

CITY OF RANIER, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019

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YEAR ENDED DECEMBER 31, 2019**

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INTRODUCTORY SECTION

**CITY OF RANIER, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2019**

| ELECTED | NAME | TERM EXPIRES |
|----------------|---------------|---------------------|
| Mayor | Dennis Wagner | 12/31/2020 |
| City Council | Todd Coulombe | 12/31/2020 |
| City Council | Bob Dunbar | 12/31/2020 |
| City Council | Ron Wilcox | 12/31/2022 |
| City Council | JoAnn Kellner | 12/31/2022 |

APPOINTED

| | | |
|--------------------|-------------------|------------|
| City Administrator | Sherril Gautreaux | Indefinite |
|--------------------|-------------------|------------|

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Ranier
Ranier, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Honorable Mayor and
Members of the City Council
City of Ranier

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

Opinion

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, and each major fund of the City of Ranier as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule – general fund, schedule of the city’s proportionate share of the net pension liability, and schedule of city contributions, 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.

Management has omitted the Management Discussion and Analysis section that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ranier’s basic financial statements. The balance sheets – water and sewer utility enterprise fund, statements of revenues, expenses and changes in net position – water and sewer utility enterprise fund, balance sheets – liquor store fund, and statements of revenues, expenses and changes in net position – liquor store fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor and
Members of the City Council
City of Ranier

The balance sheets – water and sewer utility enterprise fund, statements of revenues, expenses and changes in net position – water and sewer utility enterprise fund, balance sheets – liquor store fund, and statements of revenues, expenses and changes in net position – liquor store fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the City's basic financial statements for the year ended December 31, 2018 which are not presented with the accompanying financial statements. In our report dated April 2, 2019, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, and each major fund. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The 2018 individual fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the 2018 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 2018 individual fund statements are fairly stated in all material respects in relation to the basic financial statements from which they were derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2020, on our consideration of the City of Ranier's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ranier's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
February 20, 2020

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BASIC FINANCIAL STATEMENTS

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**CITY OF RANIER, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

| | Primary Government | | |
|--|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Cash and Pooled Investments | \$ 486,565 | \$ 190,244 | \$ 676,809 |
| Taxes Receivable: | | | |
| Delinquent | 11,606 | - | 11,606 |
| Special Assessments Receivable: | | | |
| Noncurrent | 125,233 | - | 125,233 |
| Accounts Receivable - Net | 275 | 39,670 | 39,945 |
| Inventories | - | 17,296 | 17,296 |
| Prepaid Items | 1,968 | 2,053 | 4,021 |
| Capital Assets Not Being Depreciated: | | | |
| Land | - | 976 | 976 |
| Construction-in-Progress | 290,297 | - | 290,297 |
| Capital Assets Being Depreciated: | | | |
| Buildings | 347,238 | 285,951 | 633,189 |
| Infrastructure | - | 2,950,342 | 2,950,342 |
| Machinery and Equipment | 72,619 | 32,668 | 105,287 |
| Accumulated Depreciation | (201,567) | (1,453,372) | (1,654,939) |
| Total Assets | <u>1,134,234</u> | <u>2,065,828</u> | <u>3,200,062</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension Related | 9,236 | 10,894 | 20,130 |
| LIABILITIES | | | |
| Accounts Payable | 29,068 | 29,006 | 58,074 |
| Retainage Payable | 11,474 | - | 11,474 |
| Accrued Interest Payable | 9,665 | 33,900 | 43,565 |
| Unearned Revenue | 11,000 | 6,011 | 17,011 |
| Bonds Payable - Due Within One Year | 63,000 | 21,000 | 84,000 |
| Capital Leases Payable - Due Within One Year | 7,573 | - | 7,573 |
| Compensated Absences Payable - Due Within One Year | 916 | 741 | 1,657 |
| Net Pension Liability - Due in More Than One Year | 78,651 | 92,741 | 171,392 |
| Bonds Payable - Due in More Than One Year | 644,059 | 1,088,000 | 1,732,059 |
| Capital Leases Payable - Due in More Than One Year | 32,953 | - | 32,953 |
| Compensated Absences Payable - Due in More Than One Year | 6,445 | 7,996 | 14,441 |
| Total Liabilities | <u>894,804</u> | <u>1,279,395</u> | <u>2,174,199</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension Related | 21,179 | 24,972 | 46,151 |
| NET POSITION | | | |
| Net Investment in Capital Assets | (104,414) | 707,567 | 603,153 |
| Restricted for: | | | |
| Debt Service | 225,578 | - | 225,578 |
| Unrestricted | 106,323 | 64,788 | 171,111 |
| Total Net Position | <u>\$ 227,487</u> | <u>\$ 772,355</u> | <u>\$ 999,842</u> |

See accompanying Notes to Financial Statements.

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

| <u>Functions/Programs</u> | <u>Program Revenues</u> | | | |
|--------------------------------|-------------------------|--|---|---|
| | <u>Expenses</u> | <u>Fees, Charges, Fines, and Other</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General Government | \$ 221,230 | \$ 13,947 | \$ 11,139 | \$ - |
| Public Safety | 31,000 | - | 2,290 | - |
| Streets and Highways | 62,624 | - | - | - |
| Culture and Recreation | 75,641 | - | 25,323 | - |
| Economic Development | 6,775 | - | 23,441 | - |
| Interest | 28,097 | 14,796 | - | - |
| Total Governmental Activities | 425,367 | 28,743 | 62,193 | - |
| Business-Type Activities: | | | | |
| Liquor Store | 356,801 | 405,655 | - | - |
| Water | 370,315 | 335,661 | - | - |
| Total Business-Type Activities | 727,116 | 741,316 | - | - |
| Total Primary Government | <u>\$ 1,152,483</u> | <u>\$ 770,059</u> | <u>\$ 62,193</u> | <u>\$ -</u> |

General Revenues:

Property Taxes
Franchise Taxes
Grants and Contributions Not Restricted for a Particular Purpose
Investment Earnings
Miscellaneous
Transfers

Total General Revenues and Transfers

CHANGES IN NET POSITION

Net Position - Beginning of Year

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

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

| Net (Expense) Revenue and Changes in Net Position | | |
|--|-----------------------------|--------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ (196,144) | \$ - | \$ (196,144) |
| (28,710) | - | (28,710) |
| (62,624) | - | (62,624) |
| (50,318) | - | (50,318) |
| 16,666 | - | 16,666 |
| (13,301) | - | (13,301) |
| (334,431) | - | (334,431) |
| - | 48,854 | 48,854 |
| - | (34,654) | (34,654) |
| - | 14,200 | 14,200 |
| (334,431) | 14,200 | (320,231) |
| 242,214 | - | 242,214 |
| 1,000 | - | 1,000 |
| 50,308 | - | 50,308 |
| 14 | 1,868 | 1,882 |
| 11,697 | - | 11,697 |
| 33,240 | (33,240) | - |
| 338,473 | (31,372) | 307,101 |
| 4,042 | (17,172) | (13,130) |
| 223,445 | 789,527 | 1,012,972 |
| \$ 227,487 | \$ 772,355 | \$ 999,842 |

See accompanying Notes to Financial Statements.

