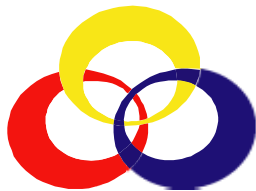


FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2017



CITY OF MILROY,
MINNESOTA



Kinner & Company Ltd
Certified Public Accountants
Taxes, QuickBooks &
Investments

**CITY OF MILROY
MILROY, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF MILROY
MILROY, MINNESOTA
DECEMBER 31, 2017**

ELECTED AND APPOINTED OFFICIALS

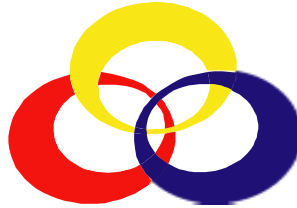
Elected

Elizabeth Graham	Mayor
Cheryl Bowman	Council Member
Colleen Brooks	Council Member
Renee Zwach	Council Member
Matt Dvorak	Council Member

Appointed

Bette Snyder	Clerk-Treasurer
Kevin Passe	Attorney

FINANCIAL SECTION



Kinner & Company Ltd
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Council
City of Milroy
Milroy, Minnesota 56263

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement.

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

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

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, each major fund, and the aggregate remaining fund information of the City of Milroy, Minnesota as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Fire Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Visit our [website](http://www.kinner.co) at www.kinner.co

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Milroy, Minnesota's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2018, on our consideration of the City of Milroy, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 Milroy's internal control over financial reporting and compliance.



Kinner & Company Ltd
Certified Public Accountants

February 16, 2018

**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

This discussion and analysis is intended to be an easily readable analysis of the City of Milroy's financial activities based on currently known facts, decisions or conditions. Since this information is designed to focus on the current year's activities, it should be read in conjunction with the Financial Statements which begin on page 11.

FINANCIAL HIGHLIGHTS

WATER FUND: Due to the water improvement project in 2015, improvement rates were increased. The City will look at these rates each year to assess this fund.

SEWER FUND: The sewer fund has had considerably reduced costs for chemicals as compared to 2016. The City has worked very hard to keep this under control. Improvement rates were increased during 2016 to help cover costs. The City will look at these rates each year to assess this fund.

FIRE FUND: The Fire Department continues to apply for FEMA grant and have been successful in receiving grants. They will continue to apply for these.

FITNESS CENTER FUND: The Fitness Center fund primarily consists of membership dues for monthly access to the fitness center. Memberships decreased in 2017 compared to the prior year.

GARBAGE FUND: Garbage service is provided to the residents and is not a major source of revenue.

GENERAL FUND: The General Fund receives a majority of their revenues from property taxes and intergovernmental revenues.

EDA FUND: The EDA has been working to start a housing development within the city. The development was started in 2006 but was put on hold due to the developer and the housing market. The EDA will continue to work on this project and are also working to acquire unoccupied commercial property within the City. The EDA now owns apartment buildings it rents out.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

REPORTING THE CITY AS A WHOLE

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes therein. You can think of the City's net position, the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases and decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

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

- **Governmental Activities-** Most of the City's basic services are reported here, including the fire department, public works, parks and general administration. Property taxes and State and Federal grants finance most of these activities.
- **Business-type Activities-** The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer and garbage are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Our analysis of the City's major funds begins on page 13. The fund financial statements begin on page 13 and provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds- governmental and proprietary- use different accounting approaches.

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

**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

- Proprietary Funds - When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City's combined net position increased \$23,282 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1

Net Position	Governmental Activities		Business-Type Activities		2017
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>Total</u>
Current and other assets	\$380,918	\$333,954	\$215,331	\$330,595	\$596,249
Capital assets	453,596	504,722	360,718	395,001	814,314
Total assets	<u>834,514</u>	<u>838,676</u>	<u>576,049</u>	<u>725,596</u>	<u>1,410,563</u>
Deferred outflows	22,766	28,983	11,728	14,930	34,494
Long-term liabilities outstanding	59,944	79,664	269,204	453,986	
Other liabilities	5,324	4,717	41,215	40,557	46,539
Total liabilities	<u>65,268</u>	<u>84,381</u>	<u>310,419</u>	<u>494,543</u>	<u>375,687</u>
Deferred inflows	19,866	8,760	10,234	4,512	30,100
Net position					
Net investment in capital assets	453,596	504,722	94,718	24,007	548,314
Unrestricted	318,550	269,796	172,406	217,464	490,956
	<u>\$772,146</u>	<u>\$774,518</u>	<u>\$267,124</u>	<u>\$241,471</u>	<u>\$1,039,270</u>

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, for the City as a whole, as well as for its separate governmental and business-type activities.

**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Governmental activities. Governmental activities decreased the City's net position by \$2,371. Key elements of this decrease are as follows:

Table 2

Changes in Net Position	Governmental Activities		Business-type Activities		2017
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>Total</u>
Revenues:					
Charges for services	\$31,205	\$36,802	\$148,189	\$151,753	\$179,394
Operating Grants and contributions	16,253	10,398			16,253
Capital grants and contributions	700	0			700
General Revenues					
Property taxes	155,835	150,787			155,835
Special Assessments	912	425	38	204	912
Intergovernmental Revenue	75,508	76,227	10	148	75,508
Grants & Contributions not restricted to specific programs	773	1,210			773
Unrestricted Investment Earnings	1,026	963			1,026
Miscellaneous	10,535	11,313			10,535
Total Revenues	<u>292,747</u>	<u>288,125</u>	<u>148,237</u>	<u>152,105</u>	<u>440,984</u>
Expenses:					
General Administrative	143,858	139,848			143,858
Public Safety	54,344	66,079			54,344
Streets & Highways	69,712	62,492			69,712
Cultural & Recreation	10,771	15,016			10,771
Economic Development	2,446	2,460			2,446
Fitness Center	7,290	6,175			7,290
Depreciation - Unallocated	10,697	10,499			10,697
Water	0	0	79,646	92,217	79,646
Sewer	0	0	25,954	43,145	25,954
Garbage	0	0	12,984	12,970	12,984
Total expenses	<u>299,118</u>	<u>302,569</u>	<u>118,584</u>	<u>148,332</u>	<u>417,702</u>
Transfers	4,000	18,000	(4,000)	(18,000)	0
Increase (Decrease) in net position	(2,371)	3,556	25,653	(14,227)	23,282
Net Position, January 1	<u>774,517</u>	<u>770,961</u>	<u>241,471</u>	<u>255,698</u>	<u>1,015,988</u>
Net Position, December 31	<u>\$772,146</u>	<u>\$774,517</u>	<u>\$267,124</u>	<u>\$241,471</u>	<u>\$1,039,270</u>

The City's total net position increased in 2017 by \$23,282 and decreased in 2016 by \$10,671. The increase relates to significantly less costs in the water and sewer fund for chemical testing and repairs.

**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Governmental Activities

For 2017 and 2016, revenue for the City's governmental activities increased by 2 percent and decreased by 2 percent, while total expenses decreased by 8 percent in 2017 and increased by 8 percent in 2016. The increase is due to the City receiving the Small Cities Assistance in 2017 and none in 2016. Decrease in expenses relates to less repairs and maintenance and less depreciation expense in public safety.

