

CITY OF REDWOOD FALLS, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2018

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INTRODUCTORY SECTION

**CITY OF REDWOOD FALLS, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2018**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Corey Theis	Mayor	December 31, 2018
OPEN	Council Member	N/A
Matt Smith	Council Member	December 31, 2020
John T. Buckley	Council Member	December 31, 2020
Larry Arentson	Council Member	December 31, 2018
James Sandgren	Council Member	December 31, 2018
Keith Muetzel	City Administrator	
Melissa Meyer	Director of Finance & Administrative Services	
Amy Busse	City Attorney	

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Redwood Falls
City of Redwood Falls, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Redwood Falls Minnesota, (the City), as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Redwood Falls as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During the year ended December 31, 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of this standard, the Redwood Area Hospital Fund and the Business-Type Activities reported a prior period adjustment for the change in accounting principle (see Note 19). Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the total OPEB liability, related ratios and notes, schedule of the proportionate share of the net pension liability, the schedule of pension contributions, the fire relief association schedule of changes in the net pension asset and related ratios, and budgetary comparison information are 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Redwood Falls' basic financial statements. The combining and individual nonmajor fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

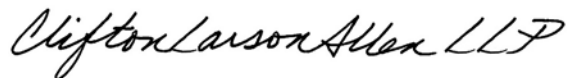
Honorable Mayor and Members of the City Council
City of Redwood Falls

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

The statistical 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 May 31, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Alexandria, Minnesota
May 31, 2019

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

This section of the annual financial statements of the City of Redwood Falls, Minnesota (the City) presents a discussion and analysis of the City's financial performance during the fiscal year ending December 31, 2018. Please read it in conjunction with the financial statements, which follow this section. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources by \$86,110,418. Of this amount \$27,478,976 may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.

- The City's total net position increased by \$3,389,329, 4.1% over 2017, including the restatement amount of \$188,595.
- The City's governmental funds reported combined ending fund balances of \$11,865,310. Of this total amount, \$1,478,504 is available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,582,421 or 39% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provides information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements are presented after the statement of activities. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of organizations outside the government. The notes to the basic financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Statement of Net Position and Statement of Activities

Our analysis of the City of Redwood Falls begins with the statement of net position and the statement of activities. One of the most important questions asked about the City's finances is, "is the City as a whole better or worse off as a result of the years' activities?" The statement of net position and statement of activities both report information about the City as a whole and about its activities in a way that helps answer this question. With the exception of fiduciary funds, which have been excluded because they do not represent the City's financial resources, these statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current years' revenues and expenses are taken into account regardless of when cash is received or paid.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position and Statement of Activities (Continued)

These two statements report the City's net position and changes in them. You can think of the City's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether the City's financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the City of Redwood Falls.

The government-wide financial statements can be found on pages 14-16 of this report.

Fund Financial Statements

Our analysis of the City of Redwood Falls' major funds begins with the funds' financial statements and provides detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other money. The City of Redwood Falls' three kinds of funds – governmental, proprietary and fiduciary – use different approaches.

Governmental Funds – Most of the City of Redwood Falls' basic services are reported in governmental funds. Governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader of the statements determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation after the financial statements.

The basic governmental fund financial statements can be found on pages 17-20 of this report.

Proprietary Funds – When the City of Redwood Falls charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.

The basic proprietary fund financial statements can be found on pages 21-30 of this report.

Fiduciary Funds – The City of Redwood Falls is the trustee, or fiduciary, for resources collected for the City's flexible benefit plan and Gilwood Haven. The resources held in a fiduciary capacity are reported in separate statements of fiduciary net position. We exclude these activities from the City's other fund financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

The basic fiduciary fund financial statements can be found on pages 31-32 of this report.

Notes to the Basic 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 33-80 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found on pages 81-92 of this report. It consists of budgetary comparison information for certain of the City's governmental funds, the fire relief association schedule of change in the net pension asset and related ratios, schedule of the proportionate share of the net pension liability, the schedule of pension contributions, and the schedule of funding progress for postemployment benefit plans.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City of Redwood Falls' net position increased during 2018 by \$3,389,329. Our analysis below focuses on the net position (see Table 1) and changes in net position (see Table 2) of the City's governmental and business-type activities.

**Table 1
STATEMENT OF NET POSITION**

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 13,380,300	\$ 8,500,783	\$ 36,412,346	\$ 46,292,976	\$ 49,792,646	\$ 54,793,759
Capital Assets	28,359,089	27,277,869	41,212,206	43,517,891	69,571,295	70,795,760
Total Assets	41,739,389	35,778,652	77,624,552	89,810,867	119,363,941	125,589,519
Deferred Outflows of Resources	1,321,803	1,934,101	1,773,058	2,688,502	3,094,861	4,622,603
Noncurrent Liabilities Outstanding	4,671,949	6,203,442	21,738,277	31,082,681	26,410,226	37,286,123
Other Liabilities	989,061	891,024	4,619,082	5,098,808	5,608,143	5,989,832
Total Liabilities	5,661,010	7,094,466	26,357,359	36,181,489	32,018,369	43,275,955
Deferred Inflows of Resources	1,952,003	2,199,131	2,378,012	2,015,947	4,330,015	4,215,078
Net Position						
Net Investment in Capital Assets	26,486,432	25,455,609	29,820,590	22,948,174	56,307,022	48,403,783
Restricted	1,614,328	2,677,843	710,092	1,468,053	2,324,420	4,145,896
Unrestricted	7,347,419	285,704	20,131,557	29,885,706	27,478,976	30,171,410
Total Net Position	\$ 35,448,179	\$ 28,419,156	\$ 50,662,239	\$ 54,301,933	\$ 86,110,418	\$ 82,721,089

Governmental Activities

Net position of the City's governmental activities increased by \$7,029,023 or 24.7%. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirement was \$7,347,419 at December 31, 2018. A thorough analysis of governmental activities is discussed below.

Business-Type Activities

The net position of our business-type activities decreased by \$3,639,694 or 6.7%, due to the transfer of \$5,000,000 from the Redwood Area Hospital fund to the City's Capital Projects fund per the transfer agreement between the City and Carris Health.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table indicates the changes in net position for the City's governmental and business-type activities:

**Table 2
STATEMENT OF ACTIVITIES**

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue						
Program Revenues						
Charges for Services	\$ 1,897,802	\$ 2,075,341	\$ 40,207,178	\$ 37,810,293	\$ 42,104,980	\$ 39,885,634
Operating Grants and Contributions	388,255	367,332	37,366	51,364	425,621	418,696
Capital Grants and Contributions	1,996,860	2,601,355	58,607	124,635	2,055,467	2,725,990
General Revenues						
Property Taxes	2,706,725	2,550,755	-	-	2,706,725	2,550,755
Franchise Fees	181,834	156,547	-	-	181,834	156,547
Hotel Taxes	37,008	42,730	-	-	37,008	42,730
Intergovernmental Revenues	1,538,455	1,469,999	-	-	1,538,455	1,469,999
Unrestricted Investment Earnings	207,877	160,256	112,201	648,716	320,078	808,972
Miscellaneous	208,653	298,385	155,278	71,248	363,931	369,633
Total Revenue	<u>9,163,469</u>	<u>9,722,700</u>	<u>40,570,630</u>	<u>38,706,256</u>	<u>49,734,099</u>	<u>48,428,956</u>
Expenses						
General Government	1,670,814	1,698,005	-	-	1,670,814	1,698,005
Public Safety	1,881,355	1,946,550	-	-	1,881,355	1,946,550
Highways & Streets	1,835,898	1,659,585	-	-	1,835,898	1,659,585
Culture and Recreation	2,743,992	2,763,530	-	-	2,743,992	2,763,530
Economic Development	200,021	856,829	-	-	200,021	856,829
Airport	476,424	491,485	-	-	476,424	491,485
Interest and Fiscal Charges	54,370	61,489	-	-	54,370	61,489
Municipal Liquor Store	-	-	2,148,487	2,166,757	2,148,487	2,166,757
Water Utility	-	-	1,315,104	1,254,159	1,315,104	1,254,159
Sewer Utility	-	-	981,992	1,020,786	981,992	1,020,786
Storm Sewer Utility	-	-	306,256	242,131	306,256	242,131
Electric Utility	-	-	5,880,832	5,698,268	5,880,832	5,698,268
Redwood Area Hospital	-	-	26,660,630	24,796,495	26,660,630	24,796,495
Total Expenses	<u>8,862,874</u>	<u>9,477,473</u>	<u>37,293,301</u>	<u>35,178,596</u>	<u>46,156,175</u>	<u>44,656,069</u>
Change in Net Position Before Transfers, Special Item, and Contributions	300,595	245,227	3,277,329	3,527,660	3,577,924	3,772,887
Transfers and Contributions	6,728,428	1,086,438	(6,728,428)	(1,086,438)	-	-
Change in Net Position	<u>7,029,023</u>	<u>1,331,665</u>	<u>(3,451,099)</u>	<u>2,441,222</u>	<u>3,577,924</u>	<u>3,772,887</u>
Net Position - Beginning of Year	28,419,156	27,087,491	54,301,933	51,860,711	82,721,089	78,948,202
Change in Accounting Principle (See Note 19)	-	-	(188,595)	-	(188,595)	-
Net Position - Beginning of Year, As Restated	<u>28,419,156</u>	<u>27,087,491</u>	<u>54,113,338</u>	<u>51,860,711</u>	<u>82,532,494</u>	<u>78,948,202</u>
Net Position - End of Year	<u>\$ 35,448,179</u>	<u>\$ 28,419,156</u>	<u>\$ 50,662,239</u>	<u>\$ 54,301,933</u>	<u>\$ 86,110,418</u>	<u>\$ 82,721,089</u>

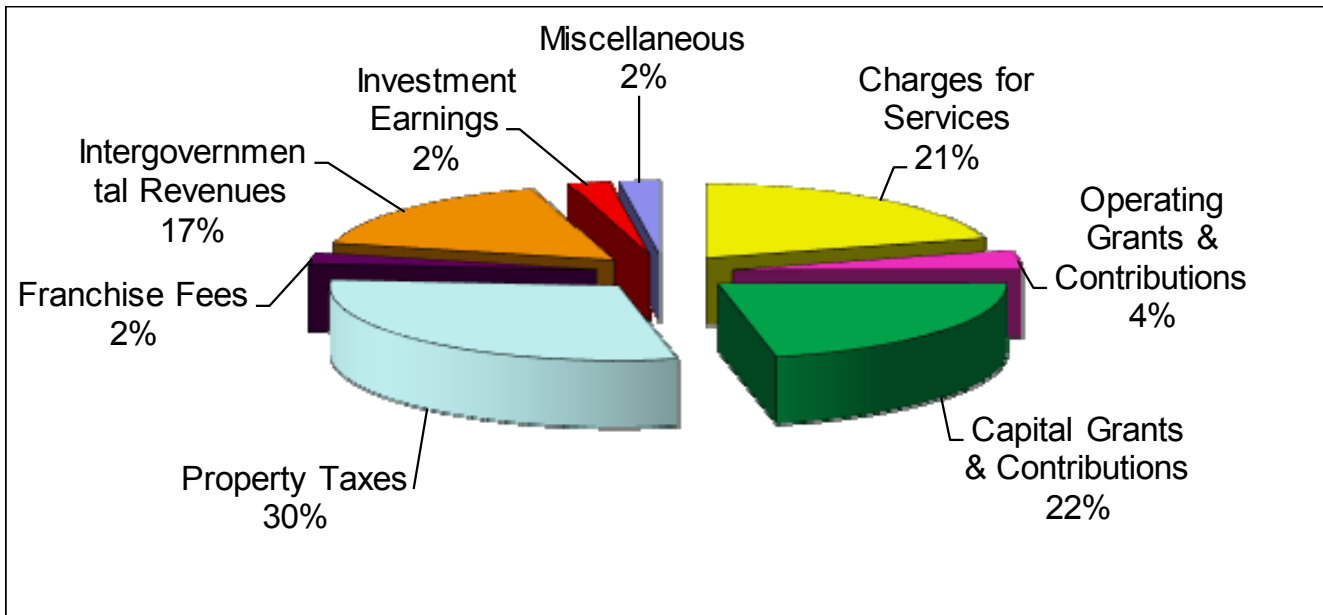
**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

Revenues – The following chart visually illustrates the City's revenue by sources for its governmental activities:

**2018 REVENUES BY SOURCE
GOVERNMENTAL ACTIVITIES**



Revenues – The City's governmental activities increased by \$120,558 or 1.2%. The major components of this increase are explained as follows:

- 2018 capital grants and contributions increased from 2017 by \$73,000. 2017 grants and contributions included \$858,000 for the Gould Street Reconstruction, \$834,000 for Park projects, \$593,331 for the Lakeside Manor Reconstruction, \$142,000 in donations received for the RACC Expansion, and \$99,000 for Airport projects. 2018 grants and contributions included \$1,127,000 for the 7-Bay Hangar at the Airport, \$347,000 for the Gould Street Reconstruction, \$351,000 for the Signal Light project, \$151,000 for other small projects and a contribution from the Hospital of three houses on Veda Drive valued at \$623,000 as part of the transfer agreement with Carris Health.
- Other items include increased tax revenues of \$101,000, an increase in Local Government Aid of \$68,000, increased investment earnings of \$47,000, offset by a reduction from 2017 Charges for Services of \$175,000, of which \$159,000 was due to Shared Services labor accounted for directly in business-type activities in 2018 and \$16,000 in reduced building permits and building inspector fees.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities (Continued)

Expenses – The City's expenses for governmental activities decreased by \$614,599 or 6.5%. The major components of this decrease are explained as follows:

- \$593,000 of this decrease is due to 2017 costs for the Lakeside Manor Reconstruction. Other notable items include \$159,000 in Shared Services labor and benefits accounted for directly in business-type activities in 2018, \$61,000 in 2017 to update the Comprehensive Plan, and \$36,000 in savings due to partnering with Redwood County for economic development. These reductions were offset by an additional \$101,000 in seal coating costs, \$62,000 in repairs in 2018 due to flooding, \$35,000 in additional IT costs to transition from Shared Services with the the Redwood Area Hospital to outsourced IT and \$32,000 in additional Downtown Improvement Loans in 2018.

Business-Type Activities

Transfers – The City's transfers to governmental activities were \$4,962,201 more than prior year due to the \$5,000,000 transfer from the Hospital per the transfer agreement with Carris Health.

Revenues – The City's business-type operating revenues and other income increased 4.8%, or \$1,864,374 in 2018 when compared to 2017, due to increases in charges for services at the hospital of \$1,738,000, the electric utility of \$578,000, the water utility of \$38,000 and the sewer utility of \$35,000, offset by a reduction of \$537,000 in investment earnings which represents a reduction of \$576,000 for the hospital and an increase of \$36,000 for the City proprietary funds. In addition, an insurance reimbursement of \$81,000 was received in 2018 for a damaged generator at the power plant, and grants and contributions were less in 2018 by \$66,000 due to utility work on Gould Street that was done in 2017.

Expenses – There was an increase in business-type expenses of \$2,114,705 or 6.0%. Redwood Area Hospital expenses increased by \$1,864,000 over 2017, the electric utility by \$183,000 due to hydro and underground maintenance, the storm sewer utility by \$64,000 due to ravine and ditch repairs and pond cleaning and the water utility by \$61,000 due to watermain repairs and bond issuance costs to finance the watermain at the 'Y' intersection. These increases were offset by a decrease in sewer utility expenses in the amount of \$39,000 due to lower lift station repair costs than in 2017, and \$18,000 at the Liquor Lodge related to roof repairs needed in 2017 due to a hail storm.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund – The City's General Fund balance increased by \$833,880 in 2018 as compared to 2017. This increase is attributable to in part to the General Fund budgetary highlights discussed below.

Capital Project Fund – The Capital Project Fund balance increased by \$5,449,262 and ended the year with a \$5,763,733 fund balance. This increase is a result of a cash transfer of \$5,000,000 and a contribution from Redwood area Hospital of three houses on Veda Drive, as part of the transfer agreement with Carris Health which increased fund balance by \$175,000, favorable investment returns of \$72,000 and \$56,000 in donor contributions for the RACC Expansion project. Other factors include \$205,000 for roof work at the RACC that was delayed and a transfer to the airport capital project fund in the amount of \$69,000 for the local share of the construction of the 7-Bay hangar.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

Nonmajor Governmental Funds – The fund balances for the Nonmajor Governmental Funds decreased by \$1,072,296 in total and ended the year with a balance of \$391,921. The decrease is due primarily to the defeasance of the \$920,000 Pavilion bond. In addition, 2018 costs to build the 7-Bay Hangar exceeded revenues by \$104,000 in the Airport Capital Project Fund, due to reimbursements that were not received until 2019.

General Fund Budgetary Highlights

Actual revenue was more than budget in 2018 by \$601,824. \$661,000 represents reimbursements for the Gould Street Reconstruction project that were budgeted in 2017, Fees, Licenses and Permits exceeded budget by \$54,000, predominantly due to building permits and plan review fees, and Investment Earnings were \$29,000 over budget. These variances were offset by \$93,000 of Shared Services labor reimbursement, accounted for directly in the hospital proprietary fund. Other miscellaneous revenues were under budget by \$84,000, which includes \$120,000 in funding for playground projects at Zeb Gray and Legion parks that wasn't obtained, reduced by a \$17,000 insurance reimbursement for building water damage and \$18,000 for the demolition of a hazardous structure.

Expenditures were less than budget by \$114,541. Significant variances are as follows:

- As a result of recruiting time for retirements and other open positions, the City recognized \$205,000 in labor and benefits savings to budget, including \$63,000 Shared Services labor accounted for directly in the hospital proprietary fund, \$60,000 of reduced expenses in the Police department due to open positions, \$55,000 savings for Park & Rec due to open positions and \$27,000 in other labor favorable to budget.
- The Parks and Rec department postponed upgrades to the playground equipment at Zeb Gray and Legion parks due to a lack of funding, saving \$120,000 in budgeted expenses, offset by \$109,000 to complete the Gould Street project which was budgeted in 2017 and preliminary costs for the Courthouse Square project, which is budgeted in 2019.
- The Street department exceeded their budget by \$122,000 for repairing road damaged by flooding.
- Other repairs caused an unfavorable \$52,000 variance to budget, including \$18,000 to remove asbestos and demolish a hazardous building, \$12,000 in asbestos removal and cleaning of a vacant building, \$11,000 in equipment repairs at the Fire Department and \$11,000 in repairs to the slide at the water park, which was budgeted in 2017 but was unable to be completed due to weather constraints.
- Other items explained favorable variances to budget including \$42,000 for a Work Comp Retro reimbursement, \$36,000 in savings by partnering with Redwood County for Economic Development, net of \$65,000 transferred from the General Fund to the Project fund designating repayment of advance MSAS funds and interest earnings for future projects.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the City of Redwood Falls, including its blended component unit, had \$140,911,245 invested (original cost) in a broad range of capital assets. Refer to Note 3 of the basic financial statements for a schedule showing the City's capital asset activity. This amount represents a net increase (including additions and deductions) in gross capital assets of \$2,712,834 over last year.

Long-Term Debt

At year-end, the City of Redwood Falls, including its component unit, has \$12,925,000 in outstanding bond obligations. During 2018, \$10,067,000 in debt was retired through scheduled principal payments and additional principal payments made using funds transferred from the hospital to the City. Refer to Note 4 of the basic financial statements for a schedule showing the City's long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Redwood Falls' appointed officials considered many factors when presenting the fiscal year 2019 budget and rates and fees that will be charged for the business-type activities. The major factor continues to be personnel costs in the General Fund as the services provided are labor intensive. In addition, providing the costly infrastructure maintenance and improvements necessary for the citizenry continues to be a balancing act with a constant tax base and reductions in government aid. The City continues its efforts with cost containment, particularly in the areas of fuel and insurance costs. Appointed and elected officials continue to work together to balance and prioritize to continue providing essential services to the community.