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FUND FINANCIAL STATEMENTS

**CITY OF RANIER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

| | <u>General Fund</u> | <u>2012A GO Utility Revenue Refunding Note Fund</u> | <u>2012A GO Improvement Bond Fund</u> |
|--|-------------------------|---|---|
| ASSETS | | | |
| Cash and Investments | \$ 231,556 | \$ - | \$ 110,010 |
| Taxes Receivable: | | | |
| Delinquent | 11,606 | - | - |
| Special Assessments Receivable: | - | - | 125,233 |
| Accounts Receivable | 275 | - | - |
| Prepaid Items | 1,968 | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$ 245,405</u> | <u>\$ -</u> | <u>\$ 235,243</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts Payable | \$ 29,068 | \$ - | \$ - |
| Retainage Payable | - | - | - |
| Unearned Revenue | 11,000 | - | - |
| Total Liabilities | <u>40,068</u> | <u>-</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable Revenue - Property Taxes | 6,734 | - | - |
| Unavailable Revenue - Special Assessments | - | - | 122,210 |
| Total Deferred Inflow of Resources | <u>6,734</u> | <u>-</u> | <u>122,210</u> |
| FUND BALANCES | | | |
| Nonspendable Prepaid Items | 1,968 | - | - |
| Restricted for Debt Repayment | - | - | 113,033 |
| Restricted for Capital Projects | - | - | - |
| Unassigned | 196,635 | - | - |
| Total Fund Balances | <u>198,603</u> | <u>-</u> | <u>113,033</u> |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 245,405</u> | <u>\$ -</u> | <u>\$ 235,243</u> |

See accompanying Notes to Financial Statements.

**CITY OF RANIER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2019**

| 2018A GO Reconstruction Bond Fund | Capital Project CR 130 Fund | Total Governmental Funds |
|---|-----------------------------------|--------------------------------|
| \$ - | \$ 144,999 | \$ 486,565 |
| - | - | 11,606 |
| - | - | 125,233 |
| - | - | 275 |
| - | - | 1,968 |
| <u>\$ -</u> | <u>\$ 144,999</u> | <u>\$ 625,647</u> |
| \$ - | \$ - | \$ 29,068 |
| - | 11,474 | 11,474 |
| - | - | 11,000 |
| <u>-</u> | <u>11,474</u> | <u>51,542</u> |
| - | - | 6,734 |
| - | - | 122,210 |
| <u>-</u> | <u>-</u> | <u>128,944</u> |
| - | - | 1,968 |
| - | - | 113,033 |
| - | 133,525 | 133,525 |
| - | - | 196,635 |
| <u>-</u> | <u>133,525</u> | <u>445,161</u> |
| <u>\$ -</u> | <u>\$ 144,999</u> | <u>\$ 625,647</u> |

See accompanying Notes to Financial Statements.

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

| | | |
|---|-------------|-------------------|
| FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | | \$ 445,161 |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p> | | |
| <p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p> | | 508,587 |
| <p>Net Pension Liability and related deferred inflows and outflows of resources are recorded only on the statement of net position. Balances at year-end are:</p> | | |
| Net Pension Liability | \$ (78,651) | |
| Deferred Inflows of Resources - Pension Related | (21,179) | |
| Deferred Outflows of Resources - Pension Related | 9,236 | (90,594) |
| <p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflows of resources in the governmental funds.</p> | | 128,944 |
| <p>Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p> | | |
| Bonds Payable, Net of Unamortized Bond Premiums | (707,059) | |
| Capital Lease Obligations | (40,526) | |
| Accrued Compensated Absences | (7,361) | |
| Accrued Interest Payable on General Obligation Bonds | (9,665) | (764,611) |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | | \$ 227,487 |

See accompanying Notes to Financial Statements.

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

| | General Fund | 2012A GO Utility Revenue Refunding Note Fund | 2012A GO Improvement Bond Fund |
|--|-------------------|---|--------------------------------------|
| REVENUES | | | |
| Taxes | \$ 253,020 | \$ - | \$ - |
| Special Assessments | - | - | 50,353 |
| Licenses and Permits | 3,447 | - | - |
| Intergovernmental | 76,780 | - | - |
| Charges for Services | 10,500 | - | - |
| Gifts and Contributions | 28,200 | - | - |
| Interest on Investments | 14 | - | - |
| Miscellaneous | 8,898 | - | - |
| Total Revenues | <u>380,859</u> | <u>-</u> | <u>50,353</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General Government | 198,794 | - | - |
| Public Safety | 31,000 | - | - |
| Streets and Highways | 43,271 | - | - |
| Culture and Recreation | 70,869 | - | - |
| Housing and Economic Development | 6,775 | - | - |
| Other | 8,659 | - | 78 |
| Capital Outlay: | | | |
| Streets and Highways | - | - | - |
| Debt Service: | | | |
| Principal | 7,324 | 13,000 | 40,000 |
| Interest and Other Charges | 1,626 | 240 | 7,800 |
| Total Expenditures | <u>368,318</u> | <u>13,240</u> | <u>47,878</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 12,541 | (13,240) | 2,475 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | 20,000 | 13,240 | - |
| Transfers Out | (8,550) | - | - |
| Total Other Financing Sources (Uses) | <u>11,450</u> | <u>13,240</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | 23,991 | - | 2,475 |
| Fund Balance - Beginning of Year | 174,612 | - | 110,558 |
| FUND BALANCE - END OF YEAR | <u>\$ 198,603</u> | <u>\$ -</u> | <u>\$ 113,033</u> |

See accompanying Notes to Financial Statements.

CITY OF RANIER, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

| 2018A GO Street Reconstruction Bond Fund | Capital Project CR 130 Fund | Total Governmental Funds |
|---|-----------------------------------|--------------------------------|
| \$ - | \$ - | \$ 253,020 |
| - | - | 50,353 |
| - | - | 3,447 |
| - | - | 76,780 |
| - | - | 10,500 |
| - | - | 28,200 |
| - | - | 14 |
| - | - | 8,898 |
| <u>-</u> | <u>-</u> | <u>431,212</u> |
| - | - | 198,794 |
| - | - | 31,000 |
| - | 43,617 | 86,888 |
| - | - | 70,869 |
| - | - | 6,775 |
| - | - | 8,737 |
| - | 145,929 | 145,929 |
| - | - | 60,324 |
| 21,375 | - | 31,041 |
| <u>21,375</u> | <u>189,546</u> | <u>640,357</u> |
| (21,375) | (189,546) | (209,145) |
| 8,550 | - | 41,790 |
| - | - | (8,550) |
| <u>8,550</u> | <u>-</u> | <u>33,240</u> |
| (12,825) | (189,546) | (175,905) |
| 12,825 | 323,071 | 621,066 |
| <u>\$ -</u> | <u>\$ 133,525</u> | <u>\$ 445,161</u> |

See accompanying Notes to Financial Statements.

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (175,905)

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

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

| | | |
|---------------------------|-----------------|---------|
| Capital Outlay | \$ 170,193 | |
| Current Year Depreciation | <u>(18,280)</u> | 151,913 |

Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the statement of activities are measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources. (2,354)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (22,850)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

| | | |
|--------------------------|--------------|--------|
| Principal Repayments: | | |
| General Obligation Bonds | 53,000 | |
| Capital Lease | <u>7,324</u> | 60,324 |

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.

| | | |
|------------------------------------|--------------|----------------|
| Change in Accrued Interest Payable | (9,362) | |
| Amortization of Premiums | 191 | |
| Change in Compensated Absences | <u>2,085</u> | <u>(7,086)</u> |