Property tax levies were consistent with the prior year.

Table 3 presents the cost of each of the City's programs- general government, public safety, streets, culture and recreation and economic development- as well as each program's net cost. (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

Table 3 Governmental Activities

	Total Cost of Services	
	<u>2017</u>	<u>2016</u>
General Administration	\$143,858	\$139,848
Public Safety	54,344	66,079
Streets & Highways	69,712	62,492
Cultural & Recreation	10,771	15,016
Economic Development	2,446	2,460
Fitness Center Fund	7,290	6,175
Depreciation – Unallocated	<u>10,697</u>	<u>10,499</u>
Totals	<u><u>\$299,118</u></u>	<u><u>\$302,569</u></u>

Business-Type Activities

For 2017 and 2016, revenues of the City's business-type activities (see table 2) decreased 3 percent and increased 11 percent and the expenses decreased 20 percent and increased by 26 percent. The decrease in revenues relates to less utility sales. The decrease in expenses relates to less repairs and less costs for chemicals and testing in the sewer fund.

**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$370,058 and \$324,055 for 2017 and 2016. Operations of the City were generally similar to the prior year at the fund level. Increase in fund balance mainly relates to transfers in from the sewer fund as well as additional funds from the Small Cities Assistance.

General Fund Budgetary Highlights:

The City council did not amend the original budget during the current year. General fund revenues were \$23,913 and \$17,395 higher than budget for 2017 and 2016. This variance mainly relates to the Small Cities Assistance and Fire Aid. Expenditures were \$4,301 higher than budget in 2017 and \$29,131 higher than budget in 2016.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

In 2017 and 2016, the City had \$814,314 and \$899,723 invested in a broad range of capital assets. New additions include a saw, loader bucket and basketball court.

**Table 4
Capital Assets at Year End**

	Governmental Activities		Business-type Activities		2017
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>Total</u>
Land	\$27,987	\$27,987	\$0	\$0	\$27,987
Construction In Progress	0	0	0	0	0
Buildings & Improvements	388,959	388,959	602,050	602,050	991,009
Equipment	733,483	728,832	0	0	733,483
Totals	<u>1,150,429</u>	<u>1,145,778</u>	<u>602,050</u>	<u>602,050</u>	<u>1,752,479</u>
Less Accumulated Depreciation	<u>(696,833)</u>	<u>(641,056)</u>	<u>(241,332)</u>	<u>(207,049)</u>	<u>(938,165)</u>
Net Capital Assets	<u>\$453,596</u>	<u>\$504,722</u>	<u>\$360,718</u>	<u>\$395,001</u>	<u>\$814,314</u>

More detailed information about the City's capital assets is presented in Note 1 and Note 3.

**CITY OF MILROY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Debt

As shown in Table 5, the City has \$266,000 versus \$441,000 in debt versus last year. The City made an additional \$150,000 payment during the year.

Table 5

Debt at Year End

	Business-Type Activities	
	<u>2017</u>	<u>2016</u>
GO Utility Revenue Bond	<u>\$ 266,000</u>	<u>\$ 441,000</u>
Totals	<u>\$ 266,000</u>	<u>\$ 441,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2018 budget, tax rates and fees that will be charged for the business-type activities. The Council expects operations to remain consistent with 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, City of Milroy, PO Box 9, Milroy, MN 56263.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

Government-Wide Financial Statements

Fund Financial Statements:

Governmental Funds

Proprietary (Enterprise) Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**City of Milroy
Statement of Net Position
December 31, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ 366,373	\$ 200,612	\$ 566,985
Delinquent Taxes Receivable	7,947	--	7,947
Accounts Receivable	773	14,279	15,052
Special Assessments Receivable	150	440	590
Prepaid and Other Assets	5,675	--	5,675
Total Current Assets	380,918	215,331	596,249
<i>Noncurrent Assets</i>			
Non-Depreciable	27,987	--	27,987
Depreciable, Net	425,609	360,718	786,327
Total Assets	834,514	576,049	1,410,563
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	22,766	11,728	34,494
Total Deferred Outflows of Resources	22,766	11,728	34,494
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	3,303	2,223	5,526
Accrued Interest Payable	--	3,242	3,242
Deposits	1,100	9,750	10,850
Unearned Revenue	921	--	921
Bonds Payable-due within one year	--	26,000	26,000
Total Current Liabilities	5,324	41,215	46,539
<i>Noncurrent Liabilities</i>			
Accrued Leave	5,170	988	6,158
Bonds Payable-due beyond one year	--	240,000	240,000
Net Pension Liability	54,774	28,216	82,990
Total Liabilities	65,268	310,419	375,687
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	19,866	10,234	30,100
Total Deferred Inflows of Resources	19,866	10,234	30,100
NET POSITION			
Net Investment in Capital Assets	453,596	94,718	548,314
<i>Unrestricted</i>	318,550	172,406	490,956
Total Net Position	\$ 772,146	\$ 267,124	\$ 1,039,270

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

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

Functions/Programs	Program Revenues			Net (Expense) Revenue		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-type Activities	Total
Primary Government						
Governmental Activities:						
General Government and Administration	\$ 143,858	\$ -	\$ -	\$ (140,513)	\$ -	\$ (140,513)
Public Safety	54,344	9,434	700	(30,275)	-	(30,275)
Streets and Highways	69,712	6,819	-	(62,893)	-	(62,893)
Culture and Recreation	10,771	-	-	(10,771)	-	(10,771)
Fitness Center	7,290	-	-	35	-	35
Depreciation-Unallocated	10,697	-	-	(10,697)	-	(10,697)
Economic Development	2,446	-	-	4,154	-	4,154
Total Governmental Activities	299,118	16,253	700	(250,960)	-	(250,960)
Business-type Activities:						
Garbage	12,984	-	-	-	2,581	2,581
Sewer	25,954	-	-	-	42,786	42,786
Water	79,646	-	-	-	(15,762)	(15,762)
Total Business-type Activities	118,584	-	-	-	29,605	29,605
Total Primary Government	\$ 417,702	\$ 16,253	\$ 700	\$ (250,960)	\$ 29,605	\$ (221,355)
General Purpose Revenues and Transfers:						
Revenues						
Taxes				155,835	-	155,835
Special Assessments				912	38	950
Local Government Aid				61,747	-	61,747
Interest Revenue				1,026	-	1,026
Other State Aid				13,761	10	13,771
Donations				773	-	773
Insurance Dividends				1,085	-	1,085
Other				8,800	-	8,800
Refunds and Reimbursements				650	-	650
Transfers				4,000	(4,000)	-
Total General Revenues and Transfers				248,589	(3,952)	244,637
Change in Net Position				(2,371)	25,653	23,282
<i>Net Position at Beginning of Period</i>				774,517	241,471	1,015,988
Net Position at End of Period				\$ 772,146	\$ 267,124	\$ 1,039,270