CONTACT INFORMATION

This annual report is designed to provide a general overview of the City of Redwood Falls, Minnesota finances for citizens, customers and others. Questions concerning any of the information contained in this report and request for additional information should be addressed to the City of Redwood Falls, P.O. Box 526, 333 S Washington St., Redwood Falls, MN 56283, by email at info@ci.redwood-falls.mn.us or by phone at 507-637-5755.

BASIC FINANCIAL STATEMENTS

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental Activities	Business-Type Activities	Total	Redwood Area Hospital Foundation
ASSETS				
Cash and Investments	\$ 12,569,176	\$ 11,206,884	\$ 23,776,060	\$ 423,801
Cash and Investments - Restricted	-	688,938	688,938	-
Accounts Receivable, Net	219,574	6,249,711	6,469,285	-
Property Taxes Receivable	98,596	-	98,596	-
Special Assessments Receivable	28,442	9,419	37,861	-
Accrued Interest Receivable	40,451	55,243	95,694	-
Interfund Balances	(961,151)	961,151	-	-
Due from Other Governments	909,242	63,957	973,199	-
Inventories	124,706	1,230,319	1,355,025	-
Prepaid Items	82,057	326,707	408,764	-
Notes Receivable	102,371	-	102,371	-
Designated and Noncurrent Investments	-	15,040,945	15,040,945	-
Acquisition Costs, Net of Amortization	-	95,400	95,400	-
Investment in Joint Venture	-	483,672	483,672	-
Net Pension Asset	166,836	-	166,836	-
Capital Assets Not Being Depreciated				
Land	1,137,871	1,538,935	2,676,806	-
Land Improvements	100,938	-	100,938	-
Construction in Progress	451,439	1,907,157	2,358,596	-
Capital Assets Being Depreciated				
Other Capital Assets, Net of Depreciation	26,668,841	37,766,114	64,434,955	-
Total Assets	41,739,389	77,624,552	119,363,941	423,801
DEFERRED OUTFLOWS OF RESOURCES				
Loss on Refunding Bonds	-	16,011	16,011	-
Pension Related	1,302,927	1,717,654	3,020,581	-
Other Postemployment Benefits Related	18,876	39,393	58,269	-
Total Deferred Outflows of Resources	1,321,803	1,773,058	3,094,861	-
LIABILITIES				
Accounts Payable	215,272	2,318,083	2,533,355	3,000
Contracts Payable	318,134	92,196	410,330	-
Accrued Salaries and Fringes	162,255	1,927,371	2,089,626	-
Accrued Interest Payable	23,351	82,187	105,538	-
Other Accrued Liabilities	-	16,889	16,889	-
Due to Other Governments	6,556	49,327	55,883	-
Deposits Payable	1,000	119,170	120,170	-
Unearned Revenue	262,493	13,859	276,352	-
Long-Term Liabilities				
Net Pension Liability	2,386,070	9,535,690	11,921,760	-
Other Postemployment Benefits Liability	420,260	631,668	1,051,928	-
Due Within One Year	325,670	1,026,882	1,352,552	-
Due in More than One Year	1,539,949	10,544,037	12,083,986	-
Total Liabilities	5,661,010	26,357,359	32,018,369	3,000
DEFERRED INFLOWS OF RESOURCES				
Pension Related	1,952,003	2,378,012	4,330,015	-
NET POSITION				
Net Investment in Capital Assets	26,486,432	29,820,590	56,307,022	-
Restricted for				
Police Seizures	16,007	-	16,007	-
Library	270,089	-	270,089	-
Firefighter Pension	166,836	-	166,836	-
Port Authority	463,253	-	463,253	-
Revolving Loans	694,178	21,154	715,332	-
Debt Service	3,965	688,938	692,903	-
Specific Donor Restrictions	-	-	-	406,738
Unrestricted	7,347,419	20,131,557	27,478,976	14,063
Total Net Position	\$ 35,448,179	\$ 50,662,239	\$ 86,110,418	\$ 420,801

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,670,814	\$ 689,424	\$ 1,443	\$ -
Public Safety	1,881,355	161,791	159,859	67,575
Highways and Streets	1,835,898	9,590	133,569	615,988
Culture and Recreation	2,743,992	784,353	53,211	89,850
Economic Development	200,021	-	-	-
Airport	476,424	252,644	40,173	1,223,447
Interest and Fiscal Charges	54,370	-	-	-
Total Governmental Activities	<u>8,862,874</u>	<u>1,897,802</u>	<u>388,255</u>	<u>1,996,860</u>
Business-Type Activities				
Municipal Liquor Store	2,148,487	2,194,209	-	-
Water Utility	1,315,104	1,298,257	938	7,309
Sewer Utility	981,992	984,292	5,752	5,710
Storm Sewer Utility	306,256	285,178	7,375	45,588
Electric Utility	5,880,832	7,145,634	7,001	-
Redwood Area Hospital	26,660,630	28,299,608	16,300	-
Total Business-Type Activities	<u>37,293,301</u>	<u>40,207,178</u>	<u>37,366</u>	<u>58,607</u>
Total Primary Government	<u>\$ 46,156,175</u>	<u>\$ 42,104,980</u>	<u>\$ 425,621</u>	<u>\$ 2,055,467</u>
Component Unit				
Redwood Area Hospital Foundation	<u>\$ 28,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues
Taxes
Property Taxes, Levied for General Purpose
Franchise Taxes
Hotel/Motel Taxes
Intergovernmental Revenues, Not Restricted to Specific Programs
Unrestricted Investment Earnings
Gain on Disposal of Capital Assets
Miscellaneous
Transfers
Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year
(As Previously Reported)
Change in Accounting Principle (See Note 19)
Net Position - Beginning of Year (As Restated)

Net Position - End of Year

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Redwood Area Hospital Foundation</u>
\$ (979,947)	\$ -	\$ (979,947)	\$ -
(1,492,130)	-	(1,492,130)	-
(1,076,751)	-	(1,076,751)	-
(1,816,578)	-	(1,816,578)	-
(200,021)	-	(200,021)	-
1,039,840	-	1,039,840	-
(54,370)	-	(54,370)	-
<u>(4,579,957)</u>	<u>-</u>	<u>(4,579,957)</u>	<u>-</u>
-	45,722	45,722	-
-	(8,600)	(8,600)	-
-	13,762	13,762	-
-	31,885	31,885	-
-	1,271,803	1,271,803	-
-	1,655,278	1,655,278	-
<u>-</u>	<u>3,009,850</u>	<u>3,009,850</u>	<u>-</u>
(4,579,957)	3,009,850	(1,570,107)	-
-	-	-	(28,635)
2,706,725	-	2,706,725	-
181,834	-	181,834	-
37,008	-	37,008	-
1,538,455	-	1,538,455	-
207,877	112,201	320,078	3,057
1,066	-	1,066	-
207,587	155,278	362,865	29,958
6,728,428	(6,728,428)	-	-
<u>11,608,980</u>	<u>(6,460,949)</u>	<u>5,148,031</u>	<u>33,015</u>
7,029,023	(3,451,099)	3,577,924	4,380
28,419,156	54,301,933	82,721,089	416,421
-	(188,595)	(188,595)	-
<u>28,419,156</u>	<u>54,113,338</u>	<u>82,532,494</u>	<u>416,421</u>
<u>\$ 35,448,179</u>	<u>\$ 50,662,239</u>	<u>\$ 86,110,418</u>	<u>\$ 420,801</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

ASSETS	General	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and Investments	\$ 5,149,823	\$ 5,432,664	\$ 1,431,686	\$ 12,014,173
Accounts Receivable, Net	117,773	93,000	8,601	219,374
Property Taxes Receivable	79,938	-	18,658	98,596
Special Assessments Receivable	27,844	-	-	27,844
Accrued Interest Receivable	22,483	5,530	10,078	38,091
Advances to Other Funds	849,340	-	-	849,340
Due from Other Funds	11,035	319,609	-	330,644
Due from Other Governments	381,207	-	528,035	909,242
Prepaid Items	69,433	-	8,210	77,643
Property Held for Resale	10,446	-	61,873	72,319
Notes Receivable	-	-	102,371	102,371
Inventory	15,484	-	36,903	52,387
Total Assets	<u>\$ 6,734,806</u>	<u>\$ 5,850,803</u>	<u>\$ 2,206,415</u>	<u>\$ 14,792,024</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 147,214	\$ 6,503	\$ 37,755	\$ 191,472
Contracts Payable	95,868	-	222,266	318,134
Accrued Salaries and Fringes	142,111	-	16,402	158,513
Due to Other Funds	22,629	-	321,617	344,246
Due to Other Governments	6,529	-	27	6,556
Advances from Other Funds	-	-	849,340	849,340
Deposits	1,000	-	-	1,000
Unearned Revenue	183,606	667	78,220	262,493
Total Liabilities	<u>598,957</u>	<u>7,170</u>	<u>1,525,627</u>	<u>2,131,754</u>
Deferred Inflows of Resources				
Unavailable Revenue - Taxes and Special Assessments	77,577	-	23,997	101,574
Unavailable Revenue - Loans	-	-	102,372	102,372
Unavailable Revenue - Grants	348,616	-	162,498	511,114
Unavailable Revenue - Pledges	-	79,900	-	79,900
Total Deferred Inflows of Resources	<u>426,193</u>	<u>79,900</u>	<u>288,867</u>	<u>794,960</u>
Fund Balances				
Nonspendable:				
Prepaid Items	69,433	-	8,210	77,643
Advance	849,340	-	-	849,340
Property Held for Resale	10,446	-	-	10,446
Inventory	15,484	-	36,903	52,387
Restricted for:				
Seizures	16,007	-	-	16,007
Debt Service	-	-	12,828	12,828
Library	-	-	258,354	258,354
Port Authority	-	-	461,087	461,087
Revolving Loans	-	-	591,539	591,539
Committed to:				
Fire Equipment	-	-	126,917	126,917
Tax Levy Stabilization	-	5,000,000	-	5,000,000
Capital Expenditures	-	763,733	-	763,733
Assigned to:				
Softball Improvements	59,892	-	-	59,892
Working Capital	2,106,633	-	-	2,106,633
Unassigned:	2,582,421	-	(1,103,917)	1,478,504
Total Fund Balances	<u>5,709,656</u>	<u>5,763,733</u>	<u>391,921</u>	<u>11,865,310</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 6,734,806</u>	<u>\$ 5,850,803</u>	<u>\$ 2,206,415</u>	<u>\$ 14,792,024</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Total Fund Balance for Governmental Funds \$ 11,865,310

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	1,085,971	
Land Improvements		100,938	
Construction in Progress		451,439	
Land Improvements, Net of Accumulated Depreciation		1,482,317	
Buildings, Net of Accumulated Depreciation		10,778,062	
Infrastructure, Net of Accumulated Depreciation		9,631,608	
Machinery and Shop Equipment, Net of Accumulated Depreciation		1,463,306	
Library Books, Net of Accumulated Depreciation		3,514	
Office Equipment and Furniture, Net of Accumulated Depreciation		361	24,997,516

Some of the City's property taxes, special assessments, and other revenues will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as unavailable revenue in the governmental funds.

794,960

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net position.

(10,604)

Internal service funds are used by the City to charge the costs of certain activities to individual funds. The portion of assets, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service funds that are used by the governmental funds are included in governmental activities in the statement of net position.

2,010,176

The City's net pension asset and liability and related deferred outflows and inflows are recorded only on the statement of net position. Balances at year-end are:

Net Pension Asset		166,836	
Net Pension Liability		(2,318,757)	
Deferred Outflows of Resources - Pension Related		1,291,664	
Deferred Inflows of Resources - Pension Related		(1,935,073)	

The City's other postemployment liability and related deferred outflows are recorded only on the statement of net position. Balances at year-end are:

Other Postemployment Benefits Liability		(412,404)	
Deferred Outflows of Resources - OPEB Related		18,379	

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:

Bonds Payable, excluding Internal Service Funds		(724,947)	
Unamortized Discounts		2,903	
Compensated Absences Payable		(297,780)	(1,019,824)

Total Net Position of Governmental Activities **\$ 35,448,179**

See accompanying Notes to Basic Financial Statements.

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

REVENUES	General	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Local Tax Levies	\$ 2,340,431	\$ -	\$ 566,213	\$ 2,906,644
Intergovernmental	2,848,527	-	1,299,108	4,147,635
Charges for Services	1,146,941	-	258,999	1,405,940
Fees, Licenses and Permits	131,410	-	-	131,410
Fines and Forfeits	28,215	-	5,763	33,978
Investment Earnings	95,325	72,536	39,822	207,683
Contributions	3,462	56,350	3,669	63,481
Miscellaneous	170,431	234,484	59,894	464,809
Total Revenues	<u>6,764,742</u>	<u>363,370</u>	<u>2,233,468</u>	<u>9,361,580</u>
EXPENDITURES				
Current				
General Government	1,337,932	-	-	1,337,932
Public Safety	1,767,716	-	39,658	1,807,374
Highways and Streets	1,196,289	30,449	-	1,226,738
Culture and Recreation	1,677,739	-	406,039	2,083,778
Economic Development	45,039	-	127,632	172,671
Airport	-	-	303,924	303,924
Capital Outlay	602,006	56,480	1,392,079	2,050,565
Debt Service				
Principal	-	-	1,053,191	1,053,191
Interest	-	-	93,350	93,350
Fiscal Agent Fees	-	-	1,054	1,054
Total Expenditures	<u>6,626,721</u>	<u>86,929</u>	<u>3,416,927</u>	<u>10,130,577</u>
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	138,021	276,441	(1,183,459)	(768,997)
OTHER FINANCING SOURCES (USES)				
Transfers In	891,546	5,298,051	344,811	6,534,408
Transfers Out	(201,084)	(125,230)	(233,648)	(559,962)
Proceeds from Sale of Capital Assets	5,397	-	-	5,397
Total Other Financing Sources (Uses)	<u>695,859</u>	<u>5,172,821</u>	<u>111,163</u>	<u>5,979,843</u>
NET CHANGE IN FUND BALANCES	833,880	5,449,262	(1,072,296)	5,210,846
Fund Balances - Beginning of Year	<u>4,875,776</u>	<u>314,471</u>	<u>1,464,217</u>	<u>6,654,464</u>
FUND BALANCES - END OF YEAR	<u>\$ 5,709,656</u>	<u>\$ 5,763,733</u>	<u>\$ 391,921</u>	<u>\$ 11,865,310</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Net Change in Fund Balance - Total Governmental Funds \$ 5,210,846

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlays	\$ 2,498,355	
Net Book Value of Disposed Assets	(4,329)	
Depreciation Expense	<u>(1,489,004)</u>	1,005,022

Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due.

14,120

The governmental funds report repayment of bond principal as an expenditure, whereas in the statement of activities repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are amortized in the statement of activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of Bond Principal	1,053,191	
Amortization of Bond Discount	<u>(484)</u>	1,052,707

Delinquent property taxes, special assessments, and other receivables will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are unavailable in the governmental funds. In addition, other receivables not currently collectible are also unavailable in the governmental funds.

Deferred Inflows - December 31, 2017	(1,073,570)	
Deferred Inflows - December 31, 2018	<u>794,960</u>	(278,610)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During the current year, compensated absence payable decreased.

1,194

Some expenses, such as other postemployment benefits, 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.

(116,859)

Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability (asset) and related inflows and outflows of resources.

87,351

Internal service funds are used by the City to charge costs of certain activities to individual funds. The portion of net revenues of the internal service funds that are received for governmental funds is reported with governmental activities.

53,252

Change in Net Position of Governmental Activities **\$ 7,029,023**

See accompanying Notes to Basic Financial Statements.

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
DECEMBER 31, 2018

ASSETS	Sewer Utility	Water Utility	Electric Utility	Redwood Area Hospital
Current assets				
Cash and Cash Equivalents	\$ 2,309,000	\$ 912,507	\$ 2,934,611	\$ 4,226,121
Cash and Cash Equivalents - Restricted	-	-	637,538	-
Accounts Receivable, Net	114,193	182,226	974,941	4,937,850
Special Assessments Receivable	1,492	1,980	5,011	-
Accrued Interest Receivable	11,762	8,697	30,936	-
Due from Other Funds	1,549	2,538	58,443	-
Due from Other Governmental Units	5,752	938	876	-
Inventories	3,419	52,287	553,371	420,588
Prepaid Items	3,878	2,869	108,061	205,949
Total Current Assets	2,451,045	1,164,042	5,303,788	9,790,508
Noncurrent Assets				
Designated and Noncurrent Investments	-	-	-	15,040,945
Other Noncurrent Assets				
Acquisition Costs, Net of Amortization	-	-	95,400	-
Investment in Joint Venture	-	-	-	483,672
Total Other Noncurrent Assets	-	-	95,400	483,672
Capital Assets				
Land	35,524	54,538	271,256	552,514
Construction in Progress	20,902	88,466	633,502	1,153,537
Buildings and Improvements	11,090,911	14,303,279	19,285,938	24,523,158
Machinery and Equipment	2,243,640	2,147,256	2,977,637	7,876,037
Total Capital Assets	13,390,977	16,593,539	23,168,333	34,105,246
Less: Accumulated Depreciation	(8,208,519)	(4,293,912)	(11,738,868)	(24,198,230)
Net Capital Assets	5,182,458	12,299,627	11,429,465	9,907,016
Total Noncurrent Assets	5,182,458	12,299,627	11,524,865	25,431,633
Total Assets	7,633,503	13,463,669	16,828,653	35,222,141
DEFERRED OUTFLOWS OF RESOURCES				
Loss on Refunding Bonds	6,712	6,501	-	-
Pension Related	28,226	32,767	112,598	1,501,472
Other Postemployment Benefits Related	1,988	1,988	5,466	27,466
Deferred Outflows of Resources	36,926	41,256	118,064	1,528,938

See accompanying Notes to Basic Financial Statements.

Nonmajor Enterprise Funds	Totals	Governmental Activities Internal Service Funds
\$ 824,645	\$ 11,206,884	\$ 555,003
51,400	688,938	-
40,501	6,249,711	200
936	9,419	598
3,848	55,243	2,360
462	62,992	-
56,391	63,957	-
200,654	1,230,319	-
5,950	326,707	4,414
<u>1,184,787</u>	<u>19,894,170</u>	<u>562,575</u>
-	15,040,945	-
-	95,400	-
-	483,672	-
<u>-</u>	<u>579,072</u>	<u>-</u>
625,103	1,538,935	51,900
10,750	1,907,157	-
2,295,551	71,498,837	1,360,671
216,429	15,460,999	3,774,283
<u>3,147,833</u>	<u>90,405,928</u>	<u>5,186,854</u>
<u>(754,193)</u>	<u>(49,193,722)</u>	<u>(1,825,281)</u>
<u>2,393,640</u>	<u>41,212,206</u>	<u>3,361,573</u>
<u>2,393,640</u>	<u>56,832,223</u>	<u>3,361,573</u>
3,578,427	76,726,393	3,924,148
2,798	16,011	-
42,591	1,717,654	11,263
2,485	39,393	497
<u>47,874</u>	<u>1,773,058</u>	<u>11,760</u>

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)
DECEMBER 31, 2018

LIABILITIES	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Redwood Area Hospital</u>
Current Liabilities				
Accounts Payable	\$ 6,640	\$ 10,624	\$ 264,355	\$ 1,986,871
Contracts Payable	5,057	43,137	29,929	-
Accrued Salaries and Fringes	12,307	13,946	46,456	1,834,213
Accrued Interest Payable	6,371	63,731	10,862	-
Other Accrued Liabilities	-	1,112	15,777	-
Due to Other Funds	12,245	4,581	179	28,227
Due to Other Governmental Units	-	5,573	21,950	-
Customer Deposits	-	-	119,170	-
Current Portion of Unearned Revenue	-	-	-	2,584
Current Portion of Compensated Absences	15,367	17,435	47,443	-
Current Portion of Bonds Payable	86,601	281,158	510,000	-
Total Current Liabilities	144,588	441,297	1,066,121	3,851,895
Noncurrent Liabilities				
Compensated Absences	20,756	23,580	83,637	-
Other Postemployment Benefits Liability	38,133	39,148	116,485	394,694
Net Pension Liability	168,673	195,826	672,917	8,243,719
Bonds Payable - Long-Term	545,966	5,921,882	3,721,728	-
Unearned Revenue	-	-	11,275	-
Total Noncurrent Liabilities	773,528	6,180,436	4,606,042	8,638,413
Total Liabilities	918,116	6,621,733	5,672,163	12,490,308
DEFERRED INFLOWS OF RESOURCES				
Pension Related	42,424	49,252	169,243	2,053,073
NET POSITION				
Net Investment in Capital Assets	4,551,546	6,059,952	7,167,807	9,907,016
Restricted for Capital Improvements	21,154	-	-	-
Restricted for Bond Reserve Funds	-	-	637,538	-
Unrestricted	2,137,189	773,988	3,299,966	12,300,682
Total Net Position	\$ 6,709,889	\$ 6,833,940	\$ 11,105,311	\$ 22,207,698
Adjustment to Reflect the Consolidated Internal Service Funds Related to the Enterprise Fund Total Net Position of the Business-Type Activities				

See accompanying Notes to Basic Financial Statements.