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 4,042

**CITY OF RANIER, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019**

| ASSETS | Water and Sewer Utility Enterprise Fund | Liquor Store Fund | Total |
|---|---|----------------------|--------------------|
| CURRENT ASSETS | | | |
| Cash and Cash Equivalents | \$ 153,991 | \$ 36,253 | \$ 190,244 |
| Trade Accounts Receivable - Net | 39,670 | - | 39,670 |
| Inventories | - | 17,296 | 17,296 |
| Prepaid Items | 305 | 1,748 | 2,053 |
| Total Current Assets | <u>193,966</u> | <u>55,297</u> | <u>249,263</u> |
| NONCURRENT ASSETS | | | |
| Capital Assets: | | | |
| Land | - | 976 | 976 |
| Buildings | - | 285,951 | 285,951 |
| Infrastructure | 2,950,342 | - | 2,950,342 |
| Machinery and Equipment | - | 32,668 | 32,668 |
| Accumulated Depreciation | <u>(1,230,473)</u> | <u>(222,899)</u> | <u>(1,453,372)</u> |
| Total Noncurrent Assets | <u>1,719,869</u> | <u>96,696</u> | <u>1,816,565</u> |
| Total Assets | 1,913,835 | 151,993 | 2,065,828 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension Related | 3,104 | 7,790 | 10,894 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts Payable | 17,235 | 11,771 | 29,006 |
| Accrued Interest Payable | 33,900 | - | 33,900 |
| Unearned Revenue | 6,011 | - | 6,011 |
| Compensated Absences - Due Within One Year | 185 | 556 | 741 |
| Bonds and Notes Payable - Due Within One Year | <u>21,000</u> | <u>-</u> | <u>21,000</u> |
| Total Current Liabilities | <u>78,331</u> | <u>12,327</u> | <u>90,658</u> |
| NONCURRENT LIABILITIES | | | |
| Net Pension Liability | 26,429 | 66,312 | 92,741 |
| Compensated Absences Payable - Due in More Than One Year | 975 | 7,021 | 7,996 |
| Bonds, Notes, and Capital Lease Payable - Due in More Than One Year | <u>1,088,000</u> | <u>-</u> | <u>1,088,000</u> |
| Total Noncurrent Liabilities | <u>1,115,404</u> | <u>73,333</u> | <u>1,188,737</u> |
| Total Liabilities | 1,193,735 | 85,660 | 1,279,395 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension Related | 7,116 | 17,856 | 24,972 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 610,869 | 96,698 | 707,567 |
| Unrestricted | <u>105,219</u> | <u>(40,431)</u> | <u>64,788</u> |
| Total Net Position | <u>\$ 716,088</u> | <u>\$ 56,267</u> | <u>\$ 772,355</u> |

See accompanying Notes to Financial Statements.

CITY OF RANIER, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2019

| | Water and Sewer Utility Enterprise Fund | Liquor Store Fund | Total |
|---|---|----------------------|-------------------|
| OPERATING REVENUES | | | |
| Sales and Charges for Services | \$ 327,446 | \$ 394,900 | \$ 722,346 |
| Cost of Sales | - | 160,146 | 160,146 |
| GROSS PROFIT | 327,446 | 234,754 | 562,200 |
| OPERATING EXPENSES | | | |
| Wages and Benefits | 42,930 | 104,401 | 147,331 |
| Power Purchased | 210,479 | - | 210,479 |
| Transportation Services | - | 1,823 | 1,823 |
| Maintenance | 13,357 | 18,288 | 31,645 |
| Utilities | 2,790 | 14,257 | 17,047 |
| Supplies | 1,534 | 12,030 | 13,564 |
| Legal and Professional Fees | 7,698 | 2,636 | 10,334 |
| Office | - | 7,398 | 7,398 |
| Insurance | 1,710 | 9,506 | 11,216 |
| Depreciation | 54,001 | 4,395 | 58,396 |
| Miscellaneous | 1,916 | 21,921 | 23,837 |
| Total Operating Expenses | <u>336,415</u> | <u>196,655</u> | <u>533,070</u> |
| OPERATING INCOME (LOSS) | (8,969) | 38,099 | 29,130 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest Expense and Fiscal Charges | (33,900) | - | (33,900) |
| Other Revenue | 8,215 | 10,755 | 18,970 |
| Interest Revenue | 1,854 | 14 | 1,868 |
| Total Nonoperating Revenues (Expenses) | <u>(23,831)</u> | <u>10,769</u> | <u>(13,062)</u> |
| INCOME (LOSS) BEFORE TRANSFERS | (32,800) | 48,868 | 16,068 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers Out | (13,240) | (20,000) | (33,240) |
| Total Other Financing Sources (Uses) | <u>(13,240)</u> | <u>(20,000)</u> | <u>(33,240)</u> |
| CHANGE IN NET POSITION | (46,040) | 28,868 | (17,172) |
| Net Position - Beginning of Year | <u>762,128</u> | <u>27,399</u> | <u>789,527</u> |
| NET POSITION - END OF YEAR | <u>\$ 716,088</u> | <u>\$ 56,267</u> | <u>\$ 772,355</u> |

See accompanying Notes to Financial Statements.

**CITY OF RANIER, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2019**

| | Water and Sewer Utility Enterprise Fund | Liquor Store Fund | Total |
|--|---|----------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from Customers and Users | \$ 317,502 | \$ 394,900 | \$ 712,402 |
| Payments to Suppliers | (225,041) | (246,836) | (471,877) |
| Payments to Employees | (40,864) | (109,487) | (150,351) |
| Net Cash Provided by Operating Activities | <u>51,597</u> | <u>38,577</u> | <u>90,174</u> |
| CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Transfers Out | (13,240) | (20,000) | (33,240) |
| Other Miscellaneous Receipts | 8,215 | 10,755 | 18,970 |
| Net Cash Used by Noncapital and Related Financing Activities | <u>(5,025)</u> | <u>(9,245)</u> | <u>(14,270)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Principal Paid on Debt | (21,000) | - | (21,000) |
| Interest Paid on Debt | (33,900) | - | (33,900) |
| Acquisition of Capital Assets | (6,690) | - | (6,690) |
| Net Cash Used by Capital and Related Financing Activities | <u>(61,590)</u> | <u>-</u> | <u>(61,590)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest and Dividends Received | 1,854 | 14 | 1,868 |
| Net Cash Provided by Investing Activities | <u>1,854</u> | <u>14</u> | <u>1,868</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (13,164) | 29,346 | 16,182 |
| Cash and Cash Equivalents - Beginning of Year | 167,155 | 6,907 | 174,062 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 153,991</u> | <u>\$ 36,253</u> | <u>\$ 190,244</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| Operating Income (Loss) | \$ (8,969) | \$ 38,099 | \$ 29,130 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | |
| Depreciation Expense | 54,001 | 4,395 | 58,396 |
| (Increase) Decrease in Assets and Deferred Outflows of Resources: | | | |
| Accounts Receivable | (10,873) | - | (10,873) |
| Inventory | - | 3,308 | 3,308 |
| Prepaid Items | (72) | 940 | 868 |
| Deferred Outflows of Resources | 743 | 3,758 | 4,501 |
| Increase (Decrease) in Liabilities and Deferred Inflows of Resources: | | | |
| Accounts Payable | 14,515 | (3,079) | 11,436 |
| Unearned Revenue | 929 | - | 929 |
| Compensated Absences Payable | (603) | 1,887 | 1,284 |
| Net Pension Liability | 3,245 | (3,271) | (26) |
| Deferred Inflows of Resources | (1,319) | (7,460) | (8,779) |
| Total Adjustments | <u>60,566</u> | <u>478</u> | <u>61,044</u> |
| Net Cash Provided by Operating Activities | <u>\$ 51,597</u> | <u>\$ 38,577</u> | <u>\$ 90,174</u> |

See accompanying Notes to Financial Statements.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ranier (the City) is a municipality organized in the state of Minnesota and is governed by an elected four-member council. The City operates under a Mayor-Council form of government and provides services including public safety, public works, culture and recreation, general governmental services, water and sewer utilities, and liquor store as authorized by applicable Minnesota Statutes. The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies of the City.

The financial statements of the City of Ranier have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the City's significant accounting policies are described below.

A. Financial Reporting Entity

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the City's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the City. In addition, the City's financial statements are to include all component units – entities for which the City is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds of the City. There are no other entities for which the City is financially accountable.

B. Government-Wide and Fund Financial Statements

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

CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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 and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue 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. The City considers all revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and compensated absences, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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 in 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 government.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The City reports the following major governmental funds:

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

2012A GO Utility Revenue Refunding Note Fund – accounts for the accumulation of resources and payment of the General Obligation Utility Revenue Refunding Note, Series 2012A. This fund closed in 2019.

