

CITY OF KASSON, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2018

CITY OF KASSON, MINNESOTA

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION	
List of Elected and Appointed Officials	i
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Balance Sheet - Governmental Funds	18
Reconciliation of Net Position in the Government-wide Financial Statements and Fund Balances in the Fund Basis Financial Statements	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	22
Statement of Net Position - Proprietary Funds	23
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	25
Statement of Cash Flows - Proprietary Funds	27
Statement of Net Position - Fiduciary Funds	31
Notes to the Financial Statements	32
Required Supplementary Information	
Schedules of City Pension Contributions	
General Employees Retirement Fund	76
Public Employees Police and Fire Fund Pension Plan	76
Schedules of City and Non-Employer Proportionate Share of Net Pension Liability	
General Employees Retirement Fund	77
Public Employees Police and Fire Fund Pension Plan	77
Schedule of Changes in Net OPEB Liability and Related Ratios	78

CITY OF KASSON, MINNESOTA

TABLE OF CONTENTS (CONTINUED)

	<u>PAGE</u>
FINANCIAL SECTION (CONTINUED)	
Combining and Individual Nonmajor Fund Statements and Schedules	
Combining Balance Sheet - Nonmajor Governmental Funds	79
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	81
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Library Fund	83
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - EDA Fund	84
Combining Balance Sheet - Debt Service Funds	85
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Debt Service Funds	87
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	89
Combining Statement of Changes in Assets and Liabilities - Fiduciary Funds	95
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	96
Schedule of Prior Year Findings and Responses	98

CITY OF KASSON, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2018

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CITY OF KASSON, MINNESOTA
LIST OF ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2018

Chris McKern	Mayor
Lonnie Zelinske	Councilor
Dan Egger	Councilor
Coy Borgstrom	Councilor
Doug Buck	Councilor
Nancy Zaworski	Finance Director
Theresa Coleman	City Administrator

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CITY OF KASSON, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Kasson, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kasson, Minnesota, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinions

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

Emphasis of Matter

As discussed in Note 1 of the notes to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for the Post-Employment Benefits Other Than Pensions*, during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 and the required supplementary information as listed in the table of contents 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.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2017, from which such partial information was derived.

We have previously audited the City's 2017 financial statements and our report dated April 2, 2018, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kasson, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019, on our consideration of the City of Kasson, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Kasson, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Kasson, Minnesota's internal control over financial reporting and compliance.

Smith, Schafn and Associates, Ltd.

Rochester, Minnesota
March 28, 2019

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**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

FINANCIAL HIGHLIGHTS

- The assets of the City of Kasson, Minnesota exceeded its liabilities at the close of the most recent fiscal year by \$40,202,628 (*net position*). Of this amount, \$8,455,964 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's designations and fiscal policies.
- The City's total net position increased by \$3,149,091.
- As of the close of the current fiscal year, the City of Kasson, Minnesota's governmental funds reported combined ending fund balances of \$5,819,050. Approximately \$2,945,465 of this total amount or 51% is available for use within the City's designations and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,955,758 or 59% of the total expenditures of the general fund.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Kasson, Minnesota's basic financial statements. The City of Kasson, Minnesota's basic financial statements comprise three components:

1. Government-wide financial statements, providing information for the City as a whole.
2. Fund financial statements, providing detailed information for the City's significant funds.
3. Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements themselves. Additional explanation of these sections of the financial statements follows.

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

The *statement of net position* presents information on all of the City of Kasson, Minnesota's assets, deferred outflows of resources, 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 of Kasson, Minnesota 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 the 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 not used, compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Kasson, Minnesota that are principally supported by taxes and intergovernmental revenues (*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 of Kasson, Minnesota include general government, public safety, public works, health and welfare, culture and recreation, and TIF/economic development. The business-type activities of the City of Kasson, Minnesota include the water, wastewater treatment, electric, stormwater, municipal liquor store, and Maple Grove Cemetery. The government-wide financial statements can be found on pages 15-17 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 of Kasson, Minnesota, 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 of Kasson, Minnesota can be divided into two categories: governmental funds and proprietary funds.

CITY OF KASSON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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 financial 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 of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Kasson, Minnesota maintains fourteen individual governmental funds. 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, 2017 street assessment capital project fund, and the debt service fund, which are considered to be major funds. Data from the other eleven 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* elsewhere in this report.

The City of Kasson, Minnesota adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund (page 22 and pages 89-94) and the special revenue funds (pages 83-84) to demonstrate compliance with the budget.

The governmental fund financial statements can be found on pages 18 and 20 of this report.

Proprietary funds. The City of Kasson, Minnesota 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 of Kasson, Minnesota uses enterprise funds to account for its water, wastewater, electric, stormwater, municipal liquor, and cemetery funds.

The proprietary fund financial statements can be found on pages 23-30 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 on pages 32-75 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds and the debt service fund can be found on pages 79-82 and 85-89 of this report.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 of Kasson, Minnesota, assets exceeded liabilities by \$40,202,628 at the close of the most recent fiscal year.

The largest portion of the City of Kasson, Minnesota's net position (\$28,244,015) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Kasson, Minnesota uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Kasson, Minnesota's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	City of Kasson, Minnesota Net Position					
	Governmental		Business-Type		Totals	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 8,325,612	\$ 10,457,733	\$ 8,910,921	\$ 7,058,756	\$ 17,236,533	\$ 17,516,489
Capital assets	19,579,269	17,214,262	27,957,769	28,424,025	47,537,038	45,638,287
Total assets	<u>27,904,881</u>	<u>27,671,995</u>	<u>36,868,690</u>	<u>35,482,781</u>	<u>64,773,571</u>	<u>63,154,776</u>
Deferred outflows of resources	992,015	174,056	210,772	111,328	1,202,787	285,384
Long-term liabilities outstanding	11,105,664	12,060,524	11,129,818	11,671,113	22,235,482	23,731,637
Other liabilities	716,224	422,165	547,020	1,065,638	1,263,244	1,487,803
Total liabilities	<u>11,821,888</u>	<u>12,482,689</u>	<u>11,676,838</u>	<u>12,736,751</u>	<u>23,498,726</u>	<u>25,219,440</u>
Deferred inflows of resources	1,402,230	327,450	872,774	659,664	2,275,004	987,114
Net position:						
Net investment in capital assets	10,007,081	10,723,521	18,236,934	18,134,872	28,244,015	28,858,393
Restricted	2,858,398	2,670,313	644,251	490,497	3,502,649	3,160,810
Unrestricted	2,807,299	1,642,078	5,648,665	3,572,325	8,455,964	5,214,403
Total net position	<u>\$ 15,672,778</u>	<u>\$ 15,035,912</u>	<u>\$ 24,529,850</u>	<u>\$ 22,197,694</u>	<u>\$ 40,202,628</u>	<u>\$ 37,233,606</u>

The balance of *unrestricted net position* (\$8,455,964) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Kasson, Minnesota is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its business-type activities.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental activities. Governmental activities increased the City of Kasson, Minnesota's net position by \$738,566.

Business-type activities. Business-type activities increased the City of Kasson, Minnesota's net position by \$2,410,525.

A condensed version of the Statement of Activities follows:

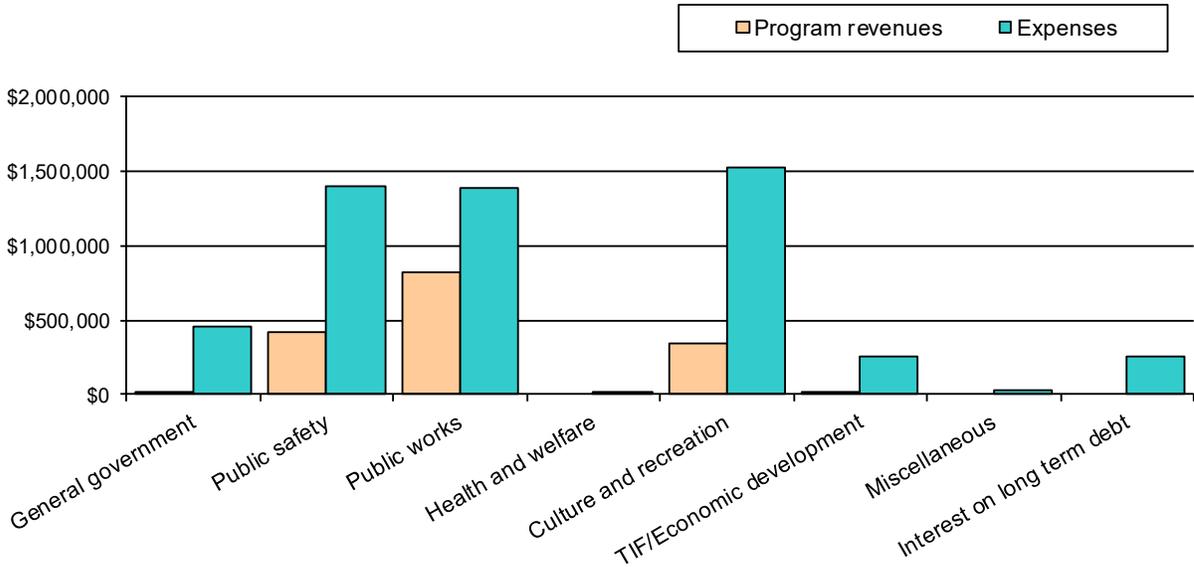
City of Kasson, Minnesota Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenue:						
Program revenues:						
Charges for services	\$ 511,730	\$ 488,229	\$ 8,055,019	\$ 7,532,765	\$ 8,566,749	\$ 8,020,994
Operating grants and contributions	275,977	264,105			275,977	264,105
Capital grants and contributions	817,337	1,200,000	830,519	650,058	1,647,856	1,850,058
General revenues:						
Property taxes/tax increments	3,080,577	3,081,068			3,080,577	3,081,068
Other taxes	61,990	53,380			61,990	53,380
Grants and contributions not restricted to specific programs						
Local government aid	1,076,622	1,020,693			1,076,622	1,020,693
Other	3,869	3,869			3,869	3,869
Miscellaneous	92,309	132,717	41,415	899,003	133,724	1,031,720
Total revenues	<u>5,920,411</u>	<u>6,244,061</u>	<u>8,926,953</u>	<u>9,081,826</u>	<u>14,847,364</u>	<u>15,325,887</u>
Expenses:						
General government	459,315	571,052			459,315	571,052
Public safety	1,401,143	1,461,376			1,401,143	1,461,376
Public works	1,384,126	431,836			1,384,126	431,836
Health and welfare	10,273	26,904			10,273	26,904
Culture and recreation	1,520,854	1,262,909			1,520,854	1,262,909
Economic development	260,705	191,940			260,705	191,940
Miscellaneous	30,460	92,776			30,460	92,776
Interest on long-term debt	260,674	249,148			260,674	249,148
Water			688,625	644,451	688,625	644,451
Wastewater			1,484,995	1,311,528	1,484,995	1,311,528
Electric			3,676,211	3,519,462	3,676,211	3,519,462
Stormwater			219,451	185,729	219,451	185,729
Liquor			256,213	273,394	256,213	273,394
Cemetery			45,228	47,260	45,228	47,260
Total expenses	<u>5,327,550</u>	<u>4,287,941</u>	<u>6,370,723</u>	<u>5,981,824</u>	<u>11,698,273</u>	<u>10,269,765</u>
Change in net position before transfers	592,861	1,956,120	2,556,230	3,100,002	3,149,091	5,056,122
Transfers	145,705	(275,858)	(145,705)	275,858		
Change in net position	<u>738,566</u>	<u>1,680,262</u>	<u>2,410,525</u>	<u>3,375,860</u>	<u>3,149,091</u>	<u>5,056,122</u>
Net Position - beginning	15,035,912	13,355,650	22,197,694	18,821,834	37,233,606	32,177,484
Change in accounting principle	(101,700)		(78,369)		(180,069)	
Net Position - beginning, as restated	<u>14,934,212</u>	<u>13,355,650</u>	<u>22,119,325</u>	<u>18,821,834</u>	<u>37,053,537</u>	<u>32,177,484</u>
Net position, ending	<u>\$ 15,672,778</u>	<u>\$ 15,035,912</u>	<u>\$ 24,529,850</u>	<u>\$ 22,197,694</u>	<u>\$ 40,202,628</u>	<u>\$ 37,233,606</u>

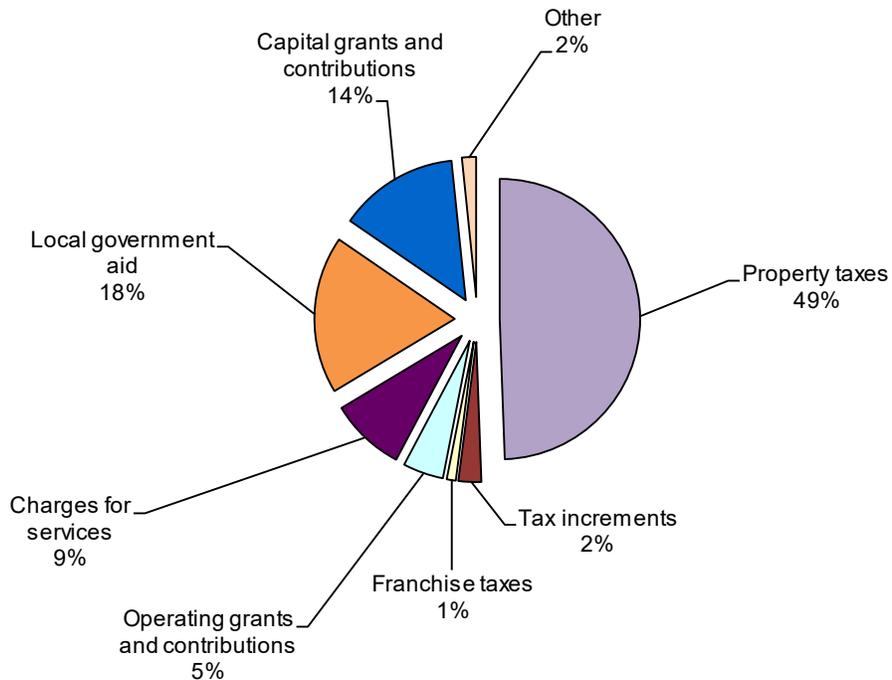
CITY OF KASSON, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

Expenses and Program Revenues - Governmental Activities



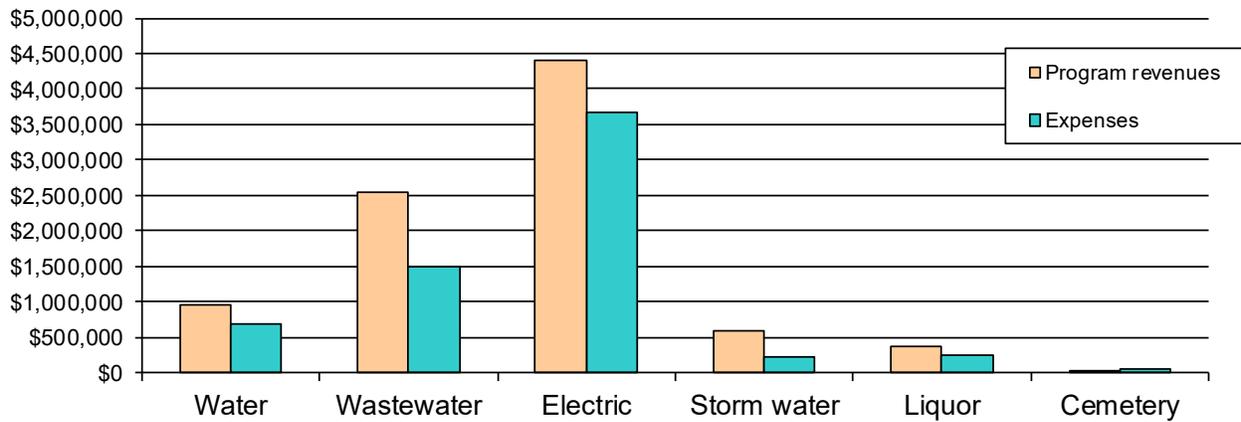
Revenues by Source - Governmental Activities



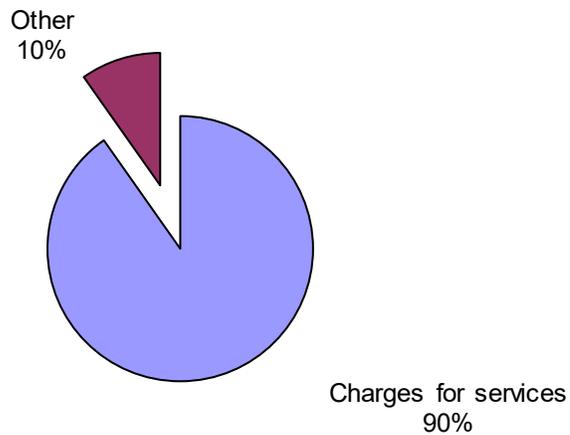
**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the various business-type activities' program revenues with their expenses. Since all of these activities require significant physical assets to operate, any excess revenues are held for planned capital expenses to keep pace with growing demand for services.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FUND BASIS FINANCIAL ANALYSIS

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

Governmental funds. The focus of the City of Kasson, Minnesota'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 of Kasson, Minnesota's financing requirements. In particular, *unassigned* and *assigned* fund balance may serve as a useful measure of a city's net resources available for spending at the end of the fiscal year.