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

**City of Milroy
Balance Sheet
Governmental Funds
December 31, 2017**

	<u>Special Revenue</u>			Total Governmental Funds
	<u>General</u>	<u>Fire</u>	<u>Other Governmental Funds</u>	
ASSETS				
Cash and Cash Equivalents	\$ 225,112	\$ 99,592	\$ 41,669	\$ 366,373
Delinquent Taxes Receivable	7,947	--	--	7,947
Accounts Receivable	--	773	--	773
Special Assessments Receivable	150	--	--	150
Prepaid and Other Assets	5,675	--	--	5,675
<i>Total Assets</i>	<u>238,884</u>	<u>100,365</u>	<u>41,669</u>	<u>380,918</u>
DEFERRED OUTFLOWS OF RESOURCES				
Aggregated deferred outflows	--	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 238,884</u>	<u>\$ 100,365</u>	<u>\$ 41,669</u>	<u>\$ 380,918</u>
LIABILITIES				
Accounts Payable	\$ 2,714	\$ 264	\$ 325	\$ 3,303
Deposits	--	--	1,100	1,100
Unearned Revenue	--	--	921	921
<i>Total Liabilities</i>	<u>2,714</u>	<u>264</u>	<u>2,346</u>	<u>5,324</u>
DEFERRED INFLOWS OF RESOURCES				
Delinquent Property Taxes	5,536	--	--	5,536
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>8,250</u>	<u>264</u>	<u>2,346</u>	<u>10,860</u>
FUND BALANCE				
Nonspendable	5,675	--	--	5,675
Committed	48,970	100,101	5,503	154,574
Assigned	--	--	33,820	33,820
Unassigned	175,989	--	--	175,989
<i>Total Fund Balance</i>	<u>230,634</u>	<u>100,101</u>	<u>39,323</u>	<u>370,058</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 238,884</u>	<u>\$ 100,365</u>	<u>\$ 41,669</u>	<u>\$ 380,918</u>

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

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

Total Fund Balance - Governmental Funds	\$	370,058
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Net Position		(5,170)
Capital assets are capitalized in the Statement of Net Position and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.		453,596
Receivables to be collected, but not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows.		5,536
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in the funds.		(54,774)
Pension related deferred inflows are not due and payable in the current period from current financial resources, and therefore are not reported in funds.		(19,866)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		22,766
Total Net Position-Governmental Funds	\$	<u>772,146</u>

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

City of Milroy
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2017

	<u>Special Revenue</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Fire</u>	<u>Other Governmental Funds</u>	
Revenues				
Taxes	\$ 154,990	\$ --	\$ --	\$ 154,990
Special Assessments	1,403	--	--	1,403
Local Government Aid	61,747	--	--	61,747
Grants	--	700	--	700
Other State Aid	19,494	10,500	--	29,994
Licenses, Permits, Fines, and Fees	3,345	--	--	3,345
Charges for Services	--	13,935	13,925	27,860
Refunds and Reimbursements	--	650	--	650
Donations	450	323	--	773
Insurance Dividends	1,085	--	--	1,085
Other	7,517	1,220	63	8,800
Interest Revenue	670	356	--	1,026
Total Revenues	<u>250,701</u>	<u>27,684</u>	<u>13,988</u>	<u>292,373</u>
Expenditures				
General Government and Administration	143,422	--	--	143,422
Public safety	12,934	19,089	--	32,023
Streets and Highways	51,525	--	--	51,525
Culture and Recreation	5,513	--	--	5,513
Economic Development	--	--	2,446	2,446
Fitness Center	--	--	7,290	7,290
Capital Outlay	6,671	1,480	--	8,151
Total Expenditures	<u>220,065</u>	<u>20,569</u>	<u>9,736</u>	<u>250,370</u>
Excess of Revenues Over (Under) Expenditures	<u>30,636</u>	<u>7,115</u>	<u>4,252</u>	<u>42,003</u>
Other Financing Sources (Uses)				
Transfers from Other Funds	4,000	13,000	--	17,000
Transfers to Other Funds	(13,000)	--	--	(13,000)
Net Other Financing Sources (Uses)	<u>(9,000)</u>	<u>13,000</u>	<u>--</u>	<u>4,000</u>
Net Change in Fund Balance	21,636	20,115	4,252	46,003
<i>Fund Balance at Beginning of Period</i>	208,998	79,986	35,071	324,055
Fund Balance at End of Period	<u>\$ 230,634</u>	<u>\$ 100,101</u>	<u>\$ 39,323</u>	<u>\$ 370,058</u>

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

City of Milroy
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended December 31, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	46,003
Revenue that will not be collected for several months after the City's year end are not considered available revenues in the governmental funds, and are instead considered deferred inflows.		354
Capital assets expensed as capital outlay in governmental fund statements, capitalized as capital assets in Statement of Net Position.		8,151
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements		(58,708)
The net effect of various transactions involving capital assets (i.e. Sales, trade-ins, and contributions) is to increase net position.		(569)
Accrued leave is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued leave is not reported as an expenditure in the government funds.		4,829
Governmental funds recognized pension contributions as expenditures at the time of payment, whereas the statement of activities factors in items related to pension on a full accrual perspective.		
State Aid Related to Pension Expense		20
Pension Expense		(2,451)
Changes in Net Position-Governmental Funds	\$	<u>(2,371)</u>

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

City of Milroy
Statement of Net Position
Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Non-Major Garbage	Total Enterprise Funds
ASSETS				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 165,729	\$ 10,235	\$ 24,648	\$ 200,612
Accounts Receivable	9,397	3,064	1,818	14,279
Special Assessments Receivable	327	113	--	440
Total Current Assets	175,453	13,412	26,466	215,331
<i>Noncurrent Assets</i>				
Depreciable, Net	17,588	343,130	--	360,718
Total Assets	193,041	356,542	26,466	576,049
DEFERRED OUTFLOWS OF RESOURCES				
Related to Pensions	5,864	5,864	--	11,728
Total Deferred Outflows of Resources	5,864	5,864	--	11,728
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	288	463	1,472	2,223
Accrued Interest Payable	--	3,242	--	3,242
Deposits	--	9,750	--	9,750
Bonds Payable-due within one year	--	26,000	--	26,000
Total Current Liabilities	288	39,455	1,472	41,215
<i>Noncurrent Liabilities</i>				
Accrued Leave	494	494	--	988
Bonds Payable-due beyond one year	--	240,000	--	240,000
Net Pension Liability	14,108	14,108	--	28,216
Total Liabilities	14,890	294,057	1,472	310,419
DEFERRED INFLOWS OF RESOURCES				
Related to Pensions	5,117	5,117	--	10,234
Total Deferred Inflows of Resources	5,117	5,117	--	10,234
NET POSITION				
Net Investment in Capital Assets	17,588	77,130	--	94,718
<i>Unrestricted</i>	161,310	(13,898)	24,994	172,406
Total Net Position	\$ 178,898	\$ 63,232	\$ 24,994	\$ 267,124

