

Annual Financial Report

City of Centerville
Centerville, Minnesota

For the Year Ended
December 31, 2017

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City of Centerville, Minnesota
Annual Financial Report
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INTRODUCTORY SECTION

CITY OF CENTERVILLE
CENTERVILLE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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City of Centerville, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2017

ELECTED

Name	Title	Term Expires
Jeff Paar	Mayor	01/03/19
Steve King	Council Member	01/01/19
Russ Koski	Council Member	01/01/21
Matt Montain	Council Member	01/01/21
D. Love	Council Member	01/01/19

APPOINTED

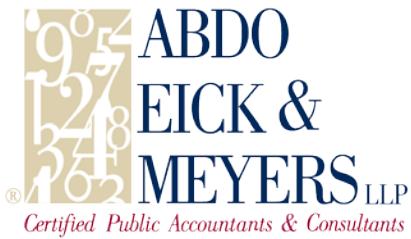
Mark Statz	City Administrator
Teresa Bender	City Clerk
Ellie Paulseth	Finance Director

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FINANCIAL SECTION
CITY OF CENTERVILLE
CENTERVILLE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Centerville, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Centerville, Minnesota (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City'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 an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

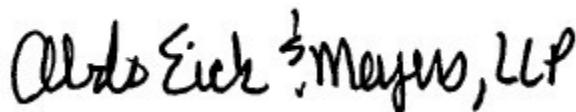
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 15 and the Schedule of Employer's Shares of the Net Pension Liability and the Schedule of Employer's Contributions on page 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
June 8, 2018

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Management's Discussion and Analysis

As management of the City of Centerville, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2017.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflow of resources at the close of the most recent fiscal year by \$21,224,804 (net position). Of this amount, \$6,277,977 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$132,320. A further breakdown of net position is chronicled under Government wide financial statement analysis.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$1,528,869, or 65.6 percent of total 2017 General fund expenditures.
- The City's total debt decreased \$745,000, during the current fiscal year. The decrease was mainly due to scheduled debt payments on the City's bonds.

Overview of the Financial Statements

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

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

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

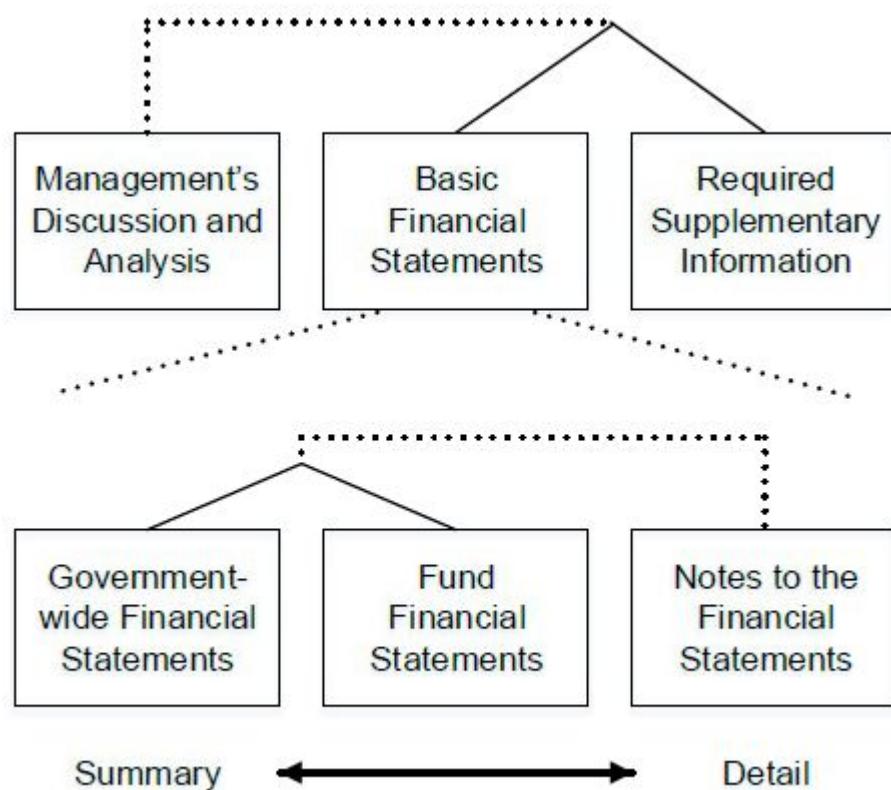


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

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

	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> Statement of Net Position Statement of Activities 	<ul style="list-style-type: none"> Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> Statement of Net Position Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred inflows of resources Information	All deferred inflows of resources, regardless of when cash is received or paid	Only deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

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

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

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

The government-wide financial statements start on page 29 of this report.

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

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

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

The City maintains several individual governmental funds, six of which are combined into the Debt Service fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Debt Service, and Park funds. Data from the other four non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

The basic governmental fund financial statements start on page 34 of this report.

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

The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds.

The basic proprietary fund financial statements start on page 40 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 start on page 47 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules start on page 76 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$21,224,804 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (61.5 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Centerville's Summary of Net position

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Assets						
Current and other assets	\$ 4,793,878	\$ 4,695,928	\$ 97,950	\$ 6,055,165	\$ 5,704,387	\$ 350,778
Capital assets	13,249,110	14,040,134	(791,024)	6,015,922	6,362,898	(346,976)
Total Assets	18,042,988	18,736,062	(693,074)	12,071,087	12,067,285	3,802
 Deferred Outflows of Resources						
Deferred pension resources	87,729	179,845	(92,116)	37,171	69,726	(32,555)
 Liabilities						
Noncurrent liabilities outstanding	8,426,078	9,298,120	(872,042)	171,886	205,776	(33,890)
Other liabilities	262,670	341,533	(78,863)	22,345	32,088	(9,743)
Total Liabilities	8,688,748	9,639,653	(950,905)	194,231	237,864	(43,633)
 Deferred Outflows of Resources						
Deferred pension resources	92,149	59,752	32,397	39,043	23,165	15,878
 Net Position						
Net investment in capital assets	7,044,491	7,410,615	(366,124)	6,015,922	6,362,898	(346,976)
Restricted for Debt service	1,839,742	1,853,334	(13,592)	-	-	-
Cable TV	46,672	34,438	12,234	-	-	-
Unrestricted	418,915	(81,885)	500,800	5,859,062	5,513,084	345,978
 Total Net Position	\$ 9,349,820	\$ 9,216,502	\$ 133,318	\$ 11,874,984	\$ 11,875,982	\$ (998)

An additional portion of the City's net position (8.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$6,277,977) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the City as a whole, as well as for its separate governmental and business-type activities with the exemption of unrestricted net position for governmental activities. The same situation held true for the prior year.

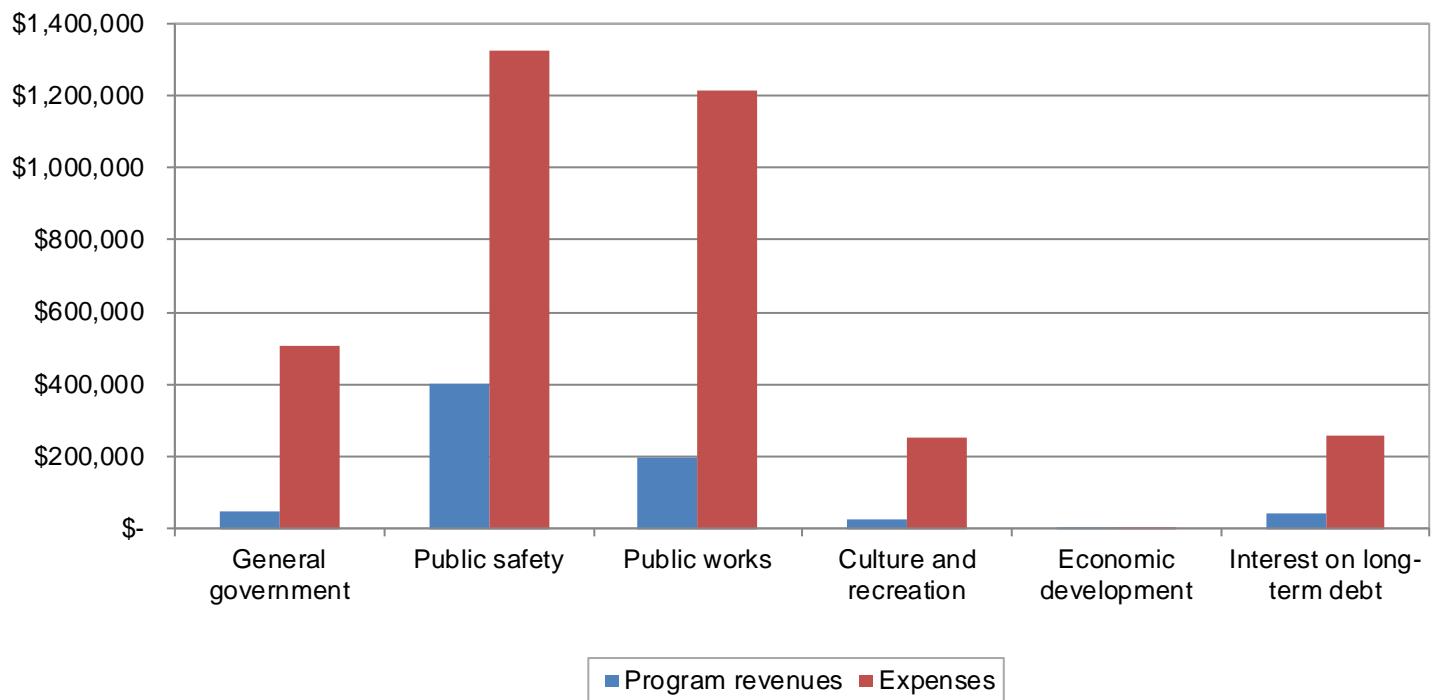
Governmental Activities. Governmental activities increased the City's net position by \$133,318. Key elements of this increase are as follows:

