

**CITY OF ATWATER
ATWATER, MINNESOTA
ANNUAL FINANCIAL REPORT
YEAR ENDED
December 31, 2017**

WESTBERG EISCHENS, PLLP
Certified Public Accountants
Willmar, Minnesota 56201

TABLE OF CONTENTS

	<u>PAGE</u>
CITY COUNCIL AND ADMINISTRATIVE OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4-9
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Governmental Funds	
Balance Sheet	12
Reconciliation of the Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities.....	15
Proprietary Funds	
Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Net Position	17
Statement of Cash Flows	18
NOTES TO FINANCIAL STATEMENTS	19-39
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund.....	40-43
Budgetary Comparison Schedule – Debt Service Fund.....	44
Schedules of Proportionate Share of Net Pension Liability and Employer Contributions.....	45-46
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	47-48
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	49-50
SCHEDULE OF FINDINGS AND RESPONSES.....	51-53

**CITY OF ATWATER, MINNESOTA
CITY COUNCIL AND ADMINISTRATIVE OFFICIALS
December 31, 2017**

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Mark Olson	01/01/2021
Council Member	Jerry Spencer	01/01/2021
Council Member	Pat Wortham	01/01/2021
Council Member	Shane Hagstrom	01/01/2019
Council Member	Reed Schmidt	01/01/2019
City Clerk/Treasurer	Goldie Smith	Appointed

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council Members
City of Atwater, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Atwater, Minnesota, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 40-48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2018, on our consideration of the City of Atwater, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Atwater, Minnesota's internal control over financial reporting and compliance.

Westberg Eischens, PLLP

Westberg Eischens, PLLP
Willmar, Minnesota

April 20, 2018

**CITY OF ATWATER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

This section of the basic financial statements of the City of Atwater (the City) presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2017. Please read it in conjunction with the City's basic financial statements following this section.

Financial Highlights

- The assets of the City, exceeded liabilities by \$5,780,103. Of this amount, \$2,037,511 may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fiscal policies.
- The City's total net position decreased by \$86,037.
- The City's governmental funds reported combined ending fund balances of \$1,513,233, an increase of \$69,837 in comparison to the prior year.
- At the end of the current fiscal year, the fund balance for the General Fund was \$1,247,042. Of this total amount, approximately 55% has been committed for purposes imposed by formal Council action and 30% has been assigned for specific purposes. Details of the fund balance classifications can be found in Note 1 of the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements 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.

The City as a Whole: Statement of Net Position and Statement of Activities

Our analysis of the City of Atwater 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 off as a result of the year's activities?" The Statement of Net Position and the 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 and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's net position and changes in them. You can think of the City's net position – the difference between assets and liabilities – as one way to measure the City's financial health. Over time, increases and decreases in the City's net position are one indicator of whether the City's financial health is improving or deteriorating.

However, you will need to consider other nonfinancial factors to assess the overall health of the City of Atwater.

**CITY OF ATWATER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

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

Governmental Activities – Most of the City's basic services are reported here which includes: the police, public works, parks departments, and general administration. These services are mostly financed by property taxes, franchise fees, and state and federal grants.

Business-Type Activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's water and sewer funds are reported here.

The City's Most Significant Funds: Fund Financial Statements

Our analysis of the City of Atwater's major funds begins with the fund financial statements. These statements provided detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council 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, and other money. The City of Atwater's two types of funds – governmental and proprietary – use different accounting approaches.

Governmental Funds – Most of the City of Atwater's 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 the reconciliation after the fund financial statements.

The governmental fund financial statements can be found on pages 12-15 of this report.

Proprietary Funds – When the City of Atwater 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 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 proprietary fund financial statements can be found on pages 16-18 of this report.

Notes to the 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 19-39 of this report.

**CITY OF ATWATER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

Statement of Net Position

The City of Atwater's net position decreased from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1
Condensed Statement of Net Position

	Governmental Activities			Business-Type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Current and other assets	\$ 1,570,711	\$ 1,542,285	\$ 28,426	\$ 1,473,883	\$ 1,404,653	\$ 69,230
Net capital assets	<u>2,850,280</u>	<u>3,201,144</u>	<u>(350,864)</u>	<u>3,120,905</u>	<u>3,203,907</u>	<u>(83,002)</u>
Total Assets	<u>4,420,991</u>	<u>4,743,429</u>	<u>(322,438)</u>	<u>4,594,788</u>	<u>4,608,560</u>	<u>(13,772)</u>
Deferred Outflows related to pension	<u>265,240</u>	<u>289,369</u>	<u>(24,129)</u>	-	-	-
Other liabilities	47,392	53,941	(6,549)	212,036	37,826	174,210
Long-term liabilities	<u>272,543</u>	<u>693,167</u>	<u>(420,624)</u>	<u>2,703,042</u>	<u>2,935,602</u>	<u>(232,560)</u>
Total Liabilities	<u>319,935</u>	<u>747,108</u>	<u>(427,173)</u>	<u>2,915,078</u>	<u>2,973,428</u>	<u>(58,350)</u>
Deferred inflows related to pension	<u>265,903</u>	<u>54,682</u>	<u>211,221</u>	-	-	-
Net Position						
Net investment in capital assets	2,815,759	2,975,648	(159,889)	246,863	268,305	(21,442)
Restricted	231,249	339,738	(108,489)	448,721	447,428	1,293
Unrestricted	<u>1,053,385</u>	<u>915,622</u>	<u>137,763</u>	<u>984,126</u>	<u>919,399</u>	<u>64,727</u>
Total Net Position	<u>\$ 4,100,393</u>	<u>\$ 4,231,008</u>	<u>\$ (130,615)</u>	<u>\$ 1,679,710</u>	<u>\$ 1,635,132</u>	<u>\$ 44,578</u>

Governmental Activities

The net position of the City's governmental activities decreased by \$130,615. Table 2 presents key elements of the decrease.

Business-Type Activities

The net position of the City's business-type activities increased by \$44,578. Operating income was \$6,768 and \$37,810 for the water and sewer respectively.

**CITY OF ATWATER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

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

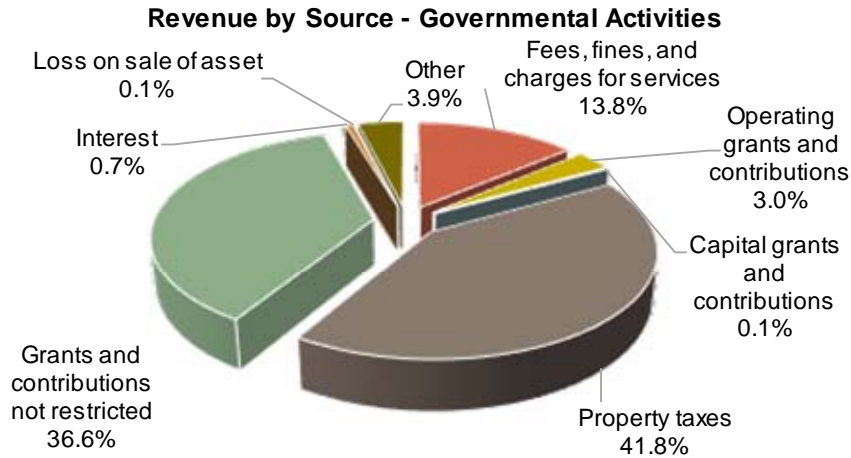
Table 2
Condensed Statement of Activities

	Governmental Activities			Business-Type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Revenues						
Program revenues:						
Charges for services	\$ 125,906	\$ 107,950	\$ 17,956	\$ 245,175	\$ 236,222	\$ 8,953
Operating grants/contributions	27,454	27,817	(363)	-	-	-
Capital grants/contributions	791	32,783	(31,992)	17,023	16,906	117
General revenues:						
Property taxes	380,192	369,711	10,481	88,132	57,917	30,215
Grants and contributions not restricted to specific programs	333,606	320,001	13,605	-	-	-
Interest	6,419	7,744	(1,325)	4,252	4,143	109
Gain on sale of asset	600	-	600	-	-	-
Other	35,374	35,533	(159)	-	-	-
Total Revenues	910,342	901,539	8,803	354,582	315,188	39,394
Expenses						
General government	236,578	229,402	7,176	-	-	-
Public safety	361,205	328,729	32,476	-	-	-
Streets and highways	415,705	389,526	26,179	-	-	-
Sanitation	4,862	4,636	226	-	-	-
Health and welfare	-	1,315	(1,315)	-	-	-
Culture and recreation	94,258	86,885	7,373	-	-	-
Economic development	1,666	1,421	245	-	-	-
Interest on long-term debt	5,831	10,112	(4,281)	-	-	-
Water utility	-	-	-	143,246	142,334	912
Sewer utility	-	-	-	87,610	71,996	15,614
Total Expenses	1,120,105	1,052,026	68,079	230,856	214,330	16,526
Change in Net Position Before Transfers	(209,763)	(150,487)	(59,276)	123,726	100,858	22,868
Transfers	79,148	60,500	18,648	(79,148)	(60,500)	(18,648)
Change in Net Position	(130,615)	(89,987)	(40,628)	44,578	40,358	4,220
Net Position - Beginning of Year	4,231,008	4,320,995	(89,987)	1,635,132	1,594,774	40,358
Net Position - End of Year	\$ 4,100,393	\$ 4,231,008	\$ (130,615)	\$ 1,679,710	\$ 1,635,132	\$ 44,578

