 | - | 77,799 | 16.2 |
| 12/31/16 | 12,679 | 12,679 | - | 78,265 | 16.2 |
| 12/31/15 | 15,724 | 15,724 | - | 97,061 | 16.2 |

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

City of New Richland, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2018

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

Changes in Actuarial Assumptions

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

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

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

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

Changes in Plan Provisions

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

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF NEW RICHLAND
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

City of New Richland, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2018

| | Special Revenue Rural Fire | Nonmajor Capital Projects | Total Nonmajor Governmental Funds |
|---|-------------------------------------|---------------------------------|--|
| Assets | | | |
| Cash and temporary investments | \$ 189,256 | \$ 322,550 | \$ 511,806 |
| Receivables | | | |
| Accounts | 3,590 | - | 3,590 |
| Advances to other funds | - | 24,560 | 24,560 |
| Prepaid items | 2,041 | - | 2,041 |
| Total Assets | \$ 194,887 | \$ 347,110 | \$ 541,997 |
| Liabilities | | | |
| Accounts payable | \$ 4,485 | \$ - | \$ 4,485 |
| Fund Balances | | | |
| Nonspendable | | | |
| Prepaid items | 2,041 | - | 2,041 |
| Restricted | | | |
| Future capital outlay | - | 267,106 | 267,106 |
| Assigned | | | |
| Fire protection | 188,361 | - | 188,361 |
| Future capital outlay | - | 79,183 | 79,183 |
| Renovation | - | 821 | 821 |
| Total Fund Balances | 190,402 | 347,110 | 537,512 |
| Total Liabilities and Fund Balances | \$ 194,887 | \$ 347,110 | \$ 541,997 |

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

| | Special Revenue Rural Fire | Nonmajor Capital Projects | Total Nonmajor Governmental Funds |
|--|-------------------------------------|---------------------------------|--|
| Revenues | | | |
| Charges for services | \$ 48,700 | \$ - | \$ 48,700 |
| Investment earnings | 38 | 564 | 602 |
| Miscellaneous | 26,861 | 5,980 | 32,841 |
| Total Revenues | 75,599 | 6,544 | 82,143 |
| Expenditures | | | |
| Current | | | |
| Public safety | 28,655 | - | 28,655 |
| Economic development | - | 10 | 10 |
| Capital outlay | | | |
| Public safety | 27,501 | - | 27,501 |
| Streets and highways | - | 85,367 | 85,367 |
| Total Expenditures | 56,156 | 85,377 | 141,533 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 19,443 | (78,833) | (59,390) |
| Other Financing Sources | | | |
| Transfers in | - | 300 | 300 |
| Net Changes in Fund Balances | 19,443 | (78,533) | (59,090) |
| Fund Balances, January 1 | 170,959 | 425,643 | 596,602 |
| Fund Balances, December 31 | \$ 190,402 | \$ 347,110 | \$ 537,512 |

City of New Richland, Minnesota
 Nonmajor Special Revenue Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 Rural Fire Fund
 For the Year Ended December 31, 2018

| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|------------------------------|---------------------------------|------------------------------|-------------------|-------------------------------|
| Revenues | | | | |
| Charges for service | \$ 49,225 | \$ 49,225 | \$ 48,700 | \$ (525) |
| Investment earnings | 45 | 45 | 38 | (7) |
| Miscellaneous | | | | |
| Refunds and reimbursements | - | - | 361 | 361 |
| Contributions and donations | - | - | 26,500 | 26,500 |
| Total Revenues | <u>49,270</u> | <u>49,270</u> | <u>75,599</u> | <u>26,329</u> |
| Expenditures | | | | |
| Current | | | | |
| Public safety | | | | |
| Personal service | 2,712 | 2,712 | 2,216 | 496 |
| Supplies | 12,200 | 12,200 | 10,953 | 1,247 |
| Other service and charges | 21,862 | 21,862 | 15,486 | 6,376 |
| Capital outlay | | | | |
| Public safety | 12,496 | 12,496 | 27,501 | (15,005) |
| Total Expenditures | <u>49,270</u> | <u>49,270</u> | <u>56,156</u> | <u>(6,886)</u> |
| Net Changes in Fund Balances | - | - | 19,443 | 19,443 |
| Fund Balances, January 1 | <u>170,959</u> | <u>170,959</u> | <u>170,959</u> | <u>-</u> |
| Fund Balances, December 31 | <u>\$ 170,959</u> | <u>\$ 170,959</u> | <u>\$ 190,402</u> | <u>\$ 19,443</u> |

