

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

**Financial Statements**

**December 31, 2016**



**City of Oak Grove  
Table of Contents**

<b>Elected Officials and Administration</b>	1
<b>Independent Auditor's Report</b>	2
<b>Management's Discussion and Analysis</b>	5
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements	
Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	26
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	27
Statement of Net Position – Proprietary Funds	28
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	30
Statement of Cash Flows – Proprietary Funds	32
Statement of Fiduciary Net Position	34
Notes to Financial Statements	35
<b>Required Supplementary Information</b>	
Schedule of City's Proportionate Share of Net Pension Liability – GERS Retirement Fund	68
Schedule of City Contributions – GERS Retirement Fund	69
Schedule of Changes in Net Pension Liability – Fire Relief Association	71
Notes to Required Supplementary Information	73
<b>Supplementary Information</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	76
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	77
Combining Balance Sheet – Nonmajor Special Revenue Funds	80
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds	82
Combining Balance Sheet – Nonmajor Debt Service Funds	86
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Debt Service Funds	87
Combining Balance Sheet – Nonmajor Capital Projects Funds	90

**City of Oak Grove  
Table of Contents**

**Supplementary Information (Continued)**

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Capital Projects Funds	92
Detailed Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	94
Statement of Changes in Agency Fund Assets and Liabilities	97
 <b>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</b>	 99
 <b>Report on Legal Compliance</b>	 101
 <b>Schedule of Finding on Internal Control</b>	 103

**City of Oak Grove  
Elected Officials and Administration  
December 31, 2016**

<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, 2016
Mike Wylie	Council Member	December 31, 2018
Sean Sullivan	Council Member	December 31, 2016
<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, 2016, 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, 2016, 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.



**Other Matters (Continued)**

*Other Information (Continued)*

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 22, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Oak Grove's internal control over financial reporting and compliance.

*BerganKDV Ltd.*

Minneapolis, Minnesota  
March 22, 2017

## **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, 2016.

### **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 \$25,398,680 (net position). Of this amount, \$9,056,679 (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 \$387,905. 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 \$8,573,686, a decrease of \$839,396 in comparison with the prior year.
- At the end of the current year, total fund balance for the General Fund was \$1,470,285, or 63%, of the budgeted 2016 General Fund expenditures.
- The City's total debt decreased \$142,000 during the current year. The decrease was mainly due to yearly principal and interest payments on general obligation (G.O.) bonds.

### **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**

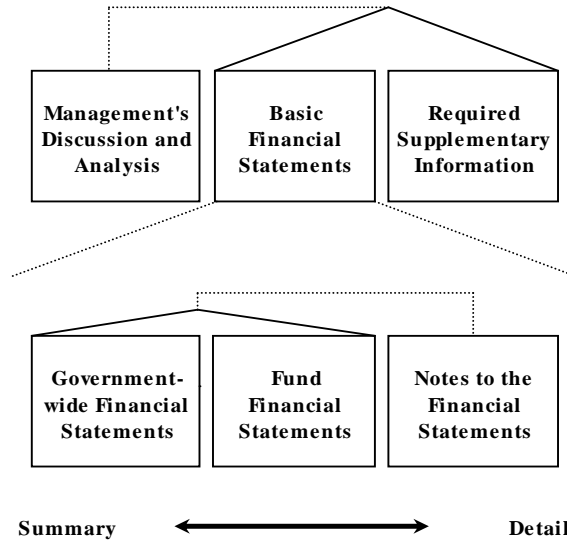


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each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

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

	<b>Fund Financial Statements</b>		
	<b>Government-Wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses, and Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>
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 14 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, Asset Replacement Fund and Road Improvement 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 66 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 \$25,398,680 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 (61.5%) 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		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
<b>Assets</b>						
Current and other assets	\$ 9,131,193	\$ 9,847,671	\$ (716,478)	\$ 1,328,427	\$ 1,182,473	\$ 145,954
Capital assets	13,680,214	12,652,622	1,027,592	3,603,004	3,764,355	(161,351)
Total assets	\$ 22,811,407	\$ 22,500,293	\$ 311,114	\$ 4,931,431	\$ 4,946,828	\$ (15,397)
<b>Deferred outflows of resources</b>						
Deferred outflows of resources related to pension	\$ 417,218	\$ 92,083	\$ (325,135)	\$ 20,198	\$ 3,727	\$ (16,471)
Total assets and deferred outflows of resources	\$ 23,228,625	\$ 22,592,376	\$ (14,021)	\$ 4,951,629	\$ 4,950,555	\$ (31,868)
<b>Liabilities</b>						
Other liabilities	\$ 381,472	\$ 276,081	\$ 105,391	\$ 74,652	\$ 83,829	\$ (9,177)
Long-term liabilities outstanding	1,891,310	1,776,665	114,645	349,127	349,703	(576)
Total liabilities	\$ 2,272,782	\$ 2,052,746	\$ 220,036	\$ 423,779	\$ 433,532	\$ (9,753)
<b>Deferred inflows of resources</b>						
Deferred inflows of resources related to pension	\$ 80,312	\$ 43,500	\$ 36,812	\$ 4,701	\$ 2,378	\$ 2,323
<b>Net position</b>						
Net investment in capital assets	\$ 12,335,214	\$ 11,187,622	\$ 1,147,592	\$ 3,280,004	\$ 3,419,355	\$ (139,351)
Restricted	726,783	745,428	(18,645)	-	-	-
Unrestricted	7,813,534	8,563,080	(749,546)	1,243,145	1,095,290	147,855
Total net position	\$ 20,875,531	\$ 20,496,130	\$ 379,401	\$ 4,523,149	\$ 4,514,645	\$ 8,504

An additional portion of the City's net position (2.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, (35.7%), 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 \$387,905 during the current year.

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

**GOVERNMENTAL ACTIVITIES**

Governmental activities increased the City's net position by \$379,401. Key elements of this increase are as follows:

**Changes in Net Position**

	Governmental Activities			Business-Type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 334,767	\$ 219,967	\$ 114,800	\$ 388,490	\$ 329,505	\$ 58,985
Operating grants and contributions	162,412	92,634	69,778	-	-	-
Capital grants and contributions	917,877	577,612	340,265	90,214	140,533	(50,319)
General revenues						
Taxes						
Property taxes	1,972,839	1,965,929	6,910	-	-	-
Property taxes, levied for debt service	217,153	212,730	4,423	-	-	-
Franchise taxes	-	-	-	-	-	-
Tax increments	11,360	9,110	2,250	-	-	-
Intergovernmental	99,725	136,604	(36,879)	-	-	-
Unrestricted investment earnings	134,867	125,757	9,110	13,963	14,199	(236)
Gain on sale of property	39,000	14,000	25,000	-	-	-
Miscellaneous	-	96	(96)	-	-	-
Total revenues	3,890,000	3,354,439	535,561	492,667	484,237	8,430
<b>Expenses</b>						
General government	812,531	727,005	85,526	-	-	-
Public safety	1,106,766	1,076,388	30,378	-	-	-
Public works	1,338,756	1,327,359	11,397	-	-	-
Sanitation	40,270	35,626	4,644	-	-	-
Parks and recreation	106,298	75,387	30,911	-	-	-
Economic development	28,683	42,016	(13,333)	-	-	-
Interest on long-term debt	77,295	83,046	(5,751)	-	-	-
Water	-	-	-	242,603	189,112	53,491
Sewer	-	-	-	231,530	223,692	7,838
Street Light	-	-	-	10,030	8,614	1,416
Total expenses	3,510,599	3,366,827	143,772	484,163	421,418	62,745
Change in net position	379,401	(12,388)	391,789	8,504	62,819	(54,315)
Net position - January 1	20,496,130	20,508,518	(12,388)	4,514,645	4,451,826	62,819
Net position - December 31	\$ 20,875,531	\$ 20,496,130	\$ 379,401	\$ 4,523,149	\$ 4,514,645	\$ 8,504

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

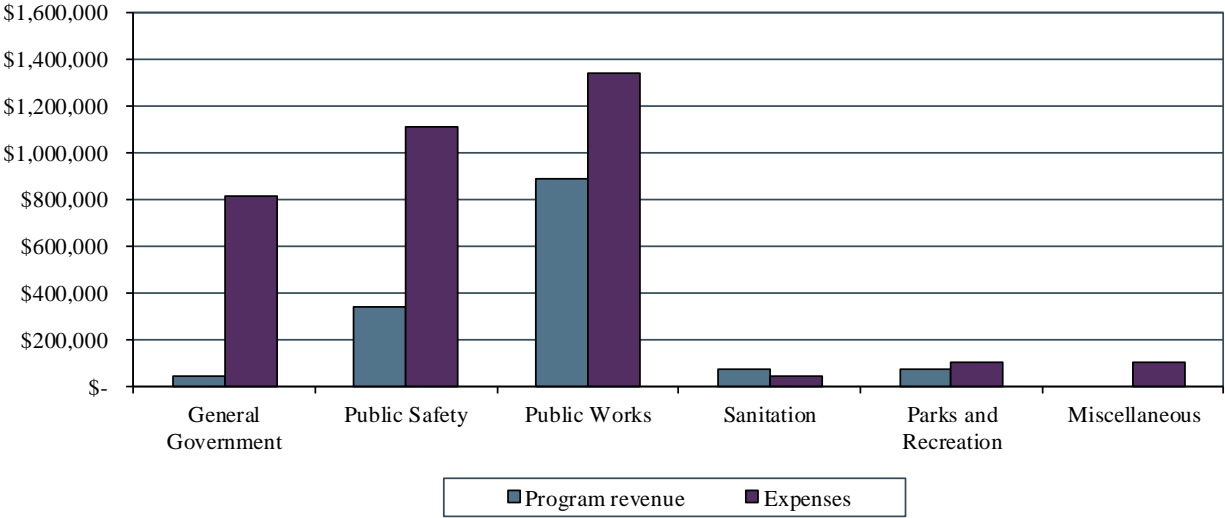
**GOVERNMENTAL ACTIVITIES (CONTINUED)**

The line item with the most significant change was the increase in Capital Grants and Contributions in 2016. The remaining increase in fund balance is related to the reduction of expenses compared to the prior year. Overall, the 2016 revenues were comparable to 2015 with the exception of Capital Grants and Contributions listed above.