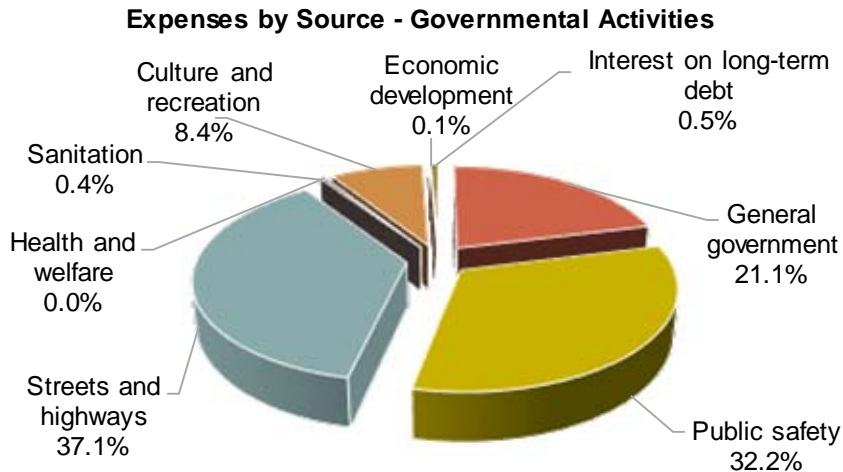
**CITY OF ATWATER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

Governmental Activities

Revenues – The following chart visually illustrates the City's revenues by source for the governmental activities:



Expenses – The following chart visually illustrates the City's expenses by source for the governmental activities:



Financial Analysis of the City's Funds

General Fund – The City's General Fund balance increased by \$94,397 for 2017.

Capital Projects Fund – The Capital Projects Fund balance increased by \$84,269. The City had one capital project that was finished during 2017.

Debt Service Fund – The Debt Service Fund balance decreased by \$110,336.

Special Revenue Fund – The City's Revolving Loan Fund balance increased by \$1,847.

The TIF District #1-13 decreased by \$340.

**CITY OF ATWATER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

General Fund Budgetary Highlights

Over the course of the year, the City of Atwater's City Council did not revise the budget. The General Fund had sufficient revenues to cover expenditures resulting in an increase in fund balance.

Capital Assets

At the end of 2017, the City of Atwater had \$6,046,412 (net of accumulated depreciation) invested in a broad range of capital assets. Refer to Note 3 of the notes to the financial statements for a schedule showing the City's capital asset activity.

Long-Term Debt

At the end of 2017, the City of Atwater had \$2,908,563 in bonds outstanding. Refer to Note 3 of the notes to the financial statements for a schedule showing the City's long-term debt activity.

Contacting the City's Financial Management

This financial report is designated to provide our residents, customers, and creditors with a general overview of the City of Atwater's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City of Atwater, 322 Atlantic Ave W, P.O. Box 59, Atwater, MN 56209, 320-974-8760.

CITY OF ATWATER, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities	Business-Type Activities	Total Primary Government	EDA Component Unit
ASSETS				
Cash	\$ 1,441,238	\$ 1,151,350	\$ 2,592,588	\$ 74,465
Receivables				
Accounts	17,034	23,391	40,425	-
Delinquent taxes	27,119	4,449	31,568	-
Special assessments	9,426	294,403	303,829	-
Interest	279	290	569	-
Notes	61,143	-	61,143	3,452
Prepaid expenses	14,472	-	14,472	-
Due from other funds	-	-	-	2,032
Capital assets				
Non-depreciable	30,700	4,915	35,615	-
Depreciable, net of accumulated depreciation	<u>2,819,580</u>	<u>3,115,990</u>	<u>5,935,570</u>	<u>75,227</u>
TOTAL ASSETS	<u>4,420,991</u>	<u>4,594,788</u>	<u>9,015,779</u>	<u>155,176</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	<u>265,240</u>	<u>-</u>	<u>265,240</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>265,240</u>	<u>-</u>	<u>265,240</u>	<u>-</u>
LIABILITIES				
Accounts payable	20,638	6,145	26,783	-
Accrued payroll liabilities	7,904	-	7,904	-
Customer deposits	-	34,891	34,891	-
Due to other funds	2,032	-	2,032	-
Long-term liabilities				
Due within one year	16,818	171,000	187,818	-
Due in more than one year	17,703	2,703,042	2,720,745	-
Net pension liability	<u>254,840</u>	<u>-</u>	<u>254,840</u>	<u>-</u>
TOTAL LIABILITIES	<u>319,935</u>	<u>2,915,078</u>	<u>3,235,013</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	<u>265,903</u>	<u>-</u>	<u>265,903</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>265,903</u>	<u>-</u>	<u>265,903</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	2,815,759	246,863	3,062,622	75,227
Restricted for:				
Debt service	67,330	448,721	516,051	-
Economic development	163,919	-	163,919	-
Unrestricted	<u>1,053,385</u>	<u>984,126</u>	<u>2,037,511</u>	<u>79,949</u>
TOTAL NET POSITION	<u>\$ 4,100,393</u>	<u>\$ 1,679,710</u>	<u>\$ 5,780,103</u>	<u>\$ 155,176</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ATWATER, MINNESOTA
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
General government	\$ 236,578	\$ 3,420	\$ -	\$ -	\$ (233,158)	\$ -	\$ (233,158)
Public safety	361,205	94,938	27,454	-	(238,813)	-	(238,813)
Streets and highways	415,705	-	-	791	(414,914)	-	(414,914)
Sanitation	4,862	-	-	-	(4,862)	-	(4,862)
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	94,258	27,548	-	-	(66,710)	-	(66,710)
Economic development	1,666	-	-	-	(1,666)	-	(1,666)
Interest and fiscal charges on long term debt	5,831	-	-	-	(5,831)	-	(5,831)
Total Governmental Activities	1,120,105	125,906	27,454	791	(965,954)	-	(965,954)
Business-Type Activities:							
Water	143,246	158,576	-	8,851	-	24,181	24,181
Sewer	87,610	86,599	-	8,172	-	7,161	7,161
Total Business-Type Activities	230,856	245,175	-	17,023	-	31,342	31,342
TOTAL	\$ 1,350,961	\$ 371,081	\$ 27,454	\$ 17,814	(965,954)	31,342	(934,612)
General revenues:							
Property taxes levied for general purposes					312,045	-	312,045
Property taxes levied for debt service					68,147	88,132	156,279
Intergovernmental revenue not restricted to specific programs					333,606	-	333,606
Investment income					6,419	4,252	10,671
Loss on sale of asset					600	-	600
Miscellaneous					35,374	-	35,374
Transfers					79,148	(79,148)	-
Total general revenues and transfers					835,339	13,236	848,575
Change in net position					(130,615)	44,578	(86,037)
Net Position - Beginning					4,231,008	1,635,132	5,866,140
Net Position - Ending					\$ 4,100,393	\$ 1,679,710	\$ 5,780,103
Component Unit - EDA							
Revenues							
Charges for services						\$ 9,025	
Investment Income						89	
Total Revenues						9,114	
Expenses							
Change in net position - EDA						(15,276)	
Net Position - Beginning						170,452	
Net Position - Ending						\$ 155,176	

The notes to the financial statements are an integral part of this statement.

