

CITY OF REDWOOD FALLS, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2019

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INTRODUCTORY SECTION

**CITY OF REDWOOD FALLS, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2019**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Tom Quackenbush	Mayor	December 31, 2022
Denise Kerkhoff	Council Member	December 31, 2020
Matt Smith	Council Member	December 31, 2020
John T. Buckley	Council Member	December 31, 2020
Larry Arentson	Council Member	December 31, 2022
James Sandgren	Council Member	December 31, 2022
Keith Muetzel	City Administrator	
Melissa Meyer	Director of Finance & Administrative Services	
Amy Busse	City Attorney	

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redwood Falls Minnesota, (the City), as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redwood Falls as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During the year ended December 31, 2019, the City adopted GASB Statement No. 84, *Fiduciary Activities*. As a result of the implementation of this standard, the General Fund and the Governmental Activities reported a prior period adjustment for the change in accounting principle (see Note 20). Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the total OPEB liability, related ratios and notes, schedule of the proportionate share of the net pension liability, the schedule of pension contributions, the fire relief association schedule of changes in the net pension asset and related ratios, and budgetary comparison information are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Redwood Falls' basic financial statements. The combining statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

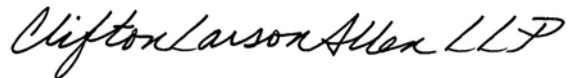
Honorable Mayor and Members of the City Council
City of Redwood Falls

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Alexandria, Minnesota
June 2, 2020

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**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

This section of the annual financial statements of the City of Redwood Falls, Minnesota (the City) presents a discussion and analysis of the City's financial performance during the fiscal year ending December 31, 2019. Please read it in conjunction with the financial statements, which follow this section. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources by \$71,105,383. Of this amount \$18,277,249 may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.

- The City's total net position decreased by \$15,005,035 or 17%, over 2018.
- The City sold the Redwood Area Hospital which had a net position of \$22,207,698 at December 31, 2018 and the sale was effective January 1, 2019. The sale resulted in a loss on disposal of \$15,906,442 and a transfer of assets to governmental activities totaling \$6,301,256.
- The City's governmental funds reported combined ending fund balances of \$14,648,600. Of this total amount, \$2,443,896 is available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,374,098 or 47.5% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Statement of Net Position and Statement of Activities

Our analysis of the City of Redwood Falls begins with the statement of net position and the statement of activities. One of the most important questions asked about the City's finances is, "is the City as a whole better or worse off as a result of the years' activities?" The statement of net position and statement of activities both report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position and Statement of Activities (Continued)

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

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

Fund Financial Statements

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

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

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

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

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

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31-75 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found on pages 76-90 of this report. It consists of budgetary comparison information for certain of the City's governmental funds, the fire relief association schedule of change in the net pension asset and related ratios, schedule of the proportionate share of the net pension liability, the schedule of pension contributions, and the schedule of changes in the total OPEB liability, related ratios and notes.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City of Redwood Falls' net position decreased during 2019 by \$15,005,035. Our analysis below focuses on the net position (see Table 1) and changes in net position (see Table 2) of the City's governmental and business-type activities.

**Table 1
STATEMENT OF NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$ 15,643,036	\$ 13,380,300	\$ 11,894,063	\$ 36,412,346	\$ 27,537,099	\$ 49,792,646
Capital Assets	31,201,037	28,359,089	31,884,394	41,212,206	63,085,431	69,571,295
Total Assets	46,844,073	41,739,389	43,778,457	77,624,552	90,622,530	119,363,941
Deferred Outflows of Resources	1,122,083	1,321,803	134,899	1,773,058	1,256,982	3,094,861
Noncurrent Liabilities Outstanding	3,949,716	4,671,949	11,964,376	21,738,277	15,914,092	26,410,226
Other Liabilities	1,177,434	989,061	1,545,777	4,619,082	2,723,211	5,608,143
Total Liabilities	5,127,150	5,661,010	13,510,153	26,357,359	18,637,303	32,018,369
Deferred Inflows of Resources	1,771,270	1,952,003	365,556	2,378,012	2,136,826	4,330,015
Net Position						
Net Investment in Capital Assets	29,750,628	26,486,432	20,865,084	29,820,590	50,615,712	56,307,022
Restricted	1,506,648	1,614,328	705,774	710,092	2,212,422	2,324,420
Unrestricted	9,810,460	7,347,419	8,466,789	20,131,557	18,277,249	27,478,976
Total Net Position	\$ 41,067,736	\$ 35,448,179	\$ 30,037,647	\$ 50,662,239	\$ 71,105,383	\$ 86,110,418

Governmental Activities

Net position of the City's governmental activities increased by \$5,619,557 or 15.9%. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirement was \$9,810,460 at December 31, 2019. A thorough analysis of governmental activities is discussed below.

Business-Type Activities

The net position of our business-type activities decreased by \$20,624,592 or 40.7%, due to the sale of the Redwood Area Hospital effective January 1, 2019, which had a net position of \$22,207,698 at December 31, 2018. The City recognized a loss on disposal of \$15,906,442 and a transfer of assets to governmental activities totaling \$6,301,256.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

**Table 2
STATEMENT OF ACTIVITIES**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue						
Program Revenues						
Charges for Services	\$ 2,338,302	\$ 1,897,802	\$ 11,664,071	\$ 40,207,178	\$ 14,002,373	\$ 42,104,980
Operating Grants and Contributions	547,146	388,255	136,815	37,366	683,961	425,621
Capital Grants and Contributions	1,810,606	1,996,860	105,777	58,607	1,916,383	2,055,467
General Revenues						
Property Taxes	3,260,511	2,706,725	-	-	3,260,511	2,706,725
Franchise Fees	181,734	181,834	-	-	181,734	181,834
Hotel Taxes	34,295	37,008	-	-	34,295	37,008
Intergovernmental Revenues	1,542,716	1,538,455	-	-	1,542,716	1,538,455
Unrestricted Investment Earnings	522,093	207,877	342,981	112,201	865,074	320,078
Miscellaneous	134,939	208,653	194,438	155,278	329,377	363,931
Total Revenue	<u>10,372,342</u>	<u>9,163,469</u>	<u>12,444,082</u>	<u>40,570,630</u>	<u>22,816,424</u>	<u>49,734,099</u>
Expenses						
General Government	1,434,182	1,670,814	-	-	1,434,182	1,670,814
Public Safety	1,988,213	1,881,355	-	-	1,988,213	1,881,355
Highways & Streets	1,942,301	1,835,898	-	-	1,942,301	1,835,898
Culture and Recreation	2,841,176	2,743,992	-	-	2,841,176	2,743,992
Economic Development	179,282	200,021	-	-	179,282	200,021
Airport	536,593	476,424	-	-	536,593	476,424
Community Development	2,879,559	-	-	-	2,879,559	-
Interest and Fiscal Charges	24,037	54,370	-	-	24,037	54,370
Municipal Liquor Store	-	-	2,147,034	2,148,487	2,147,034	2,148,487
Water Utility	-	-	1,272,997	1,315,104	1,272,997	1,315,104
Sewer Utility	-	-	1,057,570	981,992	1,057,570	981,992
Storm Sewer Utility	-	-	314,067	306,256	314,067	306,256
Electric Utility	-	-	5,473,412	5,880,832	5,473,412	5,880,832
Redwood Area Hospital	-	-	-	26,660,630	-	26,660,630
Total Expenses	<u>11,825,343</u>	<u>8,862,874</u>	<u>10,265,080</u>	<u>37,293,301</u>	<u>22,090,423</u>	<u>46,156,175</u>
Change in Net Position Before Transfers, Special Item, and Contributions	(1,453,001)	300,595	2,179,002	3,277,329	726,001	3,577,924
Special Item - Loss on Disposal of Operations	-	-	(15,906,442)	-	(15,906,442)	-
Transfers and Contributions	595,896	6,728,428	(595,896)	(6,728,428)	-	-
Change in Net Position	<u>5,444,151</u>	<u>7,029,023</u>	<u>(20,624,592)</u>	<u>(3,451,099)</u>	<u>(15,180,441)</u>	<u>3,577,924</u>
Net Position - Beginning of Year	35,448,179	28,419,156	50,662,239	54,301,933	86,110,418	82,721,089
Prior Year Change in Accounting Principle	-	-	-	(188,595)	-	(188,595)
Change in Accounting Principle (See Note 20)	175,406	-	-	-	175,406	-
Net Position - Beginning of Year, As Restated	<u>35,623,585</u>	<u>28,419,156</u>	<u>50,662,239</u>	<u>54,113,338</u>	<u>86,285,824</u>	<u>82,532,494</u>
Net Position - End of Year	<u>\$ 41,067,736</u>	<u>\$ 35,448,179</u>	<u>\$ 30,037,647</u>	<u>\$ 50,662,239</u>	<u>\$ 71,105,383</u>	<u>\$ 86,110,418</u>

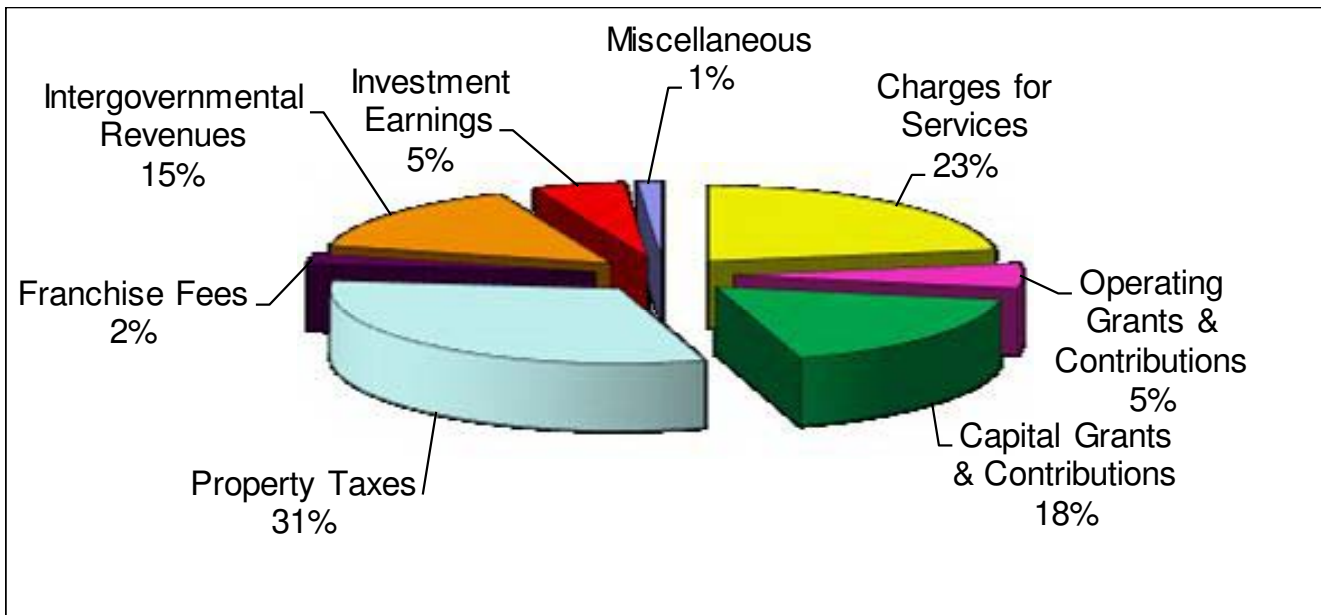
**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

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

**2019 REVENUES BY SOURCE
GOVERNMENTAL ACTIVITIES**



Revenues – The City's governmental activities revenues increased by \$1,208,873 or 13.2%. The major components of this increase are explained as follows:

- 2019 capital grants and contributions decreased from 2018 by \$186,000. 2018 grants and contributions included \$1,127,000 for the 7-Bay Hangar at the Airport, \$347,000 for the Gould Street Reconstruction, \$351,000 for the Signal Light project and \$171,000 for other small projects. 2019 grants and contributions included \$797,000 for the Courthouse Square project, \$516,000 for the Lake Redwood Reclamation, \$332,000 for the Gould Street Reconstruction, \$126,000 for the 7-Bay Hangar and \$40,000 for other small projects.
- 2019 operating grants and contributions increased from 2018 by \$159,000, including \$99,000 for the July 2018 flooding and a \$31,000 increase in Airport Maintenance Aid
- Property Taxes increased from 2018 by \$554,000, mostly due to the \$450,000 PILOT following the sale of the hospital to Carris Health.
- Charges for Services increased from 2018 by \$441,000, including \$600,000 from Carris Health to rent the hospital, offset by \$313,000 due to the discontinuance of providing shared services and hospital management to the hospital with the sale to Carris Health, and an increase of \$162,000 in building related permits and inspections.
- Other items include increased investment earnings of \$314,000 and a reduction in miscellaneous revenues of \$74,000.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities (Continued)

Expenses – The City's expenses for governmental activities increased by \$2,962,469 or 33.4%. The major components of this increase are explained as follows:

- \$2,863,000 of this increase is due to accelerated depreciation on the hospital building and \$17,000 of insurance and professional services for the hospital facility and grounds. Other notable items include a reduction of \$313,000 in labor and benefits due to the discontinuance of providing shared services and management to the hospital with the sale to Carris Health, \$50,000 in additional IT costs to continue the transition from shared services with the hospital to outsourced IT and \$166,000 in repairs and professional services related to weather related disasters.

Business-Type Activities

Special Items– The City transferred \$6,301,256 in hospital fixed assets from the business type activities to the governmental activities and recognized a loss on disposal of the hospital totaling \$15,906,442.

Revenues – The City's business-type operating revenues and other income decreased 69.3%, or \$28,126,548 in 2019 when compared to 2018, due to the sale of the hospital on January 1, 2019, the hospital's revenues are no longer reported in the City's business-type revenues, which accounts for \$28,300,000 of the change from 2018 to 2019. In addition, the electric utility's charges for services decreased by \$323,000 due to stable rates and less consumption than in 2018, partially offset by increases in charges for services for the water utility of \$44,000, the liquor store of \$15,000 and the storm sewer utility of \$14,000. Other items include increased investment earnings of \$231,000 and grants and contributions including \$91,000 for the Courthouse Square project, \$55,000 for weather related flooding, and \$24,000 for utility work on the new hospital construction.

Expenses – There was a decrease in business-type expenses of \$27,028,221 or 72.5%. The hospital's expenses are no longer reported in the City's business-type expenses due to the sale of the hospital on January 1, 2019, which accounts for \$26,661,000 of the change from 2018 to 2019. In addition, as mentioned above, the electric utility experienced stable rates and less consumption in 2019 than in 2018, resulting in purchased power costs that were \$329,000 less in 2019 than in 2018.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund – Beginning fund balance in the general fund includes a \$175,406 restatement for the implementation of GASB 84, *Fiduciary Activities*. The City's General Fund balance increased by \$688,615 from the restated 2018 balance. This increase is attributable in part to the General Fund budgetary highlights discussed below.

Capital Project Fund – The Capital Project Fund balance increased by \$1,106,717 and ended the year with a \$6,870,450 fund balance. This increase is a result of the sale of wetland credits for the Lake Redwood Reclamation project for \$516,000, the sale of 2 houses on Veda Drive for \$267,000, favorable investment returns of \$258,000, PILOT payment from Carris Health per agreement of \$181,000 and \$31,000 in donor contributions for the RACC Expansion project offset by \$149,000 to replace the RTUs at the RACC.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

TIF #10-1 Runnings Redevelopment - The TIF #10-1 Runnings Redevelopment balance represents the amount of the General Fund loan to the District that remains unpaid as of year-end. The loan will be repaid with tax increment received over the 26-year life of the TIF District. \$43,752 was paid on the loan balance in 2019.

Nonmajor Governmental Funds – The fund balances for the Nonmajor Governmental Funds increased by \$777,581 in total and ended the year with a balance of \$2,018,842. The increase is due primarily to \$600,000 received from Carris Health to rent the hospital building and favorable investment returns of \$45,000. In addition, \$104,000 was received in the Airport Capital Project Fund in 2019 for costs incurred in 2018 for the 7-Bay Hangar.