City of Centerville's Changes in Net position

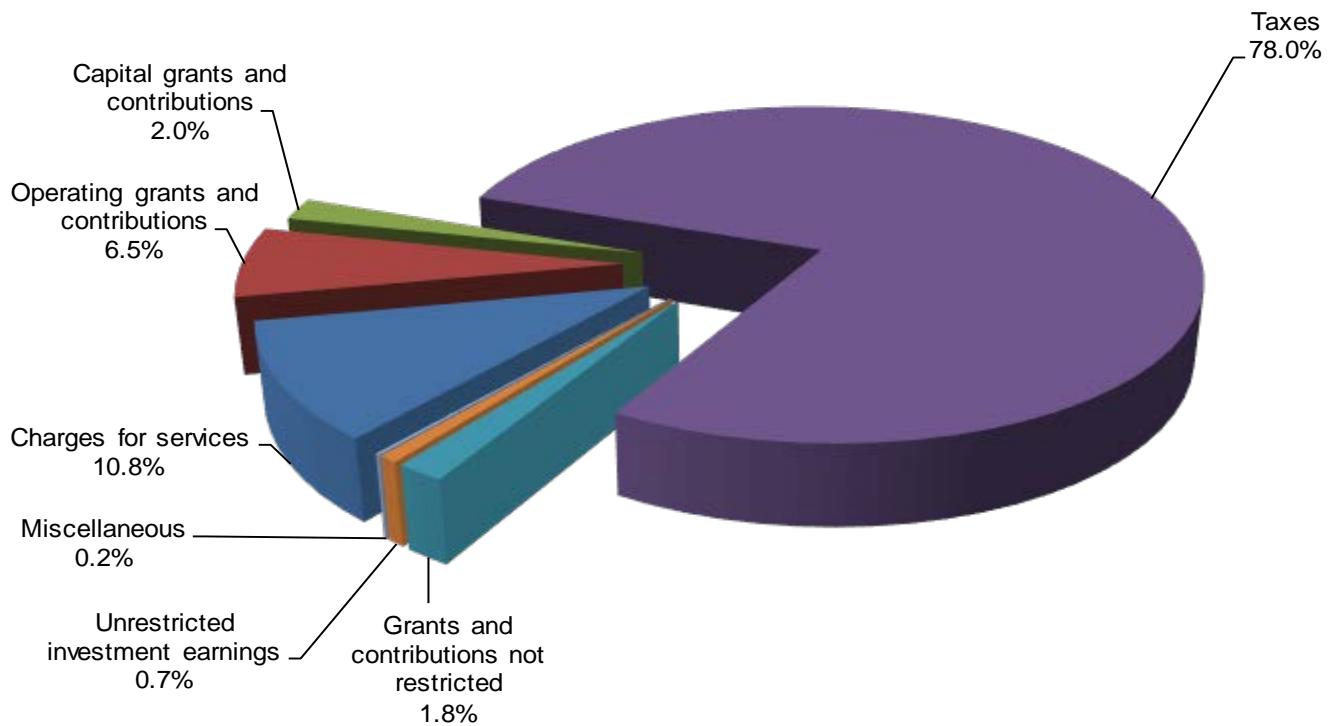
	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 399,424	\$ 289,245	\$ 110,179	\$ 842,367	\$ 809,727	\$ 32,640
Operating grants and contributions	240,592	300,400	(59,808)	57	-	57
Capital grants and contributions	74,309	176,280	(101,971)	101,242	191,981	(90,739)
General Revenues						
Taxes						
Property taxes/tax increments	2,159,055	1,976,606	182,449	-	-	-
Property taxes, levied for debt service	546,847	591,370	(44,523)	-	-	-
Other taxes	177,193	108,660	68,533	-	-	-
Grants and contributions						
not restricted to specific programs	65,418	64,842	576	-	-	-
Unrestricted investment earnings	25,511	22,409	3,102	43,107	51,552	(8,445)
Gain on sale of capital assets	-	35,571	(35,571)	-	-	-
Miscellaneous	6,134	3,650	2,484	-	-	-
Total Revenues	3,694,483	3,569,033	125,450	986,773	1,053,260	(66,487)
Expenses						
General government						
General government	505,603	473,357	32,246	-	-	-
Public safety	1,326,808	1,314,615	12,193	-	-	-
Public works	1,216,802	1,305,441	(88,639)	-	-	-
Culture and recreation	250,626	292,116	(41,490)	-	-	-
Economic development	1,314	50	1,264	-	-	-
Interest on long-term debt	260,012	271,489	(11,477)	-	-	-
Water	-	-	-	415,453	408,300	7,153
Sewer	-	-	-	465,069	441,318	23,751
Storm water	-	-	-	107,249	87,700	19,549
Total Expenses	3,561,165	3,657,068	(95,903)	987,771	937,318	50,453
Change in Net Position	133,318	(88,035)	221,353	(998)	115,942	(116,940)
Net Position, January 1	9,216,502	9,304,537	(88,035)	11,875,982	11,760,040	115,942
Net Position, December 31	\$ 9,349,820	\$ 9,216,502	\$ 133,318	\$ 11,874,984	\$ 11,875,982	\$ (998)

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

Expenses and Program Revenues - Governmental Activities

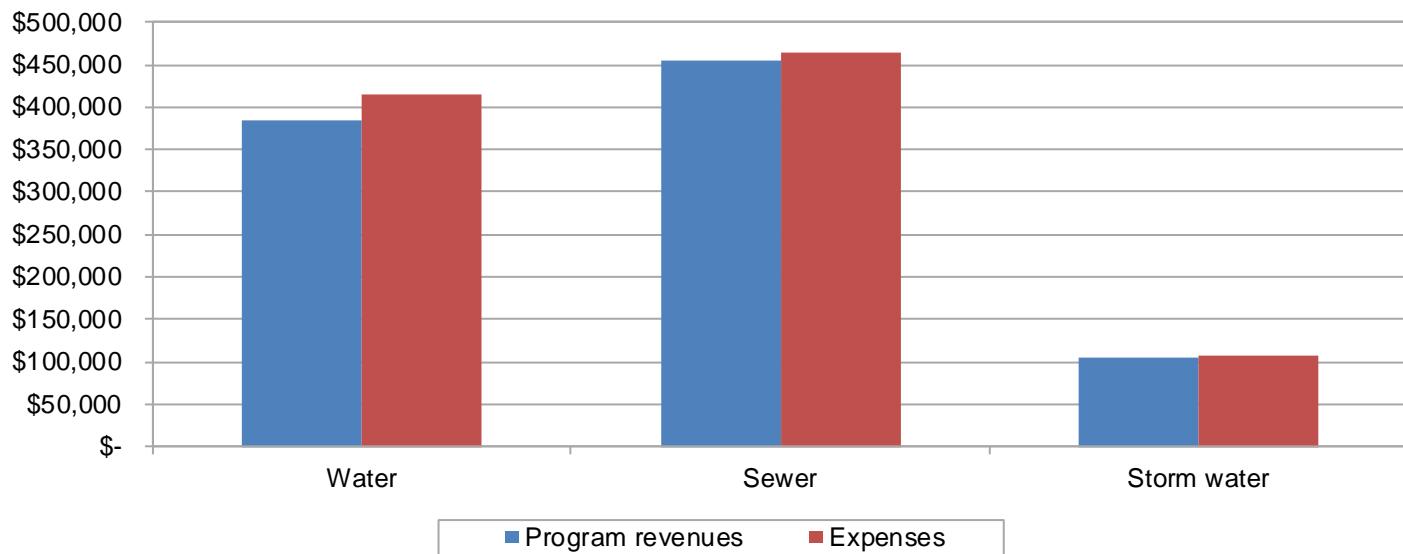


Revenues by Source - Governmental Activities

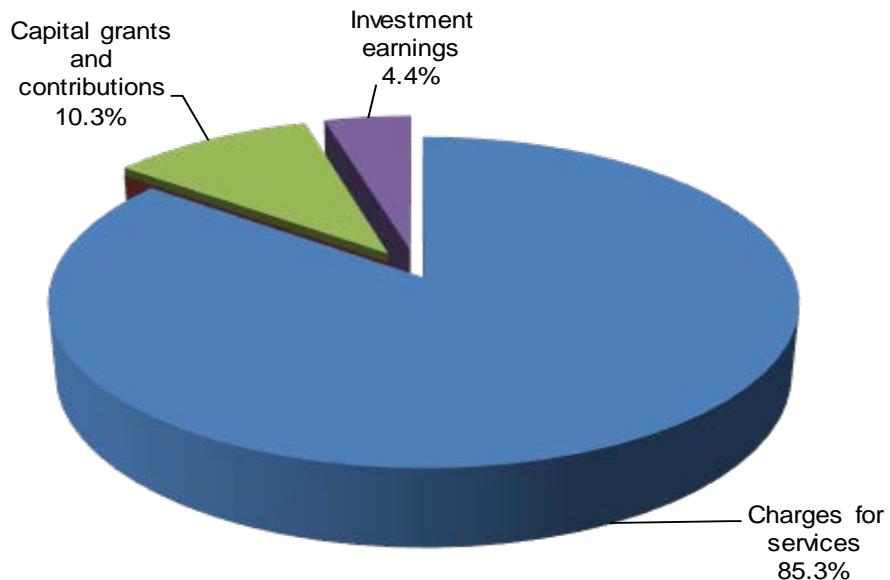


Business-type Activities. Business-type activities decreased the City's net position by \$998. Key elements of this decrease are as follows:

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



A further breakdown of expenses is shown below:

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Personnel Costs	\$ 586,366	\$ 589,451	\$ (690)	\$ 227,086	\$ 206,992	\$ 20,094
Supplies	30,517	27,760	2,757	19,043	17,503	1,540
Other Charges for Services	2,681,326	2,623,656	(950,411)	741,642	712,483	29,159
Capital Outlay	43,814	138,879	81,122	-	-	-
Total	\$ 3,342,023	\$ 3,379,746	\$ (37,723)	\$ 987,771	\$ 936,978	\$ 50,793

Financial Analysis of the Government's Funds

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

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

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

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2017	2016	
General	\$ 1,529,950	\$ 1,310,308	\$ 219,642
Debt Service	\$ 2,997,445	\$ 3,161,596	\$ (164,151)
The Debt Service fund decreased \$164,151 primarily due to scheduled debt payments exceeding taxes and assessments revenues. The City manages cash flow in all debt service funds and ensures adequate resources exist to fund future obligations.			
Park	\$ (1,142,304)	\$ (1,132,980)	\$ (9,324)

The Park fund balance decreased \$9,324 from the previous year, due to the interest paid on the interfund loan.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,805,796, an increase of \$374,888 in comparison with the prior year. A fund balance \$386,565 constitutes *unassigned fund balance*. The remainder of fund balance (\$3,419,231) is not available for spending because it is either: 1) nonspendable (\$24,638), 2) restricted (\$3,020,560, or 3) assigned (\$374,033) for the purposes described in the fund balance section of each balance sheet.