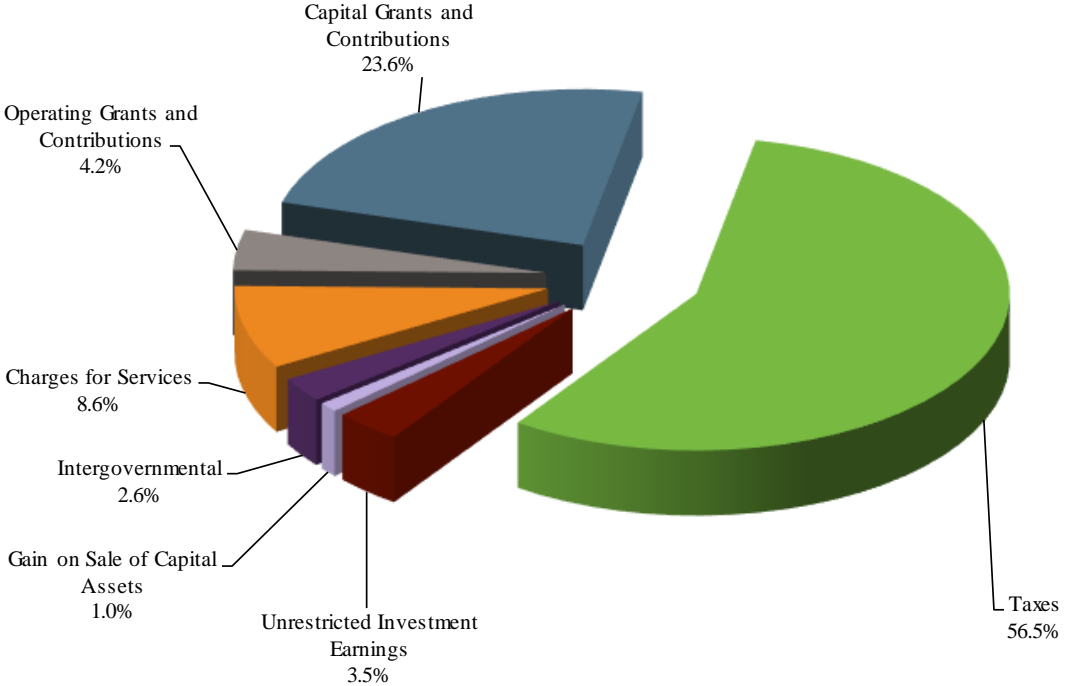
The following graph depicts various governmental activities and shows the program revenues and expenses directly related to those activities.

Net position, based on current year activity, in the governmental activities, increased \$379,401.

**Expenses and Program Revenues - Governmental Activities**



**Revenues by Source - Governmental Activities**

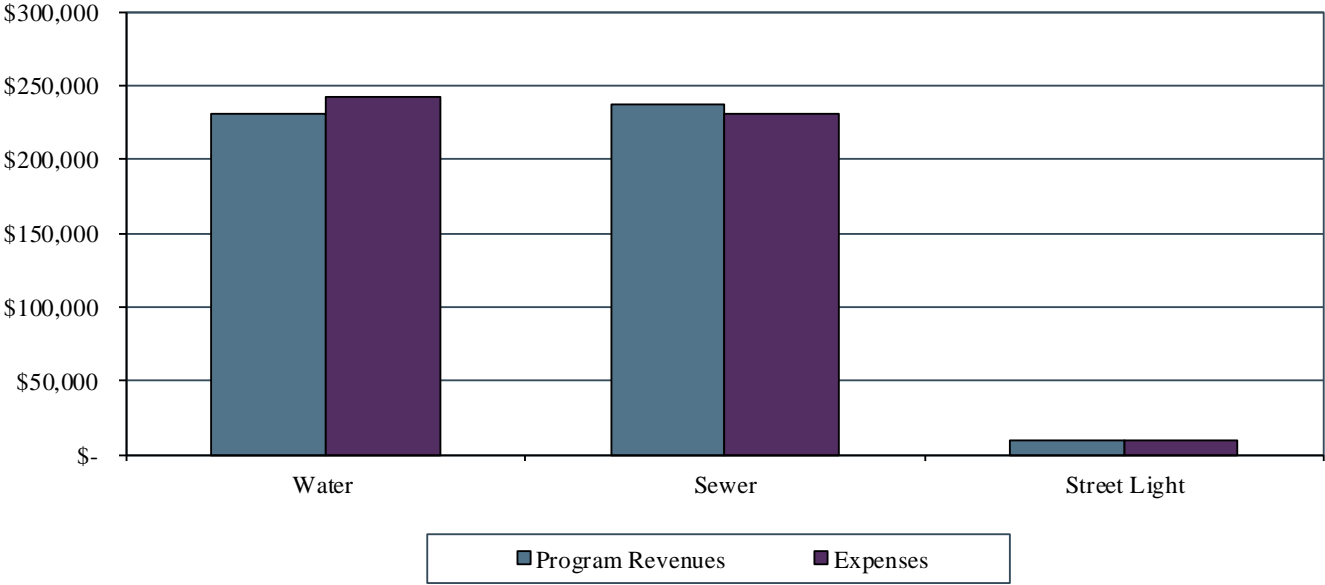


**City of Oak Grove  
Management's Discussion and Analysis**

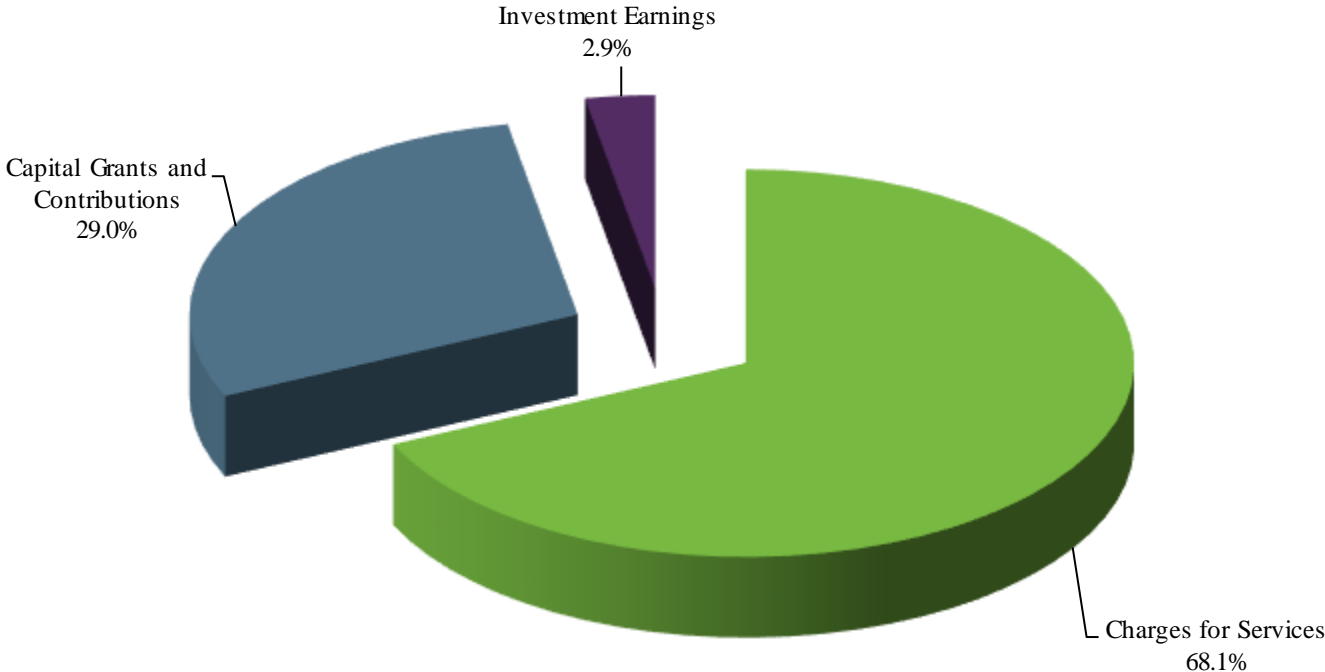
**BUSINESS-TYPE ACTIVITIES**

Business-type activities, based on current year activity, increased the City's net position by \$8,504.

**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 \$8,573,686, a decrease of \$839,396 in comparison with the prior year. Approximately 16.6% of this total amount, or \$1,425,461, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is either: 1) nonspendable (\$44,824), 2) restricted (\$758,788), 3) committed (\$229,419), or assigned (\$6,115,194).

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2016	2015	
General The main reason for the increase in fund balance was due to an excess of revenues over expenditures in the current year.	\$ 1,470,285	\$ 1,396,460	\$ 73,825
Asset Replacement Fund This decrease is primarily due to capital purchases made throughout the year.	3,345,377	3,429,698	(84,321)
Road Improvement This decrease is primarily due to road improvements made in the current year.	2,449,077	3,241,905	(792,828)

**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 \$1,243,145. The total increase in net position for the funds was \$8,504.



**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 \$127,765. Actual revenues were over budget by \$274,260, and expenditures were over budget by \$132,626.

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

- License and permits revenues resulted in a surplus of \$146,977, due to new home construction.
- Miscellaneous revenues resulted in a surplus of \$64,337 due primarily to contributions and insurance refunds and reimbursements.
- Most department expenditures resulted in positive variances due to conscious spending by City management. The largest of the variance being in Public Works, which resulted in a \$45,509 positive variance.
- Public safety resulted in a budget deficit of \$196,427, mainly due to an increase in building inspections which is offset with the increase in building permit revenues described above.

**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, 2016, amounted to \$17,283,218 (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 \$866,241, which represents a 5.01% overall increase.

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

- A new John Deere Mower was purchased for \$122,724 during 2016.
- 2 trucks were purchased for a combined amount of \$65,891 during 2016.
- The Nightingale Street Improvement and CSAH 9 & 22 Intersection Improvement were completed with additional costs totaling \$1,192,170 in 2016.