General Fund Budgetary Highlights

Actual revenue was more than budget in 2019 by \$807,742. \$230,000 represents reimbursements for the Gould Street Reconstruction project that were budgeted in 2017, Fees, Licenses and Permits exceeded budget by \$212,000, predominantly due to building permits, and plan review fees, Investment Earnings were \$147,000 over budget and \$269,000 in PILOT payments from Carris Health is reported in property tax revenue that was budgeted as a transfer. Other miscellaneous revenues were under budget including \$140,000 in funding for playground projects at Zeb Gray and Legion parks that wasn't obtained, reduced by \$48,000 in reimbursements over what was budgeted from the County for shared costs on the Courthouse Square project.

Expenditures were less than budget by \$94,178. Significant variances are as follows:

- The Park and Rec department postponed upgrades to the playground equipment at Zeb Gray and Legion parks, saving \$140,000 in budgeted expenses.
- The Street department exceeded budget by \$144,000 to repair roads damaged by flooding.
- The Street costs of the Courthouse Square project were \$48,000 under budget.
- The Workers' Compensation Retro Premium received in 2019 reflected favorable experience and resulted in a refund of \$53,000 to the General Fund.

Transfers in were less than budget by \$260,119 due to the PILOT payments of \$269,000 from Carris Health being reported as property tax revenue since this PILOT is no longer an interdepartment transfer.

Transfers out were higher than budget by \$97,784 and include \$60,000 in repayment of the MSAS advance to the TIF 10-1 Runnings Redevelopment that was transferred to the Capital Project Fund for future projects and \$38,000 transferred from the Swimming Pool department to the Capital Project Fund for the WIFI project at the RACC.

**CITY OF REDWOOD FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the City of Redwood Falls, had \$133,990,418 invested (original cost) in a broad range of capital assets. Refer to Note 3 of the basic financial statements for a schedule showing the City's capital asset activity. This amount represents a net decrease (including additions and deductions) in gross capital assets of \$6,920,827 over last year.

Long-Term Debt

At year-end, the City of Redwood Falls, has \$11,872,999 in outstanding bond obligations. During 2019, \$3,467,001 in debt was retired through scheduled principal payments and refundings. Refer to Note 4 of the basic financial statements for a schedule showing the City's long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Redwood Falls' appointed officials considered many factors when presenting the fiscal year 2020 budget and rates and fees that will be charged for the business-type activities. The major factor continues to be personnel costs in the General Fund as the services provided are labor intensive. In addition, providing the costly infrastructure maintenance and improvements necessary for the citizenry continues to be a balancing act with a constant tax base and reductions in government aid. The City continues its efforts with cost containment, particularly in the areas of fuel and insurance costs. Appointed and elected officials continue to work together to balance and prioritize to continue providing essential services to the community.

CONTACT INFORMATION

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

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BASIC FINANCIAL STATEMENTS

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 15,179,872	\$ 7,535,882	\$ 22,715,754
Cash and Investments - Restricted	-	682,997	682,997
Accounts Receivable, Net	182,553	1,353,506	1,536,059
Property Taxes Receivable	111,698	-	111,698
Special Assessments Receivable	47,051	19,818	66,869
Accrued Interest Receivable	66,382	71,109	137,491
Interfund Balances	(1,007,187)	1,007,187	-
Due from Other Governments	738,304	160,744	899,048
Inventories	113,023	877,977	991,000
Prepaid Items	89,301	105,351	194,652
Notes Receivable	65,738	-	65,738
Acquisition Costs, Net of Amortization	-	79,492	79,492
Net Pension Asset	56,301	-	56,301
Capital Assets Not Being Depreciated			
Land	1,690,384	952,306	2,642,690
Land Improvements	100,938	-	100,938
Construction in Progress	20,510	370,663	391,173
Capital Assets Being Depreciated			
Other Capital Assets, Net of Depreciation	29,389,205	30,561,425	59,950,630
Total Assets	<u>46,844,073</u>	<u>43,778,457</u>	<u>90,622,530</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on Refunding Bonds	-	32,379	32,379
Pension Related	1,107,224	93,682	1,200,906
Other Postemployment Benefits Related	14,859	8,838	23,697
Total Deferred Outflows of Resources	<u>1,122,083</u>	<u>134,899</u>	<u>1,256,982</u>
LIABILITIES			
Accounts Payable	244,623	373,403	618,026
Contracts Payable	72,876	66,694	139,570
Accrued Salaries and Fringes	149,320	89,290	238,610
Accrued Interest Payable	21,410	78,950	100,360
Other Accrued Liabilities	-	19,757	19,757
Due to Other Governments	8,317	567,645	575,962
Deposits Payable	-	127,830	127,830
Unearned Revenue	330,582	28,283	358,865
Long-Term Liabilities			
Net Pension Liability	2,275,768	1,264,132	3,539,900
OPEB Liability Due Within One Year	14,859	8,838	23,697
OPEB Liability Due in More than One Year	335,447	185,087	520,534
Due Within One Year	301,048	1,057,870	1,358,918
Due in More than One Year	1,372,900	9,642,374	11,015,274
Total Liabilities	<u>5,127,150</u>	<u>13,510,153</u>	<u>18,637,303</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	1,695,936	319,198	2,015,134
Other Postemployment Benefits Related	75,334	46,358	121,692
Total Deferred Inflows of Resources	<u>1,771,270</u>	<u>365,556</u>	<u>2,136,826</u>
NET POSITION			
Net Investment in Capital Assets	29,750,628	20,865,084	50,615,712
Restricted for			
Police Seizures	28,598	-	28,598
Library	298,912	-	298,912
Firefighter Pension	56,301	-	56,301
Port Authority	412,642	-	412,642
Revolving Loans	710,195	22,777	732,972
Debt Service	-	682,997	682,997
Unrestricted	9,810,460	8,466,789	18,277,249
Total Net Position	<u>\$ 41,067,736</u>	<u>\$ 30,037,647</u>	<u>\$ 71,105,383</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,434,182	\$ 335,018	\$ 53,042	\$ -
Public Safety	1,988,213	348,856	162,230	69,808
Highways and Streets	1,942,301	10,747	188,773	1,625,445
Culture and Recreation	2,841,176	781,464	77,042	23,900
Economic Development	179,282	-	-	-
Airport	536,593	259,722	66,059	91,453
Community Development	2,879,559	602,495	-	-
Interest and Fiscal Charges	24,037	-	-	-
Total Governmental Activities	<u>11,825,343</u>	<u>2,338,302</u>	<u>547,146</u>	<u>1,810,606</u>
Business-Type Activities				
Municipal Liquor Store	2,147,034	2,209,310	515	-
Water Utility	1,272,997	1,342,021	1,697	86,746
Sewer Utility	1,057,570	990,129	55,367	41,736
Storm Sewer Utility	314,067	299,649	72,224	(22,705)
Electric Utility	5,473,412	6,822,962	7,012	-
Total Business-Type Activities	<u>10,265,080</u>	<u>11,664,071</u>	<u>136,815</u>	<u>105,777</u>
Total Primary Government	<u>\$ 22,090,423</u>	<u>\$ 14,002,373</u>	<u>\$ 683,961</u>	<u>\$ 1,916,383</u>

General Revenues

Taxes

Property Taxes, Levied for General Purpose

Franchise Taxes

Hotel/Motel Taxes

Intergovernmental Revenues, Not Restricted to Specific Programs

Unrestricted Investment Earnings

NBV of Hospital Fixed Assets Transferred to City

Miscellaneous

Special Item - Loss on Disposal of Operations

Transfers

Total General Revenues, Transfers and Special Item

Change in Net Position

Net Position - Beginning of Year

Change in Accounting Principle (See Note 20)

Net Position - Beginning of Year (As Restated)

Net Position - End of Year

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

Net (Expense) Revenue and Changes in Net
Position

Governmental Activities	Business-Type Activities	Total
\$ (1,046,122)	\$ -	\$ (1,046,122)
(1,407,319)	-	(1,407,319)
(117,336)	-	(117,336)
(1,958,770)	-	(1,958,770)
(179,282)	-	(179,282)
(119,359)	-	(119,359)
(2,277,064)	-	(2,277,064)
(24,037)	-	(24,037)
(7,129,289)	-	(7,129,289)
-	62,791	62,791
-	157,467	157,467
-	29,662	29,662
-	35,101	35,101
-	1,356,562	1,356,562
-	1,641,583	1,641,583
(7,129,289)	1,641,583	(5,487,706)
3,260,511	-	3,260,511
181,734	-	181,734
34,295	-	34,295
1,542,716	-	1,542,716
522,093	342,981	865,074
6,301,256	(6,301,256)	-
134,939	194,438	329,377
-	(15,906,442)	(15,906,442)
595,896	(595,896)	-
12,573,440	(22,266,175)	(9,692,735)
5,444,151	(20,624,592)	(15,180,441)
35,448,179	50,662,239	86,110,418
175,406	-	175,406
35,623,585	50,662,239	86,285,824
\$ 41,067,736	\$ 30,037,647	\$ 71,105,383

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

ASSETS	General	Capital Projects Fund	TIF #10-1 Runnings Redevelopment	Nonmajor Governmental Funds	Total Governmental Funds
Cash and Investments	\$ 5,683,427	\$ 6,734,283	\$ -	\$ 2,176,570	\$ 14,594,280
Accounts Receivable, Net	121,628	53,667	-	6,879	182,174
Property Taxes Receivable	91,196	-	-	20,502	111,698
Special Assessments Receivable	46,453	-	-	-	46,453
Accrued Interest Receivable	34,787	15,874	-	12,825	63,486
Advances to Other Funds	814,369	-	-	-	814,369
Due from Other Funds	-	116,026	-	-	116,026
Due from Other Governments	559,001	-	-	177,729	736,730
Prepaid Items	74,235	-	-	10,161	84,396
Property Held for Resale	8,015	-	-	69,551	77,566
Notes Receivable	-	-	-	65,738	65,738
Inventory	4,627	-	-	30,830	35,457
Total Assets	<u>\$ 7,437,738</u>	<u>\$ 6,919,850</u>	<u>\$ -</u>	<u>\$ 2,570,785</u>	<u>\$ 16,928,373</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 116,409	\$ 733	\$ -	\$ 60,062	\$ 177,204
Contracts Payable	55,995	-	-	2,365	58,360
Accrued Salaries and Fringes	130,463	-	-	15,184	145,647
Due to Other Funds	21,492	-	-	118,181	139,673
Due to Other Governments	8,150	-	-	167	8,317
Advances from Other Funds	-	-	814,369	-	814,369
Unearned Revenue	198,599	-	-	131,983	330,582
Total Liabilities	<u>531,108</u>	<u>733</u>	<u>814,369</u>	<u>327,942</u>	<u>1,674,152</u>
Deferred Inflows of Resources					
Unavailable Revenue - Taxes and Special Assessme	80,998	-	-	12,986	93,984
Unavailable Revenue - Loans	-	-	-	65,738	65,738
Unavailable Revenue - Grants	251,955	-	-	145,277	397,232
Unavailable Revenue - Pledges	-	48,667	-	-	48,667
Total Deferred Inflows of Resources	<u>332,953</u>	<u>48,667</u>	<u>-</u>	<u>224,001</u>	<u>605,621</u>
Fund Balances					
Nonspendable:					
Prepaid Items	74,235	-	-	10,161	84,396
Advance	814,369	-	-	-	814,369
Property Held for Resale	8,015	-	-	-	8,015
Inventory	4,627	-	-	30,830	35,457
Restricted for:					
Seizures	28,598	-	-	-	28,598
Library	-	-	-	284,563	284,563
Port Authority	-	-	-	410,501	410,501
Revolving Loans	-	-	-	644,457	644,457
Committed to:					
Fire Equipment	-	-	-	164,494	164,494
Airport Operations	-	-	-	3,693	3,693
Economic Development	-	-	-	855	855
Hospital Building	-	-	-	585,121	585,121
Tax Levy Stabilization	-	5,000,000	-	-	5,000,000
Capital Expenditures	-	1,870,450	-	-	1,870,450
Assigned to:					
Softball Improvements	63,425	-	-	-	63,425
Working Capital	2,206,310	-	-	-	2,206,310
Unassigned:	3,374,098	-	(814,369)	(115,833)	2,443,896
Total Fund Balances	<u>6,573,677</u>	<u>6,870,450</u>	<u>(814,369)</u>	<u>2,018,842</u>	<u>14,648,600</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 7,437,738</u>	<u>\$ 6,919,850</u>	<u>\$ -</u>	<u>\$ 2,570,785</u>	<u>\$ 16,928,373</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2019**

Total Fund Balance for Governmental Funds \$ 14,648,600

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

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

Land	\$	1,638,484	
Land Improvements		100,938	
Construction in Progress		20,510	
Land Improvements, Net of Accumulated Depreciation		1,382,627	
Buildings, Net of Accumulated Depreciation		12,773,321	
Infrastructure, Net of Accumulated Depreciation		10,319,524	
Machinery and Shop Equipment, Net of Accumulated Depreciation		1,531,991	
Library Books, Net of Accumulated Depreciation		2,340	
Office Equipment and Furniture, Net of Accumulated Depreciation		180	27,769,915

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

605,621

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

(8,995)

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

2,068,550

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

Net Pension Asset		56,301	
Net Pension Liability		(2,223,321)	
Deferred Outflows of Resources - Pension Related		1,103,337	
Deferred Inflows of Resources - Pension Related		(1,682,693)	

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

Other Postemployment Benefits Liability		(344,244)	
Deferred Outflows of Resources - OPEB Related		14,491	
Deferred Inflows of Resources - OPEB Related		(73,402)	

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

Bonds Payable, excluding Internal Service Funds		(590,425)	
Unamortized Discounts		2,419	
Compensated Absences Payable		(278,418)	(866,424)

Total Net Position of Governmental Activities \$ 41,067,736

See accompanying Notes to Basic Financial Statements.

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

REVENUES	General	Capital Projects Fund	TIF #10-1 Runnings Redevelopment	Nonmajor Governmental Funds	Total Governmental Funds
Local Tax Levies	\$ 2,728,308	\$ 181,100	\$ 69,354	\$ 494,148	\$ 3,472,910
Intergovernmental	3,034,352	-	-	302,859	3,337,211
Charges for Services	852,025	-	-	266,111	1,118,136
Fees, Licenses and Permits	302,996	-	-	-	302,996
Fines and Forfeits	59,136	-	-	5,535	64,671
Investment Earnings	217,568	258,043	-	45,288	520,899
Contributions	5,447	23,900	-	15,570	44,917
Miscellaneous	196,157	533,110	-	658,858	1,388,125
Total Revenues	<u>7,395,989</u>	<u>996,153</u>	<u>69,354</u>	<u>1,788,369</u>	<u>10,249,865</u>
EXPENDITURES					
Current					
General Government	1,086,569	-	-	16,983	1,103,552
Public Safety	1,838,776	-	-	25,972	1,864,748
Highways and Streets	1,307,975	58,318	-	-	1,366,293
Culture and Recreation	1,733,032	-	-	406,853	2,139,885
Economic Development	45,158	-	319	106,015	151,492
Airport	-	-	-	320,783	320,783
Capital Outlay	1,087,804	169,050	-	42,598	1,299,452
Debt Service					
Principal	-	-	-	134,522	134,522
Interest	-	-	25,283	23,569	48,852
Fiscal Agent Fees	-	-	-	1,593	1,593
Total Expenditures	<u>7,099,314</u>	<u>227,368</u>	<u>25,602</u>	<u>1,078,888</u>	<u>8,431,172</u>
EXCESS OF REVENUES OVER EXPENDITURES	296,675	768,785	43,752	709,481	1,818,693
OTHER FINANCING SOURCES (USES)					
Transfers In	566,324	105,784	-	172,750	844,858
Transfers Out	(174,384)	(34,500)	(8,781)	(104,650)	(322,315)
Proceeds from Sale of Capital Assets	-	266,648	-	-	266,648
Total Other Financing Sources (Uses)	<u>391,940</u>	<u>337,932</u>	<u>(8,781)</u>	<u>68,100</u>	<u>789,191</u>
NET CHANGE IN FUND BALANCES	688,615	1,106,717	34,971	777,581	2,607,884
Fund Balances - Beginning of Year	5,709,656	5,763,733	(849,340)	1,241,261	11,865,310
Restatement - Change in Accounting Principle (See Note 20)	175,406	-	-	-	175,406
Fund Balances - Beginning of Year, as Restated	<u>5,885,062</u>	<u>5,763,733</u>	<u>(849,340)</u>	<u>1,241,261</u>	<u>12,040,716</u>
FUND BALANCES - END OF YEAR	<u>\$ 6,573,677</u>	<u>\$ 6,870,450</u>	<u>\$ (814,369)</u>	<u>\$ 2,018,842</u>	<u>\$ 14,648,600</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balance - Total Governmental Funds \$ 2,607,884