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$5,859,062. The total decrease in net position for the funds was \$998. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. Revenues had a positive budget variance of \$169,225 and expenditures had positive budget variance of \$10,417. Overall the General fund had a net positive budget variance of \$179,642 before transfers.

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

- License and permits revenues came in \$226,195 over budget.
- Public Safety expenditures came in \$110,924 under budgeted amounts.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$19,265,032 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges.

Additional information on the City's capital assets can be found in Note 3B starting on page 57 of this report.

City of Centerville's Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Land	\$ 3,128,823	\$ 3,128,823	\$ -	\$ 200,655	\$ 200,655	\$ -
Buildings	787,966	787,966	-	331,890	340,170	(8,280)
Infrastructure	9,129,650	9,935,037	(805,387)	5,471,140	5,797,476	(326,336)
Machinery and Equipment	202,671	188,308	14,363	12,237	24,597	(12,360)
Total	\$ 13,249,110	\$ 14,040,134	\$ (791,024)	\$ 6,015,922	\$ 6,362,898	\$ (346,976)

Street Maintenance Program. Beginning in 2012 the City began annually accumulating funds for a street maintenance program that will consist of mill and overlay to each segment of street in the city, at approximately every twelve year intervals. The initial construction program began in 2014 to be paid from funds accumulated in a revolving improvement account. A minimal special assessment of around \$500 per residential lot will cover approximately 20 percent of the cost, which combined with the City levy contribution each year, should sustain the program. Each year going forward, a similar project is anticipated.

Equipment Funding. In 2012, the City Council approved as part of the budget, a capital replacement program for equipment and other assets that have predictable replacement cycles. All major street equipment, building roofs, carpets and similar items will be funded through an equipment replacement fund that will be sustained by an annual levy. Likewise, the enterprise funds have identified equipment and other assets that need periodic upgrading and replacement. Sufficient retained earnings will be protected to allow these repairs/replacements to be completed without incurring debt.

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$7,960,000. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Centerville's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
General Obligation Bonds	\$ 7,960,000	\$ 8,705,000	\$ (745,000)	\$ -	\$ -	\$ -
General Obligation Capital Notes	59,619	59,619	-	-	-	-
Total	\$ 8,019,619	\$ 8,764,619	\$ (745,000)	\$ -	\$ -	\$ -

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The taxable market value totals \$345,829,900 which calculates to a debt limit of \$10,374,897. Debt financed partially or entirely by special assessments is not applied against the City's debt limit, nor is debt financed by proprietary fund revenues. Currently the City has \$259,619 of general obligation debt outstanding leaving a debt margin of \$10,115,278.

Additional information on the City's long-term debt can be found in Note 3D starting on page 60 of this report.

Economic Factors and Next Year's Budgets and Rates

The area economy continues to show signs of improvement. Property values for taxes payable in 2018 increased by 10.5%. The City's net tax capacity increased 11.4% for taxes payable in 2018. The City increased its property tax levy by 1.89% for taxes payable in 2018. Tax capacity rates decreased 7.92% due to the increase in tax capacity. Most taxpayers realized an increase on average of 7.7% in City property taxes as a result of the increased value of their properties and the increased City levy.

The City's General Fund budget increased for fiscal year 2018 by 1.22%; however, the General Fund tax levy increased by only 0.99%. The minimal increase in General Fund expenditures, in the amount of \$32,147, was primarily related to increases in labor contracts. Other factors affecting the 2018 General Fund budget include stable police and fire contracts and a slight increase in parks maintenance.

The debt service levy was increased by \$29,800 for taxes payable in 2018 due to the levy requirement for the 2015A Refunding Bonds. This levy will not be repeated in 2019 because the City received proceeds from the sale of property that was dedicated for principal retirement on the 2015A bonds.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all parties interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Centerville, 1880 Main Street, Centerville, Minnesota, 55038.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF CENTERVILLE
CENTERVILLE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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City of Centerville, Minnesota

Statement of Net Position

December 31, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and temporary investments	\$ 3,029,697	\$ 3,790,394	\$ 6,820,091
Cash with fiscal agent	2,117,807	-	2,117,807
Receivables			
Accrued interest	4,192	5,131	9,323
Taxes	29,505	-	29,505
Accounts	50,061	167,825	217,886
Special assessments	802,350	789,850	1,592,200
Due from other governments	29,595	-	29,595
Internal balances	(1,293,967)	1,293,967	-
Inventories	-	5,973	5,973
Prepaid items	24,638	2,025	26,663
Capital assets			
Land and construction and progress	3,128,823	200,655	3,329,478
Depreciable assets (net of accumulated depreciation)	10,120,287	5,815,267	15,935,554
Total Assets	<u>18,042,988</u>	<u>12,071,087</u>	<u>30,114,075</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>87,729</u>	<u>37,171</u>	<u>124,900</u>
Liabilities			
Accounts and contracts payable	76,360	14,388	90,748
Accrued salaries payable	9,427	3,192	12,619
Due to other governments	14,910	4,765	19,675
Accrued interest payable	99,132	-	99,132
Deposits payable	62,841	-	62,841
Noncurrent liabilities			
Due within one year	2,919,943	16,098	2,936,041
Due in more than one year	5,506,135	155,788	5,661,923
Total Liabilities	<u>8,688,748</u>	<u>194,231</u>	<u>8,882,979</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>92,149</u>	<u>39,043</u>	<u>131,192</u>
Net Position			
Net investment in capital assets	7,044,491	6,015,922	13,060,413
Restricted for			
Debt service	1,839,742	-	1,839,742
Cable TV	46,672	-	46,672
Unrestricted	418,915	5,859,062	6,277,977
Total Net Position	<u>\$ 9,349,820</u>	<u>\$ 11,874,984</u>	<u>\$ 21,224,804</u>

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

City of Centerville, Minnesota
Statement of Activities
For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 505,603	\$ 40,014	\$ 5,000	\$ -
Public safety	1,326,808	297,645	106,322	-
Public works	1,216,802	41,776	81,796	74,309
Culture and recreation	250,626	17,249	5,977	-
Economic development	1,314	2,740	-	-
Interest on long-term debt	260,012	-	41,497	-
Total Governmental Activities	3,561,165	399,424	240,592	74,309
Business-type Activities				
Water	415,453	311,972	23	71,322
Sewer	465,069	425,963	23	29,920
Storm water	107,249	104,432	11	-
Total Business-type Activities	987,771	842,367	57	101,242
Total	\$ 4,548,936	\$ 1,241,791	\$ 240,649	\$ 175,551

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Franchise taxes

Gambling taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position, January 1

Net Position, December 31

**Net (Expenses) Revenues
and Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$ (460,589)	\$ -	\$ (460,589)
(922,841)	-	(922,841)
(1,018,921)	-	(1,018,921)
(227,400)	-	(227,400)
1,426	-	1,426
(218,515)	-	(218,515)
<u>(2,846,840)</u>	<u>-</u>	<u>(2,846,840)</u>
-	(32,136)	(32,136)
-	(9,163)	(9,163)
<u>-</u>	<u>(2,806)</u>	<u>(2,806)</u>
<u>-</u>	<u>(44,105)</u>	<u>(44,105)</u>
<u>(2,846,840)</u>	<u>(44,105)</u>	<u>(2,890,945)</u>
2,159,055	-	2,159,055
546,847	-	546,847
166,562	-	166,562
10,631	-	10,631
65,418	-	65,418
25,511	43,107	68,618
6,134	-	6,134
<u>2,980,158</u>	<u>43,107</u>	<u>3,023,265</u>
133,318	(998)	132,320
<u>9,216,502</u>	<u>11,875,982</u>	<u>21,092,484</u>
<u>\$ 9,349,820</u>	<u>\$ 11,874,984</u>	<u>\$ 21,224,804</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF CENTERVILLE
CENTERVILLE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Centerville, Minnesota

Balance Sheet
Governmental Funds
December 31, 2017

	101	300's	402	Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Park		
Assets					
Cash and temporary investments	\$ 1,647,339	\$ 853,492	\$ 51,592	\$ 477,274	\$ 3,029,697
Cash with fiscal agent	-	2,117,807	-	-	2,117,807
Receivables					
Accrued interest	2,252	1,235	71	634	4,192
Taxes	28,151	1,354	-	-	29,505
Accounts	11,080	-	-	38,981	50,061
Special assessments	16,075	756,429	-	29,846	802,350
Due from other governments	15,654	-	-	13,941	29,595
Prepaid items	1,081	23,557	-	-	24,638
Total Assets	\$ 1,721,632	\$ 3,753,874	\$ 51,663	\$ 560,676	\$ 6,087,845
Liabilities					
Accounts payable	\$ 76,360	\$ -	\$ -	\$ -	\$ 76,360
Deposits payable	62,841	-	-	-	62,841
Accrued salaries payable	9,191	-	-	236	9,427
Due to other governments	4,910	-	-	10,000	14,910
Due to other funds	-	-	-	100,000	100,000
Advances from other funds	-	-	1,193,967	-	1,193,967
Total Liabilities	153,302	-	1,193,967	110,236	1,457,505
Deferred Inflows of Resources					
Unavailable revenue - property taxes	22,562	-	-	-	22,562
Unavailable revenue - special assessments	15,818	756,429	-	29,735	801,982
Total Deferred Inflows of Resources	38,380	756,429	-	29,735	824,544
Fund Balances					
Nonspendable	1,081	23,557	-	-	24,638
Restricted	-	2,973,888	-	46,672	3,020,560
Assigned	-	-	-	374,033	374,033
Unassigned	1,528,869	-	(1,142,304)	-	386,565
Total Fund Balances	1,529,950	2,997,445	(1,142,304)	420,705	3,805,796
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,721,632	\$ 3,753,874	\$ 51,663	\$ 560,676	\$ 6,087,845