Nonmajor Enterprise Funds	Totals	Governmental Activities Internal Service Funds
\$ 49,593	\$ 2,318,083	\$ 23,800
14,073	92,196	-
20,449	1,927,371	3,742
1,223	82,187	12,747
-	16,889	-
2,122	47,354	2,036
21,804	49,327	-
-	119,170	-
-	2,584	-
19,159	99,404	5,683
49,719	927,478	40,000
<u>178,142</u>	<u>5,682,043</u>	<u>88,008</u>
27,201	155,174	5,112
43,208	631,668	7,856
254,555	9,535,690	67,313
199,287	10,388,863	795,000
-	11,275	-
<u>524,251</u>	<u>20,722,670</u>	<u>875,281</u>
702,393	26,404,713	963,289
<u>64,020</u>	<u>2,378,012</u>	<u>16,930</u>
2,134,269	29,820,590	2,526,573
-	21,154	-
51,400	688,938	-
674,219	19,186,044	429,116
<u>\$ 2,859,888</u>	<u>49,716,726</u>	<u>\$ 2,955,689</u>
	<u>945,513</u>	
	<u>\$ 50,662,239</u>	

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Sewer Utility	Water Utility	Electric Utility	Redwood Area Hospital
OPERATING REVENUE				
Sales	\$ -	\$ -	\$ -	\$ -
Cost of Sales	-	-	-	-
Charges for Services	975,725	1,285,291	6,842,529	27,090,322
Miscellaneous	8,567	12,966	303,105	1,209,286
Total Operating Revenue	<u>984,292</u>	<u>1,298,257</u>	<u>7,145,634</u>	<u>28,299,608</u>
OPERATING EXPENSES				
Personal Services	301,779	351,256	1,163,240	16,251,326
Administration and General	217,989	136,376	207,994	5,547,993
Supplies, Repairs, Services and Rents	103,998	270,137	3,658,348	1,899,361
Depreciation and Amortization	295,848	361,015	698,655	1,432,950
Benefits or Claims Paid	-	-	-	-
Miscellaneous	49,559	6,084	17,238	-
Total Operating Expenses	<u>969,173</u>	<u>1,124,868</u>	<u>5,745,475</u>	<u>25,131,630</u>
OPERATING INCOME (LOSS)	15,119	173,389	1,400,159	3,167,978
OTHER INCOME (EXPENSE)				
Intergovernmental Revenues	6,238	1,503	8,942	16,300
Investment Earnings	38,929	15,386	66,044	(23,066)
Miscellaneous Revenues	3,566	7,380	143,926	-
Interest Expense	(17,718)	(199,793)	(150,676)	(389,322)
Gain/(Loss) on Sale of Capital Assets	-	-	-	(1,139,678)
Contributions to City	-	-	-	(679,789)
Total Other Income (Expense)	<u>31,015</u>	<u>(175,524)</u>	<u>68,236</u>	<u>(2,215,555)</u>
INCOME (LOSS) BEFORE TRANSFERS, AND CAPITAL CONTRIBUTIONS	46,134	(2,135)	1,468,395	952,423
TRANSFERS AND CAPITAL CONTRIBUTIONS				
Transfers In	-	-	-	-
Transfers Out	(14,000)	(85,756)	(364,090)	(5,459,600)
Capital Contributions	5,710	7,309	-	-
Total Transfers and Capital Contributions	<u>(8,290)</u>	<u>(78,447)</u>	<u>(364,090)</u>	<u>(5,459,600)</u>
CHANGE IN NET POSITION	37,844	(80,582)	1,104,305	(4,507,177)
Net Position - Beginning of Year (As Previously Reported)	6,672,045	6,914,522	10,001,006	26,903,470
Change in Accounting Principle (See Note 19)	-	-	-	(188,595)
Net Position - Beginning of Year (As Restated)	<u>6,672,045</u>	<u>6,914,522</u>	<u>10,001,006</u>	<u>26,714,875</u>
NET POSITION - END OF YEAR	<u>\$ 6,709,889</u>	<u>\$ 6,833,940</u>	<u>\$ 11,105,311</u>	<u>\$ 22,207,698</u>

Adjustment to Reflect the Consolidation of Internal Service
Fund Activities Related to the Enterprise Funds
Change in Net Position of Business-Type Activities

See accompanying Notes to Basic Financial Statements.

Nonmajor Enterprise Funds	Totals	Governmental Activities Internal Service Funds
\$ 2,194,209	\$ 2,194,209	\$ -
(1,633,253)	(1,633,253)	-
283,488	36,477,355	1,628,032
1,690	1,535,614	2,473
<u>846,134</u>	<u>38,573,925</u>	<u>1,630,505</u>
495,996	18,563,597	86,602
47,490	6,157,842	56,825
63,385	5,995,229	177,379
71,264	2,859,732	341,107
-	-	1,015,553
137,910	210,791	2,388
<u>816,045</u>	<u>33,787,191</u>	<u>1,679,854</u>
30,089	4,786,734	(49,349)
53,697	86,680	194
14,908	112,201	7,633
406	155,278	-
(11,031)	(768,540)	(30,707)
-	(1,139,678)	82,923
-	(679,789)	-
<u>57,980</u>	<u>(2,233,848)</u>	<u>60,043</u>
88,069	2,552,886	10,694
-	-	74,193
(125,193)	(6,048,639)	-
-	13,019	-
<u>(125,193)</u>	<u>(6,035,620)</u>	<u>74,193</u>
(37,124)	(3,482,734)	84,887
2,897,012		2,870,802
-		-
<u>2,897,012</u>		<u>2,870,802</u>
<u>\$ 2,859,888</u>		<u>\$ 2,955,689</u>
	<u>31,635</u>	
	<u>\$ (3,451,099)</u>	

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Sewer Utility	Water Utility	Electric Utility	Redwood Area Hospital
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Receipts from Customers	\$ 1,026,596	\$ 1,298,465	\$ 7,208,022	\$ 26,171,019
Cash Paid to Suppliers	(364,955)	(413,190)	(4,042,252)	(10,908,957)
Cash Paid to Employees	(285,125)	(332,817)	(1,113,822)	(12,807,771)
Other Receipts and Payments, Net	-	-	-	979,774
Net Cash Flows Provided by Operating Activities	376,516	552,458	2,051,948	3,434,065
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to Other Funds	(14,000)	(85,756)	(364,090)	(5,459,600)
Transfers from Other Funds	-	-	-	-
Equity Distribution from Joint Ventures, Net	-	-	-	943,237
Other Nonoperating Revenues	3,566	7,380	143,926	-
Unrestricted Donations and Grant Revenues	6,238	1,503	8,942	16,300
Net Cash Flows Provided (Used) by Noncapital Financing Activities	(4,196)	(76,873)	(211,222)	(4,500,063)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of Capital Assets	(26,654)	(727,073)	(925,941)	(835,662)
Proceeds from Issuance of Bonds	-	720,000	-	-
Principal Paid on Bonds	(85,180)	(273,910)	(495,000)	(8,070,000)
Principal on Interfund Note	-	-	-	(869,583)
Interest, Paying Agent Fees	(16,383)	(194,355)	(145,984)	(559,570)
Net Cash Flows Used by Capital and Related Financing Activities	(128,217)	(475,338)	(1,566,925)	(10,334,815)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the Sale of Investments	-	-	-	13,576,738
Interest on Investments	33,050	13,010	56,327	-
Net Cash Flows Provided by Investing Activities	33,050	13,010	56,327	13,576,738
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	277,153	13,257	330,128	2,175,925
Cash and Cash Equivalents - Beginning of Year	2,031,847	899,250	3,242,021	2,050,196
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,309,000	\$ 912,507	\$ 3,572,149	\$ 4,226,121

See accompanying Notes to Basic Financial Statements.

Nonmajor Proprietary Funds	Totals	Governmental Activities Internal Service Funds
\$ 2,483,698	\$ 38,187,800	\$ 1,635,640
(1,933,332)	(17,662,686)	(1,274,586)
(446,335)	(14,985,870)	(82,905)
-	979,774	-
104,031	6,519,018	278,149
(125,193)	(6,048,639)	-
-	-	74,575
-	943,237	-
86,183	241,055	-
-	32,983	194
(39,010)	(4,831,364)	74,769
(82,669)	(2,597,999)	(334,384)
-	720,000	-
(49,719)	(8,973,809)	(40,000)
-	(869,583)	-
(9,551)	(925,843)	(30,940)
(141,939)	(12,647,234)	(405,324)
-	13,576,738	-
12,745	115,132	6,400
12,745	13,691,870	6,400
(64,173)	2,732,290	(46,006)
940,218	9,163,532	601,009
\$ 876,045	\$ 11,895,822	\$ 555,003

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

	Sewer Utility	Water Utility	Electric Utility	Redwood Area Hospital
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 15,119	\$ 173,389	\$ 1,400,159	\$ 3,167,978
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:				
Depreciation and Amortization	295,848	361,015	698,655	1,432,950
Equity Earnings from Joint Venture	-	-	-	(673,491)
Provision for Bad Debts	-	-	-	394,664
(Increase) Decrease in Assets and Deferred Outflows:				
Receivables	48,165	(2,932)	47,403	(948,636)
Due from Other Funds	(109)	(167)	(5,799)	-
Due from Other Governments	(5,752)	3,307	31,973	-
Inventories	(7)	100	18,700	(62,474)
Prepaid Items	(215)	(1,050)	(74,716)	183,066
Deferred Outflows of Resources - Pension	19,812	22,594	76,547	809,507
Deferred Outflows of Resources - OPEB	(1,988)	(1,988)	(5,466)	(27,466)
Increase (Decrease) in Liabilities and Deferred Inflows:				
Accounts Payable	5,047	980	(104,578)	(319,147)
Contracts Payable	-	-	-	-
Accrued Salaries and Fringes	1,359	1,281	4,161	(6,198)
Due to Other Funds	1,786	348	12	-
Due to Other Governments	(20)	(971)	1,910	-
Unearned Revenue	-	-	(10,264)	(19,422)
OPEB Liability	13,871	13,871	38,144	199,742
Other Accrued Liabilities	3,325	3,615	2,721	98,070
Customer Deposits	-	-	(925)	-
Net Pension Liability	(26,764)	(29,406)	(96,605)	(1,095,977)
Deferred Inflows of Resources - Pension	7,039	8,472	29,916	300,899
Net Cash Flows Provided by Operating Activities	<u>\$ 376,516</u>	<u>\$ 552,458</u>	<u>\$ 2,051,948</u>	<u>\$ 3,434,065</u>
Noncash Investing, Capital, and Financing Activities:				
Gain (Loss) on Disposal of Capital Asset	\$ -	\$ -	\$ -	\$ (1,139,678)
Capital Assets on Account	5,057	43,138	29,929	-
Capital Contributions to City	-	-	-	(679,789)

See accompanying Notes to Basic Financial Statements.

Nonmajor Proprietary Funds	Totals	Governmental Activities Internal Service Funds
\$ 30,089	\$ 4,786,734	\$ (49,349)
71,264	2,859,732	341,107
-	(673,491)	-
-	394,664	-
4,262	(851,738)	2,196
(26)	(6,101)	-
-	29,528	2,939
17,891	(25,790)	-
(703)	106,382	103
22,954	951,414	13,668
(2,485)	(39,393)	(497)
(69,177)	(486,875)	(165)
225	225	-
8,221	8,824	229
75	2,221	-
470	1,389	-
-	(29,686)	-
17,338	282,966	3,468
-	107,731	-
-	(925)	-
(12,107)	(1,260,859)	(34,115)
15,740	362,066	(1,435)
<u>\$ 104,031</u>	<u>\$ 6,519,018</u>	<u>\$ 278,149</u>
\$ -	\$ (1,139,678)	\$ -
14,073	92,197	-
-	(679,789)	-

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
DECEMBER 31, 2018**

	Private-Purpose Trust Funds
ASSETS	
Cash and Cash Equivalents	\$ 179,516
Accrued Interest Receivable	915
Prepaid Expenses	77
Total Assets	180,508
LIABILITIES	
Accounts Payable	5,102
NET POSITION	
Restricted for Trust Purposes	\$ 175,406

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Private-Purpose Trust Funds
ADDITIONS	
Contributions	\$ 68,463
Investment Earnings	2,893
Miscellaneous	20,095
Total Additions	91,451
DEDUCTIONS	
Miscellaneous	78,541
NET INCREASE IN NET POSITION	12,910
Net Position - Beginning of Year	162,496
NET POSITION - END OF YEAR	\$ 175,406

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Redwood Falls (the City) is a public corporation formed under Minnesota Statutes §410. As such, the City is under home rule charter regulations and applicable statutory guidelines. The governing body consists of a six-member City Council elected by voters of the City to serve four-year staggered terms.

The basic financial statements of the City of Redwood Falls have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

A. Financial Reporting Entity

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Redwood Falls and its component unit. A component unit is a legally separate entity for which the Primary Government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the Primary Government misleading. The criteria used to determine if the Primary Government is financially accountable for a component include whether or not the Primary Government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Component Units

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Unit

The Redwood Area Hospital (RAH) is a 25-bed critical access hospital and is an entity legally separate from the City. The purpose of the RAH is to provide hospital and emergency care to the sick, injured, and newborn while meeting the highest standards according to the requirements of the area. The RAH also provides all phases of health education, commensurate with its professional ability, responding to the needs of the hospital, the city and specific groups of the area. The RAH is comprised of the primary hospital enterprise and the Redwood Area Hospital Foundation, which is a component unit of the hospital.

For financial reporting purposes, due to the different reporting focuses, the Hospital is reported separately from the Redwood Area Hospital Foundation (the Foundation). The Foundation is a 501(c)(3) organization whose sole purpose is to support the Hospital. Redwood Area Hospital Foundation was established in January 2001 and conducts fundraising campaigns on behalf of the Hospital. The Foundation follows all FASB accounting standards and not GASB accounting standards like the RAH does.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Blended Component Unit (Continued)

For financial reporting purposes, the RAH is reported as if it were part of the City's operations because the City Council is the governing board for the RAH. Complete financial statements for the hospital can be obtained from the RAH at 100 Fallwood Road, Redwood Falls, MN 56283.

The Port Authority was established to facilitate and assist economic development and increase the efficiency of business recruitment. The representatives of the Port Authority comprise of representatives of both city government and private enterprises. The Port Authority has the control, authority and operation of all existing and future tax increment development plans located within the City. The powers of the Port Authority are granted by state statute.

For financial reporting purposes, the Port Authority is reported as a blended component unit because it provides services entirely, or almost entirely to the City.

Other Organizations

The Redwood Falls Fire Relief Association (the Association) is organized as a nonprofit organization, legally separate from the City, to provide pension and other benefits to its members in accordance with Minnesota Statutes. Its board of directors is appointed by the membership of the Association and not by the City Council and the Association issues its own set of financial statements. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City's reporting entity. The City's portion of the costs of the Association's pension benefits is included in the General Fund under public safety.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the Primary Government and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. 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 to external parties for support.

In the government-wide statement of net position, the governmental activities and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds, even though the latter are excluded from the government-wide financial statements. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

General Fund

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.

Capital Projects Fund

The Capital Projects Fund is used to account for activity associated with significant capital projects that are not accounted for in the proprietary funds.

The City reports the following major proprietary funds:

Sewer Utility Fund

The Sewer Utility Fund is used to account for customer sewer service charges that are used to finance sewer operating expenses.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

Water Utility Fund

The Water Utility Fund is used to account for customer water service charges that are used to finance water operating expenses.

Electric Utility Fund

The Electric Utility Fund is used to account for customer electrical service charges that are used to finance the electric utility operating expenses.

Redwood Area Hospital Fund

The Hospital Fund (Hospital) is used to account for customer charges that are used to finance the hospital's operating expenses.

Additionally, the City reports the following funds as well as other governmental and proprietary nonmajor funds aggregated in the fund financial statements:

Internal Service Funds

The internal service funds are used to account for the financing of goods or services provided by one department to other departments of the City or to other entities, on a cost-reimbursement basis. The City maintains two internal service funds. The Central Garage Fund is used to account for the maintenance and purchase of public works equipment used in the maintenance of City infrastructure and facilities. The Insurance Fund accounts for activities of the City's group health plan.

Fiduciary Funds

Private-Purpose Trust Funds

The Private-Purpose Trust Funds account for contributions received, invested, and expended for various specified purposes.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 when 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 when they are both measurable and available.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

“Measurable” means the amount of the transaction can be determined. The City considers revenues to be “available” if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City reports unearned revenue on its governmental fund balance sheets. Unearned revenue arises when resources are received prior to the incurrence of the qualifying expenditures. In subsequent periods, when the City has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

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 connections with a proprietary fund’s principal ongoing operations. The principal operating revenue of the City’s enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Redwood Area Hospital Fund reports in accordance with the *Audit and Accounting Guide for Health Care Organizations* published by the American Institute of Certified Public Accountants which prescribes accounting and reporting policies, some of which are unique to providers of health care services.

D. Budgets

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for all funds. Budgeted expenditure appropriations lapse at year-end.

E. Legal Compliance - Budgets

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 15, the Director of Finance and Administrative Services submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Legal Compliance – Budgets (Continued)

2. Prior to December 31, the budget is legally enacted through passage of a resolution.
3. The Director of Finance and Administrative Services is authorized to transfer budgeted amounts within any department budget; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.

F. Cash and Investments

Cash and investment balances from all funds are pooled and invested to the extent available in investments authorized by Minnesota Statutes. Earnings from investments are allocated to individual funds on the basis of the fund's equity in the cash and investment pool. Interest earnings are accrued at the balance sheet date.

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund in the governmental fund financial statements, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund payables are eliminated for statement of net position presentation.

For purposes of the statement of cash flows the Proprietary Funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the cash and investments allocated to the proprietary fund types have original maturities of 90 days or less. Therefore, the entire balance in such fund types is considered cash equivalents.

G. Cash and Investments - Restricted

At December 31, 2018, restricted cash and investments are assets set aside for a debt service reserve fund required under a bond agreement.