**CITY OF ATWATER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017**

	General Fund	Capital Projects Fund	Debt Service Fund	Revolving Loan Fund	TIF District # 1-13	Totals
ASSETS						
Cash and investments	\$ 1,209,427	\$ 53,325	\$ 65,628	\$ 104,808	\$ 8,050	\$ 1,441,238
Receivables						
Accounts	17,034	-	-	-	-	17,034
Delinquent taxes	21,429	-	5,690	-	-	27,119
Special assessments	9,364	-	62	-	-	9,426
Interest	265	14	-	-	-	279
Notes	-	-	-	61,143	-	61,143
Due from other funds	16,877	-	-	-	-	16,877
Advance to other funds	9,570	-	-	-	-	9,570
Prepaid expenses	14,472	-	-	-	-	14,472
TOTAL ASSETS	<u>\$ 1,298,438</u>	<u>\$ 53,339</u>	<u>\$ 71,380</u>	<u>\$ 165,951</u>	<u>\$ 8,050</u>	<u>\$ 1,597,158</u>
LIABILITIES						
Accounts payable	\$ 20,638	\$ -	\$ -	\$ -	\$ -	\$ 20,638
Contract payable	-	-	-	-	-	-
Accrued payroll liabilities	7,904	-	-	-	-	7,904
Due to other funds	-	16,877	-	2,032	-	18,909
Advance from other funds	-	-	-	-	9,570	9,570
TOTAL LIABILITIES	<u>28,542</u>	<u>16,877</u>	<u>-</u>	<u>2,032</u>	<u>9,570</u>	<u>57,021</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - taxes	13,700	-	3,988	-	-	17,688
Unavailable revenue - special assessments	9,154	-	62	-	-	9,216
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>22,854</u>	<u>-</u>	<u>4,050</u>	<u>-</u>	<u>-</u>	<u>26,904</u>
FUND BALANCES						
Nonspendable	14,472	-	-	-	-	14,472
Restricted	-	-	67,330	163,919	-	231,249
Committed	689,237	-	-	-	-	689,237
Assigned	372,151	-	-	-	-	372,151
Unassigned	171,182	36,462	-	-	(1,520)	206,124
TOTAL FUND BALANCES	<u>1,247,042</u>	<u>36,462</u>	<u>67,330</u>	<u>163,919</u>	<u>(1,520)</u>	<u>1,513,233</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,298,438</u>	<u>\$ 53,339</u>	<u>\$ 71,380</u>	<u>\$ 165,951</u>	<u>\$ 8,050</u>	<u>\$ 1,597,158</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF ATWATER, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2017**

Total Fund Balances-Governmental Funds	\$ 1,513,233
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.	
Governmental capital assets	9,356,398
Less: accumulated depreciation	(6,506,118)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	
Delinquent property taxes	17,688
Special assessments receivable	9,216
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows - pensions	265,240
Deferred inflows - pensions	(265,903)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
General obligation bonds	(16,818)
Capital lease	(17,703)
Accrued interest payable	-
Net pension liability	<u>(254,840)</u>
Total Net Position-Governmental Activities	<u>\$ 4,100,393</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ATWATER, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2017

	General Fund	Capital Projects Fund	Debt Service Fund	Revolving Loan Fund	TIF District # 1-13	Totals
REVENUES						
Property taxes	\$ 314,733	\$ -	\$ 68,147	\$ -	\$ -	\$ 382,880
Special assessments	16,914	-	-	-	-	16,914
License and permits	7,580	-	-	-	-	7,580
Intergovernmental	360,286	-	-	-	-	360,286
Charges for services	125,906	-	-	-	-	125,906
Fines and forfeits	6,901	-	-	-	-	6,901
Interest income	3,959	158	452	1,826	24	6,419
Miscellaneous	6,790	13,092	-	21	990	20,893
Total Revenues	<u>843,069</u>	<u>13,250</u>	<u>68,599</u>	<u>1,847</u>	<u>1,014</u>	<u>927,779</u>
EXPENDITURES						
Current						
General government	201,316	-	-	-	-	201,316
Public safety	271,813	-	-	-	-	271,813
Streets and highways	140,438	215	-	-	-	140,653
Sanitation	4,862	-	-	-	-	4,862
Culture and recreation	79,985	-	-	-	-	79,985
Economic development	312	-	-	-	1,354	1,666
Capital outlay						
Public safety	17,553	-	-	-	-	17,553
Streets and highways	14,355	7,914	-	-	-	22,269
Culture and recreation	18,638	-	-	-	-	18,638
Debt service						
Principal	-	-	175,000	-	-	175,000
Interest	-	-	3,500	-	-	3,500
Bond fees	-	-	435	-	-	435
Total Expenditures	<u>749,272</u>	<u>8,129</u>	<u>178,935</u>	<u>-</u>	<u>1,354</u>	<u>937,690</u>
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	93,797	5,121	(110,336)	1,847	(340)	(9,911)
OTHER FINANCING SOURCES						
Transfer from other funds	-	79,148	-	-	-	79,148
NET CHANGE IN FUND BALANCE	94,397	84,269	(110,336)	1,847	(340)	69,837
FUND BALANCE JANUARY 1	<u>1,152,645</u>	<u>(47,807)</u>	<u>177,666</u>	<u>162,072</u>	<u>(1,180)</u>	<u>1,443,396</u>
FUND BALANCE DECEMBER 31	<u>\$ 1,247,042</u>	<u>\$ 36,462</u>	<u>\$ 67,330</u>	<u>\$ 163,919</u>	<u>\$ (1,520)</u>	<u>\$ 1,513,233</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ATWATER, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2017

Net Change in Fund Balances-Governmental Funds	\$	69,837
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 the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		56,233
Depreciation expense		(388,459)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes		(2,688)
Special assessments		(16,123)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal retirement of long-term debt		172,337
Interest on long-term debt is reported when due in the governmental funds because it requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
		767
In the statement of activities, pension expense is measured by the amount earned during the year. In the governmental funds, however, expenditures for the items are measured by the amount of financial resources used.		
Change in net pension liability, deferred outflows, and deferred inflows		<u>(22,519)</u>
Change in Net Position-Governmental Activities	\$	<u>(130,615)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ATWATER, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2017

	Water Fund	Sewer Fund	Total Primary Government	EDA Component Unit
ASSETS				
Current Assets				
Cash	\$ 511,588	\$ 485,444	\$ 997,032	\$ 74,465
Receivables				
Accounts receivable	15,329	8,062	23,391	-
Delinquent taxes	1,334	3,115	4,449	-
Interest	191	99	290	-
Notes	-	-	-	3,452
Due from other funds	-	-	-	2,032
Total Current Assets	<u>528,442</u>	<u>496,720</u>	<u>1,025,162</u>	<u>79,949</u>
Noncurrent Assets				
Cash restricted for debt service	61,676	92,642	154,318	-
Special assessments receivable	153,089	141,314	294,403	-
Capital assets				
Non-depreciable	4,915	-	4,915	-
Depreciable assets	2,162,723	1,955,478	4,118,201	130,853
Less accumulated depreciation	<u>(506,898)</u>	<u>(495,313)</u>	<u>(1,002,211)</u>	<u>(55,626)</u>
Total capital assets, net	<u>1,660,740</u>	<u>1,460,165</u>	<u>3,120,905</u>	<u>75,227</u>
Total Noncurrent Assets	<u>1,875,505</u>	<u>1,694,121</u>	<u>3,569,626</u>	<u>75,227</u>
TOTAL ASSETS	<u>2,403,947</u>	<u>2,190,841</u>	<u>4,594,788</u>	<u>155,176</u>
LIABILITIES				
Current Liabilities				
Accounts payable	5,307	838	6,145	-
Customer deposits	34,891	-	34,891	-
Current portion bonds payable	<u>93,000</u>	<u>78,000</u>	<u>171,000</u>	<u>-</u>
Total Current Liabilities	<u>133,198</u>	<u>78,838</u>	<u>212,036</u>	<u>-</u>
Noncurrent Liabilities				
Bonds payable	<u>1,431,158</u>	<u>1,271,884</u>	<u>2,703,042</u>	<u>-</u>
Total Noncurrent Liabilities	<u>1,431,158</u>	<u>1,271,884</u>	<u>2,703,042</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,564,356</u>	<u>1,350,722</u>	<u>2,915,078</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	136,582	110,281	246,863	75,227
Restricted	214,765	233,956	448,721	-
Unrestricted	<u>488,244</u>	<u>495,882</u>	<u>984,126</u>	<u>79,949</u>
TOTAL NET POSITION	<u>\$ 839,591</u>	<u>\$ 840,119</u>	<u>\$ 1,679,710</u>	<u>\$ 155,176</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ATWATER, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For The Year Ended December 31, 2017