2012A GO Improvement Bond Fund – accounts for the accumulation of resources and payment of General Obligation Utility Revenue Refunding Note, Series 2012A.

2018A GO Street Reconstruction Bond Fund – accounts for the accumulation of resources and payment of General Obligation Street Reconstruction Note, Series 2018A.

County Road 130 Capital Project Fund – accounts for the accumulation of resources and payment for the road reconstruction on County Road 130.

The City reports the following major proprietary funds:

Water and Sewer Utility Enterprise Fund – accounts for the provision of water and sewer services to the City's residents and businesses.

Liquor Store Fund – accounts for the activities of the City's on and off sale liquor operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds are charges to customers for sales of goods 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, and then unrestricted resources as they are needed.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Cash balances are invested to the extent available in various securities as authorized by Minnesota Statutes. Investment earnings are recorded in the individual fund carrying the investment. Investments are stated at fair value.

2. Investments

Investments are state at fair value, based on quoted market prices, except investments in certain external investment pools that comply with GASB Statement 79 criteria, which are stated at amortized cost.

3. Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. The City's Enterprise Funds extend credit to customers on an unsecured basis. The Enterprise Funds establish an allowance for doubtful accounts based on the status of accounts receivable at year-end, historical losses, and existing economic conditions. Management has determined that an allowance for doubtful accounts is not necessary as of December 31, 2019. Delinquent accounts are assessed through the property tax system.

4. Property Tax and Special Assessments

Property taxes are levied by action of the City Council based upon the approved budget for the General Fund and requirements of the bond agreements for the Debt Service Funds. The General Fund levy is limited in amount by State Statute. Special assessments are levied by action of the City Council based upon approved projects. Property taxes levied January 1, and due May 15 and October 15, are used to finance current operations. The City receives its taxes in three installments, in July, December, and the January following the tax year for which the taxes were levied.

5. Inventory

Inventories held by the Enterprise Funds are valued at the lower of cost, (first-in, first-out basis), or market. The City had no significant inventories in the governmental funds.

6. Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items and expensed as items are used. That portion of the relevant funds' balances equal to the prepaid items is considered nonspendable.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Capital Assets

Capital assets, which include land, property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not known. Contributed assets, including those from the federal government, are recorded at estimated acquisition value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The City defines capital assets as infrastructure with an initial cost of more than \$50,000 and other assets with an initial cost of more than \$5,000 and useful lives of more than one year. Costs incurred for repairs and maintenance are expensed as incurred. Straight-line depreciation is used based on the following estimated useful lives:

| | |
|----------------------------|----------------|
| Buildings and Improvements | 10 to 40 Years |
| Machinery and Equipment | 5 to 15 Years |
| Infrastructure | 40 Years |

8. 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 and so will not be recognized as an outflow of resources (expenses) until then.

9. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Amounts that are expected to be liquidated with expendable available financial resources are reported as expenditures and a fund liability of the governmental fund that will pay them. Vacation leave and other employee benefit amounts of proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees. Employees are not compensated for unused sick pay upon termination.

10. Long-Term Obligations

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

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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.

11. Net Pension Liability

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.

12. Deferred Inflows of Resources

The City's governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an acquisition of fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The City will not recognize the related revenue until a future event occurs. The deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting.

In addition to the governmental fund statements, the statement of net position 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.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

13. Fund Balance and Net Position

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance represents amounts that are inherently nonspendable or assets that will never be converted to cash or will not be converted to cash soon enough to affect the current period. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the council. Unassigned fund balance is the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications. When an expenditure is incurred, it is the City's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes when committed, assigned, and unassigned fund balance is available for use, it is the City's policy to use committed, assigned, and finally unassigned amounts.

In the financial statements, proprietary funds and government wide statement of net position, equity is presented in three components. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there is limitation imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is presented as unrestricted.

E. Revenues, Expenditures, and Expenses

1. Revenues

In the fund financial statements, property taxes are recognized to the extent they are collected and received in the current period or within the period of availability. Portions paid by the state in the form of market value credit aid, and other state tax credits are included in intergovernmental revenues. Delinquent property taxes receivable which have not been recognized as revenue are equally offset in the fund financial statements by deferred inflows.

Licenses and permits, charges for services, fines, forfeits, and miscellaneous revenues are recorded as revenues when measurable and available.

Special assessments principal and interest earnings are recorded as revenues in the same manner as property taxes.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

Property Tax Collection Calendar

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. The County is the collecting agency for the levy and then remits the collection to the City. All taxes not collected as of December 31 are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain payments paid directly to the City.

The County Auditor provides a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

Property owners are required to pay one-half of their real estate taxes by May 15 and the balances by October 15.

Within 30 days after the May settlement, the County Treasurer is required to pay 70% of the estimated collections of taxes and special assessments to the City Treasurer. The County Treasurer must pay the balance to the City Treasurer within 60 days after the settlement, provided that after 45 days interest begins to accrue.

Within ten business days after November 15, the County Treasurer shall pay to each taxing district, except any school district, 100% of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

Any adjustments or abatements to either the current or any prior year levy are adjusted through the current year general property tax revenues. Property taxes not collected by the County and remitted to the City within 60 days of year-end are classified as delinquent and not considered measurable and available and are fully offset by deferred inflows of resources in the governmental fund financial statements. Delinquent taxes receivable represent the past six years of uncollected tax years. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

2. Expenditures

Expenditure recognition for governmental fund types includes only amounts represented by current liabilities. Since noncurrent liabilities do not affect net current assets, they are not recognized as governmental fund expenditures or liabilities. They are reported as liabilities on the statement of net position.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

3. Expenses

Proprietary funds recognize expenses when they are incurred.

F. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses or expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 DETAILED NOTES ON ALL FUNDS

A. Assets

Cash and Investments

The cash balances of substantially all funds are pooled for the purpose of increasing earnings. Total interest earnings for 2019 were \$1,882.

Deposits

In accordance with applicable Minnesota State Statutes, the City maintains deposits at financial institutions authorized by the City Council. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The fair value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; issued of the U.S. government agency; general obligations of local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk – Deposits – In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

At December 31, 2019, all of the City's deposits were fully insured, collateralized and/or covered by an irrevocable stand by Letter of Credit, as required by Minnesota Statutes §118A.03.

The City does not have a formal investment policy.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2019 is as follows:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|----------------------|----------------|-----------|-------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Construction in Progress | \$ 120,104 | \$ 170,193 | \$ - | \$ 290,297 |
| Capital Assets Being Depreciated: | | | | |
| Buildings | 347,238 | - | - | 347,238 |
| Machinery and Equipment | 72,619 | - | - | 72,619 |
| Total Capital Assets Being Depreciated | 419,857 | - | - | 419,857 |
| Less: Accumulated Depreciation for | | | | |
| Buildings: | 168,827 | 12,045 | - | 180,872 |
| Machinery and Equipment | 14,460 | 6,235 | - | 20,695 |
| Total Accumulated Depreciation | 183,287 | 18,280 | - | 201,567 |
| Total Capital Assets Being Depreciated, Net | 236,570 | (18,280) | - | 218,290 |
| Governmental Activities Capital Assets, Net | \$ 356,674 | \$ 151,913 | \$ - | \$ 508,587 |