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		
	2016	2015	Increase	2016	2015	Increase
			(Decrease)			(Decrease)
Land	\$ 1,817,139	\$ 1,747,139	\$ 70,000	\$ 1,521	\$ 1,521	\$ -
Buildings and improvements	1,685,630	1,713,542	(27,912)	13,670	13,672	(2)
Machinery and equipment	1,327,401	1,249,166	78,235	25,503	22,831	2,672
Furniture and fixtures	24,079	28,273	(4,194)	-	-	-
Infrastructure	8,411,162	7,867,749	543,413	3,562,310	3,726,331	(164,021)
Construction in progress	414,803	46,753	368,050	-	-	-
<b>Total</b>	<b>\$ 13,680,214</b>	<b>\$ 12,652,622</b>	<b>\$ 1,027,592</b>	<b>\$ 3,603,004</b>	<b>\$ 3,764,355</b>	<b>\$ (161,351)</b>

**Long-Term Debt** – At the end of the current year, the City had total bonded debt outstanding of \$1,668,000. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

**Outstanding Debt**

	Governmental Activities			Business-type Activities		
	2016	2015	Increase	2016	2015	Increase
			(Decrease)			(Decrease)
302 G.O. Capital Improvement Plan Bonds, Series 2007A	\$ 110,000	\$ 160,000	\$ (50,000)	\$ -	\$ -	\$ -
303 Taxable G.O. Tax Increment Bonds, Series 2007B	1,235,000	1,305,000	(70,000)	-	-	-
Total G.O. Bonds	1,345,000	1,465,000	(120,000)	-	-	-
611 G.O. Sewer Revenue Note Series 2010A	-	-	-	323,000	345,000	(22,000)
Compensated absences payable	44,360	45,870	(1,510)	-	-	-
Net pension liability	674,509	429,359	245,150	48,127	26,703	21,424
<b>Total city indebtedness</b>	<b>\$ 2,063,869</b>	<b>\$ 1,940,229</b>	<b>\$ 123,640</b>	<b>\$ 371,127</b>	<b>\$ 371,703</b>	<b>\$ (576)</b>

The City's total bonded debt decreased by \$142,000 (8.5 percent) during the current year. This was due to scheduled debt service principal payments.

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 51 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 2016 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 2017 budget cycle and this will result in positive changes in the City's tax rate. This will be considered when planning the 2017 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, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and investments (including cash equivalents)	\$ 8,032,524	\$ 1,127,801	\$ 9,160,325
Receivables			
Accounts receivable	5,710	115,146	120,856
Interest receivable	26,005	-	26,005
Due from other governments	606,980	-	606,980
Taxes receivable			
Unremitted	34,551	-	34,551
Delinquent	34,616	-	34,616
Special assessments receivable			
Deferred	116,252	85,395	201,647
Prepaid items	44,824	85	44,909
Capital assets not being depreciated			
Land	1,817,139	1,521	1,818,660
Construction in progress	414,803	-	414,803
Capital assets (net of accumulated depreciation)			
Buildings and improvements	1,685,630	13,670	1,699,300
Furniture and fixtures	24,079	-	24,079
Machinery and equipment	1,327,401	25,503	1,352,904
Infrastructure	8,411,162	3,562,310	11,973,472
Net pension asset - Fire Relief	229,731	-	229,731
Total assets	<u>22,811,407</u>	<u>4,931,431</u>	<u>27,742,838</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources related to Fire Relief pensions	134,125	-	134,125
Deferred outflows of resources related to City pensions	283,093	20,198	303,291
Total deferred outflow of resources	<u>417,218</u>	<u>20,198</u>	<u>437,416</u>
Total assets and deferred outflows of resources	<u>\$ 23,228,625</u>	<u>\$ 4,951,629</u>	<u>\$ 28,180,254</u>
<b>Liabilities</b>			
Accounts payable	\$ 104,788	\$ 3,971	\$ 108,759
Due to other governments	13,990	44,901	58,891
Salaries and benefits payable	58,130	1,728	59,858
Interest payable	32,005	2,052	34,057
Bond principal payable			
Payable within one year	130,000	22,000	152,000
Payable after one year	1,215,000	301,000	1,516,000
Compensated absences payable			
Payable within one year	42,559	-	42,559
Payable after one year	1,801	-	1,801
Net pension liability	674,509	48,127	722,636
Total liabilities	<u>2,272,782</u>	<u>423,779</u>	<u>2,696,561</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to Fire Relief pensions	14,434	-	14,434
Deferred inflows related to City pensions	65,878	4,701	70,579
Total deferred inflows of resources	<u>80,312</u>	<u>4,701</u>	<u>85,013</u>
<b>Net Position</b>			
Net investment in capital assets	12,335,214	3,280,004	15,615,218
Restricted			
Debt service	201,738	-	201,738
Tax increment	204,006	-	204,006
Subordinate service district	3,607	-	3,607
Cable TV - PEG	7,158	-	7,158
Park dedication	310,274	-	310,274
Unrestricted	7,813,534	1,243,145	9,056,679
Total net position	<u>20,875,531</u>	<u>4,523,149</u>	<u>25,398,680</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 23,228,625</u>	<u>\$ 4,951,629</u>	<u>\$ 28,180,254</u>

**City of Oak Grove  
Statement of Activities  
Year Ended December 31, 2016**

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
<b>Governmental activities</b>							
General government	\$ 812,531	\$ 39,579	\$ 2,061	\$ -	\$ (770,891)	\$ -	\$ (770,891)
Public safety	1,106,766	286,327	53,724	1,600	(765,115)	-	(765,115)
Public works	1,338,756	-	42,237	842,277	(454,242)	-	(454,242)
Sanitation	40,270	8,861	61,714	-	30,305	-	30,305
Parks and recreation	106,298	-	2,676	74,000	(29,622)	-	(29,622)
Economic development	28,683	-	-	-	(28,683)	-	(28,683)
Interest on long-term debt	77,295	-	-	-	(77,295)	-	(77,295)
Total governmental activities	<u>3,510,599</u>	<u>334,767</u>	<u>162,412</u>	<u>917,877</u>	<u>(2,095,543)</u>	<u>-</u>	<u>(2,095,543)</u>
<b>Business-type activities</b>							
Water	242,603	188,703	-	42,000	-	(11,900)	(11,900)
Sewer	231,530	189,752	-	48,214	-	6,436	6,436
Street light	10,030	10,035	-	-	-	5	5
Total business-type activities	<u>484,163</u>	<u>388,490</u>	<u>-</u>	<u>90,214</u>	<u>-</u>	<u>(5,459)</u>	<u>(5,459)</u>
<b>Total governmental and business-type activities</b>	<u>\$ 3,994,762</u>	<u>\$ 723,257</u>	<u>\$ 162,412</u>	<u>\$ 1,008,091</u>	<u>(2,095,543)</u>	<u>(5,459)</u>	<u>(2,101,002)</u>
<b>General revenues</b>							
Property taxes					1,972,839	-	1,972,839
Property taxes levied for debt service					217,153	-	217,153
Tax increments					11,360	-	11,360
Intergovernmental					99,725	-	99,725
Unrestricted investment earnings					134,867	13,963	148,830
Gain on sale of capital assets					39,000	-	39,000
Total general revenues					<u>2,474,944</u>	<u>13,963</u>	<u>2,488,907</u>
Change in net position					379,401	8,504	387,905
Net position - beginning					<u>20,496,130</u>	<u>4,514,645</u>	<u>25,010,775</u>
Net position - ending					<u>\$ 20,875,531</u>	<u>\$ 4,523,149</u>	<u>\$ 25,398,680</u>

**City of Oak Grove  
Balance Sheet - Governmental Funds  
December 31, 2016**

	<u>Capital Projects</u>	
	General Fund (101, 203, 204, 205)	Asset Replacement Fund (410, 411, 412, 413)
<b>Assets</b>		
Cash and investments	\$ 1,477,388	\$ 3,345,377
Accounts receivable	5,710	-
Interest receivable	26,005	-
Due from other governments	-	-
Taxes receivable		
Unremitted	34,551	-
Delinquent	34,616	-
Special assessment receivable		
Deferred	42,088	-
Prepaid items	44,824	-
	<u>\$ 1,665,182</u>	<u>\$ 3,345,377</u>
<b>Liabilities</b>		
Accounts payable	\$ 46,944	\$ -
Due to other governments	13,990	-
Salaries and benefits payable	57,259	-
Total liabilities	<u>118,193</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue - property taxes	34,616	-
Unavailable revenue - special assessments	42,088	-
Total deferred inflows of resources	<u>76,704</u>	<u>-</u>
<b>Fund Balances</b>		
Nonspendable	44,824	-
Restricted	-	-
Committed	-	-
Assigned	-	3,345,377
Unassigned	1,425,461	-
Total fund balances	<u>1,470,285</u>	<u>3,345,377</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,665,182</u>	<u>\$ 3,345,377</u>

Capital Projects

<u>Road Improvement Fund (403)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,930,558	\$ 1,279,201	\$ 8,032,524
-	-	5,710
-	-	26,005
576,131	30,849	606,980
-	-	34,551
-	-	34,616
74,164	-	116,252
-	-	44,824
<u>\$ 2,580,853</u>	<u>\$ 1,310,050</u>	<u>\$ 8,901,462</u>
\$ 57,612	\$ 232	\$ 104,788
-	-	13,990
-	871	58,130
<u>57,612</u>	<u>1,103</u>	<u>176,908</u>
-	-	34,616
74,164	-	116,252
<u>74,164</u>	<u>-</u>	<u>150,868</u>
-	-	44,824
-	758,788	758,788
-	229,419	229,419
2,449,077	320,740	6,115,194
-	-	1,425,461
<u>2,449,077</u>	<u>1,308,947</u>	<u>8,573,686</u>
<u>\$ 2,580,853</u>	<u>\$ 1,310,050</u>	<u>\$ 8,901,462</u>



(THIS PAGE LEFT BLANK INTENTIONALLY)

**City of Oak Grove  
Reconciliation of the Balance Sheet to  
the Statement of Net Position - Governmental Funds  
December 31, 2016**