	Water Fund	Sewer Fund	Total Primary Government	EDA Component Unit
OPERATING REVENUES				
Charges for services	\$ 158,576	\$ 86,599	\$ 245,175	\$ 9,025
Total Operating Revenues	158,576	86,599	245,175	9,025
OPERATING EXPENSES				
Personal services	10,389	11,300	21,689	-
Contract services	13,743	-	13,743	-
Materials and supplies	3,535	2,424	5,959	-
Repairs and maintenance	12,676	1,009	13,685	-
Other expenses	26,036	8,631	34,667	19,119
Occupancy	-	-	-	1,266
Depreciation	55,699	47,431	103,130	4,005
Total Operating Expenses	122,078	70,795	192,873	24,390
Operating Income (Loss)	36,498	15,804	52,302	(15,365)
NON-OPERATING REVENUES (EXPENSES)				
Property taxes	26,507	61,625	88,132	-
Special assessments	8,851	8,172	17,023	-
Interest income	2,270	1,982	4,252	89
Interest expense	(21,168)	(16,815)	(37,983)	-
Total Non-Operating Revenues	16,460	54,964	71,424	89
Income (Loss) Before Transfers	52,958	70,768	123,726	(15,276)
TRANSFERS				
Transfers out	(37,070)	(42,078)	(79,148)	-
Total Transfers	(37,070)	(42,078)	(79,148)	-
Change in Net Position	15,888	28,690	44,578	(15,276)
NET POSITION, JANUARY 1	823,703	811,429	1,635,132	170,452
NET POSITION, DECEMBER 31	\$ 839,591	\$ 840,119	\$ 1,679,710	\$ 155,176

The notes to the financial statements are an integral part of this statement.

CITY OF ATWATER, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2017

	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 157,252	\$ 88,543	\$ 245,795
Payments to suppliers	(53,355)	(11,489)	(64,844)
Payments to employees	(10,389)	(11,300)	(21,689)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>93,508</u>	<u>65,754</u>	<u>159,262</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES			
Transfers out	(37,070)	(42,078)	(79,148)
NET CASH USED IN NON CAPITAL FINANCING ACTIVITIES	<u>(37,070)</u>	<u>(42,078)</u>	<u>(79,148)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(5,905)	(14,223)	(20,128)
Property taxes	25,839	60,116	85,955
Special assessments	17,460	16,118	33,578
Proceeds from bond issuance	42,974	49,265	92,239
Principal paid on long-term debt	(78,005)	(75,794)	(153,799)
Interest paid on long-term debt	(21,168)	(16,815)	(37,983)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(18,805)</u>	<u>18,667</u>	<u>(138)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	2,143	1,914	4,057
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,143</u>	<u>1,914</u>	<u>4,057</u>
NET INCREASE IN CASH	39,776	44,257	84,033
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>533,488</u>	<u>533,829</u>	<u>1,067,317</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 573,264</u>	<u>\$ 578,086</u>	<u>\$ 1,151,350</u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income	\$ 36,498	\$ 15,804	\$ 52,302
Adjustments to reconcile operating income to net cash flows from operating activities:			
Depreciation	55,699	47,431	103,130
Change in assets and liabilities:			
Decrease in receivables	(1,324)	1,944	620
Increase in accounts payable	2,915	575	3,490
Decrease in customer deposits	(280)	-	(280)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 93,508</u>	<u>\$ 65,754</u>	<u>\$ 159,262</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Unrestricted	\$ 511,588	\$ 485,444	\$ 997,032
Restricted cash	61,676	92,642	154,318
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 573,264</u>	<u>\$ 578,086</u>	<u>\$ 1,151,350</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Atwater's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2017. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

Atwater was established in 1889 pursuant to applicable Minnesota laws and statutes. The governing body consists of a four-member council, and mayor elected by eligible voters of the City. Two members are elected every two years for a four-year term. The Mayor's office is for two years. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

1. Component Unit

a. Discretely Presented Component Unit: Atwater Economic Development Authority (EDA)

The authority is an entity legally separate from the City. It is governed by a five-member board including a City Council member. The remainder of the Board is appointed by the Mayor. The City Council has the ability to modify or overrule decisions made by the EDA Board. The City is legally obligated to finance operating deficits of the EDA and the EDA is financially accountable to the City.

The component unit columns in the combined financial statements include only the financial data of the EDA. This component unit is reported in a separate column to emphasize that it is legally separate from the City. Separate financial statements are not issued for this component unit. The City has no other component units with significant operational or financial relationships.

2. Related Organization

The Atwater Fire Relief Association (the "Association") is organized as a non-profit organization, legally separate from the City, by its members to provide pension and other benefits to such members in accordance with Minnesota Statutes. The Board of Directors is appointed by the membership of the Association and not by City Council. All relief funding is conducted in accordance with Minnesota Statutes whereby state aid flows to the Association, tax levies are determined by the Association and are only reviewed by the City, and the Association pays benefits directly to its members. The financial statements of the Association have not been included within the City's reporting entity because the Association is fiscally independent of the City.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of position and the statement of activities) display information about the primary government and its component unit. 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.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basic Financial Statements (continued)

1. Government-Wide Statements (continued)

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component unit. 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, both the governmental 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 positions are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and its business-type activities are offset by program revenues. Direct expenses are those 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 restricted to meeting the operational or capital requirements of a particular function or activity. Revenues 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 in a separate column in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

a. Governmental Funds

The City reports the following major governmental funds:

General Fund

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

Revolving Loan Fund

Revolving Loan Fund is used for promoting local economic development by providing loans to local businesses.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt and capital leases. The City annually levies ad valorem taxes restricted for the retirement of general obligation bonds.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basic Financial Statements (continued)

2. Fund Financial Statements (continued)

a. Governmental Funds (continued)

Capital Projects Fund

The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

b. Enterprise Funds

The City reports the following major enterprise funds:

Water and Sewer Funds

The water and sewer funds account for activities of the public trust in providing water and sewer services to the public.

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. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. City considers all revenues as available if collected within 60 days after the end of the current period, except for reimbursement (expenditure driven) grants for which the period is 90 days. Property and other taxes, shared revenues, licenses, and interest are all considered 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.

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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or incidental activities.

D. Assets, Liabilities, and Net Position/Fund Balances

1. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the City can deposit or effectively withdraw cash at any time without prior notice or penalty.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position/Fund Balances (continued)

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the City in certificates of deposit. Earnings on cash accounts are allocated to individual funds based upon the month-end balances.

3. Receivables

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2017. All receivables are shown net of an allowance for uncollectible accounts.

Property taxes are levied by the City Council in October of each year and are certified to Kandiyohi County for collection in the following year. The property taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments in May and October. The County collects the taxes and periodically remits them to the City. The majority of these remittances are made in June and November.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from delinquent property taxes not collected within 60 days of year-end is deferred in the fund financial statements because they are not known to be available to finance the operations of the City in the current year.

Assessments are levied at various times upon City Council resolution for property owner improvements made by the City. Generally, assessment collections are deferred over periods ranging from one to fifteen years. Revenue from these assessments is recognized when assessed in the government-wide financial statements and as the annual installments become collectible in the governmental funds of the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments are deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets; which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the City did not have any capitalized interest.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position/Fund Balances (continued)

5. Capital Assets (continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Building improvements	20 - 30
Infrastructure	15 - 20
Furniture, equipment, and vehicles	3 - 15

6. Compensated Absences

Full time employees are granted from five to fifteen days of vacation time per year depending on years of employment. Sick leave may accumulate up to 60 days total, but employees are not compensated for unused sick days.

7. Deferred Outflow/Inflows of Resources

In addition to assets, the statement of financial position and fund financial statements will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City of Atwater has one item that qualifies for reporting in this category – a deferred outflow relating to pension activity, reported in government-wide statement of net position and proprietary statement of net position. A deferred outflow relating to pension activity results from the net effect of the change in proportionate share and employer contributions.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that times. The City of Atwater has one item that qualifies for reporting in this category under full accrual basis of accounting. Accordingly, the item, deferred inflow, is reported in the government-wide statement of financial position and proprietary statement of net position. A deferred inflow relating to pension activity is a result of the net difference between projected and actual earning on plan investments. The City of Atwater also has one item that qualifies for reporting in this category under modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from the following sources; taxes, special assessments, and notes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Long-Term Obligations

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

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position/Fund Balances (continued)

8. Long-Term Obligations (continued)

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

9. Net Position/Fund Balances

The government-wide and business-type activities fund financial statements use a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted net position - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This category represents net assets of the City, not restricted for any project or other purpose.

