

May 22, 2018

Renee Eckerly, City Administrator
City of Paynesville
221 Washburne Ave
Paynesville, MN 56362

Dear Renee:

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of the City of Paynesville as of December 31, 2017. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report(s) on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors, or "experts," in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, the City of Paynesville will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, the City of Paynesville also agrees to provide us with printer's proofs final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the City of Paynesville seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve you.

Sincerely,

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

CITY OF PAYNESVILLE, MINNESOTA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2017

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

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**INTRODUCTORY
SECTION**

**CITY OF PAYNESVILLE, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2017**

CITY COUNCIL

Term Expires

Jeff Thompson	Mayor	December 31, 2018
Len Gilmore	Council Member	December 31, 2020
Neil Herzberg	Council Member	December 31, 2018
Alicia LaBeau	Council Member	December 31, 2020
Jean Soine	Council Member	December 31, 2018

CITY OFFICIALS

Renee Eckerly	City Administrator
Belinda Ludwig	Finance Specialist

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

May 22, 2018

Honorable Mayor and City Council
City of Paynesville, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paynesville, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, each major fund, and the aggregate remaining fund information of the City of Paynesville, Minnesota, as of December 31, 2017, 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.

An Independently Owned Member, RSM US Alliance

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St. Cloud
320.251.0286

Little Falls
320.632.6311

Albany
320.845.2940

Maple Lake
320.963.5414

Monticello
763.295.5070

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining nonmajor fund financial statements, combining debt service fund schedules, combining capital project fund schedules, and schedules of indebtedness are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section, combining nonmajor fund financial statements, combining debt service fund schedules, combining capital project fund schedules, and schedules of indebtedness have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2018 on our consideration of the City of Paynesville's internal control of financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Paynesville's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated May 22, 2018, on our consideration of the City of Paynesville's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Our discussion and analysis of the City of Paynesville's financial performance provides an overview of the City's financial activities for the year ended December 31, 2017. Please read it in conjunction with the independent auditor's report on page two and the City's financial statements, which begin on page thirteen.

FINANCIAL HIGHLIGHTS

- The City's net position increased \$2,306,181 compared to the prior year as a result of this year's operations.
- In the City's business-type activities, revenues increased \$21,304 (or 0.54 percent) and program expenses increased \$251,838 (or 9.02 percent). The increase in revenues is due primarily to an increase in revenues from charges for services. The increase in expenses is due to various increases in operational costs, liquor cost of sales, and interest and other charges.
- Total cost of all of the City's programs decreased \$104,284 (or 1.79 percent).
- The City of Paynesville received local government aid in the amount of \$723,839.
- The City's General Fund generated less revenue than budgeted of \$101,108, excluding transfers in from other funds. Expenditures were less than budgeted by \$1,146,086, excluding transfers to other funds. Such variances are primarily the result of differences between the manner in which debt service activity is budgeted by the City, in comparison to how such activity is presented in the financial statements. Debt service expenditures and related property tax revenues have been budgeted in the General Fund, but such activity has been reallocated to the Debt Service Fund for financial statement presentation purposes. Also contributing to the difference between budgeted and actual expenditures, expenditures for police public safety were approximately \$327,000 less than budgeted. See additional details on page fifty-six.

USING THIS ANNUAL REPORT

This annual report consists of series of financial statements. The Statement of Net Position and the Statement of Activities (on pages thirteen and fourteen) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page fifteen. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page six. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows/inflows of resources, and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in net position. You can think of the City's net position (assets plus deferred outflows, less liabilities plus deferred inflows) 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 its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base, costs associated with current and future construction projects, and the condition of the City's roads, to assess the overall health of the City.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

USING THIS ANNUAL REPORT (Continued)

Reporting the City as a Whole (Continued)

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental Activities**-Most of the City's basic services are reported here, including the police, fire, ambulance, public works, parks departments, airport, and general administration. Property taxes, special assessments, licenses, permits and fees, and state aids finance most of these activities.
- **Business-type Activities**-The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems and liquor store are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's funds begins on page eight. The fund financial statements begin on page fifteen and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council may establish 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, and other money. The City's three kinds of funds (governmental, proprietary and fiduciary) use different accounting approaches.

- **Governmental Funds**-Most of the City's basic services are reported in governmental funds, which 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 you 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 reconciliations following the governmental fund financial statements.
- **Proprietary Funds**-When the City charges customers for the services it provides, 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.
- **Fiduciary Funds**-The City is the fiscal agent, or fiduciary, for assets that belong to the State of Minnesota Deputy Registrar. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the City-wide financial statements because the City cannot use these assets to finance its operations.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY AS A WHOLE

The City's combined net position increased \$2,306,181 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 6,240,149	\$ 5,811,600	\$ 5,333,644	\$ 5,876,816	\$ 11,573,793	\$ 11,688,416
Net Capital Assets	14,869,941	13,733,158	17,431,017	17,166,778	32,300,958	30,899,936
Net Pension Asset	80,869	51,190	-	-	80,869	51,190
Total Assets	21,190,959	19,595,948	22,764,661	23,043,594	43,955,620	42,639,542
Deferred Outflows of Resources	1,162,799	1,732,758	188,054	298,760	1,350,853	2,031,518
Long-Term Debt Outstanding	2,712,173	3,062,444	5,500,000	5,798,251	8,212,173	8,860,695
Other Liabilities	990,760	2,387,968	404,334	1,030,060	1,395,094	3,418,028
Total Liabilities	3,702,933	5,450,412	5,904,334	6,828,311	9,607,267	12,278,723
Deferred Inflows of Resources	1,221,122	322,324	172,087	70,196	1,393,209	392,520
Net Position:						
Net Investment in						
Capital Assets	12,157,768	10,670,714	11,931,017	11,368,527	24,088,785	22,039,241
Restricted	784,154	668,813	-	-	784,154	668,813
Unrestricted	4,487,781	4,216,443	4,945,277	5,075,320	9,433,058	9,291,763
Total Net Position	<u>\$ 17,429,703</u>	<u>\$ 15,555,970</u>	<u>\$ 16,876,294</u>	<u>\$ 16,443,847</u>	<u>\$ 34,305,997</u>	<u>\$ 31,999,817</u>

The net position of the City's governmental activities increased by \$1,873,734 (12.05 percent). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) increased by \$271,338 compared to the prior year.

The net position of the City's business-type activities increased by \$432,447 (2.63 percent) from the prior year. Such increase can be attributed primarily to the grant revenues received from the State of Minnesota for the construction projects in the Water Fund.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY AS A WHOLE (Continued)

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
REVENUE						
Charges for Services	\$ 503,515	\$ 478,107	\$ 2,997,877	\$ 2,903,518	\$ 3,501,392	\$ 3,381,625
Operating Grants and Contributions	390,551	237,928	450	400	\$ 391,001	\$ 238,328
Capital Grants and Contributions	915,133	447,571	911,356	926,621	1,826,489	1,374,192
Taxes	639,386	596,861	-	-	639,386	596,861
Tax Increment	109,921	106,664	-	-	109,921	106,664
Franchise Fees	31,160	33,479	-	-	31,160	33,479
Intergovernmental	768,917	793,255	-	6,544	768,917	799,799
Unrestricted Investment Income	28,940	83,248	39,623	108,905	68,563	192,153
Other	38,519	7,228	20,929	2,943	59,448	10,171
Total Revenues	3,426,042	2,784,341	3,970,235	3,948,931	7,396,277	6,733,272
PROGRAM EXPENSES						
General Government	437,277	440,276	-	-	437,277	440,276
Public Safety	815,740	953,847	-	-	815,740	953,847
Public Works	607,452	553,448	-	-	607,452	553,448
Parks and Recreation	253,641	286,334	-	-	253,641	286,334
Economic Development	341,971	502,201	-	-	341,971	502,201
Airport	162,496	202,271	-	-	162,496	202,271
Debt Service	66,804	103,126	-	-	66,804	103,126
Water	-	-	526,874	363,748	526,874	363,748
Sewer	-	-	954,260	907,256	954,260	907,256
Liquor	-	-	1,562,268	1,520,560	1,562,268	1,520,560
Total Expenses	2,685,381	3,041,503	3,043,402	2,791,564	5,728,783	5,833,067
Gain (Loss) on Disposal of Assets	647,175	45,361	(8,488)	(842)	638,687	44,519
Capital Asset Transfers	49,390	(600,991)	(49,390)	600,991	-	-
Transfers	436,508	436,750	(436,508)	(436,750)	-	-
Change in Net Position	1,873,734	(376,042)	432,447	1,320,766	2,306,181	944,724
Net Position - Beginning of Year	15,555,969	15,932,011	16,443,847	15,123,081	31,999,816	31,055,092
Net Position - End of Year	<u>\$ 17,429,703</u>	<u>\$ 15,555,969</u>	<u>\$ 16,876,294</u>	<u>\$ 16,443,847</u>	<u>\$ 34,305,997</u>	<u>\$ 31,999,816</u>

The City's total revenues increased by \$663,005 (9.85 percent). The total cost of all programs and services decreased by \$104,284 (1.79 percent). Our analysis following separately considers the operations of governmental and business-type activities.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY AS A WHOLE (Continued)

Governmental Activities

Revenue for the City's governmental activities increased by \$641,701 (23.05 percent), largely due to funding received from Stearns County to help finance road construction projects within the City. Total expenses decreased \$356,122 (11.71 percent), primarily due to decreased expenses for public safety and economic development.

Table 3 presents the cost of each of the City's programs-general government, public safety, public works, parks and recreation, economic development, airport and debt service-as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. Activities (net of capital outlay which is excluded from Table 3) were generally comparable to the prior year as operations remained fairly consistent with the prior year, with the exception of:

- Public safety net cost of services decreased due to an decrease in pension cost in the current year.
- Public works net cost of services decreased significantly due to an increase in capital grants and contributions.
- Debt service expenses decreased due to an decrease in long-term debt outstanding in the current year.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
General Government	\$ 437,277	\$ 440,276	\$ (329,681)	\$ (369,010)
Public Safety	815,740	953,847	(422,819)	(707,969)
Public Works	607,452	553,448	309,995	(171,629)
Parks and Recreation	253,641	286,334	(238,023)	(261,579)
Economic Development	341,971	502,201	(74,360)	(332,226)
Airport	162,496	202,271	(54,490)	(19,140)
Debt Service	66,804	103,126	(66,804)	(103,126)
Totals	<u>\$ 2,685,381</u>	<u>\$ 3,041,503</u>	<u>\$ (876,182)</u>	<u>\$ (1,964,679)</u>

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$21,304 (0.54 percent) and program expenses increased by \$251,838 (9.02 percent). The increase in revenues is due primarily to an increase in liquor sales and utility charges for service. The increase in expenses is due to an increase in depreciation expense, due to significant assets being placed into service.

THE CITY'S FUNDS

Governmental Funds

As the City completed the year, its governmental funds (as presented in the balance sheet on page fifteen reported a combined fund balance of \$5,193,314. This is an increase of \$588,448 from the prior year. Operations were comparable to the prior year, with the exception of capital outlay which relate to 2017 improvements. Financial information specific to the governmental funds is detailed on the following page. Such information was derived from the fund financials.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

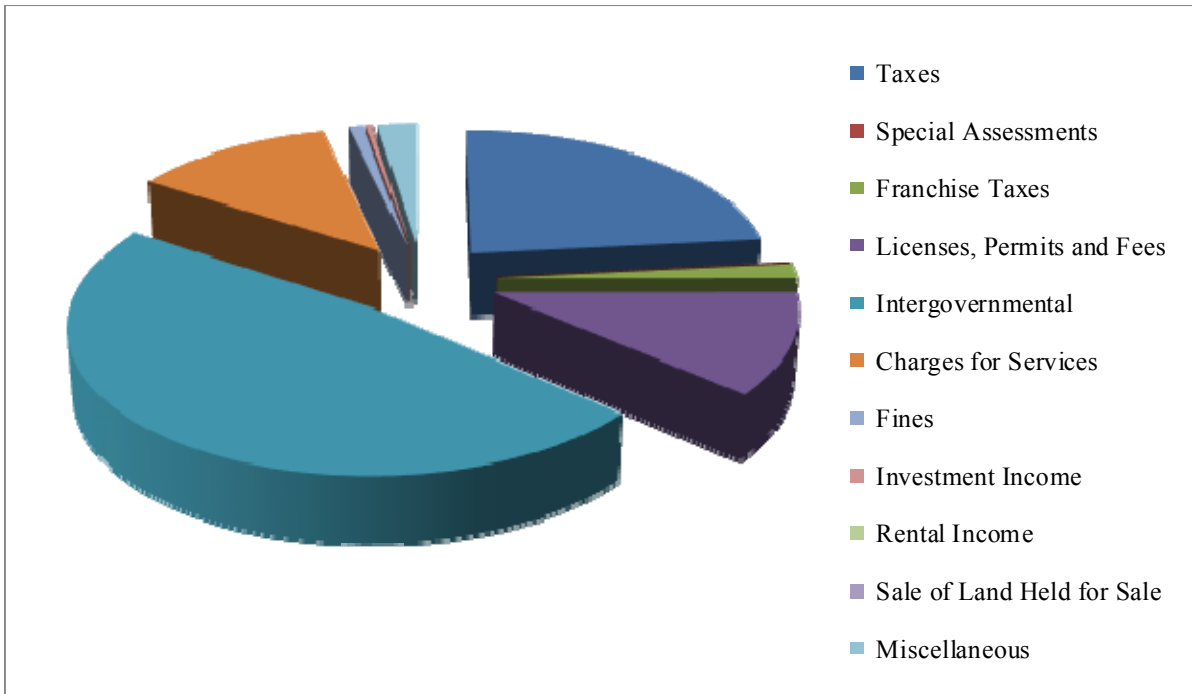
THE CITY'S FUNDS (Continued)