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

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

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Non-Major Garbage	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$ 41,227	\$ 36,361	\$ 15,565	\$ 93,153
Improvement Fees	27,513	27,523	--	55,036
Other State Aid	5	5	--	10
Special Assessments	19	19	--	38
Total Operating Revenues	68,764	63,908	15,565	148,237
Operating Expenses				
Sewer Operations	4,379	--	--	4,379
Water Operations	--	12,825	--	12,825
Garbage Operations	--	--	12,984	12,984
Depreciation	2,504	31,780	--	34,284
Salaries and Wages	12,324	12,324	--	24,648
Payroll taxes and Benefits	2,582	2,582	--	5,164
Dues/Conferences/Training	745	794	--	1,539
Office Supplies and Expenses	531	576	--	1,107
Telephone	160	160	--	320
Utilities	2,222	1,720	--	3,942
Repairs and Maintenance	203	3,133	--	3,336
Miscellaneous	52	52	--	104
Shop Supplies	252	866	--	1,118
Total Operating Expenses	25,954	66,812	12,984	105,750
Operating Income (Loss)	42,810	(2,904)	2,581	42,487
Non-Operating Revenues (Expenses)				
Interest Expense	--	(10,509)	--	(10,509)
Bond Costs	--	(2,325)	--	(2,325)
Net Non-Operating Revenues (Expenses)	--	(12,834)	--	(12,834)
Income Before Contributions and Transfers	42,810	(15,738)	2,581	29,653
Transfers from Other Funds	--	15,000	--	15,000
Transfers to Other Funds	(19,000)	--	--	(19,000)
Change In Net Position	23,810	(738)	2,581	25,653
<i>Net Position at Beginning of Period</i>	155,088	63,970	22,413	241,471
Net Position at End of Period	\$ 178,898	\$ 63,232	\$ 24,994	\$ 267,124

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

City of Milroy
Statement of Cash Flows-Proprietary Funds
For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds			
	Major Sewer	Water	Non-Major Garbage	Total Enterprise Funds
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 68,087	\$ 63,749	\$ 15,534	\$ 147,370
Cash Paid to Employees	(12,879)	(12,879)		(25,758)
Cash Paid for Goods and Services	(10,212)	(21,688)	(12,576)	(44,476)
Net Cash Provided (Used) by Operating Activities	45,020	29,187	2,958	77,165
Cash Flows from Non-Capital Financing Activities:				
Operating Transfers In (Out)	(19,000)	15,000	-	(4,000)
Net Cash Provided (Used) by Noncapital Financing Activities	(19,000)	15,000	-	(4,000)
Cash Flows from Capital and Related Financing Activities:				
Bond Costs	-	(2,325)	-	(2,325)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(189,966)	-	(189,966)
Net Increase (Decrease) in Cash and Cash Equivalents	26,020	(145,779)	2,958	(116,801)
Cash and Cash Equivalents - Beginning of Year	139,709	156,014	21,690	317,413
Cash and Cash Equivalents - End of Year	\$ 165,729	\$ 10,235	\$ 24,648	\$ 200,612

Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities

Cash Flows From Operating Activities:				
Operating Income (Loss)	\$ 42,810	\$ (2,904)	\$ 2,581	\$ 42,487
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	2,504	31,780	-	34,284
Change in Pension Expense	626	626	-	1,252
Changes in Assets and Liabilities:				
Accounts Receivable	(634)	(835)	(31)	(1,500)
Accounts Payable	288	394	408	1,090
Accrued Leave	(555)	(555)	-	(1,110)
Water Deposits	-	700	-	700
Net Cash Provided (Used) by Operating Activities	\$ 45,020	\$ 29,187	\$ 2,958	\$ 77,165

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

City of Milroy
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u> <u>Final to Actual</u>
Revenues				
Property Taxes	\$ 155,000	\$ 155,000	\$ 154,990	\$ (10)
Special Assessments	--	--	1,403	1,403
Licenses and Permits	3,500	3,500	3,345	(155)
Local Government Aid	61,747	61,747	61,747	--
Small Cities Assistance	--	--	6,819	6,819
PERA Aid	241	241	241	--
Fire Aid	3,500	3,500	9,434	5,934
Donations	--	--	450	450
Interest Revenue	300	300	670	370
Insurance Dividends	500	500	1,085	585
Miscellaneous	2,000	2,000	10,517	8,517
Total Revenues	<u>226,788</u>	<u>226,788</u>	<u>250,701</u>	<u>23,913</u>
Other Financing Sources				
Transfers in	4,000	4,000	4,000	--
Total Revenues and Other Financing Sources	<u>230,788</u>	<u>230,788</u>	<u>254,701</u>	<u>23,913</u>
Expenditures				
General Government:				
Mayor and Council Salaries	5,000	5,000	4,825	175
Clerk-Treasurer Salaries	49,500	49,500	49,469	31
Clerk-Treasurer Payroll Taxes and Benefits	11,752	11,752	14,596	(2,844)
Employee Health Insurance	21,258	21,258	21,234	24
Assessor Salaries	2,900	2,900	2,900	--
Travel	1,300	1,300	1,421	(121)
Bonds and Insurance	15,000	15,000	15,158	(158)
Professional Fees	10,500	10,500	14,079	(3,579)
Property Taxes/Ditch Lien	425	425	405	20
Dues/Conferences/Training	2,100	2,100	2,863	(763)
Office Supplies	4,000	4,000	2,727	1,273
Telephone	3,800	3,800	4,318	(518)
Utilities	10,000	10,000	7,809	2,191
Building Repairs and Maintenance	950	950	49	901
Miscellaneous	600	600	1,544	(944)
Capital Outlay	2,000	2,000	--	2,000
Total General Government	<u>141,085</u>	<u>141,085</u>	<u>143,397</u>	<u>(2,312)</u>

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

City of Milroy
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund - Continued
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u> <u>Final to Actual</u>
Public Safety:				
Ambulance Dues	500	500	500	--
Volunteer Retention Stipend	--	--	3,000	(3,000)
State Relief Association Aid	3,500	3,500	9,434	(5,934)
Total Public Safety	4,000	4,000	12,934	(8,934)
Public Works:				
Equipment and Repairs	100	100	--	100
Salaries	17,500	17,500	15,643	1,857
Payroll Taxes	2,450	2,450	2,163	287
Shop Supplies	1,500	1,500	936	564
Shop Utilities	7,090	7,090	6,824	266
Repairs and Maintenance	1,200	1,200	3,155	(1,955)
Sealcoating & Crack filling	10,000	10,000	14,880	(4,880)
Vehicle Operating Expenditures	5,200	5,200	5,453	(253)
Miscellaneous	2,384	2,384	2,496	(112)
Capital Outlay	16,800	16,800	2,410	14,390
Total Public Works	64,224	64,224	53,960	10,264
Culture and Recreation:				
Salaries	600	600	185	415
Payroll Taxes	52	52	14	38
Repairs and Maintenance	200	200	3,028	(2,828)
Utilities	500	500	399	101
Summer Recreation Program	2,500	2,500	640	1,860
Supplies/Miscellaneous	2,103	2,103	1,247	856
Capital Outlay	500	500	4,261	(3,761)
Total Culture and Recreation	6,455	6,455	9,774	(3,319)
Total Expenditures	215,764	215,764	220,065	(4,301)
Other Financing Uses				
Transfers to Other Funds	13,000	13,000	13,000	--
Total Expenditures and Other Financing Uses	228,764	228,764	233,065	(4,301)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses				
	2,024	2,024	21,636	19,612
Net Change in Fund Balance	2,024	2,024	21,636	19,612
<i>Fund Balance at Beginning of Period</i>	208,998	208,998	208,998	--
Fund Balance at End of Period	\$ 211,022	\$ 211,022	\$ 230,634	\$ 19,612