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

In the governmental fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows.

Nonspendable – consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact, such as, inventories and prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors; grantors or contributors; or constraints imposed by state statutory provisions.

Committed – consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the City Council. Those 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 it employed to previously commit those amounts. These constraints are established by Resolution of the Council.

Assigned – consists of amounts intended to be used by the City Council for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.

Unassigned – is the residual classification for the General Fund.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position/Fund Balances (continued)

9. Net Position/Fund Balances (continued)

The City of Atwater uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

At December 31, 2017, a summary of the governmental fund balance classifications are as follows:

	General Fund	Capital Projects	Debt Service	Revolving Loan Fund	TIF District # 1-13	Totals
Nonspendable						
Prepaid expenses	\$ 14,472	\$ -	\$ -	\$ -	\$ -	\$ 14,472
Restricted						
Debt service	-	-	67,300	-	-	67,300
Revolving loans	-	-	-	163,919	-	163,919
Committed						
Street improvement	274,801	-	-	-	-	274,801
Public works - equipment	132,182	-	-	-	-	132,182
Public safety						
Police equipment	28,450	-	-	-	-	28,450
Fire equipment	217,374	-	-	-	-	217,374
Ambulance equipment	36,430	-	-	-	-	36,430
Assigned						
Working capital	215,000	-	-	-	-	215,000
Economic development	19,597	-	-	-	-	19,597
City hall maintenance	136,554	-	-	-	-	136,554
Culture and recreation	1,000	-	-	-	-	1,000
Unassigned	<u>171,182</u>	<u>36,462</u>	<u>-</u>	<u>-</u>	<u>(1,520)</u>	<u>206,124</u>
Total Fund Balances	<u>\$1,247,042</u>	<u>\$ 36,462</u>	<u>\$ 67,300</u>	<u>\$ 163,919</u>	<u>\$ (1,520)</u>	<u>\$1,513,203</u>

10. Use of Estimates

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

11. Pensions

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

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The City Clerk submits an annual budget to the City Council for the General Fund. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the City to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. It is the City's policy that collateral or bonds will be required for all uninsured amounts on deposit and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. At December 31, 2017, the City deposits were entirely covered by federal depository insurance or collateral held by the City or its agent in the City's name.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the City:

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

A. Assets (continued)

1. Deposits and Investments (continued)

b. Investments (continued)

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that addresses interest rate risk.

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 does not have a formal investment policy that addresses credit risk.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The City does not have a formal investment policy that addresses custodial credit risk.

Concentration of Credit Risk

As of and during the year ended December 31, 2017, the City did not own any investments that required disclosure regarding interest rate risk, credit risk, or concentration of credit risk.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

A. Assets (continued)

2. Capital Assets

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

Governmental activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 30,700	\$ -	\$ -	\$ 30,700
Total capital assets not being depreciated	<u>30,700</u>	<u>-</u>	<u>-</u>	<u>30,700</u>
Capital assets being depreciated:				
Buildings and structures	1,178,115	-	-	1,178,115
Infrastructure and improvements	6,586,985	11,817	-	6,598,802
Machinery and equipment	1,523,003	25,778	-	1,548,781
Total capital assets being depreciated	<u>9,288,103</u>	<u>37,595</u>	<u>-</u>	<u>9,325,698</u>
Less accumulated depreciation for:				
Buildings and structures	453,813	29,804	-	483,617
Infrastructure and improvements	4,771,896	274,295	-	5,046,191
Machinery and equipment	891,950	84,360	-	976,310
Total accumulated depreciation	<u>6,117,659</u>	<u>388,459</u>	<u>-</u>	<u>6,506,118</u>
Total capital assets being depreciated, net	<u>3,170,444</u>	<u>(350,864)</u>	<u>-</u>	<u>2,819,580</u>
Governmental activities capital assets, net	<u>\$ 3,201,144</u>	<u>\$ (350,864)</u>	<u>\$ -</u>	<u>\$ 2,850,280</u>

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

A. Assets (continued)

2. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 4,915	\$ -	\$ -	\$ 4,915
Total capital assets not being depreciated	<u>4,915</u>	<u>-</u>	<u>-</u>	<u>4,915</u>
Capital assets being depreciated:				
Buildings and structures	24,430	-	-	24,430
Infrastructure and improvements	3,962,681	13,092	-	3,975,773
Machinery and equipment	110,963	7,035	-	117,998
Total capital assets being depreciated	<u>4,098,074</u>	<u>20,127</u>	<u>-</u>	<u>4,118,201</u>
Less accumulated depreciation for:				
Buildings and structures	24,430	-	-	24,430
Infrastructure and improvements	860,615	97,042	-	957,657
Machinery and equipment	14,037	6,088	-	20,125
Total accumulated depreciation	<u>899,082</u>	<u>103,130</u>	<u>-</u>	<u>1,002,212</u>
Total capital assets being depreciated, net	<u>3,198,992</u>	<u>(83,003)</u>	<u>-</u>	<u>3,115,989</u>
Business-type activities capital assets, net	<u>\$ 3,203,907</u>	<u>\$ (83,003)</u>	<u>\$ -</u>	<u>\$ 3,120,904</u>
Economic Development Authority	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Buildings and structures	\$ 86,191	\$ -	\$ -	\$ 86,191
Improvements	44,662	-	-	44,662
Total capital assets being depreciated	<u>130,853</u>	<u>-</u>	<u>-</u>	<u>130,853</u>
Less accumulated depreciation for:				
Buildings and structures	30,407	2,210	-	32,617
Improvements	21,214	1,795	-	23,009
Total accumulated depreciation	<u>51,621</u>	<u>4,005</u>	<u>-</u>	<u>55,626</u>
Total capital assets being depreciated, net	<u>79,232</u>	<u>(4,005)</u>	<u>-</u>	<u>75,227</u>
Economic Development Authority capital assets, net	<u>\$ 79,232</u>	<u>\$ (4,005)</u>	<u>\$ -</u>	<u>\$ 75,227</u>

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

A. Assets (continued)

2. Capital Assets (continued)

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

Governmental activities	
General government	\$ 32,206
Public safety	71,019
Public works	270,961
Parks and recreation	<u>14,273</u>
Total depreciation expense - governmental activities	<u><u>\$ 388,459</u></u>
 Business-type activities	
Water	\$ 55,699
Sewer	<u>47,431</u>
Total depreciation expense - business-type activities	<u><u>\$ 103,130</u></u>
 EDA	
Total depreciation expense	<u><u>\$ 4,005</u></u>

B. Interfund Receivables, Payables, and Transfers

1. Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of the following:

	Transfer to Capital Project Fund
Transfer from	
Water Fund	\$ 37,070
Sewer Fund	<u>42,078</u>
Totals	<u><u>\$ 79,148</u></u>

The Water Fund and Sewer Fund made transfers to the Capital Project Fund to reimburse for project expenditures.

2. Interfund Receivables and Payables

Individual fund, Interfund receivables, and payables balances at year end were as follows:

Receivable Fund	Payable Fund	Amount
EDA Component Unit	Revolong Loan Fund	\$ 2,032
General	Capital Projects Fund	<u>16,877</u>
		<u><u>\$ 18,909</u></u>

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

C. Liabilities

1. Capital Leases

The City has entered into a lease agreement as lessee for financing acquisition of property and equipment for ballpark lights.

Description	Issue Date	Maturity Date	Interest Rate	Original Amount	Outstanding Balance at Year End
Ballpark Light Improvements	2012	2019	5.15%	\$ 106,786	\$ 34,521

The future minimum lease obligations are as follows:

Year Ending December 31	Governmental Activities		
	Principal	Interest	Total
2018	\$ 16,818	\$ 1,820	\$ 18,638
2019	17,703	934	18,637
	<u>\$ 34,521</u>	<u>\$ 2,754</u>	<u>\$ 37,275</u>

2. Long-Term Debt

General Obligation Bonds – The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for proprietary activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government.

General obligation revenue bonds

These bonds were issued to finance capital improvements to the Water and Sewer funds. These bonds will be retired from net revenue of these enterprise funds, ad valorem levies and special assessments.