Fund balance is classified as non-spendable, restricted, committed, assigned or unassigned according to the following definitions:

Nonspendable – representing that portion of fund balance that is not in a spendable form. Included in this category are advances to other funds, prepaid items and inventory.

Restricted – reports resources that have external constraints placed upon their use.

Committed – reports those resources for a specific purpose by Council action. The constraints cannot be changed or removed without Council action.

Assigned – represents the portion of fund balance that reflects the amounts the City intends to use for a specific purpose. The Council has authorized the City Administrator to assign fund balance.

Unassigned – represents the amount available for any purpose. However, only the General Fund may report a positive fund balance. Fund balance in other governmental funds will fall into one or more of the categories listed above, unless a fund has a negative fund balance.

At the end of the current fiscal year, the City of Kasson, Minnesota's governmental funds reported combined ending fund balances of \$5,819,050, a decrease of \$2,858,049. Approximately \$2,945,465 of this total amount constitutes *unrestricted fund balance*, which is available for spending at the government's discretion. The remainder of this fund balance is *restricted* to indicate that it is not available for new spending because it has already been set aside 1) to liquidate contracts and purchase orders of the prior period, 2) to repay interfund advances or other debt, or 3) to fund specific capital projects or programs as obligated by statute or other regulation.

The general fund is the chief operating fund of the City of Kasson, Minnesota. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,955,758. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures for the general fund. Unassigned fund balance represents 59% of the total expenditures of the general fund.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The fund balance of the City's General fund increased by \$199,639 during the current fiscal year.

The *Debt Service fund* has a total fund balance of \$2,517,330, of which it all is restricted for the payment of debt service. The net increase in fund balance during the current year in the Debt Service fund was \$179,126.

The City of Kasson, Minnesota has planned and implemented procedures to ensure that its general fund balance is at a level that meets its cash flow needs on a regular basis.

Proprietary funds. The City of Kasson, Minnesota's proprietary funds statements found on pages 23-30 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position in the respective proprietary funds are Water - \$342,959, Wastewater - \$1,383,080, Electric - \$2,292,916, Stormwater - \$995,463, Municipal Liquor Store - \$498,411, and Maple Grove Cemetery - \$135,836. The City adjusted rates for 2018 to cover any rise in costs.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

General Fund Budgetary Highlights

Revenues exceeded expectations by \$135,261, and expenditures had a positive variance of \$255,582. Transfers out exceeded budgeted amounts by \$191,923.

Capital Asset and Debt Administration

Capital assets. The City of Kasson, Minnesota's investment in capital assets for its governmental and business-type activities as of December 31, 2018, amounts to \$47,523,038 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, furniture and fixtures, wastewater treatment facility, park facilities, and roads. The total increase in the City of Kasson, Minnesota's reported capital assets, net of depreciation, for the current fiscal year was \$1,898,751.

City of Kasson, Minnesota Capital Assets
(net of depreciation)

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Land	\$ 672,921	\$ 672,921	\$ 452,151	\$ 452,151	\$ 1,125,072	\$ 1,125,072
Construction in process	4,078,320	1,181,133	3,068,179	3,032,916	7,146,499	4,214,049
Buildings and improvements	5,773,650	5,799,757	7,196,270	7,503,614	12,969,920	13,303,371
Investment in joint venture		212,246			-	212,246
Improvements other than buildings	1,342,689	1,398,013	7,807,689	8,066,880	9,150,378	9,464,893
Machinery and equipment	147,509	194,385	196,999	253,370	344,508	447,755
Office equipment and furnishings	137,840	162,491	1,907	6,205	139,747	168,696
Vehicles	798,564	858,321	22,036	4,208	820,600	862,529
Infrastructure	6,627,776	6,734,995	9,212,538	9,104,681	15,840,314	15,839,676
Total	<u>\$ 19,579,269</u>	<u>\$ 17,214,262</u>	<u>\$ 27,957,769</u>	<u>\$ 28,424,025</u>	<u>\$ 47,537,038</u>	<u>\$ 45,638,287</u>

Additional information on the City of Kasson, Minnesota's capital assets can be found in Note 3D on pages 50-52 of this report.

**CITY OF KASSON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Asset and Debt Administration (Continued)

Long-term debt. At the end of the current fiscal year, the City of Kasson, Minnesota had \$19,379,385 in bonds and notes outstanding. All of this debt is backed by the full faith and credit of the City.

City of Kasson, Minnesota Outstanding Debt

	Governmental		Business-Type		Totals	
	Activities		Activities		2018	2017
GO Bonds	\$ 5,017,761	\$ 5,455,928	\$	\$	\$ 5,017,761	\$ 5,455,928
GO Improvement Bonds	4,483,707	4,738,820	4,848,466	5,109,187	9,332,173	9,848,007
GO Revenue Bonds			4,992,035	5,235,000	4,992,035	5,235,000
Capital Leases Payable	17,534		19,882		37,416	
Total	\$ 9,519,002	\$ 10,194,748	\$ 9,860,383	\$ 10,344,187	\$ 19,379,385	\$ 20,538,935

The City of Kasson, Minnesota's total bonds and notes payable decreased by \$1,159,550 during the current fiscal year. A more detailed breakdown of these obligations can be found in Note 3F, beginning on page 55.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Dodge County is currently 4.8 percent.
- Property valuations within the City reflect national trends.
- Inflationary trends in the region compare favorably to national indices.
- There was no property tax increase in 2018, and there will be a 6.28% increase in 2019.
- Utility rates were increased for 2018, except for Electric utility rates.

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

Requests for Information

This financial report is designed to provide a general overview of the City of Kasson, Minnesota'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 information should be addressed to the Finance Director, City Hall, 401 5th Street SE, Kasson, MN 55944 or financedept@cityofkasson.com.

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CITY OF KASSON, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2018

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CITY OF KASSON, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2018

With Comparative Totals for December 31, 2017

	Governmental Activities	Business-Type Activities	Totals	
			2018	2017
ASSETS				
Cash and investments	\$ 6,084,997	\$ 5,921,146	\$ 12,006,143	\$ 13,051,327
Restricted cash		806,835	806,835	594,662
Receivables	2,157,325	1,673,082	3,830,407	3,307,132
Inventories		357,262	357,262	363,265
Prepaid items	15,187	19,467	34,654	34,781
Intangibles - service area		133,129	133,129	139,411
Net pension asset	68,103		68,103	25,911
Capital assets:				
Nondepreciable	4,751,241	3,520,330	8,271,571	5,339,121
Depreciable, net	14,828,028	24,437,439	39,265,467	40,299,166
Total Assets	<u>27,904,881</u>	<u>36,868,690</u>	<u>64,773,571</u>	<u>63,154,776</u>
Deferred Outflows of Resources				
Deferred outflows from pension activity	<u>992,015</u>	<u>210,772</u>	<u>1,202,787</u>	<u>285,384</u>
LIABILITIES				
Accounts payable	158,562	323,730	482,292	706,529
Contracts payable	413,895		413,895	424,015
Due to other governments	25	47,296	47,321	24,980
Accrued interest payable	108,151	77,171	185,322	211,011
Accrued liabilities	35,366	25,468	60,834	49,447
Deposits payable		54,605	54,605	52,706
Unearned revenue	225	18,750	18,975	19,115
Noncurrent liabilities:				
Due within one year	874,525	1,335,707	2,210,232	1,638,365
Due in more than one year	9,025,435	8,804,116	17,829,551	19,382,254
Net pension liability	1,205,704	989,995	2,195,699	2,711,018
Total Liabilities	<u>11,821,888</u>	<u>11,676,838</u>	<u>23,498,726</u>	<u>25,219,440</u>
Deferred Inflows of Resources				
Deferred revenue		600,802	600,802	615,507
Deferred inflows from pension activity	<u>1,402,230</u>	<u>271,972</u>	<u>1,674,202</u>	<u>371,607</u>
Total Deferred Inflows or Resources	<u>1,402,230</u>	<u>872,774</u>	<u>2,275,004</u>	<u>987,114</u>
NET POSITION				
Net investment in capital assets	10,007,081	18,236,934	28,244,015	28,858,393
Restricted for:				
Economic development	341,068		341,068	332,109
Debt service	2,517,330	644,251	3,161,581	2,828,701
Unrestricted	<u>2,807,299</u>	<u>5,648,665</u>	<u>8,455,964</u>	<u>5,214,403</u>
Total Net Position	<u>\$ 15,672,778</u>	<u>\$ 24,529,850</u>	<u>\$ 40,202,628</u>	<u>\$ 37,233,606</u>

See Notes to the Financial Statements

**CITY OF KASSON, MINNESOTA
STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2018

With Comparative Totals for the Fiscal Year Ending December 31, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 459,315	\$ 19,621	\$	\$
Public safety	1,401,143	225,128	197,348	264
Public works	1,384,126			816,018
Health and welfare	10,273			
Culture and recreation	1,520,854	266,981	78,629	
TIF/Economic development	260,705			1,055
Miscellaneous	30,460			
Interest on long-term debt	260,674			
Total governmental activities	<u>5,327,550</u>	<u>511,730</u>	<u>275,977</u>	<u>817,337</u>
Business-Type activities:				
Water	688,625	857,581		96,090
Wastewater	1,484,995	1,978,456		573,991
Electric	3,676,211	4,400,462		149
Storm water	219,451	439,970		160,289
Liquor	256,213	363,834		
Cemetery	45,228	14,716		
Total business-type activities	<u>6,370,723</u>	<u>8,055,019</u>		<u>830,519</u>
Total	<u>\$ 11,698,273</u>	<u>\$ 8,566,749</u>	<u>\$ 275,977</u>	<u>\$ 1,647,856</u>

General revenues:

- General property taxes
- Property taxes levied for debt service
- Tax increments
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Local government aid
- Other

- Interest earnings
- Miscellaneous
- Gain on sale of capital assets

Transfers

- Total general revenues and transfers

Change in net position

- Net position - beginning
- Change in accounting principle
- Net Position - beginning, as restated

Net position - ending

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2018	2017
\$ (439,694)	\$	\$ (439,694)	\$ (551,828)
(978,403)		(978,403)	(1,050,779)
(568,108)		(568,108)	766,561
(10,273)		(10,273)	(26,904)
(1,175,244)		(1,175,244)	(940,396)
(259,650)		(259,650)	(190,337)
(30,460)		(30,460)	(92,776)
(260,674)		(260,674)	(249,148)
<u>(3,722,506)</u>		<u>(3,722,506)</u>	<u>(2,335,607)</u>
	265,046	265,046	400,629
	1,067,452	1,067,452	663,581
	724,400	724,400	564,133
	380,808	380,808	529,839
	107,621	107,621	68,961
	<u>(30,512)</u>	<u>(30,512)</u>	<u>(26,144)</u>
	<u>2,514,815</u>	<u>2,514,815</u>	<u>2,200,999</u>
<u>(3,722,506)</u>	<u>2,514,815</u>	<u>(1,207,691)</u>	<u>(134,608)</u>
2,131,191		2,131,191	2,253,416
794,875		794,875	680,887
154,511		154,511	146,765
61,990		61,990	53,380
1,076,622		1,076,622	1,020,693
3,869		3,869	3,869
66,682		66,682	75,541
24,627	37,415	62,042	936,180
1,000	4,000	5,000	19,999
145,705	<u>(145,705)</u>		
<u>4,461,072</u>	<u>(104,290)</u>	<u>4,356,782</u>	<u>5,190,730</u>
<u>738,566</u>	<u>2,410,525</u>	<u>3,149,091</u>	<u>5,056,122</u>
15,035,912	22,197,694	37,233,606	32,177,484
(101,700)	(78,369)	(180,069)	
<u>14,934,212</u>	<u>22,119,325</u>	<u>37,053,537</u>	<u>32,177,484</u>
<u>\$ 15,672,778</u>	<u>\$ 24,529,850</u>	<u>\$ 40,202,628</u>	<u>\$ 37,233,606</u>

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CITY OF KASSON, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2018

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CITY OF KASSON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018
With Comparative Totals for December 31, 2017

	423				Totals	
	101 General	2017 Street Assessment Project	Debt Service	Other Governmental Funds	2018	2017
ASSETS						
Cash and investments	\$ 1,888,802	\$ 232,060	\$ 2,515,741	\$ 1,448,394	\$ 6,084,997	\$ 8,642,946
Accounts receivable	87,092			1,327	88,419	71,701
Interest receivable	4,068		1,604	3,884	9,556	6,236
Notes receivable				211,812	211,812	225,694
Due from other governmental units	17,147		3	2	17,152	18,870
Taxes receivable delinquent	50,957				50,957	60,668
Special assessments receivable			1,172,728	606,701	1,779,429	1,389,824
Prepaid items	12,681			2,506	15,187	15,883
Due from other funds	55,158			79,678	134,836	115,747
TOTAL ASSETS	\$ 2,115,905	\$ 232,060	\$ 3,690,076	\$ 2,354,304	\$ 8,392,345	\$ 10,547,569
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ 66,518	\$ 64,214	\$ 18	\$ 27,822	\$ 158,572	\$ 108,477
Contracts payable		385,637		28,258	413,895	164,871
Due to other governments	15				15	389
Accrued salaries payable	29,751			5,615	35,366	30,129
Due to other funds				134,836	134,836	115,747
Unearned revenue	225				225	365
Total Liabilities	96,509	449,851	18	196,531	742,909	419,978
Deferred Inflows of Resources:						
Unavailable revenue:						
Property taxes	50,957				50,957	60,668
Special assessments			1,172,728	606,701	1,779,429	1,389,824
Total Deferred Inflows of Resources	50,957		1,172,728	606,701	1,830,386	1,450,492
Fund Balance:						
Nonspendable:						
Prepaid items	12,681			2,506	15,187	15,883
Restricted:						
Economic development				341,068	341,068	332,109
Debt service			2,517,330		2,517,330	2,338,204
Committed:						
Economic development				119,504	119,504	107,343
Library operations				158,793	158,793	176,883
Assigned:						
Capital improvements				1,084,012	1,084,012	4,070,489
Unassigned:	1,955,758	(217,791)		(154,811)	1,583,156	1,636,188
Total Fund Balance	1,968,439	(217,791)	2,517,330	1,551,072	5,819,050	8,677,099
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 2,115,905	\$ 232,060	\$ 3,690,076	\$ 2,354,304	\$ 8,392,345	\$ 10,547,569