Governmental Funds (Continued)

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2017	2016	
General	\$ 1,759,609	\$ 1,663,539	\$ 96,070

The fund balance of the General Fund increased by \$96,070 compared to 2016. Details of the General Fund's revenues and expenditures are displayed below:

General Fund Revenue

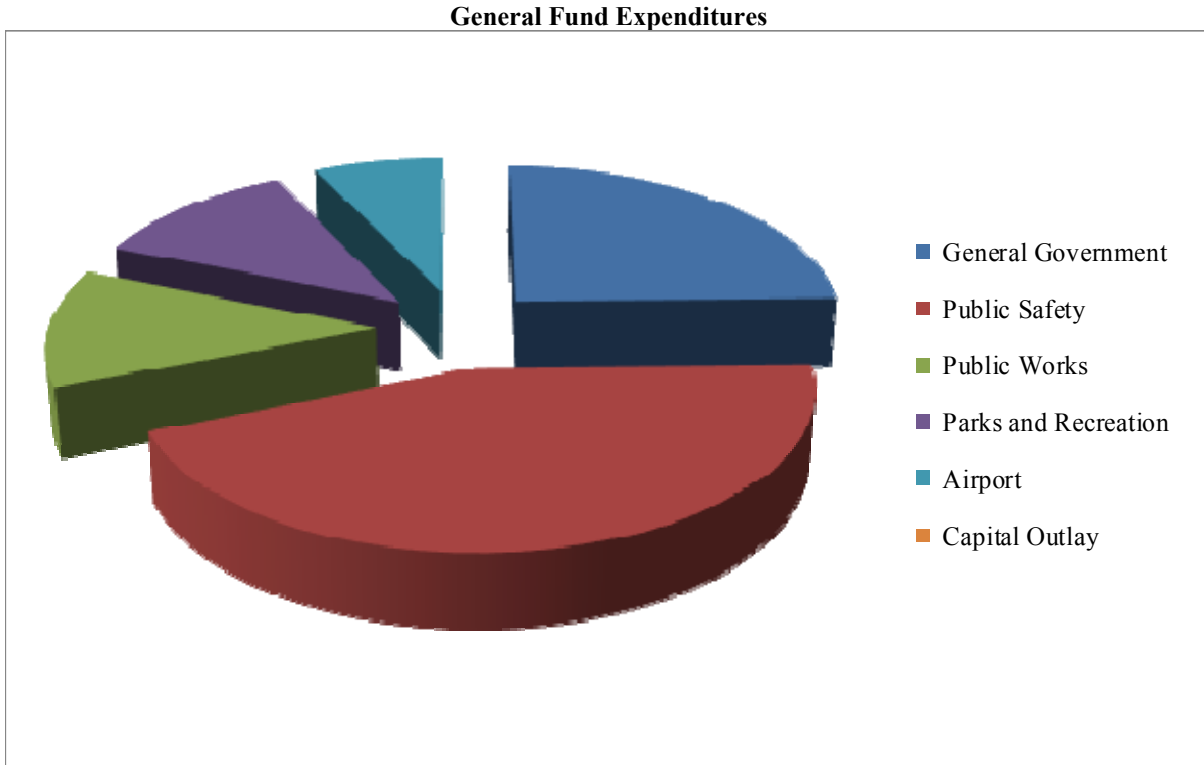


The City received the majority of its funding in the General Fund in the form of grants and funding received from other governmental agencies (47.74 percent) and taxes (23.32 percent). Overall, the City's General Fund revenues were comparable to the prior year, with the exception of increases in intergovernmental revenues, licenses, permits and fees and charges for services.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY'S FUNDS (Continued)

Governmental Funds (Continued)



A significant portion of the City's General Fund expenditures are used for public safety (44.32 percent). Remaining expenditures are used primarily for public works (12.12 percent) and general government operations (24.68 percent). Expenditures are comparable to the prior year.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2017	2016	
Debt Service Fund	\$ 667,455	\$ 437,584	\$ 229,871

The Debt Service fund balance increased as a result of the current year bond principal and interest payments exceeding tax and assessment revenues collected. In 2017, the City elected to issue \$760,000 in general obligation debt during the current year.

Capital Project Fund	\$ 1,565,826	\$ 1,724,929	\$ (159,103)
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The Capital Project fund balance decreased as a result of planned capital expenditures.

General Fund Budgetary Highlights

The City's General Fund generated less revenue than budgeted of \$101,108, excluding transfers in from other funds. Expenditures were also less than those budgeted by \$1,146,086, excluding transfers to other funds. As previously discussed, such variances pertain primarily to differences between the manner in which debt service activity was budgeted in comparison to the financial statement presentation of the activity, in addition to less police public safety expenditures than anticipated.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY'S FUNDS (Continued)

Proprietary Funds

As the City completed the year, its business-type activities reported a combined net position of \$16,876,294. This is an increase of \$432,447 from the prior year. The following is a summary of the City's major proprietary funds:

Major Funds	Net Position December 31,		Increase (Decrease)
	2017	2016	
Water	\$ 6,736,095	\$ 5,951,676	\$ 784,419

The Water Fund net position increased due to grants and funding received from other governmental agencies.

Sewer	\$ 9,660,717	\$ 9,995,976	\$ (335,259)
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The Sewer Fund net position decreased due to operating expenses being higher than operating revenues, combined with transfers to other funds.

Liquor	\$ 479,482	\$ 496,195	\$ (16,713)
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The Liquor Fund net position decreased due to a \$35,000 transfer of surplus funds to the General Fund at year-end.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had \$32,300,958 net investment in a broad range of capital assets, including machinery and equipment, buildings, improvements, infrastructure, and water and sewer infrastructure. This amount represents a net increase of \$1,401,022 (4.53 percent) over last year. More detailed information about the City's capital assets is presented in Note 3.B. to the financial statements.

**Table 4
Capital Assets Net of Depreciation**

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,115,659	\$ 1,007,954	\$ 857,260	\$ 848,462	\$ 1,972,919	\$ 1,856,416
Construction In Progress	3,022,970	1,563,377	-	1,016,445	3,022,970	2,579,822
Buildings and Improvements	1,295,307	1,348,935	10,566,604	9,102,189	11,861,911	10,451,124
Wastewater Treatment Facility	-	-	428,606	476,289	428,606	476,289
Underground Maintenance	-	-	5,449,910	5,597,599	5,449,910	5,597,599
Furniture and Equipment	80,521	93,532	3,516	5,221	84,037	98,753
Machinery and Equipment	775,925	773,618	125,121	120,573	901,046	894,191
Vehicles	199,651	227,414	-	-	199,651	227,414
Streets	7,383,122	7,690,552	-	-	7,383,122	7,690,552
Trails	996,786	1,027,776	-	-	996,786	1,027,776
Totals	<u>\$14,869,941</u>	<u>\$13,733,158</u>	<u>\$17,431,017</u>	<u>\$17,166,778</u>	<u>\$32,300,958</u>	<u>\$30,899,936</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Debt

At year-end, the City had \$8,212,173 in gross debt versus \$8,860,695 last year (an decrease of 7.32 percent), as shown in Table 5. See additional information regarding these issuances in Note 3.C. to the financial statements.

**Table 5
Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
	Bonds Payable	<u>\$ 2,712,173</u>	<u>\$ 3,062,444</u>	<u>\$ 5,500,000</u>	<u>\$ 5,798,251</u>	<u>\$ 8,212,173</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City has begun to develop Airport View Plat and had the first sale of 87,087 square feet of land in August 2017. The City has an additional 12 acres of commercial property available for sale in Airport View Plat. The City has 78,036 square feet of commercial property remaining for sale in Opportunity Park between Kwik Trip and McDonald's. The City is recovering the money that was spent on the infrastructure of the residential lots in Heatherwood Plat 3 by reselling the twenty-two lots that went tax forfeiture during 2016 & 2017. The City sold four residential lots in the fall of 2017. The City has put in place a Housing Incentive program to stimulate the sale of undeveloped residential lots anywhere in the city limits. The City is working towards redevelopment of the downtown area. The City finished the Water Treatment Facility, Volatile Organic Compound Water Treatment project and is close to finishing the 2017 street project. The City is starting to develop a plan for the 2019 street project and 10 unit -T airport hangar. The City is forming a utility expansion project with Association of Milk Producers Inc (AMPI) which is the largest employer in Paynesville.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall at City of Paynesville, 221 Washburne Avenue, Paynesville, MN 56362.

BASIC FINANCIAL STATEMENTS

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash, Cash Equivalents, and Investments	\$ 4,636,095	\$ 4,789,575	\$ 9,425,670
Property Taxes Receivable	9,641	-	9,641
Assessments Receivable	829,806	5,394	835,200
Accounts Receivable	112,553	308,693	421,246
Interest Receivable	22,953	-	22,953
Due from Other Governments	5,736	54	5,790
Interfund Advances	(30,000)	30,000	-
Loans Receivable (Net)	526,001	-	526,001
Inventory	-	173,977	173,977
Prepays	41,364	25,951	67,315
Deposit on Asset	86,000	-	86,000
Noncurrent Assets:			
Capital Assets not Being Depreciated	4,138,629	857,260	4,995,889
Capital Assets Being Depreciated (Net)	10,731,312	16,573,757	27,305,069
Net Pension Asset	80,869	-	80,869
TOTAL ASSETS	21,190,959	22,764,661	43,955,620
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	1,162,799	188,054	1,350,853
LIABILITIES			
Accounts Payable	42,946	47,429	90,375
Retainage Payable	77,326	-	77,326
Accrued Salaries	30,530	17,029	47,559
Due to Other Governments	38,717	-	38,717
Unearned Revenue	17,869	-	17,869
Accrued Interest	7,574	20,041	27,615
Noncurrent Liabilities:			
Bonds Due Within One Year	355,000	330,000	685,000
Bonds Due After One Year	2,357,173	5,170,000	7,527,173
Compensated Absences Due Within One Year	36,002	19,186	55,188
Compensated Absences Due After One Year	15,200	9,095	24,295
Net OPEB Liability	15,975	9,284	25,259
Net Pension Liability	708,621	282,270	990,891
TOTAL LIABILITIES	3,702,933	5,904,334	9,607,267
DEFERRED INFLOWS OF RESOURCES			
Pensions	1,221,122	172,087	1,393,209
NET POSITION			
Net Investment in Capital Assets	12,157,768	11,931,017	24,088,785
Restricted	784,154	-	784,154
Unrestricted	4,487,781	4,945,277	9,433,058
TOTAL NET POSITION	\$ 17,429,703	\$ 16,876,294	\$ 34,305,997

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 437,277	\$ 107,596	\$ -	\$ -	\$ (329,681)	\$ -	\$ (329,681)
Public Safety	815,740	257,762	135,159	-	(422,819)	-	(422,819)
Public Works	607,452	5,196	-	912,251	309,995	-	309,995
Parks and Recreation	253,641	-	12,736	2,882	(238,023)	-	(238,023)
Economic Development	341,971	24,955	242,656	-	(74,360)	-	(74,360)
Airport	162,496	108,006	-	-	(54,490)	-	(54,490)
Debt Service	66,804	-	-	-	(66,804)	-	(66,804)
Total Governmental Activities	2,685,381	503,515	390,551	915,133	(876,182)	-	(876,182)
Business-Type Activities:							
Water	526,874	619,211	450	911,356	-	1,004,143	1,004,143
Sewer	954,260	801,348	-	-	-	(152,912)	(152,912)
Liquor	1,562,268	1,577,318	-	-	-	15,050	15,050
Total Business-Type Activities	3,043,402	2,997,877	450	911,356	-	866,281	866,281
TOTALS	\$ 5,728,783	\$ 3,501,392	\$ 391,001	\$ 1,826,489	(876,182)	866,281	(9,901)
General Revenues:							
Taxes					639,386	-	639,386
Tax Increment					109,921	-	109,921
Intergovernmental					768,917	-	768,917
Franchise Fees					31,160	-	31,160
Investment Income					28,940	39,623	68,563
Miscellaneous					38,519	20,929	59,448
Total General Revenues					1,616,843	60,552	1,677,395
Gain (Loss) on Disposal of Assets					647,175	(8,488)	638,687
Capital Asset Transfers					49,390	(49,390)	-
Transfers					436,508	(436,508)	-
Total General Revenues, Gain (Loss) on Disposal of Assets, and Transfer:					2,749,916	(433,834)	2,316,082
CHANGE IN NET POSITION					1,873,734	432,447	2,306,181
NET POSITION-BEGINNING OF YEAR					15,555,969	16,443,847	31,999,816
NET POSITION-END OF YEAR					\$ 17,429,703	\$ 16,876,294	\$ 34,305,997