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

City of Milroy
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Fire
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final to Actual</u>
Revenues				
State Grants	\$ --	\$ --	\$ 700	\$ 700
Volunteer Fire Stipend	11,500	11,500	10,500	(1,000)
Refunds and Reimbursements	--	--	650	650
Interest Revenue	300	300	356	56
Miscellaneous	400	400	1,543	1,143
User charges	13,500	13,500	13,935	435
Total Revenues	<u>25,700</u>	<u>25,700</u>	<u>27,684</u>	<u>1,984</u>
Other Financing Sources				
Transfers from Other Funds	7,000	7,000	13,000	6,000
Total Revenues and Other Financing Sources	<u>32,700</u>	<u>32,700</u>	<u>40,684</u>	<u>7,984</u>
Expenditures				
Salaries	14,000	14,000	12,875	1,125
Payroll Taxes	1,170	1,170	1,023	147
Professional Fees	1,647	1,647	1,647	--
Dues/Conferences/Training	950	950	879	71
Supplies	1,950	1,950	1,069	881
Repairs/Maintenance	6,825	6,825	1,005	5,820
Civil Defense Per Diem	500	500	500	--
Utilities	95	95	91	4
Capital Outlay	1,000	1,000	1,480	(480)
Total Expenditures	<u>28,137</u>	<u>28,137</u>	<u>20,569</u>	<u>7,568</u>
Other Financing Uses				
Transfers to Other Funds	6,000	6,000	--	6,000
Total Expenditures and Other Financing Uses	<u>34,137</u>	<u>34,137</u>	<u>20,569</u>	<u>13,568</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(1,437)</u>	<u>(1,437)</u>	<u>20,115</u>	<u>21,552</u>
Net Change in Fund Balance	<u>(1,437)</u>	<u>(1,437)</u>	<u>20,115</u>	<u>21,552</u>
<i>Fund Balance at Beginning of Period</i>	<u>79,986</u>	<u>79,986</u>	<u>79,986</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ 78,549</u>	<u>\$ 78,549</u>	<u>\$ 100,101</u>	<u>\$ 21,552</u>

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

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has not chosen to do so.

The more significant accounting policies established by GAAP and used by the City are discussed below.

A. REPORTING ENTITY

The City of Milroy, Minnesota (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted. The City was formed and operates pursuant to applicable Minnesota laws and statutes. The City operates under an elected Mayor and four member council form of government. The council has control over all activities related to the City of Milroy. The City provides the following services: sanitation, recreation, public improvements, planning and zoning, and general administrative services.

These financial statements present the City (the primary government), which has no component units. The City follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* to define the reporting entity. The City includes all component units of which the City appointed a voting majority of the unit's board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Unit

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity to comprise the primary government presentation. Currently, the City has one blended component unit, the Economic Development Authority.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

Related Organization

A related organization is excluded from the financial reporting entity. The City's accountability does not extend beyond the Mayor, Clerk-Treasurer and Fire Chief being ex officio members of the board. The related organization is as follows:

Milroy Fire Relief Association – The Association is organized as a non-profit organization by its members to provide pension and other benefits to members in accordance with Minnesota statutes. The Association's Board of Directors consists of seven members elected by the membership of the Association and three ex officio members, the Mayor, Clerk-Treasurer and Fire Chief. All funding is obtained in accordance with Minnesota statutes whereby state aids and tax levies, which are determined by the Association, flow through the City to the Association. The Association pays benefits directly to its members.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. They include all funds of the reporting entity except for fiduciary funds (of which, the City has none).

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

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

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues subject to accrual are property taxes, interest on investments, and intergovernmental revenues. Property taxes are recorded as revenues in the fiscal year in which they are levied, provided they are collected in the current period or within sixty days thereafter. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The emphasis in fund financial statements is on major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column on the fund financial statements.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The city maintains fire, economic development and fitness center special revenue funds.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains water, sewer and garbage enterprise funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources not accounted for and reported in another fund.

The *Fire Fund* accounts for all activities of the fire fund.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the operations of the City's water system.

The *Sewer Fund* accounts for the operations of the City's sewer system.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The City has elected not to follow subsequent private sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

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

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

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE

Deposits and Investments

For the purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

Receivables and Payables

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

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Receivables and Payables (Continued)

All trade (utility) and property tax receivables are shown at a gross amount, since both taxes and trade (utility) receivable are assessable to the property taxes and are collectible upon sale of the assessed property.

The City levies its property tax for the subsequent year during the month of October. Property taxes attach as an enforceable lien on property as of January 1. Revenues are accrued and recognized in the year collectible.

December 31 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The County Auditor makes up the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City. Assessments receivable consist of the portion of improvements made by the City and charged against the properties affected.

These assessments are payable with interest over a period of years. The County Auditor remits a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January each year. The County Treasurer mails copies of all real estate and personal property tax statements.

Real property taxes may be paid in two equal installments. The first payment is due on May 15 for both non-agricultural and agricultural property and the second payment is due on October 15 for non-agricultural property and November 15 for agricultural property. Personal property taxes may be paid on May 15 and October 15. The County is the collection agent for the levy. The County provides tax settlements to cities and other taxing districts three times a year in January, June, and December. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

Portions of the tax levy paid by the state in the form of fair value assistance are included in intergovernmental revenue. Only that portion collected directly from property owners is reflected in tax revenue. Delinquent property taxes are deferred and recognized when received or in the hands of the collection agency in the fund financial statements since they do not constitute "available spendable resources". In the government-wide financial statements, under the accrual basis of accounting, they are recognized as revenues since they are earned. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid expenditures of governmental funds are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

Capital Assets

Capital assets are defined by the City as assets with an initial individual cost of \$1,000 or more and an estimated life in excess of one year. Capital assets include property, plant, equipment, infrastructure assets (i.e., roads, bridges, sidewalks, drainage, and similar items), and intangible assets (i.e. internally generated computer software) are reported in the application governmental or business-type activities column of the government-wide financial statements.

Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation.

GASB No. 34 required that the City report and depreciate new infrastructure assets effective fiscal year ending December 31, 2004. Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to December 31, 2003, were not required to be capitalized by the City. These infrastructure assets are likely to be the largest asset class of the City. Neither the historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required for cities of this size. City has elected not to record infrastructure values retroactively as allowed by accounting principles generally accepted in the United States of America.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Capital Assets (Continued)

The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the City as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the governmental activities column of the government-wide statement of net position.

Capital assets of the enterprise funds are capitalized in the funds.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements and in the enterprise fund financial statements, the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided using the straight-line method over the following estimated useful lives of the assets:

Land	Not Depreciated
Infrastructure	15-65 Years
Buildings	10-50 Years
Improvements	15-50 Years
Machinery and Equipment	3-20 Years

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 premium and discounts, as well as issuance costs, are recognized as an outflow of resources and expensed in the period they are incurred. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported separately and expensed in the period they are incurred.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Long-Term Obligations (Continued)

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

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements and the proprietary fund types. In the governmental funds of the fund financial statements, vacation and sick pay are recorded as expenditures and accrued as a current liability only if they have matured, for example, as a result of employee's resignations and retirements. These are liquidated according to the fund they relate to.