See Notes to the Financial Statements

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**CITY OF KASSON, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2018**

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

Total governmental fund balances (page 18)		\$ 5,819,050
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 32,098,639	
Less: Accumulated depreciation	<u>(12,519,370)</u>	19,579,269
Some receivables are not available soon enough to pay for current period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes	\$ 50,957	
Special assessments	<u>1,779,429</u>	1,830,386
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (9,519,002)	
Net pension liability	(1,615,919)	
Net pension asset	68,103	
Compensated absences	(194,576)	
Other postemployment benefits	(133,196)	
Bond premiums net of amortization	(53,186)	
Accrued interest	<u>(108,151)</u>	<u>(11,555,927)</u>
Net position of governmental activities (page 15)		<u>\$ 15,672,778</u>

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**CITY OF KASSON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	101 General	423 2017 Street Assessment Project	Debt Service	Other Governmental Funds	Totals	
					2018	2017
REVENUES						
Property taxes	\$ 1,719,709	\$	\$ 855,911	\$ 402,654	\$ 2,978,274	\$ 2,959,604
Tax increments				111,709	111,709	106,028
Franchise taxes	61,990				61,990	53,380
Special assessments	569		218,318	131,778	350,665	732,739
Licenses and permits	97,069				97,069	94,997
Intergovernmental revenues	1,346,628			62,345	1,408,973	1,368,033
Charges for services	384,873			1,470	386,343	367,892
Fines and forfeits	21,626			3,634	25,260	24,098
Investment income	520	33,290	16,606	16,266	66,682	75,541
Miscellaneous revenues	47,986			4,566	52,552	76,847
TOTAL REVENUES	3,680,970	33,290	1,090,835	734,422	5,539,517	5,859,159
EXPENDITURES						
Current						
General government	409,491				409,491	512,718
Public safety	1,374,756				1,374,756	1,335,524
Public works	690,766				690,766	675,993
Health and welfare	10,273				10,273	26,980
Culture and recreation	692,636			407,363	1,099,999	995,275
TIF/economic development				257,320	257,320	124,998
Miscellaneous	30,460				30,460	92,776
Capital Outlay	125,026	3,478,547		98,117	3,701,690	1,180,135
Debt Service			966,631	2,885	969,516	903,273
TOTAL EXPENDITURES	3,333,408	3,478,547	966,631	765,685	8,544,271	5,847,672
Excess (deficiency) of revenues over (under) expenditures	347,562	(3,445,257)	124,204	(31,263)	(3,004,754)	11,487
OTHER FINANCING SOURCES (USES)						
Sale of assets	1,000				1,000	7,399
Proceeds from issuance of bonds						3,751,565
Premium on issuance of bonds						11,335
Transfers in	43,000	116,583	54,922	151,923	366,428	347,724
Transfers out	(191,923)			(28,800)	(220,723)	(623,582)
TOTAL OTHER FINANCING SOURCES (USES)	(147,923)	116,583	54,922	123,123	146,705	3,494,441
Net change in fund balances	199,639	(3,328,674)	179,126	91,860	(2,858,049)	3,505,928
FUND BALANCES, beginning	1,768,800	3,110,883	2,338,204	1,459,212	8,677,099	5,171,171
FUND BALANCES, ending	\$ 1,968,439	\$ (217,791)	\$ 2,517,330	\$ 1,551,072	\$ 5,819,050	\$ 8,677,099

See Notes to the Financial Statements

**CITY OF KASSON, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018**

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

Net change in fund balances - total governmental funds (page 20)		\$ (2,858,049)
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay capitalized	\$ 3,712,552	
Depreciation expense	<u>(1,148,132)</u>	
		2,564,420
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		
		(199,413)
Certain revenues in the statement of activities do not provide current financial resources are not reported as revenues in the funds.		
Unavailable revenue, December 31, 2018	\$ 1,830,386	
Unavailable revenue, December 31, 2017	<u>(1,450,492)</u>	
		379,894
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.		
Other postemployment benefits		9,859
Change in compensated absences		(14,750)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal retirement on long-term debt	\$ 693,811	
Issuance of capital lease payable	(18,065)	
Amortization of bond premiums, net	5,707	
Change in net pension liability activity	123,177	
Change in net pension asset activity	42,192	
Change in accrued interest	<u>9,783</u>	
		<u>856,605</u>
Change in net position of governmental activities (pages 16-17)		<u>\$ 738,566</u>

See Notes to the Financial Statements

CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2018

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,693,608	\$ 1,693,608	\$ 1,719,709	\$ 26,101
Franchise taxes	60,000	60,000	61,990	1,990
Special assessments			569	569
Licenses and permits	69,200	69,200	97,069	27,869
Intergovernmental	1,323,631	1,323,631	1,346,628	22,997
Charges for services	346,870	346,870	384,873	38,003
Fines and forfeits	15,500	15,500	21,626	6,126
Investment earnings	13,200	13,200	520	(12,680)
Miscellaneous	23,700	23,700	47,986	24,286
TOTAL REVENUES	3,545,709	3,545,709	3,680,970	135,261
EXPENDITURES				
Current				
General Government	502,905	502,905	409,491	93,414
Public safety	1,372,026	1,372,026	1,374,756	(2,730)
Public works	642,165	642,165	690,766	(48,601)
Emergency services/health	14,760	14,760	10,273	4,487
Culture and recreation	743,184	753,984	692,636	61,348
Miscellaneous	95,450	84,650	30,460	54,190
Capital outlay				
General Government	44,000	44,000	36,500	7,500
Public safety	47,000	47,000	5,651	41,349
Public works	48,000	48,000	7,490	40,510
Culture and recreation	79,500	79,500	75,385	4,115
TOTAL EXPENDITURES	3,588,990	3,588,990	3,333,408	255,582
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(43,281)	(43,281)	347,562	390,843
OTHER FINANCING SOURCES (USES)				
Sale of assets			1,000	1,000
Transfers in	43,000	43,000	43,000	
Transfers out			(191,923)	(191,923)
TOTAL FINANCING SOURCES (USES)	43,000	43,000	(147,923)	(190,923)
NET CHANGE IN FUND BALANCES	(281)	(281)	199,639	199,920
FUND BALANCES, JANUARY 1	1,768,800	1,768,800	1,768,800	
FUND BALANCES, DECEMBER 31	\$ 1,768,519	\$ 1,768,519	\$ 1,968,439	\$ 199,920

See Notes to the Financial Statements

CITY OF KASSON, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Position
December 31, 2018 and 2017

	Business-Type Activities - Enterprise Funds					
	601		602		604	
	Water		Wastewater Treatment		Electric	
	2018	2017	2018	2017	2018	2017
ASSETS AND DEFERRED						
OUTFLOWS OF RESOURCES						
Current Assets						
Cash and temporary investments	\$ 405,758	\$ 595,077	\$ 1,543,766	\$ 652,296	\$ 2,224,218	\$ 1,631,513
Interest receivable	447	766	5,238	587	4,820	4,961
Accounts receivable	123,157	101,265	261,189	239,673	544,759	431,156
Special assessments receivable	44,789	43,451	5,620			
Due from other governments				16,900		95
Inventories					250,992	251,217
Prepaid items	3,421	1,846	3,089	4,214	7,601	7,665
Total Current Assets	<u>577,572</u>	<u>742,405</u>	<u>1,818,902</u>	<u>913,670</u>	<u>3,032,390</u>	<u>2,326,607</u>
Noncurrent Assets						
Restricted cash and investments	252,388	191,917	391,863	298,580	44,599	43,669
Contribution aid receivable			600,802	615,507		
Intangibles - service area					133,129	139,411
Total Noncurrent Assets	<u>252,388</u>	<u>191,917</u>	<u>992,665</u>	<u>914,087</u>	<u>177,728</u>	<u>183,080</u>
Capital assets:						
Land	32,779	32,779	156,187	156,187	6,317	6,317
Construction in process	1,159,380	1,159,380	759,360	759,360		
Buildings	1,252,796	1,252,796	10,448,848	10,448,848	648,629	648,629
Improvements other than buildings	4,201,519	4,201,519	8,917,222	8,907,039	2,028,954	1,985,775
Machinery and equipment	142,119	140,047	463,264	461,192	572,790	566,433
Office equipment and furnishings	34,776	34,776	36,766	36,766	90,600	90,600
Vehicles	65,983	63,990	24,832	22,840	316,532	316,532
Infrastructure	4,715,882	4,622,762	3,207,228	3,117,068		
Less accumulated depreciation	(4,591,297)	(4,396,570)	(8,671,114)	(8,140,752)	(2,737,459)	(2,647,287)
Net capital assets	<u>7,013,937</u>	<u>7,111,479</u>	<u>15,342,593</u>	<u>15,768,548</u>	<u>926,363</u>	<u>966,999</u>
Deferred Outflows of Resources						
Deferred outflows from pension activity	28,144	15,085	51,383	25,448	90,708	49,290
TOTAL ASSETS AND DEFERRED	\$ 7,872,041	\$ 8,060,886	\$ 18,205,543	\$ 17,621,753	\$ 4,227,189	\$ 3,525,976
OUTFLOWS OF RESOURCES						
LIABILITIES, DEFERRED INFLOWS						
OF RESOURCES, AND NET POSITION						
Current Liabilities						
Current maturities of bonds payable	\$ 330,866	\$ 184,921	\$ 773,859	\$ 579,847	\$ 45,191	\$ 43,779
Current maturities of leases payable	156		157			
Accounts payable	19,780	299,299	48,247	31,913	234,242	212,590
Contracts payable				259,144		
Due to other governments			14,784		15,983	9,001
Deposits payable					54,605	52,706
Accrued interest payable	19,245	22,406	41,680	52,245	3,175	3,539
Compensated absences payable	12,430	12,112	24,049	22,017	28,023	27,981
Unearned revenue						
Accrued salaries payable	3,395	2,460	6,703	4,575	10,432	8,099
Total Current Liabilities	<u>385,872</u>	<u>521,198</u>	<u>909,479</u>	<u>949,741</u>	<u>391,651</u>	<u>357,695</u>
Noncurrent Liabilities						
Other postemployment benefits obligation	18,259	5,669	20,201	6,272	38,958	12,096
Compensated absences payable	10,934	8,629	15,237	10,144	33,724	31,595
Net pension liability	132,401	153,509	240,337	248,948	426,891	504,974
Capital leases payable, net of current maturities	9,785		9,784			
Bonds payable, net of current maturities	1,730,441	1,986,321	5,364,218	5,861,973	247,507	294,289
Total Noncurrent Liabilities	<u>1,901,820</u>	<u>2,154,128</u>	<u>5,649,777</u>	<u>6,127,337</u>	<u>747,080</u>	<u>842,954</u>
Deferred Inflows of Resources						
Deferred revenue			600,802	615,507		
Deferred inflows from pension activity	36,372	6,024	66,026	9,770	117,278	19,813
Total Deferred Inflows of Resources	<u>36,372</u>	<u>6,024</u>	<u>666,828</u>	<u>625,277</u>	<u>117,278</u>	<u>19,813</u>
NET POSITION						
Net investment in capital assets	4,952,630	4,940,237	9,204,516	9,326,728	678,264	672,600
Restricted for debt service	252,388	191,917	391,863	298,580		
Unrestricted	342,959	247,382	1,383,080	294,090	2,292,916	1,632,914
Total Net Position	<u>5,547,977</u>	<u>5,379,536</u>	<u>10,979,459</u>	<u>9,919,398</u>	<u>2,971,180</u>	<u>2,305,514</u>
TOTAL LIABILITIES, DEFERRED INFLOWS						
OF RESOURCES AND NET POSITION						
	\$ 7,872,041	\$ 8,060,886	\$ 18,205,543	\$ 17,621,753	\$ 4,227,189	\$ 3,525,976

See Notes to the Financial Statements

Business-Type Activities - Enterprise Funds

605		609		610		Totals	
Stormwater		Municipal Liquor Store		Maple Grove Cemetery			
2018	2017	2018	2017	2018	2017	2018	2017
\$ 1,003,269	\$ 832,109	\$ 590,381	\$ 493,007	\$ 153,754	\$ 204,379	\$ 5,921,146	\$ 4,408,381
4,049	2,522	2,334	697	45	802	16,933	10,335
57,083	56,957				50	986,188	829,101
18,750	18,750					69,159	62,201
							16,995
		106,270	112,048			357,262	363,265
2,675	2,610	2,363	2,264	318	299	19,467	18,898
1,085,826	912,948	701,348	608,016	154,117	205,530	7,370,155	5,709,176
117,985	60,496					806,835	594,662
						600,802	615,507
						133,129	139,411
117,985	60,496					1,540,766	1,349,580
74,968	74,968	49,500	49,500	132,400	132,400	452,151	452,151
1,149,439	1,114,176					3,068,179	3,032,916
		234,928	234,928	9,600	9,600	12,594,801	12,594,801
		7,273	7,273			15,154,968	15,101,606
124,793	124,793	10,324	7,810	32,579	32,579	1,345,869	1,332,854
2,609	2,609	64,402	67,396	10,298	10,298	239,451	242,445
						407,347	403,362
4,265,584	4,105,295					12,188,694	11,845,125
(1,172,820)	(1,080,009)	(301,540)	(299,265)	(19,461)	(17,352)	(17,493,691)	(16,581,235)
4,444,573	4,341,832	64,887	67,642	165,416	167,525	27,957,769	28,424,025
9,170	4,975	29,365	15,483	2,002	1,047	210,772	111,328
\$ 5,657,554	\$ 5,320,251	\$ 795,600	\$ 691,141	\$ 321,535	\$ 374,102	\$ 37,079,462	\$ 35,594,109
\$ 114,451	\$ 49,755	\$	\$	\$	\$	\$ 1,264,367	\$ 858,302
955	8,478	20,476	20,873	30	24,908	313	598,061
		16,529	15,581			323,730	259,144
						47,296	24,582
13,071	14,887					54,605	52,706
4,206	3,656	1,307	669	1,012	1,212	77,171	93,077
18,750	18,750					71,027	67,647
1,042	837	3,666	3,163	230	184	18,750	18,750
152,475	96,363	41,978	40,286	1,272	26,304	25,468	19,318
4,838	1,502	14,487	4,498	5,897	1,831	1,882,727	1,991,587
1,775	1,599						
43,065	50,976	137,943	156,340	9,358	10,569	102,640	31,868
						62,855	52,964
1,276,886	1,392,433					989,995	1,125,316
1,326,564	1,446,510	152,430	160,838	16,440	13,397	19,569	
						8,619,052	9,535,016
						9,794,111	10,745,164
11,831	1,998	37,894	6,137	2,571	415	600,802	615,507
11,831	1,998	37,894	6,137	2,571	415	271,972	44,157
						872,774	659,664
3,171,221	2,960,140	64,887	67,642	165,416	167,525	18,236,934	18,134,872
995,463	815,240	498,411	416,238	135,836	166,461	644,251	490,497
4,166,684	3,775,380	563,298	483,880	301,252	333,986	5,648,665	3,572,325
						24,529,850	22,197,694
\$ 5,657,554	\$ 5,320,251	\$ 795,600	\$ 691,141	\$ 321,535	\$ 374,102	\$ 37,079,462	\$ 35,594,109

CITY OF KASSON, MINNESOTA
PROPRIETARY FUNDS
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Years Ended December 31, 2018 and 2017

