

**City of Oak Grove
Anoka County, Minnesota**

Financial Statements

December 31, 2018

**City of Oak Grove
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**City of Oak Grove
Elected Officials and Administration
December 31, 2018**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Mark Korin	Mayor	December 31, 2018
Dan Denno	Council Member	December 31, 2018
Scott Lawrence	Council Member	December 31, 2020
Mike Wylie	Council Member	December 31, 2018
Paul Tradewell	Council Member	December 31, 2020
<u>Administration</u>		
Loren Wickham	City Administrator	
AEM Financial Solutions, LLC	Consulting Finance Manager	
Tim Smith	Director of Public Works	
Curt Hallerman	Fire Chief	

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Oak Grove, Minnesota, as of and for the year ended December 31, 2018, and the related notes to 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.

Auditor's Responsibility (Continued)

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 in the first paragraph 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 Oak Grove, Minnesota, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 of Oak Grove's basic financial statements. The Supplementary Information as identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2019, on our consideration of the City of Oak Grove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Oak Grove's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Oak Grove's internal control over financial reporting and compliance.

Bergan KDV Ltd .

Minneapolis, Minnesota
March 26, 2019

City of Oak Grove Management's Discussion and Analysis

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

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent year by \$25,725,925 (net position). Of this amount, \$7,730,287 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$224,076. A further breakdown of net position is chronicled under government-wide financial statement analysis.
- As of the close of the current year, the City's governmental funds reported a combined ending fund balance of \$6,668,182, a decrease of \$1,778,270 in comparison with the prior year.
- At the end of the current year, total fund balance for the General Fund was \$1,347,442, or 45.4%, of the budgeted 2019 General Fund expenditures.
- The City's total debt decreased \$1,273,000 during the current year. This decrease was due to the payoff of the Taxable G.O. Tax Increment Bond, Series 2007B and the G.O. Capital Improvement Plan Bond, Series 2007A.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

**City of Oak Grove
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

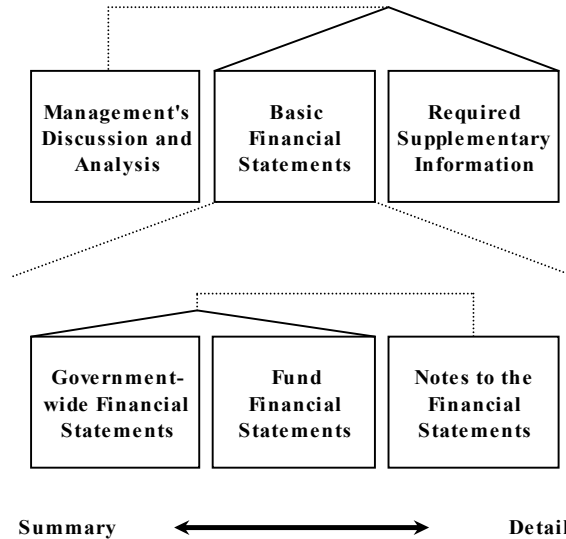


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each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

**Figure 2
Major features of the Government-Wide and Fund Financial Statements**

	Fund Financial Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses, and Changes in Net Position • Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital and short-term and long-term

City of Oak Grove Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, sanitation, economic development, parks and recreation, and interest on long-term debt. The business-type activities of the City include water, sewer, and street light.

The government-wide financial statements start on page 18 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

City of Oak Grove Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Funds (Continued)

The City maintains 15 individual governmental funds, 2 of which are Debt Service Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Asset Replacement Fund, Road Improvement Fund, and Taxable G.O. Tax Increment Bonds Series 2007B Debt Service Fund. Data from the 11 other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements or schedules elsewhere in this report.

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

The basic governmental fund financial statements start on page 20 of this report.

Proprietary Fund

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

The proprietary fund financial statements provide separate information for the water, sewer, and street lights, which are considered to be major funds of the City.

The basic proprietary fund financial statements start on page 28 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found starting on page 34 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements start on page 35 of this report.

Other Information

Required supplementary information as well as the combining statements referred to earlier, in connection with non-major governmental funds, are presented following the notes to financial statements. Combining and individual fund statements and schedules start on page 76 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$25,725,925 at the close of the most recent year.

**City of Oak Grove
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

By far, the largest portion of the City's net position (68.1%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Position

	Governmental Activities			Business-Type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Assets						
Current and other assets	\$ 7,607,408	\$ 9,233,819	\$ (1,626,411)	\$ 1,422,403	\$ 1,390,895	\$ 31,508
Capital assets	14,524,994	13,788,762	736,232	3,281,645	3,438,916	(157,271)
Total assets	\$ 22,132,402	\$ 23,022,581	\$ (890,179)	\$ 4,704,048	\$ 4,829,811	\$ (125,763)
Deferred outflows of resources						
Deferred outflows of resources related to pension	\$ 163,998	\$ 243,387	\$ (79,389)	\$ 6,295	\$ 10,024	\$ (3,729)
Total assets and deferred outflows of resources	\$ 22,296,400	\$ 23,265,968	\$ (969,568)	\$ 4,710,343	\$ 4,839,835	\$ (129,492)
Liabilities						
Other liabilities	\$ 286,801	\$ 1,611,617	\$ (1,324,816)	\$ 298,874	\$ 42,424	\$ 256,450
Long-term liabilities outstanding	443,682	482,558	(38,876)	30,280	313,637	(283,357)
Total liabilities	\$ 730,483	\$ 2,094,175	\$ (1,363,692)	\$ 329,154	\$ 356,061	\$ (26,907)
Deferred inflows of resources						
Deferred inflows of resources related to pension	\$ 212,102	\$ 143,871	\$ 68,231	\$ 9,079	\$ 9,847	\$ (768)
Net position						
Net investment in capital assets	14,524,994	12,573,762	1,951,232	3,003,645	3,137,916	(134,271)
Restricted	466,999	809,463	(342,464)	-	-	-
Unrestricted	6,361,822	7,644,697	(1,282,875)	1,368,465	1,336,011	32,454
Total net position	\$ 21,353,815	\$ 21,027,922	\$ 325,893	\$ 4,372,110	\$ 4,473,927	\$ (101,817)

An additional portion of the City's net position (1.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, (30.0%), may be used to meet the City's ongoing obligations to citizens and creditors.

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

The City's net position increased by \$224,076 during the current year.

**City of Oak Grove
Management's Discussion and Analysis**

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by \$325,893. Key elements of this increase are as follows:

Changes in Net Position

	Governmental Activities			Business-Type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 267,171	\$ 381,271	\$ (114,100)	\$ 374,644	\$ 401,503	\$ (26,859)
Operating grants and contributions	150,790	196,178	(45,388)	-	-	-
Capital grants and contributions	950,264	779,108	171,156	17,145	24,240	(7,095)
General revenues						
Taxes						
Property taxes	2,184,261	1,971,736	212,525	-	-	-
Property taxes, levied for debt service	-	202,295	(202,295)	-	-	-
Franchise taxes	-	-	-	-	-	-
Tax increments	25,557	24,557	1,000	-	-	-
Intergovernmental	118,525	101,494	17,031	-	-	-
Unrestricted investment earnings	63,093	58,716	4,377	12,864	7,567	5,297
Gain on sale of property	-	-	-	-	-	-
Miscellaneous	8,367	-	8,367	-	-	-
Total revenues	3,768,028	3,715,355	52,673	404,653	433,310	(28,657)
Expenses						
General government	757,419	834,072	(76,653)	-	-	-
Public safety	1,142,694	1,192,842	(50,148)	-	-	-
Public works	1,402,303	1,319,852	82,451	-	-	-
Sanitation	26,419	36,184	(9,765)	-	-	-
Parks and recreation	89,510	101,202	(11,692)	-	-	-
Economic development	9,549	7,797	1,752	-	-	-
Interest on long-term debt	14,241	71,015	(56,774)	-	-	-
Water	-	-	-	240,224	238,584	1,640
Sewer	-	-	-	258,309	236,960	21,349
Street Light	-	-	-	7,937	6,988	949
Total expenses	3,442,135	3,562,964	(120,829)	506,470	482,532	23,938
Change in net position	325,893	152,391	173,502	(101,817)	(49,222)	(164,636)
Net position - January 1	21,027,922	20,875,531	152,391	4,473,927	4,523,149	(49,222)
Net position - December 31	\$ 21,353,815	\$ 21,027,922	\$ 325,893	\$ 4,372,110	\$ 4,473,927	\$ (213,858)

**City of Oak Grove
Management's Discussion and Analysis**

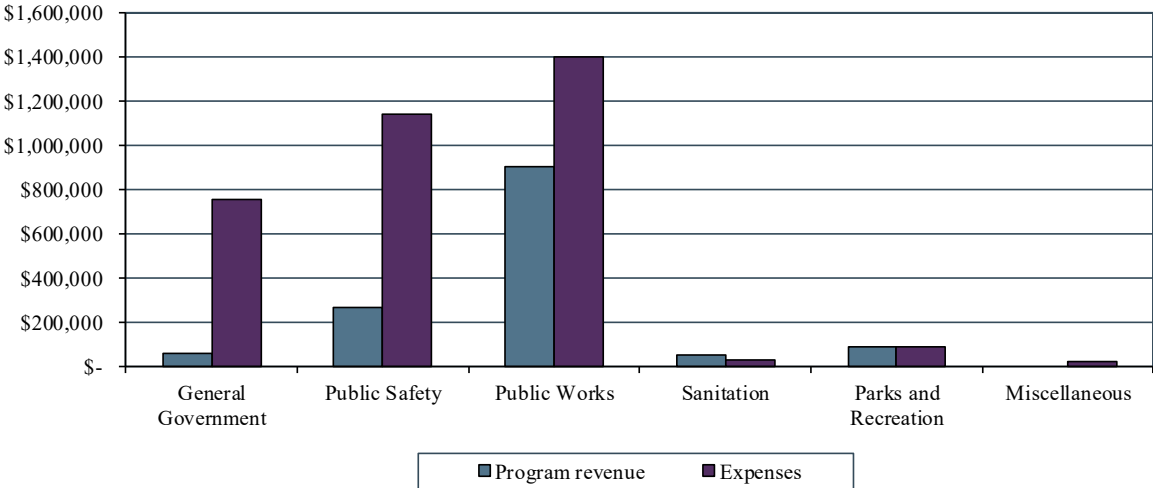
GOVERNMENTAL ACTIVITIES (CONTINUED)

The line item with the most significant change was the increase in Charges for Services and the decrease in the amount paid for interest on long-term debt. Overall, the 2018 revenues were comparable to 2017 with the exception of Charges for Services and the 2018 expenses were slightly less than 2017.