	2016
Total fund balances - governmental funds	\$ 8,573,686
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	26,519,866
Less accumulated depreciation	(12,839,652)
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:	
Bond principal payable	(1,345,000)
Compensated absences payable	(44,360)
Net pension liability - city pension	(674,509)
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	(80,312)
Deferred outflows of resources related to pensions	417,218
Fire relief association net pension asset created through contributions to a defined benefit pension plan which is not recognized in the governmental funds.	229,731
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	34,616
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred special assessments	116,252
Governmental funds do not report a liability for accrued interest until due and payable.	(32,005)
Total net position - governmental activities	\$ 20,875,531

**City of Oak Grove**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended December 31, 2016**

		Capital Projects Asset
	General Fund (101, 203, 204, 205)	Replacement Fund (410, 411, 412, 413)
<b>Revenues</b>		
Property taxes	\$ 1,961,394	\$ -
Tax increments	-	-
Special assessments	4,697	-
Licenses and permits	282,002	-
Intergovernmental	326,807	-
Charges for services	9,107	-
Fines and forfeitures	34,797	-
Miscellaneous		
Investment income	22,524	48,595
Contributions and donations	12,576	-
Other	42,237	-
Total revenues	2,696,141	48,595
<b>Expenditures</b>		
Current		
General government	758,973	-
Public safety	1,066,217	-
Public works	477,502	-
Sanitation	-	-
Parks and recreation	66,502	-
Economic development	-	-
Debt service		
Principal	-	-
Interest and other charges	-	-
Capital outlay		
General government	-	8,273
Public safety	24,162	73,939
Public works	88,916	170,204
Parks and recreation	-	-
Total expenditures	2,482,272	252,416
Excess of revenues over (under) expenditures	213,869	(203,821)
<b>Other Financing Sources (Uses)</b>		
Proceeds from sale of capital asset	19,500	19,500
Transfers in	40,456	100,000
Transfers out	(200,000)	-
Total other financing sources (uses)	(140,044)	119,500
Net change in fund balances	73,825	(84,321)
<b>Fund Balances</b>		
Beginning of year	1,396,460	3,429,698
End of year	\$ 1,470,285	\$ 3,345,377

See notes to financial statements.

Capital Projects

Road Improvement Fund (403)	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 230,672	\$ 2,192,066
-	11,360	11,360
41,038	-	45,735
-	-	282,002
576,131	61,714	964,652
-	8,861	17,968
-	-	34,797
48,522	15,226	134,867
-	4,000	16,576
-	-	42,237
<u>665,691</u>	<u>331,833</u>	<u>3,742,260</u>
-	2,500	761,473
-	-	1,066,217
-	-	477,502
-	37,852	37,852
-	81	66,583
-	28,683	28,683
-	120,000	120,000
-	79,707	79,707
-	-	8,273
-	-	98,101
1,558,519	3,926	1,821,565
-	54,700	54,700
<u>1,558,519</u>	<u>327,449</u>	<u>4,620,656</u>
(892,828)	4,384	(878,396)
-	-	39,000
100,000	-	240,456
-	(40,456)	(240,456)
<u>100,000</u>	<u>(40,456)</u>	<u>39,000</u>
(792,828)	(36,072)	(839,396)
<u>3,241,905</u>	<u>1,345,019</u>	<u>9,413,082</u>
<u>\$ 2,449,077</u>	<u>\$ 1,308,947</u>	<u>\$ 8,573,686</u>

**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, 2016**

	2016
Net change in fund balances - total governmental funds:	\$ (839,396)
Amounts reported for governmental activities in the Statement of Activities are different because:	
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.	
Capital outlay	1,982,639
Expenses not capitalized	(114,450)
Depreciation expense	(910,597)
Developer Contributions	70,000
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	
	1,510
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.	
Pension expense	28,543
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.	
	120,000
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.	
	2,412
Certain revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred special assessments	40,814
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.	
Delinquent property taxes	(2,074)
Change in net position of governmental activities	\$ 379,401

See notes to financial statements.

**City of Oak Grove**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		Variance with Final Budget - Over (Under)
	<u>Original and Final</u>	<u>Actual</u>	
<b>Revenues</b>			
Property taxes	\$ 1,957,470	\$ 1,961,394	\$ 3,924
Special assessments	13,000	4,697	(8,303)
Licenses and permits	135,025	282,002	146,977
Intergovernmental	263,336	326,807	63,471
Charges for services	5,050	9,107	4,057
Fines and forfeitures	35,000	34,797	(203)
Miscellaneous			
Investment income	9,000	22,524	13,524
Contributions and donations	-	12,576	12,576
Other	4,000	42,237	38,237
Total revenues	<u>2,421,881</u>	<u>2,696,141</u>	<u>274,260</u>
<b>Expenditures</b>			
Current			
General government	759,695	758,973	(722)
Public safety	869,790	1,066,217	196,427
Public works	523,011	477,502	(45,509)
Parks and recreation	52,550	66,502	13,952
Capital outlay			
Public safety	26,600	24,162	(2,438)
Public works	118,000	88,916	(29,084)
Total expenditures	<u>2,349,646</u>	<u>2,482,272</u>	<u>132,626</u>
Excess of revenues over expenditures	72,235	213,869	141,634
Other financing sources (uses)			
Proceeds from sale of capital asset	-	19,500	19,500
Transfers in	-	40,456	40,456
Transfers out	(200,000)	(200,000)	-
Total other financing sources (uses)	<u>(200,000)</u>	<u>(140,044)</u>	<u>59,956</u>
Net change in fund balance	<u>\$ (127,765)</u>	73,825	<u>\$ 201,590</u>
<b>Fund Balance</b>			
Beginning of year		<u>1,396,460</u>	
End of year		<u>\$ 1,470,285</u>	

**City of Oak Grove**  
**Statement of Net Position - Proprietary Funds**  
**December 31, 2016**

	<u>Sewer - Lake George (611)</u>	<u>Sewer - The Ponds (612)</u>	<u>Water - Lake George (621)</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 622,354	\$ 162,162	\$ -
Accounts receivable	27,265	31,456	7,482
Special assessment receivable			
Deferred	85,395	-	-
Due from other funds	127,261	-	-
Prepaid items	26	33	26
Total current assets	<u>862,301</u>	<u>193,651</u>	<u>7,508</u>
Noncurrent assets			
Capital assets			
Land	1,521	-	-
Buildings and improvements	16,276	-	-
Machinery and equipment	15,501	-	12,745
Infrastructure	2,922,313	2,226,770	836,072
Total capital assets	<u>2,955,611</u>	<u>2,226,770</u>	<u>848,817</u>
Less accumulated depreciation	<u>(1,787,444)</u>	<u>(1,046,941)</u>	<u>(186,980)</u>
Net capital assets	<u>1,168,167</u>	<u>1,179,829</u>	<u>661,837</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources related to pension activity	<u>6,285</u>	<u>9,789</u>	<u>2,190</u>
Total assets and deferred outflows of resources	<u>\$ 2,036,753</u>	<u>\$ 1,383,269</u>	<u>\$ 671,535</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 955	\$ 1,408	\$ 547
Salaries and benefits payable	691	691	173
Interest payable	2,052	-	-
Due to other funds	-	-	127,261
Due to other governments	-	-	-
Amount due within one year	22,000	-	-
Total current liabilities	<u>25,698</u>	<u>2,099</u>	<u>127,981</u>
Noncurrent liabilities			
Bonds payable	323,000	-	-
Less amount due within one year	(22,000)	-	-
Net pension liability	14,976	23,324	5,218
Total noncurrent liabilities	<u>315,976</u>	<u>23,324</u>	<u>5,218</u>
Total liabilities	<u>341,674</u>	<u>25,423</u>	<u>133,199</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources related to pension activity	<u>1,463</u>	<u>2,278</u>	<u>510</u>
<b>Net Position</b>			
Net investment in capital assets	845,167	1,179,829	661,837
Unrestricted	848,449	175,739	(124,011)
Total net position	<u>1,693,616</u>	<u>1,355,568</u>	<u>537,826</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,036,753</u>	<u>\$ 1,383,269</u>	<u>\$ 671,535</u>

<u>Water - The Ponds (622)</u>	<u>Street Light (601)</u>	<u>Total Proprietary Funds</u>
\$ 291,757	\$ 51,528	\$ 1,127,801
44,600	4,343	115,146
-	-	85,395
-	-	127,261
-	-	85
<u>336,357</u>	<u>55,871</u>	<u>1,455,688</u>
-	-	1,521
-	-	16,276
8,464	-	36,710
<u>802,300</u>	<u>-</u>	<u>6,787,455</u>
810,764	-	6,841,962
(217,593)	-	(3,238,958)
<u>593,171</u>	<u>-</u>	<u>3,603,004</u>
1,934	-	20,198
<u>\$ 931,462</u>	<u>\$ 55,871</u>	<u>\$ 5,078,890</u>
\$ 227	\$ 834	\$ 3,971
173	-	1,728
-	-	2,052
-	-	127,261
44,901	-	44,901
-	-	22,000
<u>45,301</u>	<u>834</u>	<u>201,913</u>
-	-	323,000
-	-	(22,000)
4,609	-	48,127
<u>4,609</u>	<u>-</u>	<u>349,127</u>
<u>49,910</u>	<u>834</u>	<u>551,040</u>
450	-	4,701
593,171	-	3,280,004
<u>287,931</u>	<u>55,037</u>	<u>1,243,145</u>
<u>881,102</u>	<u>55,037</u>	<u>4,523,149</u>
<u>\$ 931,462</u>	<u>\$ 55,871</u>	<u>\$ 5,078,890</u>



**City of Oak Grove**  
**Statement of Revenues, Expenses, and Changes**  
**in Net Position - Proprietary Funds**  
**Year Ended December 31, 2016**