H. Accounts Receivable and Allowance for Uncollectible Accounts

The City has an allowance for uncollectible accounts which was \$19,951 for the General Fund, \$126 for the Water Fund, \$94 for the Sewer Fund, \$31,709 for the Electric Fund, and \$1,659 for the aggregate remaining funds at December 31, 2018. The Hospital provides an allowance for uncollectible self-pay and miscellaneous commercial insurance accounts, based on the historical experience of the Hospital. Patients are not required to provide collateral for services rendered. The Hospital allowance for uncollectible accounts totaled \$666,000 at December 31, 2018.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Tax Revenue Recognition

The City Council annually adopts a tax levy and certifies it to Redwood County, Minnesota (the County) in December of each year for billing and collection in the following year. Such taxes become a lien against the property on the first Monday of January of the next year and are recorded as receivables by the City at that date. The County is responsible for billing and collecting all property taxes for itself, the cities, the local school districts and other taxing authorities. These taxes are payable by property owners by May 15 and October 15 of each calendar year. These taxes are collected by the County and remitted to the City with each settlement.

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the City in July, December and the following January are recognized as revenue for the current year. Taxes and credits not received at the year-end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the City in January is fully offset by unavailable revenue because it is not available to finance current expenditures. Unavailable revenue in governmental activities is susceptible to full accrual on the government-wide statements.

J. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out method. Land held for resale is valued at cost.

K. Net Patient Service Revenue - Hospital

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and bad debts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

L. Special Assessment Revenue Recognition

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with state statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County in the same manner as property taxes. Property owners are allowed to prepay future installments without interest or prepayment penalties.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Special Assessment Revenue Recognition (Continued)

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent special assessments receivable in governmental funding are completely offset by unavailable revenues. Unavailable revenue in governmental activities is susceptible to full accrual on the government-wide statements.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by City Council or court action. Pursuant to state statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

M. Investment in Joint Ventures

The Hospital reports investments in two joint ventures: Central Minnesota Diagnostic, Inc. and Redwood Falls Medical Services, LLC. These investments are reported on the equity method of accounting, which approximates the Hospital's equity in the underlying book value based on its most recent December 31 fiscal year-end. The members and board of Redwood Falls Medical Services unanimously voted to dissolve the joint venture as of November 30, 2018.

N. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables are classified as interfund receivables and payables on the governmental fund balance sheet.

O. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, street lights, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Capital Assets (Continued)

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. The cost of infrastructure acquired prior to implementation of GASB 34 is included at estimated historical costs based on the current replacement cost of a similar asset and deflated through the use of price-level indexes at the time of implementation. The City and Hospital use a capitalization threshold of \$25,000 for buildings, building improvements, and infrastructure, and \$5,000 for all other capital assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation on exhaustible assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net position. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for City purposes, no salvage value is taken into consideration for depreciation purposes. Estimated useful lives are as follows:

Buildings	10 to 50 Years
Infrastructure	10 to 50 Years
Machinery and Shop Equipment	5 to 10 Years
Office Equipment and Furniture	3 to 20 Years

P. Deferred Outflows of Resources

The statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs.

Q. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and the portion of sick pay allowable as severance pay is accrued as incurred in the government-wide and proprietary fund financial statements. The current portion is calculated based on historical trends.

R. Pensions

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Long-Term Obligations

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and proprietary funds. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed in the year that the related debt was issued.

In the governmental fund financial statements, bond premiums and discounts are recognized during the current period. The face amount of the debt issue is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issue costs are reported as debt service expenditures.

T. Deferred Inflow of Resources

In addition to liabilities, the City's governmental fund financial statements and government-wide financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an acquisition of net position that applies to a future period(s). The City will not recognize the related revenue until a future event occurs.

U. Fund Balance

In the fund financial statements, governmental fund types report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance represents amounts that are not in a spendable form or are required to be maintained intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the period. Assigned fund balance represents resources intended for spending for a purpose set by the governing body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board. The City Council authorizes the Director of Finance & Administrative Services to assign fund balance that reflects the City's intended use of those funds. Unassigned fund balance is the residual classification for the government's General Fund and includes all spendable amounts not contained in the other classifications. It is the City's policy that at the end of each fiscal year, the City will maintain an assigned and unassigned portion of the fund balance for cash flow not less than 50% of next year's General Fund budgeted operating expenditures.

In accordance with the City's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; it is the City's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the City's policy to use committed first, then assigned and finally unassigned fund balance.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows in the government-wide and proprietary financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

W. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

All interfund transactions are eliminated except for activity between governmental activities, business-type activities, and fiduciary funds for presentation in the entity-wide statements of net position and statements of activities. Payment in lieu of real estate taxes, totalling \$459,600, paid by the Hospital Fund is included in transfers as well as a \$5,000,000 equity transfer from the Hospital to the City.

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

The City maintains a cash and investment pool that is available for use by all funds, excluding the Redwood Area Hospital Fund. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the City maintains deposits at financial institutions which are authorized by the City Council.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City, including its blended component unit, does not have a specific deposit policy for custodial credit risk but rather follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The City's (including the Hospital's) deposits in banks at December 31, 2018 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

The City may also invest idle funds as authorized by Minnesota Statutes and the City's investment policy as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating; is rated in one of the two highest rating categories by a statistical rating agency; and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.

In addition to the above, Minnesota Statutes authorize cities to invest, under certain conditions, in commercial paper, guaranteed investment contracts, repurchase agreements, and securities lending agreements, however, the City investment policy does not allow these types of investments.

Fair Value Measurements

The City and Hospital use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The City and Hospital follow an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Fair Value Measurements (Continued)

Financial assets and liabilities recorded on the statement of net position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

City

The following information provides disclosures related to the City’s December 31, 2018, investment balances, excluding the Redwood Area Hospital Fund (see Hospital investment disclosures beginning on page 47):

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City’s investment policy does not specifically restrict investments as to maturities.

Investments Held with Broker

Information about the sensitivity of the City’s broker-held investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity:

<u>Type</u>	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
U.S. Government Agencies	\$ 7,548,750	\$ 743,951	\$ 573,209	\$ 4,389,031	\$ 1,842,559
Federated Prime Oblig Fund	983,219	983,219	-	-	-
U.S. Treasury Notes	3,024,259	745,342	1,435,745	749,570	93,602
Municipal Securities	5,350,136	-	573,572	2,796,505	1,980,059
Total	<u>\$ 16,906,364</u>	<u>\$ 2,472,512</u>	<u>\$ 2,582,526</u>	<u>\$ 7,935,106</u>	<u>\$ 3,916,220</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

City (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment policy does not further limit its investing options beyond state statute.

The following chart summarizes year-end ratings for the City's investments as rated by Moody's Investors Service:

<u>Type</u>	<u>Credit Quality Rating</u>	<u>Amount</u>
U.S. Government Agencies	Aaa	\$ 7,548,750
Federated Gov Oblig Fund	NR	983,219
U.S. Treasury Notes	Aaa	3,024,259
Municipal Securities	NR	829,773
Municipal Securities	Aaa	1,235,610
Municipal Securities	Aa1	1,709,473
Municipal Securities	Aa2	971,820
Municipal Securities	Aa3	603,460
Total		<u>\$ 16,906,364</u>

*NR = Not Rated

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City will minimize custodial credit risk by limiting investments to the types of securities listed in the investment policy and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business in accordance with this investment policy.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

City (Continued)

Concentration of Credit Risk

The City places no limit on the amount that it may invest in any one issuer. The following securities exceed 5% of the City's investment portfolio:

<u>Type</u>	<u>Amount</u>	<u>Percentage</u>
Federal Home Loan Bank	\$ 1,635,975	9.7 %
Federated Prime Obligation Fund	983,219	5.8
Federal Farm Credit Bank Bond	4,530,179	26.8

Fair Value Measurement

City Investments are measured as follows:

	December 31, 2018	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level:				
U.S. Treasuries	\$ 3,024,259	\$ -	\$ 3,024,259	\$ -
U.S. Government Agencies	7,279,271	-	7,279,271	-
U.S. Government Agencies - Mortgage Backed	269,478	-	269,478	-
Municipal Bonds	5,350,136	-	5,350,136	-
Total Investments by Fair Value Level	15,923,144	<u>\$ -</u>	<u>\$ 15,923,144</u>	<u>\$ -</u>

Investments Measured at Amortized Cost:

Money Market Funds	983,220
Total Investments	<u>\$ 16,906,364</u>

The Federated Government Obligation Fund is a brokered money market account that is valued at amortized cost with maturities of investments of one year or less.

Redwood Area Hospital

The Hospital had the following investments at December 31, 2018:

<u>Type</u>	<u>Credit Quality Rating</u>	<u>Amount</u>
Federal Home Loan Bank	AAA	\$ 243,530
Money Market Funds	AAA	14,774,096
Total		<u>\$ 15,017,626</u>

- Federal Home Loan Bank: Consists of a note with an interest rate of 1.5% maturing in 2021.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Redwood Area Hospital (Continued)

Interest Rate Risk

The Hospital has adopted the City's investment policy. Investments are selected in the context of permissible investments, portfolio diversification and instrument maturities. Within these parameters, the liquidity of investments is a concern. Maximizing income and preserving capital are paramount. The following table presents maturities of Hospital investments:

<u>Type</u>	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 60 Months</u>
Money Market Funds	\$ 14,774,096	\$ 14,774,096	\$ -
U.S. Government Agencies	-	-	243,530
Total	<u>\$ 14,774,096</u>	<u>\$ 14,774,096</u>	<u>\$ 243,530</u>

Credit Risk

State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. As of December 31, 2018, the Hospital's investments were rated as shown above.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of December 31, 2018, the Hospital did not have any such arrangements.

Concentration of Credit Risk

The Hospital does not place a limit on the amount of the total portfolio that may be invested in any one depository or issuer. No securities exceed 5% of the Hospital's investment portfolio at December 31, 2018.

Fair Value Measurement

Hospital Investments are measured as follows:

	<u>December 31, 2018</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level:				
U.S. Government Agencies	\$ 243,530	<u>\$ -</u>	<u>\$ 243,530</u>	<u>\$ -</u>
Investments Measured at Amortized Cost:				
Money Market Funds	<u>14,774,096</u>			
Total Investments	<u>\$ 15,017,626</u>			

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Statement of Net Position Presentation

Deposits and investments are presented on the statement of net position as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Petty Cash</u>	<u>Total</u>
City Funds	\$ 20,235,877	\$ -	\$ 3,000	\$ 20,238,877
Hospital	4,249,440	15,017,626	-	19,267,066
Total Primary Government	24,485,317	15,017,626	3,000	39,505,943
Fiduciary Funds	179,516	-	-	179,516
Hospital Foundation	423,801	-	-	423,801
Total	<u>\$ 25,088,634</u>	<u>\$ 15,017,626</u>	<u>\$ 3,000</u>	<u>\$ 40,109,260</u>

Designated and noncurrent investments are detailed as follows:

	<u>Cash and Investments</u>	<u>Cash and Investments - Restricted</u>	<u>Designated and Noncurrent Investments</u>	<u>Total</u>
Hospital	\$ 4,226,121	\$ -	\$ 15,040,945	\$ 7,669,701
All Other Business-Type Funds	6,980,763	688,938	-	12,014,173
Governmental	12,014,173	-	-	555,003
Internal Service Funds	555,003	-	-	39,505,943
Total Primary Government	<u>\$ 23,776,060</u>	<u>\$ 688,938</u>	<u>\$ 15,040,945</u>	<u>\$ 59,744,820</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 CAPITAL ASSETS

Governmental capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities, Including Internal Service Funds					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,102,767	\$ 35,104	\$ -	\$ -	\$ 1,137,871
Land Improvements	100,938	-	-	-	100,938
Construction in Progress	1,262,085	1,865,886	-	(2,676,532)	451,439
Total Capital Assets, Not Being Depreciated	2,465,790	1,900,990	-	(2,676,532)	1,690,248
Capital Assets, Being Depreciated:					
Land Improvements	1,816,303	-	-	-	1,816,303
Buildings	16,933,824	448,269	-	1,429,310	18,811,403
Infrastructure	18,639,025	-	-	1,196,956	19,835,981
Machinery and Shop Equipment	7,046,988	1,137,454	(754,059)	50,266	7,480,649
Office Equipment and Furniture	193,371	-	-	-	193,371
Library Books	677,362	-	-	-	677,362
Total Capital Assets, Being Depreciated	45,306,873	1,585,723	(754,059)	2,676,532	48,815,069
Accumulated Depreciation for					
Land Improvements:	(234,297)	(99,689)	-	-	(333,986)
Buildings	(6,225,465)	(447,205)	-	-	(6,672,670)
Infrastructure	(9,466,160)	(738,213)	-	-	(10,204,373)
Machinery and Shop Equipment	(3,722,427)	(524,591)	178,677	-	(4,068,341)
Office Equipment and Furniture	(192,829)	(181)	-	-	(193,010)
Library Books	(653,616)	(20,232)	-	-	(673,848)
Total Accumulated Depreciation	(20,494,794)	(1,830,111)	178,677	-	(22,146,228)
Total Capital Assets, Being Depreciated, Net	24,812,079	(244,388)	(575,382)	2,676,532	26,668,841
Governmental Activities Capital Assets, Net	<u>\$ 27,277,869</u>	<u>\$ 1,656,602</u>	<u>\$ (575,382)</u>	<u>\$ -</u>	<u>\$ 28,359,089</u>

Depreciation expense was charged to governmental functions as follows:

<u>Governmental Activities</u>	
General Government	\$ 36,488
Public Safety	85,538
Highways and Streets	933,679
Culture and Recreation	595,755
Airport	178,651
Total Depreciation Expense, Governmental Activities	<u>\$ 1,830,111</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 CAPITAL ASSETS (CONTINUED)

Business-type capital asset activity for the year ended December 31, 2018 was as follows:

<u>Business-Type Activities</u>	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 1,536,820	\$ 2,115	-	\$ 1,538,935
Construction in Progress	3,324,444	665,041	(2,082,328)	1,907,157
Total Capital Assets, Not Being Depreciated	4,861,264	667,156	(2,082,328)	3,446,092
Capital Assets, Being Depreciated:				
Buildings and Improvements	70,351,704	1,660,441	(513,308)	71,498,837
Machinery and Shop Equipment	15,212,780	459,299	(211,080)	15,460,999
Total Capital Assets, Being Depreciated	85,564,484	2,119,740	(724,388)	86,959,836
Accumulated Depreciation for:				
Buildings and Improvements	(35,409,050)	(2,136,490)	393,322	(37,152,218)
Machinery and Shop Equipment	(11,498,807)	(707,334)	164,637	(12,041,504)
Total Accumulated Depreciation	(46,907,857)	(2,843,824)	557,959	(49,193,722)
 Total Capital Assets, Being Depreciated, Net	 38,656,627	 (724,084)	 (166,429)	 37,766,114
Business-Type Activities Capital Assets, Net	<u>\$ 43,517,891</u>	<u>\$ (56,928)</u>	<u>\$ (2,248,757)</u>	<u>\$ 41,212,206</u>

Depreciation expense was charged to business-type functions as follows:

<u>Business-Type Activities</u>	
Municipal Liquor Store	\$ 20,682
Water Utility	361,015
Sewer Utility	295,848
Storm Sewer Utility	50,582
Electric Utility	682,747
Redwood Area Hospital	1,432,950
Total Depreciation Expense, Business-Type Activities	<u>\$ 2,843,824</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2018 is comprised of the following:

	Issue Date	Final Maturity Date	Interest Rate	Original Issue	Payable December 31, 2018
Governmental Activities, Including Internal Service Funds					
General Obligation Equipment Certificates	9/1/2010	2/1/2021	3.25%	\$ 320,000	\$ 105,000
General Obligation Tax Abatement Bonds	12/15/2015	2/1/2031	1.50-4.50%	975,000	-
General Obligation Bonds:					
Refunding Bonds - Series 2014A	2/27/14	2/1/2024	.35 - 2.50%	484,042	269,947
PIR Bonds, Series 2008A	10/23/2008	2/1/2025	3.75 - 5.00%	655,000	350,000
Capital Impr Plan Bonds - Series 2013B	9/17/2013	2/1/2034	.8 - 4.25%	980,000	835,000
Revenue Bonds:					
Sewer Revenue Bonds of 1996	08/20/1998	08/20/2018	0.00%	535,600	-
Total Bonds				3,949,642	1,559,947
Unamortized Bond (Discount)/Premium				(7,860)	(2,903)
Compensated Absences Payable				N/A	308,575
Total Governmental Activities				<u>\$ 3,941,782</u>	<u>\$ 1,865,619</u>
Business-Type Activities					
General Obligation Bonds:					
Refunding Bonds, Series 2014A - Water Portion	2/27/2014	2/1/2024	.35 - 2.50%	\$ 818,675	\$ 456,568
Refunding Bonds, Series 2014A - Sewer Portion	2/27/2014	2/1/2024	.35 - 2.50%	517,283	288,485
General Obligation Revenue Bonds:					
General Obligation Water Revenue Bond of 2009	11/17/2009	8/20/2039	2.936%	6,526,070	4,760,000
Revenue Bonds-Series 2013C - Water Portion	10/15/2013	2/1/2029	1 - 3.5%	351,119	269,324
Revenue Bonds-Series 2013C - Sewer Portion	10/15/2013	2/1/2029	1 - 3.5%	453,382	347,765
Revenue Bonds-Series 2013C - Storm Sewer Portion	10/15/2013	2/1/2029	1 - 3.5%	75,499	57,911
Liquor Store Revenue Bonds, Series 2011A	11/10/2011	12/01/2022	1-3.5%	490,000	195,000
Electric Revenue Refunding Bonds, Series 2006A	1/24/2006	12/01/2020	3.40 - 4.05%	2,225,000	445,000
Electric Revenue Refunding Bonds, Series 2013A	3/5/2013	12/1/2027	1 - 2.5%	2,065,000	1,305,000
Electric Utility Revenue Bonds Bonds, Series 2011B	12/8/2011	12/01/2031	2 - 3.8%	3,535,000	2,520,000
Water Revenue Bonds Bonds, Series 2018A	10/1/2018	2/1/2034	3 - 3.25%	720,000	720,000
Total Bonds				17,777,028	11,365,053
Unamortized Bond Discount				(107,447)	(48,712)
Unamortized Bond Premium				234,327	-
Compensated Absences Payable				N/A	254,578
Total Business-Type Activities				<u>\$ 17,903,908</u>	<u>\$ 11,570,919</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2018:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 1,593,139	\$ -	\$ 138,192	\$ 1,454,947	\$ 139,522
General Obligation Tax Abatement Bonds	920,000	-	920,000	-	-
General Obligation Equipment Certificates	140,000	-	35,000	105,000	35,000
General Obligation Revenue Bonds	-	-	-	-	-
Compensated Absences Payable	308,109	292,975	292,509	308,575	151,148
Unamortized Bond (Discount)/Premium	(3,386)	-	(483)	(2,903)	-
Unamortized Deferred Cost on Refunding	-	-	-	-	-
Total	<u>2,957,862</u>	<u>292,975</u>	<u>1,385,218</u>	<u>1,865,619</u>	<u>325,670</u>
Business-Type Activities:					
Bonds Payable:					
General Obligation Bonds	891,862	-	146,809	745,053	150,478
General Obligation Revenue Bonds	18,727,000	720,000	8,827,000	10,620,000	777,000
Compensated Absences Payable	238,799	184,666	168,887	254,578	99,404
Unamortized Bond Discount	(56,136)	-	(7,424)	(48,712)	-
Unamortized Bond Premium	135,907	-	135,907	-	-
Total	<u>19,937,432</u>	<u>904,666</u>	<u>9,271,179</u>	<u>11,570,919</u>	<u>1,026,882</u>
 Total Primary Government Indebtedness	 <u>\$ 22,895,294</u>	 <u>\$ 1,197,641</u>	 <u>\$ 10,656,397</u>	 <u>\$ 13,436,538</u>	 <u>\$ 1,352,552</u>

All long-term bonded indebtedness outstanding at December 31, 2018 is backed by the full-faith and credit of the City, including special assessment bond issues.

For the governmental activities, compensated absences payable are generally liquidated by the General Fund.