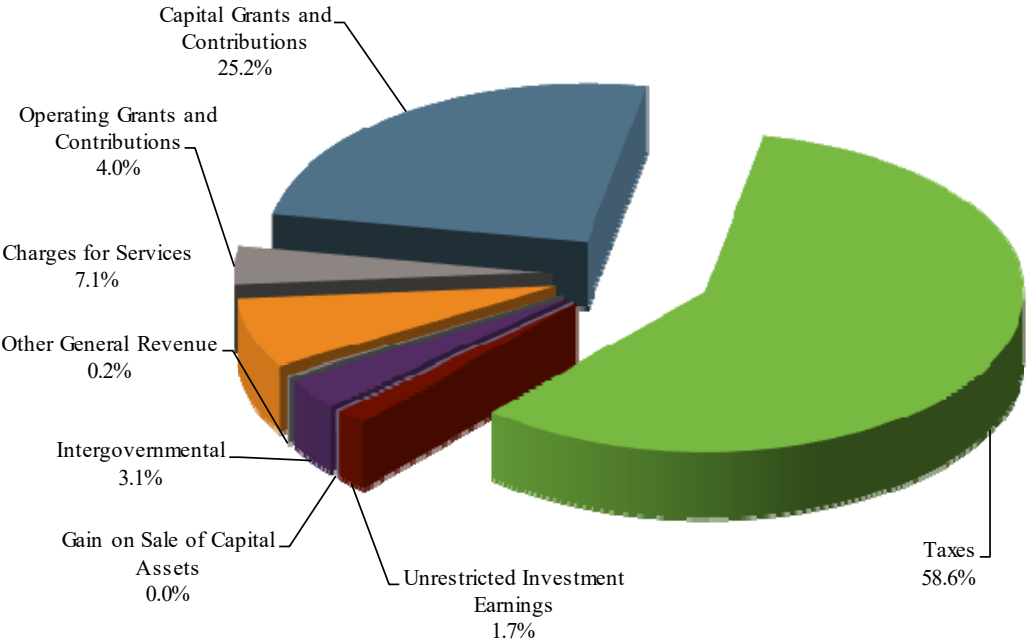
The following graph depicts various governmental activities and shows the program revenues and expenses directly related to those activities.

Net position, based on current year activity, in the governmental activities, increased \$325,893.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities

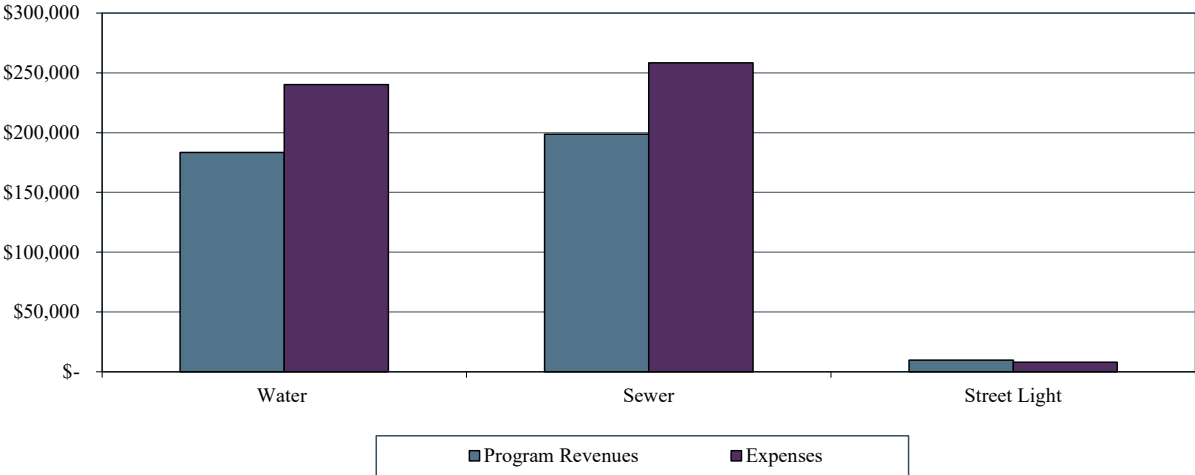


**City of Oak Grove
Management's Discussion and Analysis**

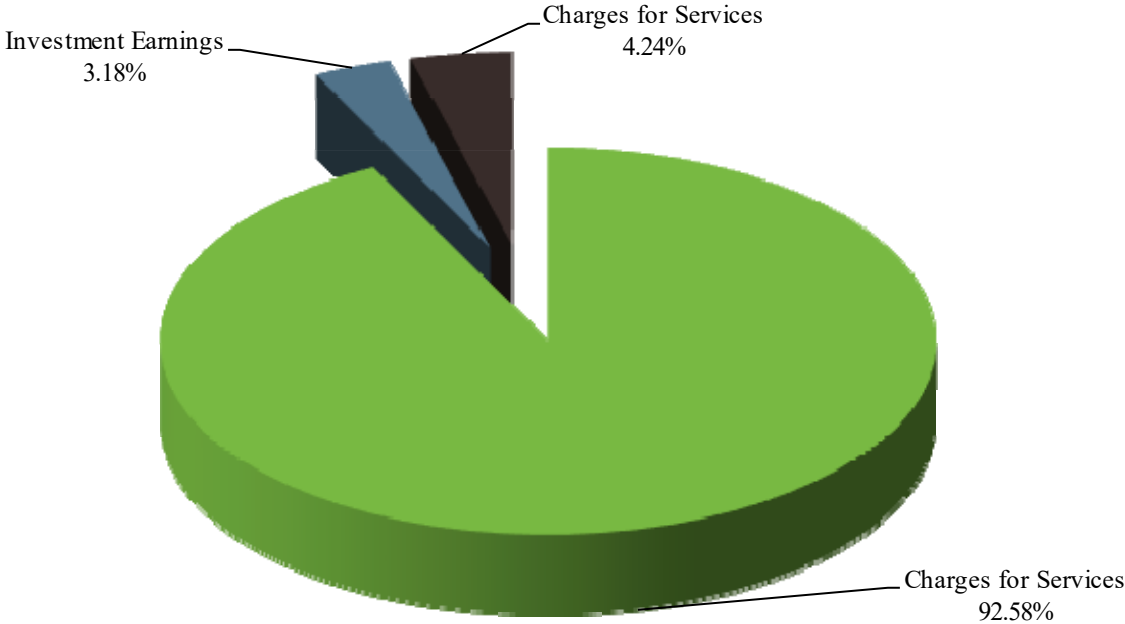
BUSINESS-TYPE ACTIVITIES

Business-type activities, based on current year activity, decreased the City's net position by \$213,858.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-type Activities



**City of Oak Grove
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

Activity in the City's major governmental funds is discussed below:

As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$6,668,182 a decrease of \$1,778,270 in comparison with the prior year. Approximately 7.8% of this total amount, or \$522,175 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is either: 1) nonspendable (\$44,111), 2) restricted (\$805,623), 3) committed (\$242,311), or 4) assigned (\$5,053,962).

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2018	2017	
General			
The primary reason for the decrease in fund balance was due to a transfer out to the property tax reduction fund.	\$ 1,347,442	\$ 1,600,021	\$ (252,579)
Asset Replacement Fund			
This decrease is due to capital purchases made throughout the year.	2,879,292	3,231,215	(351,923)
Road Improvement			
This decrease is due to road improvements made in the current year.	1,859,508	2,249,476	(389,968)
Taxable G.O. Tax Increment Bond Series 2007B	(781,156)	178,644	(959,800)
This decrease is due to retiring the bonds			

Proprietary Fund

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,368,465. The total increase in net position for the funds was \$101,817.

**City of Oak Grove
Management's Discussion and Analysis**

GENERAL FUND BUDGETARY HIGHLIGHTS

No budget amendments were made during the year. The budget called for a change in fund balance of (\$84,083). Actual revenues were over budget by \$218,594, and expenditures were over budget by \$56,669.

Some of the significant variances can be briefly summarized as follows:

- License and permits revenues resulted in a surplus of \$31,083, due to new home construction.
- Intergovernmental revenues resulted in a surplus of \$161,881 primarily due to Municipal State aid.
- Miscellaneous revenues resulted in a surplus of \$16,879 due primarily to contributions.
- Public safety resulted in a budget deficit of \$87,668, mainly due to an increase in fire calls and increased workers compensation premiums.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2018, amounted to \$17,806,639 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current year was \$578,961, which represents a 3.3% overall increase.

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

- Portable radios were purchased for the Fire Department in the amount of \$109,124.
- The 2018 Street Improvement Project incurred over \$1,000,000 in expenditures which was partially offset by Municipal State Aid revenue.

Additional information on the City's capital assets can be found in Note 5 starting on page 50.

**City of Oak Grove
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Land	\$ 1,817,139	\$ 1,817,139	\$ -	\$ 1,521	\$ 1,521	\$ -
Buildings and improvements	1,551,841	1,624,630	(72,789)	12,694	13,019	(325)
Machinery and equipment	1,826,775	1,441,375	385,400	16,166	19,300	(3,134)
Furniture and fixtures	39,686	19,884	19,802	-	-	-
Infrastructure	8,637,974	8,196,346	441,628	3,251,264	3,405,076	(153,812)
Construction in progress	651,579	689,388	(37,809)	-	-	-
Total	\$ 14,524,994	\$ 13,788,762	\$ 736,232	\$ 3,281,645	\$ 3,438,916	\$ (157,271)

Long-Term Debt – At the end of the current year, the City had no bonded debt outstanding.

Outstanding Debt

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
G.O. Capital Improvement Plan Bonds, Series 2007A	\$ -	\$ 55,000	\$ (55,000)	\$ -	\$ -	\$ -
Taxable G.O. Tax Increment Bonds, Series 2007B	-	1,160,000	(1,160,000)	-	-	-
Total G.O. Bonds	-	1,215,000	(1,215,000)	-	-	-
G.O. Sewer Revenue Note Series 2010A	-	-	-	278,000	301,000	(23,000)
Compensated absences payable	47,510	41,917	5,593	-	-	-
Net pension liability	435,718	481,462	(45,744)	30,280	35,637	(5,357)
Total city indebtedness	\$ 483,228	\$ 1,940,229	\$ (1,255,151)	\$ 308,280	\$ 371,703	\$ (28,357)

The City's total bonded debt decreased by \$1,215,00 during the current year. This was due to scheduled debt service principal payments and the payoff of the Taxable G.O. Tax Increment Bonds, Series 2007B.

Minnesota statutes limit the amount of net general obligation debt a City may issue up to 3.0% of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes.

Additional information on the City's long-term debt can be found in Note 6 starting on page 52 of this report.

**City of Oak Grove
Management's Discussion and Analysis**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The overall tax levy did not increase in 2018 and the Council expects continuing monitoring of City finances and looking for opportunities to minimize the tax effect of City operations.
- Property tax values are expected to increase for the 2019 budget cycle and this will result in positive changes in the City's tax rate. This will be considered when planning the 2020 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Oak Grove, 19900 Nightingale Street NW, Oak Grove, Minnesota, 55011.