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

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

Capital Outlays	\$	1,299,789	
Net Book Value of Disposed Assets		(440,064)	
Gain on Acquisition of Transferred Assets		6,301,256	
Depreciation Expense		<u>(4,388,582)</u>	2,772,399

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

1,609

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

Repayment of Bond Principal		134,522	
Amortization of Bond Discount		<u>(484)</u>	134,038

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

Deferred Inflows - December 31, 2018		(794,960)	
Deferred Inflows - December 31, 2019		<u>605,621</u>	(189,339)

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

19,362

Some expenses, such as other postemployment benefits, reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

(9,130)

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

48,954

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

58,374

Change in Net Position of Governmental Activities \$ 5,444,151

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
DECEMBER 31, 2019

ASSETS	Sewer Utility	Water Utility	Electric Utility	Redwood Area Hospital
Current assets				
Cash and Cash Equivalents	\$ 2,448,047	\$ 865,067	\$ 3,439,001	\$ -
Cash and Cash Equivalents - Restricted	-	-	627,947	-
Accounts Receivable, Net	155,114	185,944	969,282	-
Special Assessments Receivable	3,891	5,960	8,679	-
Accrued Interest Receivable	15,422	10,031	40,664	-
Due from Other Funds	500	856	37,935	-
Due from Other Governmental Units	39,062	67,452	9,569	-
Inventories	2,799	51,482	623,009	-
Prepaid Items	4,684	3,120	90,055	-
Total Current Assets	<u>2,669,519</u>	<u>1,189,912</u>	<u>5,846,141</u>	<u>-</u>
Noncurrent Assets				
Acquisition Costs, Net of Amortization	-	-	79,492	-
Capital Assets				
Land	35,524	54,538	271,256	-
Construction in Progress	30,876	100,414	239,373	-
Buildings and Improvements	11,245,740	14,779,677	20,623,139	-
Machinery and Equipment	2,321,140	2,147,256	3,145,237	-
Total Capital Assets	<u>13,633,280</u>	<u>17,081,885</u>	<u>24,279,005</u>	<u>-</u>
Less: Accumulated Depreciation	<u>(8,505,305)</u>	<u>(4,672,059)</u>	<u>(12,435,544)</u>	<u>-</u>
Net Capital Assets	<u>5,127,975</u>	<u>12,409,826</u>	<u>11,843,461</u>	<u>-</u>
Total Noncurrent Assets	<u>5,127,975</u>	<u>12,409,826</u>	<u>11,922,953</u>	<u>-</u>
Total Assets	7,797,494	13,599,738	17,769,094	-
 DEFERRED OUTFLOWS OF RESOURCES				
Loss on Refunding Bonds	5,336	5,168	19,791	-
Pension Related	12,506	14,538	48,581	-
Other Postemployment Benefits Related	1,473	1,473	4,051	-
Deferred Outflows of Resources	<u>19,315</u>	<u>21,179</u>	<u>72,423</u>	<u>-</u>

See accompanying Notes to Basic Financial Statements.

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)
DECEMBER 31, 2019

Municipal Liquor Store	Storm Sewer Utility	Totals	Governmental Activities <u>Internal Service Funds</u>
\$ 337,674	\$ 446,093	\$ 7,535,882	\$ 585,592
55,050	-	682,997	-
-	43,166	1,353,506	379
-	1,288	19,818	598
3,376	1,616	71,109	2,896
-	330	39,621	-
-	44,661	160,744	1,574
200,687	-	877,977	-
5,426	2,066	105,351	4,905
<u>602,213</u>	<u>539,220</u>	<u>10,847,005</u>	<u>595,944</u>
-	-	79,492	-
42,900	548,088	952,306	51,900
-	-	370,663	-
601,262	1,923,535	49,173,353	1,360,671
147,151	69,278	7,830,062	4,027,316
<u>791,313</u>	<u>2,540,901</u>	<u>58,326,384</u>	<u>5,439,887</u>
(379,850)	(449,232)	(26,441,990)	(2,008,765)
<u>411,463</u>	<u>2,091,669</u>	<u>31,884,394</u>	<u>3,431,122</u>
<u>411,463</u>	<u>2,091,669</u>	<u>31,963,886</u>	<u>3,431,122</u>
1,013,676	2,630,889	42,810,891	4,027,066
2,084	-	32,379	-
13,176	4,881	93,682	3,887
1,473	368	8,838	368
<u>16,733</u>	<u>5,249</u>	<u>134,899</u>	<u>4,255</u>

See accompanying Notes to Basic Financial Statements.

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)
DECEMBER 31, 2019

LIABILITIES	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Redwood Area Hospital</u>
Current Liabilities				
Accounts Payable	\$ 24,326	\$ 42,335	\$ 281,244	\$ -
Contracts Payable	6,221	28,811	22,060	-
Accrued Salaries and Fringes	12,589	14,218	45,432	-
Accrued Interest Payable	5,861	64,322	7,692	-
Other Accrued Liabilities	-	1,525	18,232	-
Due to Other Funds	8,463	4,398	200	-
Due to Other Governmental Units	106,746	279,607	20,415	-
Customer Deposits	-	-	127,830	-
Current Portion of Compensated Absences	16,961	19,079	38,858	-
Current Portion of Other Postemployment Benefits Liability	1,473	1,473	4,051	-
Current Portion of Bonds Payable	73,811	300,916	537,000	-
Total Current Liabilities	256,451	756,684	1,103,014	-
Noncurrent Liabilities				
Compensated Absences	24,541	27,793	66,690	-
Other Postemployment Benefits Liability	29,485	30,500	92,703	-
Net Pension Liability	168,750	196,171	655,543	-
Bonds Payable - Long-Term	472,532	5,621,258	3,260,370	-
Unearned Revenue	-	-	28,283	-
Total Noncurrent Liabilities	695,308	5,875,722	4,103,589	-
Total Liabilities	951,759	6,632,406	5,206,603	-
DEFERRED INFLOWS OF RESOURCES				
Pension Related	42,610	49,534	165,527	-
Other Postemployment Benefits Related	7,726	7,726	21,248	-
Deferred Inflows of Resources	50,336	57,260	186,775	-
NET POSITION				
Net Investment in Capital Assets	4,474,001	6,189,896	8,043,823	-
Restricted for Capital Improvements	22,777	-	-	-
Restricted for Bond Reserve Funds	-	-	627,947	-
Unrestricted	2,317,936	741,355	3,776,369	-
Total Net Position	\$ 6,814,714	\$ 6,931,251	\$ 12,448,139	\$ -
Adjustment to Reflect the Consolidated Internal Service Funds Related to the Enterprise Fund				
Total Net Position of the Business-Type Activities				

See accompanying Notes to Basic Financial Statements.

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)
DECEMBER 31, 2019

Municipal Liquor Store	Storm Sewer Utility	Totals	Governmental Activities Internal Service Funds
\$ 25,422	\$ 76	\$ 373,403	\$ 81,935
1,040	8,562	66,694	-
14,465	2,586	89,290	3,673
430	645	78,950	12,415
-	-	19,757	-
1,234	-	14,295	1,679
21,778	139,099	567,645	-
-	-	127,830	-
12,408	4,118	91,424	5,896
1,473	368	8,838	368
50,000	4,719	966,446	40,000
<u>128,250</u>	<u>160,173</u>	<u>2,404,572</u>	<u>145,966</u>
21,093	2,626	142,743	6,628
28,899	3,500	185,087	5,694
177,798	65,870	1,264,132	52,447
97,550	47,921	9,499,631	755,000
-	-	28,283	-
<u>325,340</u>	<u>119,917</u>	<u>11,119,876</u>	<u>819,769</u>
453,590	280,090	13,524,448	965,735
44,895	16,632	319,198	13,243
7,726	1,932	46,358	1,932
<u>52,621</u>	<u>18,564</u>	<u>365,556</u>	<u>15,175</u>
265,997	1,891,367	20,865,084	2,636,122
-	-	22,777	-
55,050	-	682,997	-
203,151	446,117	7,484,928	414,289
<u>\$ 524,198</u>	<u>\$ 2,337,484</u>	<u>29,055,786</u>	<u>\$ 3,050,411</u>
		<u>981,861</u>	
		<u>\$ 30,037,647</u>	

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2019**

	Sewer Utility	Water Utility	Electric Utility	Redwood Area Hospital
OPERATING REVENUE				
Sales	\$ -	\$ -	\$ -	\$ -
Cost of Sales	-	-	-	-
Charges for Services	960,773	1,327,895	6,510,310	-
Miscellaneous	29,356	14,126	312,652	-
Total Operating Revenue	<u>990,129</u>	<u>1,342,021</u>	<u>6,822,962</u>	<u>-</u>
OPERATING EXPENSES				
Personal Services	333,696	380,452	1,122,062	-
Administration and General	239,333	136,794	232,496	-
Supplies, Repairs, Services and Rents	130,248	204,536	3,194,945	-
Depreciation and Amortization	296,786	378,147	732,788	-
Benefits or Claims Paid	-	-	-	-
Miscellaneous	48,182	5,674	14,400	-
Total Operating Expenses	<u>1,048,245</u>	<u>1,105,603</u>	<u>5,296,691</u>	<u>-</u>
OPERATING INCOME (LOSS)	(58,116)	236,418	1,526,271	-
OTHER INCOME (EXPENSE)				
Intergovernmental Revenues	55,367	1,697	7,012	-
Investment Earnings	93,529	35,050	180,622	-
Miscellaneous Revenues	3,061	4,275	186,641	-
Interest Expense	(16,752)	(177,827)	(189,223)	-
Gain/(Loss) on Sale of Capital Assets	-	-	-	-
Total Other Income (Expense)	<u>135,205</u>	<u>(136,805)</u>	<u>185,052</u>	<u>-</u>
INCOME (LOSS) BEFORE TRANSFERS, SPECIAL ITEM AND CAPITAL CONTRIBUTIONS	77,089	99,613	1,711,323	-
TRANSFERS, SPECIAL ITEM AND CAPITAL CONTRIBUTIONS				
Transfers In	-	-	-	-
Transfers Out	(14,000)	(89,048)	(368,495)	-
NBV of Assets Transferred to City	-	-	-	(6,301,256)
Special Item - Loss on Disposal of Operations	-	-	-	(15,906,442)
Capital Contributions	41,736	86,746	-	-
Total Transfers, Special Item and Capital Contributions	<u>27,736</u>	<u>(2,302)</u>	<u>(368,495)</u>	<u>(22,207,698)</u>
CHANGE IN NET POSITION	104,825	97,311	1,342,828	(22,207,698)
Net Position - Beginning of Year	<u>6,709,889</u>	<u>6,833,940</u>	<u>11,105,311</u>	<u>22,207,698</u>
NET POSITION - END OF YEAR	<u>\$ 6,814,714</u>	<u>\$ 6,931,251</u>	<u>\$ 12,448,139</u>	<u>\$ -</u>

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

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION – PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

Municipal Liquor Store	Storm Sewer Utility	Totals	Governmental Activities Internal Service Funds
\$ 2,209,310	\$ -	\$ 2,209,310	\$ -
(1,652,339)	-	(1,652,339)	-
-	297,799	9,096,777	1,632,709
-	1,850	357,984	10,655
<u>556,971</u>	<u>299,649</u>	<u>10,011,732</u>	<u>1,643,364</u>
351,606	123,471	2,311,287	76,517
35,524	15,532	659,679	57,600
19,151	51,721	3,600,601	229,255
20,683	54,206	1,482,610	348,657
-	-	-	951,175
59,544	39,387	167,187	6,903
<u>486,508</u>	<u>284,317</u>	<u>8,221,364</u>	<u>1,670,107</u>
70,463	15,332	1,790,368	(26,743)
515	39,463	104,054	1,726
15,862	17,918	342,981	22,503
450	11	194,438	-
(8,187)	(1,621)	(393,610)	(29,928)
-	(34,115)	(34,115)	53,811
<u>8,640</u>	<u>21,656</u>	<u>213,748</u>	<u>48,112</u>
79,103	36,988	2,004,116	21,369
-	-	-	73,353
(120,000)	(4,353)	(595,896)	-
-	-	(6,301,256)	-
-	-	(15,906,442)	-
-	10,056	138,538	-
<u>(120,000)</u>	<u>5,703</u>	<u>(22,665,056)</u>	<u>73,353</u>
(40,897)	42,691	(20,660,940)	94,722
<u>565,095</u>	<u>2,294,793</u>	<u>2,955,689</u>	<u>2,955,689</u>
<u>\$ 524,198</u>	<u>\$ 2,337,484</u>	<u>\$ 3,050,411</u>	<u>\$ 3,050,411</u>
		<u>36,348</u>	
		<u>\$ (20,624,592)</u>	

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2019**

	Sewer Utility	Water Utility	Electric Utility	Redwood Area Hospital
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Receipts from Customers	\$ 914,548	\$ 1,269,491	\$ 6,862,436	\$ -
Cash Paid to Suppliers	(404,045)	(315,001)	(3,478,098)	-
Cash Paid to Employees	(310,986)	(353,988)	(1,100,304)	-
Net Cash Flows Provided by Operating Activities	199,517	600,502	2,284,034	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to Other Funds	(14,000)	(89,048)	(368,495)	-
Transfers from Other Funds	-	-	-	-
Disposition of Operations	-	-	-	(4,226,121)
Other Nonoperating Revenues	3,061	4,275	186,641	-
Unrestricted Donations and Grant Revenues	55,367	1,697	7,012	-
Net Cash Flows Provided (Used) by Noncapital Financing Activities	44,428	(83,076)	(174,842)	(4,226,121)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of Capital Assets	(92,657)	(141,813)	(1,138,745)	-
Proceeds from Issuance of Bonds	-	-	2,415,000	-
Refunded Bonds	-	-	(2,520,000)	-
Principal Paid on Bonds	(86,601)	(281,159)	(355,000)	-
Interest, Paying Agent Fees	(15,509)	(175,610)	(186,542)	-
Net Cash Flows Used by Capital and Related Financing Activities	(194,767)	(598,582)	(1,785,287)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on Investments	89,869	33,716	170,894	-
Net Cash Flows Provided by Investing Activities	89,869	33,716	170,894	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	139,047	(47,440)	494,799	(4,226,121)
Cash and Cash Equivalents - Beginning of Year	2,309,000	912,507	3,572,149	4,226,121
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,448,047</u>	<u>\$ 865,067</u>	<u>\$ 4,066,948</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

Municipal Liquor Store	Storm Sewer Utility	Totals	Governmental Activities Internal Service Funds
\$ 2,208,627	\$ 296,559	\$ 11,551,661	\$ 1,641,611
(1,778,663)	(120,101)	(6,095,908)	(1,196,405)
(340,001)	(132,101)	(2,237,380)	(76,651)
89,963	44,357	3,218,373	368,555
(120,000)	(4,353)	(595,896)	-
-	-	-	72,996
-	-	(4,226,121)	-
965	51,204	246,146	-
-	-	64,076	1,726
(119,035)	46,851	(4,511,795)	74,722
-	(73,942)	(1,447,157)	(364,395)
-	-	2,415,000	-
-	-	(2,520,000)	-
(45,000)	(4,719)	(772,479)	(40,000)
(6,748)	(1,591)	(386,000)	(30,260)
(51,748)	(80,252)	(2,710,636)	(434,655)
15,291	17,345	327,115	21,967
15,291	17,345	327,115	21,967
(65,529)	28,301	(3,676,943)	30,589
458,253	417,792	11,895,822	555,003
<u>\$ 392,724</u>	<u>\$ 446,093</u>	<u>\$ 8,218,879</u>	<u>\$ 585,592</u>

See accompanying Notes to Basic Financial Statements.

CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

	Sewer Utility	Water Utility	Electric Utility	Redwood Area Hospital
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (58,116)	\$ 236,418	\$ 1,526,271	\$ -
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:				
Depreciation and Amortization	296,786	378,147	732,788	-
(Increase) Decrease in Assets and Deferred Outflows:				
Receivables	(43,320)	(7,698)	1,991	-
Due from Other Funds	1,049	1,682	20,508	-
Due from Other Governments	(33,310)	(66,514)	(8,693)	-
Inventories	620	805	(69,638)	-
Prepaid Items	(806)	(251)	18,006	-
Deferred Outflows of Resources - Pension	15,720	18,229	64,017	-
Deferred Outflows of Resources - OPEB	515	515	1,415	-
Increase (Decrease) in Liabilities and Deferred Inflows:				
Accounts Payable	17,686	31,711	16,889	-
Contracts Payable	-	-	-	-
Accrued Salaries and Fringes	282	272	(1,024)	-
Due to Other Funds	(3,782)	(183)	21	-
Due to Other Governments	-	(79)	(1,535)	-
Unearned Revenue	-	-	17,008	-
OPEB Liability	(7,175)	(7,175)	(19,731)	-
Other Accrued Liabilities	5,379	6,270	(23,077)	-
Customer Deposits	-	-	8,660	-
Net Pension Liability	77	345	(17,374)	-
Deferred Inflows of Resources - Pension	186	282	(3,716)	-
Deferred Inflows of Resources - OPEB	7,726	7,726	21,248	-
Net Cash Flows Provided by Operating Activities	<u>\$ 199,517</u>	<u>\$ 600,502</u>	<u>\$ 2,284,034</u>	<u>\$ -</u>
Noncash Investing, Capital, and Financing Activities:				
Loss on Disposal of Capital Asset	\$ -	\$ -	\$ -	\$ -
Capital Assets on Account	6,221	28,811	22,060	-

See accompanying Notes to Basic Financial Statements.

**CITY OF REDWOOD FALLS, MINNESOTA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

Municipal Liquor Store	Storm Sewer Utility	Totals	Governmental Activities Internal Service Funds
\$ 70,463	\$ 15,332	\$ 1,790,368	\$ (26,743)
20,683	54,206	1,482,610	348,657
205	(3,222)	(52,044)	(179)
-	132	23,371	-
-	-	(108,517)	(1,574)
(33)	-	(68,246)	-
(415)	(1,127)	15,407	(491)
17,829	6,705	122,500	7,376
515	129	3,089	129
(11,761)	(12,334)	42,191	58,135
130	-	130	-
1,919	(11,432)	(9,983)	1,660
(888)	-	(4,832)	-
(26)	-	(1,640)	-
-	-	17,008	-
(7,174)	(1,794)	(43,049)	(1,794)
-	-	(11,428)	-
-	-	8,660	-
(7,501)	(3,386)	(27,839)	(14,866)
(1,709)	(784)	(5,741)	(3,687)
7,726	1,932	46,358	1,932
<u>\$ 89,963</u>	<u>\$ 44,357</u>	<u>\$ 3,218,373</u>	<u>\$ 368,555</u>
\$ -	\$ (34,115)	\$ (34,115)	\$ -
1,040	8,562	66,694	-

See accompanying Notes to Basic Financial Statements.

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**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Financial Reporting Entity

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

Component Units

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

Blended Component Unit

The Redwood Area Hospital (RAH) is a 25-bed critical access hospital and is an entity legally separate from the City. The purpose of the RAH is to provide hospital and emergency care to the sick, injured, and newborn while meeting the highest standards according to the requirements of the area. The RAH also provides all phases of health education, commensurate with its professional ability, responding to the needs of the hospital, the city and specific groups of the area. Effective January 1, 2019 the Hospital was sold to Carris Health, LLC. See Note 19 for further information on the sale of the Hospital.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Blended Component Unit (Continued)

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

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

Other Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the Primary Government and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category (governmental and proprietary) are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

The City reports the following major governmental funds:

General Fund

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

Capital Projects Fund

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

TIF #10-1 Runnings Redevelopment Fund

The TIF #10-1 Runnings Redevelopment Fund is a special revenue fund used to account for activity associated with redevelopment in TIF district 10-1.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

The City reports the following proprietary funds:

Sewer Utility Fund

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

Water Utility Fund

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

Electric Utility Fund

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

Redwood Area Hospital Fund

The Hospital Fund (Hospital) is used to account for customer charges that are used to finance the hospital's operating expenses. Effective January 1, 2019 the Hospital was sold to Carris Health, LLC. See Note 19 for further information on the sale of the Hospital.

Liquor Fund

The Liquor Fund is used to account for the operations of the City's liquor store.

Storm Sewer Utility Fund

The Storm Sewer Utility Fund is used to account for the operations of the storm sewer charges that are used to finance storm sewer utility expenses.

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

Internal Service Funds

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

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

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

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

C. Budgets

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Legal Compliance - Budgets

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

1. Prior to September 30, the Director of Finance and Administrative Services submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to December 31, the budget is legally enacted through passage of a resolution.
3. The Director of Finance and Administrative Services is authorized to transfer budgeted amounts within any department budget; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.

E. Cash and Investments

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

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

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

F. Cash and Investments - Restricted

At December 31, 2019, restricted cash and investments are assets set aside for a debt service reserve fund required under a bond agreement.

G. Accounts Receivable and Allowance for Uncollectible Accounts

The City has an allowance for uncollectible accounts which was \$21,195 for the General Fund, \$422 for the Water Fund, \$116 for the Sewer Fund, \$39,619 for the Electric Fund, and \$2,154 for the aggregate remaining funds at December 31, 2019.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Property Tax Revenue Recognition

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

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

I. Inventories

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

J. Special Assessment Revenue Recognition

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Special Assessment Revenue Recognition (Continued)

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

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

K. Interfund Receivables/Payables

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

L. Capital Assets

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

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

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

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

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

M. Deferred Outflows of Resources

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

N. Compensated Absences

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

CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pensions

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

P. Long-Term Obligations

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

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

Q. Deferred Inflow of Resources

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balance

In the fund financial statements, governmental fund types report components of fund balance to provide information about fund balance availability for appropriation.

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

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

S. Net Position

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Interfund Transactions

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

All interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the entity-wide statements of net position and statements of activities.

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

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

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

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

The City's deposits in banks at December 31, 2019 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

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

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

Fair Value Measurements

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

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Fair Value Measurements (Continued)

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

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

The following information provides disclosures related to the City’s December 31, 2019, investment balances:

Interest Rate Risk

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

Investments Held with Broker

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

<u>Type</u>	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
U.S. Government Agencies	\$ 9,327,708	\$ 526,734	\$ 2,568,327	\$ 3,745,241	\$ 2,487,406
Federated Prime Oblig Fund	5,927	5,927	-	-	-
U.S. Treasury Notes	1,730,960	926,586	510,234	195,030	99,110
Municipal Securities	9,755,868	577,025	1,682,183	4,636,852	2,859,808
Total	<u>\$ 20,820,463</u>	<u>\$ 2,036,272</u>	<u>\$ 4,760,744</u>	<u>\$ 8,577,123</u>	<u>\$ 5,446,324</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk

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

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

Type	Credit Quality Rating	Amount
U.S. Government Agencies	Aaa	\$ 9,327,708
Federated Gov Oblig Fund	NR	5,927
U.S. Treasury Notes	Aaa	1,730,960
Municipal Securities	NR	1,927,117
Municipal Securities	A2	510,800
Municipal Securities	Aaa	2,212,595
Municipal Securities	Aa1	1,793,981
Municipal Securities	Aa2	2,297,126
Municipal Securities	Aa3	1,014,249
Total		<u>\$ 20,820,463</u>

*NR = Not Rated

Custodial Credit Risk

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

Concentration of Credit Risk

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

Type	Amount	Percentage
Federal Home Loan Bank	\$ 1,611,679	7.7 %
Federal Farm Credit Bank Bond	6,385,023	30.7

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Fair Value Measurement

City Investments are measured as follows:

	December 31, 2019	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments by Fair Value Level:				
U.S. Treasuries	\$ 1,730,960	\$ -	\$ 1,730,960	\$ -
U.S. Government Agencies	9,116,568	-	9,116,568	-
U.S. Government Agencies - Mortgage Backed	211,140	-	211,140	-
Municipal Bonds	9,755,868	-	9,755,868	-
Total Investments by Fair Value Level	20,814,536	<u>\$ -</u>	<u>\$ 20,814,536</u>	<u>\$ -</u>
Investments Measured at Amortized Cost:				
Money Market Funds	5,927			
Total Investments	<u>\$ 20,820,463</u>			

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

C. Financial Statement Presentation

Deposits and investments are presented in the financial statements as follows:

	Cash and Investments	Cash and Investments - Restricted	Total
Enterprise Funds	\$ 7,535,882	\$ 682,997	\$ 8,218,879
Governmental Funds	14,594,280	-	14,594,280
Internal Service Funds	585,592	-	585,592
Total Primary Government	<u>\$ 22,715,754</u>	<u>\$ 682,997</u>	<u>\$ 23,398,751</u>
Petty Cash and Change Fund	\$ 2,520		
Investments	20,820,463		
Deposits	2,572,768		
Total Deposits and Investments	<u>\$ 23,395,751</u>		

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 CAPITAL ASSETS

Governmental capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities, Including Internal Service Funds					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,137,871	\$ -	\$ -	\$ 552,513	\$ 1,690,384
Land Improvements	100,938	-	-	-	100,938
Construction in Progress	451,439	1,048,270	(1,479,199)	-	20,510
Total Capital Assets, Not Being Depreciated	1,690,248	1,048,270	(1,479,199)	552,513	1,811,832
Capital Assets, Being Depreciated:					
Land Improvements	1,816,303	-	-	-	1,816,303
Buildings	18,811,403	32,143	(448,267)	23,573,073	41,968,352
Infrastructure	19,835,981	1,447,050	-	-	21,283,031
Machinery and Shop Equipment	7,480,649	1,112,302	(679,168)	-	7,913,783
Office Equipment and Furniture	193,371	-	-	-	193,371
Library Books	677,362	-	-	-	677,362
Total Capital Assets, Being Depreciated	48,815,069	2,591,495	(1,127,435)	23,573,073	73,852,202
Accumulated Depreciation for					
Land Improvements:	(333,986)	(99,690)	-	-	(433,676)
Buildings	(6,672,670)	(3,345,567)	8,207	(17,824,330)	(27,834,360)
Infrastructure	(10,204,373)	(759,134)	-	-	(10,963,507)
Machinery and Shop Equipment	(4,068,341)	(531,493)	236,593	-	(4,363,241)
Office Equipment and Furniture	(193,010)	(181)	-	-	(193,191)
Library Books	(673,848)	(1,174)	-	-	(675,022)
Total Accumulated Depreciation	(22,146,228)	(4,737,239)	244,800	(17,824,330)	(44,462,997)
Total Capital Assets, Being Depreciated, Net	26,668,841	(2,145,744)	(882,635)	5,748,743	29,389,205
Governmental Activities Capital Assets, Net	<u>\$ 28,359,089</u>	<u>\$ (1,097,474)</u>	<u>\$ (2,361,834)</u>	<u>\$ 6,301,256</u>	<u>\$ 31,201,037</u>

Depreciation expense was charged to governmental functions as follows:

<u>Governmental Activities</u>	
General Government	\$ 33,932
Public Safety	87,310
Highways and Streets	962,326
Culture and Recreation	579,853
Airport	211,242
Community Development	2,862,576
Total Depreciation Expense, Governmental Activities	<u>\$ 4,737,239</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 CAPITAL ASSETS (CONTINUED)

Business-type capital asset activity for the year ended December 31, 2019 was as follows:

<u>Business-Type Activities</u>	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets, Not Being Depreciated:					
Land	\$ 1,538,935	\$ -	(34,116)	(552,513)	\$ 952,306
Construction in Progress	1,907,157	1,301,660	(2,838,154)	-	370,663
Total Capital Assets, Not Being Depreciated	3,446,092	1,301,660	(2,872,270)	(552,513)	1,322,969
Capital Assets, Being Depreciated:					
Buildings and Improvements	71,498,837	2,210,031	(962,442)	(23,573,073)	49,173,353
Machinery and Shop Equipment	15,460,999	253,939	(7,884,876)	-	7,830,062
Total Capital Assets, Being Depreciated	86,959,836	2,463,970	(8,847,318)	(23,573,073)	57,003,415
Accumulated Depreciation for:					
Buildings and Improvements	(37,152,218)	(1,255,441)	90,541	17,824,330	(20,492,788)
Machinery and Shop Equipment	(12,041,504)	(211,261)	6,303,563	-	(5,949,202)
Total Accumulated Depreciation	(49,193,722)	(1,466,702)	6,394,104	17,824,330	(26,441,990)
 Total Capital Assets, Being Depreciated, Net	 37,766,114	 997,268	 (2,453,214)	 (5,748,743)	 30,561,425
Business-Type Activities Capital Assets, Net	<u>\$ 41,212,206</u>	<u>\$ 2,298,928</u>	<u>\$ (5,325,484)</u>	<u>\$ (6,301,256)</u>	<u>\$ 31,884,394</u>

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

<u>Business-Type Activities</u>	
Municipal Liquor Store	\$ 20,683
Water Utility	378,147
Sewer Utility	296,786
Storm Sewer Utility	54,206
Electric Utility	716,880
Total Depreciation Expense, Business-Type Activities	<u>\$ 1,466,702</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2019 is comprised of the following:

	Issue Date	Final Maturity Date	Interest Rate	Original Issue	Payable December 31, 2019
Governmental Activities, Including Internal Service Funds					
General Obligation Equipment Certificates	9/1/2010	2/1/2021	3.25%	\$ 320,000	\$ 70,000
General Obligation Bonds:					
Refunding Bonds - Series 2014A	2/27/14	2/1/2024	.35 - 2.50%	484,042	215,425
PIR Bonds, Series 2008A	10/23/2008	2/1/2025	3.75 - 5.00%	655,000	305,000
Capital Impr Plan Bonds - Series 2013B	9/17/2013	2/1/2034	.8 - 4.25%	980,000	795,000
Total Bonds				<u>2,439,042</u>	<u>1,385,425</u>
Unamortized Bond (Discount)/Premium				(7,860)	(2,419)
Compensated Absences Payable				N/A	290,942
Total Governmental Activities				<u>\$ 2,431,182</u>	<u>\$ 1,673,948</u>
Business-Type Activities					
General Obligation Bonds:					
Refunding Bonds, Series 2014A - Water Portion	2/27/2014	2/1/2024	.35 - 2.50%	\$ 818,675	\$ 364,354
Refunding Bonds, Series 2014A - Sewer Portion	2/27/2014	2/1/2024	.35 - 2.50%	517,283	230,220
General Obligation Revenue Bonds:					
Revenue Bonds-Series 2013C - Water Portion	10/15/2013	2/1/2029	1 - 3.5%	351,119	247,379
Revenue Bonds-Series 2013C - Sewer Portion	10/15/2013	2/1/2029	1 - 3.5%	453,382	319,429
Revenue Bonds-Series 2013C - Storm Sewer Portion	10/15/2013	2/1/2029	1 - 3.5%	75,499	53,192
Liquor Store Revenue Bonds, Series 2011A	11/10/2011	12/01/2022	1-3.5%	490,000	150,000
Electric Revenue Refunding Bonds, Series 2006A	1/24/2006	12/01/2020	3.40 - 4.05%	2,225,000	225,000
Electric Revenue Refunding Bonds, Series 2013A	3/5/2013	12/1/2027	1 - 2.5%	2,065,000	1,170,000
Water Revenue Bonds Bonds, Series 2018A	10/1/2018	2/1/2034	3 - 3.25%	720,000	720,000
Electric Revenue Bonds Bonds, Series 2019A	11/19/2019	12/1/2031	2.35%	2,415,000	2,415,000
Notes from Direct Borrowings:					
General Obligation Water Revenue Bond of 2009	11/17/2009	8/20/2039	2.936%	6,526,070	4,593,000
Total Bonds				<u>16,657,028.01</u>	<u>10,487,574</u>
Unamortized Bond Discount				(107,447)	(21,497)
Compensated Absences Payable				N/A	234,167
Total Business-Type Activities				<u>\$ 16,549,581</u>	<u>\$ 10,700,244</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2019:

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 1,454,947	\$ -	\$ 139,522	\$ 1,315,425	\$ 127,554
General Obligation Equipment Certificates	105,000	-	35,000	70,000	35,000
Compensated Absences Payable	308,575	283,881	301,514	290,942	138,494
Unamortized Bond (Discount)/Premium	(2,903)	-	(484)	(2,419)	-
Total	<u>1,865,619</u>	<u>283,881</u>	<u>475,552</u>	<u>1,673,948</u>	<u>301,048</u>
Business-Type Activities:					
Bonds Payable:					
General Obligation Bonds	745,053	-	150,479	594,574	117,446
General Obligation Revenue Bonds	5,860,000	2,415,000	2,975,000	5,300,000	677,000
Notes from Direct Borrowings	4,760,000	-	167,000	4,593,000	172,000
Compensated Absences Payable	254,578	180,831	201,242	234,167	91,424
Unamortized Bond Discount	(48,712)	-	(27,215)	(21,497)	-
Total	<u>11,570,919</u>	<u>2,595,831</u>	<u>3,466,506</u>	<u>10,700,244</u>	<u>1,057,870</u>
 Total Primary Government Indebtedness	 <u>\$ 13,436,538</u>	 <u>\$ 2,879,712</u>	 <u>\$ 3,942,058</u>	 <u>\$ 12,374,192</u>	 <u>\$ 1,358,918</u>

The City's outstanding notes from direct borrowings related to the Water fund debt of \$4,593,000 contain (1) a provision that if the City is unable to make a payment when due, an interest penalty may be imposed and one or more of the following remedies may be exercised (a) withhold approval of any disbursement request (b) reject any pending application by the City for financial assistance (c) to the extent permitted by law, demand immediate payment of the note in full and upon such demand, the outstanding principal amount of the note will be immediately due and payable with interest accrued thereon to the date of payment (d) exercise any other remedy availability under law and (2) a provision that if the City fails to comply with any other provision within the note agreement an immediate increase in the interest rate on the loan by eliminating all interest rate discounts that were originally applied, in addition, the default remedies for failure to make a payment as listed above may be exercised.