	Business-Type Activities - Enterprise Funds					
	601 Water		602 Wastewater Treatment		604 Electric	
	2018	2017	2018	2017	2018	2017
Operating Revenues						
Service fees and charges	\$ 830,322	\$ 792,121	\$ 1,978,456	\$ 1,872,094	\$ 4,390,919	\$ 4,073,144
Less cost of sales						
Total operating revenue	830,322	792,121	1,978,456	1,872,094	4,390,919	4,073,144
Operating Expenses						
Personal services	178,907	186,339	364,906	306,078	547,817	633,485
Supplies	74,165	73,591	97,132	79,839	197,796	124,293
Insurance	5,310	4,718	12,236	10,922	6,889	7,506
Utilities	47,722	37,915	3,111	3,449	11,592	9,448
Purchased power					2,374,610	2,280,484
Other services and charges	133,172	92,495	333,347	254,494	440,425	365,422
Depreciation	204,976	205,131	540,612	489,305	90,172	94,012
Total Operating Expenses	644,252	600,189	1,351,344	1,144,087	3,669,301	3,514,650
Operating Income (Loss)	186,070	191,932	627,112	728,007	721,618	558,494
Nonoperating Revenues (Expenses)						
Special assessments	2,970	349			149	908
Interest income (loss)	5,816	4,874	18,258	35,690	(1,988)	9,122
Rents	27,259	26,465			9,543	9,543
Refunds and reimbursements	1,223	64			6,019	8,976
Gain on sale of assets	2,000		2,000	12,600		
Mantorville connection fee				819,000		
Interest expense and fiscal charges	(47,193)	(45,923)	(135,581)	(169,533)	(7,791)	(8,668)
Amortization expense	1,597	1,597	1,930	1,930	(5,138)	(5,120)
Total Nonoperating Revenues (Expenses)	(6,328)	(12,574)	(113,393)	699,849	794	14,761
INCOME (LOSS) BEFORE TRANSFERS	179,742	179,358	513,719	1,427,856	722,412	573,255
Capital contributions	93,120	226,145	573,991	119,915		
Transfers in						
Transfers out	(90,480)	(25,566)	(12,225)	(36,878)	(27,000)	(20,000)
CHANGE IN NET POSITION	182,382	379,937	1,075,485	1,510,893	695,412	553,255
NET POSITION - BEGINNING OF YEAR AS ORIGINALLY STATED	5,379,536	4,999,599	9,919,398	8,408,505	2,305,514	1,752,259
Change in accounting principle	(13,941)		(15,424)		(29,746)	
NET POSITION - BEGINNING OF YEAR AS RESTATED	5,365,595	4,999,599	9,903,974	8,408,505	2,275,768	1,752,259
NET POSITION - END OF YEAR	\$ 5,547,977	\$ 5,379,536	\$ 10,979,459	\$ 9,919,398	\$ 2,971,180	\$ 2,305,514

See Notes to the Financial Statements

605 Stormwater		609 Municipal Liquor Store		610 Maple Grove Cemetery		Totals	
2018	2017	2018	2017	2018	2017	2018	2017
\$ 439,970	\$ 412,827	\$ 1,558,830	\$ 1,486,424	\$ 14,716	\$ 21,116	\$ 9,213,213	\$ 8,657,726
		(1,194,996)	(1,144,069)			(1,194,996)	(1,144,069)
439,970	412,827	363,834	342,355	14,716	21,116	8,018,217	7,513,657
60,585	42,148	207,078	213,314	13,125	12,778	1,372,418	1,394,142
7,887	4,286	7,442	9,777	243	1,243	384,665	293,029
701	504	4,024	3,929	546	429	29,706	28,008
		11,869	11,492	344	352	74,638	62,656
						2,374,610	2,280,484
26,483	27,456	20,531	27,423	29,261	31,634	983,219	798,924
92,811	89,677	5,269	7,809	2,109	1,294	935,949	887,228
188,467	164,071	256,213	273,744	45,628	47,730	6,155,205	5,744,471
251,503	248,756	107,621	68,611	(30,912)	(26,614)	1,863,012	1,769,186
	6,250					3,119	7,507
14,190	(6,608)	(1,142)	5,569	2,281	1,856	37,415	50,503
						36,802	36,008
	3,854		350	400	470	7,642	13,876
						4,000	12,600
							819,000
(32,081)	(26,609)					(222,646)	(250,733)
1,097	1,097					(514)	(496)
(16,794)	(22,016)	(1,142)	5,919	2,681	2,326	(134,182)	688,265
234,709	226,740	106,479	74,530	(28,231)	(24,288)	1,728,830	2,457,451
160,289	296,491					827,400	642,551
	500,000						500,000
	(77,698)	(16,000)	(64,000)			(145,705)	(224,142)
394,998	945,533	90,479	10,530	(28,231)	(24,288)	2,410,525	3,375,860
3,775,380	2,829,847	483,880	473,350	333,986	358,274	22,197,694	18,821,834
(3,694)		(11,061)		(4,503)		(78,369)	
3,771,686	2,829,847	472,819	473,350	329,483	358,274	22,119,325	18,821,834
\$ 4,166,684	\$ 3,775,380	\$ 563,298	\$ 483,880	\$ 301,252	\$ 333,986	\$ 24,529,850	\$ 22,197,694

CITY OF KASSON, MINNESOTA
PROPRIETARY FUNDS
Statement of Cash Flows
For the Years Ended December 31, 2018 and 2017

	Business-Type Activities - Enterprise Funds					
	601		602		604	
	Water		Wastewater Treatment		Electric	
	2018	2017	2018	2017	2018	2017
Cash Flows From Operating Activities						
Cash received from customers	\$ 808,430	\$ 777,728	\$ 1,973,840	\$ 1,408,834	\$ 4,279,310	\$ 4,161,588
Other receipts	28,482	26,529		162	15,562	18,519
Cash paid to employees	(175,349)	(182,974)	(355,653)	(299,830)	(543,313)	(628,293)
Cash paid to suppliers	(267,920)	(207,800)	(652,512)	(192,097)	(3,027,309)	(2,729,312)
Net Cash Provided By (Used In) Operating Activities	393,643	413,483	965,675	917,069	724,250	822,502
Cash Flows From Noncapital Financing Activities						
Transfer in/out	(90,480)	(25,566)	(12,225)	(36,878)	(27,000)	(20,000)
Net Cash Provided By (Used In) Noncapital Financing Activities	(90,480)	(25,566)	(12,225)	(36,878)	(27,000)	(20,000)
Cash Flows From Capital and Related Financing Activities						
Capital asset acquisitions	(282,785)	(1,239,049)	(14,255)	(3,696,209)	(49,536)	(20,104)
Cash received from sale of assets	2,000		2,000	12,600		
Special assessment collections	2,970	349			149	908
Capital contributions received			483,831			
Connection fee				419,500		
Bond proceeds		1,159,380	2,843,535	759,360		
Principal payments on bonds and capital leases	(108,639)	(177,635)	(3,145,648)	(563,800)	(43,779)	(43,073)
Interest payments on bonds and capital leases	(51,692)	(30,930)	(151,767)	(154,698)	(8,602)	(9,025)
Net Cash Used In Capital and Related Financing Activities	(438,146)	(287,885)	17,696	(3,223,247)	(101,768)	(71,294)
Cash Flows From Investing Activities						
Investment income received	6,135	5,477	13,607	38,345	(1,847)	7,501
Net Cash Provided By (Used In) Capital and Related Financing Activities	6,135	5,477	13,607	38,345	(1,847)	7,501
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(128,848)	105,509	984,753	(2,304,711)	593,635	738,709
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	786,994	681,485	950,876	3,255,587	1,675,182	936,473
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 658,146	\$ 786,994	\$ 1,935,629	\$ 950,876	\$ 2,268,817	\$ 1,675,182
Classified as:						
Cash and cash equivalents	\$ 405,758	\$ 595,077	\$ 1,543,766	\$ 652,296	\$ 2,224,218	\$ 1,631,513
Restricted cash	252,388	191,917	391,863	298,580	44,599	43,669
Total Cash and Cash Equivalents, End of Year	\$ 658,146	\$ 786,994	\$ 1,935,629	\$ 950,876	\$ 2,268,817	\$ 1,675,182

See Notes to the Financial Statements

605 Stormwater		609 Municipal Liquor Store		610 Maple Grove Cemetery		Totals	
2018	2017	2018	2017	2018	2017	2018	2017
\$ 439,844	\$ 518,701	\$ 363,834	\$ 342,481	\$ 14,766	\$ 21,073	\$ 7,880,024	\$ 7,230,405
	3,854		350	400	470	44,444	49,884
(59,654)	(41,884)	(205,937)	(213,462)	(13,091)	(12,467)	(1,352,997)	(1,378,910)
(45,290)	(46,231)	(39,230)	(23,570)	(31,819)	(33,012)	(4,064,080)	(3,232,022)
334,900	434,440	118,667	105,799	(29,744)	(23,936)	2,507,391	2,669,357
	422,302	(16,000)	(64,000)			(145,705)	275,858
	422,302	(16,000)	(64,000)			(145,705)	275,858
(35,263)	(1,120,395)	(2,514)		(23,919)	(8,660)	(408,272)	(6,084,417)
	6,250					4,000	12,600
						3,119	7,507
						483,831	
	1,098,360						419,500
(49,755)	(48,407)					2,843,535	3,017,100
(33,896)	(11,594)					(3,347,821)	(832,915)
						(245,957)	(206,247)
(118,914)	(75,786)	(2,514)		(23,919)	(8,660)	(667,565)	(3,666,872)
12,663	(9,130)	(2,779)	6,056	3,038	2,298	30,817	50,547
12,663	(9,130)	(2,779)	6,056	3,038	2,298	30,817	50,547
228,649	771,826	97,374	47,855	(50,625)	(30,298)	1,724,938	(671,110)
892,605	120,779	493,007	445,152	204,379	234,677	5,003,043	5,674,153
\$ 1,121,254	\$ 892,605	\$ 590,381	\$ 493,007	\$ 153,754	\$ 204,379	\$ 6,727,981	\$ 5,003,043
\$ 1,003,269	\$ 832,109	\$ 590,381	\$ 493,007	\$ 153,754	\$ 204,379	5,921,146	\$ 4,408,381
117,985	60,496					806,835	594,662
\$ 1,121,254	\$ 892,605	\$ 590,381	\$ 493,007	\$ 153,754	\$ 204,379	\$ 6,727,981	\$ 5,003,043

**CITY OF KASSON, MINNESOTA
PROPRIETARY FUNDS**

Statement of Cash Flows - continued

For the Years Ended December 31, 2018 and 2017

**RECONCILIATION OF OPERATING INCOME (LOSS)
TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES**

	601 Water		602 Wastewater Treatment		604 Electric	
	2018	2017	2018	2017	2018	2017
Operating Income (Loss)	\$ 186,070	\$ 191,932	\$ 627,112	\$ 711,107	\$ 721,618	\$ 558,494
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Depreciation	204,976	205,131	540,612	489,305	90,172	94,012
Change in net pension liability	(3,819)	(558)	21,710	(28,876)	(22,036)	55,994
Miscellaneous nonoperating income	28,482	26,529		162	15,562	18,519
(Increase) Decrease In:						
Accounts receivable	(21,892)	(14,393)	(21,516)	(19,960)	(113,603)	89,096
Due from other governments			16,900	(16,900)	95	(95)
Inventories					225	(5,177)
Prepaid items	(1,575)	171	1,125	(65)	64	(536)
Increase (Decrease) In:						
Accounts payable	(806)	1,919	(242,810)	186,227	21,652	16,909
Due to other governments			14,784		6,982	(8,040)
Accrued salaries payable	935	(127)	2,128	132	2,333	7
Compensated absences payable	2,623	3,492	7,125	6,116	2,171	5,185
Other postemployment benefits obligation	(1,351)	(613)	(1,495)	(679)	(2,884)	(1,309)
Unearned revenue				(409,500)		
Deposits payable					1,899	(557)
Net Cash Provided By (Used In) Operating Activities	\$ 393,643	\$ 413,483	\$ 965,675	\$ 917,069	\$ 724,250	\$ 822,502
Noncash Capital and Related Financing Activities						
Amortization of bond discount, premium and intangibles	\$ (1,597)	\$ (1,597)	\$ (1,930)	\$ (1,930)	\$ 5,138	\$ 5,120
Capital asset additions included in accounts payable		278,713				

See Notes to the Financial Statements

605 Stormwater		609 Municipal Liquor Store		610 Maple Grove Cemetery		Totals	
2018	2017	2018	2017	2018	2017	2018	2017
\$ 251,503	\$ 248,756	\$ 107,621	\$ 68,611	\$ (30,912)	\$ (26,614)	\$ 1,863,012	\$ 1,752,286
92,811	89,677	5,269	7,809	2,109	1,294	935,949	887,228
(2,273)	(13,829)	(522)	14,945	(10)	(108)	(6,950)	27,568
	3,854		350	400	470	44,444	49,884
(126)	(19,128)		126	50	(43)	(157,087)	35,698
	125,002					16,995	108,007
		5,778	(5,291)			6,003	(10,468)
(65)	(57)	(99)	52	(19)	(7)	(569)	(442)
(7,523)	63	(397)	19,202	(959)	959	(230,843)	225,279
		948	629			22,714	(7,411)
205	24	503	444	46	7	6,150	487
726	240	638	(592)	(12)	304	13,271	14,745
(358)	(162)	(1,072)	(486)	(437)	(198)	(7,597)	(3,447)
						1,899	(409,500)
							(557)
\$ 334,900	\$ 434,440	\$ 118,667	\$ 105,799	\$ (29,744)	\$ (23,936)	\$ 2,507,391	\$ 2,669,357

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CITY OF KASSON, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS (FESTIVAL IN THE PARK AND ARENA FUND)
December 31, 2018

	877 Festival in Park	606 Arena	Total
ASSETS			
Cash and investments	\$ 15,160	\$ (27,688)	\$ (12,528)
Accounts receivable		57,192	57,192
Inventory		475	475
Prepaid items		1,025	1,025
TOTAL ASSETS	\$ 15,160	\$ 31,004	\$ 46,164
LIABILITIES			
Accounts payable	\$ 15,160	\$ 15,115	\$ 30,275
Accrued wages payable		10,004	10,004
Due to other governments		5,885	5,885
TOTAL LIABILITIES	\$ 15,160	\$ 31,004	\$ 46,164

See Notes to the Financial Statements

CITY OF KASSON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity

City of Kasson, Minnesota, (the City) operates under “Optional Plan A” as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and four-member Council. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential component 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. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. 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 December 31 year end.

Blended Component Unit. The Economic Development Authority (EDA) is responsible for economic and industrial development and redevelopment within the City’s jurisdiction. The seven members of the EDA’s governing board, including two council members, are appointed and approved by the Council. In accordance with GASB accounting standards, this entity is properly presented as a blended presented component unit as a governmental fund type. This is shown as a blended component unit because of the nature of operations with the City and EDA.

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. *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 *primary government* is reported separately from certain legally separate *component units* for which the primary government 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. *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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

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

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

Property taxes, franchise taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements 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 in which the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements, other than time requirements, are met and recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as unavailable revenue in the fund financial statements.

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 *2017 Street Assessment Project fund* accounts for the accumulation of resources for payment of the street assessment capital project.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (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 ensure that user charges are sufficient to pay for those costs.

The *Wastewater Treatment fund* accounts for the costs associated with the City's waste water treatment system and to ensure that user charges are sufficient to pay for those costs.

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

The *Stormwater fund* accounts for the costs associated with the City's storm water system, which are financed by the storm water surcharge, and to ensure that user charges are sufficient to pay for those costs.