Description and Restrictions of Long-Term Debt

General Obligation PIR Bonds – On October 23, 2008, the City issued \$655,000 of General Obligation Permanent Improvement Revolving Fund Bonds, Series 2008A. The proceeds were used for various improvements throughout the City.

General Obligation Equipment Certificates – These obligations were issued for the purpose of purchasing specific equipment items. The certificates are payable from the general resources of the City.

General Obligation Revenue Bonds – These bonds were issued for improvements or projects which benefited either a specific governmental activity or enterprise funds. The bonds are payable solely from revenues generated by the related governmental activity or enterprise fund.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description and Restrictions of Long-Term Debt (Continued)

Electric Revenue Crossover Refunding Bonds – On January 24, 2006, the City issued \$2,225,000 of Electric Revenue Crossover Refunding Bonds, Series 2006A, which were used to prepay the June 1, 2009 through December 1, 2020 maturities of the City's Electric Utility Revenue Bonds of 2001 on December 1, 2008.

General Obligation Gross Revenue Hospital Facility Bonds – On December 21, 2006, the City issued \$11,080,000 of Gross Revenue Hospital Facility Bonds, Series 2006. The bonds have a maturity of December 2035. Bonds are due in varying annual installments of \$527,041 to \$740,331. Bonds bear interest rate coupons from 4.125% to 5.125% with an average interest rate of 4.98%. The proceeds were used to improve hospital facilities. The bonds are secured by the Hospital's property and equipment. The City paid off the remaining outstanding balance of these bonds with funds from the Hospital during 2018.

2009 General Obligation Revenue Note – On November 17, 2009, the City issued a note to the Minnesota Public Facilities Authority for \$6,526,070. The total amount drawn on this note was \$6,083,071. The note has a final maturity of August 20, 2039. The outstanding balance of the note bears interest at 2.936% annually. The note was issued in connection with the financing of a drinking water project.

Electric Utility Revenue Bonds – On December 8, 2011, the City issued \$3,535,000 of General Obligation Utility Revenue Bonds, Series 2011B. The bond has a final maturity of December 1, 2031. The outstanding balance of the bond bears interest at 2.00% to 3.80% annually. The bond was issued for the City's portion of electrical distribution system upgrades which were financed by the City and SMMPA.

Liquor Store Revenue Refunding Bonds – On November 10, 2011, the City issued \$490,000 of Liquor Store Revenue Refunding Bonds, Series 2011A, which were used to prepay the November 10, 2011 through December 1, 2022 maturities of the City's Liquor Store Revenue Bonds of 2002. The reacquisition price exceeded the net carrying amount of the old debt by \$20,627.

Electric Utility Revenue Bonds – On March 5, 2013, the City Council issued \$2,065,000 of Revenue Bonds, Series 2013A. The bond has a final maturity of December 1, 2027. The outstanding balance of the bond bears interest at 1.00% to 2.50% annually. The bond was issued in connection with funding capital improvements to the hydroelectric power generation and distribution system.

General Obligation Capital Improvement Plan Bonds – On September 17, 2013, the City Council issued \$980,000 of Capital Improvement Plan Bonds, Series 2013B. The bond has a final maturity of February 1, 2034. The outstanding balance of the bond bears interest ranging from 0.80% to 4.25% annually. The bond was issued in connection with funding improvements to the public works facility.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description and Restrictions of Long-Term Debt (Continued)

Water and Sewer Revenue Bonds – On October 15, 2013, the City Council issued \$880,000 of Revenue Bonds, Series 2013C. The bond has a final maturity of February 1, 2029. The outstanding balance of the bond bears interest ranging from 1.00% to 3.50% annually. The bond was issued in connection with funding improvements to the West River Street project.

General Obligation Water Revenue Bonds – On October 1, 2018, the City Council issued \$720,000 of Revenue Bonds, Series 2018A. The bond has a final maturity of February 1, 2034. The outstanding balance of the bond bears interest ranging from 3.00% to 3.25% annually.

General Obligation Refunding Bonds – On February 27, 2014, the City issued \$1,820,000 of General Obligation Refunding Bonds, Series 2014A, which were used to prepay the February 1, 2014 through February 1, 2024 maturities of the City’s General Obligation Refunding Bonds, Series 2005A.

General Obligation Tax Abatement Bonds – On December 15, 2015, the City issued \$975,000 of General Obligation Tax Abatement Bonds, Series 2015A. The proceeds were loaned to the Hospital to provide funding for the acquisition of the Pavilion facility. The City paid off the remaining outstanding balance of these bonds with funds transferred from the Hospital during 2018.

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

<u>Year Ending December 31,</u>	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2019	\$ 174,522	\$ 53,829	\$ 927,478	\$ 323,740	\$ 1,479,569
2020	162,553	49,115	949,447	302,754	1,463,869
2021	173,883	43,946	748,117	275,894	1,241,840
2022	140,213	38,873	766,787	256,905	1,202,778
2023	138,882	34,016	554,117	172,068	899,083
2024-2028	399,894	108,270	3,255,107	923,873	4,687,144
2029-2033	300,000	47,750	2,438,000	469,971	3,255,721
2034-2038	70,000	1,488	1,428,000	167,534	1,667,022
2039	-	-	298,000	8,749	306,749
Total	<u>\$ 1,559,947</u>	<u>\$ 377,287</u>	<u>\$ 11,365,053</u>	<u>\$ 2,901,488</u>	<u>\$ 16,203,775</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 LEASES

Effective September 2, 2014, the City entered into a 15-year operating lease with the County of Redwood to provide a location for the Law Enforcement Center. The lease has two additional 15-year options to extend. The total cost of the operating lease for the year ended December 31, 2018 was \$51,200. In addition to the lease payments, the City is required to pay \$33,725 annually over the initial term of the lease for construction contributions. The future minimum lease payments for the lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 51,200
2020	51,200
2021	51,200
2022	51,200
2023	51,200
2024-2028	256,000
2029	51,200
Total	<u><u>\$ 563,200</u></u>

NOTE 6 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

A. Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries were paid based upon a cost reimbursement methodology. The Hospital was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. At December 31, 2018, net patient service revenue increased by approximately \$112,000 due to prior year retroactive adjustments less than amounts previously estimated.

On February 1, 2004, the Hospital elected Critical Access Hospital (CAH) designation. As a CAH, the Hospital is reimbursed for Inpatient, Swing Bed, and Outpatient services to Medicare patients on a reasonable cost basis. Medicare reimburses the Hospital for these services using interim rates, with a final settlement determined based on the annual cost report that is filed by the Hospital. This cost report is subject to audits by the Medicare fiscal intermediary. The Hospital's latest final settled Medicare cost report filed with the fiscal intermediary is for the fiscal year ended December 31, 2014.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 NET PATIENT SERVICE REVENUE (CONTINUED)

A. Medicare (Continued)

CAHs are limited to no more than 25 hospital beds, they must maintain an average length of stay that is less than four days, and have transfer agreements with other hospitals.

B. Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a reimbursement methodology similar to inpatient Medicare. Outpatient Medicaid services were reimbursed under the lower of usual or customary charge fee structure, prior to CAH designation. As a CAH, outpatient Medicaid services are paid based upon reasonable cost.

C. Certain Other Payors

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Following is a reconciliation of gross patient service revenue to net patient service revenue as of December 31, 2018:

Gross Patient Service Revenue	\$ 44,479,528
Revenue Adjustments:	
Medicare Program	(9,871,026)
Medicaid Program	(3,907,055)
Other Payers	(3,216,461)
Provision for Bad Debt	(394,664)
Total Revenue Adjustments	(17,389,206)
Net Patient Service Revenue	\$ 27,090,322

NOTE 7 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (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.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

1. General Employees Retirement Plan

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

B. 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% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

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% after five years up to 100% after 10 years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after 10 years up to 100% after 20 years of credited service. The annuity accrual rate is 3% of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0% increase. An annual adjustment will equal 2.5% any time the plan exceeds a 90% funded ratio for two consecutive years. If the adjustment is increased to 2.5% and the funded ratio falls below 80% for one year or 85% for two consecutive years, the postretirement benefit increase will be lowered to 1%. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

C. Contributions

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

1. General Employee Fund Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018 and the City was required to contribute 7.50% for Coordinated Plan members. The City and Redwood Area Hospital contributions to the General Employees Fund for the year ended December 31, 2018 were \$265,811 and \$749,307, respectively. The contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in fiscal year 2018. The City was required to contribute 16.20% of pay for the Police and Fire Plan members in fiscal year 2018. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$122,905. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employee Fund Pension Costs

At December 31, 2018, the City reported a liability of \$2,945,770 for its proportionate share of the General Employees Fund's net pension liability. The City net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a nonemployer 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 \$96,729, for a total net pension liability of \$3,042,499 associated with the City. 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 share was 0.0531% which was a decrease of 0.0005% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of \$259,456 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$22,557 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.

At December 31, 2018, the Redwood Area Hospital reported a liability of \$8,243,719 for its proportionate share of the General Employees Fund's net pension liability. The Hospital net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a nonemployer 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 Hospital totaled \$270,454, for a total net pension liability of \$8,514,173 associated with the Hospital. 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 Hospital's proportion of the net pension liability was based on the Hospital'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 Hospital's proportion share was 0.1486% which was an increase of .0023% from its proportion measured as of June 30, 2017.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employee Fund Pension Costs (Continued)

For the year ended December 31, 2018, the Hospital recognized pension expense of \$791,450 for its proportionate share of the General Employees Plan's pension expense. In addition, the Hospital recognized an additional \$63,069 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.

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

<u>Description</u>	<u>City</u>		<u>Hospital</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 77,970	\$ 85,915	\$ 218,197	\$ 240,434
Changes in Actuarial Assumptions	281,396	330,989	787,484	926,270
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	301,011	-	842,379
Changes in Proportion	2,477	22,962	105,623	43,990
City Contributions Subsequent to the Measurement Date	131,062	-	390,168	-
Total	<u>\$ 492,905</u>	<u>\$ 740,877</u>	<u>\$ 1,501,472</u>	<u>\$ 2,053,073</u>

\$521,120 reported as deferred outflows of resources related to pensions resulting from City and Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>City Pension Expense Amount</u>	<u>Hospital Pension Expense Amount</u>
2019	\$ 96,106	\$ 287,364
2020	(166,979)	(423,371)
2021	(246,678)	(633,701)
2022	(61,483)	(172,061)

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$732,271 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 proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the City's proportionate share was 0.0687% which was a decrease of 0.0053% from its proportionate share measured as of June 30, 2017. The City also recognized \$6,183 for the year ended December 31, 2018, as revenue and an offsetting reduction of net pension liability for its proportionate share of the 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.

For the year ended December 31, 2018, the City recognized pension expense of \$57,332 for its proportionate share of the Police and Fire Plan'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:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 29,514	\$ 179,645
Changes in Actuarial Assumptions	910,395	1,077,999
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	153,376
Changes in Proportion	5,613	124,069
City Contributions Subsequent to the Measurement Date	66,587	-
Total	<u>\$ 1,012,109</u>	<u>\$ 1,535,089</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

\$66,587 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>City Pension Expense Amount</u>
2019	\$ (42,915)
2020	(76,916)
2021	(131,284)
2022	(320,037)
2023	(18,415)

E. Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2018, was \$406,389 and for the Hospital was \$854,519.

F. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per Year
Salary Increases	3.25% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan, 1.0% per year for the Police and Fire Plan, and 2.0% per year for the Correctional Plan.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employee Fund

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

Police and Fire Plan

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	36.0 %	5.1 %
International Equity	17.0	5.3
Bonds	25.0	0.75
Alternative Assets	20.0	5.9
Cash	2.0	-
Total	<u>100.0 %</u>	

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Discount Rate

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

H. Pension Liability Sensitivity

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

<u>Description</u>	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's Proportionate Share of the General Employee Net Pension Liability	\$ 4,787,254	\$ 2,945,770	\$ 1,425,678
Hospital's Proportionate Share of the General Employee Net Pension Liability	13,397,098	8,243,719	3,989,751
City's Proportionate Share of the Police and Fire Net Pension Liability	1,570,035	732,271	39,475

I. 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 REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

City

The City operates a single-employer retiree defined benefit plan (the Plan) that provides health insurance to eligible employees and their spouses through the City's health insurance plan. Excluding the Hospital, there are 66 active participants and 2 retired participants as of January 1, 2017.

Benefit and eligibility provisions are established through negotiations between the City and various unions representing City employees and are generally renegotiated in two-year bargaining periods. The Plan does not issue a publicly available financial report.

Hospital

The Hospital administers a single-employer defined benefit health care plan. The Plan provides health care insurance for eligible retirees and their spouses through the Hospital's group health insurance plan, which covers both active and retired members. As of December 31, 2018, there were 165 active participants and 3 retirees receiving benefits from the Hospital's health plan. The health care plan does not issue a publicly available financial report.

The Hospital does not contribute to the cost of premiums for eligible retired plan members and their spouses. Because the actual cost for retirees is higher than the average per-person premium for the entire group, the difference gives rise to an implicit rate subsidy. The Hospital pays the difference between the actual and apparent cost.

B. Funding Policy

City

The City has no assets accumulated in a trust that meets the criteria in GASB 75. Contribution requirements are negotiated between the City and union representatives. Qualified employees may choose to participate in the City's insurance plan after retirement, with no contribution from the City. The City provides these benefits to retirees as required by Minnesota Statutes §471.61 subdivision 2b. The City is funding this liability on a pay-as-you-go basis. For the year ended 2018, the City contributed \$30,803 to the plan.

Hospital

The Hospital has no assets accumulated in a trust that meets the criteria in GASB 75. Qualified employees may choose to participate in the Hospital's insurance plan after retirement, with no contribution from the Hospital. The Hospital provides these benefits to retirees as required by Minnesota Statutes §471.61 subdivision 2b. For the year ended 2018, the Hospital contributed \$27,466 to the plan.

**CITY OF REDWOOD FALLS, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Actuarial Methods and Assumptions

City

The City's OPEB liability was measured as of January 1, 2018, and the total OPEB liability was determined by an actuarial valuation as of January 1, 2017.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary	3.0%
Health Care Trend Rates	6.25% Decreasing 5.00% Over 5 Year

Mortality rates were based on the RP-2014 adjusted to 2006 white collar mortality tables with MP-2016 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2016 to December 31, 2016. The discount rate used to measure the total OPEB liability was 3.3%. The discount rate is equal to the 20-Year AA rated Municipal Bond Yield.

Since the most recent measurement date, the following changes in assumptions and actuarial funding methods were been made:

- The discount rate was changed from 3.50% to 3.30%.
- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

Hospital

The Hospital's OPEB liability was measured as of January 1, 2018, and the total OPEB liability was determined by an actuarial valuation as of January 1, 2017.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary	3.0%
Health Care Trend Rates	6.25% Decreasing 5.00% Over 5 Year

Mortality rates were based on RP-2014 generational table graded back to 2006, scaled using MP-16 scaling factors, applied on a gender-specific basis.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Actuarial Methods and Assumptions (Continued)

Hospital (Continued)

Discount rate is used to reflect the time value of money. Discount rates are used in determining the present value as of the valuation date of future cash flows currently expected to be required to satisfy the postretirement benefit obligation. Experience gains and losses are amortized over a closed period of 14 years starting on July 1, 2016, equal to the average remaining service of active and inactive plan members.

D. Changes in Total OPEB Liability

	<u>City</u>	<u>Hospital</u>
Balance as of January 1, 2018	\$ 615,441	\$ 383,547
Changes for the Year:		
Service Cost	45,642	25,701
Interest	21,402	13,053
Benefit Payments	<u>(25,251)</u>	<u>(27,607)</u>
Net Change in Total OPEB Liability	<u>41,793</u>	<u>11,147</u>
Balance as of December 31, 2018	<u>\$ 657,234</u>	<u>\$ 394,694</u>

The following presents the total OPEB liability of the City and Hospital, as well as what the total OPEB 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:

	<u>1% Decrease (2.30%)</u>	<u>Discount Rate (3.30%)</u>	<u>1% Increase (4.30%)</u>
Total OPEB Liability - City	\$ 708,501	\$ 657,234	\$ 609,172
Total OPEB Liability - Hospital	424,899	394,694	366,569

The following presents the total OPEB liability of the City and Hospital, as well as what the total OPEB liability would be if it were calculated using health care cost trend rates that are 1% lower (5.25% decreasing to 4.00% over six years) or 1% higher (7.25% decreasing to 6.00% over six years) than the current health care cost trend rates:

	<u>1% Decrease (5.25% Decreasing to 4.00%)</u>	<u>Current Trend Rates (6.25% Decreasing to 5.00%)</u>	<u>1% Increase (7.25% Decreasing to 6.00%)</u>
Medical Trend Rate			
Total OPEB Liability - City	\$ 582,401	\$ 657,234	\$ 745,722
Total OPEB Liability - Hospital	352,183	394,694	445,513

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Changes in Total OPEB Liability (Continued)

For the year ended December 31, 2018, the City recognized OPEB expense of \$67,044. At December 31, 2018, the City reported no deferred inflows of resources, and \$30,803 in deferred outflows of resources resulting from City contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

For the year ended December 31, 2018, the Hospital recognized OPEB expense of \$38,754. At December 31, 2018, the Hospital reported no deferred inflows of resources, and \$27,466 in deferred outflows of resources resulting from Hospital contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

NOTE 9 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balances

The City has deficit fund balances at December 31, 2018 in the following funds:

	Fund Balance (Deficit)
Airport Capital Project Fund	\$ (235,389)
TIF #10-1 Runnings Redevelopment	(849,340)

The City intends to fund these deficits through transfers/advances from other funds and various other sources.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 10 INTERFUND

Due To/Due From

Individual fund receivable and payable balances at December 31, 2018 are as follows:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 11,035	\$ 22,629
Capital Projects Fund	319,609	-
Nonmajor Governmental Funds		
Special Revenue Funds:		
Library	-	1,184
Airport	-	824
Hospital Building Fund		4,826
Capital Project Fund:		
Airport	-	314,783
Major Enterprise Funds		
Sewer Utility	1,549	12,245
Water Utility	2,538	4,581
Electric Utility	58,443	179
Redwood Area Hospital	-	28,227
Nonmajor Enterprise Funds		
Municipal Liquor Store	-	2,122
Storm Sewer Utility	462	-
Internal Service Fund		
Central Garage	-	2,036
Total	<u>\$ 393,636</u>	<u>\$ 393,636</u>

Interfund receivables represent the elimination of negative cash between funds, as well as interfund borrowing to finance improvement projects and interfund utility bills.

Advances

Advances at December 31, 2018 are as follows:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 849,340	\$ -
Nonmajor Governmental Funds		
TIF #10-1 Runnings Redevelopment Fund	-	849,340
Total	<u>\$ 849,340</u>	<u>\$ 849,340</u>

Interfund advances represent the money borrowed from the General Fund to help fund the Eastwood/Union Drive – Runnings project. The interfund advance will be paid back through revenue collected by the TIF District over the projected 26 years. The City's advance to the Hospital Fund to fund the acquisition of the Pavilion facility, which had an outstanding balance of \$869,583 at December 31, 2017, was paid in full at December 31, 2018.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 10 INTERFUND (CONTINUED)

Transfers

Individual fund transfers for fiscal year 2018 are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 891,546	\$ (201,084)
Capital Projects Fund	5,298,051	(125,230)
Nonmajor Governmental Funds		
Special Revenue Funds:		
Airport	89,106	(69,773)
Fire Equipment Replacement	21,600	-
Port Authority	-	(63,875)
Debt Service Funds:		
PIR Bonds of 2008	63,875	-
RAH Pavilion Bonds	45,000	(100,000)
Capital Projects Funds:		
Airport Projects Fund	125,230	-
Major Enterprise Funds		
Sewer Utility	-	(14,000)
Water Utility	-	(85,756)
Electric Utility	-	(364,090)
Redwood Area Hospital	-	(5,459,600)
Nonmajor Enterprise Funds		
Municipal Liquor Store	-	(120,000)
Storm Sewer Utility	-	(5,193)
Internal Service Funds		
Central Garage	74,193	-
Total	<u>\$ 6,608,601</u>	<u>\$ (6,608,601)</u>

Interfund transfers are other financing sources and uses within the fund financial statements. The purpose of the transfers are to provide funding for capital improvement projects, capital outlay, and debt service. Government-wide transfers include \$679,789 of capital assets donated from the Hospital to the City.