Employees earn paid vacation at the rate of 4 hours per pay period for the first five years of service, 5 hours per pay period for years 6-8, 7 hours per pay period for years 9-12, 7.5 hours per pay period for years 13-17 and 8 hours per pay period for years 18 plus. Vacation leave may be carried over from year to year, up to a maximum of two times the amount earned in a year. Upon retirement or termination of employment in good standing, employees are entitled to receive pay for their unused vacation leave as severance pay. These hours will be prorated. The liability for unused vacation pay is recorded as accrued wages and benefits on the Statement of Net Position. Vacation time is paid out 100 percent.

Employees receive 4 hours of sick leave per pay period regardless of the number of years of service. Sick/personal days can be carried over to the next year and an employee can accumulate up to 25 days or 200 hours, anything over is lost at year end. Unused sick/personal days are paid upon termination at 50 percent.

Fund Balance Classifications

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Fund Balance Classifications (Continued)

- Nonspendable fund balance – consists of amounts that cannot be spent because it is not in spendable form, such as inventory; or are legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors, bondholders, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. To be reported as committed, amounts cannot be used for any other purpose unless the City Council removes or changes that specified use by taking the same type of action it employed to previously commit those amounts.
- Assigned fund balance – consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- Unassigned fund balance – consists of amounts that are available for any purpose. Positive amounts are reported only in the general fund. It also reflects negative residual amounts in other funds.

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

The City Council has formally adopted a fund balance policy for the General Fund. The City's policy is to maintain a minimum unassigned fund balance between the range of 35%-50% of budgeted operating expenditures for cash flow timing needs. At December 31, 2017, the unassigned fund balance of the General Fund was 75% of the subsequent year's budgeted expenditures.

Net Position Classifications

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

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

**CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Deferred Outflows/Inflows of Resources

The City of Milroy implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65 Items Previously Reported as Assets and Liabilities for the year ended December 31, 2013. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City of Milroy currently recognizes deferred outflows relating to pensions for reporting in this category. The length of the expense recognition period for deferred amounts related is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

In addition to liabilities, 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, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflows of resources (revenue) until that time. The City of Milroy has two types of items that qualify for reporting in this category; unearned property taxes and deferred inflows relating to pensions. These amounts are deferred and recognized as inflows of resources in the period that the amount is earned. Deferred amounts relating to pensions represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

As of December 31, 2017, the City has deferred outflows/inflows as follows:

	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>
Unearned Property Taxes	\$ -	\$ 5,536
Amounts relating to Pensions	34,494	30,100

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. PENSIONS

For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Pensions are allocated between governmental activities and business-type activities in accordance with the allocation of employee's wages. Approximately 66% is allocated to governmental and 34% to business-type.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgets

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General Fund. Budgets have not been adopted for the major Small Cities Development Special Revenue Fund as prescribed by Government Auditing Standards.

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

1. The department heads submit to the city clerk a budget of estimated expenditures for the ensuing year after which the City Clerk subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15.
2. Upon receipt of the budget estimates, the Council holds a public hearing on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. BUDGETARY INFORMATION (Continued)

3. At least ten days prior to October 1, the budget is legally enacted through the passage of an ordinance. The City Clerk is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revision that alters the total expenditures of any fund must be approved by the City Council.
4. Budgeted amounts are as originally adopted by the City Council. All supplemental appropriations require the approval of the City Council. There were no amendments to the original appropriations. The City prepared and adopted a legal budget.
5. All budgeted appropriations lapse at the end of the year. The legal level of budgetary control is at the functional level.

All budget amounts presented reflect the original budget and the final budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). The General Fund utilized the same basis of accounting for both budgetary purposes and actual results.

Encumbrances

The City does not utilize encumbrance accounting.

B. FUND BALANCE CLASSIFICATION

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

	General Fund	Fire Fund	Other Governmental Funds	Totals
Nonspendable:				
Prepaid items	\$5,675	\$0	\$0	\$5,675
Committed to:				
Capital Acquisition	13,445	100,101	5,503	119,049
Sealcoating/Crack filling	35,525	0	0	35,525
Assigned:				
Fitness Center	0	0	10,061	10,061
Economic Development	0	0	23,759	23,759
Unassigned	175,989	0	0	175,989
Total Fund Balances	\$230,634	\$100,101	\$39,323	\$370,058

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following fund had excess expenditures over appropriations as of December 31, 2017:

General Fund \$4,301

D. DEFICIT FUND BALANCES

There were no funds with a deficit fund balances as of December 31, 2017.

E. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

Minnesota Statutes §475.53, subd. 3 limits the amount of outstanding general obligation bonded debt of the municipality. The City complies with such laws.

NOTE 3. DETAIL NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The City maintains a pooled cash and investment portfolio that is used by substantially all City funds using the pooled deposit and investment concept. This concept provides the City with the ability to maximize earnings on idle monies while ensuring the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the City Council.

Investment income derived from the pooled funds is allocated to respective funds on the basis of applicable cash balance participation by each fund.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Deposits

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all City deposits be insured, protected by surety bond or collateralized, and the fair value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

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

According to Minnesota Statutes, government depositors receive \$250,000 FDIC coverage for their demand accounts and a separate \$250,000 FDIC coverage for their time/savings accounts if the bank is located in the same state as the government entity. If the depository bank is located in a different state, there is just one \$250,000 coverage available for all demand and time/savings accounts combined.

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of \$567,129 at December 31, 2017, that was fully insured by depository insurance or secured with collateral held by the City's agent in its name. The carrying amount of these deposits at December 31, 2017 was \$566,985.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Investment Policy

The City has an adopted investment policy, conforming to all applicable laws of the State of Minnesota, which serves as the guide to deposit and investment of operating funds which are managed within the City's pooled cash and investment portfolio. This policy sets for the City's investment objectives as well as authorized and suitable deposits and investments, and serves as a guide to proper diversification, maturity constraints, internal controls, and performance measurement. The foremost objective of the City's investment program as set forth by the investment policy is preservation of capital and protection of investment principal. Investment decisions are made under the assumption that except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

Separate investment policies or agreements may exist to address proceeds from certain bond issues or debt service funds in accordance with arbitrage rebate requirements.

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- a.) Direct obligations or obligations guaranteed by the United States or its agencies.
- b.) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c.) General obligations of the State of Minnesota or its municipalities.
- d.) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- e.) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less;
- f.) Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- g.) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- h.) Guaranteed investment contract (GIC's) issued or guaranteed by United States Commercial Banks or domestic branches of foreign banks or United State insurance company and with a credit quality in one of the top two highest categories.

The City does not have any investment policies that would further limit investment choices.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Investment Policy (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of the investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Under the City's investment policy the City is required to mitigate its exposure to interest rate risk as follows:

- Purchasing a combination of shorter and longer term investments.
- Timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operation.
- Monitoring the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.
- Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five (5) years from the date of purchase.
- The average weighted maturity of the portfolio should not exceed three (3) years.
- Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with expected use of funds.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the City limits their investment options to those authorized by the State of Minnesota as described above.