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

City of Centerville, Minnesota
Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
December 31, 2017

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

Total Fund Balances - Governmental	\$ 3,805,796
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	23,427,537
Less accumulated depreciation	(10,178,427)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year end consist of	
Bond principal payable	(8,019,619)
Compensated absences payable	(38,764)
Pension liability	(367,695)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Delinquent taxes receivable	22,562
Special assessments receivable	801,982
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	87,729
Deferred inflows of pension resources	(92,149)
Governmental funds do not report a liability for accrued interest until due and payable.	
	<u>(99,132)</u>
Total Net Position - Governmental Activities	<u>\$ 9,349,820</u>

City of Centerville, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	101	300's	402	Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Park		
Revenues					
Taxes					
General property	\$ 2,174,244	\$ 546,847	\$ -	\$ -	\$ 2,721,091
Gambling	10,631	-	-	-	10,631
Franchise	-	-	-	158,952	158,952
Licenses and permits	350,995	-	-	-	350,995
Intergovernmental	191,582	41,497	-	26,893	259,972
Charges for services	7,692	-	-	8,366	16,058
Fines and forfeitures	18,068	-	-	-	18,068
Special assessments	-	220,259	-	47,226	267,485
Interest on investments	5,291	17,293	321	2,606	25,511
Miscellaneous	41,145	7,610	8,000	17,196	73,951
Total Revenues	<u>2,799,648</u>	<u>833,506</u>	<u>8,321</u>	<u>261,239</u>	<u>3,902,714</u>
Expenditures					
Current					
General government	489,887	-	-	-	489,887
Public safety	1,324,049	-	-	-	1,324,049
Public works	329,694	-	-	-	329,694
Culture and recreation	143,313	-	-	4,266	147,579
Economic development	1,314	-	-	-	1,314
Capital outlay					
General government	41,749	-	-	2,065	43,814
Public works	-	-	-	176,187	176,187
Debt service					
Principal	-	745,000	-	-	745,000
Interest and other	-	252,657	17,645	-	270,302
Total Expenditures	<u>2,330,006</u>	<u>997,657</u>	<u>17,645</u>	<u>182,518</u>	<u>3,527,826</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>469,642</u>	<u>(164,151)</u>	<u>(9,324)</u>	<u>78,721</u>	<u>374,888</u>
Other Financing Sources (Uses)					
Transfers in	-	-	-	250,000	250,000
Transfers out	<u>(250,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(250,000)</u>
Total Other Financing Sources (Uses)	<u>(250,000)</u>	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>-</u>
Net Change in Fund Balances	<u>219,642</u>	<u>(164,151)</u>	<u>(9,324)</u>	<u>328,721</u>	<u>374,888</u>
Fund Balances, January 1	<u>1,310,308</u>	<u>3,161,596</u>	<u>(1,132,980)</u>	<u>91,984</u>	<u>3,430,908</u>
Fund Balances, December 31	<u>\$ 1,529,950</u>	<u>\$ 2,997,445</u>	<u>\$ (1,142,304)</u>	<u>\$ 420,705</u>	<u>\$ 3,805,796</u>

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

City of Centerville, Minnesota
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2017

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

Net Change in Fund Balances - Governmental Funds	\$ 374,888
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Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlay	217,057
Depreciation expense	(1,008,081)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are delayed and amortized in the statement of activities.

Principal repayments	745,000
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus 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.

	10,290
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Long-term pension activity is not reported in government funds.

Pension expense	(853)
Pension revenue	134

Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.

Property taxes	(15,189)
Special assessments	(193,176)

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

Compensated absences payable	<u>3,248</u>
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Change in Net Position - Governmental Activities	<u>\$ 133,318</u>
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City of Centerville, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
General Fund
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes				
General property	\$ 2,158,621	\$ 2,158,621	\$ 2,174,244	\$ 15,623
Gambling	4,000	4,000	10,631	6,631
Licenses and permits	124,800	124,800	350,995	226,195
Intergovernmental	289,302	289,302	191,582	(97,720)
Charges for services	5,500	5,500	7,692	2,192
Fines and forfeitures	28,000	28,000	18,068	(9,932)
Special assessments	200	200	-	(200)
Interest on investments	13,000	13,000	5,291	(7,709)
Miscellaneous	7,000	7,000	41,145	34,145
Total Revenues	2,630,423	2,630,423	2,799,648	169,225
Expenditures				
Current				
General government	481,400	481,400	489,887	(8,487)
Public safety	1,434,973	1,434,973	1,324,049	110,924
Public works	324,700	324,700	329,694	(4,994)
Culture and recreation	99,350	99,350	143,313	(43,963)
Economic development	-	-	1,314	(1,314)
Capital outlay	-	-	41,749	(41,749)
Total Expenditures	2,340,423	2,340,423	2,330,006	10,417
Excess of Revenues Over Expenditures	290,000	290,000	469,642	179,642
Other Financing Uses				
Transfers out	(290,000)	(290,000)	(250,000)	40,000
Net Change in Fund Balances	-	-	219,642	219,642
Fund Balances, January 1	1,310,308	1,310,308	1,310,308	-
Fund Balances, December 31	\$ 1,310,308	\$ 1,310,308	\$ 1,529,950	\$ 219,642

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

City of Centerville, Minnesota

Statement of Net Position

Proprietary Funds

December 31, 2017

	Business-type Activities - Enterprise Funds			
	601	602	603	
	Water	Sewer	Nonmajor Storm Water	Totals
Assets				
Current Assets				
Cash and temporary investments	\$ 1,950,148	\$ 1,639,840	\$ 200,406	\$ 3,790,394
Receivables				
Accrued interest	2,597	2,242	292	5,131
Accounts	55,975	91,026	20,824	167,825
Special assessments	5,606	229	-	5,835
Due from other funds	100,000	-	-	100,000
Advance to other funds	-	1,193,967	-	1,193,967
Inventories	5,973	-	-	5,973
Prepaid items	1,987	38	-	2,025
Total Current Assets	2,122,286	2,927,342	221,522	5,271,150
Noncurrent Assets				
Special assessments receivable	746,808	37,207	-	784,015
Capital assets				
Land	72,255	124,000	4,400	200,655
Buildings	138,000	276,000	-	414,000
Infrastructure	5,739,590	3,442,483	1,051,222	10,233,295
Machinery and equipment	269,367	96,742	-	366,109
Less accumulated depreciation	(2,773,049)	(2,095,454)	(329,634)	(5,198,137)
Net Capital Assets	3,446,163	1,843,771	725,988	6,015,922
Total Noncurrent Assets	4,192,971	1,880,978	725,988	6,799,937
Total Assets	6,315,257	4,808,320	947,510	12,071,087
Deferred Outflows of Resources				
Deferred pension resources	14,927	14,927	7,317	37,171
Liabilities				
Current Liabilities				
Accounts payable	9,467	4,610	311	14,388
Accrued salaries payable	1,266	1,266	660	3,192
Due to other governments	2,004	2,761	-	4,765
Compensated absences payable - current	6,978	6,978	2,142	16,098
Total Current Liabilities	19,715	15,615	3,113	38,443

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

City of Centerville, Minnesota
Statement of Net Position (Continued)
Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds			
	601	602	603	Nonmajor Storm Water
	Water	Sewer	Totals	
Noncurrent Liabilities				
Pension liability	\$ 62,561	\$ 62,561	\$ 30,666	\$ 155,788
Total Liabilities	82,276	78,176	33,779	194,231
Deferred Inflows of Resources				
Deferred pension resources	15,679	15,679	7,685	39,043
Net Position				
Investment in capital assets	3,446,163	1,843,771	725,988	6,015,922
Unrestricted	2,786,066	2,885,621	187,375	5,859,062
Total Net Position	\$ 6,232,229	\$ 4,729,392	\$ 913,363	\$ 11,874,984

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

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City of Centerville, Minnesota
Statement of Revenues, Expenses
and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds				
	601		602		603
	Water	Sewer	Nonmajor		
			Storm Water	Totals	
Operating Revenues					
Charges for services	\$ 311,972	\$ 425,963	\$ 104,432	\$ 842,367	
Operating Expenses					
Salaries and benefits	93,330	91,868	41,888	227,086	
Supplies	17,757	923	363	19,043	
Other services and charges	80,029	34,248	28,387	142,664	
Utilities	18,418	4,519	-	22,937	
MCES - disposal charges	-	229,065	-	229,065	
Depreciation	205,919	104,446	36,611	346,976	
Total Operating Expenses	<u>415,453</u>	<u>465,069</u>	<u>107,249</u>	<u>987,771</u>	
Operating Loss	<u>(103,481)</u>	<u>(39,106)</u>	<u>(2,817)</u>	<u>(145,404)</u>	
Nonoperating Revenues					
Interest earnings	12,683	29,004	1,420	43,107	
Miscellaneous revenue	23	23	11	57	
Total Nonoperating Revenues	<u>12,706</u>	<u>29,027</u>	<u>1,431</u>	<u>43,164</u>	
Loss Before Contributions	<u>(90,775)</u>	<u>(10,079)</u>	<u>(1,386)</u>	<u>(102,240)</u>	
Capital Contributions	<u>71,322</u>	<u>29,920</u>	<u>-</u>	<u>101,242</u>	
Change in Net Position	<u>(19,453)</u>	<u>19,841</u>	<u>(1,386)</u>	<u>(998)</u>	
Net Position, January 1	<u>6,251,682</u>	<u>4,709,551</u>	<u>914,749</u>	<u>11,875,982</u>	
Net Position, December 31	<u><u>\$ 6,232,229</u></u>	<u><u>\$ 4,729,392</u></u>	<u><u>\$ 913,363</u></u>	<u><u>\$ 11,874,984</u></u>	