**CITY OF PAYNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General Fund	Debt Service Fund	Capital Project Fund	Total Nonmajor Funds	Totals
ASSETS					
Cash, Cash Equivalents and Investment	\$ 1,630,091	\$ 666,751	\$ 1,662,483	\$ 676,770	\$ 4,636,095
Property Taxes Receivable	9,641	-	-	-	9,641
Assessments Receivable	661	529,068	300,077	-	829,806
Accounts Receivable	45,968	-	66,585	-	112,553
Loans Receivable (Net)	-	-	-	526,001	526,001
Due from Other Governments	5,032	704	-	-	5,736
Accrued Interest	22,953	-	-	-	22,953
Prepays	41,364	-	-	-	41,364
Deposit on Asset	-	-	86,000	-	86,000
Advances to Other Funds	120,000	-	-	-	120,000
TOTAL ASSETS	<u>\$ 1,875,710</u>	<u>\$ 1,196,523</u>	<u>\$ 2,115,145</u>	<u>\$ 1,202,771</u>	<u>\$ 6,390,149</u>
LIABILITIES					
Accounts Payable	\$ 19,804	\$ -	\$ 21,916	\$ 1,226	\$ 42,946
Retainage Payable	-	-	77,326	-	77,326
Accrued Salaries	29,409	-	-	1,121	30,530
Due to Other Governments	38,717	-	-	-	38,717
Unearned Revenue	17,869	-	-	-	17,869
Advances from Other Funds	-	-	150,000	-	150,000
Total Liabilities	105,799	-	249,242	2,347	357,388
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Property Taxes	9,641	-	-	-	9,641
Special Assessments	661	529,068	300,077	-	829,806
Total Deferred Inflows of Resources	10,302	529,068	300,077	-	839,447
FUND BALANCES					
Nonspendable	161,364	-	86,000	-	247,364
Restricted	-	667,455	94,909	29,364	791,728
Committed	-	-	1,384,917	-	1,384,917
Assigned	-	-	-	1,171,060	1,171,060
Unassigned	1,598,245	-	-	-	1,598,245
Total Fund Balances	<u>1,759,609</u>	<u>667,455</u>	<u>1,565,826</u>	<u>1,200,424</u>	<u>5,193,314</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,875,710</u>	<u>\$ 1,196,523</u>	<u>\$ 2,115,145</u>	<u>\$ 1,202,771</u>	<u>\$ 6,390,149</u>

**CITY OF PAYNESVILLE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total fund balances for governmental funds \$ 5,193,314

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets (net of accumulated depreciation of \$7,682,039) used in governmental activities are not financial resources and, therefore are not reported in the funds: 14,869,941

The net pension asset/liability and related inflows/outflows represent the allocation of pension obligations to the City. Such balances are not reported in the funds:

Net Pension Asset	80,869	
Net Pension Liability	(708,621)	
Deferred Outflows - Pensions	1,162,799	
Deferred Inflows - Pensions	<u>(1,221,122)</u>	
		(686,075)

Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable in the funds:

Taxes Receivable	9,641	
Special Assessments Receivable	<u>829,806</u>	
		839,447

Interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the governmental funds Balance Sheet: (7,574)

Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds Balance Sheet:

Compensated Absences	(51,202)	
Other Postemployment Benefit Liability	(15,975)	
Unamortized Bond Premium and Discounts	(42,173)	
Bonds Due Within One Year	(355,000)	
Bonds Due In More Than One Year	<u>(2,315,000)</u>	
		<u>(2,779,350)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 17,429,703

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	Debt Service Fund	Capital Project Fund	Total Nonmajor Funds	Totals
REVENUES					
Taxes	\$ 442,377	\$ 199,000	\$ -	\$ -	\$ 641,377
Special Assessments	598	571,766	85,020	-	657,384
Tax Increment	-	-	-	109,921	109,921
Franchise Taxes	31,160	-	-	-	31,160
Licenses, Permits and Fees	216,318	-	-	-	216,318
Intergovernmental	905,790	-	373,275	-	1,279,065
Charges for Services	231,360	-	-	-	231,360
Fines	17,426	-	-	7,778	25,204
Interest Income:					
Investment	6,749	3,293	12,622	6,276	28,940
Loans	-	-	-	24,955	24,955
Loan Collections - Township Portion	-	-	-	178,242	178,242
Miscellaneous	45,476	-	11,298	95,461	152,235
TOTAL REVENUES	<u>1,897,254</u>	<u>774,059</u>	<u>482,215</u>	<u>422,633</u>	<u>3,576,161</u>
EXPENDITURES					
Current:					
General Government	395,438	-	3,974	-	399,412
Public Safety	710,263	-	11,230	2,883	724,376
Public Works	194,286	-	43,415	-	237,701
Parks and Recreation	186,873	-	14,552	-	201,425
Economic Development	-	-	-	341,707	341,707
Airport	115,547	-	13,595	-	129,142
Debt Service:					
Principal	-	1,105,000	-	-	1,105,000
Interest and Other Charges	-	69,026	-	-	69,026
Capital Outlay	-	-	1,520,330	151,966	1,672,296
TOTAL EXPENDITURES	<u>1,602,407</u>	<u>1,174,026</u>	<u>1,607,096</u>	<u>496,556</u>	<u>4,880,085</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	294,847	(399,967)	(1,124,881)	(73,923)	(1,303,924)
OTHER FINANCING SOURCES (USES)					
Sale of Bonds	-	-	760,000	-	760,000
Proceeds on Sale of Assets	5,000	-	-	690,864	695,864
Operating Transfers In	35,000	629,838	205,778	32,999	903,615
Operating Transfers Out	(238,777)	-	-	(228,330)	(467,107)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(198,777)</u>	<u>629,838</u>	<u>965,778</u>	<u>495,533</u>	<u>1,892,372</u>
NET CHANGE IN FUND BALANCES	96,070	229,871	(159,103)	421,610	588,448
FUND BALANCES - BEGINNING	<u>1,663,539</u>	<u>437,584</u>	<u>1,724,929</u>	<u>778,814</u>	<u>4,604,866</u>
FUND BALANCES - ENDING	<u>\$ 1,759,609</u>	<u>\$ 667,455</u>	<u>\$ 1,565,826</u>	<u>\$ 1,200,424</u>	<u>\$ 5,193,314</u>

**CITY OF PAYNESVILLE, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net change in fund balances - total governmental funds \$ 588,448

Amounts reported for governmental activities in the Statement of Activities are different due to the following:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital Outlay Capitalized	\$	1,672,296	
Transfer of Capital Assets		49,390	
Depreciation Expense		<u>(536,214)</u>	
			1,185,472

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to increase net position: (48,689)

Revenues in Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Change in Long-term Receivables (154,470)

Proceeds from the issuance of long-term debt is an other financing source in the governmental funds, while repayment of debt principal is an expenditure in the governmental funds. However, neither transaction has any effect on net position:

Bond Proceeds		(760,000)	
Bond Payments		<u>1,105,000</u>	
			345,000

Net change in accrued interest on bonds is not reported as expenses in the funds: (3,050)

The effects of bond premiums and discounts are reported in the governmental fund financial statements upon issuance of the debt.

These amounts are deferred and amortized in the Statement of Activities: 5,271

Net pension asset/liability balances do not represent the impending use of current resources. Therefore, the change in this asset/liability and the related deferrals is not reported in the governmental funds: (48,195)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in Accrued Compensated Absences		6,424	
Change in Other Postemployment Benefits		<u>(2,477)</u>	
			<u>3,947</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,873,734

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Liquor Fund</u>	<u>Totals</u>
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 1,911,023	\$ 2,408,244	\$ 470,308	\$ 4,789,575
Assessments Receivable	2,697	2,697	-	5,394
Accounts Receivable	113,987	194,706	-	308,693
Inventory	-	-	173,977	173,977
Prepays	5,270	16,242	4,439	25,951
Due from Other Governments	<u>54</u>	<u>-</u>	<u>-</u>	<u>54</u>
Total Current Assets	2,033,031	2,621,889	648,724	5,303,644
Noncurrent Assets				
Capital Assets Not Depreciated	109,344	747,916	-	857,260
Capital Assets Being Depreciated (Net)	7,647,333	8,922,908	3,516	16,573,757
Advances to Other Funds	<u>-</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Total Noncurrent Assets	<u>7,756,677</u>	<u>9,700,824</u>	<u>3,516</u>	<u>17,461,017</u>
TOTAL ASSETS	9,789,708	12,322,713	652,240	22,764,661
DEFERRED OUTFLOWS OF RESOURCES				
Pensions	37,054	64,010	86,990	188,054
LIABILITIES				
Current Liabilities				
Accounts Payable	7,335	13,803	26,291	47,429
Accrued Salaries	3,104	5,127	8,798	17,029
Accrued Interest	10,829	9,212	-	20,041
Compensated Absences	4,925	8,992	5,269	19,186
Bonds Due Within One Year	<u>172,000</u>	<u>158,000</u>	<u>-</u>	<u>330,000</u>
Total Current Liabilities	198,193	195,134	40,358	433,685
Noncurrent Liabilities				
Compensated Absences Due After One Year	2,139	3,858	3,098	9,095
Bonds Due After One Year	2,800,000	2,370,000	-	5,170,000
Net OPEB Liability	1,540	2,719	5,025	9,284
Net Pension Liability	<u>55,164</u>	<u>95,856</u>	<u>131,250</u>	<u>282,270</u>
Total Noncurrent Liabilities	<u>2,858,843</u>	<u>2,472,433</u>	<u>139,373</u>	<u>5,470,649</u>
TOTAL LIABILITIES	3,057,036	2,667,567	179,731	5,904,334
DEFERRED INFLOWS OF RESOURCES				
Pensions	<u>33,631</u>	<u>58,439</u>	<u>80,017</u>	<u>172,087</u>
NET POSITION				
Net Investment in Capital Assets	4,784,677	7,142,824	3,516	11,931,017
Unrestricted	<u>1,951,418</u>	<u>2,517,893</u>	<u>475,966</u>	<u>4,945,277</u>
TOTAL NET POSITION	<u>\$ 6,736,095</u>	<u>\$ 9,660,717</u>	<u>\$ 479,482</u>	<u>\$ 16,876,294</u>

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Water Fund	Sewer Fund	Liquor Fund	Totals
SALES AND COSTS OF SALES				
Sales	\$ -	\$ -	\$ 1,449,679	\$ 1,449,679
Cost of Sales	<u>-</u>	<u>-</u>	<u>(1,135,774)</u>	<u>(1,135,774)</u>
GROSS PROFIT	-	-	313,905	313,905
OPERATING REVENUES				
Charges for Services	<u>619,211</u>	<u>801,615</u>	<u>-</u>	<u>1,420,826</u>
TOTAL GROSS PROFIT AND OPERATING REVENUES	619,211	801,615	313,905	1,734,731
OPERATING EXPENSES				
Wages and Benefits	95,921	159,874	197,648	453,443
Materials and Supplies	20,518	5,362	7,304	33,184
Repairs and Maintenance	39,675	80,048	3,177	122,900
Professional Services	14,548	39,371	3,856	57,775
Insurance	10,242	30,120	6,431	46,793
Utilities	58,563	239,662	15,690	313,915
Rent	-	-	22,705	22,705
Miscellaneous	27,448	8,638	40,227	76,313
Depreciation and Amortization	<u>229,214</u>	<u>364,909</u>	<u>1,705</u>	<u>595,828</u>
TOTAL OPERATING EXPENSES	<u>496,129</u>	<u>927,984</u>	<u>298,743</u>	<u>1,722,856</u>
NET OPERATING INCOME (LOSS)	123,082	(126,369)	15,162	11,875
NONOPERATING INCOME (EXPENSE)				
Special Assessment Interest	(557)	-	-	(557)
Intergovernmental	911,913	-	-	911,913
Loss on Disposal of Capital Assets	-	(8,488)	-	(8,488)
Connection Fees	-	5,100	-	5,100
Investment Income	12,407	17,630	3,129	33,166
Change in Equity Interest	-	-	-	-
Miscellaneous	1,162	21,200	(4)	22,358
Interest and Other Charges	<u>(30,746)</u>	<u>(26,276)</u>	<u>-</u>	<u>(57,022)</u>
TOTAL NONOPERATING INCOME	<u>894,179</u>	<u>9,166</u>	<u>3,125</u>	<u>906,470</u>
CHANGE IN NET POSITION PRIOR TO TRANSFERS	1,017,261	(117,203)	18,287	918,345
TRANSFERS				
Interfund Capital Contribution	(19,130)	(30,260)	-	(49,390)
Operating Transfers Out	<u>(213,712)</u>	<u>(187,796)</u>	<u>(35,000)</u>	<u>(436,508)</u>
NET TRANSFERS	<u>(232,842)</u>	<u>(218,056)</u>	<u>(35,000)</u>	<u>(485,898)</u>
CHANGE IN NET POSITION	784,419	(335,259)	(16,713)	432,447
NET POSITION-BEGINNING OF YEAR	<u>5,951,676</u>	<u>9,995,976</u>	<u>496,195</u>	<u>16,443,847</u>
NET POSITION-END OF YEAR	<u>\$ 6,736,095</u>	<u>\$ 9,660,717</u>	<u>\$ 479,482</u>	<u>\$ 16,876,294</u>