Concentrations of Credit Risk

The risk of loss attributed to the magnitude of the City's investments in a single issuer. The City places no limit on the amount that may be invested in any one issuer. As of December 31, 2017 the City had no investments.

Custodial Credit Risk

For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of December 31, 2017 the City had no investments.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

B. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable. No allowance for uncollectible accounts is deemed necessary at year end.

Accounts receivable of the governmental activities consist almost entirely of delinquent taxes. The balance as of December 31, 2017 is \$8,097. Delinquent taxes and special assessments have been offset by deferred inflows of resources for delinquent taxes and special assessments not received within 60 days after year-end in the governmental fund financial statements. The deferred inflow amount as of December 31, 2017 is \$5,536.

C. CAPITAL ASSETS

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

Governmental Activities:	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
Capital Assets Not Being Depreciated:				
Land	\$27,987	\$0	\$0	\$27,987
Total Capital Assets Not Being Depreciated	27,987	0	0	27,987
Capital Assets Being Depreciated:				
Buildings and Improvements	388,959	0	0	388,959
Machinery and Equipment	728,832	8,151	3,500	733,483
Total Capital Assets Being Depreciated	1,117,791	8,151	3,500	1,122,442
Less Accumulated Depreciation for:				
Buildings and Improvements	161,128	15,389	0	176,517
Machinery and Equipment	479,928	43,319	2,931	520,316
Total Accumulated Depreciation	641,056	58,708	2,931	696,833
Total Capital Assets Being Depreciated, Net	476,735			425,609
Governmental Activity Capital Assets, Net	<u>\$504,722</u>			<u>\$453,596</u>

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

C. CAPITAL ASSETS (Continued)

Business-Type Activities:	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
Capital Assets Being Depreciated:				
Equipment and Improvements	\$602,050	\$0	\$0	\$602,050
Total Capital Assets Being Depreciated	<u>602,050</u>	<u>0</u>	<u>0</u>	<u>602,050</u>
Less Accumulated Depreciation for:				
Equipment and Improvements	207,048	34,283	0	241,332
Total Accumulated Depreciation	<u>207,048</u>	<u>34,283</u>	<u>0</u>	<u>241,332</u>
Total Capital Assets Being Depreciated, Net	<u>395,001</u>			<u>360,718</u>
Business-Type Activity Capital Assets, Net	<u><u>\$395,001</u></u>			<u><u>\$360,718</u></u>

Depreciation Expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General Government	\$2,748	Water	\$31,780
Public Safety	22,321	Garbage	0
Street and Highways	18,253	Sewer	<u>2,504</u>
Culture & Recreation	4,689	Total Depreciation Expense-	
Depreciation-Unallocated	<u>10,697</u>	Business-Type Activities	<u><u>\$34,283</u></u>
Total Depreciation Expense-			
Governmental Activities	<u><u>\$58,708</u></u>		

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

D. ACCOUNTS PAYABLE

Payables in the general, major governmental funds and enterprise funds are composed almost entirely of payables to vendors.

E. LONG-TERM LIABILITIES

Description of Long-Term Debt

Long-term debt is comprised of the following as of December 31, 2017:

<u>Issuance</u>	<u>Original</u> <u>Issuance</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Debt</u> <u>Outstanding</u>
Business Type Activities:				
GO Utility Revenue Bond	\$451,000	02/01/30	2.95%	<u>\$266,000</u>
Total Outstanding Long-term Debt				<u><u>\$266,000</u></u>

General Obligation Revenue Bonds

The City issues general obligation revenue bonds to provide funds for the acquisition and construction of major capital improvements. General obligation revenue bonds have been issued for the water fund, which is also the fund used to liquidate the debt. The bonds are direct obligations and pledge the full faith, credit and taxing power of the City. Interest paid in 2017 was \$10,509.

Minimum Debt Payments

Minimum annual principal and interest payments to retire general obligation bonds payable are as follows:

Business-Type Activities	Revenue Bonds	
	<u>Principal</u>	<u>Interest</u>
12/31/2018	\$26,000	\$7,464
12/31/2019	27,000	6,682
12/31/2020	28,000	5,871
12/31/2021	29,000	5,030
12/31/2022	30,000	4,160
2023 to 2027	<u>126,000</u>	<u>7,405</u>
Total	<u><u>\$266,000</u></u>	<u><u>\$36,612</u></u>

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

E. LONG-TERM LIABILITIES (Continued)

Changes in Long-Term Liabilities

	Balance <u>12/31/16</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/17</u>	Due in <u>One Year</u>
Governmental Activities:					
Accrued Leave	\$9,999	\$5,886	\$10,715	\$5,170	\$0
Net Pension Liability	69,665	8,324	23,214	54,775	0
Total Governmental Activities	79,664	14,210	33,930	59,944	0
Business-Type Activities:					
GO Utility Revenue Bond	441,000		175,000	266,000	26,000
Accrued Leave	2,098	1,599	2,708	988	0
Net Pension Liability	35,888	4,288	11,959	28,217	0
Total Business-Type Activities	478,986	5,887	189,667	295,205	26,000
	558,650	20,097	223,597	355,150	26,000

F. INTERFUND TRANSACTIONS

Inter-fund Transfers

Transfers between funds of the primary government for the year ended December 31, 2017 were as follows:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General	Fire	Operations	\$7,000
General	Fire	Truck Fund Contribution	\$6,000
Sewer	General	Operations	\$4,000
Sewer	Water	Debt Payment	\$15,000

Inter-fund Balances

At December 31, 2017, there were no inter-fund balances.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The City participates in the League of Minnesota Cities Intergovernmental Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota cities. All cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to participating cities if a deficiency occurs. The LMCIT is self-sustaining through member premiums and re-insures through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies.

As of December 31, 2017, the City did not have any claims which were probable and measurable and therefore no liability is recorded in the financial statements presented. The City has not had any claims which exceeded its deductible during the past three years.

B. COMMITMENTS AND CONTINGENCIES

Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning authority, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as the result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The City is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

While the outcome of potential litigation cannot be predicted, due to the insurance coverage maintained by the City, the City feels that the settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

C. FEDERAL AIDS – SINGLE AUDIT ACT

The City expended less than \$750,000 of federal financial assistance and is exempt from the audit requirements of the Single Audit Act and all other federal audit requirements.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. PLAN DESCRIPTION

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

General Employees Retirement Plan

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

B. BENEFITS PROVIDED

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature.

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

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

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

B. BENEFITS PROVIDED (Continued)

General Employees Plan Benefits

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

C. CONTRIBUTIONS

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.5 percent, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the years ended December 31, 2017, 2016, and 2015 were \$6,608, \$6,409 and \$6,022, respectively. The City's contributions were equal to the required contributions as set by the state statute.