The *Municipal Liquor Store fund* accounts for the operations of the City's off-sale liquor store.

The *Maple Grove Cemetery fund* accounts for the costs associated with maintaining and operating the Maple Grove Cemetery.

Additionally, the City reports the following fund types:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The *Agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity. Agency funds account for Festival in the Park and Arena activities.

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

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. 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, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. 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 KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (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, related 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. Bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. 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.
7. 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.
8. 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.

Investments for the City are reported at fair value. Broker money market accounts operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Cash and Investments (Continued)

Investment policy

The three main objectives of all investment activities can be prioritized as safety, liquidity, and yield. Safety of principal is the foremost objective of the City. Each investment transaction shall seek to first insure that capital losses are avoided. The objective will be to mitigate credit risk and interest rate risk. Credit risk is the risk of loss due to failure of the security issuer or backer. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated demands. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. The investment portfolio of the City shall be designed to attain the market-average rate of return through budgetary and economic cycles, taking into consideration the City's investment risk constraints, cash flow characteristics of the portfolio and prudent investment policies.

The City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields; however, no more than 50 percent of total investments, based upon year end investment balance of the prior year, should extend beyond five years and in no circumstance should any extend beyond ten years.

The purpose of this policy is to establish specific guidelines the City will use in the investment of City funds. It will be the responsibility of the Finance Director or City Administrator to invest City funds in order to attain a market rate of return while preserving and protecting the capital of the overall portfolio. Investments will be made, based on statutory constraints, in safe, low risk investments.

Interfund Transactions

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."

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Interfund Transactions (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources unless the proceeds from those advances meets the definition of restricted, committed, or assigned fund balance.

Property Taxes

Property tax levies are set by the City Council in December each year and are certified for collection in the following year. 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. In Minnesota, counties are responsible and act as collection agents for all property taxes and tax settlements are made to the City during January, June and December each year.

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

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2018. Since the City is generally able to certify delinquent amounts to the county for collection as special assessments, an allowance for uncollectible accounts of \$4,000 has been provided on current receivables.

Special Assessments

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

Contribution Aid Receivable

Contribution aid receivable represents amounts due to the City related to construction costs associated with the expansion of the wastewater treatment facility.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Inventories and Prepaid Items

All inventories are stated at cost 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 of cash and temporary investments restricted to specific purposes by bonded debt requirements and other agreements.

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.

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 back trending (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 the acquisition value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Capital Assets (Continued)

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

Land and Land Improvements	\$ 5,000
Other Improvements	5,000
Buildings	5,000
Building Improvements	5,000
Machinery and Equipment	2,500
Vehicles	5,000
Infrastructure	100,000
Other Assets	5,000

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

	Useful Life <u>in Years</u>
System improvements/Infrastructure	15 - 50
Buildings and Improvements	5 - 15
Land Improvements	15 - 20
Other Improvements	15 - 20
Vehicles	5 - 15
Machinery and Equipment	5 - 15

Deferred Outflows of Resources

In addition to assets, the financial statements 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 that time. The City has one type of deferred outflow which is pension related and reported on the statement of net position.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation, sick and comp time which is paid to the employees upon separation and meeting policy requirements. Vacation, sick and comp time pay is accrued when incurred and reported as a fund liability. The General fund is typically used to liquidate governmental compensated absences payable.

Postemployment Benefits Other Than Pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirements. All premiums are funded on a pay as you go basis. This amount was actuarially determined in accordance with GASB Statement No. 75.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and 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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Net Position / Fund Balance

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

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

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

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

The City classifies governmental fund balances as follows:

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

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

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

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The council also delegates the power to assign fund balances for specific purposes to the Finance Director.

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

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Deferred Inflows of Resources

In addition to liabilities, the 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 recognized three types of deferred inflows. The first type occurs because governmental fund revenues are not recognized until available under the modified accrual basis of accounting. The second type is pension related and reported on the statement of net position. The third type (deferred revenue) relates to contributions in aid of construction that will be recognized over the term of the related financing per GASB No. 62, which includes accounting for regulated entities.

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 payable in accordance with the benefit terms. Investments are reported at fair value.

Comparative Data/Reclassifications

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

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Change in Accounting Principle

During the year ended December 31, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. This statement included major changes in how plans and employers account for OPEB benefit obligations. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses/expenditures. Certain amounts necessary to fully restate fiscal year 2017 financial information are not determinable; therefore, prior year comparative amounts have not been restated. The implementation of the new GASB statement in the current year resulted in the restatement of net position as of December 31, 2017. The details of the restatement are as follows:

Activities/Fund	Net Position December 31, 2017 as Previously Reported	Restatement for Change in Accounting Principle	Net Position December 31, 2017 as Restated
Governmental Activities	\$ 15,035,912	\$ (101,700)	\$ 14,934,212
Business-Type Activities	\$ 22,197,694	\$ (78,369)	\$ 22,119,325
Proprietary Funds:			
Water Fund	\$ 5,379,536	\$ (13,941)	\$ 5,365,595
Wastewater Fund	9,919,398	(15,424)	9,903,974
Electric Fund	2,305,514	(29,746)	2,275,768
Stormwater Fund	3,775,380	(3,694)	3,771,686
Municipal Liquor Store Fund	483,880	(11,061)	472,819
Maple Grove Cemetery Fund	333,986	(4,503)	329,483
	\$ 22,197,694	\$ (78,369)	\$ 22,119,325

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Library and Economic Development special revenue funds. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

Each August, all departments of the City submit requests for appropriations to the Finance Director so that a budget may be prepared. Before September 15, the proposed budget is presented to the council for review and the proposed levy is adopted. The Council prepared a final budget and it is adopted in early December. The Council invites the public to the meeting when the budget is discussed.

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 Council. The legal level of budgetary control is the department level. Budgeted amounts are as amended.

3. Detailed Notes on All Funds

A. Summary of Cash and Investments

As of December 31, 2018, the City's cash and investments consisted of the following items, all of which are held in an internal investment pool:

<u>Cash and Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Fair Value</u>
Cash on hand	None	N/A	\$ 775
Deposits	None	N/A	3,514,399
Certificates of deposit	July 2019 - November 2026	N/A	9,043,515
Money Market Funds	None	N/A	254,289
Total Cash and Investments			<u>\$ 12,812,978</u>
Cash and Investments			\$ 12,006,143
Restricted Cash and Investments			<u>806,835</u>
Cash and Investments per Statement of Net Position			<u>\$ 12,812,978</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Summary of Cash and Investments (Continued)

Collateralization of Cash Deposits

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

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

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

Fair Value Measurements

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2: Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other meansIf the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Summary of Cash and Investments (Continued)

Fair Value Measurements (Continued)

The City's investments within the fair value hierarchy at December 31, 2018 and 2017 were as follows:

	At December 31, 2018			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Certificates of deposit	<u>\$ 9,043,515</u>	<u>\$</u>	<u>\$ 9,043,515</u>	<u>\$</u>

	At December 31, 2017			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Certificates of deposit	<u>\$ 5,857,543</u>	<u>\$</u>	<u>\$ 5,857,543</u>	<u>\$</u>

Interest Rate Risk

The City has a formal investment policy that limits investment maturities up to ten years to manage decline in fair values of an investment.

Custodial Credit Risk

The City's investment policy does not address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.

Credit Risk

The City has a formal investment policy that aims to minimize credit risk by limiting its investment choices to specific types of investments, pre-qualifying financial institutions, and diversifying the investment portfolio.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Summary of Cash and Investments (continued)

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Investments that are more than 5 percent of the City's total investments are as follows:

<u>Investments</u>	<u>Ratings</u>	<u>of Total</u>
Certificates of deposit	N/A	100%

B. Deferred Special Assessments Receivable

Deferred assessments receivable represent levies made on the property of owners benefited by public improvement projects. Assessments are payable over various periods.

C. Notes Receivable

The Economic Development Authority (EDA) has loaned various economic development notes to city businesses. These notes are receivable by the EDA with interest at 2.0 percent to 4.75 percent per annum. The balance on notes receivable at December 31, 2018 is \$211,812.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity, including internal service fund capital assets, for the year ended December 31, 2018 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 672,921	\$	\$	\$ 672,921
Construction in progress	1,181,133	3,509,691	612,504	4,078,320
Total capital assets, not being depreciated	1,854,054	3,509,691	612,504	4,751,241
Capital assets, being depreciated:				
Buildings	6,961,158	155,041		7,116,199
Investment in joint venture	381,973		381,973	
Improvements other than buildings	1,933,131	5,916		1,939,047
Machinery and equipment	845,790	12,742	7,396	851,136
Office equipment and furnishings	268,727			268,727
Vehicles	2,800,865	51,397	99,469	2,752,793
Infrastructure	13,829,227	590,269		14,419,496
Total capital assets, being depreciated	27,020,871	815,365	488,838	27,347,398
Less accumulated depreciation for:				
Buildings	1,161,401	181,148		1,342,549
Investment in joint venture	169,727	12,833	182,560	
Improvements other than buildings	535,118	61,240		596,358
Machinery and equipment	651,405	59,618	7,396	703,627
Office equipment and furnishings	106,236	24,651		130,887
Vehicles	1,942,544	111,154	99,469	1,954,229
Infrastructure	7,094,232	697,488		7,791,720
Total accumulated depreciation	11,660,663	1,148,132	289,425	12,519,370
Total capital assets, being depreciated, net	15,360,208	(332,767)	199,413	14,828,028
Governmental activities capital assets, net	\$ 17,214,262	\$ 3,176,924	\$ 811,917	\$ 19,579,269

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 452,151	\$	\$	\$ 452,151
Construction in progress	3,032,916	35,263		3,068,179
Total capital assets, not being depreciated	3,485,067	35,263		3,520,330
Capital assets, being depreciated:				
Buildings	12,594,801			12,594,801
Improvements other than buildings	15,134,185	53,362		15,187,547
Machinery and equipment	1,300,275	13,015		1,313,290
Office equipment and furnishings	242,445		2,994	239,451
Vehicles	403,362	24,484	20,499	407,347
Infrastructure	11,845,125	343,569		12,188,694
Total capital assets, being depreciated	41,520,193	434,430	23,493	41,931,130
Less accumulated depreciation for:				
Buildings	5,091,187	307,344		5,398,531
Improvements other than buildings	7,067,305	312,553		7,379,858
Machinery and equipment	1,046,905	69,386		1,116,291
Office equipment and furnishings	236,240	4,298	2,994	237,544
Vehicles	399,154	6,656	20,499	385,311
Infrastructure	2,740,444	235,712		2,976,156
Total accumulated depreciation	16,581,235	935,949	23,493	17,493,691
Total capital assets, being depreciated, net	24,938,958	(501,519)		24,437,439
Business-type activities capital assets, net	<u>\$ 28,424,025</u>	<u>\$ (466,256)</u>	<u>\$</u>	<u>\$ 27,957,769</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$	20,050
Public safety		121,797
Public works		749,462
Culture and recreation		256,823

Total depreciation expense - governmental activities	\$	<u>1,148,132</u>
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Business-Type Activities:

Water	\$	204,976
Wastewater treatment		540,612
Electric		90,172
Stormwater		92,811
Liquor		5,269
Cemetery		2,109

Total depreciation expense - business-type activities	\$	<u>935,949</u>
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Construction Commitments

The City has an active utility improvement construction project as of December 31, 2018. At year end, the City's commitments with the contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
South Mantorville Avenue Project	\$ 536,904	\$ 28,258
2017 Street Assessment Project	6,368,896	659,520

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

E. Interfund Balances and Transfers

The amounts due to and from other funds as of December 31, 2018, at the individual fund level are summarized below:

<u>Funds</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 55,158	\$
Nonmajor governmental - EDA	79,678	
Nonmajor governmental - 16th Street NE		5,220
Nonmajor governmental - Highway 57		20,165
Nonmajor governmental - 16th Street NW		9,689
Nonmajor governmental - Downtown TIF		78,667
Nonmajor governmental - Oppidan Folkestad TIF		21,095
	<hr/>	<hr/>
Total	<u>\$ 134,836</u>	<u>\$ 134,836</u>

At December 31, 2018 the following funds have deficit fund balances:

<u>Fund</u>	<u>Amount</u>
Special Revenue	
Downtown TIF	\$ 78,667
Oppidan Folkestad TIF	21,095
Capital Projects	
2017 Street Assessment Project	217,791
16th Street NE	17,700
Highway 57	26,805
16th Street NW	10,544

The City plans to eliminate the deficits in these funds through future tax increment collections, transfers, debt issuance, and developer reimbursements.

Excess of expenditures over appropriations, the result of a planned process, are as follows:

Special Revenue Funds	
Library	\$ 22,137

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

E. Interfund Balances and Transfers (Continued)

Transfers during the year ended December 31, 2018 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 43,000	\$ 191,923
2017 Street Assessment Project	116,583	
Debt Service	54,922	
Nonmajor Governmental		
Oppidan Folkestad TIF - Special Revenue		28,800
Stabilization/Capital Projects Reserves	151,923	
Enterprise		
Water		90,480
Wastewater		12,225
Electric		27,000
Municipal Liquor Store		16,000
Total Transfers	\$ 366,428	\$ 366,428

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

F. Long-term debt

General Obligation Bonds

The City and EDA issue 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 debt is backed by the full faith and credit of the City. Each year the tax levy equal 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax payments.

G.O. Bonds

The following notes were issued to finance various improvements and will be repaid primarily from ad valorem tax levies. All general obligation debt is backed by the full faith and credit of the City. Each year the tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax payments.