City of New Richland, Minnesota
 Nonmajor Capital Projects Funds
 Combining Balance Sheet
 For the Year Ended December 31, 2018

| | 401 | 411 | 412 | |
|--------------------------------|-------------------------|--------------------------|----------------------|--------------------------|
| | Capital | 2014 Street | Oddfellows | |
| | <u>Improvement</u> | <u>Reconstruction</u> | <u>Building</u> | <u>Total</u> |
| Assets | | | | |
| Cash and temporary investments | \$ 54,623 | \$ 267,106 | \$ 821 | \$ 322,550 |
| Advances to other funds | <u>24,560</u> | <u>-</u> | <u>-</u> | <u>24,560</u> |
| Total Assets | <u><u>\$ 79,183</u></u> | <u><u>\$ 267,106</u></u> | <u><u>\$ 821</u></u> | <u><u>\$ 347,110</u></u> |
| Fund Balances | | | | |
| Restricted | | | | |
| Future capital outlay | \$ - | \$ 267,106 | \$ - | \$ 267,106 |
| Assigned | | | | |
| Future capital outlay | 79,183 | - | - | 79,183 |
| Renovation | <u>-</u> | <u>-</u> | <u>821</u> | <u>821</u> |
| Total Fund Balances | <u><u>\$ 79,183</u></u> | <u><u>\$ 267,106</u></u> | <u><u>\$ 821</u></u> | <u><u>\$ 347,110</u></u> |

City of New Richland, Minnesota
 Nonmajor Capital Projects Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 For the Year Ended December 31, 2018

| | 401 | 411 | 412 | |
|--|--------------------|-----------------------|-----------------|-------------------|
| | Capital | 2014 Street | Oddfellows | Total |
| | <u>Improvement</u> | <u>Reconstruction</u> | <u>Building</u> | <u></u> |
| Revenues | | | | |
| Investment earnings | \$ 564 | \$ - | \$ - | \$ 564 |
| Miscellaneous | | | | |
| Contributions and donations | <u>5,980</u> | <u>-</u> | <u>-</u> | <u>5,980</u> |
| Total Revenues | <u>6,544</u> | <u>-</u> | <u>-</u> | <u>6,544</u> |
| Expenditures | | | | |
| Current | | | | |
| Economic development | | | | |
| Other services and charges | - | - | 10 | 10 |
| Capital outlay | | | | |
| Streets and highways | <u>-</u> | <u>85,367</u> | <u>-</u> | <u>85,367</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 6,544 | (85,367) | (10) | (78,833) |
| Other Financing Sources | | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>300</u> | <u>300</u> |
| Net Change in Fund Balances | 6,544 | (85,367) | 290 | (78,533) |
| Fund Balances, January 1 | <u>72,639</u> | <u>352,473</u> | <u>531</u> | <u>425,643</u> |
| Fund Balances, December 31 | <u>\$ 79,183</u> | <u>\$ 267,106</u> | <u>\$ 821</u> | <u>\$ 347,110</u> |

City of New Richland, Minnesota
 General Fund
 Comparative Balance Sheets
 December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Assets | | |
| Cash and temporary investments | \$ 702,392 | \$ 856,802 |
| Receivables | | |
| Delinquent taxes | 11,684 | 13,660 |
| Accounts | 70,557 | 99,615 |
| Special assessments | 2,054 | 3,475 |
| Intergovernmental | 3,660 | 3,416 |
| Advances to other funds | 350,201 | 297,201 |
| Prepaid items | 13,467 | 7,546 |
| Total Assets | <u>\$ 1,154,015</u> | <u>\$ 1,281,715</u> |
| Liabilities | | |
| Accounts payable | \$ 13,223 | \$ 11,245 |
| Due to other governments | 1,086 | - |
| Accrued salaries payable | 15,029 | 11,399 |
| Total Liabilities | 29,338 | 22,644 |
| Deferred Inflows of Resources | | |
| Unavailable revenue | | |
| Property taxes | 11,684 | 13,660 |
| Special assessments | 2,054 | 3,475 |
| Total Deferred Inflows of Resources | 13,738 | 17,135 |
| Fund Balances | | |
| Nonspendable | | |
| Advances to other funds | 350,201 | 297,201 |
| Prepaid items | 13,467 | 7,546 |
| Assigned | | |
| Capital outlay | 228,228 | 204,531 |
| Unassigned | 519,043 | 732,658 |
| Total Fund Balances | 1,110,939 | 1,241,936 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 1,154,015</u> | <u>\$ 1,281,715</u> |