D. PENSION COSTS

General Employee Fund Pension Costs

At December 31, 2017, the City reported a liability of \$82,991 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 \$6 million into the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,074. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

D. PENSION COSTS (Continued)

The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0013% which no change from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$3,658 for its proportionate share of General Employee Fund's pension expense. In addition, the City recognized an additional \$31 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 2,735	\$ 5,339
Changes in Actuarial Assumptions	\$ 13,778	\$ 8,320
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ 536	
Changes in Proportion		\$ 2,349
Employer Contributions Subsequent to the Measurement Date	\$ 3,355	
Totals	<u>\$ 20,404</u>	<u>\$ 16,008</u>

\$3,355 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2018	\$1,328
2019	\$4,809
2020	(\$1,572)
2021	(\$3,523)
2022	\$0
Thereafter	\$0

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

E. ACTUARIAL ASSUMPTIONS

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and then 2.5 percent thereafter.

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

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- 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.
- 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.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness 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 arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF MILROY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	.75%
Alternative Assets	20%	5.90%
Cash	2%	0.0%

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the 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.

G. PENSION LIABILITY SENSITIVITY

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

	1% Decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City’s proportionate share of the General Employees Fund net pension liability:	\$128,725	\$82,991	\$45,549

H. PENSION PLAN FIDUCIARY NET POSITION

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

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

CITY OF MILROY
 SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
 PUBLIC EMPLOYEES GENERAL EMPLOYEES FUND

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share (Amount) of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability (a+b)	Employer's Covered-Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/17	0.0013%	\$82,991	\$1,074	\$84,065	\$86,218	97.50%	75.90%
6/30/16	0.0013%	\$105,554	\$1,465	\$107,019	\$83,067	128.83%	68.90%
6/30/15	0.0013%	\$67,373	\$0	\$67,373	\$78,566	85.75%	78.20%

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

**For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

CITY OF MILROY
SCHEDULE OF CITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES FUND

Fiscal Year <u>Ending</u>	Statutorily Required <u>Contribution (a)</u>	Contributions in Relation to the Statutorily Required <u>Contribution (b)</u>	Contribution Deficiency <u>(Excess) (a-b)</u>	Covered- Employee <u>Payroll (d)</u>	Contributions as a Percentage of Covered-Employee <u>Payroll (b/d)</u>
December 31, 2017	\$6,608	\$6,608	-	\$88,108	7.50%
December 31, 2016	\$6,409	\$6,409	-	\$85,450	7.50%
December 31, 2015	\$6,022	\$6,022	-	\$80,301	7.50%

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

**For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

CITY OF MILROY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

NOTE 1. DEFINED BENEFIT PENSION PLANS – STATEWIDE

General Employees Fund

2017 Changes

Changes in Actuarial Assumptions:

- 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.
- 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 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

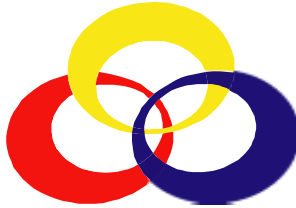
OTHER SUPPLEMENTARY INFORMATION

**City of Milroy
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2017**

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Economic Development Authority</u>	<u>Fitness Center</u>	
ASSETS			
Cash and Cash Equivalents	\$ 24,996	\$ 16,673	\$ 41,669
<i>Total Assets</i>	24,996	16,673	41,669
DEFERRED OUTFLOWS OF RESOURCES			
Aggregated deferred outflows	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 24,996</u>	<u>\$ 16,673</u>	<u>\$ 41,669</u>
LIABILITIES			
Accounts Payable	\$ 137	\$ 188	\$ 325
Deposits	1,100	--	1,100
Unearned Revenue	--	921	921
<i>Total Liabilities</i>	<u>1,237</u>	<u>1,109</u>	<u>2,346</u>
DEFERRED INFLOWS OF RESOURCES			
Aggregated deferred inflows	--	--	--
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>1,237</u>	<u>1,109</u>	<u>2,346</u>
FUND BALANCE			
Committed	--	5,503	5,503
Assigned	23,759	10,061	33,820
Unassigned	--	--	--
<i>Total Fund Balance</i>	<u>23,759</u>	<u>15,564</u>	<u>39,323</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 24,996</u>	<u>\$ 16,673</u>	<u>\$ 41,669</u>

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

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Economic Development Authority</u>	<u>Fitness Center</u>	
Revenues			
Charges for Services	\$ 6,600	\$ 7,325	\$ 13,925
Other	3	60	63
<i>Total Revenues</i>	<u>6,603</u>	<u>7,385</u>	<u>13,988</u>
Expenditures			
Economic Development	2,446	--	2,446
Fitness Center	--	7,290	7,290
<i>Total Expenditures</i>	<u>2,446</u>	<u>7,290</u>	<u>9,736</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,157</u>	<u>95</u>	<u>4,252</u>
Other Financing Sources (Uses)			
Transfers from Other Funds	--	--	--
Transfers to Other Funds	--	--	--
<i>Net Other Financing Sources (Uses)</i>	<u>--</u>	<u>--</u>	<u>--</u>
<i>Net Change in Fund Balance</i>	4,157	95	4,252
<i>Fund Balance at Beginning of Period</i>	19,602	15,469	35,071
<i>Fund Balance at End of Period</i>	<u>\$ 23,759</u>	<u>\$ 15,564</u>	<u>\$ 39,323</u>



Kinner & Company Ltd
Certified Public Accountants

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

Honorable Mayor and Members of the Council
City of Milroy
Milroy, Minnesota 56263

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milroy, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Milroy, Minnesota's basic financial statements and have issued our report thereon dated February 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Milroy, Minnesota's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financials statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Milroy, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Milroy, Minnesota'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 over that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Prior and Current Findings and Responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. 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 Prior and Current Findings and Responses, as item 2017-1, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Milroy, Minnesota'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 Milroy, Minnesota's Response to Findings

City of Milroy, Minnesota's response to the findings identified in our audit is described in the accompanying Schedule of Prior and Current Findings and Responses. City of Milroy, Minnesota response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Minnesota Legal Compliance

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

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

Purpose of Report

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



Kinner & Company Ltd
Certified Public Accountants

February 16, 2018

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**CITY OF MILROY
SCHEDULE OF PRIOR AND CURRENT
FINDINGS AND RESPONSES
DECEMBER 31, 2017**

STATUS OF PRIOR AUDIT FINDINGS

Finding 2016-1: A material weakness was reported due to the lack of segregation of duties within the organization. This finding continues to exist and has been restated as Finding 2017-1.

**CITY OF MILROY
SCHEDULE OF PRIOR AND CURRENT
FINDINGS AND RESPONSES
DECEMBER 31, 2017**

CURRENT YEAR FINDINGS

2017-1: The City does not maintain an adequate segregation of duties among its accounting personnel.

Criteria: Internal controls can help the City of Milroy achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the City complies with laws and regulations.

Condition: A lack of segregation of duties over revenues and expenditures exists which could result in errors not being found in a timely manner.

Cause: The City has a limited number of employees to perform financial reporting duties.

Effect: This could result in a loss of control over accounting transactions and errors not being found in a timely manner.

Recommendation: Since we acknowledge that it is not economically feasible for the City to hire additional employees, we recommend the City Council take a more active role in their oversight over revenues and expenditures.

Corrective Action Plan:

The following compensating controls are presently in place:

- The City Council reviews and approves all bills
- The City Council and/or other personnel periodically review various expenditure reports for amounts, classifications and comparison to budget.

Council Response:

City will continue to review its procedures to determine if any improvements can be made using the limited personnel available.