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

City of Centerville, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds			
	601	602	603	Nonmajor
	Water	Sewer	Storm Water	
Cash Flows from Operating Activities				
Receipts from customers and users	\$ 306,612	\$ 417,972	\$ 104,825	\$ 829,409
Payments to suppliers	(121,575)	(277,915)	(28,620)	(428,110)
Payments to employees	(87,154)	(85,692)	(39,961)	(212,807)
Net Cash Provided by Operating Activities	<u>97,883</u>	<u>54,365</u>	<u>36,244</u>	<u>188,492</u>
Cash Flows from Noncapital Financing Activities				
Payment made on advance to other funds	-	(17,645)	-	(17,645)
Cash Flows from Capital and Related Financing Activities				
Hook up fees and unit charges received	33,170	19,334	-	52,504
Special assessments received	162,266	25,455	-	187,721
Net Cash Provided by Capital and Related Financing Activities	<u>195,436</u>	<u>44,789</u>	<u>-</u>	<u>240,225</u>
Cash Flows From Investing Activities				
Interest received on investments	<u>13,326</u>	<u>29,777</u>	<u>1,449</u>	<u>44,552</u>
Net Increase in Cash and Cash Equivalents	<u>306,645</u>	<u>111,286</u>	<u>37,693</u>	<u>455,624</u>
Cash and Cash Equivalents, January 1	<u>1,643,503</u>	<u>1,528,554</u>	<u>162,713</u>	<u>3,334,770</u>
Cash and Cash Equivalents, December 31	<u><u>\$ 1,950,148</u></u>	<u><u>\$ 1,639,840</u></u>	<u><u>\$ 200,406</u></u>	<u><u>\$ 3,790,394</u></u>

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

City of Centerville, Minnesota
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds			
	601	602	603	
	Water	Sewer	Nonmajor Storm water	Totals
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities				
Operating loss	\$ (103,481)	\$ (39,106)	\$ (2,817)	\$ (145,404)
Other income related to operations	23	23	11	57
Adjustments to reconcile operating loss to net cash provided by operating activities				
Depreciation	205,919	104,446	36,611	346,976
(Acrease) decrease in assets/deferred outflows of resources				
Accounts receivable	(5,383)	(8,014)	382	(13,015)
Inventories	(3,147)	-	-	(3,147)
Prepaid items	(1,737)	(38)	-	(1,775)
Deferred pension resources	12,939	12,939	6,677	32,555
Increase (decrease) in liabilities/deferred inflows of resources				
Accounts payable	(968)	319	130	(519)
Accrued salaries payable	(92)	(92)	(80)	(264)
Compensated absences payable	500	500	(129)	871
Pension liability	(13,592)	(13,592)	(7,577)	(34,761)
Deferred pension resources	6,421	6,421	3,036	15,878
Due to other governments	481	(9,441)	-	(8,960)
Net Cash Provided by Operating Activities	<u>\$ 97,883</u>	<u>\$ 54,365</u>	<u>\$ 36,244</u>	<u>\$ 188,492</u>

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City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Centerville, Minnesota (the City), operates under the “Optional Plan A” form of government as defined in the State of Minnesota statutes. Under this plan, the government of the City is directed by a City Council composed of an elected Mayor and four elected City Council Members. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City does not have any component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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

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

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

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

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

The *Debt Service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Park fund* captures all park capital items and receives all the City's park dedication fees.

The City reports the following major proprietary funds:

The *Water fund* accounts for the activities of the water distribution system the City maintains.

The *Sewer fund* accounts for the activities of the City's sewage collection operations.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements.

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

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

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statement of cash flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Broker money market funds operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the shares.

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

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

The City has the following recurring fair value measurements as of December 31, 2017:

- State and local government securities of \$2,117,807 are valued using quoted market prices (Level 1 inputs)
- Negotiable certificates of deposits of \$2,196,353 are valued using a matrix pricing model (Level 2 inputs)

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2017. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

The City Council annually adopts a tax levy in December and certifies it to the County for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Auditor and tax settlements are made to the City during January, July and December each year.

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

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental fund special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Prepaid Items

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

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the acquisition value of the item at the date of its donation. 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.

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

Assets	Useful Lives in Years
Land Improvements	4 to 25
Other Improvements	10 to 20
Buildings and Improvements	10 to 50
System Improvements/Infrastructure	20 to 50
Machinery and Equipment	3 to 20
Vehicles	3 to 10
Other Assets	3 to 15

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Pensions

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

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused paid time off benefits to a maximum of 208 hours. All paid time off pay is accrued when incurred in the government-wide and proprietary funds. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Union employees are allowed severance equal to their unused compensatory time. In governmental fund types the cost of these benefits is recognized when payments are made to the employees. The General fund is typically used to liquidate governmental compensated absences.

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. The recognition of bond premiums and discounts are delayed 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.

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

Deferred Inflows of Resources

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

In the 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 the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the Finance Director.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers 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 balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 40-50 percent of budgeted operating expenditures for cash-flow timing needs.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consist of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

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

In May of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 30th, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Administrator, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. There were no budget amendments made during 2017.

B. Deficit Fund Equity

The following fund had a deficit fund balance as of December 31, 2017:

Fund	Amount
Major Park	\$ 1,142,304

The Park fund deficit will be eliminated with transfers in future years.

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

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

At year end, the City's carrying amount of deposits was \$4,365,382, and the bank balance was \$4,378,054. Of the bank balance, \$500,000 was covered by federal depository insurance and the remaining balance was covered by collateral held by the City's agent in the City's name.

City of Centerville, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Investments

As of December 31, 2017, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using	
				Level 1	Level 2
Pooled Investments at Amortized Costs					
Broker Money Market Funds	N/A	less than 6 months	\$ 258,156		
Non-pooled Investments at Fair Value					
State & local government	AAA	less than 6 months	\$ 2,117,807	\$ 2,117,807	\$ -
Negotiable certificates of deposits	N/A	less than 6 months	-	-	-
Negotiable certificates of deposits	N/A	6 months to 1 year	245,600	-	245,600
Negotiable certificates of deposits	N/A	1 to 3 years	943,396	-	943,396
Negotiable certificates of deposits	N/A	more than 3 years	1,007,357	-	1,007,357
Total Investments			\$ 4,572,316	\$ 2,117,807	\$ 2,196,353

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

Note: The City has no level 3 investments.

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

- *Credit Risk.* The credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments to the list on page 49 of the notes.
- *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 that are in the possession of an outside party. Generally, the City limits its securities purchases to those insured and registered under the City's name.
- *Concentration of Credit Risk.* The concentration of credit risk for investments is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City has invested more than 5 percent of investments in AMEX Centurion CD (10 percent), Sallie Mae Bank CD (10 percent), Capital One Mclean CD (9.9 percent), Wells Fargo Sioux Falls CD (8.5 percent), Discover Bank CD (9.7 percent), Goldman Sachs CD (10 percent), CIT SLC Bank CD (10.1 percent), Capital One Glen Allen Bank CD (9.7 percent) and Comenity Bank (8 percent).
- *Interest Rate Risk.* The interest rate risk for investments is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City does not currently have a formal investment policy that addresses the above mentioned risks.

City of Centerville, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

A reconciliation of cash and temporary investments as shown on the statement of net position for the City follows:

	<u>Total</u>
Carrying Amount of Deposits	\$ 4,365,382
Investments	4,572,316
Petty Cash	<u>200</u>
 Total	 <u>\$ 8,937,898</u>
 Government-wide	
Cash and temporary investments	\$ 6,820,091
Cash with fiscal agent	<u>2,117,807</u>
	 <u>\$ 8,937,898</u>

B. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets not being Depreciated				
Land	<u>\$ 3,128,823</u>	\$ -	\$ -	<u>\$ 3,128,823</u>
Capital Assets being Depreciated				
Buildings	1,627,438	-	-	1,627,438
Infrastructure	17,703,791	176,187	-	17,879,978
Machinery and equipment	<u>750,428</u>	<u>40,870</u>	-	<u>791,298</u>
Total Capital Assets being Depreciated	<u>20,081,657</u>	<u>217,057</u>	-	<u>20,298,714</u>
Less Accumulated Depreciation for				
Buildings	(839,472)	-	-	(839,472)
Infrastructure	(7,768,754)	(981,574)	-	(8,750,328)
Machinery and equipment	<u>(562,120)</u>	<u>(26,507)</u>	-	<u>(588,627)</u>
Total Accumulated Depreciation	<u>(9,170,346)</u>	<u>(1,008,081)</u>	-	<u>(10,178,427)</u>
Total Capital Assets being Depreciated, Net	<u>10,911,311</u>	<u>(791,024)</u>	-	<u>10,120,287</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 14,040,134</u>	<u>\$ (791,024)</u>	<u>\$ -</u>	<u>\$ 13,249,110</u>

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

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

Governmental Activities

General government	\$ 16,514
Public safety	2,339
Public works	886,542
Culture and recreation	<u>102,686</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 1,008,081</u>

Capital asset activity for the business-type activities for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Land	\$ 200,655	\$ -	\$ -	\$ 200,655
Capital Assets being Depreciated				
Buildings	414,000	-	-	414,000
Infrastructure	10,233,295	-	-	10,233,295
Machinery and equipment	366,109	-	-	366,109
Total Capital Assets being Depreciated	<u>11,013,404</u>	<u>-</u>	<u>-</u>	<u>11,013,404</u>
Less Accumulated Depreciation for				
Buildings	(73,830)	(8,280)	-	(82,110)
Infrastructure	(4,435,819)	(326,336)	-	(4,762,155)
Machinery and equipment	(341,512)	(12,360)	-	(353,872)
Total Accumulated Depreciation	<u>(4,851,161)</u>	<u>(346,976)</u>	<u>-</u>	<u>(5,198,137)</u>
Total Capital Assets being Depreciated, Net	<u>6,162,243</u>	<u>(346,976)</u>	<u>-</u>	<u>5,815,267</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 6,362,898</u>	<u>\$ (346,976)</u>	<u>\$ -</u>	<u>\$ 6,015,922</u>

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type Activities

Water	\$ 205,919
Sewer	104,446
Storm water	<u>36,611</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 346,976</u>

C. Interfund Balances and Transfers

The composition of internal balance as of December 31, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other Funds		
Water	Nonmajor Governmental funds	\$ 100,000
Advance to/from other Funds		
Sewer	Park	<u>1,193,967</u>
Total of Interfund Balances		<u>\$ 1,293,967</u>

The above interfund advance and the amount due to/from other funds are being paid back according to the amortization schedules.