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

| | 2018 | | | | 2017 |
|-----------------------------|---------------------------------|------------------------------|-------------------|-------------------------------|-------------------|
| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget | Actual Amounts |
| Revenues | | | | | |
| Taxes | | | | | |
| Property taxes | \$ 288,422 | \$ 288,422 | \$ 297,026 | \$ 8,604 | \$ 264,700 |
| Payment in lieu of taxes | 10,000 | 10,000 | 9,976 | (24) | 10,456 |
| Franchise taxes | 19,500 | 19,500 | 19,952 | 452 | 19,592 |
| Total Taxes | <u>317,922</u> | <u>317,922</u> | <u>326,954</u> | <u>9,032</u> | <u>294,748</u> |
| Special assessments | - | - | 384 | 384 | 450 |
| Licenses and permits | <u>15,219</u> | <u>15,219</u> | <u>12,913</u> | <u>(2,306)</u> | <u>22,694</u> |
| Intergovernmental | | | | | |
| State | | | | | |
| Local government aid | 389,435 | 389,435 | 401,496 | 12,061 | 387,839 |
| Fire aid | 24,000 | 24,000 | 22,661 | (1,339) | 23,013 |
| Police state aid | 7,500 | 7,500 | 12,603 | 5,103 | 12,679 |
| Other state aids | 5,478 | 5,478 | 16,728 | 11,250 | 16,226 |
| Total State | <u>426,413</u> | <u>426,413</u> | <u>453,488</u> | <u>27,075</u> | <u>439,757</u> |
| Local | | | | | |
| Other local aids | <u>5,000</u> | <u>5,000</u> | <u>5,000</u> | <u>-</u> | <u>5,000</u> |
| Total Intergovernmental | <u>431,413</u> | <u>431,413</u> | <u>458,488</u> | <u>27,075</u> | <u>444,757</u> |
| Charges for services | | | | | |
| Public safety | 157,947 | 157,947 | 180,130 | 22,183 | 140,543 |
| Streets and highways | 700 | 700 | 2,068 | 1,368 | 1,548 |
| Culture and recreation | 3,000 | 3,000 | 2,990 | (10) | 2,910 |
| Total Charges for Services | <u>161,647</u> | <u>161,647</u> | <u>185,188</u> | <u>23,541</u> | <u>145,001</u> |
| Fines and forfeits | <u>500</u> | <u>500</u> | <u>3,052</u> | <u>2,552</u> | <u>1,291</u> |
| Investment earnings | <u>4,045</u> | <u>4,045</u> | <u>6,244</u> | <u>2,199</u> | <u>6,888</u> |
| Miscellaneous | | | | | |
| Other | - | - | 10,103 | 10,103 | 10,222 |
| Rents | 1,800 | 1,800 | 1,953 | 153 | 1,908 |
| Contributions and donations | - | - | 43,556 | 43,556 | 25,889 |
| Refunds and reimbursements | 1,575 | 1,575 | 8,818 | 7,243 | 16,528 |
| Total miscellaneous | <u>3,375</u> | <u>3,375</u> | <u>64,430</u> | <u>61,055</u> | <u>54,547</u> |
| Total Revenues | <u>934,121</u> | <u>934,121</u> | <u>1,057,653</u> | <u>123,532</u> | <u>970,376</u> |