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Water Fund	Sewer Fund	Liquor Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 611,796	\$ 752,422	\$ 1,449,679	\$ 2,813,897
Cash Paid to Suppliers	(168,131)	(390,543)	(1,239,221)	(1,797,895)
Cash Paid to Employees	(86,419)	(142,635)	(177,692)	(406,746)
NET CASH PROVIDED BY OPERATING ACTIVITIES	357,246	219,244	32,766	609,256
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Special Assessments, Intergovernmental, and Other Revenue	1,732,796	27,525	-	1,760,321
Net Operating Subsidies and Transfers from Other Funds	(213,712)	(187,796)	(35,000)	(436,508)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	1,519,084	(160,271)	(35,000)	1,323,813
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of Capital Assets	(1,344,228)	(50,374)	-	(1,394,602)
Payments on Bond Principal	(171,223)	(156,628)	-	(327,851)
Proceeds from Debt Issuance	29,600	-	-	29,600
Cash Paid for Interest	(31,263)	(26,846)	-	(58,109)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,517,114)	(233,848)	-	(1,750,962)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment Income	12,407	17,629	3,130	33,166
Net Change in Cash and Cash Equivalents	371,623	(157,246)	896	215,273
Cash and Cash Equivalents-Beginning of Year	1,539,400	2,565,490	469,412	4,574,302
Cash and Cash Equivalents-End of Year	<u>\$ 1,911,023</u>	<u>\$ 2,408,244</u>	<u>\$ 470,308</u>	<u>\$ 4,789,575</u>

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Water Fund	Sewer Fund	Liquor Fund	Totals
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net Operating Income (Loss)	\$ 123,082	\$ (126,369)	\$ 15,162	\$ 11,875
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization Expense	229,214	364,909	1,705	595,828
Nonoperating Revenue from Customers	-	5,100	-	5,100
Change in Assets and Liabilities:				
Accounts Receivable	(7,415)	(54,293)	-	(61,708)
Inventory	-	-	(6,989)	(6,989)
Prepays	218	937	(615)	540
Accounts Payable	2,645	11,721	3,548	17,914
Accrued Salaries	941	1,247	2,590	4,778
Deferred Outflows of Resources - Pensions	20,804	35,464	54,438	110,706
Net Pension Liability	(33,368)	(56,354)	(85,155)	(174,877)
Deferred Inflows of Resources - Pensions	20,037	35,067	46,787	101,891
Compensated Absences	849	1,393	515	2,757
Other Post Employment Benefits	239	422	780	1,441
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 357,246	\$ 219,244	\$ 32,766	\$ 609,256
SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Contribution of Capital Assets from Governmental Funds	\$ (19,130)	\$ (30,260)	\$ -	\$ (49,390)

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2017**

	<u>Agency Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>30,965</u>
LIABILITIES	
Due to Other Governments	\$ <u>30,965</u>

CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Paynesville (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: sanitation, liquor, recreation, public improvements, public safety, airport, planning and zoning, and general administrative services.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity is comprised of the primary governmental unit of the City of Paynesville.

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City has the following blended component unit:

Economic Development Authority of the City of Paynesville

The Authority was established in 1987 pursuant to the provisions of Minnesota Statutes Section 469.090 to 469.108 to promote and provide incentives for economic development, and to preserve and create jobs, enhance the City's tax base and promote the general welfare of the people. Any bonds sold or taxes levied by the Authority are subject to approval by the Paynesville City Council, who levies on their behalf.

The financial activity of the Authority is performed by the City of Paynesville and treated as routine City business.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

Jointly Governed Organizations

The Paynesville Area Health Care System (the "System") operates under authority granted to it by Minnesota Statutes. The System operates under a joint powers type arrangement. The System is jointly governed by the following members: the Townships of Paynesville, Roseville, Union Grove and Zion and the Cities of Paynesville, Regal and St. Martin. Beginning in 2014 the System is being leased by CentraCare Health System and operating as CentraCare – Paynesville.

Related Organizations

The Relief Association is organized as a non-profit organization by its members to provide benefits to such members in accordance with Minnesota Statutes. Its Board of Directors is appointed by the membership of the organization. All funding is conducted in accordance with Minnesota Statutes, whereby state aids flow through the City to the Association.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following major governmental funds:

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by enterprise funds. Ad valorem taxes, special assessments, and tax increment financing are used for the payment of principal and interest on the City's indebtedness.

Capital Project Fund

The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of capital projects (other than those financed by proprietary funds).

The City reports the following major proprietary funds:

Enterprise Funds

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains Water, Sewer, and Liquor Enterprise Funds.

The City reports the following non-major fund types:

Special Revenue Funds

The Special Revenue Funds account for funds received by the City with a specific purpose.

CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued)

Debt Service Funds

The Debt Service Funds account for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by enterprise funds. Ad valorem taxes, special assessments, and tax increment financing are used for the payment of principal and interest on the City's indebtedness.

Additionally, the City reports an agency fund. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. This fund accounts for assets that the City holds for the State of Minnesota in an agency capacity.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the "economic resources" measurement focus as defined in the second bullet point below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- The government-wide financial statements and proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the "accrual basis" of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the "modified accrual" basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonable estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting.

CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY

Cash and Cash Equivalents

For purposes of the Statement of Net Position, “cash and cash equivalents” includes all demand, savings, and money market savings accounts for the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand, savings, and money market savings accounts.

See Note 3.A. for additional information related to cash and cash equivalents.

Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to good and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities, as well as interfund receivables and payables between funds within business-type activities, are eliminated in the Statement of Net Position. See Note 3.E. for details of interfund transactions, including receivables and payables at year-end.

Prepays

Prepays represent expenditures/expenses paid during the current year to be recognized in future periods.

Inventory

The Liquor Fund carries inventory that consists of items held for resale. Inventory is recognized on the average cost method.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and not deemed necessary at year end. Major receivable balances for the governmental activities include taxes, special assessments and charges for services. Business-type activities report utility charges and assessments as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, assessments, other intergovernmental revenues, fines and charges for services since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and assessments compose the majority of proprietary fund receivables. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Loans Receivable

Loans receivable consists of interest bearing loans due from local businesses through its revolving loan fund to reimburse the City. At December 31, 2017 the remaining balance of such notes amount to \$526,001, net of the allowance discussed below.

The City has provided an allowance for uncollectable loans receivable based on the specific identification method. An allowance is estimated for these loans based on the historical experience of the City and knowledge about the loan payment schedules. At December 31, 2017, the allowance for uncollectable loans receivable amounts to \$20,000.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years.

The range of estimated useful lives by type of asset is as follows:

Buildings	30-40 years
Building Improvements	7-30 years
Infrastructure	20-50 years
Furniture and Equipment	5 years
Vehicles	5 years
Machinery and Equipment	5-20 years
Fire Trucks	15 years
Utility Distribution System	40 years
Ponds	20 years

Government-wide Statements

In the government-wide financial statements, capital outlay expenditures are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Compensated Absences

It is the City's policy to permit employees to accumulate up to between 325 and 375 hours of paid time off and be paid out up to 200 hours upon resignation. Any hours over the maximum accrual will be paid out in one week increments. All paid time off and compensatory pay are accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as the result of an employee's resignation or retirement. In the event a liability is recorded in the governmental funds, General Fund resources would be used to liquidate the compensated absences.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Net Pension Asset/Liability

The net pension asset represents the Paynesville Fire Relief Association's net pension asset. The net pension liability represents the City's allocation of its pro-rata share of the Statewide General Employees Retirement Fund and Public Employees Police and Fire Fund net pension liabilities.

PERA

For purposes of measuring the net pension asset/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 the PERA's fiscal year 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 PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The City reports deferred outflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statements of Net Position and Balance Sheet reports a separate section for deferred inflows of resources. This element represents an acquisition of net position that applies to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The City reports unavailable revenues as deferred inflows of resources. Unavailable revenues consist of property taxes and special assessments. Accordingly, these amounts are deferred and recognized as inflows of resources in the period that they become available. Because this type of unavailable revenue is only reported under a modified accrual basis of accounting, deferred inflows of resources are only reported in the governmental funds Balance Sheet. In addition, the City reports deferred inflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

See Note 4 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – The portion of net position for which use is constrained by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the City’s policy to consider restricted net position to its depletion before unrestricted net position is applied.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Equity Classifications (Continued)

Fund Statements

Governmental Fund Financial Statements – In the fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2017 consist of prepaid expenditures, advances to other funds, and a deposit on asset.

Restricted – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the City Council, which is the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The authority to assign fund balance has not been formally delegated by the City Council.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The City strives to maintain a minimum unassigned general fund balance equal to approximately 55% to 60% of the following year’s budgeted operating expenses, although a formal policy pertaining to this has not been adopted by the City.

See Note 3.F. for additional disclosures.

Proprietary Fund Financial Statements – Proprietary fund equity is classified the same as in the government-wide statements, as described above.

1.F. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of December. Stearns County is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

November 30th is the last day the City can certify a tax levy to the County for collection the following year. The County creates the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County also collects all special assessments, except for certain prepayments paid directly to the City. The County collects all taxes and assessments, except as noted above. The County mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

Property Tax (Continued)

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

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related to financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character	Current (further classified by Function)
	Debt Service
	Capital Outlay

Proprietary Fund - By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 3.E.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2.A. FUND ACCOUNTING REQUIREMENTS AND DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The City complies with all state and local laws and regulations requiring the use of separate funds.

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral at market value. Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC or FSLIC insurance (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The City complies with such laws.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

2.B. BUDGETARY INFORMATION

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

In August of each year, all departments of the City submit requests for appropriations to the City Council so that a budget may be prepared for the following year. Public hearings are conducted to allow for taxpayer comments, and the proposed budget is then reviewed and approved by the Council.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. See original and final General Fund budget presented as Required Supplementary Information.

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, deferred outflows/inflows of resources, equity, revenues, and expenditures/expenses.

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated "A" or better;
- A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- Time deposits insured by any federal agency.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Deposits (Continued)

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

At December 31, 2017, the City’s deposits, including certificates of deposit, were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance or by collateral held by the government’s agent in the government’s name.

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City does not have any investment policies that would further limit investment choices.

Investment balances at December 31, 2017 are as follows:

<u>Deposit/Investment</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>S & P's Credit Rating</u>	<u>Percent of Total</u>
US Government Bonds and Securities	1.52	6-10 years	\$ 295,260	AA+	4.04
Certificates of Deposit	0.57-2.09	<1 year	987,326	NR	13.47
Certificates of Deposit	1.35-2.71	1-5 years	4,218,948	NR	57.56
Certificates of Deposit	1.50-2.55	6-10 years	<u>1,827,286</u>	NR	<u>24.93</u>
Totals			<u>\$ 7,328,820</u>		<u>100.00</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments (Continued)

The investments of the City are subject to the following risks:

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the City’s investments.
- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- Concentration of Credit Risk is the risk associated with the magnitude of the City’s investments (considered five percent or more) in the investments of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City has no formal policy limiting the amounts that may be invested in any one issuer. At December 31, 2017, the City’s concentration of credit risk is shown in the table above.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no formal policy to address interest rate risk.

The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United State of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of December 31, 2017:

- U.S. Government bonds of \$295,260, certificates of deposits of \$7,033,560 are valued by using quoted market prices (level 1).

Deposits and Investments Summary

A reconciliation of cash and investments as shown on the Statements of Net Position for the City follows:

Carrying Amount of Deposits		\$ 2,127,815
Investments		<u>7,328,820</u>
 Total		 <u>\$ 9,456,635</u>
 Government-wide Cash, Cash Equivalents and Investments		 \$ 9,425,670
Fiduciary - Agency Funds		<u>30,965</u>
 Total		 <u>\$ 9,456,635</u>

CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. CAPITAL ASSETS

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

	Balance at 01/01/17	Additions	Disposals	Transfers	Balance at 12/31/17
Governmental Activities:					
Capital Assets not Being					
Depreciated					
Land	\$ 1,007,954	\$ 151,966	\$ (44,261)	\$ -	\$ 1,115,659
Construction In Progress	1,563,377	1,477,232	-	(17,639)	3,022,970
Total Capital Assets not Being					
Depreciated	2,571,331	1,629,198	(44,261)	(17,639)	4,138,629
Capital Assets Being					
Depreciated					
Buildings and Improvements	2,085,890	6,528	-	-	2,092,418
Furniture and Equipment	226,373	-	-	-	226,373
Machinery and Equipment	1,119,020	36,570	(17,510)	34,069	1,172,149
Vehicles	917,205	-	-	32,960	950,165
Streets	12,733,460	-	-	-	12,733,460
Trails	1,238,786	-	-	-	1,238,786
Total Capital Assets Being					
Depreciated	18,320,734	43,098	(17,510)	67,029	18,413,351
Less: Accumulated Depreciation					
Buildings and Improvements	(736,955)	(60,156)	-	-	(797,111)
Furniture and Equipment	(132,841)	(13,011)	-	-	(145,852)
Machinery and Equipment	(345,402)	(63,904)	13,082	-	(396,224)
Vehicles	(689,791)	(60,723)	-	-	(750,514)
Streets	(5,042,908)	(307,430)	-	-	(5,350,338)
Trails	(211,010)	(30,990)	-	-	(242,000)
Total Accumulated Depreciation	(7,158,907)	(536,214)	13,082	-	(7,682,039)
Total Capital Assets Being Depreciated, Net	11,161,827	(493,116)	(4,428)	67,029	10,731,312
Capital Assets, Net	<u>\$ 13,733,158</u>	<u>\$ 1,136,082</u>	<u>\$ (48,689)</u>	<u>\$ 49,390</u>	<u>\$ 14,869,941</u>

CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. CAPITAL ASSETS (Continued)