BASIC FINANCIAL STATEMENTS

**City of Oak Grove
Statement of Net Position
December 31, 2018**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments (including cash equivalents)	\$ 6,788,779	\$ 1,282,277	\$ 8,071,056
Receivables			
Accounts receivable	9,406	64,326	73,732
Interest receivable	19,122	-	19,122
Due from other governments	28,495	-	28,495
Taxes receivable			
Unremitted	25,524	-	25,524
Delinquent	30,566	-	30,566
Special assessments receivable			
Delinquent	811	672	1,483
Deferred	195,969	75,095	271,064
Prepaid items	44,111	33	44,144
Capital assets not being depreciated			
Land	1,817,139	1,521	1,818,660
Construction in progress	651,579	-	651,579
Capital assets (net of accumulated depreciation)			
Buildings and improvements	1,551,841	12,694	1,564,535
Furniture and fixtures	39,686	-	39,686
Machinery and equipment	1,826,775	16,166	1,842,941
Infrastructure	8,637,974	3,251,264	11,889,238
Net pension asset - Fire Relief	464,625	-	464,625
Total assets	<u>22,132,402</u>	<u>4,704,048</u>	<u>26,836,450</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to Fire Relief pensions	73,425	-	73,425
Deferred outflows of resources related to City pensions	90,573	6,295	96,868
Total deferred outflow of resources	<u>163,998</u>	<u>6,295</u>	<u>170,293</u>
Total assets and deferred outflows of resources	<u>\$ 22,296,400</u>	<u>\$ 4,710,343</u>	<u>\$ 27,006,743</u>
Liabilities			
Accounts payable	\$ 193,502	\$ 1,820	\$ 195,322
Due to other governments	2,809	15,050	17,859
Salaries and benefits payable	50,944	2,228	53,172
Interest payable	-	1,776	1,776
Bond principal payable			
Payable within one year	-	23,000	23,000
Payable after one year	-	255,000	255,000
Compensated absences payable			
Payable within one year	39,546	-	39,546
Payable after one year	7,964	-	7,964
Net pension liability	435,718	30,280	465,998
Total liabilities	<u>730,483</u>	<u>329,154</u>	<u>1,059,637</u>
Deferred Inflows of Resources			
Deferred inflows related to Fire Relief pensions	81,466	-	81,466
Deferred inflows related to City pensions	130,636	9,079	139,715
Total deferred inflows of resources	<u>212,102</u>	<u>9,079</u>	<u>221,181</u>
Net Position			
Net investment in capital assets	14,524,994	3,003,645	17,528,639
Restricted			
Debt service	10,932	-	10,932
Cable TV - PEG	17,169	-	17,169
Park dedication	438,898	-	438,898
Unrestricted	6,361,822	1,368,465	7,730,287
Total net position	<u>21,353,815</u>	<u>4,372,110</u>	<u>25,725,925</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 22,296,400</u>	<u>\$ 4,710,343</u>	<u>\$ 27,006,743</u>

**City of Oak Grove
Statement of Activities
Year Ended December 31, 2018**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental activities							
General government	\$ 757,419	\$ 42,868	\$ 12,845	\$ -	\$ (701,706)	\$ -	\$ (701,706)
Public safety	1,142,694	208,138	54,803	500	(879,253)	-	(879,253)
Public works	1,402,303	4,639	29,461	869,764	(498,439)	-	(498,439)
Sanitation	26,419	11,526	42,456	-	27,563	-	27,563
Parks and recreation	89,510	-	11,225	80,000	1,715	-	1,715
Economic development	9,549	-	-	-	(9,549)	-	(9,549)
Interest on long-term debt	14,241	-	-	-	(14,241)	-	(14,241)
Total governmental activities	<u>3,442,135</u>	<u>267,171</u>	<u>150,790</u>	<u>950,264</u>	<u>(2,073,910)</u>	<u>-</u>	<u>(2,073,910)</u>
Business-type activities							
Water	240,224	176,470	-	7,000	-	(56,754)	(56,754)
Sewer	258,309	188,519	-	10,145	-	(59,645)	(59,645)
Street light	7,937	9,655	-	-	-	1,718	1,718
Total business-type activities	<u>506,470</u>	<u>374,644</u>	<u>-</u>	<u>17,145</u>	<u>-</u>	<u>(114,681)</u>	<u>(114,681)</u>
Total governmental and business-type activities	<u>\$ 3,948,605</u>	<u>\$ 641,815</u>	<u>\$ 150,790</u>	<u>\$ 967,409</u>	<u>(2,073,910)</u>	<u>(114,681)</u>	<u>(2,188,591)</u>
General revenues							
Property taxes					2,184,261	-	2,184,261
Tax increments					25,557	-	25,557
Intergovernmental					118,525	-	118,525
Unrestricted investment earnings					63,093	12,864	75,957
Other general revenue					8,367	-	8,367
Total general revenues					<u>2,399,803</u>	<u>12,864</u>	<u>2,412,667</u>
Change in net position					325,893	(101,817)	224,076
Net position - beginning					<u>21,027,922</u>	<u>4,473,927</u>	<u>25,501,849</u>
Net position - ending					<u>\$ 21,353,815</u>	<u>\$ 4,372,110</u>	<u>\$ 25,725,925</u>

**City of Oak Grove
Balance Sheet - Governmental Funds
December 31, 2018**

	<u>General Fund</u> (101, 203, 204, 205)	<u>Capital Projects</u> Asset Replacement Fund (410, 411, 412, 413)
Assets		
Cash and investments	\$ 1,354,915	\$ 2,988,416
Accounts receivable	9,406	-
Interest receivable	19,122	-
Advances to other funds	-	-
Due from other governments	1,603	-
Taxes receivable		
Unremitted	25,524	-
Delinquent	30,566	-
Special assessment receivable		
Delinquent	-	-
Deferred	22,101	-
Prepaid items	44,111	-
	<u>\$ 1,507,348</u>	<u>\$ 2,988,416</u>
Liabilities		
Accounts payable	\$ 54,640	\$ 109,124
Advances from other funds	-	-
Due to other governments	2,809	-
Salaries and benefits payable	49,790	-
Total liabilities	<u>107,239</u>	<u>109,124</u>
Deferred Inflows of Resources		
Unavailable revenue - property taxes	30,566	-
Unavailable revenue - special assessments	22,101	-
Total deferred inflows of resources	<u>52,667</u>	<u>-</u>
Fund Balances		
Nonspendable	44,111	-
Restricted	-	-
Committed	-	-
Assigned	-	2,879,292
Unassigned	1,303,331	-
Total fund balances	<u>1,347,442</u>	<u>2,879,292</u>
	<u>\$ 1,507,348</u>	<u>\$ 2,988,416</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,507,348</u>	<u>\$ 2,988,416</u>

See notes to financial statements.

<u>Capital Projects</u>	<u>Debt Service</u>		
Road Improvement Fund (403)	Taxable G.O. Tax Increment Bonds Series 2007B (303)	Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,042,581	\$ 65,394	\$ 1,337,473	\$ 6,788,779
-	-	-	9,406
-	-	-	19,122
846,550	-	-	846,550
-	-	26,892	28,495
-	-	-	25,524
-	-	-	30,566
811	-	-	811
173,868	-	-	195,969
-	-	-	44,111
<u>\$ 2,063,810</u>	<u>\$ 65,394</u>	<u>\$ 1,364,365</u>	<u>\$ 7,989,333</u>
\$ 29,623	\$ -	\$ 115	\$ 193,502
-	846,550	-	846,550
-	-	-	2,809
-	-	1,154	50,944
<u>29,623</u>	<u>846,550</u>	<u>1,269</u>	<u>1,093,805</u>
-	-	-	30,566
174,679	-	-	196,780
<u>174,679</u>	<u>-</u>	<u>-</u>	<u>227,346</u>
-	-	-	44,111
-	-	805,623	805,623
-	-	242,311	242,311
1,859,508	-	315,162	5,053,962
-	(781,156)	-	522,175
<u>1,859,508</u>	<u>(781,156)</u>	<u>1,363,096</u>	<u>6,668,182</u>
<u>\$ 2,063,810</u>	<u>\$ 65,394</u>	<u>\$ 1,364,365</u>	<u>\$ 7,989,333</u>

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**City of Oak Grove
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2018**

	2018
Total fund balances - governmental funds	\$ 6,668,182
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Capital assets	27,800,889
Less accumulated depreciation	(13,275,895)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Compensated absences payable	(47,510)
Net pension liability - city pension	(435,718)
Deferred outflows of resources and deferred Inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred inflows of resources related to pensions	(212,102)
Deferred outflows of resources related to pensions	163,998
Fire relief association net pension asset created through contributions to a defined benefit pension plan which is not recognized in the governmental funds.	464,625
Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
Property taxes	30,566
Special assessments	811
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred special assessments	195,969
Total net position - governmental activities	\$ 21,353,815

City of Oak Grove
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2018

	General Fund (101, 203, 204, 205)	Capital Projects	
		Asset Replacement Fund (410, 411, 412, 413)	Road Improvement Fund (403)
Revenues			
Property taxes	\$ 2,172,250	\$ -	\$ -
Tax increments	-	-	-
Special assessments	4,170	-	86,770
Licenses and permits	217,883	-	4,639
Intergovernmental	455,881	-	427,926
Charges for services	11,491	-	-
Fines and forfeitures	21,632	-	-
Miscellaneous			
Investment income	7,693	30,307	10,870
Contributions and donations	13,725	-	-
Other	29,461	-	8,367
Total revenues	<u>2,934,186</u>	<u>30,307</u>	<u>538,572</u>
Expenditures			
Current			
General government	704,689	-	-
Public safety	1,076,120	-	-
Public works	555,275	-	-
Sanitation	-	-	-
Parks and recreation	64,656	-	-
Economic development	-	-	-
Debt service			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay			
General government	-	49,041	-
Public safety	22,919	525,064	-
Public works	132,685	18,875	1,028,540
Parks and recreation	-	-	-
Total expenditures	<u>2,556,344</u>	<u>592,980</u>	<u>1,028,540</u>
Excess of revenues over (under) expenditures	377,842	(562,673)	(489,968)
Other Financing Sources (Uses)			
Proceeds from sale of capital asset	4,642	10,750	-
Transfers in	-	200,000	100,000
Transfers out	(635,063)	-	-
Total other financing sources (uses)	<u>(630,421)</u>	<u>210,750</u>	<u>100,000</u>
Net change in fund balances	(252,579)	(351,923)	(389,968)
Fund Balances			
Beginning of year	<u>1,600,021</u>	<u>3,231,215</u>	<u>2,249,476</u>
End of year	<u>\$ 1,347,442</u>	<u>\$ 2,879,292</u>	<u>\$ 1,859,508</u>

See notes to financial statements.

<u>Debt Service</u>		
<u>Taxable G.O.</u>		
<u>Tax Increment</u>	<u>Nonmajor</u>	<u>Total</u>
<u>Bonds Series</u>	<u>Governmental</u>	<u>Governmental</u>
<u>2007B (303)</u>	<u>Funds</u>	<u>Funds</u>
\$ -	\$ 13,150	\$ 2,185,400
25,557	-	25,557
-	-	90,940
-	-	222,522
-	42,456	926,263
-	11,526	23,017
-	-	21,632
894	13,329	63,093
-	90,000	103,725
-	3,500	41,328
26,451	173,961	3,703,477
-	2,500	707,189
-	-	1,076,120
-	-	555,275
-	35,712	35,712
-	-	64,656
-	9,549	9,549
1,160,000	55,000	1,215,000
42,511	1,100	43,611
-	-	49,041
-	-	547,983
-	1,041	1,181,141
-	11,862	11,862
1,202,511	116,764	5,497,139
(1,176,060)	57,197	(1,793,662)
-	-	15,392
216,260	335,063	851,323
-	(216,260)	(851,323)
216,260	118,803	15,392
(959,800)	176,000	(1,778,270)
178,644	1,187,096	8,446,452
\$ (781,156)	\$ 1,363,096	\$ 6,668,182

City of Oak Grove
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
Year Ended December 31, 2018

	2018
Net change in fund balances - total governmental funds:	\$ (1,778,270)
Amounts reported for governmental activities in the Statement of Activities are different because:	
<p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlay	1,790,027
Expenses not capitalized	(126,702)
Depreciation expense	(910,735)
Loss on Disposal	(16,358)
<p>Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.</p>	
	(5,593)
<p>Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.</p>	
Pension expense	64,603
<p>Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no impact on net position in the Statement of Activities.</p>	
	1,215,000
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	29,370
<p>Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Deferred special assessments	65,690
<p>Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are not revenues in the funds.</p>	
Delinquent property taxes	(1,139)
Change in net position of governmental activities	\$ 325,893

City of Oak Grove
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2018

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget - Over (Under)
Revenues			
Property taxes	\$ 2,170,742	\$ 2,172,250	\$ 1,508
Special assessments	-	4,170	4,170
Licenses and permits	186,800	217,883	31,083
Intergovernmental	294,000	455,881	161,881
Charges for services	5,050	11,491	6,441
Fines and forfeitures	25,000	21,632	(3,368)
Miscellaneous			
Investment income	12,000	7,693	(4,307)
Contributions and donations	2,000	13,725	11,725
Other	20,000	29,461	9,461
Total revenues	2,715,592	2,934,186	218,594
Expenditures			
Current			
General government	720,750	704,689	(16,061)
Public safety	988,452	1,076,120	87,668
Public works	533,994	555,275	21,281
Parks and recreation	76,479	64,656	(11,823)
Capital outlay			
Public safety	57,000	22,919	(34,081)
Public works	123,000	132,685	9,685
Total expenditures	2,499,675	2,556,344	56,669
Excess of revenues over expenditures	215,917	377,842	161,925
Other financing sources (uses)			
Proceeds from sale of capital asset	-	4,642	4,642
Transfers out	(300,000)	(635,063)	(335,063)
Total other financing sources (uses)	(300,000)	(630,421)	(330,421)
Net change in fund balance	\$ (84,083)	(252,579)	\$ (168,496)
Fund Balance			
Beginning of year		1,600,021	
End of year		\$ 1,347,442	

See notes to financial statements.