	Sewer - Lake George (611)	Sewer - The Ponds (612)	Water - Lake George (621)
Operating revenues			
Charges for services	\$ 95,650	\$ 93,633	\$ 35,419
Miscellaneous operating revenues	-	-	-
Total operating revenues	<u>95,650</u>	<u>93,633</u>	<u>35,419</u>
Operating expenses			
Wages and salaries	11,481	17,881	4,007
Employee benefits	7,333	4,703	2,130
Materials and supplies	5,484	3,768	6,509
Water purchases	-	-	-
Repairs and maintenance	20,142	17,262	79
Professional services	1,036	2,647	2,935
Utilities	5,663	9,559	4,004
Depreciation	71,283	47,318	28,530
Equipment	-	-	668
Miscellaneous	-	265	268
Total operating expenses	<u>122,422</u>	<u>103,403</u>	<u>49,130</u>
Operating income (loss)	(26,772)	(9,770)	(13,711)
Nonoperating revenues (expenses)			
Investment income	8,112	1,487	(64)
Special assessments	2,714	-	-
Connection charges	3,500	42,000	-
Connection charge fees	-	-	-
Miscellaneous revenue	237	232	-
Interest expense	(5,705)	-	-
Total nonoperating revenues (expenses)	<u>8,858</u>	<u>43,719</u>	<u>(64)</u>
Change in net position	(17,914)	33,949	(13,775)
Net position			
Beginning of year	<u>1,711,530</u>	<u>1,321,619</u>	<u>551,601</u>
End of year	<u>\$ 1,693,616</u>	<u>\$ 1,355,568</u>	<u>\$ 537,826</u>

Water - The Ponds (622)	Street Light (601)	Total Proprietary Funds
\$ 147,331	\$ 10,035	\$ 382,068
2,700	-	2,700
<u>150,031</u>	<u>10,035</u>	<u>384,768</u>
6,360	-	39,729
1,527	-	15,693
6,569	-	22,330
122,318	-	122,318
31	-	37,514
2,871	3,014	12,503
-	7,016	26,242
16,892	-	164,023
-	-	668
185	-	718
<u>156,753</u>	<u>10,030</u>	<u>441,738</u>
(6,722)	5	(56,970)
3,692	736	13,963
-	-	2,714
42,000	-	87,500
(36,720)	-	(36,720)
3,253	-	3,722
-	-	(5,705)
<u>12,225</u>	<u>736</u>	<u>65,474</u>
5,503	741	8,504
<u>875,599</u>	<u>54,296</u>	<u>4,514,645</u>
<u>\$ 881,102</u>	<u>\$ 55,037</u>	<u>\$ 4,523,149</u>

**City of Oak Grove**  
**Statement of Cash Flows - Proprietary Funds**  
**Year Ended December 31, 2016**

	<u>Sewer - Lake George (611)</u>	<u>Sewer - The Ponds (612)</u>	<u>Water - Lake George (621)</u>
<b>Cash Flows - Operating Activities</b>			
Receipts from customers and users	\$ 93,850	\$ 89,035	\$ 36,336
Payments to suppliers	(36,394)	(39,123)	(14,076)
Payments to employees	(13,929)	(22,312)	(4,927)
Net cash flows - operating activities	<u>43,527</u>	<u>27,600</u>	<u>17,333</u>
<b>Cash Flows - Noncapital Financing Activities</b>			
Miscellaneous revenue	237	232	-
Payment of due from/to other funds	14,597	-	(14,597)
Net cash flows - noncapital financing activities	<u>14,834</u>	<u>232</u>	<u>(14,597)</u>
<b>Cash Flows - Capital and Related Financing Activities</b>			
Principal paid on debt	(22,000)	-	-
Interest paid on debt	(5,845)	-	-
Special assessments	16,630	-	-
Connection charges	3,500	42,000	-
Connection charge fees	-	-	-
Acquisition of capital assets	-	-	(2,672)
Net cash flows - capital and related financing activities	<u>(7,715)</u>	<u>42,000</u>	<u>(2,672)</u>
<b>Cash Flows - Investing Activities</b>			
Interest and dividends received	8,112	1,487	(64)
Net change in cash and cash equivalents	58,758	71,319	-
<b>Cash and Cash Equivalents</b>			
January 1	<u>563,596</u>	<u>90,843</u>	<u>-</u>
December 31	<u>\$ 622,354</u>	<u>\$ 162,162</u>	<u>\$ -</u>
<b>Reconciliation of Operating Gain (Loss) to Net Cash Flows - Operating Activities</b>			
Operating income (loss)	\$ (26,772)	\$ (9,770)	\$ (13,711)
Adjustments to reconcile operating gain (loss) to net cash flows			
Depreciation expense	71,283	47,318	28,530
Pension related activity	4,724	633	1,182
Accounts receivable	(1,800)	(4,598)	917
Prepaid items	(26)	(33)	(26)
Accounts payable	(4,043)	(5,589)	413
Due to other governmental units	-	-	-
Salaries payable	161	(361)	28
Total adjustments	<u>70,299</u>	<u>37,370</u>	<u>31,044</u>
Net cash flows - operating activities	<u>\$ 43,527</u>	<u>\$ 27,600</u>	<u>\$ 17,333</u>

Water - The Ponds (622)	Street Light (601)	Total Proprietary Funds
\$ 138,614	\$ 9,308	\$ 367,143
(131,947)	(9,731)	(231,271)
(7,122)	-	(48,290)
<u>(455)</u>	<u>(423)</u>	<u>87,582</u>
3,253	-	3,722
-	-	-
<u>3,253</u>	<u>-</u>	<u>3,722</u>
-	-	(22,000)
-	-	(5,845)
-	-	16,630
42,000	-	87,500
(36,720)	-	(36,720)
-	-	(2,672)
<u>5,280</u>	<u>-</u>	<u>36,893</u>
3,692	736	13,963
11,770	313	142,160
<u>279,987</u>	<u>51,215</u>	<u>985,641</u>
<u>\$ 291,757</u>	<u>\$ 51,528</u>	<u>\$ 1,127,801</u>
\$ (6,722)	\$ 5	\$ (56,970)
16,892	-	164,023
737	-	7,276
(11,417)	(727)	(17,625)
-	-	(85)
227	299	(8,693)
(200)	-	(200)
28	-	(144)
<u>6,267</u>	<u>(428)</u>	<u>144,552</u>
<u>\$ (455)</u>	<u>\$ (423)</u>	<u>\$ 87,582</u>

**City of Oak Grove  
Statement of Fiduciary Net Position  
December 31, 2016**

	<u>Agency Fund</u> <u>Developer Escrow</u> <u>(801)</u>
<b>Assets</b>	
Cash and investments	\$ 320,853
<b>Liabilities</b>	
Deposits payable	\$ 320,853

**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 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 2016, the City made payments of \$7,438 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 ACFPC is a joint powers organization including the Cities of Andover, Anoka, Bethel, Blaine, Centerville, Champlin, Circle Pines, Columbia Heights, Coon Rapids, East Bethel, Fridely, Ham Lake, Hilltop, Lexington, Lino Lakes, Mounds View, Nowthen, Oak Grove, Ramsey, Spring Lake Park and 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 2016, the City made payments of \$3,226 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.

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.

**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)**

**1. Deposits and Investments (Continued)**

Certain investments for the City are reported at fair value as disclosed in Note 3. 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.

**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.

**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**

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.

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.

**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**

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 estimated fair market 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

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

<u>Assets</u>	<u>Years</u>
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

**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)**

**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.

**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.

**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)**

**8. Compensated Absences (Continued)**

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 \$44,360 at December 31, 2016.

**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.

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.

**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)**

**a. Classification (Continued)**

- 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.

**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 and liabilities and deferred inflows 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.



**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)**

**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.

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.

**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)**

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 – 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 as follows.

**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 FCUA coverage. As of December 31, 2016, the City's bank balance of \$1,282,727 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, 2016, was as follows:

Checking accounts	<u><u>\$ 1,163,735</u></u>
-------------------	----------------------------

**B. Investments**

Investment Type	Fair Value	Investment Maturities		
		Less than 1 Year	1-5 Years	6-10 Years
Mutual money market	\$ 562,307	\$ 562,307	\$ -	\$ -
Brokered certificates of deposit	7,755,136	1,435,950	5,858,284	460,902
Total	<u><u>\$ 8,317,443</u></u>	<u><u>\$ 1,998,257</u></u>	<u><u>\$ 5,858,284</u></u>	<u><u>\$ 460,902</u></u>

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

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

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. As of December 31, 2016, the City's investments follow the guidelines stated in its investment policy.

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.

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, 2016:

- \$8,317,443 of \$8,317,443 are valued using a quoted market prices (Level 1 inputs)

**C. Deposits and Investments**

Summary of cash deposits and investments as of December 31, 2016, were as follows:

Deposits (Note 3.A.)	\$ 1,163,735
Investments (Note 3.B.)	<u>8,317,443</u>
Total	<u>\$ 9,481,178</u>

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

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**C. Deposits and Investments (Continued)**

Deposits and investments are presented in the December 31, 2016, basic financial statements as follows:

Statement of Net Position		
Cash and investments	\$	9,160,325
Statement of Fiduciary Net Position		<u>320,853</u>
Total deposits and investments	\$	<u><u>9,481,178</u></u>

**NOTE 3 – INTERFUND ACTIVITY**

**A. Interfund Receivables and Payables**

At December 31, 2016, the composition of interfund balances was as follows:

Fund Type and Fund	Due from Other Funds	Due to Other Funds
Sewer - Lake George	\$ 127,261	\$ -
Water - Lake George	<u>-</u>	<u>127,261</u>
Total	<u><u>\$ 127,261</u></u>	<u><u>\$ 127,261</u></u>

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

**B. Interfund Transfers**

Transfers during the year ended December 31, 2016, 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	100,000	Future capital purchases
General Fund	Nonmajor governmental funds	<u>40,456</u>	Reimburse general fund for use of vehicle
	Total transfers	<u><u>\$ 240,456</u></u>	