	Balance at 01/01/17	Additions	Disposals	Transfers	Balance at 12/31/17
Business-Type Activities:					
Capital Assets not Being Depreciated					
Land	\$ 848,462	\$ 8,798	\$ -	\$ -	\$ 857,260
Construction In Progress	1,016,445	839,642	-	(1,856,087)	-
Total Capital Assets not Being Depreciated	1,864,907	848,440	-	(1,856,087)	857,260
Capital Assets Being Depreciated					
Buildings and Improvements	10,061,892	-	-	1,856,087	11,917,979
Furniture and Equipment	46,022	-	-	-	46,022
Machinery and Equipment	407,523	69,505	-	(49,390)	427,638
Wastewater Treatment Facility	6,248,244	-	(169,754)	-	6,078,490
Underground Maintenance	7,480,259	-	-	-	7,480,259
Total Capital Assets Being Depreciated	24,243,940	69,505	(169,754)	1,806,697	25,950,388
Less: Accumulated Depreciation					
Buildings and Improvements	(959,703)	(391,672)	-	-	(1,351,375)
Furniture and Equipment	(40,801)	(1,705)	-	-	(42,506)
Machinery and Equipment	(286,950)	(15,567)	-	-	(302,517)
Wastewater Treatment Facility	(5,771,955)	(39,195)	161,266	-	(5,649,884)
Underground Maintenance	(1,882,661)	(147,688)	-	-	(2,030,349)
Total Accumulated Depreciation	(8,942,070)	(595,827)	161,266	-	(9,376,631)
Total Capital Assets Being Depreciated, Net	15,301,870	(526,322)	(8,488)	1,806,697	16,573,757
Capital Assets, Net	\$ 17,166,777	\$ 322,118	\$ (8,488)	\$ (49,390)	\$ 17,431,017

Depreciation is charged to governmental activities as follows:

General Government	\$ 36,269
Public Safety	48,977
Public Works	366,773
Parks and Recreation	51,148
Airport	33,047
Total Depreciation Expense	\$ 536,214

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. LOANS RECEIVABLE

The City uses revolving loans for economic development purposes. The City’s management has estimated a \$20,000 allowance for doubtful accounts as of December 31, 2017 based on the specific identification method. The City has the following loans receivable as of December 31, 2017:

	Interest Rate	Principal Balance December 31, 2017
Queen Bee's Bar & Grill	4.50%	\$ 36,330
Koronis Lanes #2	3.50%	2,762
Skinz #5	3.50%	26,612
Savage Land Partnership	3.50%	239,617
Eats & Treats	3.50%	11,932
Lamb Labor Services	3.50%	7,809
Koronis Living LLC	3.75%	16,706
William Fuchs	3.50%	8,012
Safe Basements	4.50%	122,519
Karl Blomgren	3.75%	1,381
C&S Towing	4.25%	72,321
Total		546,001
Less: Allowance		20,000
 Net Loans Receivable		 \$ 526,001

3.D. NONCURRENT LIABILITIES

The reporting entity’s long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. All bonds set forth below are direct obligations of the City and pledge the full faith and credit of the City.

Debt Detail

As of December 31, 2017, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

General Obligation Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
06/12	\$ 420,000	\$80,000 - \$85,000	1.00-1.80%	12/18	\$ 85,000
06/14	840,000	\$80,000 - \$90,000	0.65-2.50%	12/24	600,000
07/16	1,350,000	\$125,000 - \$145,000	2.00%	12/26	1,225,000
07/17	760,000	\$65,000 - \$85,000	1.20-2.20%	12/27	760,000
		Total Governmental Activities Bonds Payable			2,670,000
		Bonds Due Within One Year			355,000
		Bonds Due After One Year			\$ 2,315,000

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.D. NONCURRENT LIABILITIES (Continued)

Debt Detail (Continued)

Business-Type Activities

General Obligation Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
02/13	\$ 3,044,364	\$50,000 - \$183,000	1.00%	08/32	\$ 2,528,000
11/13	3,583,357	\$100,000 - \$202,000	1.00%	08/33	2,972,000
Total Business-Type Activities Bonds Payable					5,500,000
Bonds Due Within One Year					330,000
Bonds Due After One Year					\$ 5,170,000

Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended December 31, 2017:

Type of Debt	Balance 01/01/17	Additions	Deductions	Balance 12/31/17	Amounts Due Within One Year
Governmental Activities:					
Bonds	\$ 3,015,000	\$ 760,000	\$ (1,105,000)	\$ 2,670,000	\$ 355,000
Unamortized Bond Premium	47,444	-	(5,271)	42,173	-
Other Postemployment Benefits	13,498	2,477	-	15,975	-
Compensated Absences	57,626	40,281	(46,705)	51,202	36,002
Net Pension Liability	2,099,503	-	(1,390,882)	708,621	-
Total	\$ 5,233,071	\$ 802,758	\$ (2,547,858)	\$ 3,487,971	\$ 391,002
Business-Type Activities:					
Bonds	\$ 5,798,251	\$ 29,600	\$ (327,851)	\$ 5,500,000	\$ 330,000
Other Postemployment Benefits	7,843	1,441	-	9,284	-
Compensated Absences	25,523	22,590	(19,832)	28,281	19,186
Net Pension Liability	457,147	-	(174,877)	282,270	-
Total	\$ 6,288,764	\$ 53,631	\$ (522,560)	\$ 5,819,835	\$ 349,186

Governmental activity debt is typically funded through Debt Service Funds. Business-Type activity debt is typically funded through the Water and Sewer Funds. Other postemployment benefits, compensated absences and net pension liability are funded through the funds to which the respective employees' wages are allocated.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. NONCURRENT LIABILITIES (Continued)

Annual Debt Service Requirements

At December 31, 2017, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 355,000	\$ 55,860	\$ 410,860
2019	280,000	44,870	324,870
2020	290,000	40,230	330,230
2021	295,000	35,268	330,268
2022	300,000	29,780	329,780
2023-2027	1,150,000	61,115	1,211,115
Totals	<u>\$ 2,670,000</u>	<u>\$ 267,123</u>	<u>\$ 2,937,123</u>

Years Ending December 31,	Business-Type Activities		
	Principal	Interest	Total
2018	\$ 330,000	\$ 55,000	\$ 385,000
2019	333,000	51,700	384,700
2020	336,000	48,370	384,370
2021	339,000	45,010	384,010
2022	342,000	41,620	383,620
2023-2027	1,766,000	156,030	1,922,030
2028-2032	1,854,000	66,000	1,920,000
2033	200,000	2,000	202,000
Totals	<u>\$ 5,500,000</u>	<u>\$ 465,730</u>	<u>\$ 5,965,730</u>

Interest expense totals \$127,852 in the Statement of Activities (included in Debt Service, Water, and Sewer lines). Interest expenditures total \$70,830 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$57,022 in the Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds (included in the line Interest and Other Charges).

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2017:

Major Funds	Transfers Out	Transfers In				Total
		General	Debt Service	Capital Projects	Non-Major Funds Governmental	
General	\$ 238,777	\$ -	\$ -	\$ 205,778	\$ 32,999	\$ 238,777
Water	213,712	-	213,712	-	-	213,712
Sewer	187,796	-	187,796	-	-	187,796
Liquor	35,000	35,000	-	-	-	35,000
	<u>675,285</u>	<u>35,000</u>	<u>401,508</u>	<u>205,778</u>	<u>32,999</u>	<u>675,285</u>
Non-Major Funds						
Governmental	<u>228,330</u>	<u>-</u>	<u>228,330</u>	<u>-</u>	<u>-</u>	<u>228,330</u>
Total	<u>\$ 903,615</u>	<u>\$ 35,000</u>	<u>\$ 629,838</u>	<u>\$ 205,778</u>	<u>\$ 32,999</u>	<u>\$ 903,615</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The interfund balances are as follows:

Long-Term Advances		Amount	Reason
Advances To	Advances From		
Capital Projects	General	\$ 120,000	Finance capital improvements
Capital Projects	Sewer	<u>30,000</u>	Finance capital improvements
Total Interfund Balances		150,000	
Governmental fund elimination		<u>(120,000)</u>	
Total government-wide internal balances		<u>\$ 30,000</u>	

Interfund balances are to be repaid as cash flows become available.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.F. FUND EQUITY

At December 31, 2017, governmental fund equity consists of the following:

General Fund	
Nonspendable - Prepays	\$ 41,364
Nonspendable - Advances to Other Funds	120,000
Unassigned	<u>1,598,245</u>
Total General Fund Balance	<u>\$ 1,759,609</u>
Debt Service	
Restricted for Debt Service	<u>\$ 667,455</u>
Capital Projects	
Nonspendable - Deposit on Asset	86,000
Restricted for Capital Projects	94,909
Committed for Capital Projects	<u>1,384,917</u>
Total Capital Project Fund Balance	<u>\$ 1,565,826</u>
Other Governmental Funds	
Restricted for Police Drug/DWI Enforcement	11,295
Restricted for TIF 1	45
Restricted for TIF 1-10	6,018
Restricted for TIF 1-11	1,582
Restricted for TIF 1-12	2,770
Restricted for TIF 1-13	5,741
Restricted for TIF 1-14	1,913
Assigned for Economic Development Revolving Loan	813,745
Assigned for Paynesville Economic Development Authority	<u>357,315</u>
Total Other Governmental Funds Balance	<u>\$ 1,200,424</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City of Paynesville are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

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

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by State Statute and can only be modified by the State Legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 OTHER NOTES (Continued)

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Benefits Provided (Continued)

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010 but before July 1, 2014 vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

Contributions

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017 total \$48,583. The City's contributions were equal to the required contributions as set by State Statute.

Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2017. The City as required to contribute 16.20 percent of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017 total \$45,364. The City's contributions were equal to the required contributions as set by State Statute.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$612,858 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totals \$7,688. The net pension liability was measured as of June 30, 2017 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, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion share was 0.0096% which was a decrease of 0.0036% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of negative \$47,938 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$222 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Pension Costs (Continued)

At December 31, 2017, the City reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 20,198	\$ 54,212
Changes in Actuarial Assumption	139,903	61,439
Difference between projected and actual investment earnings	44,464	-
Changes in proportionate share	175,839	257,981
Contributions paid to PERA subsequent to the measurement date	<u>26,377</u>	<u>-</u>
Total City Deferred Outflows/Inflows	<u>\$ 406,781</u>	<u>\$ 373,632</u>

A total of \$26,377 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense</u>
2018	\$ 28,329
2019	\$ 78,580
2020	\$ (74,123)
2021	\$ (26,014)

Police and Fire Fund Pension Costs

At December 31, 2017, the City reported a liability of \$378,033 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017 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, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017 the City's proportion was 0.0280% which was a decrease of 0.0090% from its proportion measured as of June 30, 2016. The City also recognized \$2,520 for the year ended December 31, 2017 as pension 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, 2017, the City recognized pension expense of negative \$108,794 for its proportionate share of the Police and Fire Plan's pension expense.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Pension Costs (Continued)

At December 31, 2017 the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 8,702	\$ 133,547
Changes in Actuarial Assumption	653,753	536,714
Difference between projected and actual investment earnings	45,418	-
Changes in proportionate share	142,186	344,190
Contributions paid to PERA subsequent to the measurement date	23,559	-
 Total City Deferred Outflows/Inflows	 \$ 873,618	 \$ 1,014,451

A total of \$23,559 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2018	\$ 13,228
2019	\$ 13,228
2020	\$ (5,084)
2021	\$ (19,965)
2022	\$ (165,799)

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	Rates
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for the General Employees through 2044 and Police and Fire Plan through 2064 and then 2.5% thereafter for both plans.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested 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 non-vested deferred member liability.
- The assumed post-retirement 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.

Police and Fire Fund

- 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 non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% 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 post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.0%

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Discount Rate

The discount rate used to measure the total pension liability in 2017 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 and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
Proportionate share of the GERF			
Net Pension Liability	\$ 950,588	\$ 612,858	\$ 336,364
Proportionate share of the PEPFF			
Net Pension Liability	\$ 711,947	\$ 378,033	\$ 102,369

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.

4.B. DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION

Plan Description

Firefighters of the City of Paynesville are members of the Paynesville Firemen’s Relief Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters. The plan operates under the provisions of Minnesota laws 1965 Ch. 446 as amended, and the applicable provisions of Minnesota Statute Chs. 69 and 424 and 424A. It is governed by a Board of Trustees consisting of six members elected by the members of the Association, and the Mayor, the City Administrator, and Fire Chief, who serve as ex-officio members of the Board.

Benefits Provided

After the age of 50 and upon retirement, each member who has served as an active firefighter in the Association is eligible for varying levels of pension benefits, dependent upon the individual’s years of service. In addition, members or their beneficiaries may qualify for death or disability benefits.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.B. DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

Contributions

The Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (Chapter 261 as amended by Chapter 509 of Minnesota Statute 1980) specifies minimum contributions required on an annual basis. The minimum support rates from the municipality and state aid are determined in the amount required to meet the normal cost plus amortizing any existing prior year service costs over a 10-year period. The City's contributions to the Association for the year ended December 31, 2017, total \$5,000.

Pension Costs

At December 31, 2017, the City of Paynesville reported a net pension asset of \$80,869 for the Fire Relief Association's plan. The net pension asset was measured as of December 31, 2016, as determined by an actuarial valuation as of that date.

For the year ended December 31, 2017, the City recognized pension expense of negative \$7,743 for the Association. The City also recognized \$39,234 for the year ended December 31, 2017, as pension expense (and grant revenue) for State of Minnesota's contributions to the Association.