<u>Description</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>
G.O. Aquatic Center Bonds of 2013A	\$2,800,000	0.3 - 3.00 %	03/14/13	02/01/28	\$1,910,000
G.O. Equipment Certificate Bonds of 2014A	\$1,025,000	2.35	03/12/14	02/01/24	645,000
G.O. Tax Increment Bonds of 2014B	\$1,655,000	4.00 - 5.50	06/02/14	02/01/42	1,595,000
G.O. Crossover Refunding Bonds of 2015A	\$2,620,000	2.00 - 4.00	09/01/15	02/01/24	<u>2,004,999</u>
Total G.O. Bonds					<u>\$6,154,999</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

F. Long-term debt (Continued)

G.O. Special Assessment (Improvement) Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from specific 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 equal 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bonds of 2011A	\$ 1,775,000	2.00 - 2.70 %	11/01/11	02/01/21	\$ 340,000
G.O. Street Reconstruction and Utility Revenue Bonds of 2012A	1,430,000	0.40 - 2.10	07/01/12	02/01/23	719,935
G.O. Improvement Bonds of 2014C	430,000	2.00 - 3.50	06/02/14	02/01/30	355,000
G.O. Improvement and Utility Revenue Bonds of 2017A	6,780,000	2.00 - 2.50	07/05/17	02/01/33	6,780,000
Total G.O. Special Assessment Bonds					<u>\$8,194,935</u>

G.O. Revenue Notes

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
G.O. Sewer Revenue Note of 2001 (PFA)	\$ 7,632,919	3.07 %	08/30/01	08/20/21	\$ 1,512,000
G.O. Sewer Revenue Note of 2011 (PFA)	994,038	1.86	08/31/11	08/20/31	702,000
G.O. Sewer Revenue Note of 2018 (PFA)	2,843,535	1.095	02/14/18	08/20/37	2,778,035
Total G.O. Revenue Bonds					<u>\$4,992,035</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

F. Long-term debt (Continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2018, over the life of the debt, are summarized below:

Years	General Obligation Bonds		General Improvement Bonds		Total
	Principal	Interest	Principal	Interest	
<u>Governmental Activities</u>					
2019	\$ 444,495	\$ 150,825	\$ 326,172	\$ 102,931	\$ 1,024,423
2020	457,495	142,213	315,530	94,755	1,009,993
2021	461,659	132,944	318,305	87,400	1,000,308
2022	481,151	122,199	330,975	80,907	1,015,232
2023	490,315	109,304	336,475	74,083	1,010,177
2024-2028	1,497,646	391,623	1,387,650	275,194	3,552,113
2029-2033	310,000	256,316	1,468,600	91,668	2,126,584
2034-2038	425,000	172,752			597,752
2039-2042	450,000	51,326			501,326
Totals	<u>\$ 5,017,761</u>	<u>\$ 1,529,501</u>	<u>\$ 4,483,707</u>	<u>\$ 806,938</u>	<u>\$ 11,837,907</u>

	General Obligation Revenue Bonds		General Obligation Special Assessment Bonds		
	Principal	Interest	Principal	Interest	
<u>Business-Type Activities</u>					
2019	\$ 844,810	\$ 156,931	\$ 419,557	\$ 40,003	\$ 1,461,301
2020	865,000	136,241	332,975	33,209	1,367,425
2021	884,225	114,808	335,811	26,248	1,361,092
2022	369,450	92,838	269,424	19,097	750,809
2023	376,900	86,706	272,245	10,758	746,609
2024-2028	1,981,350	332,942	201,354	3,020	2,518,666
2029-2033	2,053,400	137,846			2,191,246
2034-2037	634,000	17,442			651,442
Totals	<u>\$ 8,009,135</u>	<u>\$ 1,075,754</u>	<u>\$ 1,831,366</u>	<u>\$ 132,335</u>	<u>\$ 11,048,590</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

F. Long-term debt (Continued)

The following is a summary of changes in long-term debt obligations during the year ended December 31, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
2013A GO Aquatic Center	\$ 2,085,000	\$	\$ 175,000	\$ 1,910,000	\$ 175,000
2014A GO Equipment Certificate	744,000		99,000	645,000	101,000
2014B GO Tax Increment Bonds	1,625,000		30,000	1,595,000	30,000
2015A GO Crossover Refunding Bonds	1,001,928		134,167	867,761	138,495
General Improvement Bonds					
2011A GO Refunding Bond	175,000		161,583	13,417	13,417
2012A GO Street Reconstruction and Utility	420,920		68,530	352,390	68,530
2014C GO Improvement Bond	380,000		25,000	355,000	25,000
2017A GO Improvement and Utility Revenue Bonds	3,762,900			3,762,900	219,225
Capital Lease Payable		18,065	531	17,534	276
Plus: Unamortized premiums	58,893		5,707	53,186	
Total Bonds and Notes Payable	7,179,198	18,065	699,518	9,572,188	770,943
Other Liabilities:					
Other postemployment benefits obligation	41,355	91,841		133,196	
Compensated absences	179,826	14,750		194,576	103,582
Governmental Activities Long-term Liabilities	7,391,493	124,656	699,518	9,899,960	874,525
BUSINESS-TYPE ACTIVITIES					
Bonds:					
General Obligation Revenue Bonds:					
2001 PFA Loan	1,986,000		474,000	1,512,000	489,000
2011 PFA Loan	749,000		47,000	702,000	48,000
2016A GO Temporary Utility Revenue Note	2,500,000		2,500,000		
2017A GO Improvement and Utility Revenue Bonds	3,017,100			3,017,100	175,775
2018 PFA Loan		2,843,535	65,500	2,778,035	132,035
General Obligation Special Assessment Bonds:					
2011A GO Refunding Bond	340,000		13,417	326,583	166,583
2012A GO Street Reconstruction and Utility	439,015		71,470	367,545	71,470
2015A GO Crossover Refunding Bonds	1,313,072		175,834	1,137,238	181,504
Capital Lease Payable		20,484	602	19,882	313
Plus: Unamortized premiums	50,975		6,676	44,299	
Less: Unamortized discount	(1,842)		(461)	(1,381)	
Other Liabilities:					
Other postemployment benefits obligation	31,868	70,772		102,640	
Compensated absences	120,609	13,273		133,882	71,027
Business-type Activities Long-term Liabilities	8,347,445	2,948,064	3,354,038	10,139,823	1,335,707
Total	\$ 15,738,938	\$ 3,072,720	\$ 4,053,556	\$ 20,039,783	\$ 2,210,232

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide

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.

1. General Employees Retirement Plan

All full-time and certain part-time employees of the City of Kasson, Minnesota are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Public Employees Police and Fire Plan

The Police and Fire Plan, 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 Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

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

1. General Employees Plan Benefits

General Employees Plan 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 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% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. 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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Benefits Provided (Continued)

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). 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.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan 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 Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

Beginning in 2019, the COLA will be fixed at 1 percent. Under funding measurements from 2017 the 2.5 percent COLA trigger was never expected to occur and was subsequently removed from law. Post retirement increases are given each year except for annuitants who have been receiving a benefit for only 31 to 41 months. These annuitants will receive a prorated amount of the increase on a sliding scale.

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019; the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$147,541. The City's contributions were equal to the required contributions as set by state statute.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Contributions (Continued)

2. Police and Fire Fund Contributions

Legislation increased both employee and employer contribution rates in the Police and Fire Plan. Employee rates increased from 10.80 percent of pay to 11.30 percent and employer rates increase from 16.20 percent to 16.95 percent on January 1, 2019. On January 1, 2020 employee rates increase to 11.80 percent and employer rates increase to 17.70 percent. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$91,393. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$1,625,444 for its proportionate share of the General Employees Fund'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 2019. 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 \$53,210. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was 0.0293 percent which was a decrease of 0.0009 percent from its proportion measured as of June 30, 2017.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

For the year ended December 31, 2018, the City recognized pension expense of \$91,694 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$12,408 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Pension Costs (Continued)

At December 31, 2018, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 44,285	\$ 47,245
Changes in actuarial assumptions	154,741	186,475
Difference between projected and actual investment earnings		170,072
Changes in proportion	83,689	42,755
Contributions paid to PERA subsequent to the measurement date	65,381	
Total	<u>\$ 348,096</u>	<u>\$ 446,547</u>

\$65,381 reported as deferred outflows of resources related to pensions is resulting from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2019	\$ 47,330
2020	(57,272)
2021	(119,966)
2022	(33,924)

2. Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$570,255 for its proportionate share of the Police and Fire Fund'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 proportion was 0.0535 percent which was a decrease of 0.0045 percent from its proportion measured at June 30, 2017. The City also recognized \$4,815 for the year ended December 31, 2018 as a revenue and an offsetting reduction of net pension liability for its proportionate share of State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Pension Costs (Continued)

Beginning in January 1, 2019, the COLA will be fixed at 1 percent. Under funding measurements from 2017, the 2.5 percent COLA trigger was never expected to occur and was subsequently removed from law.

For the year ended December 31, 2018, the City recognized pension expense of \$38,432 for its proportionate share of the Police and Fire Fund's pension expense.

At December 31, 2018, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 9,415	\$ 166,694
Changes in actuarial assumptions	760,134	883,261
Difference between projected and actual investment earnings		117,431
Changes in proportion	33,212	60,269
Contributions paid to PERA subsequent to the measurement date	51,930	
Total	<u>\$ 854,691</u>	<u>\$ 1,227,655</u>

\$51,930 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date which 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 pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2019	\$ (17,971)
2020	(48,154)
2021	(97,713)
2022	(249,386)
2023	(11,670)

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

Aggregate Pension Costs

Pension expense recognized by the City for the year ended December 31, 2018 is as follows:

General Employees Retirement Fund	\$104,102
Police and Fire Fund	<u>38,432</u>
Total	<u>\$142,534</u>

Actuarial Assumptions

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

	General Employees Plan	Police & Fire Plan
Inflation	2.5% per year	2.5% per year
Salary Growth	3.25% after 26 years of service	3.25% after 25 years of service
Investment Rate of Return	7.5%	7.5%

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees and Police and Fire Plans. Inflation is assumed to be 2.0 percent for the Correctional Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service, to 3.25 percent after 26 years of service. In the Police and Fire Plan, salary growth assumptions decrease from 12.25 percent after one year of service to 3.25 percent after 25 years of service. In the Correctional Plan, salary growth assumptions decrease from 8.50 percent at age 20 to 3.50 percent at age 65.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. The most recent five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

There following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The morality 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.

Police and Fire Fund

- The morality projection scale was changed from MP-2016 to MP-2017.

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%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
Total	<u>100%</u>	

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 the rate specified in Minnesota Statutes. Based on that assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was 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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Defined Benefit Pension Plan - Statewide (Continued)

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 one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
City's proportionate share of the General Employees Fund net pension liability at different discount rates	\$ 2,641,554	\$ 1,625,444	\$ 786,678
City's proportionate share of the PEPFF net pension liability at different discount rates	<u>1,222,662</u>	<u>570,255</u>	<u>30,741</u>
Total Net Pension Liability	<u>\$ 3,864,216</u>	<u>\$ 2,195,699</u>	<u>\$ 817,419</u>

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.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Defined Benefit Pension Plan – Fire Relief Association

The Kasson Firemen's Relief Association has not had an actuarial study performed. The Association believes the funding status determined using the calculation required by the Minnesota State Auditor is sufficient to determine the reportable amounts under GASB No. 68, *Accounting and Financial Reporting for Pensions*.

Plan Description

The Kasson Firemen's Relief Association (the Association) is the administrator of a single-employer Public Employee Retirement System (PERS) established to provide benefits for members of the Kasson Fire Department (the Department).

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 partially 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). From 2010 to 2014, the City was required to make a contribution to the Association.

The financial requirements of the Special fund are determined in accordance with Minnesota statutes section 69.772 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.

Benefits are accumulated at \$2,400 per year of active service in the Department. The accrued liability for these accumulated benefits is computed using increasing percentages based on years of service. At 20 years of service, the liability is equal to the number of years of service times benefits per year. Association members are fully vested after 20 years.

All members of the Department are covered by a defined benefit plan (the Plan) administered by 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 partially 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 Kasson Firefighters' Relief Association, Kasson, MN 55944.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Defined Benefit Pension Plan – Fire Relief Association (Continued)

Funding Status and Progress

The financial requirements of the Special fund are determined in accordance with Section 69.772 of the 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 to years of Association membership or upon death.

At December 31, 2017 (most current information available) the Association's funding status is as follows:

Total plan assets	\$	504,711
Total accrued liability		<u>(436,608)</u>
Excess of Plan Assets over Accrued Liability	\$	<u>68,103</u>

Contributions Required and Contributions Made

Financial requirements of the Association are determined on a computation based on member years of service. The City's minimum obligation is the financial requirement for the year less Association investment earnings and State aids. The funding strategy should provide sufficient resources to pay relief association benefits on a timely basis. The City was not obligated to make a contribution in 2018.

The computation of the pension contribution requirements for 2018 was based on the same assumptions, benefit provision, lump sum funding method, and other significant factors used to determine pension contributions requirements in previous years.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Postemployment Benefits Other Than Pensions

The City engaged an actuary to determine the City's liability for postemployment healthcare benefits other than pension for the year ended December 31, 2018.

A. Plan Description

The City administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan until Medicare age, which covers both active and retired members. There are 36 active participants. Benefit provisions are established through negotiations between the City and the unions representing City employees and are renegotiated from time to time. The Retiree Health Plan does not issue a publicly available financial report.

B. Funding Policy

The City has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the City and union representatives. At the present time, no retiree benefits are provided except the allowance to continue health insurance that is mandated by Minnesota Law. The City does not contribute any of the cost of current year premiums for eligible retired plan members and their spouses. For fiscal year 2018, the City contributed \$23,658 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs.

C. Net OPEB Liability

The City's net OPEB liability was measured as of January 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at year-end were as follows:

Total OPEB liability	<u>\$ 235,836</u>
Covered payroll	<u>\$ 2,251,685</u>
Total OPEB liability as a % of payroll	<u>10%</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Postemployment Benefits Other Than Pensions (Continued)

D. Funded Status and Funding Progress

As of January 1, 2018, the most recent valuation date, the actuarial accrued liability for benefits was \$235,836 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,251,685 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 10 percent. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Postemployment Benefits Other Than Pensions (Continued)

E. Methods and Assumptions (Continued)

The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.30%
20-year Municipal Bond Yield	3.30%
Inflation rate	2.50%
Mortality	Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
Medical trend rate	6.50% as of July 1, 2017 grading to 5.00% over 6 years. The medical trend rates have been chosen based on a review of historical health care increase rates, projected health care increase rates, and projected health care expenditures as a percentage of GDP. The components of health care costs were considered when developing the aggregate set of trend rates.

The City changed from using the alternative measurement method for calculating the other postemployment benefit (OPEB) liability in 2017 to engaging an actuary to determine the City's liability for the year ended December 31, 2018.

F. Changes in Net OPEB Liability

	<u>Total OPEB Liability</u>
Beginning Balance 1/1/2018	\$ 230,089
Changes for the year:	
Service cost	21,490
Interest	7,915
Benefit payments	<u>(23,658)</u>
Net Changes	5,747
Balance End of Year 12/31/2018	<u>\$ 235,836</u>

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Postemployment Benefits Other Than Pensions (Continued)

G. Net OPEB Liability Sensitivity to Discount and Health-Care Trend Rate Changes

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it would be calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<u>Net OPEB Liability</u>
1% decrease in Discount Rate (2.30%)	\$ 255,546
Current Discount Rate (3.30%)	235,836
1% increase in Discount Rate (4.30%)	217,452

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it would be calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	<u>Net OPEB Liability</u>
1% decrease in Trend Rates	\$ 207,886
Current Trend Rates	235,836
1% increase in Trend Rates	269,156

H. OPEB Expense and Related Deferred Outflows/Inflows of Resources of Resources

As of the year ended December 31, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
Contributions paid to OPEB subsequent to the measurement date	\$ 3,055

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Other Information

A. Risk management

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

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

B. Contingent liabilities

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

C. Legal debt margin

The City's statutory debt limit is three percent of estimated market value of real and personal property located within the City (\$418,507,350) which is \$12,555,221. The City currently has \$2,555,000 of general obligation debt subject to this limit, leaving a debt margin of \$10,382,438 after adding back debt service restricted fund balances. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Other Information (Continued)

D. Joint venture – Arena

On April 3, 1996, the Cities of Kasson, Dodge Center, Mantorville and the County of Dodge entered into a joint powers agreement to construct and operate an all-purpose arena. All members had an interest in the property as tenants-in-common. The City of Kasson had a 35 percent interest. Effective January 1, 2010 this agreement was terminated and a new agreement between Dodge County and the City of Kasson was signed which also designated the arena to be under the management of the City of Kasson.

The agreement further states that Dodge County and the City of Kasson will share in one-half of the net income or net loss from operations. The entity has a calendar year end. Arena activities are reported as an agency fund of the City.

E. 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.

8. Tax Abatement – Pay-As-You-Go Tax Increment

The City may enter into tax abatement agreements as authorized by Minnesota Abatement Laws under State Statutes Sections 469.1812, 469.1813 and 469.1815. Any parcel of property in the City qualifies for tax abatement. The City negotiates tax abatement agreements on an individual basis generally with the purpose of adding employment and or increasing the tax capacity of the parcel.

The City has made no commitments, other than tax abatement, under the agreements. The taxpayer submits property taxes annually and is reimbursed by the City for the abatement amount if the taxpayer has filed reports substantiating that it has met the employment levels stipulated in the agreement. The City had the following tax abatement agreements as of December 31, 2018.