City of Oak Grove
Statement of Net Position - Proprietary Funds
December 31, 2018

	Sewer - Lake George (611)	Sewer - The Ponds (612)
Assets		
Current assets		
Cash and cash equivalents	\$ 743,920	\$ 221,889
Accounts receivable	15,081	18,623
Special assessment receivable		
Delinquent	672	-
Deferred	75,095	-
Due from other funds	87,280	-
Prepaid items	-	33
Total current assets	922,048	240,545
Noncurrent assets		
Capital assets		
Land	1,521	-
Buildings and improvements	16,276	-
Machinery and equipment	15,501	-
Infrastructure	2,922,313	2,226,770
Total capital assets	2,955,611	2,226,770
Less accumulated depreciation	(1,930,008)	(1,134,759)
Net capital assets	1,025,603	1,092,011
Deferred Outflows of Resources		
Deferred outflows of resources related to pension activity	2,489	2,591
Total assets and deferred outflows of resources	\$ 1,950,140	\$ 1,335,147
Liabilities		
Current liabilities		
Accounts payable	\$ 128	\$ 240
Salaries and benefits payable	843	963
Interest payable	1,776	-
Due to other funds	-	-
Due to other governments	-	-
Amount due within one year	23,000	-
Total current liabilities	25,747	1,203
Noncurrent liabilities		
Bonds payable	278,000	-
Less amount due within one year	(23,000)	-
Net pension liability	11,971	12,466
Total noncurrent liabilities	266,971	12,466
Total liabilities	292,718	13,669
Deferred Inflows of Resources		
Deferred inflows of resources related to pension activity	3,589	3,738
Net Position		
Net investment in capital assets	747,603	1,092,011
Unrestricted	906,230	225,729
Total net position	1,653,833	1,317,740
Total liabilities, deferred inflows of resources, and net position	\$ 1,950,140	\$ 1,335,147

See notes to financial statements.

Water - Lake George (621)	Water - The Ponds (622)	Street Light (601)	Total Proprietary Funds
\$ -	\$ 258,325	\$ 58,143	\$ 1,282,277
3,137	24,284	3,201	64,326
-	-	-	672
-	-	-	75,095
-	-	-	87,280
-	-	-	33
<u>3,137</u>	<u>282,609</u>	<u>61,344</u>	<u>1,509,683</u>
-	-	-	1,521
-	-	-	16,276
12,745	8,464	-	36,710
836,072	802,300	-	6,787,455
848,817	810,764	-	6,841,962
(244,172)	(251,378)	-	(3,560,317)
<u>604,645</u>	<u>559,386</u>	<u>-</u>	<u>3,281,645</u>
598	617	-	6,295
<u>\$ 608,380</u>	<u>\$ 842,612</u>	<u>\$ 61,344</u>	<u>\$ 4,797,623</u>
\$ 1,452	\$ -	\$ -	\$ 1,820
211	211	-	2,228
-	-	-	1,776
87,280	-	-	87,280
-	15,050	-	15,050
-	-	-	23,000
<u>88,943</u>	<u>15,261</u>	<u>-</u>	<u>131,154</u>
-	-	-	278,000
-	-	-	(23,000)
2,874	2,969	-	30,280
<u>2,874</u>	<u>2,969</u>	<u>-</u>	<u>285,280</u>
<u>91,817</u>	<u>18,230</u>	<u>-</u>	<u>416,434</u>
862	890	-	9,079
604,645	559,386	-	3,003,645
(88,944)	264,106	61,344	1,368,465
<u>515,701</u>	<u>823,492</u>	<u>61,344</u>	<u>4,372,110</u>
<u>\$ 608,380</u>	<u>\$ 842,612</u>	<u>\$ 61,344</u>	<u>\$ 4,797,623</u>

City of Oak Grove
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
Year Ended December 31, 2018

	<u>Sewer - Lake George (611)</u>	<u>Sewer - The Ponds (612)</u>	<u>Water - Lake George (621)</u>
Operating revenues			
Charges for services	\$ 92,992	\$ 95,305	\$ 30,682
Miscellaneous operating revenues	-	-	-
Total operating revenues	<u>92,992</u>	<u>95,305</u>	<u>30,682</u>
Operating expenses			
Wages and salaries	15,159	15,786	3,646
Employee benefits	2,820	2,383	382
Materials and supplies	6,653	5,252	2,188
Water purchases	-	-	-
Repairs and maintenance	17,314	18,420	1,323
Professional services	430	41,173	335
Insurance	268	686	462
Utilities	5,931	8,864	4,666
Depreciation	71,282	40,500	28,596
Miscellaneous	246	179	294
Total operating expenses	<u>120,103</u>	<u>133,243</u>	<u>41,892</u>
Operating income (loss)	(27,111)	(37,938)	(11,210)
Nonoperating revenues (expenses)			
Investment income	7,258	2,215	347
Special assessments	3,145	-	-
Refunds and reimbursements	-	197	-
Connection charges	-	7,000	-
Miscellaneous revenue	-	25	-
Interest expense	(4,963)	-	-
Total nonoperating revenues (expenses)	<u>5,440</u>	<u>9,437</u>	<u>347</u>
Change in net position	(21,671)	(28,501)	(10,863)
Net position			
Beginning of year	<u>1,675,504</u>	<u>1,346,241</u>	<u>526,564</u>
End of year	<u>\$ 1,653,833</u>	<u>\$ 1,317,740</u>	<u>\$ 515,701</u>

Water - The Ponds (622)	Street Light (601)	Total Proprietary Funds
\$ 145,441	\$ 9,655	\$ 374,075
225	-	225
<u>145,666</u>	<u>9,655</u>	<u>374,300</u>
3,761	-	38,352
699	-	6,284
1,602	149	15,844
172,393	-	172,393
150	-	37,207
2,131	1,999	46,068
-	-	1,416
-	5,789	25,250
16,893	-	157,271
703	-	1,422
<u>198,332</u>	<u>7,937</u>	<u>501,507</u>
(52,666)	1,718	(127,207)
2,453	591	12,864
-	-	3,145
197	-	394
7,000	-	14,000
(75)	-	(50)
-	-	(4,963)
<u>9,575</u>	<u>591</u>	<u>25,390</u>
(43,091)	2,309	(101,817)
<u>866,583</u>	<u>59,035</u>	<u>4,473,927</u>
<u>\$ 823,492</u>	<u>\$ 61,344</u>	<u>\$ 4,372,110</u>

City of Oak Grove
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2018

	Sewer - Lake George (611)	Sewer - The Ponds (612)	Water - Lake George (621)
Cash Flows - Operating Activities			
Receipts from customers and users	\$ 97,428	\$ 100,547	\$ 32,862
Payments to suppliers	(30,648)	(74,425)	(7,354)
Payments to employees	(18,477)	(19,212)	(4,421)
Net cash flows - operating activities	<u>48,303</u>	<u>6,910</u>	<u>21,087</u>
Cash Flows - Noncapital Financing Activities			
Refunds and reimbursements	-	197	-
Miscellaneous revenue	-	25	-
Payment of due from/to other funds	39,980	-	(39,980)
Net cash flows - noncapital financing activities	<u>39,980</u>	<u>222</u>	<u>(39,980)</u>
Cash Flows - Capital and Related Financing Activities			
Principal paid on debt	(23,000)	-	-
Interest paid on debt	(5,099)	-	-
Special assessments	7,977	-	-
Connection charges	-	7,000	-
Net cash flows - capital and related financing activities	<u>(20,122)</u>	<u>7,000</u>	<u>-</u>
Cash Flows - Investing Activities			
Interest and dividends received	7,258	2,215	347
Net change in cash and cash equivalents	75,419	16,347	(18,546)
Cash and Cash Equivalents			
January 1	<u>668,501</u>	<u>205,542</u>	<u>18,546</u>
December 31	<u>\$ 743,920</u>	<u>\$ 221,889</u>	<u>\$ -</u>
Reconciliation of Operating Gain (Loss) to Net Cash Flows - Operating Activities			
Operating income (loss)	\$ (27,111)	\$ (37,938)	\$ (11,210)
Adjustments to reconcile operating gain (loss) to net cash flows			
Depreciation expense	71,282	40,500	28,596
Pension related activity	(588)	(1,253)	(416)
Accounts receivable	4,436	5,242	2,180
Prepaid items	268	686	462
Accounts payable	(74)	(537)	1,452
Due to other governmental units	-	-	-
Salaries payable	90	210	23
Total adjustments	<u>75,414</u>	<u>44,848</u>	<u>32,297</u>
Net cash flows - operating activities	<u>\$ 48,303</u>	<u>\$ 6,910</u>	<u>\$ 21,087</u>

Water - The Ponds (622)	Street Light (601)	Total Proprietary Funds
\$ 158,386	\$ 9,799	\$ 399,022
(176,580)	(7,937)	(296,944)
(4,576)	-	(46,686)
<u>(22,770)</u>	<u>1,862</u>	<u>55,392</u>
197	-	394
(75)	-	(50)
-	-	-
<u>122</u>	<u>-</u>	<u>344</u>
-	-	(23,000)
-	-	(5,099)
-	-	7,977
<u>7,000</u>	<u>-</u>	<u>14,000</u>
<u>7,000</u>	<u>-</u>	<u>(6,122)</u>
<u>2,453</u>	<u>591</u>	<u>12,864</u>
(13,195)	2,453	62,478
<u>271,520</u>	<u>55,690</u>	<u>1,219,799</u>
<u>\$ 258,325</u>	<u>\$ 58,143</u>	<u>\$ 1,282,277</u>
\$ (52,666)	\$ 1,718	\$ (127,207)
16,893	-	157,271
(139)	-	(2,396)
12,720	144	24,722
-	-	1,416
-	-	841
399	-	399
23	-	346
<u>29,896</u>	<u>144</u>	<u>182,599</u>
<u>\$ (22,770)</u>	<u>\$ 1,862</u>	<u>\$ 55,392</u>

City of Oak Grove
Statement of Fiduciary Net Position
December 31, 2018

	<u>Agency Fund</u> <u>Developer Escrow</u> <u>(801)</u>
Assets	
Cash and investments	<u>\$ 127,683</u>
Liabilities	
Deposits payable	<u>\$ 127,683</u>

City of Oak Grove
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Oak Grove (the "City") is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Blended Component Unit – Reported as if they were part of the City.