The following is a summary of the Proprietary Fund capital assets at December 31, 2019:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|--|----------------------|-----------------|-----------|-------------------|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 976 | \$ - | \$ - | \$ 976 |
| Capital Assets Being Depreciated: | | | | |
| Buildings | 285,951 | - | - | 285,951 |
| Infrastructure | 2,943,652 | 6,690 | - | 2,950,342 |
| Machinery and Equipment | 32,668 | - | - | 32,668 |
| Total Capital Assets Being Depreciated | 3,262,271 | 6,690 | - | 3,268,961 |
| Less: Accumulated Depreciation for | | | | |
| Buildings: | 185,836 | 4,395 | - | 190,231 |
| Infrastructure | 1,176,472 | 54,001 | - | 1,230,473 |
| Machinery and Equipment | 32,668 | - | - | 32,668 |
| Total Accumulated Depreciation | 1,394,976 | 58,396 | - | 1,453,372 |
| Total Capital Assets Being Depreciated, Net | 1,867,295 | (51,706) | - | 1,815,589 |
| Business-Type Activities Capital Assets, Net | \$ 1,868,271 | \$ (51,706) | \$ - | \$ 1,816,565 |

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Capital Assets (Continued)

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

| | |
|---|------------------|
| Governmental Activities: | |
| General Government | \$ 13,114 |
| Culture and Recreation | 5,166 |
| Total Depreciation Expense - Governmental Activities | <u>\$ 18,280</u> |
| Business-Type Activities: | |
| Liquor Enterprise | \$ 4,395 |
| Water and Sewer Utility | 54,001 |
| Total Depreciation Expense - Business-Type Activities | <u>\$ 58,396</u> |

C. Interfund Receivables, Payables, and Transfers

Interfund Transfers

The composition of interfund transfers as of December 31, 2019 consisted of transfers from the Liquor Enterprise Fund to the General Fund of \$20,000 for operations and from the Water and Sewer Utility Fund to the 2012A GO Utility Revenue Refunding Note Fund of \$13,240 for debt service, and \$8,550 from General Fund to 2018A GO Improvement bond for debt service.

D. Liabilities

1. Long-Term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for both general government and proprietary activities. Bonds issued to provide funds for proprietary activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

General obligation bonds are direct obligations and pledge the full-faith and credit of the City. Assets of the Debt Service Funds, together with scheduled future ad valorem tax levies, tax increments and special assessments, are dedicated for the retirement of these bonds.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Liabilities (Continued)

2. Components of Long-Term Debt

| | Authorized and Issued | Outstanding | Due in 2020 Principal |
|--|--------------------------|--------------|--------------------------|
| GOVERNMENTAL ACTIVITIES | | | |
| \$480,000 G.O. Improvement Bonds, Series 2012A, due in annual installments of \$35,000 to \$45,000 through February 2025, interest at 0.75 to 2.75% payable semiannually | \$ 480,000 | \$ 250,000 | \$ 40,000 |
| \$456,000 G.O Street Reconstruction Note, Series 2018A, due in annual installments of \$23,000 to \$39,000 through February 2034, interest at 3.75%, payable semiannually. | 456,000 | 456,000 | 23,000 |
| Total General Obligation Bonds, Including Refunding Bonds | 936,000 | 706,000 | 63,000 |
| Plus: Unamortized Premium | - | 1,059 | 191 |
| Total General Obligation Bonds - Net | 936,000 | 707,059 | 63,191 |
| Capital Leases: | | | |
| Capital Lease - Bobcat | 56,800 | 40,526 | 7,573 |
| Total Long-Term Debt - Governmental Activities | 992,800 | 747,585 | 70,764 |
| BUSINESS-TYPE ACTIVITIES | | | |
| <u>Revenue Bonds</u> | | | |
| \$1,241,000 G.O. Water Revenue Bond, Series 2011, due in annual installments of \$17,000 to \$53,000 through January 2051 plus interest at 3.00% payable semiannually. | 1,241,000 | 1,109,000 | 21,000 |
| Total Long-Term Debt - Business-Type Activities | 1,241,000 | 1,109,000 | 21,000 |
| Total Government-Wide Long-Term Liabilities | \$ 2,233,800 | \$ 1,856,585 | \$ 91,764 |

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Liabilities (Continued)

3. Changes in Long-Term Debt

| | December 31, 2018 | Additions | Retirements | December 31, 2019 | Due Within One Year |
|---------------------------------|----------------------|------------------|------------------|----------------------|------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| General Obligation Debt | \$ 759,000 | \$ - | \$ 53,000 | \$ 706,000 | \$ 63,000 |
| Plus: Unamortized Premiums | 1,250 | - | 191 | 1,059 | - |
| Capital Lease Obligations | 47,850 | - | 7,324 | 40,526 | 7,573 |
| Compensated Absences Payable | 9,446 | 11,570 | 13,655 | 7,361 | 916 |
| Total Governmental Activities | <u>\$ 817,546</u> | <u>\$ 11,570</u> | <u>\$ 74,170</u> | <u>\$ 754,946</u> | <u>\$ 71,489</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Revenue Notes | \$ 1,130,000 | \$ - | \$ 21,000 | \$ 1,109,000 | \$ 21,000 |
| Compensated Absences Payable | 7,453 | 9,102 | 7,818 | 8,737 | 741 |
| Total Business-Type Activities | <u>\$ 1,137,453</u> | <u>\$ 9,102</u> | <u>\$ 28,818</u> | <u>\$ 1,117,737</u> | <u>\$ 21,741</u> |

Compensated absences are paid as described in Note 1.

4. Minimum Debt Payments

The annual requirements to amortize general obligation debt outstanding are as follows:

| <u>Year Ending December 31,</u> | <u>Governmental Activities</u> | | |
|---------------------------------|--------------------------------|-------------------|-------------------|
| | <u>G.O. Bonds</u> | | |
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2020 | \$ 63,000 | \$ 22,775 | \$ 85,775 |
| 2021 | 64,000 | 21,073 | 85,073 |
| 2022 | 65,000 | 19,333 | 84,333 |
| 2023 | 66,000 | 17,425 | 83,425 |
| 2024 | 72,000 | 15,281 | 87,281 |
| 2025-2029 | 195,000 | 51,806 | 246,806 |
| 2030-2034 | 181,000 | 20,813 | 201,813 |
| Total | <u>\$ 706,000</u> | <u>\$ 168,506</u> | <u>\$ 874,506</u> |

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Liabilities (Continued)

4. Minimum Debt Payments (Continued)

| <u>Year Ending December 31,</u> | <u>Business-Type Activities</u> | | |
|---------------------------------|---------------------------------|-------------------|---------------------|
| | <u>Revenue Bonds</u> | | |
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2020 | \$ 21,000 | \$ 33,270 | \$ 54,270 |
| 2021 | 22,000 | 32,640 | 54,640 |
| 2022 | 22,000 | 31,980 | 53,980 |
| 2023 | 23,000 | 31,320 | 54,320 |
| 2024 | 24,000 | 30,630 | 54,630 |
| 2025-2029 | 131,000 | 141,930 | 272,930 |
| 2030-2034 | 150,000 | 121,200 | 271,200 |
| 2035-2039 | 175,000 | 97,200 | 272,200 |
| 2040-2044 | 202,000 | 39,390 | 241,390 |
| 2045-2049 | 235,000 | 37,170 | 272,170 |
| 2050-2052 | 104,000 | 4,710 | 108,710 |
| Total | <u>\$ 1,109,000</u> | <u>\$ 601,440</u> | <u>\$ 1,710,440</u> |

5. Capital Lease

On August 15, 2018, the City entered into a 60-month lease for the purchase of a Bobcat skid loader. The lease agreement requires monthly lease payments of \$8,950 which includes interest of 3.40%. The future minimum lease payment obligations on this lease are \$8,951 for 2020, \$8,950 for 2021, \$8,950 for 2022, \$8,951 for 2023, and \$8,949 for 2024 for a total of \$44,751 of which \$4,225 represents interest, leaving a present value of minimum lease payments of 40,526 as of December 31, 2019. The City had \$56,800 of assets under capital lease with related accumulated depreciation of \$5,365 as of December 31, 2019.

6. Operating Lease

The City entered into a lease for a copier in 2016. Total costs for the lease were \$2,316 for the year ended December 31, 2019. The future minimum lease payment is \$1,158 in 2020, at the termination of the lease.