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

| | 2018 | | | | 2017 |
|----------------------------|---------------------------------|------------------------------|-------------------|-------------------------------|-------------------|
| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget | Actual Amounts |
| Expenditures | | | | | |
| Current | | | | | |
| General Government | | | | | |
| Mayor and Council | | | | | |
| Personal services | \$ 10,304 | \$ 10,304 | \$ 9,198 | \$ 1,106 | \$ 9,113 |
| Other services and charges | 1,153 | 1,153 | 358 | 795 | 1,225 |
| Total Mayor and Council | <u>11,457</u> | <u>11,457</u> | <u>9,556</u> | <u>1,901</u> | <u>10,338</u> |
| Administration | | | | | |
| Personal services | 113,729 | 113,729 | 114,063 | (334) | 106,704 |
| Supplies | 14,400 | 14,400 | 15,947 | (1,547) | 13,129 |
| Other services and charges | 19,774 | 20,274 | 14,719 | 5,555 | 17,856 |
| Total Administration | <u>147,903</u> | <u>148,403</u> | <u>144,729</u> | <u>3,674</u> | <u>137,689</u> |
| Election | | | | | |
| Personal services | 1,500 | 1,500 | 2,195 | (695) | - |
| Supplies | 1,000 | 1,000 | 2,149 | (1,149) | 1,087 |
| Other services and charges | 450 | 700 | 283 | 417 | 1 |
| Total Election | <u>2,950</u> | <u>3,200</u> | <u>4,627</u> | <u>(1,427)</u> | <u>1,088</u> |
| Total General Government | <u>162,310</u> | <u>163,060</u> | <u>158,912</u> | <u>4,148</u> | <u>149,115</u> |
| Public Safety | | | | | |
| Police | | | | | |
| Personal services | 194,906 | 194,906 | 205,547 | (10,641) | 148,614 |
| Supplies | 12,300 | 12,300 | 17,738 | (5,438) | 16,134 |
| Other services and charges | 36,575 | 36,575 | 34,356 | 2,219 | 25,604 |
| Total Police | <u>243,781</u> | <u>243,781</u> | <u>257,641</u> | <u>(13,860)</u> | <u>190,352</u> |
| Ambulance | | | | | |
| Personal services | 70,939 | 70,939 | 56,346 | 14,593 | 53,708 |
| Supplies | 18,300 | 18,300 | 24,284 | (5,984) | 28,777 |
| Other services and charges | 54,446 | 54,546 | 72,451 | (17,905) | 74,712 |
| Total Ambulance | <u>143,685</u> | <u>143,785</u> | <u>153,081</u> | <u>(9,296)</u> | <u>157,197</u> |
| Fire | | | | | |
| Personal services | 27,163 | 27,163 | 25,327 | 1,836 | 25,940 |
| Supplies | 12,200 | 12,200 | 11,002 | 1,198 | 8,419 |
| Other services and charges | 21,862 | 21,862 | 16,185 | 5,677 | 23,631 |
| Total Fire | <u>61,225</u> | <u>61,225</u> | <u>52,514</u> | <u>8,711</u> | <u>57,990</u> |
| Building inspection | | | | | |
| Other services and charges | <u>10,956</u> | <u>10,956</u> | <u>8,649</u> | <u>2,307</u> | <u>21,090</u> |
| Civil Defense | | | | | |
| Other services and charges | - | - | 506 | (506) | - |
| Total Public Safety | <u>459,647</u> | <u>459,747</u> | <u>472,391</u> | <u>(12,644)</u> | <u>426,629</u> |