Joint Ventures and Jointly Governed Organizations – The relationship of the City with the entity is disclosed.

For each of the categories above, the specific entities are identified as follows:

1. Blended Component Unit

The Oak Grove Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Oak Grove EDA is reported as if it were part of the primary government because the Commissioners consist of the Mayor and each member of the City Council. Each Commissioner's term coincides with their term as Mayor or member of the City Council.

2. Joint Ventures and Jointly Governed Organizations

The Upper Rum River Watershed Management Organization (URRWMO)

The Upper Rum River Watershed Management Organization (URRWMO) is a joint powers organization including the Cities of St. Francis, Oak Grove, Nowthen, Bethel, and portions of the City of East Bethel. A small corner of the City of Ham Lake also falls within the URRWMO. The URRWMO Board is made up of representatives from each of these cities and townships. The organization seeks to maintain the quality of area lakes, rivers, streams, groundwater, and other water resources across municipal boundaries. During 2018, the City made payments of \$9,131 to the organization. Additional financial information can be obtained in the URRWMO's annual reports, which are available at <http://www.urrwmo.org/watershed-plans-reports>.

City of Oak Grove
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

2. Joint Ventures and Jointly Governed Organizations (Continued)

Anoka County Fire Protection Council (ACFPC)

The Anoka County Fire Protection Council (ACFPC) is a joint powers organization including the Cities of Andover, Anoka, Bethel, Blaine, Centerville, Champlin, Circle Pines, Columbia Heights, Coon Rapids, East Bethel, Fridley, Ham Lake, Hilltop, Lexington, Lino Lakes, Mounds View, Nowthen, Oak Grove, Ramsey, Spring Lake Park, St. Francis, and the Township of Linwood. The ACFPC Board is made up of two joint decision-making bodies: Fire Chief Directors for day-to-day operations and programmatic decisions and Elected Official Directors for major financial decisions of ACFPC, which is defined as expenditures totaling \$50,000 or more. The purpose of ACFPC is to join together to improve the efficiency and effectiveness of fire and emergency services to the public within the geographic service area of the Members. Specifically, ACFPC will cooperatively address the Members' long term needs for fire-fighting and emergency equipment, fire records data systems, fire-fighter and EMS training, fire prevention, fire inspection, fire related public education, and other fire and emergency related essentials. Each Member shall pay an annual fee as well as pay its percentage share of ACFPC's annual expenses. During 2018, the City made payments of \$5,078 to the organization.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. The fiduciary funds are only reported in the statement of fiduciary net position and the statement of changes in fiduciary net position at the fund financial statement level. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

Separate financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Aggregate information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type, pension (or other benefit) trust and agency.

City of Oak Grove
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Agency Fund is presented in the fiduciary fund financial statements. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the City, this Fund is not incorporated into the government-wide statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

City of Oak Grove
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have been reported as deferred inflow of resources.

Description of Funds:

Major Governmental Funds:

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

Asset Replacement Fund – This fund is used to account for funds set aside primarily from taxes and used for the replacement of the City's capital assets.

Road Improvement Fund – This fund is used to account for funds set aside from property taxes for the construction and seal coating of City roads.

Taxable G.O. Tax Increment Bonds Series 2007B – This fund is used to collect resources for, and make payments on, this bond.

Proprietary Funds:

Sewer – Lake George Fund – This fund is used to account for the activities related to the operation of the Lake George sewer distribution system.

Sewer – The Ponds Fund – This fund is used to account for the activities related to the operation of The Ponds sewer distribution system.

Water – Lake George Fund – This fund accounts for the operations of the City's water utility in the Lake George area.

Water – The Ponds Fund – This fund accounts for the operations of the City's water utility in The Ponds.

Street Light Fund – This fund accounts for the operations of the City's street light utility.

Agency Fund:

Agency Fund – This fund is used to account for the monies on behalf of developers' escrow accounts.

City of Oak Grove
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures, or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City as well as charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

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

Minnesota Statutes authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

Certain investments for the City are reported at fair value as disclosed in NOTE 4. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

City of Oak Grove
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

2. Property Taxes

The City Council annually adopts a tax levy and certifies it to Anoka County (the "County") in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local school district, and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the City on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The City has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

The City recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

The City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and state credits received by the City in July, December, and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the City the following January) and taxes and credits not received at year end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the City in January is fully offset by deferred inflows of resources because they are not available to finance current expenditures.

3. Special Assessments

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

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City.

If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale. Proceeds of sales from tax forfeit properties are remitted to the City in payment of delinquent special assessments. Pursuant to *Minnesota Statutes*, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural, or seasonal recreational land in which event the property is subject to such sale after five years.

**City of Oak Grove
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

3. Special Assessments (Continued)

The City recognizes special assessment revenue in the period that the assessment roll was adopted by the City Council. Uncollectible special assessments are not material and have not been reported.

Revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. All remaining delinquent and deferred assessments receivable in governmental funds are offset by deferred inflows of resources. In the proprietary funds all special assessment receivables are shown as revenue in the year they are recorded.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

5. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, 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 as noted on the table below and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The City has not reported infrastructure for all streets and bridges, etc. retroactively. The City reports as street infrastructure only those streets financed by assessments since Oak Grove became a city in 1993. Donated capital assets are recorded at acquisition value at the date of donation.

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

<u>Assets</u>	<u>Threshold</u>
Land/land improvements	\$ 10,000
Buildings and improvements	25,000
Machinery and equipment	1,000
Vehicles	5,000
Infrastructure	100,000
Other assets	5,000

**City of Oak Grove
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

5. Capital Assets (Continued)

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

Assets	Years
Buildings	25-40
Building improvements	5-30
Wastewater sewer systems	25-50
Streets	25-50
Vehicles and equipment	3-50
Furniture	15
Office equipment	7-15
Park improvements	10-30

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one item that qualifies for reporting in this category. The City presents deferred outflows of resources on the Statement(s) of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. The City presents deferred inflows of resources on the Governmental Fund Balance Sheet as unavailable revenue. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City presents deferred inflows of resources on the Statement(s) of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

City of Oak Grove
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

7. Pensions

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

8. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In July 2007, the City's policy was amended to a paid time off (PTO) leave policy where vacation and sick were combined into one type of leave pay. All compensatory pay and PTO benefits that are vested as severance 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 a result of employee resignations and retirements. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive extended medical benefits (EMB).

All compensated absences pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured as a result of employee termination or similar circumstances. These liabilities are paid by the governmental fund the employee provided most of its service to. The liability for accrued compensated absences including compensatory pay and PTO leave was estimated at \$47,510 at December 31, 2018.

9. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as an expense in the year the bond is issued. Bonds payable are reported net of the applicable bond premium or discount.

City of Oak Grove
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

9. Long-Term Obligations (Continued)

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

10. Fund Balance

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- **Nonspendable Fund Balances** – These are amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted Fund Balances** – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- **Committed Fund Balances** – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the City Council and that remain binding unless removed by the City Council by subsequent formal action.
- **Assigned Fund Balances** – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed and include all remaining amounts (except for negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable, restricted, or committed. The City Council has delegated authority to assign and remove fund balance assignments to the Finance Department.
- **Unassigned Fund Balance** – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

City of Oak Grove
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

10. Fund Balance (Continued)

b. Minimum Fund Balance

The City's target General Fund balance is to maintain an unrestricted fund balance of an amount not less than 35% of the next year's budgeted expenditures of the General Fund.

11. Net Position

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

12. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

13. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and the Oak Grove EDA Special Revenue Fund. Budgeted expenditure appropriations lapse at year-end. Financial controls for debt service funds are achieved through bond indenture provisions. Project-length financial plans are adopted for all capital project funds.

City of Oak Grove
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)**

13. Budgetary Information (Continued)

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

1. The City's Consulting Finance Manager submits to the City Council a proposed operating budget, which includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The preliminary property tax levy is legally enacted through passage of a resolution and certified to the County by September 15 of each year.
4. The final budget is legally adopted through the passage of a resolution by December 20 of each year.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Oak Grove EDA Special Revenue Fund.
6. The City Council may authorize the transfer of budgeted amounts between funds.
7. The legal level of budgetary control (i.e., the level at which expenditures may not exceed appropriations) is the department level. For management purposes, budgetary control is maintained within the department level. Also, inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean it will be spent. The budget process is flexible in that, where the need has been properly demonstrated, the City Administrator can make an adjustment within the department budget. Therefore, there is a constant review process, and expenditures are not approved until it has been determined that 1) adequate funds were appropriated, 2) the expenditure is still necessary, and 3) funds are available.

Both the original and final budgeted amounts as adopted by the City Council are presented in the basic financial statements. Revenues exceeding budgeted amounts are sometimes used for supplemental appropriations during the year. Neither the revenue nor the expenditure budget is adjusted to reflect these items. The City did not make any supplemental appropriations during the year. Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balance

The Taxable G.O. Tax Increment Bonds Series 2007B major fund had a deficit fund balance of \$781,156 at December 31, 2018.

City of Oak Grove
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed in the financial statements as "cash and cash equivalents" or "investments". For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized on the following page.

A. Deposits

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FICUA coverage. As of December 31, 2018, the City's bank balance of \$2,208,253 was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name. The book balance as of December 31, 2018, was as follows:

Checking accounts	\$ 961,756
Certificates of deposit	1,181,400
Total	\$ 2,143,156

B. Investments

Investment Type	Fair Value	Investment Maturities		
		Less than 1 Year	1-5 Years	6-10 Years
Money Market Mutual Fund	\$ 610,718	\$ 610,718	\$ -	\$ -
Brokered certificates of deposit	5,444,865	2,287,717	2,758,664	398,484
Total	\$ 6,055,583	\$ 2,898,435	\$ 2,758,664	\$ 398,484

Concentration of Credit Risk: The City's investment policy states the City will diversify its investment to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market value interest rates. The City's objective relating to interest rate risk is to mitigate declines in market value of investments due to changes in interest rates. The policy states the "prudent investor" standard of judgment should be used by those making investment decisions. The policy calls for diversity in type and maturity in order to achieve market rate of return and prevent loss.

**City of Oak Grove
Notes to Financial Statements**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Custodial Credit Risk – Investments: For an investment, this is the risk in the event of the failure of the counterparty the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy states all investments must be fully insured and registered in the name of the City. Some City Securities held by the City's broker-dealer are not registered to the City, but are held in an insured account. The account is insured up to \$500,000 SIPC insurance and the broker-dealer provides an additional aggregate insurance policy for all of its customers as a group, not individually. It is unknown what portion of this policy is applicable to the City's portfolio.

The City has the following recurring fair value measurements as of December 31, 2018:

- \$104,724 of \$6,055,583 are valued using a quoted market prices (Level 1 inputs)
- \$5,444,865 of \$6,055,583 are valued using various market and industry inputs (Level 2 inputs)

Remaining investments are presented at Net Asset Value.