Interfund Transfers

A transfer of \$250,000 was made from the General fund to the nonmajor governmental funds for future capital projects and replacement of equipment, vehicles, and computers.

City of Centerville, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

D. 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 governmental activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

General Obligation Improvement Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments collections and tax levies.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2009A	\$ 3,715,000	2.65 - 5.60 %	08/19/09	02/01/18	\$ 2,390,000
G.O. Improvement Bonds of 2011A	2,760,000	.70 - 2.45	04/14/11	07/01/19	750,000
G.O. Improvement Refunding Bonds of 2012A	515,000	1.00 - 1.70	06/14/12	02/01/21	200,000
G.O. Improvement Bonds of 2013A	1,465,000	1.63 - 3.00	06/01/13	02/01/29	1,465,000
G.O. Improvement Refunding Bonds of 2015A	1,385,000	.85 - 2.25	01/15/15	02/01/25	1,340,000
G.O. Improvement Crossover Refunding Bonds of 2016A	1,815,000	1.15 - 1.80	07/01/16	02/01/25	<u>1,815,000</u>
Total General Obligation Improvement Bonds					<u>\$ 7,960,000</u>

The G.O. Improvement and Refunding Bonds, Series 2012A were issued by the City of Circle Pines, refunding the Capital Improvement Plan Bonds of 2005A. The 2005A issue was for the construction of a police station per the joint powers agreement in Note 5. The \$200,000 represents the City of Centerville's remaining portion of the 2012A issue.

City of Centerville, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Annual debt service requirements for general obligation improvement bonds are as follows:

Year Ending <u>December 31,</u>	General Obligation Improvement Bonds		
	Governmental Activities		
	Principal	Interest	Total
2018	\$ 2,875,000	\$ 224,724	\$ 3,099,724
2019	920,000	198,581	1,118,581
2020	470,000	80,348	550,348
2021	605,000	71,906	676,906
2022	605,000	61,459	666,459
2023-2027	2,165,000	142,188	2,307,188
2028-2029	320,000	9,300	329,300
Total	<u>\$ 7,960,000</u>	<u>\$ 788,506</u>	<u>\$ 8,748,506</u>

General Obligation Capital Notes

The City issues general obligation capital note to provide funds for the acquisition capital equipment. General obligation capital notes have been issued for governmental activities.

General obligation capital notes are direct obligations and pledge the full faith and credit of the City. General obligation capital notes currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Capital Notes					
2016A	\$ 59,619	2.00 %	04/14/16	02/01/26	<u>\$ 59,619</u>

Annual debt service requirements for general obligation improvement bonds are as follows:

Year Ending <u>December 31,</u>	General Obligation Capital Notes		
	Governmental Activities		
	Principal	Interest	Total
2018	\$ 6,179	\$ 1,131	\$ 7,310
2019	6,179	1,007	7,186
2020	6,346	882	7,228
2021	6,513	753	7,266
2022	6,680	621	7,301
2023-2026	<u>27,722</u>	<u>1,197</u>	<u>28,919</u>
Total	<u>\$ 59,619</u>	<u>\$ 5,592</u>	<u>\$ 65,211</u>

City of Centerville, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

During the year ended December 31, 2017, the following changes occurred in noncurrent liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
G.O Bonds	\$ 8,705,000	\$ -	\$ (745,000)	\$ 7,960,000	\$ 2,875,000
G.O. Capital Notes	59,619	-	-	59,619	6,179
Compensated Absences					
Payable	42,012	38,764	(42,012)	38,764	38,764
Pension Liability					
GERF	491,489	25,864	(149,658)	367,695	-
Governmental Activities					
Long-term Liabilities	<u>\$ 9,298,120</u>	<u>\$ 64,628</u>	<u>\$ (936,670)</u>	<u>\$ 8,426,078</u>	<u>\$ 2,919,943</u>
Business-type Activities					
Compensated Absences					
Payable	\$ 15,227	\$ 16,098	\$ (15,227)	\$ 16,098	\$ 16,098
Pension Liability					
GERF	190,549	9,536	(44,297)	155,788	-
Business-type Activities					
Long-term Liabilities	<u>\$ 205,776</u>	<u>\$ 25,634</u>	<u>\$ (59,524)</u>	<u>\$ 171,886</u>	<u>\$ 16,098</u>

Crossover Refunding Bond

On July 1, 2016 the City issued \$1,815,000 General Obligation Crossover Refunding Bonds, Series 2016A. The bonds bear an average coupon rate of 1.71 percent and the entire amount was used to refund the 2019 - 2025 principal maturities of the 2009A bonds. As a result of the refunding issue, the City saved \$141,720 in debt service payments and achieved an economic gain (the present value of the difference between the old and the new debt service) of \$108,761.

City of Centerville, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

E. Fund Equity

At December 31, 2017, portions of the City's fund balance are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted), policy and/or intent (Assigned). The following is a summary of the components of fund balance:

	General	Debt Service	Park	Other Governmental Funds	Total
Nonspendable					
Prepaid items	\$ 1,081	\$ 23,557	\$ -	\$ -	\$ 24,638
Restricted for					
Debt service	-	2,973,888	-	-	2,973,888
Cable TV	-	-	-	46,672	46,672
Assigned for					
Street projects	-	-	-	203,183	203,183
Capital equipment	-	-	-	158,473	158,473
Trail projects	-	-	-	12,377	12,377
Unassigned	1,528,869	-	(1,142,304)	-	386,565
Total	\$ 1,529,950	\$ 2,997,445	\$ (1,142,304)	\$ 420,705	\$ 3,805,796

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

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

General Employees Retirement Fund (GERF)

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

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota 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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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.

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

GERF Benefits

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

C. Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City's contributions to the GERF for the years ending December 31, 2017, 2016 and 2015 were \$38,001, \$38,675 and \$37,110, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

D. Pension Costs

GERF Pension Costs

At December 31, 2017, the City reported a liability of \$523,483 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$6,573. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportionate share was 0.0082 percent which was a decrease of 0.0002 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$52,315 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$190 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

At December 31, 2017, the City reported its proportionate share of GERV's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 17,236	\$ 33,883
Changes in Actuarial Assumptions	86,801	52,479
Net Difference between Projected and Actual Earnings on Plan Investments	-	22,159
Changes in Proportion	2,766	22,671
Contributions to GERV Subsequent to the Measurement Date	<u>18,097</u>	-
 Total	 <u>\$ 124,900</u>	 <u>\$ 131,192</u>

Deferred outflows of resources totaling \$18,097 related to pensions resulting from the City's contributions to GERV subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERV pensions will be recognized in pension expense as follows:

2018	\$ (18,316)
2019	28,970
2020	(12,816)
2021	(22,227)

E. 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 all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for the GERV through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERV was completed in 2015.

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

The following changes in actuarial assumptions occurred in 2017:

GERF

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	39.00	5.10 %
International Stocks	19.00	5.30
Bonds	20.00	0.75
Alternative Assets	20.00	5.90
Cash	2.00	-
Total	<u>100.00</u>	<u>%</u>

F. Discount Rate

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

City of Centerville, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

G. Pension Liability Sensitivity

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

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
	\$	\$	\$
GERF	811,960	523,483	287,311

H. Pension Plan Fiduciary Net Position

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

Note 5: Joint Powers Agreements

A. Centennial Fire District

The Centennial Fire District (the District) was formed under the authority of Minnesota statutes 471.59 in 1985 by agreement of the member cities of Centerville, and Circle Pines. The district was created to provide fire protection services to the residents of the member cities. The District is managed through a three tier system consisting of a Fire Chief, a Steering Committee, and the City Councils of the member cities. The Fire Chief is an appointed position. Each member city appoints two commissioners. One of these commissioners must be an elected official of the City. Each member city contributes funds to cover the budgeted costs of operations as determined by the commissioners. The amount of contributions required by each member is based on each city's population, number of fire calls, and assessed valuations. Contributions made by member cities for 2017, were as follows:

City of Centerville	\$ 269,969	45.00 %
City of Circle Pines	<u>329,962</u>	<u>55.00</u>
Total	\$ 599,931	100.00 %

Volunteer firefighters of the District are members of the Centennial Firefighter's Relief Association (the Association). The Association is a single-employer pension plan (the Plan) that operates under the provisions of Minnesota statutes 69 and 424, as amended. It is governed by a board of six officers and trustees elected by the members of the Association for three-year terms. The ex-officio, non-voting members of the Board of trustees are two representatives from the Centennial Fire Steering Committee and the Fire Chief of the District.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Centennial Fire District 7741 Lake Drive, Lino Lakes, MN 55014.

City of Centerville, Minnesota
 Notes to the Financial Statements
 December 31, 2017

Note 5: Joint Powers Agreements (Continued)

B. Centennial Lakes Police Department

The Centennial Lakes Police Department (the Department) was formed under the authority if Minnesota statutes 436.06 in 2005 by agreement of the member cities of Centerville, Circle Pines and Lexington. The Department was created to provide police protection services to its member cities. The Department is managed through a three tier system consisting of a Governing Board, an Operations committee, and a Chief of Police. The Governing Board consists of six members, two elected officials appointed by each member city. The Operations Committee is made up of the City administrators from each member city and the Chief of Police. The Chief of Police is appointed by mutual agreement of the City Councils of all member cities. Annual contributions required by each member city are calculated based on complaint history, population, and staffing formulas. Contributions made by member cities for 2017 were as follows:

City of Centerville	\$ 875,154	33.76	%
City of Circle Pines	980,270	37.82	
City of Lexington	<u>736,697</u>	<u>28.42</u>	
 Total	 <u>\$ 2,592,121</u>	 <u>100.00</u>	%

C. Summary Financial Information of the Joint Powers Agreements Entities

The contribution to the joint fire district and the joint police commission are reflected as expenditures in the City's General fund. The fire district and police commission's assets, liabilities, equity and operations are excluded from the City's financial statements as further explained in note 1A.