The following table presents the changes in net pension asset during the measurement period.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Beginning Balance 12/31/15	\$ 587,151	\$ 638,341	\$ (51,190)
Service Cost	17,341	-	17,341
Interest on Pension Liability	36,270	-	36,270
Assumption Changes	6,174	-	6,174
Projected Investment Earnings	-	39,486	(39,486)
Contributions (Employer)	-	5,000	(5,000)
Contributions (State)	-	39,234	(39,234)
Asset (Gain)/Loss	(5,980)	4,483	(10,463)
Administrative Fee	-	(4,719)	4,719
Net Changes	<u>53,805</u>	<u>83,484</u>	<u>(29,679)</u>
Balance End of Year 12/31/16	<u>\$ 640,956</u>	<u>\$ 721,825</u>	<u>\$ (80,869)</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.B. DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

Pension Costs (Continued)

At December 31, 2017, the City of Paynesville reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 5,126
Changes in Actuarial Assumption	5,292	-
Difference between projected and actual investment earnings	60,163	-
Contributions paid subsequent to the measurement date	5,000	-
Total City Deferred Outflows/Inflows	\$ 70,455	\$ 5,126

A total of \$5,000 reported as deferred outflows of resources related to the pension resulting from City contributions subsequent to the measurement date will be recognized as an addition to the net pension asset in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to the pension will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2018	\$ 22,603
2019	\$ 22,603
2020	\$ 15,937
2021	\$ (869)
2022	\$ 28
2023	\$ 27

Actuarial Assumptions

The total pension asset at December 31, 2016, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Assumptions	Rates
Investment Rate of Return (Discount)	5.50%
Expected Long-Term Rate of Return	5.50%
20-Year Municipal Bond Yield	3.50%
Salary Increases	2.50%
Cost of Living Increases	4.00%

The discount rate changed from 6.00% to 5.50% in 2016.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.B. DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

Pension Liability Sensitivity

The following presents the City’s net pension asset for the Fire Relief Association’s plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s net pension asset would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	<u>1% Decrease in Discount Rate (4.5%)</u>	<u>Discount Rate (5.5%)</u>	<u>1% Increase in Discount Rate (6.5%)</u>
Net Pension Asset	\$ 68,314	\$ 80,869	\$ 93,141

Plan Investments

Asset Allocation

The long-term expected rate of return on pension plan investments is 5.50%. The target allocation and best estimates of arithmetic real rates of return for each major asset class of the Association’s pension fund investments are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	25%	2.00%
Fixed Income	12%	3.50%
Equities	61%	7.50%
Other	2%	6.00%

Description of significant investment policy changes during the year

The Fire Relief Association made no significant changes to their investment policy during Fiscal Year 2016.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s net position is available in a separately-issued financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the City Hall at City of Paynesville, 221 Washburne Avenue, Paynesville, MN 56362.

4.C. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The City makes available to eligible retirees and their spouses a single-employer defined benefit health plan. The plan offers medical coverage. The contributes towards retired employee’s health care benefits, contributing one year for every ten years of service. However, the City does not provide healthcare coverage for retired employees for any employees hired after August, 2007. Rather, it allows employees who separate from City employment due to retirement or disability, access to coverage; however, that coverage is paid at the former employees’ expense.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.C. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years. The following table details the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Annual Required Contribution	\$	4,274
Interest on Net OPEB Obligation		854
Adjustment to Annual Required Contribution		<u>(1,210)</u>
Annual OPEB Cost (Expense)		3,918
Contributions Made		<u>-</u>
Change in Net OPEB Obligation		3,918
Net OPEB Obligation - Beginning of Year		<u>21,341</u>
Net OPEB Obligation - End of Year	\$	<u>25,259</u>

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three fiscal years follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset) Liability
12/31/2017	\$ 3,918	- %	\$ 25,259
12/31/2016	3,985	-	21,341
12/31/2015	4,052	-	17,356

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the City's actuarial accrued liability (AAL) was \$34,732. The City has no assets deposited to fund the plan, resulting in an unfunded actuarial accrued liability (UAAL) of \$34,732. The annual payroll for active employees covered by the plan in the actuarial valuation was \$705,864 for a ratio of UAAL to covered payroll of 4.9 percent.

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

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.C. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Funded Status and Funding Progress (Continued)

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the January 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent discount rate and a 2.50 percent inflation rate. The City does not currently plan to prefund this benefit.

The healthcare trend rate was calculated at an initial rate of 7.25 percent, reduced by decrements to an ultimate rate of 5.00 percent after 9 years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at January 1, 2015 does not exceed thirty years.

4.D. 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. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The City's management is not aware of any incurred but no reported claims.

4.E. TAX INCREMENT FINANCING DISTRICTS

The City occasionally enters into tax increment financing arrangements with local businesses for the purpose of stimulating economic growth within the City. Eligibility for businesses seeking tax abatements of this nature is determined in accordance the applicable Minnesota Statutes, and such arrangements generally include a commitment by the local business to use the abated funds for financing a development or redevelopment project. Any tax increment generated by the district and not retained by the City for administrative costs is returned to the business to finance the debt incurred for the related improvements.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.E. TAX INCREMENT FINANCING DISTRICTS (Continued)

The following is a summary of the City's current tax increment financing districts:

	<u>District #1-11</u>	<u>District #1-12</u>
Business Name	Nelson Land Partnership LLP	Stang Holdings LLC
Purpose	Economic Develop.	Economic Develop.
Authorizing MN Statute:	469.174	469.174
Year Established:	2013	2013
Duration of District:	Through 2021	Through 2022
Original Base Net Tax Capacity:	<u>\$ 13,312</u>	<u>\$ 522</u>
Current Net Tax Capacity:	<u>\$ 22,002</u>	<u>\$ 708</u>
Captured Net Tax Capacity:		
Retained by City	<u>\$ 8,690</u>	<u>\$ 186</u>
Amount Abated	<u>\$ 9,363</u>	<u>\$ 17,327</u>
Shared with Other Taxing Districts	<u>\$ -</u>	<u>\$ -</u>
Total Bonds Issued:	None	None
	<u>District #1-13</u>	<u>District #1-14</u>
Business Name	Savage Land Partnership	Louis Properties LLC
Purpose	Economic Develop.	Economic Develop.
Authorizing MN Statute:	469.174	469.174
Year Established:	2015	2015
Duration of District:	Through 2023	Through 2023
Original Base Net Tax Capacity:	<u>\$ 1,272</u>	<u>\$ 20,514</u>
Current Net Tax Capacity:	<u>\$ 35,648</u>	<u>\$ 40,544</u>
Captured Net Tax Capacity:		
Retained by City	<u>\$ 34,376</u>	<u>\$ 20,030</u>
Amount Abated	<u>\$ 38,207</u>	<u>\$ 21,678</u>
Shared with Other Taxing Districts	<u>\$ -</u>	<u>\$ -</u>
Total Bonds Issued:	None	None

Tax increment financing districts #1 and #1-10 have been decertified.

4.F. COMMITMENTS

Construction Contracts

The City entered into various contracts during the year for construction services. Remaining commitment under these contracts at December 31, 2017 totals \$312,254 not including retainage which has been accrued in these financial statements.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 OTHER NOTES (Continued)

4.G. SUBSEQUENT EVENTS

Subsequent to year end and prior to issuance of these financial statements, the City approved a bid of \$109,000 for seal coating. The City also approved the issuance of a \$30,000 economic development loan, as well as purchase of two lots for approximately \$20,000 and a new police vehicle.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
RESOURCES (INFLOWS):			
Taxes	\$ 642,354	\$ 442,377	\$ (199,977)
Special Assessments	1,500	598	(902)
Franchise Taxes	29,650	31,160	1,510
Licenses, Permits, and Fees	194,590	216,318	21,728
Intergovernmental	844,460	905,790	61,330
Charges for Services	214,808	231,360	16,552
Fines	11,150	17,426	6,276
Investment Income	20,000	6,749	(13,251)
Miscellaneous	44,850	50,476	5,626
Transfers In	35,000	35,000	-
AMOUNTS AVAILABLE	2,038,362	1,937,254	(101,108)
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
Current:			
General Government:			
Administration	248,630	177,230	(71,400)
Council and Planning Commission	68,666	36,541	(32,125)
Professional Fees	303,124	181,667	(121,457)
Public Safety	1,191,187	710,263	(480,924)
Public Works	291,618	194,286	(97,332)
Parks and Recreation	285,908	186,873	(99,035)
Airport	160,360	115,547	(44,813)
Debt Service	199,000	-	(199,000)
Transfers Out	238,777	238,777	-
TOTAL CHARGES	2,987,270	1,841,184	(1,146,086)
BUDGETARY CHANGE IN FUND BALANCE	\$ (948,908)	96,070	\$ 1,044,978
FUND BALANCE - BEGINNING		1,663,539	
FUND BALANCE - ENDING		\$ 1,759,609	

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS (Presented Prospectively)**

For the Measurement Year Ended June 30	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<i>General Employees Retirement Fund Pension Plan</i>							
2017	0.0096%	\$ 612,858	\$ 7,688	\$ 620,546	\$ 608,109	102.0%	75.9%
2016	0.0132%	\$ 1,071,776	\$ 14,027	\$ 1,085,802	\$ 564,629	192.3%	68.9%
2015	0.0061%	\$ 316,134	\$ -	\$ 316,134	\$ 562,857	56.2%	78.2%
<i>Public Employees Police and Fire Fund Pension Plan</i>							
2017	0.0280%	\$ 378,033	\$ -	\$ 378,033	\$ 282,716	133.7%	85.4%
2016	0.0370%	\$ 1,484,874	\$ -	\$ 1,484,874	\$ 263,230	564.1%	63.9%
2015	0.0180%	\$ 204,522	\$ -	\$ 204,522	\$ 264,202	77.4%	86.6%

Note: The schedule is provided prospectively with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)**

For the Calendar Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered-Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
<i>General Employees Retirement Fund Pension Plan</i>					
2017	\$ 48,583	\$ 48,853	\$ -	\$ 647,776	7.5%
2016	\$ 44,576	\$ 44,576	\$ -	\$ 594,341	7.5%
2015	\$ 41,758	\$ 41,758	\$ -	\$ 556,800	7.5%
<i>Public Employees Police and Fire Fund Pension Plan</i>					
2017	\$ 45,364	\$ 45,364	\$ -	\$ 280,025	16.2%
2016	\$ 45,316	\$ 45,316	\$ -	\$ 279,730	16.2%
2015	\$ 42,715	\$ 42,715	\$ -	\$ 263,673	16.2%
<i>Volunteer Fire Relief Association</i>					
2017	\$ -	\$ 5,000	\$ (5,000)	N/A	N/A
2016	\$ -	\$ 5,000	\$ (5,000)	N/A	N/A
2015	\$ -	\$ 5,000	\$ (5,000)	N/A	N/A

Note: The schedule is provided prospectively with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
FIRE RELIEF ASSOCIATION
LAST TEN YEARS (Presented Prospectively)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Changes in Total Pension Liability (TPL)			
Balance at January 1st	\$ 587,151	\$ 564,879	\$ 596,163
Service Cost	17,341	17,933	17,496
Interest on the TPL	36,270	33,032	33,425
Assumption Changes	6,174	-	-
Gain or Loss	(5,980)	-	-
Benefit Payments	<u>-</u>	<u>(28,693)</u>	<u>(82,205)</u>
Balance at December 31st	<u>\$ 640,956</u>	<u>\$ 587,151</u>	<u>\$ 564,879</u>
Plan Fiduciary Net Position (PFNP)			
Balance at January 1st	\$ 638,341	\$ 669,345	\$ 704,034
Fire State Aid	39,234	39,634	37,083
Municipal Contributions	5,000	5,000	6,143
Projected Investment Income	39,486	40,535	7,644
Gain or Loss	<u>4,483</u>	<u>(84,031)</u>	<u>-</u>
Total Additions	88,203	1,138	50,870
Benefit Payments	-	(28,693)	(82,205)
Administrative Expenses	<u>(4,719)</u>	<u>(3,449)</u>	<u>(3,354)</u>
Total Reductions	<u>(4,719)</u>	<u>(32,142)</u>	<u>(85,559)</u>
Balance at December 31st	<u>\$ 721,825</u>	<u>\$ 638,341</u>	<u>\$ 669,345</u>
Net Pension Liability (Asset) - December 31st	<u>\$ (80,869)</u>	<u>\$ (51,190)</u>	<u>\$ (104,466)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	113%	109%	118%

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF FUNDING PROGRESS FOR
POSTEMPLOYMENT BENEFIT PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009 *	\$ -	\$ 45,768	\$ 45,768	0.0%	\$ 673,408	6.8%
1/1/2012	-	28,459	28,459	0.0%	554,634	5.1%
1/1/2015	-	34,732	34,732	0.0%	705,864	4.9%

* No actuarial valuations were completed for the City's plan prior to this date.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	Police Drug/DWI Forfeiture	Economic Development Revolving Loan	Paynesville Economic Development Authority	TIF District No. 1	TIF District No. 1-10	Subtotal
ASSETS						
Cash and Cash Equivalents	\$ 11,295	\$ 288,713	\$ 358,693	\$ 45	\$ 6,018	\$ 664,764
Loans Receivable (Net)	-	526,001	-	-	-	526,001
TOTAL ASSETS	\$ 11,295	\$ 814,714	\$ 358,693	\$ 45	\$ 6,018	\$ 1,190,765
LIABILITIES						
Accounts Payable	-	969	257	-	-	1,226
Accrued Salaries	-	-	1,121	-	-	1,121
Total Liabilities	-	969	1,378	-	-	2,347
FUND BALANCES						
Restricted	11,295	-	-	45	6,018	17,358
Assigned	-	813,745	357,315	-	-	1,171,060
Total Fund Balances	11,295	813,745	357,315	45	6,018	1,188,418
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,295	\$ 814,714	\$ 358,693	\$ 45	\$ 6,018	\$ 1,190,765

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET (Continued)
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