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

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,747,139	\$ 70,000	\$ -	\$ 1,817,139
Construction in progress	46,753	1,475,595	1,107,545	414,803
Total capital assets not being depreciated	<u>1,793,892</u>	<u>1,545,595</u>	<u>1,107,545</u>	<u>2,231,942</u>
Capital assets being depreciated				
Buildings and improvements	3,020,011	54,699	-	3,074,710
Furniture and fixtures	81,079	-	-	81,079
Machinery and equipment	4,101,309	253,270	122,708	4,231,871
Infrastructure	15,708,094	1,192,170	-	16,900,264
Total capital assets being depreciated	<u>22,910,493</u>	<u>1,500,139</u>	<u>122,708</u>	<u>24,287,924</u>
Less accumulated depreciation for				
Buildings and improvements	1,306,469	82,611	-	1,389,080
Furniture and fixtures	52,806	4,194	-	57,000
Machinery and equipment	2,852,143	175,035	122,708	2,904,470
Infrastructure	7,840,345	648,757	-	8,489,102
Total accumulated depreciation	<u>12,051,763</u>	<u>910,597</u>	<u>122,708</u>	<u>12,839,652</u>
Total capital assets being depreciated, net	<u>10,858,730</u>	<u>589,542</u>	<u>-</u>	<u>11,448,272</u>
Governmental activities capital assets, net	<u>\$12,652,622</u>	<u>\$ 2,135,137</u>	<u>\$ 1,107,545</u>	<u>\$ 13,680,214</u>

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

**NOTE 4 – 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	34,038	2,672	-	36,710
Infrastructure	6,787,455	-	-	6,787,455
Total capital assets being depreciated	<u>6,837,769</u>	<u>2,672</u>	<u>-</u>	<u>6,840,441</u>
Less accumulated depreciation for				
Buildings and improvements	2,606	326	-	2,932
Machinery and equipment	11,207	3,069	-	14,276
Infrastructure	3,061,122	160,628	-	3,221,750
Total accumulated depreciation	<u>3,074,935</u>	<u>164,023</u>	<u>-</u>	<u>3,238,958</u>
Total capital assets being depreciated, net	<u>3,762,834</u>	<u>(161,351)</u>	<u>-</u>	<u>3,601,483</u>
Business-type activities capital assets, net	<u>\$ 3,764,355</u>	<u>\$ (161,351)</u>	<u>\$ -</u>	<u>\$ 3,603,004</u>

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

Governmental activities	
General government	\$ 31,515
Public safety	105,400
Public works	751,071
Parks and recreation	<u>22,611</u>
Total depreciation expense - governmental activities	<u>\$ 910,597</u>
Business-type activities	
Sewer - Lake George	\$ 71,283
Sewer - The Ponds	47,318
Water - Lake George	28,530
Water - The Ponds	<u>16,892</u>
Total depreciation expense - governmental activities	<u>\$ 164,023</u>

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

**NOTE 5 – LONG-TERM DEBT**

**A. General Obligation Bonds**

The City issues 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						
G.O. bonds						
G.O. Capital Improvement Plan Bond, Series 2007A	11/15/07	3.55%-4.00%	465,000	11/05/18	\$ 110,000	\$ 55,000
Taxable G.O. Tax Increment Bond, Series 2007B	11/15/07	4.75%-6.00%	1,690,000	11/15/28	<u>1,235,000</u>	<u>75,000</u>
Total G.O. bonds					<u>1,345,000</u>	<u>130,000</u>
Compensated absences	N/A	N/A	N/A	N/A	<u>44,360</u>	<u>42,559</u>
Total governmental activities					<u>\$ 1,389,360</u>	<u>\$ 172,559</u>
Business-type activities						
G.O. Sewer Revenue Note Series 2010A	04/20/10	1.69%	\$ 490,429	08/20/29	<u>\$ 323,000</u>	<u>\$ 22,000</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 5 – LONG-TERM DEBT (CONTINUED)**

**C. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2016, was as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Governmental activities				
Bonds payable				
G.O. bonds	\$ 1,465,000	\$ -	\$ 120,000	\$ 1,345,000
Compensated absences	45,870	42,049	43,559	44,360
Total governmental activities long-term liabilities	<u>\$ 1,510,870</u>	<u>\$ 42,049</u>	<u>\$ 163,559</u>	<u>\$ 1,389,360</u>
Business-type activities				
Notes payable	<u>\$ 345,000</u>	<u>\$ -</u>	<u>\$ 22,000</u>	<u>\$ 323,000</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>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>G.O. Bonds</u>		<u>G.O. Revenue Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 130,000	\$ 73,650	\$ 22,000	\$ 5,472
2018	135,000	67,187	23,000	5,099
2019	85,000	61,444	23,000	4,709
2020	90,000	56,412	24,000	4,320
2021	90,000	51,238	24,000	3,913
2022-2026	550,000	164,875	126,000	13,349
2027-2029	265,000	16,050	81,000	2,744
Total	<u>\$ 1,345,000</u>	<u>\$ 490,856</u>	<u>\$ 323,000</u>	<u>\$ 39,606</u>



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

**NOTE 6 – 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	Nonmajor Governmental Funds	Total
Nonspendable					
Prepaid items	\$ 44,824	\$ -	\$ -	\$ -	\$ 44,824
Restricted					
TIF West Lake George	-	-	-	204,006	204,006
Debt service	-	-	-	233,743	233,743
Cable TV - PEG	-	-	-	7,158	7,158
Subordinate service district	-	-	-	3,607	3,607
Park redevelopment	-	-	-	310,274	310,274
Committed					
Recycling services	-	-	-	60,271	60,271
EDA	-	-	-	169,148	169,148
Assigned					
Asset replacement	-	3,345,377	-	-	3,345,377
Road construction/ repair	-	-	2,449,077	25,403	2,474,480
Trail maintenance	-	-	-	52,405	52,405
Public benefit	-	-	-	242,932	242,932
Unassigned	1,425,461	-	-	-	1,425,461
Total fund balance	<u>\$ 1,470,285</u>	<u>\$ 3,345,377</u>	<u>\$ 2,449,077</u>	<u>\$ 1,308,947</u>	<u>\$ 8,573,686</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 7 – 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 7 – 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, 2016, 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 8 – PENSION PLANS**

**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 either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**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.

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

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

**NOTE 8 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

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

General Employees Plan Benefits

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

**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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$41,547. The City's contributions were equal to the required contributions as set by state statute.

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

**NOTE 8 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$722,636 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. 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 \$9,421. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion share was 0.0089%, which was an increase of 0.0001% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$101,276 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$2.809 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 58,703
Difference between projected and actual investment earnings	137,159	-
Changes in proportion	3,865	11,876
Changes in actuarial assumptions	141,493	
Contributions paid to PERA subsequent to the measurement date	<u>20,774</u>	<u>-</u>
	<u>\$ 303,291</u>	<u>\$ 70,579</u>

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

**NOTE 8 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

\$20,774 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2017	\$ 57,381
2018	57,383
2019	71,072
2020	26,102

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2016, 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 were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% for all future years for the General Employees Plan

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

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- 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.

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

**NOTE 8 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative Assets	20	6.40
Cash	2	0.50
	<hr/>	
Total	<u><u>100%</u></u>	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. 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 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 8 – PENSION PLANS (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 G <sub>ERF</sub> net pension liability	\$ 1,026,357	\$ 722,636	\$ 472,452

**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](http://www.mnpera.org)

**Public Employees Defined Contribution Plan**

Number of entity employee's types of entity employees, e.g. council members, school district board members, of the City of Any Town 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.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *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.

Total contributions made by the City during fiscal year 2016 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$ 619	\$ 619	5.0%	5.0%	5.0%

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

**NOTE 8 – PENSION PLANS (CONTINUED)**

**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, 2015, the plan covered 33 active firefighters and 17 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 SVF provides lump-sum 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 per year of service approved by the City. The benefit is selected from 71 possible levels in \$100 increments ranging from \$500 to \$7,500 per year of service. 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 five years at 40% through 20 years at 100%.

**C. Contributions**

The SVF 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 \$45,424 in fire state aid to the plan on behalf of the Oak Grove Fire Department for the year ended December 31, 2015, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the SVF plan for the year ended December 31, 2016, were \$0. In addition, the City made voluntary contributions of \$10,000 to the plan.

**D. Pension Costs**

At December 31, 2016, the City reported a net pension asset of \$229,731 for the SVF plan. The net pension asset was measured as of December 31, 2015. 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 as of December 31, 2015. 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 8 – 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, 2014	\$ 1,002,154	\$ 1,252,544	\$ (244,361)
Changes for the year			
Service cost	33,188	-	33,188
Interest on pension liability	60,994	-	60,994
Differences between expected and actual experience	(18,043)	-	(18,043)
Municipal contributions	-	10,000	(10,000)
State contributions	-	45,424	(45,424)
Projected investment return	-	75,153	(75,153)
Adjustment to initial asset transfer	-	-	-
Gain or loss	-	(67,466)	67,466
Benefit payments	(37,542)	(37,542)	-
Administrative expense	-	(1,602)	1,602
Net changes	<u>38,597</u>	<u>23,967</u>	<u>14,630</u>
Balances at December 31, 2015	<u>\$ 1,040,751</u>	<u>\$ 1,276,511</u>	<u>\$ (229,731)</u>

For the year ended December 31, 2016, the City recognized pension expense of \$(32,763).

At December 31, 2016, 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	\$ 24,107	\$ 14,434
Difference between projected and actual investment earnings	54,844	-
Subsequent contributions	<u>55,174</u>	<u>-</u>
Total	<u>\$ 134,125</u>	<u>\$ 14,434</u>

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

**NOTE 8 – PENSION PLANS (CONTINUED)**

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

**D. Pension Costs (Continued)**

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

2017		\$ 17,808
2018		17,708
2019		17,810
2020		<u>11,091</u>
Total		<u><u>\$ 64,417</u></u>

**E. Actuarial Assumptions**

The total pension liability at December 31, 2015, 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 2015.

**F. Discount Rate**

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that contributions to the SVF plan 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.

**G. Pension Liability Sensitivity**

The following table presents the City's net pension asset for the SVF plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension asset would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>Decrease (5.0%)</u>	<u>Discount Rate (6.0%)</u>	<u>Increase (7.0%)</u>
Net pension asset	<u>\$ 202,882</u>	<u>\$ 229,731</u>	<u>\$ 255,260</u>

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

**NOTE 8 – PENSION PLANS (CONTINUED)**

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

**H. Plan Investments**

Investment Policy

The Minnesota State Board of Investments (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 365A.