The City entered into a tax abatement agreement in January 2017 for the purpose of remodeling an existing commercial facility. Under the agreement, the City shall abate 100% of the City's property tax amount generated by the Abatement Property for a period not to exceed 10 years commencing with taxes payable 2017 for as long as the taxpayer is operating its business on the Abatement Property. City abated \$3,597 and \$3,597 in 2018 and 2017, respectively.

CITY OF KASSON, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Tax Abatement – Pay-As-You-Go Tax Increment (Continued)

The City entered into a tax abatement agreement in October 2015 for the purpose of building a new structure. Under the agreement, the City shall abate 90% of the new city taxes generated by the Abatement Property for a period of 10 years commencing with taxes payable 2017. City abated \$2,643 and \$2,303 in 2018 and 2017, respectively.

The City may enter into tax increment financing agreements as authorized by Minnesota Abatement Laws under State Statutes Sections 469.174 to 469.1794 through pay-as-you-go tax increment financing program. The City has three pay-as-you-go tax increment financing districts. For the year ended December 31, 2018, the City paid tax increments totaling \$78,358 related to these agreements.

9. Wastewater Treatment Agreement

The City has entered into a wastewater collection, treatment and disposal agreement with the City of Mantorville. The agreements effective date is July 9, 2014 and has a term of 40 years. Under the agreement, the wastewater utility of the City will treat all wastewater derived from the City of Mantorville.

The terms of the agreement require the City of Mantorville to pay a one-time connection fees of \$2,250 per hookup which totals \$819,000. Any costs for future capital improvements required for the treatment facility will be shared in the following percentages: Kasson 82.3% and Mantorville 17.7%. The City has recorded a contribution aid receivable of \$615,507 representing Mantorville's share of the net expansion costs. Mantorville is required to make annual payments toward this receivable corresponding with the required debt service of the net financing of the treatment facility expansion. There was a balance of \$600,802 in contribution aid receivable at December 31, 2018.

The City has elected to account for this contribution pursuant to GASB No. 62 which includes accounting for regulated entities. Under the standard, the contribution is deferred and recognized over the term of the associated financing of the treatment facility expansion.

Mantorville is required to maintain the infrastructure for the collection system from the City of Mantorville to the treatment facility. The costs of operating and maintaining the treatment facility will be shared between the two parties.

On a quarterly basis, the City of Mantorville is required to pay to the City their share of the operating and maintenance costs based on the treatment volumes generated by each party as detailed in the agreement.

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CITY OF KASSON, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

CITY OF KASSON, MINNESOTA
Schedules of City Pension Contributions

PERA General Employees Retirement Fund
Last Ten Years (presented prospectively)

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2014	\$ 120,876	\$ 120,876	\$	\$ 1,667,255	7.25%
2015	140,991	140,991		1,879,880	7.50%
2016	135,921	135,921		1,812,280	7.50%
2017	145,970	145,970		1,946,267	7.50%
2018	147,541	147,541		1,967,213	7.50%
2019					
2020					
2021					
2022					
2023					

PERA Public Employees Police and Fire Fund Pension Plan
Last Ten Years (presented prospectively)

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2014	\$ 78,392	\$ 78,392	\$	\$ 512,366	15.3%
2015	87,418	87,418		539,617	16.2%
2016	92,805	92,805		572,870	16.2%
2017	95,949	95,949		592,278	16.2%
2018	91,393	91,393		564,154	16.2%
2019					
2020					
2021					
2022					
2023					

CITY OF KASSON, MINNESOTA
Schedules of City and Non-Employer Proportionate Share of Net Pension Liability

PERA General Employees Retirement Fund
Last Ten Years (presented prospectively)

Fiscal Year Ended June 30	Employer's Proportionate Share (Percentage) of Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a+b)/c	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0318%	\$ 1,493,805	\$	\$ 1,493,805	\$ 1,667,255	90%	78.70%
2015	0.0325%	1,684,319		1,684,319	1,773,568	95%	78.20%
2016	0.0292%	2,370,895	30,984	2,401,879	1,846,080	130%	68.90%
2017	0.0302%	1,927,948	24,251	1,952,199	1,879,273	104%	75.90%
2018	0.0293%	1,625,444	53,210	1,678,654	1,956,740	86%	79.53%
2019							
2020							
2021							
2022							
2023							

PERA Public Employees Police and Fire Fund Pension Plan
Last Ten Years (presented prospectively)

Fiscal Year Ended June 30	Employer's Proportionate Share (Percentage) of Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll a/b	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0590%	\$ 637,224	\$ 512,366	124%	87.10%
2015	0.0610%	693,103	525,992	132%	86.60%
2016	0.0590%	2,367,773	556,244	426%	63.90%
2017	0.0580%	783,069	582,574	134%	85.40%
2018	0.0535%	570,255	578,216	99%	88.84%
2019					
2020					
2021					
2022					
2023					

**Other Post-Employment Benefits Plan
Schedule of Changes in the District's Net OPEB
Liability and Related Ratios
December 31, 2018**

Total OPEB Liability		
Service cost	\$	21,490
Interest cost		7,915
Benefit payments		(23,658)
Net change in total OPEB liability		5,747
Total OPEB Liability - beginning of year		230,089
Total OPEB Liability - end of year	\$	235,836
Covered Payroll	\$	2,251,685
Total OPEB Liability as a % of payroll		10%

CITY OF KASSON, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR FUNDS
STATEMENTS AND SCHEDULES
DECEMBER 31, 2018

**CITY OF KASSON, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**
December 31, 2018

	Special Revenue					
	211 Library	225 EDA Financial Assistance	247 2004 Assisted Living TIF	248 Downtown TIF	249 Oppidan Folkestad TIF	290 Economic Development
ASSETS						
Cash and investments	\$ 170,724	\$ 129,184	\$	\$	\$	\$ 40,102
Accounts receivable	1,255	72				
Interest receivable						
Notes receivable		211,812				
Due from other governmental units						
Prepaid expenses	2,410					96
Special assessments receivable		17,563				
Due from other funds						79,678
TOTAL ASSETS	<u>\$ 174,389</u>	<u>\$ 358,631</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 119,876</u>
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 7,817	\$	\$	\$	\$	\$ 30
Contracts payable						
Accrued salaries	5,369					246
Due to other funds				78,667	21,095	
Total Liabilities	<u>13,186</u>			<u>78,667</u>	<u>21,095</u>	<u>276</u>
Deferred Inflows of Resources:						
Unavailable revenue:						
Special assessments		17,563				
Total Deferred Inflows of Resources		<u>17,563</u>				
Fund Balance						
Nonspendable:						
Prepaid items	2,410					96
Restricted:						
Economic development		341,068				
Committed:						
Economic development						119,504
Library Operations	158,793					
Assigned:						
Capital improvements						
Unassigned:				(78,667)	(21,095)	
Total Fund Balance	<u>161,203</u>	<u>341,068</u>		<u>(78,667)</u>	<u>(21,095)</u>	<u>119,600</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 174,389</u>	<u>\$ 358,631</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 119,876</u>

Capital Projects

210 Stabilization/ Cap Projects Reserve	401 Permanent Improvement Revolving	412 16th Street NE	424 Highway 57	426 16th Street NW	Total Nonmajor Governmental Funds
\$ 168,978	\$ 939,406	\$	\$	\$	\$ 1,448,394
	3,884				1,327
					3,884
	2				211,812
					2
	589,138				2,506
					606,701
					79,678
<u>\$ 168,978</u>	<u>\$ 1,532,430</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,354,304</u>
\$	\$	\$ 12,480	\$ 6,640	\$ 855	\$ 27,822
	28,258				28,258
		5,220	20,165	9,689	5,615
					134,836
	28,258	17,700	26,805	10,544	196,531
	589,138				606,701
	589,138				606,701
					2,506
					341,068
					119,504
					158,793
168,978	915,034				1,084,012
		(17,700)	(26,805)	(10,544)	(154,811)
<u>168,978</u>	<u>915,034</u>	<u>(17,700)</u>	<u>(26,805)</u>	<u>(10,544)</u>	<u>1,551,072</u>
<u>\$ 168,978</u>	<u>\$ 1,532,430</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,354,304</u>

CITY OF KASSON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	Special Revenue					
	211	225	247	248	249	290
	Library	EDA Financial Assistance	2004 Assisted Living TIF	Downtown TIF	Oppidan Folkestad TIF	Economic Development
REVENUES						
Property tax collected	\$ 317,617	\$	\$	\$	\$	\$ 69,920
Special assessments		6,908				
Tax increments			78,358		33,351	
Fines and forfeits	3,634					
Intergovernmental	62,345					
Charges for services	1,470					
Investment income	1,006	7,300			58	2,445
Miscellaneous	4,566					
TOTAL REVENUES	390,638	14,208	78,358		33,409	72,365
EXPENDITURES						
Current:						
Culture and recreation	407,363					
TIF/economic development		5,249	78,358	515		60,198
Debt service						
Interest and fiscal charges				2,276	609	
Capital outlay						
Culture and recreation	1,187					
TIF/economic development					4,807	
Public works						
TOTAL EXPENDITURES	408,550	5,249	78,358	2,791	5,416	60,198
Excess (deficiency) of revenues over (under) expenditures	(17,912)	8,959		(2,791)	27,993	12,167
OTHER FINANCING SOURCES (USES)						
Transfer in						
Transfer out					(28,800)	
TOTAL OTHER FINANCING SOURCES (USES)					(28,800)	
Net change in fund balances	(17,912)	8,959		(2,791)	(807)	12,167
FUND BALANCES, beginning	179,115	332,109		(75,876)	(20,288)	107,433
FUND BALANCES, ending	\$ 161,203	\$ 341,068	\$	\$ (78,667)	\$ (21,095)	\$ 119,600

Capital Projects

210 Stabilization/ Cap Projects Reserve	401 Permanent Improvement Revolving	412 16th Street NE	424 Highway 57	426 16th Street NW	Total Nonmajor Governmental Funds
\$ 15,117	\$ 124,870	\$	\$	\$	\$ 402,654
					131,778
					111,709
					3,634
					62,345
					1,470
2,491	2,966				16,266
					4,566
<u>17,608</u>	<u>127,836</u>				<u>734,422</u>
					407,363
113,000					257,320
					2,885
					1,187
					4,807
	59,961	12,480	13,307	6,375	92,123
<u>113,000</u>	<u>59,961</u>	<u>12,480</u>	<u>13,307</u>	<u>6,375</u>	<u>765,685</u>
<u>(95,392)</u>	<u>67,875</u>	<u>(12,480)</u>	<u>(13,307)</u>	<u>(6,375)</u>	<u>(31,263)</u>
151,923					151,923
					(28,800)
<u>151,923</u>					<u>123,123</u>
56,531	67,875	(12,480)	(13,307)	(6,375)	91,860
<u>112,447</u>	<u>847,159</u>	<u>(5,220)</u>	<u>(13,498)</u>	<u>(4,169)</u>	<u>1,459,212</u>
<u>\$ 168,978</u>	<u>\$ 915,034</u>	<u>\$ (17,700)</u>	<u>\$ (26,805)</u>	<u>\$ (10,544)</u>	<u>\$ 1,551,072</u>

CITY OF KASSON, MINNESOTA
LIBRARY FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 317,617	\$ 317,617	\$ 317,617	\$	\$ 267,431
Intergovernmental revenues	61,396	61,396	62,345	949	59,478
Library fines	5,000	5,000	3,634	(1,366)	3,847
Investment income	150	150	1,006	856	90
Miscellaneous	2,250	2,250	6,036	3,786	8,846
TOTAL REVENUES	386,413	386,413	390,638	4,225	339,692
EXPENDITURES					
Library					
Salaries	243,351	243,351	239,678	3,673	219,185
Employee benefits and retirement	36,866	36,866	35,431	1,435	32,464
Workers compensation	1,000	1,000	1,346	(346)	1,488
Health insurance	36,000	36,000	35,958	42	25,221
Operating supplies/small tools	24,350	24,350	19,772	4,578	18,278
Insurance	3,500	3,500	2,811	689	2,347
Telephone	1,700	1,700	1,861	(161)	1,628
Professional fees	16,700	16,700	17,007	(307)	15,374
Capital outlay	2,000	2,000	1,187	813	549
Other	20,946	20,946	53,499	(32,553)	23,105
TOTAL EXPENDITURES	386,413	386,413	408,550	(22,137)	339,639
Net change in fund balances			(17,912)	(17,912)	53
FUND BALANCES, beginning	179,115	179,115	179,115		179,062
FUND BALANCES, ending	\$ 179,115	\$ 179,115	\$ 161,203	\$ (17,912)	\$ 179,115

CITY OF KASSON, MINNESOTA
EDA FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 69,488	\$ 69,488	\$ 69,920	\$ 432	\$ 67,154
Investment Income	2,000	2,000	2,445	445	2,391
TOTAL REVENUES	<u>71,488</u>	<u>71,488</u>	<u>72,365</u>	<u>877</u>	<u>69,545</u>
EXPENDITURES					
Economic development					
Personal services	50,878	50,878	13,380	37,498	16,915
Supplies	400	400	514	(114)	511
Other services and charges	17,210	17,210	46,304	(29,094)	30,569
Capital outlay	3,000	3,000		3,000	4,242
TOTAL EXPENDITURES	<u>71,488</u>	<u>71,488</u>	<u>60,198</u>	<u>11,290</u>	<u>52,237</u>
Net change in fund balances			12,167	12,167	17,308
FUND BALANCES, beginning	<u>107,433</u>	<u>107,433</u>	<u>107,433</u>		<u>90,125</u>
FUND BALANCES, ending	<u>\$ 107,433</u>	<u>\$ 107,433</u>	<u>\$ 119,600</u>	<u>\$ 12,167</u>	<u>\$ 107,433</u>

CITY OF KASSON, MINNESOTA
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
December 31, 2018

	Debt Service				
	382	384	385	386	389
	G.O. Street Reconstruction & Utility Revenue Bonds of 2012A	G.O. Refunding Bond of 2011A	Aquatic Center Bonds of 2013A	Fire Truck and Equipment	Oppidan Assessment
ASSETS					
Cash and investments	\$ 83,255	\$ 116,772	\$ 271,867	\$ 110,350	\$ 40,911
Interest receivable		235			
Due from other governmental units					
Special assessments receivable					339,403
TOTAL ASSETS	\$ 83,255	\$ 117,007	\$ 271,867	\$ 110,350	\$ 380,314
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Accounts payable					
Deferred Inflows of Resources:					
Unavailable revenue:					
Special assessments					339,403
Total Deferred Inflows of Resources					339,403
Fund Balance					
Restricted:					
Debt service	83,255	117,007	271,867	110,350	40,911
Total Fund Balance	83,255	117,007	271,867	110,350	40,911
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 83,255	\$ 117,007	\$ 271,867	\$ 110,350	\$ 380,314

Debt Service			
391	392	393	
Oppidan Folkestad TIF	G.O. Crossover Refunding Bonds of 2015A	2017 Street Assessment Project	Total Debt Service Funds
\$ 929,343	\$ 317,642	\$ 645,601	\$ 2,515,741
1,050		319	1,604
		3	3
	190,542	642,783	1,172,728
<u>\$ 930,393</u>	<u>\$ 508,184</u>	<u>\$ 1,288,706</u>	<u>\$ 3,690,076</u>
18			18
	190,542	642,783	1,172,728
	190,542	642,783	1,172,728
930,375	317,642	645,923	2,517,330
930,375	317,642	645,923	2,517,330
<u>\$ 930,393</u>	<u>\$ 508,184</u>	<u>\$ 1,288,706</u>	<u>\$ 3,690,076</u>