	TIF District No. 1-11	TIF District No. 1-12	TIF District No. 1-13	TIF District No. 1-14	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,582	\$ 2,770	\$ 5,741	\$ 1,913	\$ 676,770
Loans Receivable (Net)	-	-	-	-	526,001
TOTAL ASSETS	<u>\$ 1,582</u>	<u>\$ 2,770</u>	<u>\$ 5,741</u>	<u>\$ 1,913</u>	<u>\$ 1,202,771</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 1,226
Accrued Salaries	-	-	-	-	1,121
Total Liabilities	-	-	-	-	2,347
FUND BALANCES					
Restricted	1,582	2,770	5,741	1,913	29,364
Assigned	-	-	-	-	1,171,060
Total Fund Balances	<u>1,582</u>	<u>2,770</u>	<u>5,741</u>	<u>1,913</u>	<u>1,200,424</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,582</u>	<u>\$ 2,770</u>	<u>\$ 5,741</u>	<u>\$ 1,913</u>	<u>\$ 1,202,771</u>

CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Police Drug/DWI Forfeiture	Economic Development Revolving Loan	Paynesville Economic Development Authority	TIF District No. 1	TIF District No. 1-10	Subtotal
REVENUES						
Tax Increment	\$ -	\$ -	\$ -	\$ 18,790	\$ -	\$ 18,790
Fines	7,778	-	-	-	-	7,778
Interest Income:						
Investment	149	2,828	3,106	15	87	6,185
Loans	-	24,955	-	-	-	24,955
Loan Collections - Township Portion	-	178,242	-	-	-	178,242
Miscellaneous	-	-	95,461	-	-	95,461
TOTAL REVENUES	<u>7,927</u>	<u>206,025</u>	<u>98,567</u>	<u>18,805</u>	<u>87</u>	<u>331,411</u>
EXPENDITURES						
Current:						
Public Safety	2,883	-	-	-	-	2,883
Economic Development	-	187,307	49,036	18,789	-	255,132
Capital Outlay	-	-	151,966	-	-	151,966
TOTAL EXPENDITURES	<u>2,883</u>	<u>187,307</u>	<u>201,002</u>	<u>18,789</u>	<u>-</u>	<u>409,981</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,044	18,718	(102,435)	16	87	(78,570)
OTHER FINANCING SOURCES (USES)						
Proceeds on Sale of Assets	-	-	690,864	-	-	690,864
Operating Transfers In	-	-	32,999	-	-	32,999
Operating Transfers Out	-	-	(228,330)	-	-	(228,330)
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>495,533</u>	<u>-</u>	<u>-</u>	<u>495,533</u>
NET CHANGE IN FUND BALANCES	5,044	18,718	393,098	16	87	416,963
FUND BALANCES - BEGINNING	<u>6,251</u>	<u>795,027</u>	<u>(35,783)</u>	<u>29</u>	<u>5,931</u>	<u>771,455</u>
FUND BALANCES - ENDING	<u>\$ 11,295</u>	<u>\$ 813,745</u>	<u>\$ 357,315</u>	<u>\$ 45</u>	<u>\$ 6,018</u>	<u>\$ 1,188,418</u>

CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	TIF District No. 1-11	TIF District No. 1-12	TIF District No. 1-13	TIF District No. 1-14	Total Nonmajor Funds
REVENUES					
Tax Increment	\$ 9,856	\$ 18,238	\$ 40,218	\$ 22,819	\$ 109,921
Fines	-	-	-	-	7,778
Interest Income:					
Investment	11	25	40	15	6,276
Loans	-	-	-	-	24,955
Loan Collections - Township Portion	-	-	-	-	178,242
Miscellaneous	-	-	-	-	95,461
TOTAL REVENUES	<u>9,867</u>	<u>18,263</u>	<u>40,258</u>	<u>22,834</u>	<u>422,633</u>
EXPENDITURES					
Current:					
Public Safety	-	-	-	-	2,883
Economic Development	9,364	17,327	38,207	21,677	341,707
Capital Outlay	-	-	-	-	151,966
TOTAL EXPENDITURES	<u>9,364</u>	<u>17,327</u>	<u>38,207</u>	<u>21,677</u>	<u>496,556</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	503	936	2,051	1,157	(73,923)
OTHER FINANCING SOURCES (USES)					
Proceeds on Sale of Assets	-	-	-	-	690,864
Operating Transfers In	-	-	-	-	32,999
Operating Transfers Out	-	-	-	-	(228,330)
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>495,533</u>
NET CHANGE IN FUND BALANCES	503	936	2,051	1,157	421,610
FUND BALANCES - BEGINNING	<u>1,079</u>	<u>1,834</u>	<u>3,690</u>	<u>756</u>	<u>778,814</u>
FUND BALANCES - ENDING	<u>\$ 1,582</u>	<u>\$ 2,770</u>	<u>\$ 5,741</u>	<u>\$ 1,913</u>	<u>\$ 1,200,424</u>

**CITY OF PAYNESVILLE, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET
DEBT SERVICE FUND
DECEMBER 31, 2017**

	2006 Improvement Debt	2010 G.O. Improvement Bonds Series A	2010 G.O. Improvement Bonds Series B	2010 G.O. Improvement Bonds Series C	2014 Improvement Debt	2016 Improvement Debt	2017 Improvement Debt	Intrafund Activity	Total Debt Service Fund
ASSETS									
Cash and Cash Equivalents	\$ 42,050	\$ (42,674)	\$ (76,202)	\$ 11,644	\$ 68,714	\$ 142,147	\$ 521,072	\$ -	\$ 666,751
Assessments Receivable	152,567	81	-	1,700	102,217	160,324	112,179	-	529,068
Due from Other Governments	<u>102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>602</u>	<u>-</u>	<u>-</u>	<u>704</u>
TOTAL ASSETS	<u>\$ 194,719</u>	<u>\$ (42,593)</u>	<u>\$ (76,202)</u>	<u>\$ 13,344</u>	<u>\$ 170,931</u>	<u>\$ 303,073</u>	<u>\$ 633,251</u>	<u>\$ -</u>	<u>\$ 1,196,523</u>
DEFERRED INFLOWS OF RESOURCES									
Unavailable Revenue:									
Special Assessments	\$ 152,567	\$ 81	\$ -	\$ 1,700	\$ 102,217	\$ 160,324	\$ 112,179	\$ -	\$ 529,068
FUND BALANCE									
Restricted	42,152	-	-	11,644	68,714	142,749	521,072	(118,876)	667,455
Unassigned	<u>-</u>	<u>(42,674)</u>	<u>(76,202)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,876</u>	<u>-</u>
Total Fund Balance	<u>42,152</u>	<u>(42,674)</u>	<u>(76,202)</u>	<u>11,644</u>	<u>68,714</u>	<u>142,749</u>	<u>521,072</u>	<u>-</u>	<u>667,455</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 194,719</u>	<u>\$ (42,593)</u>	<u>\$ (76,202)</u>	<u>\$ 13,344</u>	<u>\$ 170,931</u>	<u>\$ 303,073</u>	<u>\$ 633,251</u>	<u>\$ -</u>	<u>\$ 1,196,523</u>

CITY OF PAYNESVILLE, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	2006 Improvement Debt	2010 G.O. Improvement Bonds Series A	2010 G.O. Improvement Bonds Series B	2010 G.O. Improvement Bonds Series C	2014 Improvement Debt	2016 Improvement Debt	2017 Improvement Debt	Intrafund Activity	Total Debt Service Fund
REVENUES									
Taxes	\$ -	\$ 54,000	\$ 5,000	\$ -	\$ 35,000	\$ 105,000	\$ -	\$ -	\$ 199,000
Special Assessments	100,076	11,513	-	162	29,167	62,684	368,164	-	571,766
Investment Income	<u>82</u>	<u>188</u>	<u>327</u>	<u>312</u>	<u>540</u>	<u>931</u>	<u>913</u>	-	<u>3,293</u>
TOTAL REVENUES	<u>100,158</u>	<u>65,701</u>	<u>5,327</u>	<u>474</u>	<u>64,707</u>	<u>168,615</u>	<u>369,077</u>	-	<u>774,059</u>
EXPENDITURES									
Debt Service:									
Principal	85,000	445,000	295,000	75,000	80,000	125,000	-	-	1,105,000
Interest and Other Charges	<u>3,386</u>	<u>14,989</u>	<u>9,851</u>	<u>1,724</u>	<u>12,075</u>	<u>27,001</u>	-	-	<u>69,026</u>
TOTAL EXPENDITURES	<u>88,386</u>	<u>459,989</u>	<u>304,851</u>	<u>76,724</u>	<u>92,075</u>	<u>152,001</u>	-	-	<u>1,174,026</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	11,772	(394,288)	(299,524)	(76,250)	(27,368)	16,614	369,077		(399,967)
OTHER FINANCING SOURCES (USES)									
Operating Transfers In	22,500	269,682	196,060	34,000	24,500	16,000	151,995	(84,899)	629,838
Operating Transfers Out	-	-	(84,899)	-	-	-	-	84,899	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>22,500</u>	<u>269,682</u>	<u>111,161</u>	<u>34,000</u>	<u>24,500</u>	<u>16,000</u>	<u>151,995</u>	-	<u>629,838</u>
NET CHANGE IN FUND BALANCE	34,272	(124,606)	(188,363)	(42,250)	(2,868)	32,614	521,072	-	229,871
FUND BALANCE - BEGINNING	<u>7,880</u>	<u>81,932</u>	<u>112,161</u>	<u>53,894</u>	<u>71,582</u>	<u>110,135</u>	-	-	<u>437,584</u>
FUND BALANCE - ENDING	<u>\$ 42,152</u>	<u>\$ (42,674)</u>	<u>\$ (76,202)</u>	<u>\$ 11,644</u>	<u>\$ 68,714</u>	<u>\$ 142,749</u>	<u>\$ 521,072</u>	<u>\$ -</u>	<u>\$ 667,455</u>

**CITY OF PAYNESVILLE, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET
CAPITAL PROJECT FUND
DECEMBER 31, 2017**

	Street and Sidewalk Improvements	General Improvements	Police Improvements	Park Improvements	Emergency Services Improvements	Airport Capital Improvements	Subtotal
ASSETS							
Cash, Cash Equivalents and Investments	\$ 471,943	\$ 17,048	\$ 71,533	\$ 4,922	\$ 24,290	\$ 123,674	\$ 713,410
Assessments Receivable	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	-
Deposit on Asset	-	-	-	-	-	-	-
Advances to Other Funds	-	-	-	-	-	54,400	54,400
TOTAL ASSETS	<u>\$ 471,943</u>	<u>\$ 17,048</u>	<u>\$ 71,533</u>	<u>\$ 4,922</u>	<u>\$ 24,290</u>	<u>\$ 178,074</u>	<u>\$ 767,810</u>
LIABILITIES							
Accounts Payable	\$ 3,071	\$ 2,380	\$ -	\$ -	\$ -	\$ -	\$ 5,451
Retainage Payable	-	-	-	-	-	-	-
Advances from Other Funds	-	-	-	-	-	-	-
Total Liabilities	3,071	2,380	-	-	-	-	5,451
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue:							
Special Assessments	-	-	-	-	-	-	-
FUND BALANCE							
Nonspendable	-	-	-	-	-	54,000	54,000
Restricted	-	-	-	-	-	-	-
Committed	468,872	14,668	71,533	4,922	24,290	124,074	708,359
Unassigned	-	-	-	-	-	-	-
Total Fund Balance	<u>468,872</u>	<u>14,668</u>	<u>71,533</u>	<u>4,922</u>	<u>24,290</u>	<u>178,074</u>	<u>762,359</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 471,943</u>	<u>\$ 17,048</u>	<u>\$ 71,533</u>	<u>\$ 4,922</u>	<u>\$ 24,290</u>	<u>\$ 178,074</u>	<u>\$ 767,810</u>

CITY OF PAYNESVILLE, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET (Continued)
CAPITAL PROJECT FUND
DECEMBER 31, 2017

	Fire Department Capital Improvements	Lake Koronis Recreation Trail	Park Dedication	Airport Hangar	2017 Improvements	2016 Improvements	Subtotal
ASSETS							
Cash, Cash Equivalents and Investments	\$ 679,519	\$ 38,579	\$ 24,589	\$ 28,646	\$ (111,919)	\$ 94,477	\$ 753,891
Assessments Receivable	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	66,585	-	66,585
Deposit on Asset	86,000	-	-	-	-	-	86,000
Advances to Other Funds	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 765,519</u>	<u>\$ 38,579</u>	<u>\$ 24,589</u>	<u>\$ 28,646</u>	<u>\$ (45,334)</u>	<u>\$ 94,477</u>	<u>\$ 906,476</u>
LIABILITIES							
Accounts Payable	\$ -	\$ -	\$ -	\$ 9,755	\$ 6,710	\$ -	\$ 16,465
Retainage Payable	-	-	-	-	53,169	24,157	77,326
Advances from Other Funds	-	-	-	54,400	120,000	-	174,400
Total Liabilities	-	-	-	64,155	179,879	24,157	268,191
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue:							
Special Assessments	-	-	-	-	-	-	-
FUND BALANCE							
Nonspendable	86,000	-	-	-	-	-	86,000
Restricted	-	-	24,589	-	-	70,320	94,909
Committed	679,519	38,579	-	-	-	-	718,098
Unassigned	-	-	-	(35,509)	(225,213)	-	(260,722)
Total Fund Balance	<u>765,519</u>	<u>38,579</u>	<u>24,589</u>	<u>(35,509)</u>	<u>(225,213)</u>	<u>70,320</u>	<u>638,285</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 765,519</u>	<u>\$ 38,579</u>	<u>\$ 24,589</u>	<u>\$ 28,646</u>	<u>\$ (45,334)</u>	<u>\$ 94,477</u>	<u>\$ 906,476</u>