Within the requirement 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 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.

Asset Allocation:

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Statewide Volunteer Firefighter Retirement Plan (VOLP) that includes allocations to domestic equity, international equity bonds and cash equivalents. The long-term 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%	5.50%
International stocks	15%	6.00%
Bonds	45%	1.45%
Cash	5%	0.50%
Total	<u>100%</u>	

The 6% long-term 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, not of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations. 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 2016 for Statewide Volunteer Firefighter Retirement Plan.

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

**NOTE 8 – PENSION PLANS (CONTINUED)**

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

**I. Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**NOTE 9 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB has issued GASB statement 80 relating to blending requirements for certain component units. The new statement amends the blending requirements for financial statement presentation of component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement is effective for financial statements for fiscal years beginning after June 15, 2016.

(THIS PAGE LEFT BLANK INTENTIONALLY)

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Oak Grove**  
**Schedule of City's Proportionate Share**  
**of Net Pension Liability - GERS Retirement Fund**  
**Last Ten Years\***

For Fiscal Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability Associated with the City	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0089%	\$ 722,636	\$ 9,421	\$ 732,057	\$ 553,960	132.15%	68.91%
2015	0.0088%	456,062		456,062	546,533	83.45%	78.19%

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

**City of Oak Grove  
Schedule of City Contributions -  
GERF Retirement Fund  
Last Ten Years\***

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2016	\$ 41,221	\$ 41,221	\$ -	\$ 553,960	7.44%
2015	37,952	37,952	-	506,027	7.50%

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



(THIS PAGE LEFT BLANK INTENTIONALLY)

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

	<u>2014</u>	<u>2015</u>
Total pension liability (TPL)		
Service cost	\$ 35,594	\$ 33,188
Interest on the pension liability	56,739	60,994
Actuarial experience (gains)/losses	40,177	(18,043)
Benefit payments	68,742	37,542
Net change in TPL	<u>61,768</u>	<u>38,597</u>
 TPL - beginning	 <u>946,415</u>	 <u>1,002,154</u>
 TPL - ending	 <u><u>\$ 1,008,183</u></u>	 <u><u>\$ 1,040,751</u></u>
 Plan fiduciary net position (PFNP)		
First state aid	\$ 33,176	\$ 35,691
Fire supplemental aid	8,027	8,733
Supplemental benefit reimbursement	-	1,000
Voluntary municipal contribution	9,466	10,000
Required municipal contribution	1,149	-
Adjustment to initial asset transfer	33,099	-
Net investment income	76,635	1,659
PERA administrative fee	(1,380)	(1,560)
Auditor/accounting fee	(6,385)	-
SBI investment fee	-	(42)
Benefit payments	(68,742)	(37,542)
Net change in PFNP	<u>80,045</u>	<u>17,938</u>
 PFNP - beginning	 <u>1,167,499</u>	 <u>1,252,544</u>
 PFNP - ending	 <u><u>\$ 1,252,544</u></u>	 <u><u>\$ 1,270,482</u></u>
 Net pension liability/ (asset) - ending	 <u><u>\$ 244,361</u></u>	 <u><u>\$ 229,731</u></u>
  Plan fiduciary net position as a percentage of the total pension	  124.20%	  122.1%

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

(THIS PAGE LEFT BLANK INTENTIONALLY)

**City of Oak Grove**  
**Notes to Required Supplementary Information**

**GENERAL EMPLOYEES FUND**

**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.

(THIS PAGE LEFT BLANK INTENTIONALLY)

**SUPPLEMENTARY INFORMATION**

**City of Oak Grove  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2016**

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental
<b>Assets</b>				
Cash and investments	\$ 203,280	\$ 233,743	\$ 842,178	\$ 1,279,201
Due from other governments	30,849	-	-	30,849
Total assets	<u>\$ 234,129</u>	<u>\$ 233,743</u>	<u>\$ 842,178</u>	<u>\$ 1,310,050</u>
 <b>Liabilities</b>				
Accounts payable	\$ 232	\$ -	\$ -	\$ 232
Salaries and benefits payable	871	-	-	871
Total liabilities	1,103	-	-	1,103
 <b>Fund Balances</b>				
Restricted	3,607	233,743	521,438	758,788
Committed	229,419	-	-	229,419
Assigned	-	-	320,740	320,740
Total fund balances	<u>233,026</u>	<u>233,743</u>	<u>842,178</u>	<u>1,308,947</u>
Total liabilities and fund balances	<u>\$ 234,129</u>	<u>\$ 233,743</u>	<u>\$ 842,178</u>	<u>\$ 1,310,050</u>

**City of Oak Grove**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Nonmajor Governmental Funds**  
**Year Ended December 31, 2016**

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 13,519	\$ 217,153	\$ -	\$ 230,672
Tax increments	-	-	11,360	11,360
Intergovernmental	61,714	-	-	61,714
Charges for services	8,861	-	-	8,861
Miscellaneous				
Investment income	2,720	424	12,082	15,226
Contributions and donations	-	-	4,000	4,000
Total revenues	<u>86,814</u>	<u>217,577</u>	<u>27,442</u>	<u>331,833</u>
<b>Expenditures</b>				
Current				
General government	-	-	2,500	2,500
Sanitation				
Recycling	37,852	-	-	37,852
Parks and recreation	-	-	81	81
Economic development	21,643	-	7,040	28,683
Debt service				
Principal	-	120,000	-	120,000
Interest and other charges	-	79,707	-	79,707
Capital outlay				
Public works	-	-	3,926	3,926
Parks and recreation	-	-	54,700	54,700
Total expenditures	<u>59,495</u>	<u>199,707</u>	<u>68,247</u>	<u>327,449</u>
Excess of revenues over (under) expenditures	27,319	17,870	(40,805)	4,384
<b>Other Financing Sources (Uses)</b>				
Transfers out	<u>(40,456)</u>	<u>-</u>	<u>-</u>	<u>(40,456)</u>
Net change in fund balances	(13,137)	17,870	(40,805)	(36,072)
<b>Fund Balances</b>				
Beginning of year	<u>246,163</u>	<u>215,873</u>	<u>882,983</u>	<u>1,345,019</u>
End of year	<u>\$ 233,026</u>	<u>\$ 233,743</u>	<u>\$ 842,178</u>	<u>\$ 1,308,947</u>



(THIS PAGE LEFT BLANK INTENTIONALLY)

**SPECIAL REVENUE FUNDS**

**City of Oak Grove  
Combining Balance Sheet -  
Nonmajor Special Revenue Funds  
December 31, 2016**

	Special Revenue	
	Recycling Fund (202)	General Fund Oak Grove EDA (210)
<b>Assets</b>		
Cash and investments	\$ 30,000	\$ 169,673
Due from other governments	30,849	-
	<u>60,849</u>	<u>-</u>
Total assets	<u>\$ 60,849</u>	<u>\$ 169,673</u>
 <b>Liabilities</b>		
Accounts payable	\$ 232	\$ -
Salaries and benefits payable	346	525
Total liabilities	<u>578</u>	<u>525</u>
 <b>Fund Balances</b>		
Restricted	-	-
Committed	60,271	169,148
Total fund balances	<u>60,271</u>	<u>169,148</u>
Total liabilities and fund balances	<u>\$ 60,849</u>	<u>\$ 169,673</u>

<u>Special Revenue</u> Subordinate Service District (209)	<u>Total Special Revenue Funds</u>
\$ 3,607	\$ 203,280
<u>-</u>	<u>30,849</u>
<u>\$ 3,607</u>	<u>\$ 234,129</u>
\$ -	\$ 232
<u>-</u>	<u>871</u>
<u>-</u>	<u>1,103</u>
3,607	3,607
<u>-</u>	<u>229,419</u>
<u>3,607</u>	<u>233,026</u>
<u>\$ 3,607</u>	<u>\$ 234,129</u>

**City of Oak Grove**  
**Combining Statement of Revenues, Expenditures,**  
**and Changes In Fund Balances -**  
**Nonmajor Special Revenue Funds**  
**Year Ended December 31, 2016**

	Special Revenue	
	Recycling Fund (202)	General Fund Oak Grove EDA (210)
<b>Revenues</b>		
Property taxes	\$ -	\$ 13,519
Intergovernmental	61,714	-
Charges for services	8,861	-
Miscellaneous		
Investment income	881	1,839
Total revenues	71,456	15,358
 <b>Expenditures</b>		
Current		
Sanitation		
Recycling	37,852	-
Economic development	-	21,643
Total expenditures	37,852	21,643
Excess of revenues over (under) expenditures	33,604	(6,285)
 <b>Other Financing Sources (Uses)</b>		
Transfers out	(40,456)	-
Net change in fund balances	(6,852)	(6,285)
 <b>Fund Balances</b>		
Beginning of year	67,123	175,433
End of year	\$ 60,271	\$ 169,148

<u>Special Revenue</u>		
<u>Subordinate</u>		
<u>Service District</u>	<u>Total Special</u>	
<u>(209)</u>	<u>Revenue Funds</u>	
\$ -	\$ 13,519	
-	61,714	
-	8,861	
-	2,720	
<u>-</u>	<u>86,814</u>	
-	37,852	
-	21,643	
<u>-</u>	<u>59,495</u>	
-	27,319	
-	(40,456)	
-	(13,137)	
<u>3,607</u>	<u>246,163</u>	
<u>\$ 3,607</u>	<u>\$ 233,026</u>	

(THIS PAGE LEFT BLANK INTENTIONALLY)

**DEBT SERVICE FUNDS**



**City of Oak Grove  
Combining Balance Sheet -  
Nonmajor Debt Service Funds  
December 31, 2016**

	Debt Service G.O. Capital Improvement Plan Bonds, Series 2007A (302)	Debt Service Taxable G.O. Tax Increment Bonds, Series 2007B (303)	Total Debt Service Funds
<b>Assets</b>			
Cash and investments	\$ 76,117	\$ 157,626	\$ 233,743
<b>Fund Balances</b>			
Restricted	\$ 76,117	\$ 157,626	\$ 233,743

**City of Oak Grove**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances - Nonmajor Debt Service Funds**  
**Year Ended December 31, 2016**