The following information is from the financial statements of the District and the Department as of December 31, 2017, the most recent audited information available at the time of this report. The amounts reported for the District are those presented in its government-wide financial statements. These financial statements are available for viewing at the Centerville City hall.

	Centennial Centennial Fire District	Lakes Police Department
Total Assets and Deferred Outflows of Resources	\$ 2,663,432	\$ 3,587,470
Total Liabilities and Deferred Inflows of Resources	1,065,766	5,380,987
Total Net Position	1,597,666	(1,793,517)
Total Revenue	842,829	2,655,150
Total Expenses	898,734	2,613,912

Volunteer firefighters of the District are members of the Centennial Firefighter's Relief Association (the Association). The Association is a single-employer pension plan (the Plan) that operates under the provisions of Minnesota statutes 69 and 424, as amended. It is governed by a board of six officers and trustees elected by the members of the Association for three-year terms. The ex-officio, non-voting members of the Board of trustees are two representatives from the Centennial Fire Steering Committee and the Fire Chief of the District.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Centennial Fire District 7741 Lake Drive, Lino Lakes, MN 55014.

D. North Metro Telecommunications Commission

The general purpose of the Commission is to award, administer and enforce a cable communications franchise in member municipalities. The member Cities included the City of Blaine, Centerville, Circle Pines, Ham Lake, Lexington, Lino Lakes, and Spring Lake Park. Each member has a representative on the Commissions Board.

City of Centerville, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 6: Other Information

A. 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. The 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 reinsurance 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.

B. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and, therefore, excludes debt financed partially or entirely by special assessments, Enterprise fund revenues or tax increments. As of December 31, 2017, the City is under the legal debt margin.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CENTERVILLE
CENTERVILLE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Centerville, Minnesota
Required Supplementary Information
December 31, 2017

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Retirement Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	Share of the Net Pension Liability (a)	City's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	City's Covered-Employee Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll ((a+b)/c)	City's Proportionate Share of the Net Pension Liability as a Percentage of the Total Pension Liability ((a+b)/c)	Plan Fiduciary Net Position
									Plan Fiduciary Net Position
06/30/17	0.0082 %	\$ 523,483	\$ 6,573	\$ 530,056	\$ 527,475	100.5 %			75.9 %
06/30/16	0.0084	682,038	8,898	690,936	519,227	133.1			68.9
06/30/15	0.0083	430,149	-	430,149	485,521	88.6			78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - General Employees Retirement Fund

Year Ending	Contributions in Relation to the Statutorily Required Contribution			Contribution Deficiency (Excess) (a-b)	City's Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
	Statutorily Required Contribution (a)	Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
12/31/17	\$ 38,001	\$ 38,001	\$ -	\$ 506,678	7.5 %	
12/31/16	38,675	38,675	-	515,669	7.5	
12/31/15	37,110	37,110	-	494,796	7.5	

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Centerville, Minnesota
Required Supplementary Information (Continued)
December 31, 2017

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. 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 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2015 - 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.

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF CENTERVILLE
CENTERVILLE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Centerville, Minnesota
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2017

	Special Revenue Fund	Capital Project Funds				Total Nonmajor Governmental Funds
		614	414	409	452	
		Cable T.V.	Pedestrian Trail Ways	Capital Equipment Revolving	2013 Street Project	
Assets						
Cash and temporary investments	\$ 32,922	\$ 12,360	158,257	\$ 273,735	\$ 477,274	
Receivables						
Accrued interest	45	17	216	356	634	
Accounts	-	-	-	38,981	38,981	
Special assessments	-	-	-	29,846	29,846	
Due from other governments	13,941	-	-	-	13,941	
Total Assets	\$ 46,908	\$ 12,377	\$ 158,473	\$ 342,918	\$ 560,676	
Liabilities						
Accrued salaries payable	\$ 236	\$ -	\$ -	\$ -	\$ 236	
Due to other funds	-	-	-	100,000	100,000	
Due to other governments	-	-	-	10,000	10,000	
Total Liabilities	236	-	-	110,000	110,236	
Deferred Inflows of Resources						
Unavailable revenue - special assessments	-	-	-	29,735	29,735	
Fund Balances						
Restricted for						
Cable TV	46,672	-	-	-	-	46,672
Assigned for						
Street projects	-	-	-	203,183	203,183	
Capital equipment	-	-	158,473	-	158,473	
Trail projects	-	12,377	-	-	-	12,377
Total Fund Balances	46,672	12,377	158,473	203,183	420,705	
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 46,908	\$ 12,377	\$ 158,473	\$ 342,918	\$ 560,676	

City of Centerville, Minnesota
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31, 2017

	Special Revenue Fund	Capital Project Funds				Total Nonmajor Governmental Funds
		614	414	409	452	
		Cable T.V.	Pedestrian Trail Ways	Capital Equipment Revolving	2013 Street Project	
Revenues						
Franchise taxes	\$ -	\$ -	\$ -	\$ -	\$ 158,952	\$ 158,952
Intergovernmental	-	30	-	-	26,863	26,893
Charges for services	-	-	-	-	8,366	8,366
Special assessments	-	-	-	-	47,226	47,226
Interest on investments	304	59	976	-	1,267	2,606
Miscellaneous						
Refunds and reimbursements	16,196	-	-	-	1,000	17,196
Total Revenues	<u>16,500</u>	<u>89</u>	<u>976</u>	<u>-</u>	<u>243,674</u>	<u>261,239</u>
Expenditures						
Current						
Culture and recreation						
Personal services	4,008	-	-	-	-	4,008
Supplies	192	-	-	-	-	192
Other services and charges	66	-	-	-	-	66
Capital outlay						
General government	-	-	2,065	-	-	2,065
Public works	-	-	-	-	176,187	176,187
Total Expenditures	<u>4,266</u>	<u>-</u>	<u>2,065</u>	<u>-</u>	<u>176,187</u>	<u>182,518</u>
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	12,234	89	(1,089)	67,487	78,721	
Other Financing Sources						
Transfers in	-	-	50,000	200,000	250,000	
Net Change in Fund Balances	12,234	89	48,911	267,487	328,721	
Fund Balances, January 1	34,438	12,288	109,562	(64,304)	91,984	
Fund Balances, December 31	\$ 46,672	\$ 12,377	\$ 158,473	\$ 203,183	\$ 420,705	

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City of Centerville, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued on the Following Pages)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017			2016	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
General property	\$ 2,158,621	\$ 2,158,621	\$ 2,174,244	\$ 15,623	\$ 1,981,690
Gambling	4,000	4,000	10,631	6,631	9,170
Total taxes	2,162,621	2,162,621	2,184,875	22,254	1,990,860
Licenses and permits					
Business	18,000	18,000	27,395	9,395	14,543
Nonbusiness	106,800	106,800	323,600	216,800	202,026
Total licenses and permits	124,800	124,800	350,995	226,195	216,569
Intergovernmental					
State					
Local government aid	63,869	63,869	63,869	-	63,303
Market value agricultural credit	100	100	216	116	206
PERA aid	11,333	11,333	12,310	977	1,333
Police aid	40,000	40,000	42,054	2,054	41,792
Fire aid	156,000	156,000	46,200	(109,800)	159,282
County - other	18,000	18,000	26,933	8,933	29,909
Total intergovernmental	289,302	289,302	191,582	(97,720)	295,825
Charges for services					
General government	1,800	1,800	4,910	3,110	9,190
Culture and recreation	3,600	3,600	2,740	(860)	3,000
Other	100	100	42	(58)	14
Total charges for services	5,500	5,500	7,692	2,192	12,204
Fines and forfeitures	28,000	28,000	18,068	(9,932)	24,042
Special assessments	200	200	-	(200)	786
Interest on investments	13,000	13,000	5,291	(7,709)	10,764
Miscellaneous					
Refunds and reimbursements	6,000	6,000	33,960	27,960	13,196
Other	1,000	1,000	7,185	6,185	18,738
Total miscellaneous	7,000	7,000	41,145	34,145	31,934
Total Revenues	2,630,423	2,630,423	2,799,648	169,225	2,582,984

City of Centerville, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

Expenditures	2017				2016	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget		
	Original	Final				
Current						
General government						
Mayor and Council						
Personal services	\$ 30,100	\$ 30,100	\$ 30,092	\$ 8	\$ 30,103	
Supplies	1,000	1,000	1,577	(577)	30	
Other services and charges						
Total mayor and council	<u>31,100</u>	<u>31,100</u>	<u>31,669</u>	<u>(569)</u>	<u>30,133</u>	
Elections						
Personal services	-	-	-	-	4,883	
Supplies	-	-	180	(180)	179	
Other services and charges	500	500	-	500	861	
Total elections	<u>500</u>	<u>500</u>	<u>180</u>	<u>320</u>	<u>5,923</u>	
Planning and zoning						
Other services and charges	<u>15,200</u>	<u>15,200</u>	<u>3,311</u>	<u>11,889</u>	<u>2,295</u>	
Administration						
Personal services	241,300	241,300	235,243	6,057	212,767	
Supplies	2,500	2,500	3,769	(1,269)	2,168	
Other services and charges	54,200	54,200	76,353	(22,153)	55,576	
Total administration	<u>298,000</u>	<u>298,000</u>	<u>315,365</u>	<u>(17,365)</u>	<u>270,511</u>	
Assessing						
Other services and charges	<u>16,000</u>	<u>16,000</u>	<u>16,126</u>	<u>(126)</u>	<u>16,098</u>	
Legal and auditing						
Other services and charges	<u>103,000</u>	<u>103,000</u>	<u>106,607</u>	<u>(3,607)</u>	<u>97,160</u>	
General government building						
Personal services	3,000	3,000	901	2,099	1,157	
Supplies	400	400	339	61	201	
Other services and charges	14,200	14,200	15,389	(1,189)	13,901	
Total general government building	<u>17,600</u>	<u>17,600</u>	<u>16,629</u>	<u>971</u>	<u>15,259</u>	
Total general government	<u>481,400</u>	<u>481,400</u>	<u>489,887</u>	<u>(8,487)</u>	<u>437,379</u>	