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

| | 2018 | | | 2017 | |
|---------------------------------|---------------------------------|------------------------------|-------------------|-------------------------------|-------------------|
| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget | Actual Amounts |
| Expenditures (Continued) | | | | | |
| Current (Continued) | | | | | |
| Streets and Highways | | | | | |
| Personal services | \$ 103,151 | \$ 103,151 | \$ 106,675 | \$ (3,524) | \$ 92,146 |
| Supplies | 31,706 | 31,706 | 43,459 | (11,753) | 37,065 |
| Other services and charges | 31,626 | 31,626 | 31,697 | (71) | 31,479 |
| Total Streets and Highways | <u>166,483</u> | <u>166,483</u> | <u>181,831</u> | <u>(15,348)</u> | <u>160,690</u> |
| Sanitation and waste removal | | | | | |
| Other services and charges | <u>3,800</u> | <u>3,800</u> | <u>5,398</u> | <u>(1,598)</u> | <u>3,414</u> |
| Culture and Recreation | | | | | |
| Recreation - Legion Field | | | | | |
| Personal services | 3,500 | 3,500 | 1,177 | 2,323 | 3,161 |
| Supplies | 2,150 | 3,400 | 3,291 | 109 | 4,213 |
| Other services and charges | 6,824 | 6,824 | 5,274 | 1,550 | 5,642 |
| Total Recreation - Legion Field | <u>12,474</u> | <u>13,724</u> | <u>9,742</u> | <u>3,982</u> | <u>13,016</u> |
| Parks - St. Olaf Park | | | | | |
| Personal services | 15,907 | 15,907 | 12,631 | 3,276 | 13,445 |
| Supplies | 3,292 | 3,292 | 12,042 | (8,750) | 9,221 |
| Other services and charges | 5,632 | 5,632 | 7,274 | (1,642) | 6,426 |
| Total Parks - St. Olaf Park | <u>24,831</u> | <u>24,831</u> | <u>31,947</u> | <u>(7,116)</u> | <u>29,092</u> |
| Senior citizens' bus | | | | | |
| Other services and charges | <u>3,000</u> | <u>3,000</u> | <u>-</u> | <u>3,000</u> | <u>-</u> |
| Library | | | | | |
| Supplies | 2,000 | 2,000 | 694 | 1,306 | 1,120 |
| Other services and charges | 5,933 | 5,933 | 6,171 | (238) | 2,882 |
| Total Library | <u>7,933</u> | <u>7,933</u> | <u>6,865</u> | <u>1,068</u> | <u>4,002</u> |
| Total Culture and Recreation | <u>48,238</u> | <u>49,488</u> | <u>48,554</u> | <u>934</u> | <u>46,110</u> |
| Economic development | | | | | |
| Other services and charges | <u>-</u> | <u>-</u> | <u>5,000</u> | <u>(5,000)</u> | <u>4,800</u> |
| Total Current | <u>840,478</u> | <u>842,578</u> | <u>872,086</u> | <u>(29,508)</u> | <u>790,758</u> |

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

| | 2018 | | | | 2017 |
|--|---------------------------------|------------------------------|---------------------|-------------------------------|---------------------|
| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget | Actual Amounts |
| Expenditures (Continued) | | | | | |
| Capital Outlay | | | | | |
| General government | \$ 5,808 | \$ 5,808 | \$ 56,455 | \$ (50,647) | \$ - |
| Public safety | 20,235 | 22,235 | 215,848 | (193,613) | 11,986 |
| Streets and highways | 90,200 | 90,200 | 46,813 | 43,387 | 140,500 |
| Culture and recreation | 1,000 | 1,000 | 514 | 486 | 20,084 |
| Total Capital Outlay | <u>117,243</u> | <u>119,243</u> | <u>319,630</u> | <u>(200,387)</u> | <u>172,570</u> |
| Total Expenditures | <u>957,721</u> | <u>961,821</u> | <u>1,191,716</u> | <u>(229,895)</u> | <u>963,328</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(23,600)</u> | <u>(27,700)</u> | <u>(134,063)</u> | <u>(106,363)</u> | <u>7,048</u> |
| Other Financing Sources (Uses) | | | | | |
| Sale of capital assets | - | - | 14,637 | 14,637 | 4,169 |
| Transfers in | - | - | - | - | 16,305 |
| Transfers out | (12,300) | (12,300) | (11,571) | 729 | (11,571) |
| Total Other Financing Sources (Uses) | <u>(12,300)</u> | <u>(12,300)</u> | <u>3,066</u> | <u>15,366</u> | <u>8,903</u> |
| Net Change in Fund Balances | (35,900) | (40,000) | (130,997) | (90,997) | 15,951 |
| Fund Balances, January 1 | <u>1,241,936</u> | <u>1,241,936</u> | <u>1,241,936</u> | <u>-</u> | <u>1,225,985</u> |
| Fund Balances, December 31 | <u>\$ 1,206,036</u> | <u>\$ 1,201,936</u> | <u>\$ 1,110,939</u> | <u>\$ (90,997)</u> | <u>\$ 1,241,936</u> |

City of New Richland, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2018

| | 305 2009 G.O. Refunding | 320 2007 G.O. Improvement | 314 2014 G.O. Improvement | Total |
|--|--------------------------------------|--|--|-------------------|
| Assets | | | | |
| Cash and temporary investments | \$ 4,022 | \$ 166,052 | \$ 58,603 | \$ 228,677 |
| Receivables | | | | |
| Special assessments | 52,180 | 44,869 | 199,639 | 296,688 |
| Intergovernmental | - | 1,662 | - | 1,662 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$ 56,202</u> | <u>\$ 212,583</u> | <u>\$ 258,242</u> | <u>\$ 527,027</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue | | | | |
| Special assessments | \$ 52,180 | \$ 44,869 | \$ 199,639 | \$ 296,688 |
| Fund Balances | | | | |
| Restricted | | | | |
| Debt service | <u>4,022</u> | <u>167,714</u> | <u>58,603</u> | <u>230,339</u> |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Deferred Inflows of Resources And Fund Balances | <u>\$ 56,202</u> | <u>\$ 212,583</u> | <u>\$ 258,242</u> | <u>\$ 527,027</u> |