CITY OF KASSON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS

For the Year Ended December 31, 2018

	Debt Service				
	382	384	385	386	389
	G.O. Street Reconstruction & Utility Revenue Bonds of 2012A	G.O. Refunding Bond of 2011A	Aquatic Center Bonds of 2013A	Fire Truck and Equipment	Oppidan Assessment
REVENUES					
Property tax collected	\$ 74,910	\$ 89,000	\$ 218,119	\$ 117,321	\$
Special assessments		2,924			38,973
Investment income	395	130	1,389	527	200
TOTAL REVENUES	<u>75,305</u>	<u>92,054</u>	<u>219,508</u>	<u>117,848</u>	<u>39,173</u>
EXPENDITURES					
Current:					
Debt service					
Principal	68,530	161,583	175,000	99,000	25,000
Interest and fiscal charges	6,504	3,409	43,613	16,321	11,095
TOTAL EXPENDITURES	<u>75,034</u>	<u>164,992</u>	<u>218,613</u>	<u>115,321</u>	<u>36,095</u>
Excess (deficiency) of revenues over (under) expenditures	<u>271</u>	<u>(72,938)</u>	<u>895</u>	<u>2,527</u>	<u>3,078</u>
OTHER FINANCING SOURCES					
Transfer in		26,122			
TOTAL OTHER FINANCING SOURCES		<u>26,122</u>			
Net change in fund balances	271	(46,816)	895	2,527	3,078
FUND BALANCES, beginning	<u>82,984</u>	<u>163,823</u>	<u>270,972</u>	<u>107,823</u>	<u>37,833</u>
FUND BALANCES, ending	<u>\$ 83,255</u>	<u>\$ 117,007</u>	<u>\$ 271,867</u>	<u>\$ 110,350</u>	<u>\$ 40,911</u>

Debt Service			
391	392	393	
Oppidan Folkestad TIF	G.O. Crossover Refunding Bonds of 2015A	2017 Street Assessment Project	Total Debt Service Funds
\$ 76,153	\$ 128,000	\$ 152,408	\$ 855,911
	48,429	127,992	218,318
11,037	2,347	581	16,606
<u>87,190</u>	<u>178,776</u>	<u>280,981</u>	<u>1,090,835</u>
30,000	134,167		693,280
75,242	24,790	92,377	273,351
<u>105,242</u>	<u>158,957</u>	<u>92,377</u>	<u>966,631</u>
(18,052)	19,819	188,604	124,204
28,800			54,922
<u>28,800</u>			<u>54,922</u>
10,748	19,819	188,604	179,126
919,627	297,823	457,319	2,338,204
<u>\$ 930,375</u>	<u>\$ 317,642</u>	<u>\$ 645,923</u>	<u>\$ 2,517,330</u>

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

For the Year Ended December 31, 2018

With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 1,693,608	\$ 1,693,608	\$ 1,719,709	\$ 26,101	\$ 1,869,628
Franchise taxes	60,000	60,000	61,990	1,990	53,380
Special Assessments			569	569	430
Licenses and Permits					
Business	13,500	13,500	12,943	(557)	12,960
Nonbusiness	55,700	55,700	84,126	28,426	82,037
Total Licenses and Permits	69,200	69,200	97,069	27,869	94,997
Intergovernmental					
Local government aid	1,076,622	1,076,622	1,076,622		1,020,693
Fire relief aid	40,000	40,000	42,394	2,394	42,416
Police aid	61,000	61,000	69,601	8,601	64,379
Highway aid	72,640	72,640	71,387	(1,253)	64,186
Other aid	15,369	15,369	29,447	14,078	16,805
Total State Aid	1,265,631	1,265,631	1,289,451	23,820	1,208,479
School					
Other School aid	58,000	58,000	57,177	(823)	53,848
Total School	58,000	58,000	57,177	(823)	53,848
Total Intergovernmental	1,323,631	1,323,631	1,346,628	22,997	1,262,327
Charges for Service					
General government	44,600	44,600	66,548	21,948	64,107
Public safety	51,670	51,670	59,506	7,836	51,912
Culture and recreation	250,600	250,600	258,819	8,219	248,992
Total Charges for Service	346,870	346,870	384,873	38,003	365,011
Fines and Forfeits	15,500	15,500	21,626	6,126	20,251
Investment Earnings	13,200	13,200	520	(12,680)	6,453
Miscellaneous					
Rents and leases	2,700	2,700	9,558	6,858	12,292
Refunds and reimbursements	13,000	13,000	14,584	1,584	37,585
Contributions and donations	8,000	8,000	23,844	15,844	21,005
Total Miscellaneous	23,700	23,700	47,986	24,286	70,882
TOTAL REVENUES	\$ 3,545,709	\$ 3,545,709	\$ 3,680,970	\$ 135,261	\$ 3,743,359

CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Personal services	\$ 48,389	\$ 48,389	\$ 42,168	\$ 6,221	\$ 47,377
Legal fees	11,000	11,000	8,708	2,292	14,906
Other services and charges	30,600	30,600	22,092	8,508	91,785
Total Mayor and Council	89,989	89,989	72,968	17,021	154,068
Ordinances and Proceedings					
Other services and charges	4,500	4,500	2,346	2,154	4,078
City Clerk					
Personal services	160,664	160,664	145,770	14,894	141,815
Supplies	9,720	9,720	4,807	4,913	5,427
Other services and charges	30,480	30,480	41,250	(10,770)	24,161
Total City Clerk's	200,864	200,864	191,827	9,037	171,403
Elections and Voter Registration					
Personal services	15,720	15,720	13,070	2,650	4,532
Other services and charges	1,200	1,200	703	497	3
Total Elections and Voter Registration	16,920	16,920	13,773	3,147	4,535
Assessor					
Other services and charges	31,675	31,675	29,891	1,784	29,869
Accounting					
Other services and charges	6,050	6,050	5,380	670	5,585
Legal					
Other services and charges	50,000	50,000	33,786	16,214	38,016
Planning and Zoning					
Personal services	47,735	47,735		47,735	3,873
Supplies	500	500	1,189	(689)	490
Other services and charges	17,900	17,900	36,333	(18,433)	77,904
Total Planning and Zoning	66,135	66,135	37,522	28,613	82,267

CITY OF KASSON, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	2017 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Data Processing					
Other services and charges	\$ 10,700	\$ 10,700	\$ 6,382	\$ 4,318	\$ 7,846
General Government Buildings					
Personal services	10,497	10,497	6,636	3,861	6,918
Supplies	1,525	1,525	68	1,457	189
Other services and charges	14,050	14,050	8,912	5,138	7,944
Total General Governmental Buildings	26,072	26,072	15,616	10,456	15,051
Total General Government	502,905	502,905	409,491	93,414	512,718
Public Safety					
Police					
Personal services	974,498	974,498	989,856	(15,358)	954,529
Supplies	37,500	37,500	52,308	(14,808)	37,720
Other services and charges	95,027	95,027	88,852	6,175	95,633
Total Police	1,107,025	1,107,025	1,131,016	(23,991)	1,087,882
Fire					
Personal services	66,261	66,261	63,136	3,125	57,321
Supplies	48,220	48,220	46,492	1,728	39,362
Other services and charges	100,320	100,320	81,300	19,020	97,036
Total Fire	214,801	214,801	190,928	23,873	193,719
Building inspection					
Other services and charges	48,200	48,200	51,649	(3,449)	52,626

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

For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Animal Control					
Other services and charges	\$ 2,000	\$ 2,000	\$ 1,163	\$ 837	\$ 1,297
Total Animal Control	2,000	2,000	1,163	837	1,297
Total Public Safety	1,372,026	1,372,026	1,374,756	(2,730)	1,335,524
Public Works					
Street and Alleys					
Personal services	165,400	165,400	154,174	11,226	143,042
Supplies	45,000	45,000	46,911	(1,911)	39,304
Other services and charges	228,928	228,928	225,275	3,653	232,002
Total Streets and Alleys	439,328	439,328	426,360	12,968	414,348
Engineer					
Other services and charges	15,000	15,000	27,509	(12,509)	18,100
Snow and Ice Removal					
Personal services	18,470	18,470	15,710	2,760	9,321
Supplies	29,500	29,500	33,925	(4,425)	23,984
Other services and charges	16,050	16,050	5,996	10,054	14,081
Total Snow and Ice Removal	64,020	64,020	55,631	8,389	47,386
Street Lighting					
Other services and charges	27,000	27,000	65,876	(38,876)	53,421
Sidewalks					
Other services and charges	87,017	87,017	104,376	(17,359)	54,248
Sanitation					
Waste collection and disposal					
Other services and charges	9,800	9,800	11,014	(1,214)	8,361
Total Public Works	642,165	642,165	690,766	(48,601)	595,864

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

For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Emergency Services/Health					
Personal services	\$	\$	\$	\$	\$ 76
Supplies	2,000	2,000	883	1,117	
Other services and charges	12,760	12,760	9,390	3,370	26,904
Total Emergency Services/Health	14,760	14,760	10,273	4,487	26,980
Culture and Recreation					
Parks and Recreation					
Personal services	100	100	38	62	1,117
Supplies	500	500	203	297	293
Other services and charges	8,680	8,680	6,355	2,325	6,098
Total Parks and Recreation	9,280	9,280	6,596	2,684	7,508
Playgrounds					
Supplies	3,000	3,000	1,009	1,991	3,645
Swimming Pool					
Personal services	161,364	161,364	166,523	(5,159)	152,448
Supplies	52,200	63,000	61,745	1,255	48,146
Other services and charges	63,100	63,100	66,712	(3,612)	78,321
Total Swimming Pool	276,664	287,464	294,980	(7,516)	278,915
Municipal Parks					
Personal services	284,692	284,692	276,881	7,811	241,795
Supplies	27,500	27,500	17,850	9,650	21,709
Other services and charges	38,550	38,550	29,052	9,498	32,773
Total Municipal Parks	350,742	350,742	323,783	26,959	296,277
Water Tower					
Other services and charges	6,500	6,500	4,966	1,534	652
Dodge County Arena					
Other services and charges	7,023	7,023	(3,162)	10,185	9,500
Other Recreational Facilities					
Personal services	3,000	3,000	2,307	693	2,906
Supplies	17,350	17,350	11,323	6,027	10,020
Other services and charges	45,150	45,150	36,274	8,876	32,451
Total Recreational Facilities	65,500	65,500	49,904	15,596	45,377
Forestry and Nursery					
Supplies	1,350	1,350	802	548	1,170
Other services and charges	23,125	23,125	13,758	9,367	13,141
Total Forestry and Nursery	24,475	24,475	14,560	9,915	14,311
Total Culture and Recreation	743,184	753,984	692,636	61,348	656,185

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

For the Year Ended December 31, 2018

With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Miscellaneous					
Other services and charges	\$ 95,450	\$ 84,650	\$ 30,460	\$ 54,190	\$ 92,776
Total Current Expenditures	3,370,490	3,370,490	3,208,382	162,108	3,220,047
Capital Outlay					
General government	44,000	44,000	36,500	7,500	15,240
Public safety	47,000	47,000	5,651	41,349	54,636
Public works	48,000	48,000	7,490	40,510	18,578
Culture and recreation	79,500	79,500	75,385	4,115	82,413
Total Capital Outlay	218,500	218,500	125,026	93,474	170,867
TOTAL EXPENDITURES	3,588,990	3,588,990	3,333,408	255,582	3,390,914
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(43,281)	(43,281)	347,562	390,843	352,445
OTHER FINANCING SOURCES (USES)					
Sale of assets			1,000	1,000	7,399
Transfers in	43,000	43,000	43,000		84,000
Transfers out			(191,923)	(191,923)	(264,582)
TOTAL OTHER FINANCING SOURCES (USES)	43,000	43,000	(147,923)	(190,923)	(173,183)
NET CHANGE IN FUND BALANCES	(281)	(281)	199,639	199,920	179,262
FUND BALANCES, JANUARY 1	1,768,800	1,768,800	1,768,800		1,589,538
FUND BALANCES, DECEMBER 31	\$ 1,768,519	\$ 1,768,519	\$ 1,968,439	\$ 199,920	\$ 1,768,800

CITY OF KASSON, MINNESOTA
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
December 31, 2018

FESTIVAL IN PARK (877)

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
ASSETS				
Cash and investments	\$ 12,049	\$ 38,815	\$ 35,704	\$ 15,160
LIABILITIES				
Accounts payable	\$ 12,049	\$ 38,815	\$ 35,704	\$ 15,160

ARENA (606)

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
ASSETS				
Cash and investments	\$ (23,284)	\$ 291,727	\$ 296,131	\$ (27,688)
Accounts receivable	34,390	57,192	34,390	57,192
Due from other governmental units	9,036		9,036	
Inventory	520	475	520	475
Prepaid items	926	1,025	926	1,025
TOTAL ASSETS	\$ 21,588	\$ 350,419	\$ 341,003	\$ 31,004
LIABILITIES				
Accounts payable	\$ 11,105	\$ 15,115	\$ 11,105	\$ 15,115
Accrued wages payable	8,927	10,004	8,927	10,004
Due to other governments	1,556	5,885	1,556	5,885
TOTAL LIABILITIES	\$ 21,588	\$ 31,004	\$ 21,588	\$ 31,004

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 Members
of the City Council
City of Kasson, 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, each major fund, and the aggregate remaining fund information of the City of Kasson, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Kasson, Minnesota's basic financial statements and have issued our report thereon dated March 28, 2019.

Internal Control over Financial Reporting

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, finding 2014-001, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Honorable Mayor and Members
of the City Council
City of Kasson, Minnesota

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kasson, Minnesota'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*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories. The results of our tests indicate that for the items tested, the City of Kasson, Minnesota complied with the material terms and conditions of applicable legal provisions, except as follows:

- The City was under collateralized with regard to the City cash deposits at December 31, 2018 as required by Minnesota State Statute.

City of Kasson, Minnesota's Response to Findings

City of Kasson, Minnesota's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. City of Kasson, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Smith, Schafn and Associates, Ltd.

Rochester, Minnesota
March 28, 2019

**CITY OF KASSON, MINNESOTA
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018**

FINDING – 2014-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPALS (GAAP)

Condition: A City of this size has an inherent limitation in its ability to effectively segregate its accounting duties and to prepare annual full disclosure financial statements in accordance with generally accepted accounting principles. It would not be practical for City to devote the resources required to overcome this limitation. The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the City's internal controls.

Criteria: The City should have controls in place to prevent or detect the omission of a material disclosure in the annual financial statements.

Context: The City has informed us they will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures, and will review and approve these prior to the issuance of the financial statements.

Effect: No effect on the financial statements.

Cause: The City does not have the expertise to draft the notes to the financial statements; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.

Recommendation: We recommend the City continue to evaluate their internal staff and expertise to determine if further controls over the annual financial reporting are beneficial.

CURRENT STATUS:

The finding recurred in 2018.

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TREE
CITY
USA

CITY OF
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CORRECTIVE ACTION PLAN (CAP):

The City respectfully submits the following corrective action plan for the year ended December 31, 2018.

The finding from the schedule of findings and responses is discussed below. The finding is numbered consistently with the number assigned in the schedule.

RESPONSE: FINDING 2014-001

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The management and accounting personnel review the drafted financial statements and notes. The City does not have the expertise to ensure all disclosures required by GAAP are included in the financial statements. Accordingly, the City will rely upon the auditors for completeness of the disclosures. However, the management and accounting personnel will review the notes for accuracy prior to issuance of the statements.

Official Responsible for Ensuring CAP:

Nancy Zaworski, Finance Director, is the official responsible for ensuring the planned responses.

Planned Completion Date for CAP:

Not applicable as the City is willing to accept this risk at this time and will continue to evaluate the recommendation.

Plan to Monitor Completion of CAP:

Theresa Coleman, City Administrator, will ensure the review by the Finance Director has been completed. She will do this through discussion with the Finance Director and reviewing the draft of the financial statements.



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