**CITY OF PAYNESVILLE, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET (Continued)
CAPITAL PROJECT FUND
DECEMBER 31, 2017**

	2014 Improvements	Heatherwood Plat Three	Highway 23 Construction	Intrafund Activity	Total Capital Project Fund
ASSETS					
Cash, Cash Equivalents and Investments	\$ (178)	\$ 183,762	\$ 11,598	\$ -	\$ 1,662,483
Assessments Receivable	-	300,077	-	-	300,077
Accounts Receivable	-	-	-	-	66,585
Deposit on Asset	-	-	-	-	86,000
Advances to Other Funds	-	-	-	(54,400)	-
TOTAL ASSETS	\$ (178)	\$ 483,839	\$ 11,598	\$ (54,400)	\$ 2,115,145
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	21,916
Retainage Payable	-	-	-	-	77,326
Advances from Other Funds	-	-	30,000	(54,400)	150,000
Total Liabilities	-	-	30,000	(54,400)	249,242
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue: Special Assessments	-	300,077	-	-	300,077
FUND BALANCE					
Nonspendable	-	-	-	(54,000)	86,000
Restricted	-	-	-	-	94,909
Committed	-	183,762	-	(225,302)	1,384,917
Unassigned	(178)	-	(18,402)	279,302	-
Total Fund Balance	(178)	183,762	(18,402)	-	1,565,826
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ (178)	\$ 483,839	\$ 11,598	\$ (54,400)	\$ 2,115,145

CITY OF PAYNESVILLE, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
CAPITAL PROJECT FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Street and Sidewalk Improvements	General Improvements	Police Improvements	Park Improvements	Emergency Services Improvements	Airport Capital Improvements	Subtotal
REVENUES							
Special Assessments	\$ -	\$ -	\$ -	\$ 2,882	\$ -	\$ -	\$ 2,882
Intergovernmental	-	-	2,500	-	-	-	2,500
Investment Income	3,099	97	442	(10)	163	795	4,586
Miscellaneous	1,441	-	8,807	-	-	-	10,248
TOTAL REVENUES	<u>4,540</u>	<u>97</u>	<u>11,749</u>	<u>2,872</u>	<u>163</u>	<u>795</u>	<u>20,216</u>
EXPENDITURES							
Current:							
General Government:							
City Hall Maintenance	-	3,974	-	-	-	-	3,974
Public Safety:							
Police	-	-	11,230	-	-	-	11,230
Public Works	4,035	-	-	-	-	-	4,035
Parks and Recreation	-	-	-	14,552	-	-	14,552
Airport	-	-	-	-	-	1,069	1,069
Capital Outlay	9,540	6,528	-	13,250	2,720	13,780	45,818
TOTAL EXPENDITURES	<u>13,575</u>	<u>10,502</u>	<u>11,230</u>	<u>27,802</u>	<u>2,720</u>	<u>14,849</u>	<u>80,678</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(9,035)	(10,405)	519	(24,930)	(2,557)	(14,054)	(60,462)
OTHER FINANCING SOURCES (USES)							
Sale of Bonds	-	-	-	-	-	-	-
Operating Transfers In	92,778	15,000	14,000	18,000	1,000	16,000	156,778
Operating Transfers Out	(120,000)	-	-	-	-	-	(120,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(27,222)</u>	<u>15,000</u>	<u>14,000</u>	<u>18,000</u>	<u>1,000</u>	<u>16,000</u>	<u>36,778</u>
NET CHANGE IN FUND BALANCE	(36,257)	4,595	14,519	(6,930)	(1,557)	1,946	(23,684)
FUND BALANCE - BEGINNING	<u>505,129</u>	<u>10,073</u>	<u>57,014</u>	<u>11,852</u>	<u>25,847</u>	<u>176,128</u>	<u>786,043</u>
FUND BALANCE - ENDING	<u>\$ 468,872</u>	<u>\$ 14,668</u>	<u>\$ 71,533</u>	<u>\$ 4,922</u>	<u>\$ 24,290</u>	<u>\$ 178,074</u>	<u>\$ 762,359</u>

CITY OF PAYNESVILLE, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (Continued)
CAPITAL PROJECT FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Fire Department Capital Improvements	Lake Koronis Recreation Trail	Park Dedication	Airport Hangar	2017 Improvements	2016 Improvements	Subtotal
REVENUES							
Special Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	370,775	-	370,775
Investment Income	5,339	225	167	264	39	1,159	7,193
Miscellaneous	1,050	-	-	-	-	-	1,050
TOTAL REVENUES	<u>6,389</u>	<u>225</u>	<u>167</u>	<u>264</u>	<u>370,814</u>	<u>1,159</u>	<u>379,018</u>
EXPENDITURES							
Current:							
General Government:							
City Hall Maintenance	-	-	-	-	-	-	-
Public Safety:							
Police	-	-	-	-	-	-	-
Public Works	-	-	-	-	39,380	-	39,380
Parks and Recreation	-	-	-	-	-	-	-
Airport	-	-	-	12,526	-	-	12,526
Capital Outlay	-	-	-	12,955	1,368,311	93,246	1,474,512
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,481</u>	<u>1,407,691</u>	<u>93,246</u>	<u>1,526,418</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	6,389	225	167	(25,217)	(1,036,877)	(92,087)	(1,147,400)
OTHER FINANCING SOURCES (USES)							
Sale of Bonds	-	-	-	-	760,000	-	760,000
Operating Transfers In	40,000	9,000	-	-	120,000	-	169,000
Operating Transfers Out	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>40,000</u>	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>880,000</u>	<u>-</u>	<u>929,000</u>
NET CHANGE IN FUND BALANCE	46,389	9,225	167	(25,217)	(156,877)	(92,087)	(218,400)
FUND BALANCE - BEGINNING	<u>719,130</u>	<u>29,354</u>	<u>24,422</u>	<u>(10,292)</u>	<u>(68,336)</u>	<u>162,407</u>	<u>856,685</u>
FUND BALANCE - ENDING	<u>\$ 765,519</u>	<u>\$ 38,579</u>	<u>\$ 24,589</u>	<u>\$ (35,509)</u>	<u>\$ (225,213)</u>	<u>\$ 70,320</u>	<u>\$ 638,285</u>

CITY OF PAYNESVILLE, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (Continued)
CAPITAL PROJECT FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	2014 Improvements	Heatherwood Plat Three	Highway 23 Construction	Intrafund Activity	Total Capital Project Fund
REVENUES					
Special Assessments	\$ -	\$ 82,138	\$ -	\$ -	\$ 85,020
Intergovernmental	-	-	-	-	373,275
Investment Income	(1)	765	79	-	12,622
Miscellaneous	-	-	-	-	11,298
TOTAL REVENUES	(1)	82,903	79	-	482,215
EXPENDITURES					
Current:					
General Government:					
City Hall Maintenance	-	-	-	-	3,974
Public Safety:					
Police	-	-	-	-	11,230
Public Works	-	-	-	-	43,415
Parks and Recreation	-	-	-	-	14,552
Airport	-	-	-	-	13,595
Capital Outlay	-	-	-	-	1,520,330
TOTAL EXPENDITURES	-	-	-	-	1,607,096
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1)	82,903	79	-	(1,124,881)
OTHER FINANCING SOURCES (USES)					
Sale of Bonds	-	-	-	-	760,000
Operating Transfers In	-	-	-	(120,000)	205,778
Operating Transfers Out	-	-	-	120,000	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	965,778
NET CHANGE IN FUND BALANCE	(1)	82,903	79	-	(159,103)
FUND BALANCE - BEGINNING	(177)	100,859	(18,481)	-	1,724,929
FUND BALANCE - ENDING	\$ (178)	\$ 183,762	\$ (18,402)	\$ -	\$ 1,565,826

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

	Issue Date	Interest Rate	Maturity Date	Initial Authorized Issue	Outstanding Balance 01/01/17	Issued	Paid	Outstanding Balance 12/31/17	Principal Due in 2018
GOVERNMENTAL INDEBTEDNESS									
G.O. Improvement Bonds, Series 2010A	5/1/2010	2.0-3.5%	12/1/2020	\$ 1,235,000	\$ 445,000	\$ -	\$ 445,000	\$ -	\$ -
G.O. Street Reconstruction Bonds, Series 2010B	5/1/2010	2.0-3.5%	12/1/2020	685,000	295,000	-	295,000	-	-
G.O. Improvement Bonds, Series 2010C Crossover Refund	11/1/2010	2.0-2.3%	12/1/2017	520,000	75,000	-	75,000	-	-
G.O. Refunding Improvement Bonds, Series 2012A	6/1/2012	1.0-1.8%	12/1/2018	420,000	170,000	-	85,000	85,000	85,000
G.O. Improvement Bonds, Series 2014A	6/1/2014	0.65-2.50%	12/1/2024	840,000	680,000	-	80,000	600,000	80,000
G.O. Improvement Bonds, Series 2016A	7/28/2016	2.0%	12/15/2026	1,350,000	1,350,000	-	125,000	1,225,000	125,000
G.O. Improvement Bonds, Series 2017A	7/18/2017	1.2-2.2%	12/15/2027	760,000	-	760,000	-	760,000	65,000
TOTAL GOVERNMENTAL DEBTS				5,810,000	3,015,000	760,000	1,105,000	2,670,000	355,000
ENTERPRISE INDEBTEDNESS									
MN Public Facilities Authority Loan									
G.O. Sewer Revenue Note, 2013	2/12/2013	1.0%	8/20/2032	3,044,364	2,684,628	-	156,628	2,528,000	158,000
G.O. Water Revenue Note, 2013	11/14/2013	1.0%	8/20/2033	3,583,357	3,113,623	29,600	171,223	2,972,000	172,000
TOTAL ENTERPRISE DEBTS				6,627,721	5,798,251	29,600	327,851	5,500,000	330,000
TOTAL INDEBTEDNESS				\$ 12,437,721	\$ 8,813,251	\$ 789,600	\$ 1,432,851	\$ 8,170,000	\$ 685,000

OTHER REPORTS

**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**

May 22, 2018

Honorable Mayor and City Council
City of Paynesville, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paynesville (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Paynesville's basic financial statements, and have issued our report thereon dated May 22, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2016-001 and 2016-003.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying *Schedule of Findings and Responses* to be a significant deficiency: 2016-002.

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*.

City's Response to Findings

The City of Paynesville's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. 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.

Purpose of this Report

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

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS

Finding 2016-001 Limited Segregation of Duties

Condition: During our audit we reviewed procedures over cash receipts, cash disbursements, payroll and financial reporting and found the City to have limited segregation of duties over those transaction cycles.

Criteria: Internal control that supports the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties. In other words, no one person may have control over two or more of these responsibilities.

Cause: Limited number of staff members.

Effect: The existence of limited segregation of duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Recommendation: Although the number of staff members may not be large enough to eliminate this deficiency, we recommend that the City evaluate current procedures and segregate where possible and implement compensating controls. It is important that the Council is aware of this condition and monitor all financial information.

Management's Response: Management agrees with the recommendation.

Finding 2016-002 Financial Statement Preparation

Condition: Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the City. It is management's responsibility to provide for the preparation of financial statements and the auditors' responsibility to determine the fairness of the presentation.

Criteria: Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.

Cause: The City's staff does not possess the expertise to prepare financial statements internally. This is not unusual for an organization of your size.

Effect: The inability to internally prepare the City's financial statements can result in undetected errors in financial reporting.

Recommendation: We recommend that management review a draft of the financial statements in detail for accuracy. During review we recommend a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree the financial statement numbers to their accounting software. The City may not have controls in place to eliminate this finding.

Management's Response: The City will continue to have the auditor assist in preparation of the financial statements and will review the cost/benefit of preparing financial statements internally on an annual basis.

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2016-003 Material Audit Adjustments

Condition: Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit.

Criteria: The City is required to report accurate financial information.

Cause: The City failed to record adjustments for various year-end entries.

Effect: The misstatement in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation under accounting principles generally accepted in the United States of America.

Recommendation: We recommend management perform a thorough review of the trial balance prior to the audit and ensure all transactions have been properly recorded.

Management's Response: Management agrees with the recommendation.

**CITY OF PAYNESVILLE, MINNESOTA
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS

Finding 2016-001 Limited Segregation of Duties

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will review current procedures and implement additional controls where possible.
3. Official Responsible
Ms. Renee Eckerly, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

Finding 2016-002 Financial Statement Preparation

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City may continue to have the auditor prepare the financial statements and will continue to document the annual review of the financial statements and related footnote disclosures. The City will revisit this decision on an ongoing, annual basis.
3. Official Responsible
Ms. Renee Eckerly, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

**CITY OF PAYNESVILLE, MINNESOTA
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2016-003 Material Audit Adjustments

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
The City will thoroughly review the trial balance prior to audit fieldwork and make any adjusting entries before submitting the trial balance to the auditors.

3. Official Responsible
Ms. Renee Eckerly, City Administrator, is the official responsible for ensuring corrective action.

4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.

5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

May 22, 2018

Honorable Mayor and City Council
City of Paynesville, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paynesville, Minnesota (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2018.

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

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

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

SCHLENNER WENNER & CO.
St. Cloud, Minnesota