City of New Richland, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2018

| | 305 2009 G.O. Refunding | 320 2007 G.O. Improvement | 314 2014 G.O. Improvement | Total |
|--|--------------------------------------|--|--|-------------------|
| Revenues | | | | |
| Property taxes | \$ - | \$ 28,000 | \$ 106,890 | \$ 134,890 |
| Special assessments | 12,276 | 19,021 | 35,864 | 67,161 |
| Total Revenues | <u>12,276</u> | <u>47,021</u> | <u>142,754</u> | <u>202,051</u> |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | 70,000 | 38,000 | 100,000 | 208,000 |
| Interest and other | 12,054 | 5,808 | 36,475 | 54,337 |
| Total Expenditures | <u>82,054</u> | <u>43,808</u> | <u>136,475</u> | <u>262,337</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (69,778) | 3,213 | 6,279 | (60,286) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | <u>73,800</u> | <u>-</u> | <u>-</u> | <u>73,800</u> |
| Net Change in Fund Balances | 4,022 | 3,213 | 6,279 | 13,514 |
| Fund Balances, January 1 | <u>-</u> | <u>164,501</u> | <u>52,324</u> | <u>216,825</u> |
| Fund Balances, December 31 | <u>\$ 4,022</u> | <u>\$ 167,714</u> | <u>\$ 58,603</u> | <u>\$ 230,339</u> |

City of New Richland, Minnesota
 Discretely Presented Component Unit
 Economic Development Authority
 Governmental Fund Balance Sheet/
 Statement of Net Position
 December 31, 2018

| | | |
|--|-----------|----------------|
| Assets | | |
| Cash and temporary investments | \$ | 65,128 |
| Receivables | | |
| Loans, net of allowances | | 73,429 |
| Due from primary government | | <u>274,560</u> |
| Total Assets | <u>\$</u> | <u>413,117</u> |
| Fund Balances | | |
| Nonspendable | | |
| Due from primary government | \$ | 274,560 |
| Loan receivables | | 73,429 |
| Assigned | | |
| Economic development | | <u>65,128</u> |
| Total Fund Balances | <u>\$</u> | <u>413,117</u> |
| Net Position | | |
| Restricted | \$ | 347,989 |
| Unrestricted | | <u>65,128</u> |
| Total Net Position - Governmental Activities | <u>\$</u> | <u>413,117</u> |

City of New Richland, Minnesota
 Discretely Presented Component Unit
 Economic Development Authority Fund
 Statement of Revenues, Expenditures and Changes in Fund Balances/Net Position -
 Governmental Fund
 For the Year Ended December 31, 2018

| | |
|--|--------------------------|
| Revenues | |
| Intergovernmental | \$ 3,920 |
| Payments from primary government | 5,000 |
| Investment earnings | <u>566</u> |
| Total Revenues | <u>9,486</u> |
| | |
| Expenditures | |
| Current | |
| Economic development | <u>4,531</u> |
| | |
| Net Changes in Fund Balances/Net Position | 4,955 |
| | |
| Fund Balances/Net Position, January 1 | <u>408,162</u> |
| | |
| Fund Balances/Net Position, December 31 | <u><u>\$ 413,117</u></u> |
| | |
| Change in Net Position - Governmental Activities | <u><u>\$ 4,955</u></u> |