C. Deposits and Investments

Summary of cash deposits and investments as of December 31, 2018, were as follows:

Deposits (Note 3.A.)	\$ 2,143,156
Investments (Note 3.B.)	<u>6,055,583</u>
Total	<u><u>\$ 8,198,739</u></u>

Deposits and investments are presented in the December 31, 2018, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 8,071,056
Statement of Fiduciary Net Position	<u>127,683</u>
Total deposits and investments	<u><u>\$ 8,198,739</u></u>

City of Oak Grove
Notes to Financial Statements

NOTE 4 – INTERFUND ACTIVITY

A. Interfund Receivables and Payables

At December 31, 2018, the composition of interfund balances was as follows:

Fund Type and Fund	Due from Other Funds	Due to Other Funds
Sewer - Lake George	\$ 87,280	\$ -
Water - Lake George	-	87,280
Total	<u>\$ 87,280</u>	<u>\$ 87,280</u>

The due to/due from balances payable are short-term borrowings to cover negative cash balances at the end of the year.

Fund Type and Fund	Advance from Other Funds	Advance to Other Funds
Taxable G.O. Tax Increment Bonds Series 2007B Debt Service Fund	\$ 846,550	\$ -
Road Improvement Capital Projects Fund	-	846,550
Total	<u>\$ 933,830</u>	<u>\$ 933,830</u>

The advances were made to pay off outstanding bond principal and interest. The interfund loan is repayable solely from, and to the extent, that tax increment financing is available.

B. Interfund Transfers

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

Transfers In	Transfers Out	Amount	Description
Road Improvement Fund	General Fund	\$ 100,000	Future road improvement projects
Asset Replacement Fund	General Fund	200,000	Future capital purchases
Nonmajor governmental funds	General Fund	335,063	Excess fund balance for property tax reduction
Nonmajor governmental funds	Nonmajor governmental funds	<u>216,260</u>	Fund closures contributing to payoff of debt
	Total transfers	<u>\$ 851,323</u>	

City of Oak Grove
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS

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

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,817,139	\$ -	\$ -	\$ 1,817,139
Construction in progress	689,388	2,275	40,084	651,579
Total capital assets not being depreciated	<u>2,506,527</u>	<u>2,275</u>	<u>40,084</u>	<u>2,468,718</u>
Capital assets being depreciated				
Buildings and improvements	3,098,144	11,863	-	3,110,007
Furniture and fixtures	81,079	21,510	-	102,589
Machinery and equipment	4,393,765	575,937	76,128	4,893,574
Infrastructure	16,685,845	1,091,824	551,668	17,226,001
Total capital assets being depreciated	<u>24,258,833</u>	<u>1,701,134</u>	<u>627,796</u>	<u>25,332,171</u>
Less accumulated depreciation for				
Buildings and improvements	1,473,514	84,652	-	1,558,166
Furniture and fixtures	61,195	1,708	-	62,903
Machinery and equipment	2,952,390	190,537	76,128	3,066,799
Infrastructure	8,489,499	633,838	535,310	8,588,027
Total accumulated depreciation	<u>12,976,598</u>	<u>910,735</u>	<u>611,438</u>	<u>13,275,895</u>
Total capital assets being depreciated, net	<u>11,282,235</u>	<u>790,399</u>	<u>16,358</u>	<u>12,056,276</u>
Governmental activities capital assets, net	<u>\$ 13,788,762</u>	<u>\$ 792,674</u>	<u>\$ 56,442</u>	<u>\$ 14,524,994</u>

City of Oak Grove
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 1,521	\$ -	\$ -	\$ 1,521
Capital assets being depreciated				
Buildings and improvements	16,276	-	-	16,276
Machinery and equipment	36,710	-	-	36,710
Infrastructure	6,787,455	-	-	6,787,455
Total capital assets being depreciated	6,840,441	-	-	6,840,441
Less accumulated depreciation for				
Buildings and improvements	3,257	325	-	3,582
Machinery and equipment	17,410	3,134	-	20,544
Infrastructure	3,382,379	153,812	-	3,536,191
Total accumulated depreciation	3,403,046	157,271	-	3,560,317
Total capital assets being depreciated, net	3,437,395	(157,271)	-	3,280,124
Business-type activities capital assets, net	\$ 3,438,916	\$ (157,271)	\$ -	\$ 3,281,645

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

Governmental activities	
General government	\$ 28,108
Public safety	130,252
Public works	727,635
Parks and recreation	24,740
Total depreciation expense - governmental activities	\$ 910,735
Business-type activities	
Sewer - Lake George	\$ 71,282
Sewer - The Ponds	40,500
Water - Lake George	28,596
Water - The Ponds	16,893
Total depreciation expense - governmental activities	\$ 157,271

City of Oak Grove
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT

A. General Obligation Bonds

The City issues General Obligation (G.O.) bonds to provide for financing tax increment projects and street improvements. Debt service is covered respectively by tax increments and special assessments against benefited properties with any shortfalls being paid from general taxes.

G.O. bonds are direct obligations and pledge the full faith and credit of the City.

B. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Governmental activities						
Compensated absences	N/A	N/A	N/A	N/A	<u>\$ 47,510</u>	<u>\$ 39,546</u>
Business-type activities						
G.O. Sewer Revenue Note Series 2010A	04/20/10	1.69%	\$ 490,429	08/20/29	<u>\$ 278,000</u>	<u>\$ 23,000</u>

On April 1, 2010, the City entered into a loan agreement for the G.O. Sewer Revenue Note for \$490,429 with the Minnesota Public Facilities Authority (PFA), with an interest rate of 1.694%. The first interest payment on the note was due August 20, 2010, and semi-annually on February 20 and August 20, thereafter. Principal on the note will be due on August 20 in the years 2010 through 2029. The note financed improvements to the City's wastewater treatment system to connect the Northeast Treatment System to the West Treatment System and to eliminate the Northeast Treatment System. The note is to be repaid from net revenues of the sewer system and special assessments levied on property specially benefited from the improvements. Should net revenues and assessments be insufficient to pay principal and interest when due, the City agrees to levy an ad valorem tax upon all taxable property in the City sufficient to pay such principal and interest.

**City of Oak Grove
Notes to Financial Statements**

NOTE 6 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

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

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Governmental activities				
Bonds payable				
G.O. Bonds	\$ 1,215,000	\$ -	\$ 1,215,000	\$ -
Compensated absences	41,917	45,139	39,546	47,510
Total governmental activities long-term liabilities	<u>\$ 1,256,917</u>	<u>\$ 45,139</u>	<u>\$ 1,254,546</u>	<u>\$ 47,510</u>
Business-type activities				
Notes payable	<u>\$ 301,000</u>	<u>\$ -</u>	<u>\$ 23,000</u>	<u>\$ 278,000</u>

The General Fund typically liquidates the liability related to compensated absences.

D. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term liabilities:

<u>Year Ending December 31,</u>	<u>Business-Type Activities</u>	
	<u>G.O. Revenue Note</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 23,000	\$ 4,709
2020	24,000	4,320
2021	24,000	3,913
2022	24,000	3,507
2023	25,000	3,100
2024-2028	131,000	9,029
2029	<u>27,000</u>	<u>457</u>
Total	<u>\$ 278,000</u>	<u>\$ 29,035</u>

City of Oak Grove
Notes to Financial Statements

NOTE 7 – FUND BALANCES/NET POSITION

A. Fund Balances

Fund balances are classified as listed below to reflect the limitations and restrictions of the respective funds.

	General Fund	Asset Replacement Fund	Road Improvement Fund	Tax Increment Bonds Series 2007B Fund	Nonmajor Governmental Funds	Total
Nonspendable						
Prepaid items	\$ 44,111	\$ -	\$ -	\$ -	\$ -	\$ 44,111
Restricted						
Debt service	-	-	-	-	10,932	10,932
Cable TV - PEG	-	-	-	-	17,169	17,169
Property tax reduction	-	-	-	-	338,624	338,624
Park redevelopment	-	-	-	-	438,898	438,898
Committed						
Recycling services	-	-	-	-	56,046	56,046
EDA	-	-	-	-	186,265	186,265
Assigned						
Asset replacement	-	2,988,416	-	-	-	2,988,416
Road construction/ repair	-	-	1,859,508	-	16,260	1,875,768
Trail maintenance	-	-	-	-	53,309	53,309
Public benefit	-	-	-	-	245,593	245,593
Unassigned	1,303,331	-	-	(781,156)	-	522,175
Total fund balance	<u>\$ 1,347,442</u>	<u>\$ 2,988,416</u>	<u>\$ 1,859,508</u>	<u>\$ (781,156)</u>	<u>\$ 1,363,096</u>	<u>\$ 6,777,306</u>

B. Net Position

Restricted net position is comprised of the total restricted fund balances in the governmental funds plus the effect of the conversion to the government-wide net position.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

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

City of Oak Grove
Notes to Financial Statements

NOTE 8 – RISK MANAGEMENT (CONTINUED)

The City's workers' compensation coverage is provided through a pooled self-insurance program through LMCIT. The City pays an annual premium to LMCIT and is subject to supplemental assessments if deemed necessary by LMCIT. For workers compensation, the City enrolls with a state-certified managed care organization and has a \$500 deductible per occurrence to further decrease the cost of coverage. Final premiums are determined after an audit of payroll subsequent to the close of the agreement year and are subject to revisions in rates, payrolls, and experience modification. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

At December 31, 2018, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9 – PENSION PLANS

The city participates in various pension plans, total pension expense for the year ended December 31, 2018 was \$40,248. The components of pension expense are noted in the following plan summaries.

Public Employees' Retirement Association

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by 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 are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

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

City of Oak Grove
Notes to Financial Statements

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

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

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

C. 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

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in calendar year 2018. The City was required to contribute 7.5% for Coordinated Plan members in calendar year 2018. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$44,259. The City's contributions were equal to the required contributions as set by state statute.

**City of Oak Grove
Notes to Financial Statements**

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$465,998 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$15,152. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion share was 0.0084%, which was an increase of 0.0003% from its proportion measured as of June 30, 2017.

City's proportionate share of net pension liability	\$	465,998
State of Minnesota's proportionate share of the net pension liability associated with the City		15,152
Total		\$ 481,150

For the year ended December 31, 2018, the City recognized pension expense of \$42,104 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized \$3,534 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

City of Oak Grove
Notes to Financial Statements

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,914	\$ 14,400
Difference between projected and actual investment earnings	-	41,755
Changes in proportion	15,660	32,478
Changes in actuarial assumptions	47,164	51,082
Contributions paid to PERA subsequent to the measurement date	22,130	-
Total	\$ 96,868	\$ 139,715

\$22,130 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2019	\$ 10,907
2020	(33,946)
2021	(32,211)
2022	(9,727)
Total	\$ (64,977)

**City of Oak Grove
Notes to Financial Statements**

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

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

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

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

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

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

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

**City of Oak Grove
Notes to Financial Statements**

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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	36 %	5.10 %
International stocks	17	5.30
Bonds	20	0.75
Alternative assets	25	5.90
Cash	2	0.00
	<hr/>	
Total	100 %	

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.5%. 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 those assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Oak Grove
Notes to Financial Statements**

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

The following table 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:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the GERP net pension liability	\$ 757,308	\$ 465,998	\$ 225,531

H. Pension Plan Fiduciary Net Position

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

Public Employees Defined Contribution Plan

Council members of the City of Oak Grove are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

The defined contribution plan consists of individual accounts paying a lump-sum benefit. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses; therefore, there is not future liability to the employer. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

**City of Oak Grove
Notes to Financial Statements**

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees Defined Contribution Plan (Continued)

Pension expense for the year is equal to contributions made. Total contributions made by the City during fiscal year 2018 were:

Contribution Amount		Percentage of Covered Payroll		Required Rates
Employee	Employer	Employee	Employer	
\$ 820	\$ 820	5.0%	5.0%	5.0%

Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association

A. Plan Description

The Oak Grove Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2017, the plan covered 34 active firefighters and 18 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

B. Benefits Provided

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

C. Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed \$48,046 in fire state aid to the fund for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2017, were \$0. In addition, the City made voluntary contributions of \$14,000 to the plan.