All long-term bonded indebtedness outstanding at December 31, 2019 is backed by the full-faith and credit of the City, including special assessment bond issues.

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description and Restrictions of Long-Term Debt

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

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

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

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

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

Electric Utility Revenue Bonds – On December 8, 2011, the City issued \$3,535,000 of General Obligation Utility Revenue Bonds, Series 2011B. The bond had a final maturity of December 1, 2031. The bond bears interest at 2.00% to 3.80% annually. The bond was issued for the City's portion of electrical distribution system upgrades which were financed by the City and SMMPA. These bonds were refunded with series 2019A Electric Utility Revenue Refunding bonds during 2019.

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

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description and Restrictions of Long-Term Debt (Continued)

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

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

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

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

Electric Utility Revenue Refunding Bonds – On November 19, 2019, the City Council issued \$2,415,000 of Revenue Refunding Bonds, Series 2019A. The bond has a final maturity of December 1, 2031. The outstanding balance of the bond bears interest at 2.35% annually. The bond refunded the series 2011B Electric Utility Revenue Bonds. The difference in cash flows between the old and new debt will be a savings of \$139,956 over the life of the bond. The economic gain on refunding calculated on a present value basis totaled \$115,408.

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

Year Ending December 31,	Governmental Activities		Business-Type Activities				Total
	Principal	Interest	General Obligation Bonds		Notes From Direct Borrowings		
			Principal	Interest	Principal	Interest	
2020	\$ 162,554	\$ 49,115	\$ 794,447	\$ 146,196	\$ 172,000	\$ 134,850	\$ 1,459,162
2021	173,883	43,946	587,117	124,856	177,000	129,801	1,236,603
2022	140,212	38,873	599,787	111,100	182,000	124,604	1,196,576
2023	138,883	34,016	555,117	96,800	188,000	119,260	1,132,076
2024	139,893	28,745	554,106	83,764	193,000	113,741	1,113,249
2025-2029	315,000	93,875	2,068,000	241,463	1,055,000	480,183	4,253,521
2030-2034	315,000	34,888	736,000	38,720	1,218,000	316,060	2,658,668
2035-2039	-	-	-	-	1,408,000	126,395	1,534,395
Total	\$ 1,385,425	\$ 323,458	\$ 5,894,574	\$ 842,899	\$ 4,593,000	\$ 1,544,894	\$ 14,584,250

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 OPERATING LEASES

Effective September 2, 2014, the City entered into a 15-year operating lease with the County of Redwood to provide a location for the Law Enforcement Center. The lease has two additional 15-year options to extend. The total cost of the operating lease for the year ended December 31, 2019 was \$51,200. In addition to the lease payments, the City is required to pay \$33,725 annually over the initial term of the lease for construction contributions. The future minimum lease payments for the lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 51,200
2021	51,200
2022	51,200
2023	51,200
2024	51,200
2025-2029	256,000
Total	<u><u>\$ 512,000</u></u>

NOTE 6 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan

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

2. Public Employees Police and Fire Plan

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided

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

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Benefits Provided (Continued)

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

B. Contributions

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

1. General Employee Fund Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2019 were \$256,110. The contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in fiscal year 2019. The City was required to contribute 16.20% of pay for the Police and Fire Plan members in fiscal year 2019. The City's contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$140,334. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employee Fund Pension Costs

At December 31, 2019, the City reported a liability of \$2,720,158 for its proportionate share of the General Employees Fund's net pension liability. The City net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2019. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the City totaled \$84,496, for a total net pension liability of \$2,804,654 associated with the City. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportion share was 0.0492% which was a decrease of 0.0039% from its proportion measured as of June 30, 2018.

City's Proportionate Share of the Net Pension Liability	\$ 2,720,158
State of Minnesota's Proportionate Share of the Net Pension Liability with the City	<u>84,496</u>
Total	<u><u>\$ 2,804,654</u></u>

For the year ended December 31, 2019, the City recognized pension expense of \$268,289 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$6,328 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employee Fund Pension Costs (Continued)

At December 31, 2019, the City reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 75,386	\$ -
Changes in Actuarial Assumptions	-	213,806
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	275,720
Changes in Proportion	-	197,325
City Contributions Subsequent to the Measurement Date	126,198	-
Total	<u>\$ 201,584</u>	<u>\$ 686,851</u>

\$126,198 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31.</u>	<u>City Pension Expense Amount</u>
2020	\$ (213,438)
2021	(287,283)
2022	(115,128)
2023	4,384

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2019, the City reported a liability of \$819,742 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportionate share was 0.0770% which was an increase of 0.0083% from its proportionate share measured as of June 30, 2018. The City also recognized \$10,395 for the year ended December 31, 2019, as revenue and an offsetting reduction of net pension liability for its proportionate share of the state of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the state of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90% funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

For the year ended December 31, 2019, the City recognized pension expense of \$115,828 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2019, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 34,805	\$ 124,773
Changes in Actuarial Assumptions	680,257	920,320
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	170,733
Changes in Proportion	124,897	97,052
City Contributions Subsequent to the Measurement Date	72,340	-
Total	<u>\$ 912,299</u>	<u>\$ 1,312,878</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

\$72,340 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>City Pension Expense Amount</u>
2020	\$ (56,929)
2021	(117,865)
2022	(329,196)
2023	7,535
2024	23,536

E. Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2019, was \$390,445.

F. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2019 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 2019. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employee Fund

Changes in actuarial assumption:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

Police and Fire Plan

Changes in actuarial assumption:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	35.5 %	5.1 %
International Equity	25.0	5.9
Bonds	20.0	0.75
Alternative Assets	17.5	5.9
Cash	2.0	-
Total	<u>100.0 %</u>	

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

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

<u>Description</u>	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's Proportionate Share of the General Employee Net Pension Liability	\$ 4,471,793	\$ 2,720,158	\$ 1,273,835
City's Proportionate Share of the Police and Fire Net Pension Liability	1,791,805	819,742	16

I. Pension Plan Fiduciary Net Position

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The City operates a single-employer retiree defined benefit plan (the Plan) that provides health insurance to eligible employees and their spouses through the City's health insurance plan. There are 64 active participants and 2 retired participants as of January 1, 2019.

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

B. Funding Policy

The City has no assets accumulated in a trust that meets the criteria in GASB 75. Contribution requirements are negotiated between the City and union representatives. Qualified employees may choose to participate in the City's insurance plan after retirement, with no contribution from the City. The City provides these benefits to retirees as required by Minnesota Statutes §471.61 subdivision 2b. The City is funding this liability on a pay-as-you-go basis. For the year ended 2019, the City contributed \$23,697 to the plan.

C. Actuarial Methods and Assumptions

The City's OPEB liability was measured as of January 1, 2019, and the total OPEB liability was determined by an actuarial valuation as of January 1, 2019.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary	3.8%
Health Care Trend Rates	6.5% Decreasing to 5.00% Over 6 Years

Mortality rates were based on the RP-2014 white collar mortality tables with MP-2018 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).

The actuarial assumptions used in the January 1, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2018 to December 31, 2018. The discount rate used to measure the total OPEB liability was 3.8%. The discount rate is equal to the 20-Year AA rated Municipal Bond Yield.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Actuarial Methods and Assumptions (Continued)

Since the most recent OPEB valuation, the following changes in assumptions have been made:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2018 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
- The retirement and withdrawal tables for Police and Fire Personnel were updated.
- The discount rate was changed from 3.30% to 3.80%.
- These changes decreased the liability by \$20,396.

D. Changes in Total OPEB Liability

Balance as of January 1, 2019	\$	657,234
Changes for the Year:		
Service Cost		37,356
Interest		22,417
Assumption Changes		(20,396)
Difference between Expected and Actual Experience		(121,579)
Benefit Payments		(30,801)
Net Change in Total OPEB Liability		<u>(113,003)</u>
Balance as of December 31, 2019	\$	<u>544,231</u>

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (2.80%)	Discount Rate (3.80%)	1% Increase (4.80%)
Total OPEB Liability	<u>\$ 586,756</u>	<u>\$ 544,231</u>	<u>\$ 504,373</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Changes in Total OPEB Liability (Continued)

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using health care cost trend rates that are 1% lower (5.5% decreasing to 4.00% over six years) or 1% higher (7.5% decreasing to 6.00% over six years) than the current health care cost trend rates:

	1% Decrease (5.5% Decreasing to 4.00%)	Current Trend Rates (6.5% Decreasing to 5.00%)	1% Increase (7.5% Decreasing to 6.00%)
Medical Trend Rate			
<u>Total OPEB Liability</u>	<u>\$ 487,288</u>	<u>\$ 544,231</u>	<u>\$ 610,931</u>

For the year ended December 31, 2019, the City recognized OPEB expense of \$39,490.

At December 31, 2019, the City reported deferred outflows and deferred inflows of resources, from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Liability	\$ -	\$ 104,210
Changes in Actuarial Assumptions	-	17,482
City Contributions Subsequent to the Measurement Date	23,697	-
Total	<u>\$ 23,697</u>	<u>\$ 121,692</u>

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

<u>Year Ending December 31,</u>	<u>OPEB Amount</u>
2020	\$ (20,283)
2021	(20,283)
2022	(20,283)
2023	(20,283)
2024	(20,283)
2025	(20,277)

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 8 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balances

The City has deficit fund balances at December 31, 2019 in the following funds:

	Fund Balance (Deficit)
Airport Capital Project Fund	\$ (114,767)
TIF #10-1 Runnings Redevelopment	(814,369)
Community Center Bonds of 1999	(1,055)

The City intends to fund these deficits through transfers/advances from other funds, additional property tax levies and various other sources.

Excess of Expenditures over Appropriations

Expenditures exceeded budget in the following fund:

	Appropriations	Expenditures	Excess
TIF #10-1 Runnings Redevelopment	\$ 2,125	\$ 25,602	\$ 23,477

The over expenditures were funded by tax increment revenues collected in the current year.

NOTE 9 INTERFUND

Due To/Due From

Individual fund receivable and payable balances at December 31, 2019 are as follows:

	Receivable	Payable
General Fund	\$ -	\$ 21,492
Capital Projects Fund	116,026	-
Nonmajor Governmental Funds		
Special Revenue Funds:		
Library	-	1,080
Airport	-	1,008
Hospital Building Fund		67
Capital Project Fund:		
Airport	-	114,097
Debt Service Fund:		
Community Center Bonds of 1999	-	1,929
Enterprise Funds:		
Sewer Utility	500	8,463
Water Utility	856	4,398
Electric Utility	37,935	200
Municipal Liquor Store	-	1,234
Storm Sewer Utility	330	-
Internal Service Fund		
Central Garage	-	1,679
Total	\$ 155,647	\$ 155,647

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 9 INTERFUND (CONTINUED)

Due To/Due From (Continued)

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

Advances

Advances at December 31, 2019 are as follows:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 814,369	\$ -
TIF #10-1 Runnings Redevelopment Fund	-	814,369
Total	<u>\$ 814,369</u>	<u>\$ 814,369</u>

Interfund advances represent the money borrowed from the General Fund to help fund the Eastwood/Union Drive – Runnings project. The interfund advance will be paid back through revenue collected by the TIF District over the projected 26 years.

Transfers

Individual fund transfers for fiscal year 2019 are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 566,324	\$ (174,384)
Capital Projects Fund	105,784	(34,500)
TIF #10-1 Runnings Redevelopment	-	(8,781)
Nonmajor Governmental Funds		
Special Revenue Funds:		
Airport	54,500	(42,500)
Fire Equipment Replacement	21,600	-
Port Authority	-	(62,150)
Debt Service Funds:		
PIR Bonds of 2008	62,150	-
Capital Projects Funds:		
Airport Projects Fund	34,500	-
Enterprise Funds:		
Sewer Utility	-	(14,000)
Water Utility	-	(89,048)
Electric Utility	-	(368,495)
Municipal Liquor Store	-	(120,000)
Storm Sewer Utility	-	(4,353)
Internal Service Funds		
Central Garage	73,353	-
Total	<u>\$ 918,211</u>	<u>\$ (918,211)</u>

Interfund transfers are other financing sources and uses within the fund financial statements. The purpose of the transfers are to provide funding for capital improvement projects, capital outlay, and debt service.

The sale of the Redwood Area Hospital resulted in a transfer of assets totaling \$6,301,256 from business-type activities to governmental activities.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 10 RELATED PARTY TRANSACTIONS

During the year ended December 31, 2019, the City made purchases of services and supplies from one related party business owned by a Council member totaling \$1,919.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Construction Commitments – As of December 31, 2019, the City had active construction projects related to a variety of projects including various reconstructions of streets and power plant relay replacement. Total remaining commitments under these contracts were \$512,386 at December 31, 2019.

Federal and State Funds – The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2019.

NOTE 12 RISK MANAGEMENT

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

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

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 12 RISK MANAGEMENT (CONTINUED)

The City self-insures for a portion of the deductible related to its employee group health plan. This activity is accounted for in the Internal Service Insurance Fund. The City does not retain any risk of loss beyond the self-insured portion of the deductible. The amounts charged to expenses include administrative fees, claims paid, and accruals for claims incurred but not paid. The City recorded total expenses of \$951,175 for the year ended December 31, 2019.

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

Beginning of the Year Liability, January 1, 2019	\$ 6,359	Beginning of the Year Liability, January 1, 2018	\$ 8,912
Incurred Claims	945,212	Incurred Claims	1,009,719
Claims Paid	<u>(947,401)</u>	Claims Paid	<u>(1,012,272)</u>
End of the Year Liability, December 31, 2019	<u>\$ 4,170</u>	End of the Year Liability, December 31, 2018	<u>\$ 6,359</u>

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

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

NOTE 13 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION

A. Plan Description

Firefighters of the City of Redwood Falls are members of the Redwood Falls Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2019, membership includes 29 active participants and 4 terminated employees entitled to benefits but not yet receiving them. The plan issues a stand-alone financial statement.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 10 years of active service with such department before retirement shall be entitled to a lump-sum service pension in the amount of \$3,100 for each year of active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

**CITY OF REDWOOD FALLS, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

NOTE 13 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

B. Benefits Provided (Continued)

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

If a member of the Volunteer Firefighters Relief Association (Association) shall become permanently or totally disabled, the Association shall pay the sum \$3,100 for each year the member was an active member of the City of Redwood Falls Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

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

C. Contributions

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

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 13 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

C. Contributions (Continued)

The Plan is funded in part by fire state aid and, if necessary, City contributions. The state of Minnesota distributed to the City \$46,109 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2019. Required employer contributions are calculated annually based on statutory provisions. The City had no statutorily-required contribution to the plan for the year ended December 31, 2019.