E. Risk Management

The City is exposed to various risks of loss related to: torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City (Primary Government) has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss, including employee health insurance. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Risk Management (Continued)

The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment is estimated to be immaterial based on workers' compensation rates and salaries for the year ended December 31, 2019.

NOTE 3 PENSION PLANS

Pension Description

The City participates in a cost-sharing multiple-employer defined benefit pension plan 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.

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

Benefits Provided

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

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

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 PENSION PLANS (CONTINUED)

Benefits Provided (Continued)

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

Contributions

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

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2019 and the City was required to contribute 7.5% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2019, were \$17,770. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2019, the City reported a liability of \$171,392 for its proportionate share of the General Employee Fund's net pension liability. The City's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2019. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the City totaled \$5,333. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportion was .0031% which was an increase of .0001% from its proportion measured as of June 30, 2018.

| | | |
|--|-----------|----------------|
| City's Proportionate Share of the Net Pension Liability | \$ | 171,392 |
| State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City | | 5,333 |
| Total | <u>\$</u> | <u>176,725</u> |

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 PENSION PLANS (CONTINUED)

Pension Costs (Continued)

For the year ended December 31, 2019, the City recognized pension expense of \$13,849 for its proportionate share of the General Employee Plan's pension expense. In addition, the City passed on recognizing an additional \$399 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ 4,753 | \$ - |
| Changes in Actuarial Assumptions | - | 13,471 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | - | 17,372 |
| Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions | 6,079 | 15,308 |
| City Contributions Subsequent to the Measurement Date | 9,298 | - |
| Total | <u>\$ 20,130</u> | <u>\$ 46,151</u> |

The \$9,298 is reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending December 31,</u> | Pension Expense |
|---------------------------------|--------------------|
| 2020 | \$ (13,829) |
| 2021 | (19,894) |
| 2022 | (1,875) |
| 2023 | 279 |

Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions:

| <u>Assumptions</u> | |
|---------------------------|----------------|
| Inflation | 2.50% Per Year |
| Salary Increases | 3.25% Per Year |
| Investment Rate of Return | 7.50% |

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

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

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of the inflation and investment return assumptions.

The following change in actuarial assumptions occurred in 2019:

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

The following change in Plan Provision occurred in 2019:

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|------------------------------|---|
| Domestic Stocks | 35.5 % | 5.10 % |
| Private Markets | 25.0 | 5.90 |
| Fixed Income | 20.0 | 0.75 |
| International Equity | 17.5 | 5.90 |
| Cash Equivalents | 2.0 | - |
| Total | <u>100.0 %</u> | |

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 PENSION PLANS (CONTINUED)

Discount Rate

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

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 one percentage point lower or one percentage point higher than the current discount rate:

| Description | 1% Decrease | Current Discount Rate | 1% Increase in Discount Rate |
|---|-------------|-----------------------------|------------------------------------|
| <u>Discount Rate</u> | 6.50% | 7.50% | 8.50% |
| City of Ranier's Proportionate Share of the General Employee Plan Net Pension Liability | \$ 281,759 | \$ 171,392 | \$ 80,262 |

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 4 COMMITMENTS AND CONTINGENCIES

The City participates in numerous state and federal grant programs, which are governed by various rule and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collection of any related receivable at December 31, 2019 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such obligations.

**CITY OF RANIER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 RELATED-PARTY TRANSACTIONS

In April 2016, the City of Ranier entered into a contract with ServiceMaster to perform cleaning services. Requests for quotes for cleaning services were advertised in the International Falls Journal on April 9th, 13th, and 16th. Only one bid was received. The council approved Resolution 2016-06 – Authorizing the Contract with ServiceMaster of International Falls in a special meeting held on April 26, 2016, with Council Member Coulombe abstaining from the vote. This initially included a one year extension of service that was exercised and an additional one year extension was executed in 2019.

In 2019, there were 12 related-party transactions between the City of Ranier and Council Member Todd Coulombe who is the owner of ServiceMaster of International Falls. Related-party transactions with Council Member Coulombe related to ServiceMaster totaled \$17,192 in 2019.

In June 2019, the City of Ranier entered into a contract with Wagner Construction to perform paving repair services. Requests for quotes for cleaning services were advertised in the International Falls Journal 4 weeks prior to starting the contract. Only one bid was received. The council approved with Mayor Wagner abstaining from the vote.

In 2019, there were 4 related-party transactions between the City of Ranier and Wagner Construction owned by the Mayor. Related-party transactions with Wagner Construction totaled \$8,044 in 2019.

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A**

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**CITY OF RANIER, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2019**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------------|------------------|----------------|-------------------|-------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 258,500 | \$ 258,500 | \$ 253,020 | \$ (5,480) |
| Licenses and Permits: | | | | |
| Business License | 2,876 | 2,876 | 2,676 | (200) |
| Building Permits | 200 | 200 | 771 | 571 |
| Total Licenses and Permits | <u>3,076</u> | <u>3,076</u> | <u>3,447</u> | <u>371</u> |
| Intergovernmental: | | | | |
| Federal | - | - | 12,108 | 12,108 |
| Local Government Aid | 50,308 | 50,308 | 50,308 | - |
| State Police Aid | 11,334 | 11,334 | 13,623 | 2,289 |
| Other State Aids | 741 | 741 | 741 | - |
| Total Intergovernmental | <u>62,383</u> | <u>62,383</u> | <u>76,780</u> | <u>14,397</u> |
| Charges for Services: | | | | |
| Other Charges for Services | 10,000 | 10,000 | 10,500 | 500 |
| Gifts and Contributions | 12,000 | 12,000 | 28,200 | 16,200 |
| Interest on Investments | - | - | 14 | 14 |
| Miscellaneous: | | | | |
| Other Miscellaneous Income | 4,000 | 4,000 | 8,898 | 4,898 |
| Total Revenues | <u>349,959</u> | <u>349,959</u> | <u>380,859</u> | <u>30,900</u> |
| EXPENDITURES | | | | |
| CURRENT | | | | |
| General Government: | | | | |
| Mayor and City Council | 10,635 | 10,635 | 11,157 | 522 |
| City Clerk and Treasurer | 69,862 | 69,862 | 72,421 | 2,559 |
| City Hall | 81,737 | 81,737 | 81,721 | (16) |
| Professional Services | 20,000 | 20,000 | 17,356 | (2,644) |
| Tourism | 7,000 | 7,000 | 4,480 | (2,520) |
| Miscellaneous | 30,275 | 30,275 | 11,659 | (18,616) |
| Total General Government | <u>219,509</u> | <u>219,509</u> | <u>198,794</u> | <u>(20,715)</u> |
| Public Safety: | | | | |
| Fire Protection | 31,000 | 31,000 | 31,000 | - |
| Streets and Highways: | | | | |
| Street Lighting | 11,500 | 11,500 | 9,936 | (1,564) |
| Street Maintenance | 24,000 | 24,000 | 33,335 | 9,335 |
| Total Streets and Highway | <u>35,500</u> | <u>35,500</u> | <u>43,271</u> | <u>7,771</u> |
| Culture and Recreation: | | | | |
| Park | 42,200 | 42,200 | 70,869 | 28,669 |
| Housing and Economic Development: | | | | |
| Economic Development | 7,000 | 7,000 | 6,775 | (225) |
| Other Expenditures: | | | | |
| Miscellaneous | - | - | 8,659 | 8,659 |
| Total Other Expenditures | <u>-</u> | <u>-</u> | <u>8,659</u> | <u>8,659</u> |
| DEBT SERVICE | | | | |
| Principal | - | - | 7,324 | 7,324 |
| Interest and Other Charges | - | - | 1,626 | 1,626 |
| Total Debt Service | <u>-</u> | <u>-</u> | <u>8,950</u> | <u>8,950</u> |

See accompanying Notes to Required Supplementary Information.