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

| | Total | | Percent Increase (Decrease) |
|---------------------------------------|---------------------|---------------------|-----------------------------------|
| | 2018 | 2017 | |
| Revenues | | | |
| Taxes | \$ 482,841 | \$ 450,421 | 7.20 % |
| Special assessments | 67,545 | 70,464 | (4.14) |
| Licenses and permits | 12,913 | 22,694 | (43.10) |
| Intergovernmental | 458,488 | 446,130 | 2.77 |
| Charges for services | 233,888 | 194,807 | 20.06 |
| Fines and forfeits | 3,052 | 1,291 | 136.41 |
| Investment earnings | 6,846 | 8,203 | (16.54) |
| Miscellaneous | 97,271 | 60,469 | 60.86 |
| Total Revenues | <u>\$ 1,362,844</u> | <u>\$ 1,254,479</u> | 8.64 % |
| Per Capita | \$ 1,128 | \$ 1,038 | 8.73 % |
| Expenditures | | | |
| Current | | | |
| General government | \$ 158,912 | \$ 149,115 | 6.57 % |
| Public safety | 501,046 | 455,465 | 10.01 |
| Streets and highways | 181,831 | 160,690 | 13.16 |
| Sanitation and waste removal | 5,398 | 3,414 | 58.11 |
| Culture and recreation | 48,554 | 46,110 | 5.30 |
| Economic development | 5,159 | 5,258 | (1.88) |
| Capital outlay | | | |
| General government | 56,455 | - | 100.00 |
| Public safety | 243,349 | 16,867 | 1,342.75 |
| Streets and highways | 132,180 | 140,500 | (5.92) |
| Culture and recreation | 514 | 20,084 | (97.44) |
| Debt Service | | | |
| Principal | 208,000 | 214,500 | (3.03) |
| Interest | 54,337 | 58,788 | (7.57) |
| Total Expenditures | <u>\$ 1,595,735</u> | <u>\$ 1,270,791</u> | 25.57 % |
| Per Capita | \$ 1,321 | \$ 1,051 | 25.67 % |
| Total Long-Term Indebtedness | \$ 1,791,500 | \$ 1,999,500 | (10.40) % |
| Per Capita | 1,483 | 1,654 | (10.33) |
| General Fund Balance | | | |
| Unassigned Fund Balance - December 31 | \$ 519,043 | \$ 732,658 | (29.16) % |
| Per Capita | 430 | 606 | (29.10) |

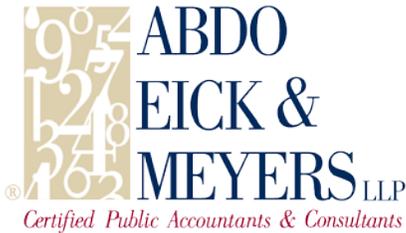
The purpose of this report is to provide a summary of financial information concerning the City of New Richland to interested citizens. The complete financial statements may be examined at City Hall, 203 North Broadway, New Richland, Minnesota. Questions about this report should be directed to Wayne Billing, Clerk-Treasurer at (507) 465-3514.

OTHER REQUIRED REPORTS

CITY OF NEW RICHLAND
NEW RICHLAND, MINNESOTA

YEAR ENDED
DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of New Richland, Minnesota

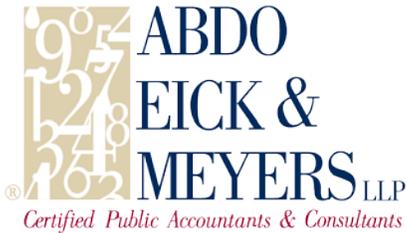
We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of New Richland, Minnesota (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements and have issued our report thereon dated June 25, 2019.

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

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

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

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
June 25, 2019



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

Honorable Mayor and City Council
City of New Richland, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Richland (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated June 25, 2019. Our report includes a reference to other auditors who audited the financial statements of the New Richland Care Center enterprise fund, as described in our report on City's financial statements. The financial statements of the New Richland Care Center enterprise fund were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001 and 2018-002 to be significant deficiencies.

Compliance and Other Matters

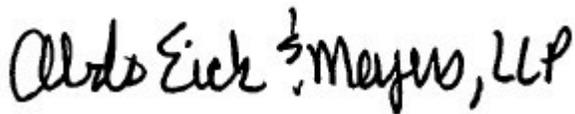
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002 and 2018-003. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
June 25, 2019

City of New Richland, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2018

Finding Description

2018-001 Segregation of Duties

Condition: During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts and utility billing and found the City to have limited segregation of duties in these areas.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

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

Internal Control Over Payroll

Cause: As a result of the small number of staff, the Clerk/Treasurer controls and maintains the check stock, sets up and maintains employee records, runs the payroll, prepares the checks, signs checks using e-signatures in Banyon system, posts activity to the general ledger, reconciles bank accounts, prepares payroll tax returns, and maintains the payroll records.