NOTE 11 RELATED PARTY TRANSACTIONS

During the year ended December 31, 2018, the City made purchases of services and supplies from one relatedparty business owned by a Council member totaling \$4,584.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 12 COMMITMENTS AND CONTINGENCIES

Construction Commitments – As of December 31, 2018, the City had active construction projects related to a variety of projects including various reconstructions of streets and power plant relay replacement. Total remaining commitments under these contracts were \$578,663 at December 31, 2018.

Malpractice Claims – The Hospital's malpractice insurance is a claim made policy. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

Federal and State Funds – The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2018.

NOTE 13 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.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. For workers compensation, the City is not subject to a deductible. The City's workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Property and casualty insurance is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the deductible portion of the insurance policies and for any exclusions from the insurance policies. These amounts are considered immaterial to the financial statements.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 13 RISK MANAGEMENT (CONTINUED)

The City self-insures for a portion of the deductible related to its employee group health plan. This activity is accounted for in the Internal Service Insurance Fund. The City does not retain any risk of loss beyond the self-insured portion of the deductible. The amounts charged to expenses include administrative fees, claims paid, and accruals for claims incurred but not paid. The City recorded total expenses of \$1,015,553 for the year ended December 31, 2018.

Liability for unpaid claims is included in the self-insurance fund as claims payable.

Beginning of the Year Liability, January 1, 2018	\$ 8,912	Beginning of the Year Liability, January 1, 2017	\$ 15,655
Incurred Claims	1,009,719	Incurred Claims	1,047,094
Claims Paid	<u>(1,012,272)</u>	Claims Paid	<u>(1,053,837)</u>
End of the Year Liability, December 31, 2018	<u>\$ 6,359</u>	End of the Year Liability, December 31, 2017	<u>\$ 8,912</u>

The City continues to carry commercial insurance for all other risks of loss, including disability and employee health insurance.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

NOTE 14 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION

A. Plan Description

Firefighters of the City of Redwood Falls are members of the Redwood Falls Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2018, membership includes 30 active participants and 2 terminated employees entitled to benefits but not yet receiving them. The plan issues a stand-alone financial statement.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 10 years of active service with such department before retirement shall be entitled to a lump-sum service pension in the amount of \$2,900 for each year of active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

**CITY OF REDWOOD FALLS, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 14 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

B. Benefits Provided (Continued)

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with 10 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Volunteer Firefighters Relief Association (Association) shall become permanently or totally disabled, the Association shall pay the sum \$2,900 for each year the member was an active member of the City of Redwood Falls Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10% of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump-sum distributions from state income tax. The Association qualifies for these benefits.

C. Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from state aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The Association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). The minimum contribution from the City of Redwood Falls and state aid is determined as follows:

	Normal Cost	
+	Amortization Payment on Unfunded Accrued Liability Prior to Any Change	
+	Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change	
+	Administrative Expenses	
-	Anticipated State Aid	
-	Projected Investment Earnings	
=	Total Contribution Required	

The Plan is funded in part by fire state aid and, if necessary, City contributions. The state of Minnesota distributed to the City \$45,894 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2018. Required employer contributions are calculated annually based on statutory provisions. The City had no statutorily-required contribution to the plan for the year ended December 31, 2018.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 14 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

D. Pension Costs

At December 31, 2018, the City reported an asset of \$166,836 for the Association's net pension asset. The net pension asset was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$7,184 for the year ended December 31, 2018. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ -	\$ 976
Changes in Actuarial Assumptions	8,168	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	5,927	-
City Contributions Subsequent to the Measurement Date	-	-
Total	<u>\$ 14,095</u>	<u>\$ 976</u>

The City did not make a contribution subsequent to the measurement date. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2019	\$ 7,526
2020	8,438
2021	(4,018)
2022	(2,424)
Thereafter	3,597

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 14 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

E. Actuarial Assumptions

The actuarial total pension liability was determined as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

ASSUMPTIONS FROM ACTUARIAL REPORT

Valuation Date	1/1/17
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Actuarial Assumptions:	
Discount Rate	5.75%
Investment Rate of Return	5.75%
20-Year Municipal Bond Yield	3.50%
Age of Service Retirement	50

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation.

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of January 1, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Allocation at January 1, 2017</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	9.0 %	2.25 %
Fixed Income	31.0	3.30
Equities	58.0	7.50
Real Estate	2.0	6.00
Total Portfolio	<u>100.0 %</u>	<u>5.75 %</u>

F. Discount Rate

The discount rate used to measure the total pension liability was 5.75%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 14 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

G. Pension Liability Sensitivity

The following presents the City of Redwood Fall's proportionate share of the net pension liability of the Association, calculated using the discount rate of 5.75%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.75%) or one percentage point higher (6.75%) than the current rate:

	1 Percent Decrease	Discount Rate	1 Percent Increase
Net Pension Liability (Asset)	\$ (147,020)	\$ (166,836)	\$ (186,138)
Discount Rate	4.75%	5.75%	6.75%

H. Plan's Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued financial report that includes financial statements and required supplementary information. That report may be obtained on-line at <https://ci.redwood-falls.mn.us/city-departments/fire-department/>, by writing to Redwood Falls City Hall at 333 S. Washington St. Redwood Falls, MN 56283 or by email at info@ci.redwoodfalls.mn.us.

Information about the change in the Plan's net pension liability is as follows:

	<u>December 31, 2017</u> <u>Measurement Date</u>
Total Pension Liability	
Service Cost	\$ 39,825
Interest	42,204
Changes of Benefit Terms	14,361
Benefit Payments, Including Member Contribution Refunds	<u>(18,250)</u>
Net Change in Total Pension Liability	<u>78,140</u>
Total Pension Liability - Beginning of Year	<u>703,284</u>
Total Pension Liability - End of Year (a)	<u>781,424</u>
Plan Fiduciary Net Position	
Nonemployer Contributions	46,851
Net Investment Income	66,497
Benefit Payments	<u>(18,250)</u>
Net Change in Fiduciary Net Position	<u>95,098</u>
Fiduciary Net Position - Beginning of Year	<u>853,162</u>
Fiduciary Net Position - End of Year (b)	<u>948,260</u>
Association's Net Pension Liability/(Asset) - End of Year (a) - (b)	<u><u>\$ (166,836)</u></u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 15 CONDUIT DEBT OBLIGATIONS

The City has issued housing revenue notes for the purpose of providing capital financing to a private enterprise. Even though the debt bears the City’s name, the City is not responsible for the payment of the original debt. The debt is secured by the payments agreed to be paid by the private enterprise under the terms of the agreement between the City and the enterprise. The general description of the transaction and the outstanding balance at December 31, 2018, is as follows:

<u>Enterprise</u>	<u>Purpose</u>	<u>Balance at December 31,2018</u>
Garnette Gardens	Construction of a Facility	\$ 6,798,151
Country Village	Construction of a Facility	698,268

NOTE 16 COMMITMENTS AND CONTINGENCIES

Under its wholesale power agreement, the City is committed to purchase its electric power and energy requirements from Southern Minnesota Municipal Power Agency (SMMPA) and Western Area Power Administration (WAPA) until April 1, 2050 and December 1, 2050, respectively. The rates are subject to review annually.

Malpractice Claims

The Hospital’s malpractice insurance is a claims made policy. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

Leases

The Hospital leases a storage shed at the Health Pavilion. The lease commenced on October 1, 2016 and will continue until December 31, 2020.

Other

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence in care
- Environmental pollution
- Violation of regulatory body’s rules and regulations
- Violation of federal and/or state laws

No contingent liabilities such as, but not limited to those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted and therefore, no estimate of loss, if any, is determinable.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 17 SUMMARY OF OTHER ITEMS

The City, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigations. The City estimates that the potential claims resulting from such litigation and not covered by insurance would not materially affect the financial statements of the City. No liability or provision for loss has been recorded in the December 31, 2018 financial statements in relation to these matters.

NOTE 18 TAX ABATEMENTS

The City has a pay-as-you-go tax increment financing district with a local business to promote economic development within the City as authorized under Minnesota Statutes §469.174. The City is currently collecting tax increments that are paid through the property tax collection process. The district will stop collection in 2024. The requirement for the business to receive the excess tax increments from the City was to construct a 30,000 square foot addition to the existing manufacturing facility. The increment taxes are based on the increase of the property value after the improvements are made. The agreements call for 90% of the property tax increments collected to be returned to the developers. For the year ended December 31, 2018, the City paid excess tax increment in the amount of \$29,701. No other commitments were made by the City as a part of this agreement.

The City established a municipal redevelopment district in 2014 as authorized under Minnesota Statutes §§ 469.124 through 469.134. The Redevelopment TIF District permits the City to assist virtually any type of development or redevelopment project within the boundaries of the TIF District, as long as assistance aids in the removal of blighting conditions. The District has a maximum life of 25 years from the receipt of the first tax increment; that is, 26 TIF collections. The TIF revenues are paid to the City through the property tax collection process. Ninety percent (90%) of the tax increments generated from the TIF District must be used to finance the cost of correcting conditions that allow designation as a redevelopment district. For the year ended December 31, 2018, the City paid excess tax increment in the amount of \$67,153. No other commitments were made by the City as a part of this agreement.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 18 TAX ABATEMENTS (CONTINUED)

The City negotiates property tax abatement agreements on an individual basis. The City has tax abatement agreements with three entities as of December 31, 2018. Each agreement is negotiated under Minnesota Statutes sections 469.1812 through 469.1815. Under the statutes, the City may grant property tax abatements for the purpose of attracting and retaining business. The City abated taxes totaling \$53,470 for the year ending December 31, 2018.

- The City's share of the real property taxes generated from a Housing Project for a term of 8 years. The abatement amounted to \$40,182.
- The City's share of the property tax generated by an assisted living facility for a term of 15 years to end in 2019. The abatement amounted to \$8,090.
- The City's share of the property tax generated by the expansion of an assisted living facility for a term of 15 years. The abatement amounted to \$5,198.

As of December 31, 2018, the City has not made any commitments as part of the agreements other than to reduce taxes. The City is not subject to any tax abatement agreements entered into by other governments.

NOTE 19 CHANGE IN ACCOUNTING PRINCIPLE

Beginning net position of the Redwood Falls Hospital Fund and Business-Type Activities, which includes the Redwood Falls Hospital Fund, have been adjusted to reflect the changes due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect of the adjustment was to decrease net position by \$188,595 as of January 1, 2018.

NOTE 20 SUBSEQUENT EVENT

As of January 1, 2019, ownership of the Hospital operations was transferred from the City of Redwood Falls to Carris Health.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY, RELATED RATIOS, AND NOTES

	Measurement Date <u>January 1, 2017</u>
Total OPEB Liability	
City	
Service Cost	\$ 45,642
Interest	21,402
Benefit Payments	<u>(25,251)</u>
Net Change in Total OPEB Liability	41,793
Total OPEB Liability - Beginning	615,441
Total OPEB Liability - Ending	<u><u>\$ 657,234</u></u>
Covered Employee Payroll	\$ 4,180,713
City's OPEB Liability as a Percentage of Covered Employee Payroll	16%
Hospital	
Service Cost	\$ 25,701
Interest	13,053
Benefit Payments	<u>(27,607)</u>
Net Change in Total OPEB Liability	11,147
Total OPEB Liability - Beginning	383,547
Total OPEB Liability - Ending	<u><u>\$ 394,694</u></u>
Covered Employee Payroll	\$ 9,216,471
Hospital's OPEB Liability as a Percentage of Covered Employee Payroll	4.28%

Note 1: The City and Hospital implement GASB Statement No. 75 in 2018, and the above table will be expanded to 10 years of information as the information becomes available.

Note 2: No assets are accumulated in a trust.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS

	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
City - General Employee Plan				
City's Proportion of the Net Pension Liability	0.0531%	0.0536%	0.0536%	0.0534%
City's Proportionate Share of the Net Pension Liability	\$ 2,945,770	\$ 3,421,789	\$ 4,352,054	\$ 2,767,466
State's Proportionate Share of the Net Pension Liability Associated with the City	96,729	43,005	56,839	-
City's Total Net Pension Liability - General Employee Plan	3,042,499	3,464,794	4,408,893	2,767,466
City's Covered Payroll	3,576,608	3,455,396	3,329,013	3,140,523
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	82.36%	99.03%	130.73%	88.12%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.90%	78.20%
Hospital - General Employee Plan				
Hospital's Proportion of the Net Pension Liability	0.1486%	0.1463%	0.1472%	0.1487%
Hospital's Proportionate Share of the Net Pension Liability	\$ 8,243,719	\$ 9,339,696	\$ 11,951,910	\$ 7,706,406
State's Proportionate Share of the Net Pension Liability Associated with the Hospital	270,484	117,446	156,178	-
Hospital's Total Net Pension Liability	8,514,203	9,457,142	12,108,088	7,706,406
Hospital's Covered Payroll	9,864,222	9,138,425	8,885,702	8,168,835
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	83.57%	102.20%	134.51%	94.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.90%	78.20%
City - Police and Fire Plan				
City's Proportion of the Net Pension Liability	0.0687%	0.0740%	0.0780%	0.0770%
City's Proportionate Share of the Net Pension Liability	\$ 732,271	\$ 999,088	\$ 3,130,276	\$ 874,900
City's Covered Payroll	724,646	761,498	748,809	702,076
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	101.05%	131.20%	418.03%	124.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.80%	85.43%	63.90%	86.60%

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

See accompanying Notes to Required Supplementary Information.

**CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS
LAST TEN YEARS**

	2018	2017	2016	2015	2014
City - General Employee Plan					
Statutorily Required Contribution	\$ 265,811	\$ 265,404	\$ 254,391	\$ 242,627	\$ 224,719
Contributions in Relation to the Statutorily Required Contribution	(265,811)	(265,404)	(254,391)	(242,627)	(224,719)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 3,544,147	\$ 3,538,720	\$ 3,391,880	\$ 3,215,297	\$ 3,099,577
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.55%	7.25%
Hospital - General Employee Plan					
Statutorily Required Contribution	\$ 749,307	\$ 720,772	\$ 726,662	\$ 644,403	\$ 581,261
Contributions in Relation to the Statutorily Required Contribution	(749,307)	(720,772)	(726,662)	(644,403)	(581,261)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's Covered Payroll	\$ 9,864,222	\$ 9,138,425	\$ 8,885,702	\$ 8,168,835	\$ 7,827,361
Contributions as a Percentage of Covered Payroll	7.60%	7.89%	8.18%	7.89%	7.43%
Police and Fire Plan					
Statutorily Required Contribution	\$ 122,905	\$ 122,382	\$ 122,796	\$ 117,065	\$ 106,258
Contributions in Relation to the Statutorily Required Contribution	(122,905)	(122,382)	(122,796)	(117,065)	(106,258)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 758,673	\$ 755,444	\$ 758,000	\$ 716,591	\$ 694,499
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%	16.34%	15.30%
Fire Relief Association					
Statutorily Required Contribution	\$ -	\$ -	\$ -	\$ 2,081	\$ 23,580
Contributions in Relation to the Statutorily Required Contribution	-	-	-	(2,081)	(23,580)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

See accompanying Notes to Required Supplementary Information.

**CITY OF REDWOOD FALLS, MINNESOTA
REDWOOD FALLS FIRE RELIEF ASSOCIATION – SCHEDULE OF
CHANGES IN THE NET PENSION ASSET AND RELATED RATIOS
LAST TEN MEASUREMENT PERIODS**

	December 31, 2017 Measurement Date	December 31, 2016 Measurement Date	December 31, 2015 Measurement Date	December 31, 2014 Measurement Date
Total Pension Liability				
Service Cost	\$ 39,825	\$ 38,783	\$ 39,490	\$ 36,260
Interest	42,204	42,899	43,103	47,121
Changes of Benefit Terms	14,361	10,210	11,786	-
Benefit Payments, Including Member Contribution Refunds	(18,250)	(69,977)	(202,897)	-
Gain or Loss	-	(1,217)	-	-
Net Change in Total Pension Liability	<u>78,140</u>	<u>20,698</u>	<u>(108,518)</u>	<u>83,381</u>
Total Pension Liability - Beginning of Year	<u>703,284</u>	<u>682,586</u>	<u>791,104</u>	<u>707,723</u>
Total Pension Liability - End of Year (a)	<u>781,424</u>	<u>703,284</u>	<u>682,586</u>	<u>791,104</u>
Plan Fiduciary Net Position				
Municipal Contributions	-	-	2,081	23,580
Nonemployer Contributions	46,851	47,601	50,827	46,418
Net Investment Income	66,497	58,342	(6,135)	59,490
Benefit Payments	(18,250)	(69,977)	(202,897)	-
Net Change in Fiduciary Net Position	<u>95,098</u>	<u>35,966</u>	<u>(156,124)</u>	<u>129,488</u>
Fiduciary Net Position - Beginning of Year	<u>853,162</u>	<u>817,196</u>	<u>973,320</u>	<u>843,832</u>
Fiduciary Net Position - End of Year (b)	<u>948,260</u>	<u>853,162</u>	<u>817,196</u>	<u>973,320</u>
Association's Net Pension Liability/(Asset) - End of Year (a) - (b)	<u>\$ (166,836)</u>	<u>\$ (149,878)</u>	<u>\$ (134,610)</u>	<u>\$ (182,216)</u>
Fiduciary Net Position as a Percentage of the Total Pension Liability	121.35%	121.31%	119.72%	123.03%
Covered Payroll	N/A	N/A	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

See accompanying Notes to Required Supplementary Information.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
REVENUES				
Taxes:				
Current and Delinquent Property Tax	\$ 2,128,491	\$ 2,128,491	\$ 2,121,589	\$ (6,902)
Franchise Tax	154,000	154,000	181,834	27,834
Hotel/Motel Tax	36,000	36,000	37,008	1,008
Total Taxes	<u>2,318,491</u>	<u>2,318,491</u>	<u>2,340,431</u>	<u>21,940</u>
Intergovernmental:				
Local Government Aid	1,538,209	1,538,209	1,538,455	246
General Government	-	-	1,906	1,906
Public Safety	145,600	145,600	159,903	14,303
Culture and Recreation	-	-	1,346	1,346
Highway	475,000	475,000	1,146,917	671,917
Total Intergovernmental	<u>2,158,809</u>	<u>2,158,809</u>	<u>2,848,527</u>	<u>689,718</u>
Charges for Services:				
Fire Protection	58,600	58,600	57,396	(1,204)
Swimming Pool Fees and Concessions	147,500	147,500	159,513	12,013
Park Fees	52,500	52,500	56,441	3,941
Administration Fees	1,000	1,000	1,170	170
Miscellaneous General Government Charges for Service	411,333	411,333	316,140	(95,193)
Recreation Fees	96,300	96,300	97,860	1,560
Community Center	476,850	476,850	458,421	(18,429)
Total Charges for Services	<u>1,244,083</u>	<u>1,244,083</u>	<u>1,146,941</u>	<u>(97,142)</u>
Fees, Licenses, and Permits				
Business	35,500	35,500	35,363	(137)
Non-Business	41,610	41,610	96,047	54,437
Total Fees, Licenses, and Permits	<u>77,110</u>	<u>77,110</u>	<u>131,410</u>	<u>54,300</u>
Fines and Forfeits	36,200	36,200	28,215	(7,985)
Investment Earnings	66,600	66,600	95,325	28,725
Contributions	7,500	7,500	3,462	(4,038)
Miscellaneous	254,125	254,125	170,431	(83,694)
Total Revenues	<u>6,162,918</u>	<u>6,162,918</u>	<u>6,764,742</u>	<u>601,824</u>