**CITY OF RANIER, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-----------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| EXPENDITURES (CONTINUED) | | | | |
| CAPITAL OUTLAY | | | | |
| General Government | \$ 9,000 | \$ 9,000 | \$ - | \$ (9,000) |
| Total Expenditures | <u>344,209</u> | <u>344,209</u> | <u>368,318</u> | <u>24,109</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 5,750 | 5,750 | 12,541 | 6,791 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 20,000 | 20,000 | 20,000 | - |
| Transfers Out | (18,550) | (18,550) | (8,550) | 10,000 |
| Issuance of Capital Lease | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>1,450</u> | <u>1,450</u> | <u>11,450</u> | <u>10,000</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 7,200</u> | <u>\$ 7,200</u> | 23,991 | <u>\$ 16,791</u> |
| Fund Balance - Beginning of Year | | | <u>174,612</u> | |
| FUND BALANCE - END OF YEAR | | | <u>\$ 198,603</u> | |

See accompanying Notes to Required Supplementary Information.

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**CITY OF RANIER, MINNESOTA
 SCHEDULE OF THE CITY'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 LAST TEN YEARS**

| | Measurement Date <u>June 30, 2019</u> |
|--|---|
| City's Proportion of the Net Pension Liability | 0.0031% |
| City's Proportionate Share of the Net Pension Liability | \$ 171,392 |
| State's Proportionate Share of the Net Pension Liability Associated with | \$ 5,333 |
| City's Covered Payroll | \$ 228,924 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll | 74.87% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 80.23% |

NOTE: Information prior to 2015 is not available.

**CITY OF RANIER, MINNESOTA
 SCHEDULE OF THE CITY'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY (CONTINUED)
 LAST TEN YEARS**

| Measurement Date <u>June 30, 2018</u> | Measurement Date <u>June 30, 2017</u> | Measurement Date <u>June 30, 2016</u> | Measurement Date <u>June 30, 2015</u> |
|---|---|---|---|
| 0.0030% | 0.0035% | 0.0034% | 0.0035% |
| \$ 166,428 | \$ 223,438 | \$ 276,064 | \$ 181,389 |
| \$ 1,050 | \$ 2,785 | \$ 3,605 | \$ - |
| \$ 203,537 | \$ 223,458 | \$ 203,059 | \$ 208,365 |
| 81.77% | 99.99% | 135.95% | 87.05% |
| 79.50% | 75.90% | 68.91% | 78.20% |

See accompanying Notes to Required Supplementary Information.

**CITY OF RANIER, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
LAST TEN YEARS**

| | 2019 | 2018 |
|--|------------|------------|
| PERA | | |
| Contractually Required Contribution | \$ 17,770 | \$ 15,762 |
| Contributions in Relation to the Contractually Required Contribution | (17,770) | (15,762) |
| Contribution Deficiency (Excess) | \$ - | \$ - |
| City's Covered Payroll | \$ 236,928 | \$ 210,160 |
| Contributions as a Percentage of Covered Payroll | 7.50% | 7.50% |

NOTE: Information prior to 2014 is not available.

**CITY OF RANIER, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS (CONTINUED)
LAST TEN YEARS**

| 2017 | 2016 | 2015 | 2014 |
|-------------|-------------|-------------|-------------|
| \$ 14,208 | \$ 17,196 | \$ 15,857 | \$ 13,711 |
| (14,208) | (17,196) | (15,857) | (13,711) |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 189,421 | \$ 229,280 | \$ 211,427 | \$ 189,117 |
| 7.50% | 7.50% | 7.50% | 7.25% |

See accompanying Notes to Required Supplementary Information.

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

I. BUDGETARY INFORMATION

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

- a. Public hearings are conducted at the Council's chambers in the municipal building.
- b. On or before December 28, the final budget is legally enacted by Council resolution and the final property tax levy certified to the County Auditor.
- c. Management is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Reported budget amounts are as originally adopted or amended by the City Council.
- d. The City has legally adopted budgets for the General Fund. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the department level. All amounts over budget have been approved by the City Council through the disbursement process. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. The City is not legally required to adopt an annual budget for any funds other than the General Fund.
- e. Budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.

II. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At December 31, 2019, the City's General Fund Expenditures of \$368,318, exceeded budgeted expenditures of \$344,209 by \$24,109. These excess expenditures were primarily funded by existing fund balance, and property taxes.

III. DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PERA PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

2019

- a. The mortality projection scale was changed from MP-2017 to MP-2018.
- b. The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

2018

- a. The mortality projection scale was changed from MP-2015 to MP-2017.
- b. The assumed post-retirement benefit increase was from 1% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

CITY OF RANIER, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2019

III. DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PERA PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

2017

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

2016

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

SUPPLMENTARY INFORMATION

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**CITY OF RANIER, MINNESOTA
BALANCE SHEETS
WATER AND SEWER UTILITY ENTERPRISE FUND
DECEMBER 31, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2018)**

| | 2019 | 2018 |
|---|-------------|-------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 153,991 | \$ 167,155 |
| Trade Accounts Receivable - Net | 39,670 | 28,797 |
| Prepaid Items | 305 | 233 |
| Total Current Assets | 193,966 | 196,185 |
| NONCURRENT ASSETS | | |
| Capital Assets: | | |
| Infrastructure | 2,950,342 | 2,943,652 |
| Less: Accumulated Depreciation | (1,230,473) | (1,176,472) |
| Total Noncurrent Assets | 1,719,869 | 1,767,180 |
| Total Assets | 1,913,835 | 1,963,365 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension Related | 3,104 | 3,847 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | 17,235 | 2,720 |
| Accrued Interest Payable | 33,900 | 33,900 |
| Unearned Revenue | 6,011 | 5,082 |
| Compensated Absences - Due Within One Year | 185 | 182 |
| Bonds and Notes Payable - Due Within One Year | 21,000 | 21,000 |
| Total Current Liabilities | 78,331 | 62,884 |
| NONCURRENT LIABILITIES | | |
| Net Pension Liability - Due in More Than One Year | 26,429 | 23,184 |
| Compensated Absences Payable - Due in More Than One Year | 975 | 1,581 |
| Bonds, Notes, and Capital Lease Payable - Due in More Than One Year | 1,088,000 | 1,109,000 |
| Total Noncurrent Liabilities | 1,115,404 | 1,133,765 |
| Total Liabilities | 1,193,735 | 1,196,649 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension Related | 7,116 | 8,435 |
| NET POSITION | | |
| Net Investment in Capital Assets | 610,869 | 637,180 |
| Unrestricted | 105,219 | 124,948 |
| Total Net Position | \$ 716,088 | \$ 762,128 |

CITY OF RANIER, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
WATER AND SEWER UTILITY ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2018)

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| OPERATING REVENUES | | |
| Sales and Charges for Services | \$ 327,446 | \$ 317,323 |
| OPERATING EXPENSES | | |
| Wages and Benefits | 42,930 | 37,591 |
| Power Purchased | 210,479 | 185,150 |
| Maintenance | 13,357 | 16,586 |
| Utilities | 2,790 | 29,357 |
| Supplies | 1,534 | 417 |
| Legal and Professional Fees | 7,698 | 8,165 |
| Insurance | 1,710 | 1,263 |
| Depreciation | 54,001 | 53,867 |
| Miscellaneous | 1,916 | 1,013 |
| Total Operating Expenses | <u>336,415</u> | <u>333,409</u> |
| OPERATING INCOME (LOSS) | (8,969) | (16,086) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest Expense and Fiscal Charges | (33,900) | (33,330) |
| Other Revenue | 8,215 | 1,626 |
| Interest Revenue | 1,854 | 1,261 |
| Total Nonoperating Revenues (Expenses) | <u>(23,831)</u> | <u>(30,443)</u> |
| INCOME (LOSS) BEFORE TRANSFERS | (32,800) | (46,529) |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers In | - | 10,000 |
| Transfers Out | (13,240) | (12,528) |
| Total Other Financing Sources (Uses) | <u>(13,240)</u> | <u>(2,528)</u> |
| CHANGE IN NET POSITION | (46,040) | (49,057) |
| Net Position - Beginning of Year | <u>762,128</u> | <u>811,185</u> |
| NET POSITION - END OF YEAR | <u>\$ 716,088</u> | <u>\$ 762,128</u> |