D. Pension Costs

At December 31, 2018, the City reported a net pension asset of \$464,625 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2017. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The table on the following page presents the changes in net pension liability during the year.

**City of Oak Grove
Notes to Financial Statements**

NOTE 9 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)

D. Pension Costs (Continued)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2016	\$ 1,099,396	\$ 1,397,543	\$ (298,147)
Changes for the year			
Service cost	32,002	-	32,002
Interest on pension liability	65,079	-	65,079
Differences between expected and actual experience	(23,035)	-	(23,035)
Municipal contributions	-	14,000	(14,000)
State contributions	-	48,046	(48,046)
Projected investment return	-	83,853	(83,853)
Adjustment to initial asset transfer	-	-	-
Gain or loss	-	95,970	(95,970)
Benefit payments	(93,500)	(93,500)	-
Administrative expense	-	(1,345)	1,345
Net changes	<u>(19,454)</u>	<u>147,024</u>	<u>(166,478)</u>
Balances at December 31, 2017	<u>\$ 1,079,942</u>	<u>\$ 1,544,567</u>	<u>\$ (464,625)</u>

For the year ended December 31, 2018, the City recognized pension expense of (\$2,266).

At December 31, 2018, the City reported 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 experience	\$ 8,912	\$ 25,644
Difference between projected and actual investment earnings	-	55,822
Subsequent contributions	<u>64,513</u>	<u>-</u>
Total	<u>\$ 73,425</u>	<u>\$ 81,466</u>

**City of Oak Grove
Notes to Financial Statements**

NOTE 9 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)

D. Pension Costs (Continued)

\$64,513 reported as deferred outflows of resources related to pensions resulting from City and State contributions (both statutorily-required and voluntary, as applicable) subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2019		\$ (8,076)
2020		(14,795)
2021		(25,882)
2022		<u>(23,801)</u>
 Total		 <u>\$ (72,554)</u>

E. Actuarial Assumptions

The total pension liability at December 31, 2017, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement eligibility at the later of age 50 or 20 years of service	
Inflation	3.0 %
Investment rate of return	6.0 %

There were no changes in actuarial assumptions in 2017.

F. Discount Rate

The discount rate used to measure the total pension liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Oak Grove
Notes to Financial Statements**

NOTE 9 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)

G. Pension Liability Sensitivity

The following presents the City's net pension asset for the Volunteer Firefighter Fund, calculated using the assumed discount rate as well as what the City's net pension asset would be if it were calculated using a discount rate one percent lower or one percent higher than the current discount rate:

	1% Decrease (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
Net pension asset	\$ 439,678	\$ 464,625	\$ 488,420

H. Plan Investments

Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

**City of Oak Grove
Notes to Financial Statements**

NOTE 9 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)

H. Plan Investments (Continued)

Asset Allocation

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	35 %	5.10 %
International stocks	15	5.30
Bonds	45	0.75
Cash	5	0.00
	<hr/>	
Total	<u>100 %</u>	

The six percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The SBI made no significant changes to their investment policy during Fiscal Year 2017 for the Volunteer Firefighter Fund.

I. Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2018, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

City of Oak Grove
Notes to Financial Statements

NOTE 10 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 83, Certain Asset Retirement Obligations establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending December 31, 2020.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements improves the information that is disclosed in the notes to the financial statements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This statement will be effective for the year ending December 31, 2020.

City of Oak Grove
Notes to Financial Statements

NOTE 18 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED (CONTINUED)

GASB Statement No. 90, Majority Equity Interests improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement will be effective for the year ending December 31, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

**City of Oak Grove
Schedule of City's Proportionate Share
of Net Pension Liability
General Employees Retirement Fund
Last Ten Years**

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share (Amount) of the Net Pension Liability (Asset)</u>	<u>State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City</u>	<u>City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City</u>	<u>City's Covered Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2018	0.0084%	\$ 465,998	\$ 15,152	\$ 481,150	\$ 562,520	82.84%	79.53%
2017	0.0081%	517,099	6,483	523,582	520,307	99.38%	75.90%
2016	0.0089%	722,636	9,421	732,057	549,613	133.19%	68.91%
2015	0.0088%	456,062	-	456,062	506,027	90.13%	78.19%

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

**City of Oak Grove
Schedule of City Contributions
General Employees Retirement Fund
Last Ten Years**

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	\$ 45,079	\$ 45,079	\$ -	\$ 601,053	7.5%
2017	38,801	38,801	-	517,347	7.5%
2016	41,547	41,547	-	553,960	7.5%
2015	40,990	40,990	-	546,533	7.5%

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

City of Oak Grove
Schedule of Changes in Net Pension Liability - Fire Relief Association -
General Employees Retirement Fund
Last Ten Years*

	2014	2015	2016	2017
Total pension liability (TPL)				
Service cost	\$ 35,594	\$ 33,188	\$ 34,114	\$ 32,002
Interest on the pension liability	56,739	60,994	63,286	65,079
Actuarial experience (gains)/losses	40,177	(18,043)	1,457	(23,035)
Benefit payments	68,742	37,542	40,212	93,500
Net change in TPL	61,768	38,597	58,645	(19,454)
TPL - beginning	946,415	1,002,154	1,040,751	1,099,396
TPL - ending	<u>\$ 1,008,183</u>	<u>\$ 1,040,751</u>	<u>\$ 1,099,396</u>	<u>\$ 1,079,942</u>
Plan fiduciary net position (PFNP)				
First state aid	\$ 33,176	\$ 35,691	\$ 36,355	\$ 36,270
Fire supplemental aid	8,027	8,733	8,819	8,776
Supplemental benefit reimbursement	-	1,000	-	3,000
Voluntary municipal contribution	9,466	10,000	10,000	14,000
Required municipal contribution	1,149	-	-	-
Adjustment to initial asset transfer	33,099	-	-	-
Net investment income	76,635	1,659	113,727	179,824
PERA administrative fee	(1,380)	(1,560)	(1,530)	(1,260)
Auditor/accounting fee	(6,385)	-	-	-
SBI investment fee	-	(42)	(99)	(85)
Benefit payments	(68,742)	(37,542)	(40,212)	(93,500)
Net change in PFNP	80,045	17,938	127,060	147,025
PFNP - beginning	1,167,499	1,252,544	1,270,482	1,397,542
PFNP - ending	<u>\$ 1,252,544</u>	<u>\$ 1,270,482</u>	<u>\$ 1,397,542</u>	<u>\$ 1,544,567</u>
Net pension liability/ (asset) - ending	<u>\$ 244,361</u>	<u>\$ 229,731</u>	<u>\$ 298,146</u>	<u>\$ (464,625)</u>
Plan fiduciary net position as a percentage of the total	124.20%	122.1%	127.1%	143.0%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

City of Oak Grove
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

2018 Changes

Changes in Actuarial Assumptions

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

2017 Changes

Changes in Actuarial Assumptions

- The 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% for vested deferred member liability and 3% 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.

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

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SUPPLEMENTARY INFORMATION

**City of Oak Grove
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2018**

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental
Assets				
Cash and investments	\$ 555,312	\$ 10,932	\$ 771,229	\$ 1,337,473
Due from other governments	26,892	-	-	26,892
Total assets	<u>\$ 582,204</u>	<u>\$ 10,932</u>	<u>\$ 771,229</u>	<u>\$ 1,364,365</u>
Liabilities				
Accounts payable	\$ 115	\$ -	\$ -	\$ 115
Advances from other funds	-	-	-	-
Salaries and benefits payable	1,154	-	-	1,154
Total liabilities	<u>1,269</u>	<u>-</u>	<u>-</u>	<u>1,269</u>
Fund Balances				
Restricted	338,624	10,932	456,067	805,623
Committed	242,311	-	-	242,311
Assigned	-	-	315,162	315,162
Unassigned	-	-	-	-
Total fund balances	<u>580,935</u>	<u>10,932</u>	<u>771,229</u>	<u>1,363,096</u>
Total liabilities and fund balances	<u>\$ 582,204</u>	<u>\$ 10,932</u>	<u>\$ 771,229</u>	<u>\$ 1,364,365</u>

City of Oak Grove
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2018

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
Revenues				
Property taxes	\$ 13,150	\$ -	\$ -	\$ 13,150
Tax increments	-	-	-	-
Intergovernmental	42,456	-	-	42,456
Charges for services	11,526	-	-	11,526
Miscellaneous				
Investment income	5,806	70	7,453	13,329
Contributions and donations	-	-	90,000	90,000
Other	-	-	3,500	3,500
Total revenues	<u>72,938</u>	<u>70</u>	<u>100,953</u>	<u>173,961</u>
Expenditures				
Current				
General government	-	-	2,500	2,500
Sanitation	35,712	-	-	35,712
Economic development	6,298	-	3,251	9,549
Debt service				
Principal	-	55,000	-	55,000
Interest and other charges	-	1,100	-	1,100
Capital outlay				
Public works	-	-	1,041	1,041
Parks and recreation	-	-	11,862	11,862
Total expenditures	<u>42,010</u>	<u>56,100</u>	<u>18,654</u>	<u>116,764</u>
Excess of revenues over (under) expenditures	30,928	(56,030)	82,299	57,197
Other Financing Sources (Uses)				
Transfers in	335,063	-	-	335,063
Transfers out	(3,607)	-	(212,653)	(216,260)
Total other financing sources (uses)	<u>331,456</u>	<u>-</u>	<u>(212,653)</u>	<u>118,803</u>
Net change in fund balances	362,384	(56,030)	(130,354)	176,000
Fund Balances				
Beginning of year	<u>218,551</u>	<u>66,962</u>	<u>901,583</u>	<u>1,187,096</u>
End of year	<u>\$ 580,935</u>	<u>\$ 10,932</u>	<u>\$ 771,229</u>	<u>\$ 1,363,096</u>

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SPECIAL REVENUE FUNDS

**City of Oak Grove
Combining Balance Sheet -
Nonmajor Special Revenue Funds
December 31, 2018**

	Special Revenue		
	Recycling Fund (202)	General Fund Oak Grove EDA (210)	Property Tax Reduction (211)
Assets			
Cash and investments	\$ 29,898	\$ 186,790	\$ 338,624
Due from other governments	26,892	-	-
Total assets	<u>\$ 56,790</u>	<u>\$ 186,790</u>	<u>\$ 338,624</u>
Liabilities			
Accounts payable	\$ 115	\$ -	\$ -
Salaries and benefits payable	629	525	-
Total liabilities	<u>744</u>	<u>525</u>	<u>-</u>
Fund Balances			
Restricted	-	-	338,624
Committed	56,046	186,265	-
Total fund balances	<u>56,046</u>	<u>186,265</u>	<u>338,624</u>
Total liabilities and fund balances	<u>\$ 56,790</u>	<u>\$ 186,790</u>	<u>\$ 338,624</u>