See accompanying Notes to Required Supplementary Information.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
EXPENDITURES				
General Government				
Mayor and Council				
Current:				
Personal Services	\$ 32,083	\$ 32,083	\$ 32,038	\$ (45)
Materials and Supplies	450	450	162	(288)
Other Services and Charges	1,428	1,428	798	(630)
Total Mayor and Council	33,961	33,961	32,998	(963)
City Administration				
Current:				
Personal Services	405,706	405,706	342,605	(63,101)
Materials and Supplies	5,500	5,500	5,355	(145)
Other Services and Charges	69,855	69,855	59,042	(10,813)
Total City Administration	481,061	481,061	407,002	(74,059)
Elections				
Current:				
Personal Services	10,825	10,825	4,251	(6,574)
Materials and Supplies	5,300	5,300	564	(4,736)
Other Services and Charges	461	461	319	(142)
Total Elections	16,586	16,586	5,134	(11,452)
Finance Department				
Current:				
Personal Services	418,029	418,029	432,360	14,331
Materials and Supplies	10,000	10,000	9,141	(859)
Other Services and Charges	120,455	120,455	108,493	(11,962)
Total Finance Department	548,484	548,484	549,994	1,510
Management Information Systems				
Current:				
Materials and Supplies	33,200	33,200	38,280	5,080
Other Services and Charges	156,531	156,531	164,644	8,113
Capital Outlay	40,000	40,000	52,383	12,383
Total Management Information Systems	229,731	229,731	255,307	25,576
Legal				
Current:				
Personal Services	115,146	115,146	114,375	(771)
Materials and Supplies	800	800	1,276	476
Other Services and Charges	6,685	6,685	6,506	(179)
Total Legal	122,631	122,631	122,157	(474)

See accompanying Notes to Required Supplementary Information.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
EXPENDITURES (CONTINUED)				
General Government (Continued)				
Buildings and Grounds				
Current:				
Personal Services	\$ 14,752	\$ 14,752	\$ 16,465	\$ 1,713
Materials and Supplies	2,500	2,500	260	(2,240)
Other Services and Charges	472	472	998	526
Total Buildings and Grounds	17,724	17,724	17,723	(1)
Total General Government	1,450,178	1,450,178	1,390,315	(59,863)
Public Safety				
Police				
Current:				
Personal Services	1,257,162	1,257,162	1,194,699	(62,463)
Materials and Supplies	44,500	44,500	42,555	(1,945)
Other Services and Charges	228,095	228,095	249,581	21,486
Capital Outlay	39,750	39,750	40,234	484
Total Police	1,569,507	1,569,507	1,527,069	(42,438)
Fire Department				
Current:				
Personal Services	58,626	58,626	49,936	(8,690)
Materials and Supplies	17,200	17,200	14,865	(2,335)
Other Services and Charges	97,250	97,250	105,296	8,046
Total Fire Department	173,076	173,076	170,097	(2,979)
Protective Inspections				
Current:				
Personal Services	80,992	80,992	80,905	(87)
Materials and Supplies	900	900	541	(359)
Other Services and Charges	12,877	12,877	29,338	16,461
Total Protective Inspections	94,769	94,769	110,784	16,015
Total Public Safety	1,837,352	1,837,352	1,807,950	(29,402)

See accompanying Notes to Required Supplementary Information.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
EXPENDITURES (CONTINUED)				
Highways and Streets				
Public Works Project Coordinator				
Current:				
Personal Services	\$ 28,759	\$ 28,759	\$ 32,403	\$ 3,644
Materials and Supplies	1,500	1,500	391	(1,109)
Other Services and Charges	6,829	6,829	5,663	(1,166)
Total Public Works Project Coordinator	37,088	37,088	38,457	1,369
Streets and Alleys				
Current:				
Personal Services	352,602	352,602	352,799	197
Materials and Supplies	115,500	115,500	169,768	54,268
Other Services and Charges	562,152	562,152	635,265	73,113
Capital Outlay	400,000	400,000	509,389	109,389
Total Streets and Alleys	1,430,254	1,430,254	1,667,221	236,967
Total Highways and Streets	1,467,342	1,467,342	1,705,678	238,336
Culture and Recreation				
Senior Citizens Center				
Current:				
Other Services and Charges	1,025	1,025	17,074	16,049
Parks & Recreation				
Current:				
Personal Services	874,974	874,974	788,398	(86,576)
Materials and Supplies	102,900	102,900	86,310	(16,590)
Other Services and Charges	544,312	544,312	559,621	15,309
Capital Outlay	120,000	120,000	-	(120,000)
Total Parks & Recreation	1,642,186	1,642,186	1,434,329	(207,857)
Pool				
Current:				
Personal Services	140,792	140,792	120,259	(20,533)
Materials and Supplies	38,850	38,850	36,648	(2,202)
Other Services and Charges	54,340	54,340	69,429	15,089
Capital Outlay:	-	-	-	-
Total Pool	233,982	233,982	226,336	(7,646)
Total Culture and Recreation	1,877,193	1,877,193	1,677,739	(199,454)
Economic Development				
Current:				
Other Services and Charges	109,197	109,197	45,039	(64,158)
Total Expenditures	6,741,262	6,741,262	6,626,721	(114,541)

See accompanying Notes to Required Supplementary Information.

**CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
REVENUES OVER (UNDER) EXPENDITURES	\$ (578,344)	\$ (578,344)	\$ 138,021	\$ 716,365
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-	-	5,397	5,397
Transfers In	836,546	836,546	891,546	55,000
Transfers Out	<u>(135,100)</u>	<u>(135,100)</u>	<u>(201,084)</u>	<u>(65,984)</u>
Total Other Financing Sources (Uses)	<u>701,446</u>	<u>701,446</u>	<u>695,859</u>	<u>(5,587)</u>
CHANGE IN FUND BALANCE	<u>\$ 123,102</u>	<u>\$ 123,102</u>	833,880	<u>\$ 710,778</u>
Fund Balance - Beginning of Year			<u>4,875,776</u>	
FUND BALANCE - END OF YEAR			<u>\$ 5,709,656</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2018**

NOTE 1 BUDGETS

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for all funds. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 LEGAL COMPLIANCE - BUDGETS

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 15, the Director of Finance and Administrative Services submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to December 31, the budget is legally enacted through passage of a resolution.
3. The Director of Finance and Administrative Services is authorized to transfer budgeted amounts within any department budget; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.

NOTE 3 DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

A. General Employees Fund

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

2017

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2018**

NOTE 3 DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

A. General Employees Fund (Continued)

2016

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

B. Police and Fire Fund

2018

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

2017

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2018**

**NOTE 3 DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PLAN PROVISIONS,
ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)**

B. Police and Fire Fund (Continued)

2016

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

SUPPLEMENTARY INFORMATION

COMBINING FUND FINANCIAL STATEMENTS

**CITY OF REDWOOD FALLS, MINNESOTA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	Special Revenue			
	Library	Airport	Fire Equipment Replacement	Port Authority
ASSETS				
Cash and Investments	\$ 269,463	\$ 7,033	\$ 142,064	\$ 396,633
Accounts Receivable, Net	235	4,016	-	-
Property Taxes Receivable	14,467	-	-	1,898
Accrued Interest Receivable	1,183	-	602	4,466
Due from Other Governments	-	10,985	54,059	-
Prepaid Items	1,627	4,855	-	871
Property Held for Resale	-	-	-	61,873
Notes Receivable	-	-	-	-
Inventory	-	36,903	-	-
Total Assets	\$ 286,975	\$ 63,792	\$ 196,725	\$ 465,741
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 1,747	\$ 19,722	\$ -	\$ 517
Contracts Payable	1,225	-	-	-
Accrued Salaries and Fringes	11,903	2,470	-	1,971
Due to Other Funds	1,184	824	-	-
Due to Other Governments	27	-	-	-
Advances from Other Funds	-	-	-	-
Unearned Revenue	800	7,345	69,808	-
Total Liabilities	16,886	30,361	69,808	2,488
Deferred Inflows of Resources:				
Unavailable Revenue - Taxes	10,108	10,985	-	1,295
Unavailable Revenue - Loans	-	-	-	-
Unavailable Revenue - Grants	-	-	-	-
Total Deferred Inflows of Resources	10,108	10,985	-	1,295
Fund Balances (Deficit)				
Nonspendable:				
Prepaid Items	1,627	4,855	-	871
Inventory	-	36,903	-	-
Restricted For:				
Debt Service	-	-	-	-
Library	258,354	-	-	-
Port Authority	-	-	-	461,087
Revolving Loans	-	-	-	-
Committed	-	-	126,917	-
Unassigned	-	(19,312)	-	-
Total Fund Balances (Deficit)	259,981	22,446	126,917	461,958
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 286,975	\$ 63,792	\$ 196,725	\$ 465,741

Special Revenue (Continued)

Revolving Loan	Downtown Loan Program	TIF #10-1 Runnings Redevelopment	TIF #9-1 Daktronics Expansion	Hospital Building	Special Revenue Subtotal
\$ 568,212	\$ 19,768	\$ -	\$ 16,302	\$ -	\$ 1,419,475
-	-	-	-	4,350	8,601
-	-	-	-	-	16,365
3,599	228	-	-	-	10,078
-	-	-	-	-	65,044
-	-	-	-	476	7,829
-	-	-	-	-	61,873
50,142	52,229	-	-	-	102,371
-	-	-	-	-	36,903
<u>\$ 621,953</u>	<u>\$ 72,225</u>	<u>\$ -</u>	<u>\$ 16,302</u>	<u>\$ 4,826</u>	<u>\$ 1,728,539</u>
\$ -	\$ -	\$ -	\$ 15,452	\$ -	\$ 37,438
-	-	-	-	-	1,225
-	-	-	-	-	16,344
-	-	-	-	4,826	6,834
-	-	-	-	-	27
-	-	849,340	-	-	849,340
267	-	-	-	-	78,220
267	-	849,340	15,452	4,826	989,428
-	-	-	-	-	22,388
50,142	52,230	-	-	-	102,372
-	-	-	-	-	-
50,142	52,230	-	-	-	124,760
-	-	-	-	476	7,829
-	-	-	-	-	36,903
-	-	-	-	-	-
-	-	-	-	-	258,354
-	-	-	-	-	461,087
571,544	19,995	-	-	-	591,539
-	-	-	-	-	126,917
-	-	(849,340)	850	(476)	(868,278)
<u>571,544</u>	<u>19,995</u>	<u>(849,340)</u>	<u>850</u>	<u>-</u>	<u>614,351</u>
<u>\$ 621,953</u>	<u>\$ 72,225</u>	<u>\$ -</u>	<u>\$ 16,302</u>	<u>\$ 4,826</u>	<u>\$ 1,728,539</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
 DECEMBER 31, 2018**

	Debt Service			
	Community Center Bonds of 1999	PIR Bonds 2008	RAH Pavilion Bonds	Debt Service Subtotal
ASSETS				
Cash and Investments	\$ 12,211	\$ -	\$ -	\$ 12,211
Accounts Receivable	-	-	-	-
Property Taxes Receivable	2,293	-	-	2,293
Accrued Interest Receivable	-	-	-	-
Due from Other Governments	-	-	-	-
Prepaid Items	10	371	-	381
Property Held for Resale	-	-	-	-
Notes Receivable	-	-	-	-
Inventory	-	-	-	-
Total Assets	<u>\$ 14,514</u>	<u>\$ 371</u>	<u>\$ -</u>	<u>\$ 14,885</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 67	\$ 250	\$ -	\$ 317
Contracts Payable	-	-	-	-
Accrued Salaries and Fringes	-	-	-	-
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Advances from Other Funds	-	-	-	-
Unearned Revenue	-	-	-	-
Total Liabilities	<u>67</u>	<u>250</u>	<u>-</u>	<u>317</u>
Deferred Inflows of Resources:				
Unavailable Revenue - Taxes	1,609	-	-	1,609
Unavailable Revenue - Loans	-	-	-	-
Unavailable Revenue - Grants	-	-	-	-
Total Deferred Inflows of Resources	<u>1,609</u>	<u>-</u>	<u>-</u>	<u>1,609</u>
Fund Balances (Deficit)				
Nonspendable:				
Prepaid Items	10	371	-	381
Inventory	-	-	-	-
Restricted For:				
Debt Service	12,828	-	-	12,828
Library	-	-	-	-
Port Authority	-	-	-	-
Revolving Loans	-	-	-	-
Committed	-	-	-	-
Unassigned	-	(250)	-	(250)
Total Fund Balances (Deficit)	<u>12,838</u>	<u>121</u>	<u>-</u>	<u>12,959</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 14,514</u>	<u>\$ 371</u>	<u>\$ -</u>	<u>\$ 14,885</u>

Capital Projects

<u>Airport Fund</u>	<u>Total</u>
\$ -	\$ 1,431,686
-	8,601
-	18,658
-	10,078
462,991	528,035
-	8,210
-	61,873
-	102,371
-	36,903
<u>\$ 462,991</u>	<u>\$ 2,206,415</u>
\$ -	\$ 37,755
221,041	222,266
58	16,402
314,783	321,617
-	27
-	849,340
-	78,220
<u>535,882</u>	<u>1,525,627</u>
-	23,997
-	102,372
162,498	162,498
<u>162,498</u>	<u>288,867</u>
-	8,210
-	36,903
-	12,828
-	258,354
-	461,087
-	591,539
-	126,917
<u>(235,389)</u>	<u>(1,103,917)</u>
<u>(235,389)</u>	<u>391,921</u>
 <u>\$ 462,991</u>	 <u>\$ 2,206,415</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2018**

	Special Revenue			
	Library	Airport	Fire Equipment Replacement	Port Authority
REVENUES				
Local Tax Levies	\$ 360,667	\$ -	\$ -	\$ 47,101
Intergovernmental	49,504	52,290	67,575	85
Charges for Services	6,355	252,644	-	-
Fines and Forfeits	5,763	-	-	-
Investment Earnings (Loss)	3,272	(148)	2,019	6,028
Contributions	3,669	-	-	-
Miscellaneous	7,169	4,008	-	184
Total Revenues	<u>436,399</u>	<u>308,794</u>	<u>69,594</u>	<u>53,398</u>
EXPENDITURES				
Current:				
Public Safety	-	-	39,658	-
Culture and Recreation	406,039	-	-	-
Economic Development	-	-	-	54,993
Airport	-	303,924	-	-
Capital Outlay	35,104	-	-	-
Debt Service:				
Principal	-	-	35,000	-
Interest	-	-	3,982	-
Fiscal Agent Fees	-	-	-	-
Total Expenditures	<u>441,143</u>	<u>303,924</u>	<u>78,640</u>	<u>54,993</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(4,744)	4,870	(9,046)	(1,595)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	89,106	21,600	-
Transfers Out	-	(69,773)	-	(63,875)
Total Other Financing Sources (Uses)	<u>-</u>	<u>19,333</u>	<u>21,600</u>	<u>(63,875)</u>
CHANGE IN FUND BALANCES	(4,744)	24,203	12,554	(65,470)
Fund Balances (Deficit) - Beginning of Year	<u>264,725</u>	<u>(1,757)</u>	<u>114,363</u>	<u>527,428</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 259,981</u>	<u>\$ 22,446</u>	<u>\$ 126,917</u>	<u>\$ 461,958</u>

Special Revenue (Continued)

Revolving Loan	Downtown Loan Program	TIF #10-1 Runnings Redevelopment	TIF #9-1 Daktronics Expansion	Hospital Building	Special Revenue Subtotal
\$ -	\$ -	\$ 67,488	\$ 31,548	\$ -	\$ 506,804
-	-	-	-	-	169,454
-	-	-	-	-	258,999
-	-	-	-	-	5,763
11,359	1,113	-	38	-	23,681
-	-	-	-	-	3,669
30,072	11,128	-	-	-	52,561
<u>41,431</u>	<u>12,241</u>	<u>67,488</u>	<u>31,586</u>	<u>-</u>	<u>1,020,931</u>
-	-	-	-	-	39,658
-	-	-	-	-	406,039
975	41,234	335	30,095	-	127,632
-	-	-	-	-	303,924
-	-	-	-	-	35,104
-	-	-	-	-	35,000
-	-	26,397	-	-	30,379
-	-	-	-	-	-
<u>975</u>	<u>41,234</u>	<u>26,732</u>	<u>30,095</u>	<u>-</u>	<u>977,736</u>
40,456	(28,993)	40,756	1,491	-	43,195
-	-	-	-	-	110,706
-	-	-	-	-	(133,648)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,942)</u>
40,456	(28,993)	40,756	1,491	-	20,253
531,088	48,988	(890,096)	(641)	-	594,098
<u>\$ 571,544</u>	<u>\$ 19,995</u>	<u>\$ (849,340)</u>	<u>\$ 850</u>	<u>\$ -</u>	<u>\$ 614,351</u>

**CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

	Debt Service			
	Community Center Bonds of 1999	PIR Bonds 2008	RAH Pavilion Bonds	Debt Service Subtotal
REVENUES				
Local Tax Levies	\$ 59,409	\$ -	\$ -	\$ 59,409
Intergovernmental	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeits	-	-	-	-
Investment Earnings (Loss)	(182)	-	25,870	25,688
Contributions	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	<u>59,227</u>	<u>-</u>	<u>25,870</u>	<u>85,097</u>
EXPENDITURES				
Current:				
Public Safety	-	-	-	-
Culture and Recreation	-	-	-	-
Economic Development	-	-	-	-
Airport	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	53,191	45,000	920,000	1,018,191
Interest	5,432	17,925	39,614	62,971
Fiscal Agent Fees	187	867	-	1,054
Total Expenditures	<u>58,810</u>	<u>63,792</u>	<u>959,614</u>	<u>1,082,216</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	417	(63,792)	(933,744)	(997,119)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	63,875	45,000	108,875
Transfers Out	-	-	(100,000)	(100,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>63,875</u>	<u>(55,000)</u>	<u>8,875</u>
CHANGE IN FUND BALANCES	417	83	(988,744)	(988,244)
Fund Balances (Deficit) - Beginning of Year	<u>12,421</u>	<u>38</u>	<u>988,744</u>	<u>1,001,203</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 12,838</u>	<u>\$ 121</u>	<u>\$ -</u>	<u>\$ 12,959</u>

Capital Projects

<u>Airport Fund</u>	<u>Total</u>
\$ -	\$ 566,213
1,129,654	1,299,108
-	258,999
-	5,763
(9,547)	39,822
-	3,669
7,333	59,894
1,127,440	2,233,468
-	39,658
-	406,039
-	127,632
-	303,924
1,356,975	1,392,079
-	1,053,191
-	93,350
-	1,054
1,356,975	3,416,927
(229,535)	(1,183,459)
125,230	344,811
-	(233,648)
125,230	111,163
(104,305)	(1,072,296)
(131,084)	1,464,217
\$ (235,389)	\$ 391,921

CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF NET POSITION – NONMAJOR PROPRIETARY FUNDS
DECEMBER 31, 2018

ASSETS	Municipal Liquor Store	Storm Sewer Utility	Total
Current Assets			
Cash and Cash Equivalents	\$ 406,853	\$ 417,792	\$ 824,645
Cash and Cash Equivalents - Restricted	51,400	-	51,400
Accounts Receivable	205	40,296	40,501
Special assessments receivable	-	936	936
Accrued Interest Receivable	2,805	1,043	3,848
Due from other funds	-	462	462
Due from Other Governmental Units	-	56,391	56,391
Inventories	200,654	-	200,654
Prepaid Items	5,011	939	5,950
Total Current Assets	666,928	517,859	1,184,787
Noncurrent Assets			
Capital Assets:			
Land	42,900	582,203	625,103
Construction in Progress	-	10,750	10,750
Buildings and Improvements	601,262	1,694,289	2,295,551
Machinery and Equipment	147,151	69,278	216,429
Total Capital Assets	791,313	2,356,520	3,147,833
Less: Accumulated Depreciation	(359,167)	(395,026)	(754,193)
Net Capital Assets	432,146	1,961,494	2,393,640
Total Noncurrent Assets	432,146	1,961,494	2,393,640
Total Assets	1,099,074	2,479,353	3,578,427
DEFERRED OUTFLOWS OF RESOURCES			
Loss on Refunding Bonds	2,798	-	2,798
Pension Related	31,005	11,586	42,591
Other Postemployment Benefits Related	1,988	497	2,485
Total Deferred Outflows of Resources	35,791	12,083	47,874
LIABILITIES			
Current Liabilities			
Accounts Payable	37,183	12,410	49,593
Contracts Payable	910	13,163	14,073
Accrued Salaries and Fringes	15,065	5,384	20,449
Accrued Interest Payable	545	678	1,223
Due to Other Funds	2,122	-	2,122
Due to Other Governmental Units	21,804	-	21,804
Current Portion of Compensated Absences	11,340	7,819	19,159
Current Portion of Bonds Payable	45,000	4,719	49,719
Total Current Liabilities	133,969	44,173	178,142
Noncurrent Liabilities			
Compensated Absences	19,642	7,559	27,201
Other Postemployment Benefits Liability	37,546	5,662	43,208
Net Pension Liability	185,299	69,256	254,555
Bonds Payable - Long-Term	146,710	52,577	199,287
Total Noncurrent Liabilities	389,197	135,054	524,251
Total Liabilities	523,166	179,227	702,393
DEFERRED INFLOWS OF RESOURCES			
Pension Related	46,604	17,416	64,020
NET POSITION			
Net Investment in Capital Assets	243,234	1,891,035	2,134,269
Restricted for Bond Reserve Funds	51,400	-	51,400
Unrestricted	270,461	403,758	674,219
Total Net Position	\$ 565,095	\$ 2,294,793	\$ 2,859,888

**CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION – NONMAJOR PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Municipal Liquor Store	Storm Sewer Utility	Total
OPERATING REVENUE			
Sales	\$ 2,194,209	\$ -	\$ 2,194,209
Cost of Sales	(1,633,253)	-	(1,633,253)
Charges for Services	-	283,488	283,488
Miscellaneous	-	1,690	1,690
Total Operating Revenue	<u>560,956</u>	<u>285,178</u>	<u>846,134</u>
OPERATING EXPENSES			
Personal Services	366,582	129,414	495,996
Administration and General	37,715	9,775	47,490
Supplies, Repairs, Services, and Rents	19,434	43,951	63,385
Depreciation and Amortization	20,682	50,582	71,264
Miscellaneous	62,024	75,886	137,910
Total Operating Expenses	<u>506,437</u>	<u>309,608</u>	<u>816,045</u>
OPERATING INCOME	54,519	(24,430)	30,089
OTHER INCOME (EXPENSE)			
Intergovernmental Revenues	534	53,163	53,697
Investment Earnings	6,327	8,581	14,908
Miscellaneous Revenues	398	8	406
Interest Expense	(9,331)	(1,700)	(11,031)
Total Other Income (Expense)	<u>(2,072)</u>	<u>60,052</u>	<u>57,980</u>
INCOME BEFORE TRANSFERS	52,447	35,622	88,069
Transfers Out	(120,000)	(5,193)	(125,193)
CHANGE IN NET POSITION	(67,553)	30,429	(37,124)
Net Position - Beginning of Year	<u>632,648</u>	<u>2,264,364</u>	<u>2,897,012</u>
NET POSITION - END OF YEAR	<u>\$ 565,095</u>	<u>\$ 2,294,793</u>	<u>\$ 2,859,888</u>

CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS – NONMAJOR PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Municipal Liquor Store	Storm Sewer Utility	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Receipts from Customers	\$ 2,197,009	\$ 286,689	\$ 2,483,698
Cash Paid to Suppliers	(1,805,670)	(127,662)	(1,933,332)
Cash Paid to Employees	(324,074)	(122,261)	(446,335)
Net Cash Flows Provided by Operating Activities	<u>67,265</u>	<u>36,766</u>	<u>104,031</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to Other Funds	(120,000)	(5,193)	(125,193)
Other Nonoperating Revenues	932	85,251	86,183
Net Cash Flows Provided (Used) by Noncapital Financing Activities	<u>(119,068)</u>	<u>80,058</u>	<u>(39,010)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets	-	(82,669)	(82,669)
Principal Paid on Bonds	(45,000)	(4,719)	(49,719)
Interest, Paying Agent Fees	(7,882)	(1,669)	(9,551)
Net Cash Flows Used by Capital and Related Financing Activities	<u>(52,882)</u>	<u>(89,057)</u>	<u>(141,939)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Investments	<u>5,207</u>	<u>7,538</u>	<u>12,745</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(99,478)	35,305	(64,173)
Cash and Cash Equivalents - Beginning of Year	<u>557,731</u>	<u>382,487</u>	<u>940,218</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 458,253</u>	<u>\$ 417,792</u>	<u>\$ 876,045</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 54,519	\$ (24,430)	\$ 30,089
Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities:			
Depreciation and Amortization	20,682	50,582	71,264
(Increase) Decrease in Assets and Deferred Outflows:			
Receivables	2,725	1,537	4,262
Due from Other Funds	-	(26)	(26)
Inventories	17,891	-	17,891
Prepaid Items	(400)	(303)	(703)
Deferred Outflows of Resources - Pension	14,838	8,116	22,954
Deferred Outflows of Resources - OPEB	(1,988)	(497)	(2,485)
Increase (Decrease) in Liabilities and Deferred Inflows:			
Accounts Payable	(71,510)	2,333	(69,177)
Contracts Payable	225	-	225
Accrued Salaries and Fringes	4,160	4,061	8,221
Due to Other Funds	75	-	75
Due to Other Governments	550	(80)	470
Net Pension Liability	(1,208)	(10,899)	(12,107)
OPEB Liability	13,870	3,468	17,338
Deferred Inflows of Resources - Pension	12,836	2,904	15,740
Net Cash Flows Provided by Operating Activities	<u>\$ 67,265</u>	<u>\$ 36,766</u>	<u>\$ 104,031</u>
Noncash Investing, Capital, and Financing Activities:			
Capital Assets On Account	\$ 910	\$ 13,163	\$ 14,073

CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF NET POSITION – INTERNAL SERVICE FUNDS
DECEMBER 31, 2018

ASSETS	Central Garage Fund	Self- Insurance Fund	Total
Current Assets			
Cash and Cash Equivalents	\$ 480,945	\$ 74,058	\$ 555,003
Accounts Receivable, Net	200	-	200
Special Assessments Receivable	598	-	598
Accrued Interest Receivable	2,103	257	2,360
Due from Other Funds	-	-	-
Due from Other Governmental Units	-	-	-
Prepaid Items	4,414	-	4,414
Total Current Assets	488,260	74,315	562,575
Capital Assets			
Land	51,900	-	51,900
Construction in Progress	-	-	-
Buildings and Improvements	1,360,671	-	1,360,671
Machinery and Equipment	3,774,283	-	3,774,283
Total Capital Assets	5,186,854	-	5,186,854
Less: Accumulated Depreciation	(1,825,281)	-	(1,825,281)
Net Capital Assets	3,361,573	-	3,361,573
Total Assets	3,849,833	74,315	3,924,148
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	11,263	-	11,263
Other Postemployment Benefits Related	497	-	497
Total Deferred Outflows of Resources	11,760	-	11,760
LIABILITIES			
Current Liabilities			
Accounts Payable	17,441	6,359	23,800
Due to Other Funds	2,036	-	2,036
Accrued Salaries and Fringes	3,742	-	3,742
Accrued Interest Payable	12,747	-	12,747
Compensated Absences - Current	5,683	-	5,683
Bonds Payable - Current	40,000	-	40,000
Total Current Liabilities	81,649	6,359	88,008
Noncurrent Liabilities			
Compensated Absences	5,112	-	5,112
Other Postemployment Benefits Obligation	7,856	-	7,856
Net Pension Liability	67,313	-	67,313
Bonds Payable - Long-Term	795,000	-	795,000
Total Noncurrent Liabilities	875,281	-	875,281
Total Liabilities	956,930	6,359	963,289
DEFERRED INFLOWS OF RESOURCES			
Pension Related	16,930	-	16,930
NET POSITION			
Net Investment in Capital Assets	2,526,573	-	2,526,573
Unrestricted	361,160	67,956	429,116
Total Net Position	\$ 2,887,733	\$ 67,956	\$ 2,955,689

**CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – INTERNAL SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Central Garage Fund	Self- Insurance Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 607,215	\$ 1,020,817	\$ 1,628,032
Miscellaneous	2,473	-	2,473
Total Operating Revenues	<u>609,688</u>	<u>1,020,817</u>	<u>1,630,505</u>
OPERATING EXPENSES			
Personal Services	86,602	-	86,602
Professional Services	56,825	-	56,825
Supplies	177,379	-	177,379
Depreciation	341,107	-	341,107
Benefits or Claims	-	1,015,553	1,015,553
Miscellaneous	2,388	-	2,388
Total Operating Expenses	<u>664,301</u>	<u>1,015,553</u>	<u>1,679,854</u>
OPERATING INCOME (LOSS)	(54,613)	5,264	(49,349)
OTHER INCOME (EXPENSE)			
Intergovernmental	194	-	194
Investment Earnings	6,916	717	7,633
Gain (Loss) on Sale of Capital Assets	82,923	-	82,923
Interest Expense	(30,707)	-	(30,707)
Total Other Income (Expense)	<u>59,326</u>	<u>717</u>	<u>60,043</u>
INCOME BEFORE TRANSFERS	4,713	5,981	10,694
Transfers In	<u>74,193</u>	<u>-</u>	<u>74,193</u>
CHANGE IN NET POSITION	78,906	5,981	84,887
Net Position - Beginning of Year	<u>2,808,827</u>	<u>61,975</u>	<u>2,870,802</u>
NET POSITION - END OF YEAR	<u>\$ 2,887,733</u>	<u>\$ 67,956</u>	<u>\$ 2,955,689</u>

**CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Central Garage Fund	Self- Insurance Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Receipts from Customers	\$ 614,823	\$ 1,020,817	\$ 1,635,640
Cash Paid to Suppliers	(256,480)	(1,018,106)	(1,274,586)
Cash Paid to Employees	(82,905)	-	(82,905)
Net Cash Flows Provided by Operating Activities	<u>275,438</u>	<u>2,711</u>	<u>278,149</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Revenue	194	-	194
Transfers from Other Funds	74,575	-	74,575
Net Cash Flows Provided (Used) by Noncapital Financing Activities	<u>74,769</u>	<u>-</u>	<u>74,769</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets	(334,384)	-	(334,384)
Principal Paid on Bonds	(40,000)	-	(40,000)
Interest, Paying Agent Fees	(30,940)	-	(30,940)
Net Cash Flows Used by Capital and Related Financing Activities	<u>(405,324)</u>	<u>-</u>	<u>(405,324)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Investments	5,745	655	6,400
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(49,372)</u>	<u>3,366</u>	<u>(46,006)</u>
Cash and Cash Equivalents - Beginning of Year	530,317	70,692	601,009
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 480,945</u>	<u>\$ 74,058</u>	<u>\$ 555,003</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (54,613)	\$ 5,264	\$ (49,349)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:			
Depreciation	341,107	-	341,107
(Increase) Decrease in Assets and Deferred Outflows:			
Receivables	2,196	-	2,196
Due from Other Governments	2,939	-	2,939
Prepaid Items	103	-	103
Deferred Outflows - Pension	13,668	-	13,668
Deferred Outflows - OPEB	(497)	-	(497)
Increase (Decrease) in Liabilities and Deferred Inflows:			
Accounts Payable	2,388	(2,553)	(165)
Other Accrued Liabilities	229	-	229
Net Pension Liability	(34,115)	-	(34,115)
OPEB Liability	3,468	-	3,468
Deferred Inflows - Pension	(1,435)	-	(1,435)
Net Cash Flows Provided by Operating Activities	<u>\$ 275,438</u>	<u>\$ 2,711</u>	<u>\$ 278,149</u>

**STATISTICAL SECTION
(UNAUDITED)**

**CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS – DAKTRONICS
INC. #9-1, TAX INCREMENT FINANCING DISTRICT (UNAUDITED)
DECEMBER 31, 2018**

	Budget	Accounted for in Prior Years	2018	Actual Over (Under) Budget
SOURCES OF FUNDS				
Tax Increments Received	\$ 272,702	\$ 64,298	\$ 31,548	\$ (176,856)
Interest Earnings	20,000	-	-	(20,000)
Total Sources of Funds	<u>292,702</u>	<u>64,298</u>	<u>31,548</u>	<u>(196,856)</u>
USES OF FUNDS				
Site Improvements/Preparation Costs	235,000	57,868	29,701	(147,431)
Note Payments				
Interest	30,432	812	36	(29,584)
Administrative Expenses	27,270	1,187	358	(25,725)
Professional Services	-	4,431	1,453	5,884
Total Uses of Funds	<u>292,702</u>	<u>64,298</u>	<u>31,548</u>	<u>(196,856)</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS – MUNICIPAL DEVELOPMENT
DISTRICT #10-1, TAX INCREMENT FINANCING DISTRICT (UNAUDITED)
DECEMBER 31, 2018

	Budget	Accounted for in Prior Years	2018	Actual Over (Under) Budget
SOURCES OF FUNDS				
Tax Increments Received	\$ 3,664,090	\$ 140,494	\$ 67,488	\$(3,456,108)
Interest Earnings	350,000	-	-	(350,000)
Total Sources of Funds	<u>4,014,090</u>	<u>140,494</u>	<u>67,488</u>	<u>(3,806,108)</u>
USES OF FUNDS				
Land/Building Acquisition	450,000	139,536	67,152	(243,312)
Site Improvements/Preparation Costs	250,000	-	-	(250,000)
Installation of Public Utilities	500,000	-	-	(500,000)
Streets and Sidewalks	1,955,259	-	-	(1,955,259)
Note Payments				
Interest	492,422	958	336	(491,128)
Administrative Expenses	366,409	-	-	(366,409)
Total Uses of Funds	<u>4,014,090</u>	<u>140,494</u>	<u>67,488</u>	<u>(3,806,108)</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF REDWOOD FALLS, MINNESOTA
COMPARATIVE SCHEDULES OF TAX LEVIES – LAST FIVE YEARS (UNAUDITED)
DECEMBER 31, 2018**

	For 2018 Collection		For 2017 Collection		For 2016 Collection		For 2015 Collection		For 2014 Collection	
	Net Tax Amount	Net Tax Capacity	Net Tax Amount	Net Tax Capacity	Net Tax Amount	Net Tax Capacity	Net Tax Amount	Net Tax Capacity	Net Tax Amount	Net Tax Capacity
General	\$ 2,530,588	87.847	\$ 2,444,319	90.163	\$ 2,297,990	90.069	\$ 2,162,783	87.811	\$ 2,055,919	85.589
Bonds and Interest	59,437	2.064	58,621	2.163	60,277	2.330	59,178	2.369	60,232	2.471
Total	<u>\$ 2,590,025</u>	<u>89.911</u>	<u>\$ 2,502,940</u>	<u>92.326</u>	<u>\$ 2,358,267</u>	<u>92.399</u>	<u>\$ 2,221,961</u>	<u>90.180</u>	<u>\$ 2,116,151</u>	<u>88.060</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 COMPARATIVE SCHEDULES OF TAX CAPACITY – LAST FIVE YEARS (UNAUDITED)
 DECEMBER 31, 2018**

	<u>For 2018 Collection</u>	<u>For 2017 Collection</u>	<u>For 2016 Collection</u>	<u>For 2015 Collection</u>	<u>For 2014 Collection</u>
Real Property	\$ 2,915,596	\$ 2,750,255	\$ 2,639,905	\$ 2,475,529	\$ 2,415,367
Personal Property	54,301	51,091	46,056	43,220	41,249
Tax Increment Districts	<u>75,926</u>	<u>78,052</u>	<u>86,033</u>	<u>7,091</u>	<u>7,072</u>
Total	<u><u>\$ 3,045,823</u></u>	<u><u>\$ 2,879,398</u></u>	<u><u>\$ 2,771,994</u></u>	<u><u>\$ 2,525,840</u></u>	<u><u>\$ 2,463,688</u></u>

OTHER REPORTS SECTION



INDEPENDENT AUDITORS' 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 Redwood Falls
City of Redwood Falls, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Redwood Falls, Minnesota (the City), as of and for the year ended December 31, 2018, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 31, 2019. The financial statements of the discretely presented component unit (Redwood Area Hospital Foundation) were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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 City'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

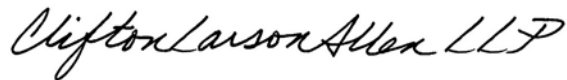
Honorable Mayor and Members of the City Council
City of Redwood Falls

Compliance and Other Matters

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

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 result of that testing, and not to provide an opinion on the effectiveness of the City’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Alexandria, Minnesota
May 31, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Mayor and Members of the City Council
City of Redwood Falls
City of Redwood Falls, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the City of Redwood Falls (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Alexandria, Minnesota
May 31, 2019

**CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018**

Federal Grantor/Grant Name	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Transportation:				
Passed through Minnesota Department of Public Safety Airport Improvement Program	20.106	3-27-0083-016-2017	\$ 1,159,055	\$ -
Passed through Minnesota Department of Transportation Highway Planning and Construction/Highway Planning and Construction Cluster	20.205	STPF 6417(199)	171,481	-
Total U.S. Department of Transportation			<u>1,330,536</u>	<u>-</u>
U.S. National Endowment for the Humanities				
Passed through Minnesota Department of Education Library Services and Technology Act Grant	45.310	LS-00-17-0024-17	6,161	-
U.S. Department of Homeland Security:				
Passed through Minnesota Department of Public Safety Disaster Grant - Public Assistance	97.036	N/A - No Pass-Through Assigned	\$ 67,373	
Disaster Grant - Public Assistance	97.036	4182 DRMN P00000001	<u>6,328</u>	
Total			73,701	-
Hazard Mitigation Grant	97.039	4131 DRMN P00000005	<u>12,941</u>	-
			<u>86,642</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 1,423,339</u>	<u>\$ -</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Redwood Falls under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Redwood Falls, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Redwood Falls.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Members of the City Council
City of Redwood Falls
City of Redwood Falls, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely component unit, each major fund, and the aggregate remaining fund information of the City of Redwood Falls (the City), 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 and have issued our report thereon dated May 31, 2019. The financial statements of the discretely presented component unit (Redwood Area Hospital Foundation) were not audited in accordance with *Government Auditing Standards*.

The City's basic financial statements include the operations of Redwood Area Hospital and the discretely presented component unit (Redwood Area Hospital Foundation). Our audit, described below, did not include the operations of the Redwood Area Hospital nor the Foundation because the component unit engaged for its own separate audit that included the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings and Questioned Costs as item 2018-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City'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.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Alexandria, Minnesota
May 31, 2019

**CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Type of auditor’s report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) _____ yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes X no

**CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SECTION IV – MINNESOTA LEGAL COMPLIANCE

Finding 2018-001 – Purchases over \$175,000

Criteria: Minnesota State Statute §471.345 includes guidelines for purchasing items over \$175,000.

Condition: During audit procedures, it was noted that the purchase of one dump truck for \$179,900 did not follow state statute.

Cause: Staff was under the assumption that the vendor was part of the state of Minnesota's cooperative purchasing venture, when the vendor actually was not.

Effect: The City is not in compliance with state statutes.

Recommendation: We recommend the City review state purchasing laws and develop procedures to ensure compliance by all responsible staff.

Management Response: Staff have been retrained in the City's Procurement Policy and the state of MN Cooperative Purchasing Venture.