**CITY OF RANIER, MINNESOTA
BALANCE SHEETS
LIQUOR STORE FUND
DECEMBER 31, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2018)**

| | 2019 | 2018 |
|--|-----------|-----------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 36,253 | \$ 6,907 |
| Inventories | 17,296 | 20,604 |
| Prepaid Items | 1,748 | 2,688 |
| Total Current Assets | 55,297 | 30,199 |
| NONCURRENT ASSETS | | |
| Capital Assets: | | |
| Land | 976 | 976 |
| Buildings | 285,951 | 285,951 |
| Machinery and Equipment | 32,668 | 32,668 |
| Less: Accumulated Depreciation | (222,899) | (218,504) |
| Total Noncurrent Assets | 96,696 | 101,091 |
| Total Assets | 151,993 | 131,290 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension Related | 7,790 | 11,548 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | 11,771 | 14,850 |
| Compensated Absences - Due Within One Year | 556 | 498 |
| Total Current Liabilities | 12,327 | 15,348 |
| NONCURRENT LIABILITIES | | |
| Net Pension Liability - Due in More Than One Year | 66,312 | 69,583 |
| Compensated Absences Payable - Due in More Than One Year | 7,021 | 5,192 |
| Total Noncurrent Liabilities | 73,333 | 74,775 |
| Total Liabilities | 85,660 | 90,123 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension Related | 17,856 | 25,316 |
| NET POSITION | | |
| Net Investment in Capital Assets | 96,698 | 101,093 |
| Unrestricted | (40,431) | (73,694) |
| Total Net Position | \$ 56,267 | \$ 27,399 |

CITY OF RANIER, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
LIQUOR STORE FUND
YEAR ENDED DECEMBER 31, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2018)

| | <u>2019</u> | <u>2018</u> |
|---|------------------|------------------|
| OPERATING REVENUES | | |
| Sales and Charges for Services | \$ 394,900 | \$ 368,271 |
| Cost of Sales | <u>160,146</u> | <u>156,411</u> |
| GROSS PROFIT | 234,754 | 211,860 |
| OPERATING EXPENSES | | |
| Wages and Benefits | 104,401 | 108,805 |
| Transportation Services | 1,823 | 6,779 |
| Maintenance | 18,288 | 18,021 |
| Utilities | 14,257 | 15,288 |
| Supplies | 12,030 | 17,836 |
| Legal and Professional Fees | 2,636 | 1,700 |
| Office | 7,398 | - |
| Insurance | 9,506 | 11,164 |
| Depreciation | 4,395 | 3,748 |
| Miscellaneous | 21,921 | 21,132 |
| Total Operating Expenses | <u>196,655</u> | <u>204,473</u> |
| OPERATING INCOME (LOSS) | 38,099 | 7,387 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest Expense and Fiscal Charges | - | 292 |
| Other Revenue | 10,755 | 5,821 |
| Interest Revenue | 14 | 4 |
| Total Nonoperating Revenues (Expenses) | <u>10,769</u> | <u>6,117</u> |
| INCOME (LOSS) BEFORE TRANSFERS | 48,868 | 13,504 |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers Out | <u>(20,000)</u> | <u>(20,000)</u> |
| CHANGE IN NET POSITION | 28,868 | (6,496) |
| Net Position - Beginning of Year | <u>27,399</u> | <u>33,895</u> |
| NET POSITION - END OF YEAR | <u>\$ 56,267</u> | <u>\$ 27,399</u> |

OTHER REPORTS SECTION

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

Honorable Mayor and
Members of the City Council
City of Ranier
Ranier, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ranier (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Ranier's basic financial statements, and have issued our report thereon dated February 20, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-001, 2019-002, and 2019-003 to be material weaknesses.

Honorable Mayor and
Members of the City Council
City of Ranier, Minnesota

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-004 to be a significant deficiency.

Compliance and Other Matters

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

City of Ranier's Responses to Findings

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
February 20, 2020

**CITY OF RANIER, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2019**

MATERIAL WEAKNESSES:

2019-001 Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP)

Condition: The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures, are complete, and presented in accordance with GAAP.

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

Context: Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures.

Cause: The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Possible Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls in the normal course of business.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

Management Response: The City will continue to evaluate whether an internal control policy over financial reporting would be beneficial.

**CITY OF RANIER, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

MATERIAL WEAKNESSES (CONTINUED):

2019-002 Lack of Segregation of Duties

Condition: There is a lack of sufficient segregation of duties within the city as the City Administrator has access to the general ledger, access to physical assets, signature authority on bank accounts, and authority to record transactions.

Criteria: Generally, a system of internal control contemplates separation of duties such that an individual has responsibility to execute a transaction, have physical access to the related assets, and has responsibility or authority to record the transaction.

Context: Management has informed us the size and budget of the City limit the number of personnel performing these duties.

Cause: Size and budget constraints limit the number of personnel within the City office.

Possible Effect: The lack of segregation within incompatible duties could adversely affect the City's ability to initiate, authorize, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This could include the lack of the ability to prevent or detect errors, fraud, or misappropriation of assets in a timely manner.

Recommendation: We recommend the accounting responsibilities should be reviewed periodically and consideration be given to improving the segregation of duties. We acknowledge the fact that the City's opportunity for improving segregation of duties is limited by cost-benefit consideration.

Management Response: The City will continue to explore the possibility of further segregation of duties within the City while simultaneously considering the costs and benefits of increased segregation.

**CITY OF RANIER, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

MATERIAL WEAKNESSES (CONTINUED):

2019-003 Material Audit Adjustments

Condition: As part of the audit, we proposed account reclassification entries relating to the coding of receipts and disbursements, accruals, and other reclassifications. These entries indicate a lack of controls over the year-end financial reporting process. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.

Criteria: City management is responsible for establishing and maintaining internal controls for the proper recording of all the City's receipts and disbursements.

Context: Management has stated the City has a limited number of personnel to perform the required entries for the year-end financial reporting process.

Cause: The City has a limited number of personnel.

Possible Effect: The design of the internal controls over recording receipts and disbursements, including reclassifications, could affect the City's ability to detect or prevent a misappropriation of assets or fraudulent activity.

Recommendation: We recommend City management be consistently aware of all procedures and processes involved in recording receipts, disbursements, and reclassifications, and develop internal control policies to ensure proper recording of these items.

Management Response: City management will work on eliminating the need for audit adjustments.

**CITY OF RANIER, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

SIGNIFICANT DEFICIENCY:

2019-004 Pension Reporting

Condition: As part of the audit, we reviewed the PERA exclusion report for 2019. An individual who was a temporary employee, earning less than \$5,100 was excluded from the report.

Criteria: City management is maintaining the proper recording of all the City's excluded employees and ensuring they are included on the exclusion report.

Context: Management has stated the City has a limited number of personnel to perform the required monitoring for the exclusion report processing.

Cause: The City has a limited number of personnel.

Possible Effect: Not reporting excluded personnel could lead to the incorrect inclusion or exclusion of employees on the exclusion report.

Recommendation: We recommend City management be consistently aware of all procedures and processes involved in reporting personnel to PERA for exclusion.

Management Response: City management will review the exclusion report to ensure all employees are properly included on the exclusion report.



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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and
Members of the City Council
City of Ranier
Ranier, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Ranier (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 20, 2020.

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
February 20, 2020

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