<u>Special Revenue</u>		
Subordinate		
<u>Service District</u>		<u>Total Special</u>
<u>(209)</u>		<u>Revenue Funds</u>
\$ -		\$ 555,312
-		26,892
<u>-</u>		<u>582,204</u>
<u>\$ -</u>		<u>\$ 582,204</u>
\$ -		\$ 115
-		1,154
<u>-</u>		<u>1,269</u>
-		338,624
-		242,311
<u>-</u>		<u>580,935</u>
<u>\$ -</u>		<u>\$ 582,204</u>

City of Oak Grove
Combining Statement of Revenues, Expenditures,
and Changes In Fund Balances -
Nonmajor Special Revenue Funds
Year Ended December 31, 2018

	Special Revenue	
	Recycling Fund (202)	General Fund Oak Grove EDA (210)
Revenues		
Property taxes	\$ -	\$ 13,150
Intergovernmental	42,456	-
Charges for services	11,526	-
Miscellaneous		
Investment income	331	1,914
Total revenues	54,313	15,064
 Expenditures		
Current		
Sanitation		
Recycling	35,712	-
Economic development	-	6,298
Total expenditures	35,712	6,298
Excess of revenues over expenditures	18,601	8,766
 Other Financing Sources (Uses)		
Transfers in	-	-
Transfers out	-	-
Total other financing sources (uses)	-	-
Net change in fund balances	18,601	8,766
 Fund Balances		
Beginning of year	37,445	177,499
End of year	\$ 56,046	\$ 186,265

<u>Special Revenue</u>		
<u>Property Tax Reduction (211)</u>	<u>Subordinate Service District (209)</u>	<u>Total Special Revenue Funds</u>
\$ -	\$ -	\$ 13,150
-	-	42,456
-	-	11,526
<u>3,561</u>	-	<u>5,806</u>
<u>3,561</u>	-	<u>72,938</u>
-	-	35,712
-	-	<u>6,298</u>
-	-	<u>42,010</u>
3,561	-	30,928
335,063	-	335,063
-	<u>(3,607)</u>	<u>(3,607)</u>
<u>335,063</u>	<u>(3,607)</u>	<u>331,456</u>
338,624	(3,607)	362,384
-	<u>3,607</u>	<u>218,551</u>
<u>\$ 338,624</u>	<u>\$ -</u>	<u>\$ 580,935</u>

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DEBT SERVICE FUNDS

**City of Oak Grove
Combining Balance Sheet -
Nonmajor Debt Service Funds
December 31, 2018**

	Debt Service
	G.O. Capital Improvement Plan Bonds, Series 2007A (302)
Assets	
Cash and investments	\$ 10,932
Fund Balances	
Restricted	\$ 10,932

City of Oak Grove
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - Nonmajor Debt Service Funds
Year Ended December 31, 2018

	Debt Service
	G.O. Capital Improvement Plan Bonds, Series 2007A (302)
Revenues	
Miscellaneous	
Investment income	\$ 70
Expenditures	
Debt service	
Principal	55,000
Interest and other charges	1,100
Total expenditures	56,100
Excess of revenues (under) expenditures	(56,030)
Fund Balances	
Beginning of year	66,962
End of year	\$ 10,932

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CAPITAL PROJECTS FUNDS

**City of Oak Grove
Combining Balance Sheet -
Nonmajor Capital Projects Funds
December 31, 2018**

	Capital Projects			
	MSA Construction Fund (402)	Trail Maintenance Fund (404)	TIF West Lake George Administration Fund (405)	Park Redevelopment Fund (207)
Assets				
Cash and investments	\$ 16,260	\$ 53,309	\$ -	\$ 438,898
Fund Balances				
Restricted	-	-	-	438,898
Assigned	16,260	53,309	-	-
Total fund balances	\$ 16,260	\$ 53,309	\$ -	\$ 438,898

Capital Projects

<u>Cable TV Franchise Grant Fund (206)</u>	<u>Public Benefit Fund (208)</u>	<u>Total Capital Project Funds</u>
<u>\$ 17,169</u>	<u>\$ 245,593</u>	<u>\$ 771,229</u>
17,169	-	456,067
<u>-</u>	<u>245,593</u>	<u>315,162</u>
<u>\$ 17,169</u>	<u>\$ 245,593</u>	<u>\$ 771,229</u>

City of Oak Grove
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - Nonmajor Capital Projects Funds
Year Ended December 31, 2018

	Capital Projects			
	MSA Construction Fund (402)	Trail Maintenance Fund (404)	TIF West Lake George Administration Fund (405)	Park Redevelopment Fund (207)
Revenues				
Investment income	\$ 125	\$ 556	\$ (150)	\$ 4,357
Contributions and donations	-	-	-	80,000
Other	-	-	-	-
Total revenues	<u>125</u>	<u>556</u>	<u>(150)</u>	<u>84,357</u>
Expenditures				
Current				
General government	-	-	-	-
Economic development	-	-	3,251	-
Capital outlay				
Public works	1,041	-	-	-
Parks and recreation	-	-	-	11,862
Total expenditures	<u>1,041</u>	<u>-</u>	<u>3,251</u>	<u>11,862</u>
Excess of revenues over (under) expenditures	(916)	556	(3,401)	72,495
Other financing sources (uses)				
Transfers out	-	-	(212,653)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(212,653)</u>	<u>-</u>
Net change in fund balances	(916)	556	(216,054)	72,495
Fund Balances				
Beginning of year	<u>17,176</u>	<u>52,753</u>	<u>216,054</u>	<u>366,403</u>
End of year	<u>\$ 16,260</u>	<u>\$ 53,309</u>	<u>\$ -</u>	<u>\$ 438,898</u>

Capital Projects

Cable TV Franchise Grant Fund (206)	Public Benefit Fund (208)	Total Capital Project Funds
\$ 6	\$ 2,559	\$ 7,453
10,000	-	90,000
-	3,500	3,500
<u>10,006</u>	<u>6,059</u>	<u>100,953</u>
-	2,500	2,500
-	-	3,251
-	-	1,041
-	-	11,862
<u>-</u>	<u>2,500</u>	<u>18,654</u>
10,006	3,559	82,299
<u>-</u>	<u>-</u>	<u>(212,653)</u>
<u>-</u>	<u>-</u>	<u>(212,653)</u>
10,006	3,559	(130,354)
<u>7,163</u>	<u>242,034</u>	<u>901,583</u>
<u>\$ 17,169</u>	<u>\$ 245,593</u>	<u>\$ 771,229</u>

City of Oak Grove
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2018

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	Original and Final	Actual Amounts	
Revenues			
Property taxes	\$ 2,170,742	\$ 2,172,250	\$ 1,508
Special assessments	-	4,170	4,170
Licenses and permits	186,800	217,883	31,083
Intergovernmental revenue			
MSA maintenance	160,000	266,708	106,708
Local government aid	96,959	115,653	18,694
Market value credit	-	2,872	2,872
PERA aid	19,041	2,845	(16,196)
Fire aid	3,000	52,803	49,803
Other grants and aids	15,000	15,000	-
Total intergovernmental revenue	<u>294,000</u>	<u>455,881</u>	<u>161,881</u>
Charges for services			
General government	50	20	(30)
Public works	5,000	11,471	6,471
Total charges for services	<u>5,050</u>	<u>11,491</u>	<u>6,441</u>
Fines and forfeitures	25,000	21,632	(3,368)
Miscellaneous revenues			
Investment income	12,000	7,693	(4,307)
Contributions and donations	2,000	13,725	11,725
Other	20,000	29,461	9,461
Total miscellaneous revenues	<u>34,000</u>	<u>50,879</u>	<u>16,879</u>
Total revenues	<u>2,715,592</u>	<u>2,934,186</u>	<u>218,594</u>
Expenditures			
General government			
Mayor and council			
Current	39,250	38,065	(1,185)
Administrative			
Current	304,120	297,869	(6,251)
Finance			
Current	218,200	214,564	(3,636)
Elections			
Current	19,000	18,160	(840)
Planning and zoning			
Current	22,620	26,354	3,734

City of Oak Grove
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2018

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	Original and Final	Actual Amounts	
Expenditures (Continued)			
General government (continued)			
Other general government			
Current	\$ 117,560	\$ 109,677	\$ (7,883)
Total general government	<u>720,750</u>	<u>704,689</u>	<u>(16,061)</u>
Public safety			
Police			
Current	569,000	566,443	(2,557)
Fire			
Current	287,702	379,695	91,993
Capital outlay	57,000	22,919	(34,081)
Total fire	<u>344,702</u>	<u>402,614</u>	<u>57,912</u>
Building and inspections			
Current	131,750	129,982	(1,768)
Total public safety	<u>1,045,452</u>	<u>1,099,039</u>	<u>53,587</u>
Public works			
Streets and highways			
Current			
Street maintenance	427,434	445,226	17,792
Snow and ice removal	81,200	73,905	(7,295)
Street engineering	15,000	25,156	10,156
Watershed	10,360	10,988	628
Total current	<u>533,994</u>	<u>555,275</u>	<u>21,281</u>
Capital outlay	123,000	132,685	9,685
Total public works	<u>656,994</u>	<u>687,960</u>	<u>30,966</u>
Parks and recreation			
Current	<u>76,479</u>	<u>64,656</u>	<u>(11,823)</u>
Total expenditures	<u>2,499,675</u>	<u>2,556,344</u>	<u>56,669</u>
Excess of revenues over expenditures	215,917	377,842	161,925

City of Oak Grove
Detailed Schedule of Revenues, Expenditure, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts		Variance with Final Budget - Over (Under)
	Original and Final				
Expenditures (Continued)					
Other financing sources (uses)					
Proceeds from sale of capital asset	\$ -		\$ 4,642		\$ 4,642
Transfers out	(300,000)		(635,063)		(335,063)
Net change in fund balance	\$ (84,083)		(252,579)		\$ (168,496)
Fund Balance					
Beginning of year			1,600,021		
End of year			\$ 1,347,442		

City of Oak Grove
Statement of Changes in Agency Fund Assets and Liabilities
Year Ended December 31, 2018

	Developer Escrow (801)			
	01/01/18	Additions	Deductions	12/31/18
Assets				
Cash and investments	\$ 54,635	\$ 98,000	\$ 24,952	\$ 127,683
Liabilities				
Deposits payable	\$ 54,635	\$ 98,000	\$ 24,952	127,683

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**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***

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Oak Grove
Oak Grove, 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 Oak Grove, Minnesota, as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 26, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in dark ink that reads "Bergan KDV Ltd." with a period at the end.

Minneapolis, Minnesota
March 26, 2019

Minnesota Legal Compliance
Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Oak Grove
Anoka County, 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 Oak Grove, Minnesota, as of and for the year ended December 31, 2018, and the related notes to financial statements, and have issued our report thereon dated March 26, 2019.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Oak Grove failed to comply with the provisions 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 and the Office of the State Auditor, and is not intended to be, and should not be, used by anyone other than these specified parties.



Minneapolis, Minnesota
March 26, 2019

City of Oak Grove
Schedule of Findings and Responses on Legal Compliance

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Park Dedication Fees Based on Fair Market Value

Minnesota Statutes 462.358 Subd. 2b states cash fees may be accepted in lieu of land for park dedication. However, the fee charged must be based on the fair market value of the land. The City currently charges a flat fee for park dedication.

We recommend the City follow *Minnesota Statutes* regarding park dedication fees.

CORRECTIVE ACTION TAKEN:

The City's relevant Code language has been made to conform to *Minnesota Statutes* 462.358 Subd. 2b.