D. Pension Costs

At December 31, 2019, the City reported an asset of \$56,301 for the Association's net pension asset. The net pension asset was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$52,037 for the year ended December 31, 2019. At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ -	\$ 15,405
Changes in Actuarial Assumptions	7,147	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	79,876	-
City Contributions Subsequent to the Measurement Date	-	-
Total	<u>\$ 87,023</u>	<u>\$ 15,405</u>

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

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2020	\$ 26,966
2021	14,510
2022	16,103
2023	19,427
Thereafter	(5,388)

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 13 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

E. Actuarial Assumptions

The actuarial total pension liability was determined as of January 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

ASSUMPTIONS FROM ACTUARIAL REPORT

Valuation Date	1/1/19
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Actuarial Assumptions:	
Discount Rate	5.75%
Investment Rate of Return	5.75%
20-Year Municipal Bond Yield	3.50%
Age of Service Retirement	50

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

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of January 1, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Allocation at January 1, 2019</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	12.0 %	2.25 %
Fixed Income	28.0	3.80
Equities	59.0	7.30
Real Estate	1.0	6.00
Total Portfolio	<u>100.0 %</u>	<u>5.75 %</u>

F. Discount Rate

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

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 13 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

G. Pension Liability Sensitivity

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

	<u>1 Percent Decrease</u>	<u>Discount Rate</u>	<u>1 Percent Increase</u>
Net Pension Liability (Asset)	\$ (33,689)	\$ (56,301)	\$ (78,373)
Discount Rate	4.75%	5.75%	6.75%

H. Plan's Fiduciary Net Position

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

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

	<u>December 31, 2018 Measurement Date</u>
Total Pension Liability	
Service Cost	\$ 41,904
Interest	47,341
Changes of Benefit Terms	38,476
Benefit Payments, Including Member Contribution Refunds	-
Gain or Loss	<u>(16,170)</u>
Net Change in Total Pension Liability	111,551
Total Pension Liability - Beginning of Year	<u>781,424</u>
Total Pension Liability - End of Year (a)	892,975
 Plan Fiduciary Net Position	
Municipal Contributions	-
Nonemployer Contributions	45,894
Net Investment Income	(44,878)
Benefit Payments	-
Net Change in Fiduciary Net Position	<u>1,016</u>
Fiduciary Net Position - Beginning of Year	<u>948,260</u>
Fiduciary Net Position - End of Year (b)	<u>949,276</u>
 Association's Net Pension Liability/(Asset) - End of Year (a) - (b)	<u>\$ (56,301)</u>

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 14 CONDUIT DEBT OBLIGATIONS

The City has issued housing revenue notes for the purpose of providing capital financing to a private enterprise. Even though the debt bears the City’s name, the City is not responsible for the payment of the original debt. The debt is secured by the payments agreed to be paid by the private enterprise under the terms of the agreement between the City and the enterprise. The general description of the transaction and the outstanding balance at December 31, 2019, is as follows:

Enterprise	Purpose	Balance at December 31, 2019
Garnette Gardens	Construction of a Facility	\$ 6,542,773
Country Village	Construction of a Facility	681,665

NOTE 15 COMMITMENTS AND CONTINGENCIES

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

Other

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

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

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

NOTE 16 SUMMARY OF OTHER ITEMS

The City, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigations. The City estimates that the potential claims resulting from such litigation and not covered by insurance would not materially affect the financial statements of the City. No liability or provision for loss has been recorded in the December 31, 2019 financial statements in relation to these matters.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 17 TAX ABATEMENTS

The City has a pay-as-you-go tax increment financing district with a local business to promote economic development within the City as authorized under Minnesota Statutes §469.174. The City is currently collecting tax increments that are paid through the property tax collection process. The district will stop collection in 2024. The requirement for the business to receive the excess tax increments from the City was to construct a 30,000 square foot addition to the existing manufacturing facility. The increment taxes are based on the increase of the property value after the improvements are made. The agreements call for 90% of the property tax increments collected to be returned to the developers. For the year ended December 31, 2019, the City paid excess tax increment in the amount of \$31,639. No other commitments were made by the City as a part of this agreement.

The City established a municipal redevelopment district in 2014 as authorized under Minnesota Statutes §§ 469.124 through 469.134. The Redevelopment TIF District permits the City to assist virtually any type of development or redevelopment project within the boundaries of the TIF District, as long as assistance aids in the removal of blighting conditions. The District has a maximum life of 25 years from the receipt of the first tax increment; that is, 26 TIF collections. The TIF revenues are paid to the City through the property tax collection process. Ninety percent (90%) of the tax increments generated from the TIF District must be used to finance the cost of correcting conditions that allow designation as a redevelopment district. For the year ended December 31, 2019, the City paid excess tax increment in the amount of \$69,354. No other commitments were made by the City as a part of this agreement.

The City negotiates property tax abatement agreements on an individual basis. The City has tax abatement agreements with three entities as of December 31, 2019. Each agreement is negotiated under Minnesota Statutes sections 469.1812 through 469.1815. Under the statutes, the City may grant property tax abatements for the purpose of attracting and retaining business. The City abated taxes totaling \$53,792 for the year ending December 31, 2019.

- The City's share of the real property taxes generated from a Housing Project for a term of 8 years. The abatement amounted to \$40,182.
- The City's share of the property tax generated by an assisted living facility for a term of 15 years to end in 2019. The abatement amounted to \$8,106.
- The City's share of the property tax generated by the expansion of an assisted living facility for a term of 15 years. The abatement amounted to \$5,504.

As of December 31, 2019, the City has not made any commitments as part of the agreements other than to reduce taxes. The City is not subject to any tax abatement agreements entered into by other governments.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 18 HOSPITAL LEASE AGREEMENT

As a part of the hospital sale agreement (see Note 19), effective January 1, 2019, the City entered into a lease with Carris Health, LLC. The City will lease the hospital building to Carris Health, LLC for a period of two years ending on December 31, 2020, subject to renewal if the lessee has not relocated operations to the new medical campus and removed all personal property from the leased premises. The City recognized \$600,000 in revenues during 2019 related to this lease agreement, and lease payments for 2020 are scheduled to total \$600,000. As of December 31, 2019, the leased building and land has a cost of \$24,125,586 and accumulated depreciation of \$20,678,701.

NOTE 19 DISPOSAL OF OPERATIONS – SALE OF HOSPITAL

Effective January 1, 2019 the City sold the Redwood Area Hospital to Carris Health, LLC. There were no proceeds and no expenses related to this sale in 2019, however \$5 million was transferred from the hospital fund to the governmental funds in 2018. The sale was determined to be in the best interest of the residents of the City and communities served, to provide more integrated and effective health care, effectively recruit and retain physicians and other health professionals, enhance the competitive position of the facilities and strengthen the position of the hospital as a provider of health care in the service area. As a part of the agreement, assets with a net book value of \$6,301,256 were transferred to the governmental activities of the City. The remaining assets and liabilities were transferred to Carris Health resulting in a loss on disposal of \$15,906,442.

NOTE 20 CHANGE IN ACCOUNTING PRINCIPLE

Beginning fund balance of the General Fund, and beginning net position of the Governmental Activities, have been restated as a result of the implementation of GASB Statement No. 84, *Fiduciary Activities*. The effect of the adjustment was to increase fund balance/net position by \$175,406 as of January 1, 2019 for activities that had been previously reported as fiduciary.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 21 SUBSEQUENT EVENTS

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the City, COVID-19 may impact various parts of its 2020 operations and financial results including, but not limited to, costs for emergency preparedness and shortages of personnel. Management believes the City is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

During the period from January 1, 2020 through June 2, 2020, both domestic and international equity markets have experienced significant declines. These losses are not reflected in the financial statements as of and for the year ended December 31, 2019 as these events occurred subsequent to year-end and are still developing.

On May 11, 2020 the City issued a \$780,000 General Obligation Capital Improvement Plan Refunding Note, Series 2020A, with an interest rate of 1.9%. The note refunds the Series 2013B General Obligation Capital Improvement Plan Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Measurement Date January 1, 2019	Measurement Date January 1, 2018
Total OPEB Liability		
Service Cost	\$ 37,356	\$ 45,642
Interest	22,417	21,402
Assumption Changes	(20,396)	-
Difference between Expected and Actual Experience	(121,579)	-
Benefit Payments	(30,801)	(25,251)
Net Change in Total OPEB Liability	(113,003)	41,793
Total OPEB Liability - Beginning	657,234	615,441
Total OPEB Liability - Ending	\$ 544,231	\$ 657,234
 Covered Employee Payroll	\$ 3,916,989	\$ 4,180,713
 City's OPEB Liability as a Percentage of Covered Employee Payroll	14%	16%

Note 1: The table above table will be expanded to 10 years of information as the information becomes available.

Note 2: No assets are accumulated in a trust.

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

	Measurement Date June 30, 2019	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
City - General Employee Plan					
City's Proportion of the Net Pension Liability	0.0492%	0.0531%	0.0536%	0.0536%	0.0534%
City's Proportionate Share of the Net Pension Liability	\$ 2,720,158	\$ 2,945,770	\$ 3,421,789	\$ 4,352,054	\$ 2,767,466
State's Proportionate Share of the Net Pension Liability Associated with the City	84,496	96,729	43,005	56,839	-
City's Total Net Pension Liability - General Employee Plan	2,804,654	3,042,499	3,464,794	4,408,893	2,767,466
City's Covered Payroll	3,480,782	3,576,608	3,455,396	3,329,013	3,140,523
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	78.15%	82.36%	99.03%	130.73%	88.12%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.20%	79.50%	75.90%	68.90%	78.20%
City - Police and Fire Plan					
City's Proportion of the Net Pension Liability	0.0770%	0.0687%	0.0740%	0.0780%	0.0770%
City's Proportionate Share of the Net Pension Liability	\$ 819,742	\$ 732,271	\$ 999,088	\$ 3,130,276	\$ 874,900
City's Covered Payroll	812,177	724,646	761,498	748,809	702,076
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	100.93%	101.05%	131.20%	418.03%	124.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.30%	88.80%	85.43%	63.90%	86.60%

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

See accompanying Notes to Required Supplementary Information.

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

	2019	2018	2017	2016	2015	2014
City - General Employee Plan						
Statutorily Required Contribution	\$ 256,110	\$ 265,811	\$ 265,404	\$ 254,391	\$ 242,627	\$ 224,719
Contributions in Relation to the Statutorily Required Contribution	(256,110)	(265,811)	(265,404)	(254,391)	(242,627)	(224,719)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 3,414,800	\$ 3,544,147	\$ 3,538,720	\$ 3,391,880	\$ 3,215,297	\$ 3,099,577
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.55%	7.25%
Police and Fire Plan						
Statutorily Required Contribution	\$ 140,334	\$ 122,905	\$ 122,382	\$ 122,796	\$ 117,065	\$ 106,258
Contributions in Relation to the Statutorily Required Contribution	(140,334)	(122,905)	(122,382)	(122,796)	(117,065)	(106,258)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 866,259	\$ 758,673	\$ 755,444	\$ 758,000	\$ 716,591	\$ 694,499
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%	16.20%	16.34%	15.30%
Fire Relief Association						
Statutorily Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ 2,081	\$ 23,580
Contributions in Relation to the Statutorily Required Contribution	-	-	-	-	(2,081)	(23,580)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

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

See accompanying Notes to Required Supplementary Information.

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

	December 31, 2018 Measurement Date	December 31, 2017 Measurement Date	December 31, 2016 Measurement Date	December 31, 2015 Measurement Date	December 31, 2014 Measurement Date
Total Pension Liability					
Service Cost	\$ 41,904	\$ 39,825	\$ 38,783	\$ 39,490	\$ 36,260
Interest	47,341	42,204	42,899	43,103	47,121
Changes of Benefit Terms	38,476	14,361	10,210	11,786	-
Benefit Payments, Including Member Contribution Refunds	-	(18,250)	(69,977)	(202,897)	-
Gain or Loss	(16,170)	-	(1,217)	-	-
Net Change in Total Pension Liability	<u>111,551</u>	<u>78,140</u>	<u>20,698</u>	<u>(108,518)</u>	<u>83,381</u>
Total Pension Liability - Beginning of Year	<u>781,424</u>	<u>703,284</u>	<u>682,586</u>	<u>791,104</u>	<u>707,723</u>
Total Pension Liability - End of Year (a)	<u>892,975</u>	<u>781,424</u>	<u>703,284</u>	<u>682,586</u>	<u>791,104</u>
Plan Fiduciary Net Position					
Municipal Contributions	-	-	-	2,081	23,580
Nonemployer Contributions	45,894	46,851	47,601	50,827	46,418
Net Investment Income	(44,878)	66,497	58,342	(6,135)	59,490
Benefit Payments	-	(18,250)	(69,977)	(202,897)	-
Net Change in Fiduciary Net Position	<u>1,016</u>	<u>95,098</u>	<u>35,966</u>	<u>(156,124)</u>	<u>129,488</u>
Fiduciary Net Position - Beginning of Year	<u>948,260</u>	<u>853,162</u>	<u>817,196</u>	<u>973,320</u>	<u>843,832</u>
Fiduciary Net Position - End of Year (b)	<u>949,276</u>	<u>948,260</u>	<u>853,162</u>	<u>817,196</u>	<u>973,320</u>
Association's Net Pension Liability/(Asset) - End of Year (a) - (b)	<u>\$ (56,301)</u>	<u>\$ (166,836)</u>	<u>\$ (149,878)</u>	<u>\$ (134,610)</u>	<u>\$ (182,216)</u>
Fiduciary Net Position as a Percentage of the Total Pension Liability	106.30%	121.35%	121.31%	119.72%	123.03%
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A

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

See accompanying Notes to Required Supplementary Information.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
REVENUES				
Taxes:				
Current and Delinquent Property Tax	\$ 2,240,329	\$ 2,240,329	\$ 2,512,279	\$ 271,950
Franchise Tax	163,000	163,000	181,734	18,734
Hotel/Motel Tax	35,000	35,000	34,295	(705)
Total Taxes	<u>2,438,329</u>	<u>2,438,329</u>	<u>2,728,308</u>	<u>289,979</u>
Intergovernmental:				
Local Government Aid	1,542,491	1,542,491	1,542,716	225
General Government	-	-	1,329	1,329
Public Safety	145,600	145,600	162,428	16,828
Culture and Recreation	-	-	9,844	9,844
Highway	1,075,000	1,075,000	1,318,035	243,035
Total Intergovernmental	<u>2,763,091</u>	<u>2,763,091</u>	<u>3,034,352</u>	<u>271,261</u>
Charges for Services:				
Fire Protection	60,100	60,100	57,662	(2,438)
Swimming Pool Fees and Concessions	151,000	151,000	155,554	4,554
Park Fees	54,000	54,000	55,614	1,614
Administration Fees	1,000	1,000	480	(520)
Miscellaneous General Government Charges for Service	20,471	20,471	23,343	2,872
Recreation Fees	96,800	96,800	80,878	(15,922)
Community Center	483,100	483,100	478,494	(4,606)
Total Charges for Services	<u>866,471</u>	<u>866,471</u>	<u>852,025</u>	<u>(14,446)</u>
Fees, Licenses, and Permits				
Business	37,850	37,850	42,123	4,273
Non-Business	43,400	43,400	260,873	217,473
Total Fees, Licenses, and Permits	<u>81,250</u>	<u>81,250</u>	<u>302,996</u>	<u>221,746</u>
Fines and Forfeits	38,000	38,000	59,136	21,136
Investment Earnings	70,675	70,675	217,568	146,893
Contributions	7,500	7,500	5,447	(2,053)
Miscellaneous	322,931	322,931	196,157	(126,774)
Total Revenues	<u>6,588,247</u>	<u>6,588,247</u>	<u>7,395,989</u>	<u>807,742</u>