Description	Issue Date	Maturity Date	Interest Rate	Original Issue Amount	Outstanding Balance at Year End
General Obligation Water Revenue Note of 2011	2011	2030	1.777%	\$ 964,000	\$ 663,000
General Obligation Sewer Revenue Note of 2011	2011	2030	1.776%	522,000	367,000
General Obligation Water Improvement Note of 2015	2015	2035	1.000%	1,007,005 *	861,159
General Obligation Sewer Improvement Note of 2015	2015	2035	1.000%	1,144,795 *	982,884
Total Business-Type Activities					<u>\$ 2,874,043</u>

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

C. Liabilities (continued)

2. Long-Term Debt (continued)

*Includes undrawn proceeds of \$107,011 and \$104,460 for the Water revenue bond and the Sewer revenue bond, respectively.

The annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31	Business-Type Activities		
	Principal	Interest	Total
2018	\$ 171,000	\$ 38,855	\$ 209,855
2019	173,000	36,593	209,593
2020	175,000	34,296	209,296
2021	177,000	31,979	208,979
2022	180,000	29,627	209,627
2023-2027	936,000	111,554	1,047,554
2028-2032	818,000	48,879	866,879
2033-2036	455,515	11,261	466,776
Total	<u>\$ 3,085,515</u>	<u>\$ 343,044</u>	<u>\$ 3,428,559</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General Obligation Improvement Refunding Bonds, Series 2011A	\$ 175,000	\$ -	\$ 175,000	\$ -	\$ -
Ballpark Light Contract	50,496	-	15,975	34,521	16,818
Total governmental activities	<u>\$ 225,496</u>	<u>\$ -</u>	<u>\$ 190,975</u>	<u>\$ 34,521</u>	<u>\$ 16,818</u>
Business-type activities					
General Obligation Water Revenue Note of 2011	\$ 708,000	\$ -	\$ 45,000	\$ 663,000	\$ 46,000
General Obligation Sewer Revenue Note of 2011	392,000	-	25,000	367,000	25,000
General Obligation Water Improvement Note of 2015	851,189	42,974	33,005	861,158	47,000
General Obligation Sewer Improvement Note of 2015	984,413	49,265	50,795	982,883	53,000
Total business-type activities	<u>\$2,935,602</u>	<u>\$ 92,239</u>	<u>\$ 153,800</u>	<u>\$2,874,041</u>	<u>\$ 171,000</u>

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan

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

2. Public Employees Police and Fire Fund

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

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefits provision are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.50% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.20% of average salary for each of the first ten years of service and 2.70% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.20% of average salary for each of the first ten years and 1.70% for each remaining year. Under Method 2, the annuity accrual rate is 2.70% of average salary for Basic Plan members and 1.70% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a fully annuity is available when age plus year 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.

2. Police and Fire Plan Benefits

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

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 DEFINED BENEFIT PENSION PLANS (continued)

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 Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City of Atwater was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City of Atwater's contributions to the General Employees Fund for the year ended December 31, 2017, were \$11,562. The City of Atwater's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.80% of their annual covered salary in calendar year 2017. The City of Atwater was required to contribute 16.20% of pay for members in calendar year 2017. The City of Atwater's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$13,526. The City of Atwater's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

1. General Employees Fund Pension Cost

At December 31, 2017, the City of Atwater reported a liability of \$146,830 for its proportionate share of the General Employees Fund's net pension liability. The City of Atwater's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Atwater's totaled \$1,884. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Atwater's proportion of the net pension liability was based on the City of Atwater's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City of Atwater's proportion share was .0024% which was an increase of .01% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City of Atwater recognized pension expense of \$6,023 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Atwater recognized an additional \$54 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 DEFINED BENEFIT PENSION PLANS (continued)

C. Pension Cost (continued)

1. General Employees Fund Pension Cost (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 4,839	\$ 9,533
Changes in actuarial assumptions	24,377	14,720
Difference between project and actual investment earnings	26,124	24,931
Changes in proportion	-	4,939
Contributions paid to PERA subsequent to the measurement date	5,798	-
Total	\$ 61,138	\$ 54,123

Deferred outflows of resources related to pensions, resulting from the City of Atwater's contributions made subsequent to the measurement date, of \$5,798 will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2017	\$ 2,897
2018	\$ 7,334
2019	\$ (2,781)
2020	\$ (6,233)

2. Police and Fire Fund Pension Costs

At December 31, 2017, the City of Atwater reported a liability of \$108,010 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Atwater's proportion of the net pension liability was based on the City of Atwater's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City of Atwater's proportion was .008% which was an increase of .001% from its proportion measured as of June 30, 2016. The City of Atwater also recognized \$720 for the year ended December 31, 2017, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2017, the City of Atwater recognized pension expense of \$12,863 for its proportionate share of the Police and Fire Plan's pension expense.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 DEFINED BENEFIT PENSION PLANS (continued)

2. Police and Fire Fund Pension Costs (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 2,486	\$ 24,161
Changes in actuarial assumptions	123,683	153,347
Difference between project and actual investment earnings	30,297	34,273
Changes in proportion	41,018	-
Contributions paid to PERA subsequent to the measurement date	6,618	-
Total	<u>\$ 204,102</u>	<u>\$ 211,781</u>

Deferred outflows of resources related to pensions, resulting from the City of Atwater's contributions made subsequent to the measurement date, of \$6,618 will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2017	\$ 5,259
2018	\$ 5,259
2019	\$ 2,289
2020	\$ (3,619)
2021	\$ (23,485)

D. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1.00% per year for all future years for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.50% thereafter for both plans.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 DEFINED BENEFIT PENSION PLANS (continued)

D. Actuarial Assumptions (continued)

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

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund:

- The Combined Service Annuity (CSA) loads were changed from 0.80% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0% for active member liability, 15.00% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1% per year for all years to 1% per year through 2044 and 2.50% per year thereafter.

Police and Fire Fund:

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1% for all years to 1% per year through 2064 and 2.50 percent thereafter.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
	<u>100%</u>	

**CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 4 DEFINED BENEFIT PENSION PLANS (continued)

E. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumption, the fiduciary net position of the General Employees Fund and the police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Pension Liability Sensitivity

The following presents the City of Atwater'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 of Atwater'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:

	General Employees Fund		Police and Fire Fund	
1% Lower	6.5%	\$ 227,745	6.5%	\$ 203,413
Current Discount Rate	7.5%	\$ 146,830	7.5%	\$ 108,010
1% Higher	8.5%	\$ 80,587	8.5%	\$ 29,248

G. 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.

NOTE 5 DEFINED BENEFIT LUMP SUM SERVICE PENSION PLAN – VOLUNTEER FIRE RELIEF ASSOCIATION

A. Plan Description

The Atwater Fire Department participates in the Atwater Fire Fighters Relief Association pension plan, a single employer, lump-sum, defined benefit pension plan administered by the Atwater Fire Fighters Relief Association. The plan covers the volunteer firefighters of the municipal fire department. As of December 31, 2017, the plan covered 22 active firefighters and 2 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 69.051 and 69.80 and Chapter 424.

B. Benefits Provided

The plan provides lump-sum retirement, disability, death and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level per year of service approved by the City. The benefit at December 31, 2017, was \$1,000 per year of service. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

C. Contributions

The plan is funded by fire state aid, investment earnings, and if necessary, employer contributions as specified in Minnesota Statutes, and voluntary City contributions. The State of Minnesota contributed \$18,283 in fire state aid to the plan on behalf of the Atwater Fire Department for the year ended December 31, 2017, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2017, was \$-0-.

CITY OF ATWATER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 DEFINED BENEFIT LUMP SUM SERVICE PENSION PLAN – VOLUNTEER FIRE RELIEF ASSOCIATION
(continued)

D. Pension Costs

For the year ended December 31, 2017, the City recognized pension expense of \$18,283. This amount was equal to the contribution provided by the State of Minnesota and recognized as revenue in the financial statements.

E. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position as of December 31, 2016, is available in a separately issued financial report prepared in accordance with Minnesota Statutes. That report may be obtained by writing the plan at Atwater Fire Fighters Relief Association, P.O. Box 68, Atwater, Minnesota 56221.

NOTE 6 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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. This City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

The workers' compensation policy is a retrospectively rated policy with premiums that accrue based on the ultimate cost of the experience to date. There is no way to estimate what the change in premium may be. Generally, it has been minimal. There were no claims in 2017.

NOTE 7 OTHER COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

During 2012, The City has entered into a maintenance contract for the City's water storage tank. The agreement requires five annual payments of \$34,455.

NOTE 8 SUBSEQUENT EVENTS

The City has evaluated subsequent events through April 20, 2018, the date the financial statements were available to be issued.