	<u>Debt Service</u> G.O. Capital Improvement Plan Bonds, Series 2007A (302)	<u>Debt Service</u> Taxable G.O. Tax Increment Bonds, Series 2007B (303)	<u>Total Debt Service Funds</u>
<b>Revenues</b>			
Property taxes	\$ 62,370	\$ 154,783	\$ 217,153
Miscellaneous			
Investment income	105	319	424
Total revenues	<u>62,475</u>	<u>155,102</u>	<u>217,577</u>
<b>Expenditures</b>			
Debt service			
Principal	50,000	70,000	120,000
Interest and other charges	5,370	74,337	79,707
Total expenditures	<u>55,370</u>	<u>144,337</u>	<u>199,707</u>
Excess of revenues over expenditures	7,105	10,765	17,870
<b>Fund Balances</b>			
Beginning of year	<u>69,012</u>	<u>146,861</u>	<u>215,873</u>
End of year	<u>\$ 76,117</u>	<u>\$ 157,626</u>	<u>\$ 233,743</u>

(THIS PAGE LEFT BLANK INTENTIONALLY)

**CAPITAL PROJECTS FUNDS**

**City of Oak Grove  
Combining Balance Sheet -  
Nonmajor Capital Projects Funds  
December 31, 2016**

Capital Projects				
	MSA Construction Fund (402)	Trail Maintenance Fund (404)	TIF West Lake George Administration Fund (405)	Park Redevelopment Fund (207)
<b>Assets</b>				
Cash and investments	\$ 25,403	\$ 52,405	\$ 204,006	\$ 310,274
<b>Fund Balances</b>				
Restricted	-	-	204,006	310,274
Assigned	25,403	52,405	-	-
Total fund balances	\$ 25,403	\$ 52,405	\$ 204,006	\$ 310,274

Capital Projects

<u>Cable TV Franchise Grant Fund (206)</u>	<u>Public Benefit Fund (208)</u>	<u>Total Capital Project Funds</u>
<u>\$ 7,158</u>	<u>\$ 242,932</u>	<u>\$ 842,178</u>
7,158	-	521,438
<u>-</u>	<u>242,932</u>	<u>320,740</u>
<u>\$ 7,158</u>	<u>\$ 242,932</u>	<u>\$ 842,178</u>

**City of Oak Grove**  
**Combining Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Nonmajor Capital Projects Funds**  
**Year Ended December 31, 2016**

	Capital Projects			
	MSA Construction Fund (402)	Trail Maintenance Fund (404)	TIF West Lake George Administration Fund (405)	Park Redevelopment Fund (207)
<b>Revenues</b>				
Tax increments	\$ -	\$ -	\$ 11,360	\$ -
Miscellaneous				
Investment income	412	727	2,316	5,212
Contributions and donations	-	-	-	4,000
Total revenues	<u>412</u>	<u>727</u>	<u>13,676</u>	<u>9,212</u>
<b>Expenditures</b>				
Current				
General government	-	-	-	-
Park and recreation	-	-	-	81
Human services				
Economic development	-	-	7,040	-
Capital outlay				
Public works	3,926	-	-	-
Parks and recreation	-	-	-	54,700
Total expenditures	<u>3,926</u>	<u>-</u>	<u>7,040</u>	<u>54,781</u>
Excess of revenues over (under) expenditures	(3,514)	727	6,636	(45,569)
<b>Fund Balances</b>				
Beginning of year	<u>28,917</u>	<u>51,678</u>	<u>197,370</u>	<u>355,843</u>
End of year	<u>\$ 25,403</u>	<u>\$ 52,405</u>	<u>\$ 204,006</u>	<u>\$ 310,274</u>

Capital Projects

Cable TV Franchise Grant Fund (206)	Public Benefit Fund (208)	Total Capital Project Funds
\$ -	\$ -	\$ 11,360
6	3,409	12,082
-	-	4,000
<u>6</u>	<u>3,409</u>	<u>27,442</u>
-	2,500	2,500
-	-	81
-	-	7,040
-	-	3,926
-	-	54,700
<u>-</u>	<u>2,500</u>	<u>68,247</u>
6	909	(40,805)
<u>7,152</u>	<u>242,023</u>	<u>882,983</u>
<u>\$ 7,158</u>	<u>\$ 242,932</u>	<u>\$ 842,178</u>



**City of Oak Grove**  
**Detailed Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2016**

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	Original and Final	Actual Amounts	
<b>Revenues</b>			
Property taxes	\$ 1,957,470	\$ 1,961,394	\$ 3,924
Special assessments	13,000	4,697	(8,303)
Licenses and permits	135,025	282,002	146,977
Intergovernmental revenue			
MSA maintenance	153,044	164,597	11,553
Local government aid	95,292	95,292	-
Market value credit	-	4,433	4,433
PERA aid	-	2,061	2,061
Fire aid	-	45,424	45,424
Other grants and aids	15,000	15,000	-
Total intergovernmental revenue	<u>263,336</u>	<u>326,807</u>	<u>63,471</u>
Charges for services			
General government	50	5	(45)
Public works	5,000	9,102	4,102
Total charges for services	<u>5,050</u>	<u>9,107</u>	<u>4,057</u>
Fines and forfeitures	35,000	34,797	(203)
Miscellaneous revenues			
Investment income	9,000	22,524	13,524
Contributions and donations	-	12,576	12,576
Other	4,000	42,237	38,237
Total miscellaneous revenues	<u>13,000</u>	<u>77,337</u>	<u>64,337</u>
Total revenues	<u>2,421,881</u>	<u>2,696,141</u>	<u>274,260</u>
<b>Expenditures</b>			
General government			
Mayor and council			
Current	38,485	36,961	(1,524)
Administrative			
Current	349,400	343,760	(5,640)
Finance			
Current	204,620	204,144	(476)
Elections			
Current	18,100	17,898	(202)
Planning and zoning			
Current	30,620	44,832	14,212

**City of Oak Grove**  
**Detailed Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2016**

	Budgeted Amounts <u>Original and Final</u>	Actual Amounts <u>                  </u>	Variance with Final Budget - Over (Under) <u>                  </u>
<b>Expenditures (Continued)</b>			
General government (continued)			
Other general government			
Current	\$ 118,470	\$ 111,378	\$ (7,092)
Total general government	<u>759,695</u>	<u>758,973</u>	<u>(722)</u>
Public safety			
Police			
Current	552,640	550,189	(2,451)
Fire			
Current	224,550	289,881	65,331
Capital outlay	26,600	24,162	(2,438)
Total fire	<u>251,150</u>	<u>314,043</u>	<u>62,893</u>
Building and inspections			
Current	92,600	226,147	133,547
Total public safety	<u>896,390</u>	<u>1,090,379</u>	<u>193,989</u>
Public works			
Streets and highways			
Current			
Street maintenance	419,300	400,818	(18,482)
Snow and ice removal	79,800	48,990	(30,810)
Street engineering	15,000	19,663	4,663
Watershed	8,911	8,031	(880)
Total current	<u>523,011</u>	<u>477,502</u>	<u>(45,509)</u>
Capital outlay	118,000	88,916	(29,084)
Total public works	<u>641,011</u>	<u>566,418</u>	<u>(74,593)</u>
Parks and recreation			
Current	52,550	66,502	13,952
Total expenditures	<u>2,349,646</u>	<u>2,482,272</u>	<u>132,626</u>
Excess of revenues over expenditures	72,235	213,869	141,634

**City of Oak Grove**  
**Detailed Schedule of Revenues, Expenditure, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2016**

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	Original and Final	Actual Amounts	
Other financing sources (uses)			
Proceeds from sale of capital asset	\$ -	\$ 19,500	\$ 19,500
Transfers in	-	40,456	40,456
Transfers out	(200,000)	(200,000)	-
	<u>          </u>	<u>          </u>	<u>          </u>
Net change in fund balance	<u>\$ (127,765)</u>	73,825	<u>\$ 201,590</u>
<b>Fund Balance</b>			
Beginning of year		<u>1,396,460</u>	
End of year		<u>\$ 1,470,285</u>	

**City of Oak Grove**  
**Statement of Changes in Agency Fund Assets and Liabilities**  
**Year Ended December 31, 2016**

	Developer Escrow (801)			
	<u>01/01/16</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/16</u>
<b>Assets</b>				
Cash and investments	<u>\$ 86,687</u>	<u>\$ 513,422</u>	<u>\$ 279,256</u>	<u>\$ 320,853</u>
<b>Liabilities</b>				
Deposits payable	<u>\$ 86,687</u>	<u>\$ 513,422</u>	<u>\$ 279,256</u>	<u>320,853</u>

(THIS PAGE LEFT BLANK INTENTIONALLY)

**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, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 22, 2017.

**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.

### **Internal Control over Financial Reporting**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Finding on Internal Control as Audit Finding 2016-001, that we consider to be a material weakness.

### **Compliance and Other Matters**

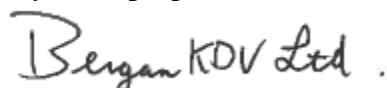
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect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

### **City's Response to Findings**

The City's response to the finding identified in our audit is described in the accompanying Schedule of Finding on Internal Control. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 black ink that reads 'BergankDV Ltd.' followed by a period.

Minneapolis, Minnesota  
March 22, 2017



## Report on 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, 2016, and the related notes to financial statements, and have issued our report thereon dated March 22, 2017.

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.

A handwritten signature in black ink that reads "BerganKDV Ltd." followed by a period.

Minneapolis, Minnesota  
March 22, 2017



(THIS PAGE LEFT BLANK INTENTIONALLY)

**City of Oak Grove**  
**Schedule of Finding on Internal Control**

**CURRENT YEAR INTERNAL CONTROL FINDING:**

**Material Weaknesses:**

**Audit Finding 2016-001 – Material Audit Adjustment**

During the course of our engagement, we proposed a material audit adjustment that would not have been identified as a result of the City's existing internal control system and, therefore, could have resulted in a material misstatement of the City's financial statements. The material misstatement detected as a result of audit procedures was corrected by management.

**City's Response:**

The City will review its process for recording amounts receivable to ensure all year end adjustments are made.