See accompanying Notes to Required Supplementary Information.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
EXPENDITURES				
General Government				
Mayor and Council				
Current:				
Personal Services	\$ 32,083	\$ 32,083	\$ 31,992	\$ (91)
Materials and Supplies	400	400	465	65
Other Services and Charges	1,420	1,420	1,539	119
Total Mayor and Council	33,903	33,903	33,996	93
City Administration				
Current:				
Personal Services	160,174	160,174	154,488	(5,686)
Materials and Supplies	5,500	5,500	7,665	2,165
Other Services and Charges	58,857	58,857	75,302	16,445
Total City Administration	224,531	224,531	237,455	12,924
Elections				
Current:				
Other Services and Charges	10	10	(18)	(28)
Finance Department				
Current:				
Personal Services	324,654	324,654	301,935	(22,719)
Materials and Supplies	9,000	9,000	11,253	2,253
Other Services and Charges	119,418	119,418	114,292	(5,126)
Total Finance Department	453,072	453,072	427,480	(25,592)
Management Information Systems				
Current:				
Materials and Supplies	31,900	31,900	75,067	43,167
Other Services and Charges	181,491	181,491	177,416	(4,075)
Capital Outlay	65,000	65,000	46,061	(18,939)
Total Management Information Systems	278,391	278,391	298,544	20,153
Legal				
Current:				
Personal Services	118,318	118,318	116,512	(1,806)
Materials and Supplies	600	600	1,452	852
Other Services and Charges	7,470	7,470	4,724	(2,746)
Total Legal	126,388	126,388	122,688	(3,700)

See accompanying Notes to Required Supplementary Information.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
EXPENDITURES (CONTINUED)				
General Government (Continued)				
Buildings and Grounds				
Current:				
Personal Services	\$ 15,142	\$ 15,142	\$ 12,143	\$ (2,999)
Materials and Supplies	2,800	2,800	318	(2,482)
Other Services and Charges	13	13	24	11
Total Buildings and Grounds	<u>17,955</u>	<u>17,955</u>	<u>12,485</u>	<u>(5,470)</u>
Total General Government	1,134,250	1,134,250	1,132,630	(1,620)
Public Safety				
Police				
Current:				
Personal Services	1,255,576	1,255,576	1,255,835	259
Materials and Supplies	55,150	55,150	45,934	(9,216)
Other Services and Charges	236,120	236,120	257,531	21,411
Capital Outlay	42,000	42,000	46,469	4,469
Total Police	<u>1,588,846</u>	<u>1,588,846</u>	<u>1,605,769</u>	<u>16,923</u>
Fire Department				
Current:				
Personal Services	61,042	61,042	50,782	(10,260)
Materials and Supplies	17,200	17,200	22,795	5,595
Other Services and Charges	101,265	101,265	108,891	7,626
Total Fire Department	<u>179,507</u>	<u>179,507</u>	<u>182,468</u>	<u>2,961</u>
Protective Inspections				
Current:				
Personal Services	83,214	83,214	85,047	1,833
Materials and Supplies	900	900	3,106	2,206
Other Services and Charges	11,780	11,780	8,855	(2,925)
Total Protective Inspections	<u>95,894</u>	<u>95,894</u>	<u>97,008</u>	<u>1,114</u>
Total Public Safety	<u>1,864,247</u>	<u>1,864,247</u>	<u>1,885,245</u>	<u>20,998</u>

See accompanying Notes to Required Supplementary Information.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
EXPENDITURES (CONTINUED)				
Highways and Streets				
Public Works Project Coordinator				
Current:				
Personal Services	\$ 29,552	\$ 29,552	\$ 34,656	\$ 5,104
Materials and Supplies	1,500	1,500	337	(1,163)
Other Services and Charges	6,737	6,737	5,208	(1,529)
Capital Outlay	-	-	343	343
Total Public Works Project Coordinator	<u>37,789</u>	<u>37,789</u>	<u>40,544</u>	<u>2,755</u>
Streets and Alleys				
Current:				
Personal Services	359,387	359,387	363,495	4,108
Materials and Supplies	158,000	158,000	185,198	27,198
Other Services and Charges	567,200	567,200	718,738	151,538
Capital Outlay	1,043,173	1,043,173	995,274	(47,899)
Total Streets and Alleys	<u>2,127,760</u>	<u>2,127,760</u>	<u>2,262,705</u>	<u>134,945</u>
Total Highways and Streets	<u>2,165,549</u>	<u>2,165,549</u>	<u>2,303,249</u>	<u>137,700</u>
Culture and Recreation				
Senior Citizens Center				
Current:				
Other Services and Charges	5,050	5,050	4,512	(538)
Parks & Recreation				
Current:				
Personal Services	860,036	860,036	823,240	(36,796)
Materials and Supplies	112,050	112,050	86,715	(25,335)
Other Services and Charges	587,638	587,638	618,262	30,624
Capital Outlay	140,000	140,000	-	(140,000)
Total Parks & Recreation	<u>1,699,724</u>	<u>1,699,724</u>	<u>1,528,217</u>	<u>(171,507)</u>
Pool				
Current:				
Personal Services	141,109	141,109	111,555	(29,554)
Materials and Supplies	41,400	41,400	38,096	(3,304)
Other Services and Charges	55,400	55,400	50,652	(4,748)
Total Pool	<u>237,909</u>	<u>237,909</u>	<u>200,303</u>	<u>(37,606)</u>
Total Culture and Recreation	<u>1,942,683</u>	<u>1,942,683</u>	<u>1,733,032</u>	<u>(209,651)</u>
Economic Development				
Current:				
Other Services and Charges	97,023	97,023	45,158	(51,865)
Total Expenditures	<u>7,203,752</u>	<u>7,203,752</u>	<u>7,099,314</u>	<u>(104,438)</u>

See accompanying Notes to Required Supplementary Information.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
REVENUES OVER (UNDER) EXPENDITURES	\$ (615,505)	\$ (615,505)	\$ 296,675	\$ 912,180
OTHER FINANCING SOURCES (USES)				
Transfers In	826,443	826,443	566,324	(260,119)
Transfers Out	<u>(76,600)</u>	<u>(76,600)</u>	<u>(174,384)</u>	<u>(97,784)</u>
Total Other Financing Sources (Uses)	<u>749,843</u>	<u>749,843</u>	<u>391,940</u>	<u>(357,903)</u>
CHANGE IN FUND BALANCE	<u>\$ 134,338</u>	<u>\$ 134,338</u>	688,615	<u>\$ 554,277</u>
Fund Balance - Beginning of Year			5,709,656	
Restatement - Change in Accounting Principle (See Note 20)			<u>175,406</u>	
Fund Balance - Beginning of Year, As Restated			5,885,062	
FUND BALANCE - END OF YEAR			<u>\$ 6,573,677</u>	

See accompanying Notes to Required Supplementary Information.

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – TIF #10-1 RUNNINGS REDEVELOPMENT FUND
YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
REVENUES				
Local Tax Levies	\$ 67,500	\$ 67,500	\$ 69,354	\$ (1,854)
EXPENDITURES				
Current				
Economic Development	2,125	2,125	319	(1,806)
Debt Service				
Interest	-	-	25,283	25,283
Total Expenditures	2,125	2,125	25,602	23,477
EXCESS OF REVENUES OVER EXPENDITURES	65,375	65,375	43,752	21,623
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(8,781)	8,781
CHANGE IN FUND BALANCE	\$ 65,375	\$ 65,375	34,971	\$ 30,404
Fund Balance (Deficit) - Beginning of Year			(849,340)	
FUND BALANCE (DEFICIT) - END OF YEAR			\$ (814,369)	

See accompanying Notes to Required Supplementary Information.

**CITY OF REDWOOD FALLS, MINNESOTA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2019**

NOTE 1 BUDGETS

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

NOTE 2 LEGAL COMPLIANCE - BUDGETS

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

1. Prior to September 30, the Director of Finance and Administrative Services submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to December 31, the budget is legally enacted through passage of a resolution.
3. The Director of Finance and Administrative Services is authorized to transfer budgeted amounts within any department budget; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.

Excess of Expenditures over Appropriations

Expenditures exceeded budget in the following fund:

	Appropriations	Expenditures	Excess
TIF #10-1 Runnings Redevelopment	\$ 2,125	\$ 25,602	\$ 23,477

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

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

A. General Employees Fund

2019 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

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

A. General Employees Fund (Continued)

2018 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

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

A. General Employees Fund (Continued)

2016 Changes:

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
 - The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
 - Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.
- Changes in Plan Provisions

- There have been no changes since the prior valuation.

B. Police and Fire Fund

2019 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- Postretirement benefit increases were changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

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

B. Police and Fire Fund (Continued)

2018 Changes (Continued)

Changes in Plan Provisions (Continued)

- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The combined service annuity (CSA) load was 30.00 percent for vested and nonvested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for nonvested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed postretirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**CITY OF REDWOOD FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

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

B. Police and Fire Fund (Continued)

2016 Changes:

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent.
- The single discount rate changed from 7.90 percent to 5.60 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

NOTE 4 OPEB – CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

2019 Changes:

Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2018 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
- The retirement and withdrawal tables for Police and Fire Personnel were updated.
- The discount rate was changed from 3.30% to 3.80%.
- These changes decreased the liability by \$20,396.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2018 Changes:

Changes in Actuarial Assumptions

- The discount rate was changed from 3.50% to 3.30%

Changes in Plan Provisions

- There have been no changes since the prior valuation.

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SUPPLEMENTARY INFORMATION

COMBINING FUND FINANCIAL STATEMENTS

**CITY OF REDWOOD FALLS, MINNESOTA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	Special Revenue			
	Library	Airport	Fire Equipmen Replacement	Port Authority
ASSETS				
Cash and Investments	\$ 300,401	\$ 22,828	\$ 225,050	\$ 337,125
Accounts Receivable, Net	58	6,821	-	-
Property Taxes Receivable	16,001	-	-	2,132
Accrued Interest Receivable	1,997	-	901	5,099
Due from Other Governments	-	28,702	20,819	-
Prepaid Items	4,220	4,707	-	790
Property Held for Resale	-	-	-	69,551
Notes Receivable	-	-	-	-
Inventory	-	30,830	-	-
Total Assets	<u>\$ 322,677</u>	<u>\$ 93,888</u>	<u>\$ 246,770</u>	<u>\$ 414,697</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 9,479	\$ 24,127	\$ 10,962	\$ -
Contracts Payable	1,695	-	-	-
Accrued Salaries and Fringes	10,502	2,645	-	2,037
Due to Other Funds	1,080	1,008	-	-
Due to Other Governments	149	-	-	18
Unearned Revenue	860	9,809	71,314	-
Total Liabilities	<u>23,765</u>	<u>37,589</u>	<u>82,276</u>	<u>2,055</u>
Deferred Inflows of Resources:				
Unavailable Revenue - Taxes	10,129	-	-	1,351
Unavailable Revenue - Loans	-	-	-	-
Unavailable Revenue - Grants and Other	-	17,069	-	-
Total Deferred Inflows of Resources	<u>10,129</u>	<u>17,069</u>	<u>-</u>	<u>1,351</u>
Fund Balances (Deficit)				
Nonspendable:				
Prepaid Items	4,220	4,707	-	790
Inventory	-	30,830	-	-
Restricted For:				
Library	284,563	-	-	-
Port Authority	-	-	-	410,501
Revolving Loans	-	-	-	-
Committed	-	3,693	164,494	-
Unassigned	-	-	-	-
Total Fund Balances (Deficit)	<u>288,783</u>	<u>39,230</u>	<u>164,494</u>	<u>411,291</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 322,677</u>	<u>\$ 93,888</u>	<u>\$ 246,770</u>	<u>\$ 414,697</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 COMBINING BLANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
 DECEMBER 31, 2019**

Special Revenue (Continued)

Revolving Loan	Downtown Loan Program	TIF #9-1 Daktronics Expansion	Hospital Building	Special Revenue Subtotal
\$ 612,106	\$ 27,523	\$ 16,349	\$ 635,188	\$ 2,176,570
-	-	-	-	6,879
-	-	-	-	18,133
4,544	284	-	-	12,825
-	-	-	-	49,521
-	-	-	391	10,108
-	-	-	-	69,551
28,694	37,044	-	-	65,738
-	-	-	-	30,830
<u>\$ 645,344</u>	<u>\$ 64,851</u>	<u>\$ 16,349</u>	<u>\$ 635,579</u>	<u>\$ 2,440,155</u>
\$ -	\$ -	\$ 15,494	\$ -	\$ 60,062
-	-	-	-	1,695
-	-	-	-	15,184
-	-	-	67	2,155
-	-	-	-	167
-	-	-	50,000	131,983
-	-	15,494	50,067	211,246
-	-	-	-	11,480
28,694	37,044	-	-	65,738
-	-	-	-	17,069
<u>28,694</u>	<u>37,044</u>	<u>-</u>	<u>-</u>	<u>94,287</u>
-	-	-	391	10,108
-	-	-	-	30,830
-	-	-	-	284,563
-	-	-	-	410,501
616,650	27,807	-	-	644,457
-	-	855	585,121	754,163
-	-	-	-	-
<u>616,650</u>	<u>27,807</u>	<u>855</u>	<u>585,512</u>	<u>2,134,622</u>
<u>\$ 645,344</u>	<u>\$ 64,851</u>	<u>\$ 16,349</u>	<u>\$ 635,579</u>	<u>\$ 2,440,155</u>

**CITY OF REDWOOD FALLS, MINNESOTA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2019**

	Debt Service		
	Community Center Bonds of 1999	PIR Bonds 2008	Debt Service Subtotal
ASSETS			
Cash and Investments	\$ -	\$ -	\$ -
Accounts Receivable	-	-	-
Property Taxes Receivable	2,369	-	2,369
Accrued Interest Receivable	-	-	-
Due from Other Governments	-	-	-
Prepaid Items	11	42	53
Property Held for Resale	-	-	-
Notes Receivable	-	-	-
Inventory	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 2,380</u>	<u>\$ 42</u>	<u>\$ 2,422</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ -	\$ -	\$ -
Contracts Payable	-	-	-
Accrued Salaries and Fringes	-	-	-
Due to Other Funds	1,929	-	1,929
Due to Other Governments	-	-	-
Unearned Revenue	-	-	-
Total Liabilities	<u>1,929</u>	<u>-</u>	<u>1,929</u>
Deferred Inflows of Resources:			
Unavailable Revenue - Taxes	1,506	-	1,506
Unavailable Revenue - Loans	-	-	-
Unavailable Revenue - Grants	-	-	-
Total Deferred Inflows of Resources	<u>1,506</u>	<u>-</u>	<u>1,506</u>
Fund Balances (Deficit)			
Nonspendable:			
Prepaid Items	11	42	53
Inventory	-	-	-
Restricted For:			
Library	-	-	-
Port Authority	-	-	-
Revolving Loans	-	-	-
Committed	-	-	-
Unassigned	(1,066)	-	(1,066)
Total Fund Balances (Deficit)	<u>(1,055)</u>	<u>42</u>	<u>(1,013)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,380</u>	<u>\$ 42</u>	<u>\$ 2,422</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 COMBINING BLANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
 DECEMBER 31, 2019**

Capital Projects

<u>Airport Fund</u>	<u>Total</u>
\$ -	\$ 2,176,570
-	6,879
-	20,502
-	12,825
128,208	177,729
-	10,161
-	69,551
-	65,738
-	30,830
<u>\$ 128,208</u>	<u>\$ 2,570,785</u>
\$ -	\$ 60,062
670	2,365
-	15,184
114,097	118,181
-	167
-	131,983
<u>114,767</u>	<u>327,942</u>
-	12,986
-	65,738
128,208	145,277
<u>128,208</u>	<u>224,001</u>
-	10,161
-	30,830
-	284,563
-	410,501
-	644,457
-	754,163
(114,767)	(115,833)
<u>(114,767)</u>	<u>2,018,842</u>
<u>\$ 128,208</u>	<u>\$ 2,570,785</u>

**CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019**

	Special Revenue			
	Library	Airport	Fire Equipment Replacement	Port Authority
REVENUES				
Local Tax Levies	\$ 365,137	\$ -	\$ -	\$ 50,136
Intergovernmental	43,013	60,078	73,941	84
Charges for Services	6,389	259,722	-	-
Fines and Forfeits	5,535	-	-	-
Investment Earnings (Loss)	8,582	(212)	5,852	13,607
Contributions	15,570	-	-	-
Miscellaneous	1,884	5,979	-	182
Total Revenues	<u>446,110</u>	<u>325,567</u>	<u>79,793</u>	<u>64,009</u>
EXPENDITURES				
Current:				
General Government	-	-	-	-
Public Safety	-	-	25,972	-
Culture and Recreation	406,853	-	-	-
Economic Development	-	-	-	52,526
Airport	-	320,783	-	-
Capital Outlay	10,455	-	-	-
Debt Service:				
Principal	-	-	35,000	-
Interest	-	-	2,844	-
Fiscal Agent Fees	-	-	-	-
Total Expenditures	<u>417,308</u>	<u>320,783</u>	<u>63,816</u>	<u>52,526</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	28,802	4,784	15,977	11,483
OTHER FINANCING SOURCES (USES)				
Transfers In	-	54,500	21,600	-
Transfers Out	-	(42,500)	-	(62,150)
Total Other Financing Sources (Uses)	<u>-</u>	<u>12,000</u>	<u>21,600</u>	<u>(62,150)</u>
CHANGE IN FUND BALANCES	28,802	16,784	37,577	(50,667)
Fund Balances (Deficit) - Beginning of Year	<u>259,981</u>	<u>22,446</u>	<u>126,917</u>	<u>461,958</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 288,783</u>	<u>\$ 39,230</u>	<u>\$ 164,494</u>	<u>\$ 411,291</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2019**

Special Revenue (Continued)

Revolving Loan	Downtown Loan Program	TIF #9-1 Daktronics Expansion	Hospital Building	Special Revenue Subtotal
\$ -	\$ -	\$ 31,639	\$ -	\$ 446,912
-	-	-	-	177,116
-	-	-	-	266,111
-	-	-	-	5,535
24,882	1,566	7	-	54,284
-	-	-	-	15,570
21,447	26,871	-	602,495	658,858
<u>46,329</u>	<u>28,437</u>	<u>31,646</u>	<u>602,495</u>	<u>1,624,386</u>
-	-	-	16,983	16,983
-	-	-	-	25,972
-	-	-	-	406,853
1,223	20,625	31,641	-	106,015
-	-	-	-	320,783
-	-	-	-	10,455
-	-	-	-	35,000
-	-	-	-	2,844
-	-	-	-	-
<u>1,223</u>	<u>20,625</u>	<u>31,641</u>	<u>16,983</u>	<u>924,905</u>
45,106	7,812	5	585,512	699,481
-	-	-	-	76,100
-	-	-	-	(104,650)
-	-	-	-	(28,550)
45,106	7,812	5	585,512	670,931
<u>571,544</u>	<u>19,995</u>	<u>850</u>	<u>-</u>	<u>1,463,691</u>
<u>\$ 616,650</u>	<u>\$ 27,807</u>	<u>\$ 855</u>	<u>\$ 585,512</u>	<u>\$ 2,134,622</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2019**

	Debt Service		
	Community Center Bonds of 1999	PIR Bonds 2008	Debt Service Subtotal
REVENUES			
Local Tax Levies	\$ 47,236	\$ -	\$ 47,236
Intergovernmental	-	-	-
Charges for Services	-	-	-
Fines and Forfeits	-	-	-
Investment Earnings (Loss)	(1,518)	-	(1,518)
Contributions	-	-	-
Miscellaneous	-	-	-
Total Revenues	<u>45,718</u>	<u>-</u>	<u>45,718</u>
EXPENDITURES			
Current:			
General Government	-	-	-
Public Safety	-	-	-
Culture and Recreation	-	-	-
Economic Development	-	-	-
Airport	-	-	-
Capital Outlay	-	-	-
Debt Service:			
Principal	54,522	45,000	99,522
Interest	4,825	15,900	20,725
Fiscal Agent Fees	264	1,329	1,593
Total Expenditures	<u>59,611</u>	<u>62,229</u>	<u>121,840</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(13,893)	(62,229)	(76,122)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	62,150	62,150
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>62,150</u>	<u>62,150</u>
CHANGE IN FUND BALANCES	(13,893)	(79)	(13,972)
Fund Balances (Deficit) - Beginning of Year	<u>12,838</u>	<u>121</u>	<u>12,959</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (1,055)</u>	<u>\$ 42</u>	<u>\$ (1,013)</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2019**

Capital Projects

Airport Fund	Total
\$ -	\$ 494,148
125,743	302,859
-	266,111
-	5,535
(7,478)	45,288
-	15,570
-	658,858
<u>118,265</u>	<u>1,788,369</u>
-	16,983
-	25,972
-	406,853
-	106,015
-	320,783
32,143	42,598
-	134,522
-	23,569
-	1,593
<u>32,143</u>	<u>1,078,888</u>
86,122	709,481
34,500	172,750
-	(104,650)
<u>34,500</u>	<u>68,100</u>
120,622	777,581
<u>(235,389)</u>	<u>1,241,261</u>
<u>\$ (114,767)</u>	<u>\$ 2,018,842</u>

CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF NET POSITION – INTERNAL SERVICE FUNDS
DECEMBER 31, 2019

ASSETS	Central Garage Fund	Self- Insurance Fund	Total
Current Assets			
Cash and Cash Equivalents	\$ 471,759	\$ 113,833	\$ 585,592
Accounts Receivable, Net	193	186	379
Special Assessments Receivable	598	-	598
Accrued Interest Receivable	2,523	373	2,896
Due from Other Governmental Units	1,574	-	1,574
Prepaid Items	4,905	-	4,905
Total Current Assets	<u>481,552</u>	<u>114,392</u>	<u>595,944</u>
Capital Assets			
Land	51,900	-	51,900
Buildings and Improvements	1,360,671	-	1,360,671
Machinery and Equipment	4,027,316	-	4,027,316
Total Capital Assets	<u>5,439,887</u>	<u>-</u>	<u>5,439,887</u>
Less: Accumulated Depreciation	(2,008,765)	-	(2,008,765)
Net Capital Assets	<u>3,431,122</u>	<u>-</u>	<u>3,431,122</u>
Total Assets	3,912,674	114,392	4,027,066
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	3,887	-	3,887
Other Postemployment Benefits Related	368	-	368
Total Deferred Outflows of Resources	<u>4,255</u>	<u>-</u>	<u>4,255</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	77,765	4,170	81,935
Due to Other Funds	1,679	-	1,679
Accrued Salaries and Fringes	3,673	-	3,673
Accrued Interest Payable	12,415	-	12,415
Compensated Absences - Current	5,896	-	5,896
Other Postemployment Benefits Obligation - Current	368	-	368
Bonds Payable - Current	40,000	-	40,000
Total Current Liabilities	<u>141,796</u>	<u>4,170</u>	<u>145,966</u>
Noncurrent Liabilities			
Compensated Absences	6,628	-	6,628
Other Postemployment Benefits Obligation	5,694	-	5,694
Net Pension Liability	52,447	-	52,447
Bonds Payable - Long-Term	755,000	-	755,000
Total Noncurrent Liabilities	<u>819,769</u>	<u>-</u>	<u>819,769</u>
Total Liabilities	961,565	4,170	965,735
DEFERRED INFLOWS OF RESOURCES			
Pension Related	13,243	-	13,243
Other Postemployment Benefits Related	1,932	-	1,932
Total Deferred Inflows of Resources	<u>15,175</u>	<u>-</u>	<u>15,175</u>
NET POSITION			
Net Investment in Capital Assets	2,636,122	-	2,636,122
Unrestricted	304,067	110,222	414,289
Total Net Position	<u>\$ 2,940,189</u>	<u>\$ 110,222</u>	<u>\$ 3,050,411</u>

**CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – INTERNAL SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2019**

	Central Garage Fund	Self- Insurance Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 641,475	\$ 991,234	\$ 1,632,709
Miscellaneous	10,655	-	10,655
Total Operating Revenues	<u>652,130</u>	<u>991,234</u>	<u>1,643,364</u>
OPERATING EXPENSES			
Personal Services	76,517	-	76,517
Professional Services	57,600	-	57,600
Supplies	229,255	-	229,255
Depreciation	348,657	-	348,657
Benefits or Claims	-	951,175	951,175
Miscellaneous	6,903	-	6,903
Total Operating Expenses	<u>718,932</u>	<u>951,175</u>	<u>1,670,107</u>
OPERATING INCOME (LOSS)	(66,802)	40,059	(26,743)
OTHER INCOME (EXPENSE)			
Intergovernmental	1,726	-	1,726
Investment Earnings	20,296	2,207	22,503
Gain on Sale of Capital Assets	53,811	-	53,811
Interest Expense	(29,928)	-	(29,928)
Total Other Income (Expense)	<u>45,905</u>	<u>2,207</u>	<u>48,112</u>
INCOME (LOSS) BEFORE TRANSFERS	(20,897)	42,266	21,369
Transfers In	<u>73,353</u>	<u>-</u>	<u>73,353</u>
CHANGE IN NET POSITION	52,456	42,266	94,722
Net Position - Beginning of Year	<u>2,887,733</u>	<u>67,956</u>	<u>2,955,689</u>
NET POSITION - END OF YEAR	<u>\$ 2,940,189</u>	<u>\$ 110,222</u>	<u>\$ 3,050,411</u>

CITY OF REDWOOD FALLS, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2019

	Central Garage Fund	Self- Insurance Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Receipts from Customers	\$ 650,563	\$ 991,048	\$ 1,641,611
Cash Paid to Suppliers	(243,041)	(953,364)	(1,196,405)
Cash Paid to Employees	(76,651)	-	(76,651)
Net Cash Flows Provided by Operating Activities	<u>330,871</u>	<u>37,684</u>	<u>368,555</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Revenue	1,726	-	1,726
Transfers from Other Funds	72,996	-	72,996
Net Cash Flows Provided by Noncapital Financing Activities	<u>74,722</u>	<u>-</u>	<u>74,722</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets	(364,395)	-	(364,395)
Principal Paid on Bonds	(40,000)	-	(40,000)
Interest, Paying Agent Fees	(30,260)	-	(30,260)
Net Cash Flows Used by Capital and Related Financing Activities	<u>(434,655)</u>	<u>-</u>	<u>(434,655)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Investments	19,876	2,091	21,967
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(9,186)</u>	<u>39,775</u>	<u>30,589</u>
Cash and Cash Equivalents - Beginning of Year	480,945	74,058	555,003
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 471,759</u>	<u>\$ 113,833</u>	<u>\$ 585,592</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (66,802)	\$ 40,059	\$ (26,743)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:			
Depreciation	348,657	-	348,657
(Increase) Decrease in Assets and Deferred Outflows:			
Receivables	7	(186)	(179)
Due from Other Governments	(1,574)	-	(1,574)
Prepaid Items	(491)	-	(491)
Deferred Outflows - Pension	7,376	-	7,376
Deferred Outflows - OPEB	129	-	129
Increase (Decrease) in Liabilities and Deferred Inflows:			
Accounts Payable	60,324	(2,189)	58,135
Other Accrued Liabilities	1,660	-	1,660
Net Pension Liability	(14,866)	-	(14,866)
OPEB Liability	(1,794)	-	(1,794)
Deferred Inflows - Pension	(3,687)	-	(3,687)
Deferred Inflows - OPEB	1,932	-	1,932
Net Cash Flows Provided by Operating Activities	<u>\$ 330,871</u>	<u>\$ 37,684</u>	<u>\$ 368,555</u>

**STATISTICAL SECTION
(UNAUDITED)**

**CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS – DAKTRONICS
INC. #9-1, TAX INCREMENT FINANCING DISTRICT (UNAUDITED)
DECEMBER 31, 2019**

	Budget	Accounted for in Prior Years	2019	Actual Over (Under) Budget
SOURCES OF FUNDS				
Tax Increments Received	\$ 272,702	\$ 95,846	\$ 31,639	\$ (145,217)
Interest Earnings	20,000	-	-	(20,000)
Total Sources of Funds	<u>292,702</u>	<u>95,846</u>	<u>31,639</u>	<u>(165,217)</u>
USES OF FUNDS				
Site Improvements/Preparation Costs	235,000	87,570	31,269	(116,161)
Note Payments				
Interest	30,432	848	7	(29,577)
Administrative Expenses	27,270	1,544	163	(25,563)
Professional Services	-	5,884	200	6,084
Total Uses of Funds	<u>292,702</u>	<u>95,846</u>	<u>31,639</u>	<u>(165,217)</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF REDWOOD FALLS, MINNESOTA
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS – MUNICIPAL DEVELOPMENT
DISTRICT #10-1, TAX INCREMENT FINANCING DISTRICT (UNAUDITED)
DECEMBER 31, 2019

	Budget	Accounted for in Prior Years	2019	Actual Over (Under) Budget
SOURCES OF FUNDS				
Tax Increments Received	\$3,664,090	\$ 207,983	\$ 69,354	\$(3,386,753)
Interest Earnings	350,000	-	-	(350,000)
Total Sources of Funds	<u>4,014,090</u>	<u>207,983</u>	<u>69,354</u>	<u>(3,736,753)</u>
USES OF FUNDS				
Land/Building Acquisition	\$450,000	206,690	69,034	(174,276)
Site Improvements/Preparation Costs	250,000	-	-	(250,000)
Installation of Public Utilities	500,000	-	-	(500,000)
Streets and Sidewalks	1,955,259	-	-	(1,955,259)
Note Payments				
Interest	492,422	-	-	(492,422)
Administrative Expenses	366,409	1,293	320	(364,796)
Total Uses of Funds	<u>4,014,090</u>	<u>207,983</u>	<u>69,354</u>	<u>(3,736,753)</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF REDWOOD FALLS, MINNESOTA
COMPARATIVE SCHEDULES OF TAX LEVIES – LAST FIVE YEARS (UNAUDITED)
DECEMBER 31, 2019

	For 2019 Collection		For 2018 Collection		For 2017 Collection		For 2016 Collection		For 2015 Collection	
	Net Tax Amount	Net Tax Capacity	Net Tax Amount	Net Tax Capacity	Net Tax Amount	Net Tax Capacity	Net Tax Amount	Net Tax Capacity	Net Tax Amount	Net Tax Capacity
General	\$ 2,647,035	87.275	\$ 2,530,588	87.847	\$ 2,444,319	90.163	\$ 2,297,990	90.069	\$ 2,162,783	87.811
Bonds and Interest	46,840	1.545	59,437	2.064	58,621	2.163	60,277	2.330	59,178	2.369
Total	<u>\$ 2,693,875</u>	<u>88.820</u>	<u>\$ 2,590,025</u>	<u>89.911</u>	<u>\$ 2,502,940</u>	<u>92.326</u>	<u>\$ 2,358,267</u>	<u>92.399</u>	<u>\$ 2,221,961</u>	<u>90.180</u>

**CITY OF REDWOOD FALLS, MINNESOTA
 COMPARATIVE SCHEDULES OF TAX CAPACITY – LAST FIVE YEARS (UNAUDITED)
 DECEMBER 31, 2019**

	<u>For 2019 Collection</u>	<u>For 2018 Collection</u>	<u>For 2017 Collection</u>	<u>For 2016 Collection</u>	<u>For 2015 Collection</u>
Real Property	\$ 3,065,006	\$ 2,915,596	\$ 2,750,255	\$ 2,639,905	\$ 2,475,529
Personal Property	57,841	54,301	51,091	46,056	43,220
Tax Increment Districts	<u>77,426</u>	<u>75,926</u>	<u>78,052</u>	<u>86,033</u>	<u>7,091</u>
 Total	 <u><u>\$ 3,200,273</u></u>	 <u><u>\$ 3,045,823</u></u>	 <u><u>\$ 2,879,398</u></u>	 <u><u>\$ 2,771,994</u></u>	 <u><u>\$ 2,525,840</u></u>

**REPORTS RELATING TO
*GOVERNMENT AUDITING STANDARDS***



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redwood Falls, Minnesota (the City), as of and for the year ended December 31, 2019, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 2, 2020.

Internal Control over Financial Reporting

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

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

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

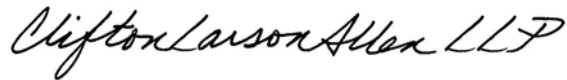
Honorable Mayor and Members of the City Council
City of Redwood Falls

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Alexandria, Minnesota
June 2, 2020

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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 Redwood Falls, Minnesota (the City), as of December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 2, 2020.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Alexandria, Minnesota
June 2, 2020