CITY OF ATWATER, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For The Year Ended December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
REVENUES				
Taxes				
Property taxes	\$ 315,766	\$ 315,766	\$ 314,733	\$ (1,033)
Special assessments	16,000	16,000	16,914	914
License and permits	<u>9,100</u>	<u>9,100</u>	<u>7,580</u>	<u>(1,520)</u>
Total Taxes	<u>340,866</u>	<u>340,866</u>	<u>339,227</u>	<u>(1,639)</u>
Intergovernmental Revenue				
State Grants and Aid				
Local government aid	299,573	299,573	299,869	296
PERA aid	674	674	674	-
Fire aid	18,500	18,500	18,283	(217)
Police aid	7,700	7,700	8,397	697
Other state grants	<u>23,400</u>	<u>23,400</u>	<u>33,063</u>	<u>9,663</u>
Total Intergovernmental Revenue	<u>349,847</u>	<u>349,847</u>	<u>360,286</u>	<u>10,439</u>
Charges for Services				
General government	3,000	3,000	3,420	420
Public safety				
Fire contracts and calls	35,000	35,000	36,679	1,679
Ambulance calls	38,000	38,000	58,259	20,259
Culture and recreation	<u>22,500</u>	<u>22,500</u>	<u>27,548</u>	<u>5,048</u>
Total Charges for Services	<u>98,500</u>	<u>98,500</u>	<u>125,906</u>	<u>27,406</u>
Fines and forfeits	<u>3,590</u>	<u>3,590</u>	<u>6,901</u>	<u>3,311</u>
Miscellaneous Revenues				
Investment income	2,700	2,700	3,959	1,259
Donations	2,000	2,000	1,200	(800)
Refunds and reimbursements	<u>3,000</u>	<u>3,000</u>	<u>5,590</u>	<u>2,590</u>
Total Miscellaneous Revenues	<u>7,700</u>	<u>7,700</u>	<u>10,749</u>	<u>3,049</u>
TOTAL REVENUES	<u>800,503</u>	<u>800,503</u>	<u>843,069</u>	<u>42,566</u>

See notes to required supplementary information.

CITY OF ATWATER, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For The Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
EXPENDITURES				
General Government				
Governing Board				
Salaries	7,800	7,800	6,615	(1,185)
Payroll taxes and benefits	585	585	506	(79)
Other expenses	650	650	726	76
Total Governing Board	<u>9,035</u>	<u>9,035</u>	<u>7,847</u>	<u>(1,188)</u>
Administration and Finance				
Salaries	68,367	68,367	65,887	(2,480)
Payroll taxes and benefits	18,258	18,258	18,405	147
Supplies	3,900	3,900	3,376	(524)
Occupancy	980	980	792	(188)
Other expenses	3,400	3,400	2,626	(774)
Total Administration and Finance	<u>94,905</u>	<u>94,905</u>	<u>91,086</u>	<u>(3,819)</u>
Government Buildings				
Occupancy	19,800	19,800	23,546	3,746
Total Government Buildings	<u>19,800</u>	<u>19,800</u>	<u>23,546</u>	<u>3,746</u>
Other General Government				
Insurance	34,000	34,000	27,774	(6,226)
Elections	250	250	-	(250)
Assessor	8,000	8,000	7,152	(848)
Professional services	24,600	24,600	25,605	1,005
Publishing	850	850	365	(485)
Other expenses	21,350	21,350	17,941	(3,409)
Total Other General Government	<u>89,050</u>	<u>89,050</u>	<u>78,837</u>	<u>(10,213)</u>
Total General Government	<u>212,790</u>	<u>212,790</u>	<u>201,316</u>	<u>(11,474)</u>
Public Safety				
Police Department				
Salaries	92,282	92,282	85,437	(6,845)
Payroll taxes and benefits	26,691	26,691	29,725	3,034
Supplies	2,500	2,500	1,513	(987)
Occupancy	2,000	2,000	1,951	(49)
Repairs and maintenance	14,000	14,000	8,300	(5,700)
Other expenses	5,700	5,700	6,280	580
Total Police Department	<u>143,173</u>	<u>143,173</u>	<u>140,652</u>	<u>(2,521)</u>

See notes to required supplementary information.

CITY OF ATWATER, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For The Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
EXPENDITURES (continued)				
Public Safety				
Ambulance				
Salaries	22,500	22,500	20,601	(1,899)
Payroll taxes and benefits	1,800	1,800	1,679	(121)
Supplies	4,000	4,000	7,397	3,397
Repairs and maintenance	2,500	2,500	1,083	(1,417)
Other expenses	15,000	15,000	30,420	15,420
Capital outlay	-	-	2,228	2,228
Total Ambulance	<u>45,800</u>	<u>45,800</u>	<u>63,408</u>	<u>17,608</u>
Fire Department				
Salaries	8,000	8,000	6,795	(1,205)
Payroll taxes and benefits	1,114	1,114	862	(252)
Supplies	1,000	1,000	1,343	343
Occupancy	6,000	6,000	6,183	183
Repairs and maintenance	10,000	10,000	3,502	(6,498)
Other expenses	33,500	33,500	54,880	21,380
Capital outlay	-	-	7,879	7,879
Total Fire Department	<u>59,614</u>	<u>59,614</u>	<u>81,444</u>	<u>21,830</u>
Other Protection				
Building inspection	3,000	3,000	2,610	(390)
Civil defense	1,500	1,500	1,190	(310)
Animal control	200	200	62	(138)
Total Other Protection	<u>4,700</u>	<u>4,700</u>	<u>3,862</u>	<u>(838)</u>
Total Public Safety	<u>253,287</u>	<u>253,287</u>	<u>289,366</u>	<u>36,079</u>
Streets and Highways				
Street Maintenance				
Salaries	42,302	42,302	44,546	2,244
Payroll taxes and benefits	29,239	29,239	29,407	168
Supplies	2,500	2,500	1,923	(577)
Occupancy	4,000	4,000	3,149	(851)
Repairs and maintenance	39,000	39,000	31,150	(7,850)
Other expenses	3,500	3,500	787	(2,713)
Capital outlay	84,500	84,500	14,355	(70,145)
Total Street Maintenance	<u>205,041</u>	<u>205,041</u>	<u>125,317</u>	<u>(79,724)</u>
Snow and Ice Removal				
Salaries	6,421	6,421	3,634	(2,787)
Other expenses	3,000	3,000	457	(2,543)
Total Snow and Ice Removal	<u>9,421</u>	<u>9,421</u>	<u>4,091</u>	<u>(5,330)</u>
Street Lighting	<u>25,000</u>	<u>25,000</u>	<u>25,385</u>	<u>385</u>
Total Streets and Highways	<u>239,462</u>	<u>239,462</u>	<u>154,793</u>	<u>(84,669)</u>

See notes to required supplementary information.

CITY OF ATWATER, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For The Year Ended December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
EXPENDITURES (continued)				
Sanitation				
Weed and Pest Control				
Salaries	3,864	3,864	4,056	192
Other expenses	1,100	1,100	806	(294)
Total Sanitation	<u>4,964</u>	<u>4,964</u>	<u>4,862</u>	<u>(102)</u>
Culture and Recreation				
Library	18,000	18,000	17,056	(944)
Parks and Recreation				
Salaries	35,798	35,798	34,100	(1,698)
Payroll taxes and benefits	2,300	2,300	2,329	29
Supplies	4,000	4,000	5,016	1,016
Repairs and maintenance	5,000	5,000	6,742	1,742
Other expenses	10,000	10,000	14,742	4,742
Capital outlay	23,902	23,902	18,638	(5,264)
Total Culture and Recreation	<u>99,000</u>	<u>99,000</u>	<u>98,623</u>	<u>(377)</u>
Economic Development	-	-	312	312
TOTAL EXPENDITURES	<u>809,503</u>	<u>809,503</u>	<u>749,272</u>	<u>(60,231)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(9,000)	(9,000)	94,397	103,397
OTHER FINANCING USES				
Transfer out	-	-	-	-
NET CHANGE IN FUND BALANCE	(9,000)	(9,000)	94,397	<u>\$ 103,397</u>
FUND BALANCE, JANUARY 1	<u>1,152,645</u>	<u>1,152,645</u>	<u>1,152,645</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 1,143,645</u>	<u>\$ 1,143,645</u>	<u>\$ 1,247,042</u>	

See notes to required supplementary information.