City of Centerville, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017			2016				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts			
	Original	Final						
Expenditures (Continued)								
Current (continued)								
Public safety								
Police protection								
Other services and charges	\$ 878,254	\$ 878,254	\$ 875,604	\$ 2,650	\$ 812,461			
Fire protection								
Remittance to relief association	156,000	156,000	47,200	108,800	158,282			
Other services and charges	270,269	270,269	270,443	(174)	212,418			
Total fire protection	<u>426,269</u>	<u>426,269</u>	<u>317,643</u>	<u>108,626</u>	<u>370,700</u>			
Building inspection								
Personal services	114,000	114,000	117,977	(3,977)	108,930			
Supplies	3,200	3,200	2,013	1,187	1,895			
Other services and charges	11,750	11,750	9,758	1,992	8,912			
Total building inspection	<u>128,950</u>	<u>128,950</u>	<u>129,748</u>	<u>(798)</u>	<u>119,737</u>			
Civil defense								
Other services and charges	1,500	1,500	1,054	446	1,793			
Total public safety	<u>1,434,973</u>	<u>1,434,973</u>	<u>1,324,049</u>	<u>110,924</u>	<u>1,304,691</u>			
Public works								
Streets								
Personal services	149,400	149,400	146,205	3,195	143,905			
Supplies	34,300	34,300	17,015	17,285	17,537			
Other services and charges	103,600	103,600	103,155	445	101,360			
Total streets	<u>287,300</u>	<u>287,300</u>	<u>266,375</u>	<u>20,925</u>	<u>262,802</u>			
Recycling								
Personal services	9,400	9,400	15,408	(6,008)	15,845			
Supplies	100	100	47	53	-			
Other services and charges	7,900	7,900	11,792	(3,892)	6,500			
Total recycling	<u>17,400</u>	<u>17,400</u>	<u>27,247</u>	<u>(9,847)</u>	<u>22,345</u>			

City of Centerville, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017			2016	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Public works (continued)					
Engineering services					
Other services and charges	\$ 20,000	\$ 20,000	\$ 36,072	\$ (16,072)	\$ 42,521
Total public works	<u>324,700</u>	<u>324,700</u>	<u>329,694</u>	<u>(4,994)</u>	<u>327,668</u>
Culture and recreation					
Parks and recreation					
Personal services	41,500	41,500	38,927	2,573	34,164
Supplies	3,800	3,800	7,154	(3,354)	5,780
Other services and charges	48,200	48,200	85,835	(37,635)	73,215
Total parks and recreation	<u>93,500</u>	<u>93,500</u>	<u>131,916</u>	<u>(38,416)</u>	<u>113,159</u>
City Festival					
Other services and charges	5,850	5,850	11,397	(5,547)	7,934
Total culture and recreation	<u>99,350</u>	<u>99,350</u>	<u>143,313</u>	<u>(43,963)</u>	<u>121,093</u>
Economic development					
Other services and charges	-	-	1,314	(1,314)	50
Total current	2,340,423	2,340,423	2,288,257	52,166	2,190,881
Capital outlay					
General government	-	-	41,749	(41,749)	860
Total Expenditures	<u>2,340,423</u>	<u>2,340,423</u>	<u>2,330,006</u>	<u>10,417</u>	<u>2,191,741</u>

City of Centerville, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget		
	Original	Final				
Excess of Revenues Over Expenditures	\$ 290,000	\$ 290,000	\$ 469,642	\$ 179,642	\$ 391,243	
Other Financing Uses Transfers out	<u>(290,000)</u>	<u>(290,000)</u>	<u>(250,000)</u>	<u>40,000</u>	<u>(250,000)</u>	
Net Change in Fund Balances	-	-	219,642	219,642	141,243	
Fund Balances, January 1	<u>1,310,308</u>	<u>1,310,308</u>	<u>1,310,308</u>	<u>-</u>	<u>1,169,065</u>	
Fund Balances, December 31	<u><u>\$ 1,310,308</u></u>	<u><u>\$ 1,310,308</u></u>	<u><u>\$ 1,529,950</u></u>	<u><u>\$ 219,642</u></u>	<u><u>\$ 1,310,308</u></u>	

City of Centerville, Minnesota

Debt Service Funds
Combining Balance Sheet
December 31, 2017

	302 2016 G.O. Capital Notes 2016A	309 Joint Police Station 2012A	348 G.O. Improvement Bonds of 2015A
Assets			
Cash and temporary investments	\$ -	\$ 65,528	\$ 25,801
Cash with fiscal agent	-	-	-
Receivables			
Accrued interest	-	90	35
Taxes	-	160	-
Special assessments	-	-	28,107
Prepaid items	<u>14,754</u>	-	-
Total Assets	<u>\$ 14,754</u>	<u>\$ 65,778</u>	<u>\$ 53,943</u>
Deferred Inflows of Resources			
Unavailable revenue - special assessments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,107</u>
Fund Balances			
Nonspendable	14,754	-	-
Restricted for debt service	-	65,778	25,836
Total Fund Balances	<u>14,754</u>	<u>65,778</u>	<u>25,836</u>
Total Deferred Inflows of Resources and Fund Balances	<u>\$ 14,754</u>	<u>\$ 65,778</u>	<u>\$ 53,943</u>

349 G.O. Improvement Bonds of 2007A	351 G.O. Improvement Bonds of 2009A/2016A	352 G.O. Improvement Bonds of 2013A		
				Total
\$ 241,601	\$ 438,550	\$ 82,012	\$ 853,492	
-	2,117,807	-	2,117,807	
403	599	108	1,235	
626	527	41	1,354	
184,686	394,623	149,013	756,429	
8,803	-	-	23,557	
\$ 436,119	\$ 2,952,106	\$ 231,174	\$ 3,753,874	
\$ 184,686	\$ 394,623	\$ 149,013	\$ 756,429	
8,803	-	-	23,557	
242,630	2,557,483	82,161	2,973,888	
251,433	2,557,483	82,161	2,997,445	
\$ 436,119	\$ 2,952,106	\$ 231,174	\$ 3,753,874	

City of Centerville, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31, 2017

	302 2016 G.O. Capital Notes 2016A	309 Joint Police Station 2012A	348 G.O. Improvement Bonds of 2015A
Revenues			
Property taxes	\$ -	\$ 67,574	\$ -
Intergovernmental	- -	- -	- -
Special assessments	- -	- -	4,990
Interest on investments	- -	310	56
Miscellaneous	7,610	- -	- -
Total Revenues	7,610	67,884	5,046
Expenditures			
Debt service			
Principal	- -	65,000	25,000
Interest and other	1,547	4,083	23,301
Total Expenditures	1,547	69,083	48,301
Net Change in Fund Balances	6,063	(1,199)	(43,255)
Fund Balances, January 1	8,691	66,977	69,091
Fund Balances, December 31	\$ 14,754	\$ 65,778	\$ 25,836

349 G.O. Improvement Bonds of 2007A	351 G.O. Improvement Bonds of 2009A/2016A	352 G.O. Improvement Bonds of 2013A	Total
\$ 263,538	\$ 198,411	\$ 17,324	\$ 546,847
-	41,497	-	41,497
75,558	103,906	35,805	220,259
657	15,999	271	17,293
-	-	-	7,610
339,753	359,813	53,400	833,506

375,000	270,000	10,000	745,000
25,600	160,856	37,270	252,657
400,600	430,856	47,270	997,657
(60,847)	(71,043)	6,130	(164,151)
312,280	2,628,526	76,031	3,161,596
\$ 251,433	\$ 2,557,483	\$ 82,161	\$ 2,997,445

City of Centerville, Minnesota

Summary Financial Report

**Revenues and Expenditures For General Operations
Governmental Funds**

For the Years Ended December 31, 2017 and 2016

	Total		Percent Increase (Decrease)	
	2017	2016		
Revenues				
Taxes	\$ 2,890,674	\$ 2,681,720	7.79	%
Licenses and permits	350,995	216,569	62.07	
Intergovernmental	259,972	362,550	(28.29)	
Charges for services	16,058	22,801	(29.57)	
Fines and forfeitures	18,068	24,042	(24.85)	
Special assessments	267,485	312,357	(14.37)	
Interest on investments	25,511	22,409	13.84	
Miscellaneous	<u>73,951</u>	<u>52,499</u>	40.86	
 Total Revenues	 <u>\$ 3,902,714</u>	 <u>\$ 3,694,947</u>	 5.62	 %
Per Capita	<u>\$ 986</u>	<u>\$ 923</u>	6.88	%
 Expenditures				
Current				
General government	\$ 489,887	\$ 437,379	12.01	%
Public safety	1,324,049	1,304,691	1.48	
Public works	329,694	327,668	0.62	
Culture and recreation	147,579	125,755	17.35	
Economic development	1,314	50	2,528.00	
Capital outlay				
General government	43,814	4,636	845.08	
Public works	176,187	308,305	(42.85)	
Culture and recreation	-	59,619	(100.00)	
Debt service				
Principal	745,000	725,000	2.76	
Interest and other	270,302	270,012	0.11	
Bond issuance costs	<u>-</u>	<u>853</u>	<u>(100.00)</u>	
 Total Expenditures	 <u>\$ 3,527,826</u>	 <u>\$ 3,563,968</u>	 (1.01)	 %
Per Capita	<u>\$ 891</u>	<u>\$ 890</u>	0.16	%
 Total Long-term Indebtedness	 \$ 8,019,619	 \$ 8,764,619	 (8.50)	 %
Per Capita	 2,026	 2,188	 (7.41)	
 General Fund Balance - December 31	 \$ 1,529,950	 \$ 1,310,308	 16.76	 %
Per Capita	 387	 327	 18.15	

The purpose of this report is to provide a summary of financial information concerning the City of Centerville to interested citizens. The complete financial statements may be examined at City Hall, 1880 Main Street, Centerville, MN 55038. Questions about this report should be directed to City Hall at (651) 429-3232.

OTHER REQUIRED REPORT

CITY OF CENTERVILLE
CENTERVILLE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Centerville, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Centerville, Minnesota (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated June 8, 2018.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the City has not established a tax increment financing district.

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
June 8, 2018