Recommendation: While we recognize number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitor all financial information. Additional controls might include review of payroll registers, earnings records, payroll reports, etc.

Management Response:

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

Updated Response from Prior Year:

The City is continuing to develop policies and procedures to provide compensating controls for the segregation of duties.

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

| <u>Finding</u> | <u>Description</u> |
|----------------|--------------------|
|----------------|--------------------|

| | |
|-----------------|--|
| 2018-001 | Segregation of Duties (Continued) |
|-----------------|--|

Internal Control Over Disbursements

Cause: As a result of the small number of staff, the Assistant Clerk sets up vendors in Banyon, opens the mail, prepares checks, mails checks, and maintains the purchase journal.

Recommendation: We recommend that when the Assistant Clerk prepares the checks, the Clerk/Treasurer be responsible for mailing them to vendors and vice versa. We also recommend the Clerk/Treasurer initial invoices when approved for payment. Additionally we recommend an individual separate from the Clerk/Treasurer review cancelled checks received with the bank statement and investigate items such as: void checks, inconsistencies in check sequence, possible alterations, and unusual payees. This individual should also review bank reconciliations for accuracy and timeliness of preparation. It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

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

Updated Response from Prior Year:

The City is continuing to develop policies and procedures to provide compensating controls for the segregation of duties.

Internal Control Over Cash Receipts

Cause: As a result of the small number of staff, the Assistant Clerk is responsible for setting up customers in Banyon, opening the mail, receiving and endorsing checks, preparing and taking the deposit to the bank, generating billing statements, and maintaining accounts receivable records.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitors all financial information. We recommend that the Clerk/Treasurer be responsible for preparing deposit slips in order to improve segregation of reconciling activities related to cash receipts. Additional controls might include obtaining and reviewing monthly receipt information. It was also recommended that the city reconcile the accounts receivable back to the ambulance collections reports from the collections service.

Management Response:

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

Updated Response from Prior Year:

The City is continuing to develop policies and procedures to provide compensating controls for the segregation of duties.

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

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

Internal Control Over Utility Billing

Cause: As a result of the small number of staff, the Assistant Clerk sets up new customers in the Banyon system, opens the mail, receives and endorses checks, prepares the deposit and takes it to the bank, generates billing statements, and maintains receivable subledgers.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitors all financial information. We recommend that the Clerk/Treasurer be responsible for preparing deposit slips in order to improve segregation of reconciling activities related to utility billing. Additional controls might include reviewing quarterly billing registers, adjustments to accounts and employee billing registers.

Management Response:

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

Updated Response from Prior Year:

The City is continuing to develop policies and procedures to provide compensating controls for the segregation of duties.

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

| <u>Finding</u> | <u>Description</u> |
|------------------------|--|
| 2018-002 | Preparation of Financial Statements |
| <i>Condition:</i> | As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process. |
| <i>Criteria:</i> | Internal controls should be in place to ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting. |
| <i>Cause:</i> | From a practical standpoint, we prepare the statements and determine the fairness of the presentation at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. |
| <i>Effect:</i> | The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. |
| <i>Recommendation:</i> | Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your Banyon year-end financial report to the fund of financial statements. |

Management Response:

The City is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small cities. Each year, the City has a presentation from our auditor to the Council after the audit is performed. Management recognizes that it is not economically feasible to fully correct this finding; it is aware of the deficiency and is relying on oversight by management and the Council to monitor the deficiency. The Clerk/Treasurer may attend future classes dealing with governmental financial/accounting practices

Updated Response from Prior Year:

The City plans on reviewing the disclosure checklist in the future and comparing the Banyon financial information to the report.

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

| <u>Finding</u> | <u>Description</u> |
|------------------------|---|
| 2018-003 | Material Audit Adjustments |
| <i>Condition:</i> | During our audit, material adjustments were needed to adjust interfund loan activity and debt activity. |
| <i>Criteria:</i> | The financial statements are the responsibility of the City's management. |
| <i>Cause:</i> | City staff has not prepared a year-end trial balance reflecting all necessary accounting entries. |
| <i>Effect:</i> | It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency. |
| <i>Recommendation:</i> | We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to insure that future corrections are not needed. |

Management Response:

Management thoroughly reviews journal entries prepared for the audit and asks questions throughout the year in an attempt to eliminate as many adjusting entries as possible.