CITY OF ATWATER, MINNESOTA
BUDETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
For The Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Taxes				
Property taxes	\$ 67,000	\$ 67,000	\$ 68,147	\$ 1,147
Total Taxes	<u>67,000</u>	<u>67,000</u>	<u>68,147</u>	<u>1,147</u>
Miscellaneous Revenues				
Investment income	500	500	452	(48)
Total Miscellaneous Revenues	<u>500</u>	<u>500</u>	<u>452</u>	<u>(48)</u>
TOTAL REVENUES	67,500	67,500	68,599	1,099
OTHER SOURCES				
Transfers in	-	-	-	-
TOTAL REVENUES AND OTHER SOURCES	<u>67,500</u>	<u>67,500</u>	<u>68,599</u>	<u>1,099</u>
EXPENDITURES				
Principal	175,000	175,000	175,000	-
Interest	3,500	3,500	3,500	-
Other expenses	2,000	2,000	435	(1,565)
TOTAL EXPENDITURES	<u>180,500</u>	<u>180,500</u>	<u>178,935</u>	<u>(1,565)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(113,000)	(113,000)	(110,336)	(2,664)
FUND BALANCE, JANUARY 1	<u>177,666</u>	<u>177,666</u>	<u>177,666</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 64,666</u>	<u>\$ 64,666</u>	<u>\$ 67,330</u>	

See notes to required supplementary information

**CITY OF ATWATER, MINNESOTA
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**

General Employees Retirement Fund Pension Plan

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the City (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0024%	\$ 124,380	\$ -	\$ 124,380	\$ 139,614	89.1%	78.2%
June 30, 2016	0.0023%	\$ 186,749	\$ 2,408	\$ 189,157	\$ 140,747	134.4%	68.9%
June 30, 2017	0.0023%	\$ 146,830	\$ 1,884	\$ 148,714	\$ 151,200	98.4%	75.9%

Public Employees Police and Fire Pension Plan

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Library (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the Library (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0060%	\$ 68,174	\$ -	\$ 68,174	\$ 50,383	135.3%	86.6%
June 30, 2016	0.0070%	\$ 280,922	\$ -	\$ 280,922	\$ 64,747	433.9%	63.9%
June 30, 2017	0.0080%	\$ 108,010	\$ -	\$ 108,010	\$ 79,401	136.0%	85.4%

Note: Schedules are intended to show a 10 year trend. Additional years will be reported as they become available.

See notes to required supplementary information

**CITY OF ATWATER, MINNESOTA
SCHEDULES OF EMPLOYER CONTRIBUTIONS**

General Employees Retirement Fund Pension Plan

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
December 31, 2015	\$ 10,046	\$ 10,046	\$ -	\$ 133,947	7.50%
December 31, 2016	\$ 11,216	\$ 11,216	\$ -	\$ 149,548	7.50%
December 31, 2017	\$ 11,562	\$ 11,562	\$ -	\$ 154,157	7.50%

Public Employees Police and Fire Pension Plan

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
December 31, 2015	\$ 9,059	\$ 9,059	\$ -	\$ 55,906	16.20%
December 31, 2016	\$ 11,715	\$ 11,715	\$ -	\$ 72,315	16.20%
December 31, 2017	\$ 13,526	\$ 13,526	\$ -	\$ 83,495	16.20%

Note: Schedules are intended to show a 10 year trend. Additional years will be reported as they become available.

CITY OF ATWATER, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2017

NOTE 1 BUDGETARY INFORMATION

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

- a) The City Clerk/Treasurer prepares an annual operating budget for the General Fund.
- b) Public hearings are conducted to obtain taxpayer comments.
- c) The budget is legally enacted by a budget resolution.
- d) The City Clerk/Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
- e) Budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America. Budgeted amounts are as originally adopted, or as amended by the City Council. Appropriations for annually budgeted fund lapse at year-end.

NOTE 2 CHANGES IN ACTUARIAL ASSUMPTIONS

General Employees Fund:

2017 Changes:

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.80% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1% per year for all years to 1% per year through 2044 and 2.50% per year thereafter.

2016 Changes:

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 7.50%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes:

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1% per year through 2030 and 2.50% per year thereafter to 1% per year through 2035 and 2.50% per year thereafter.

Police and Fire Fund:

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% lower than the previous rates.

CITY OF ATWATER, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2017

NOTE 2 CHANGES IN ACTUARIAL ASSUMPTIONS (continued)

Police and Fire Fund: (continued)

- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1% for all years to 1% per year through 2064 and 2.50% thereafter.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1% per year through 2037 and 2.50% thereafter to 1% per year for all future years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate changed from 7.90% percent to 5.60%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions:

- The post-retirement benefit increases to be paid after attainment of the 90% funding threshold was changed, from inflation up to 2.50%, to a fixed rate of 2.50%.

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1% per year through 2030 and 2.50% per year thereafter to 1% per year through 2037 and 2.50% per year thereafter.

INDEPENDENT AUDITOR’S 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

Mayor and City Council
City of Atwater, Minnesota

We have audited, in accordance with the 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 financial statements of the governmental activities, the business-type activities, discretely presented component unit and each major fund of the City of Atwater, Minnesota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Atwater Atwater’s basic financial statements, and have issued our report thereon dated April 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Atwater’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and correct 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. We consider findings 2007-001 and 2007-002 to be significant deficiencies.

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 that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Atwater failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* except as described the accompanying schedule of findings and responses as item 2017-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Atwater's noncompliance with the above referenced provisions.

City of Atwater's Response to Findings

The City of Atwater's responses to the internal control findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Atwater's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Westberg Eischens, PLLP

Westberg Eischens, PLLP
Willmar, Minnesota

April 20, 2018

**CITY OF ATWATER, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017**

SECTION I: FINANCIAL STATEMENT FINDINGS

Finding 2007-001

Criteria:

Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition:

Due to the limited size of the City's business staff, the City has limited segregation of duties.

Context:

The City has informed us that the small size of its business office staff precludes proper separation of duties at this time.

Effect:

The lack of segregation of duties increases the risk of misappropriation of assets.

Cause:

Limited number of staff in the business office.

Recommendation:

We recommend that the City continue to separate incompatible duties as best it can within the limits of what the City considers to be cost beneficial.

CORRECTIVE ACTION PLAN (CAP)

Finding 2007-001

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available.

Officer Responsible for Ensuring CAP:

Mayor and Council

Planned Completion Date:

Not Applicable

Plan to Monitor Completion of CAP:

Not Applicable

**CITY OF ATWATER, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (continued)
Year Ended December 31, 2017**

SECTION I: FINANCIAL STATEMENT FINDINGS (continued)

Finding 2007-002

Criteria:

Generally, a system of internal control includes the ability to understand and prepare the City's financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition:

The City relies upon the auditor to prepare the financial statements and related disclosures in accordance with GAAP.

Effect:

There is a risk that the City may not detect or prevent financial statement misstatements.

Cause:

The limited size of the City's business staff and the related resources available precludes the City from preparing the financial statements.

Recommendation:

We recommend that the City continue to review the auditor prepared financial statements with the intention of understanding and acceptance of responsibility for reporting under GAAP.

CORRECTIVE ACTION PLAN (CAP)

Finding 2007-002

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will continue to review auditor prepared financial statements with the intention of understanding and acceptance of responsibility for reporting under GAAP.

Officer Responsible for Ensuring CAP:

Clerk/Treasurer

Planned Completion Date:

Not Applicable

Plan to Monitor Completion of CAP:

Not Applicable

CITY OF ATWATER, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (continued)
Year Ended December 31, 2017

SECTION II: MINNESOTA LEGAL COMPLIANCE FINDINGS

Finding 2017-001

Criteria:

According to Minnesota Statute, collateral consisting of revenue obligations of state or local governments with taxing powers is required to be rated "AA" or better.

Condition:

During our audit, we noted several of the collateral revenue bonds were rated lower than "AA".

Questioned Costs:

None

Effect:

The City did not follow the requirement established by Minnesota statutes.

Cause:

The City was not aware of the statute requirements.

Recommendation:

We recommend that the City review the collateral they hold periodically to ensure they are following the requirements of Minnesota statutes.

CORRECTIVE ACTION PLAN (CAP)

Finding 2017-001

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will periodically request collateral listing from the bank to review compliance with requirements.

Officer Responsible for Ensuring CAP:

Clerk/Treasurer

Planned Completion Date:

2018

Plan to Monitor Completion of CAP:

Council will monitor