

**CITY OF RICE, MINNESOTA**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**SCHLENNER WENNER & CO.**  
**Certified Public Accountants**  
**& Business Consultants**

**CITY OF RICE, MINNESOTA**

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**INTRODUCTORY  
SECTION**

**CITY OF RICE, MINNESOTA  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**CITY COUNCIL**

Term Expires

Dale Rogholt	Mayor	December 31, 2018
Bryan Anderson	Council Member	December 31, 2020
Paula Kampa	Council Member	December 31, 2022
Chris Scheel	Council Member	December 31, 2020
Brian Skroch	Council Member	December 31, 2022

**CITY OFFICIALS**

Julie Fandel	City Clerk	Appointed
Sheri Johnson	City Treasurer	Appointed

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITORS' REPORT

March 14, 2019

Honorable Mayor and City Council  
City of Rice, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the City of Rice, Minnesota, as of and for the year ended December 31, 2018, 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 the financial reporting provisions of the State of Minnesota's Office of the State Auditor, as described in Note 1.C. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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

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**St. Cloud**  
320.251.0286

**Little Falls**  
320.632.6311

**Albany**  
320.845.2940

**Maple Lake**  
320.963.5414

**Monticello**  
763.295.5070

## **Opinions**

### *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*

As described in Note 1.C. of the financial statements, the financial statements are prepared by the City of Rice, Minnesota, on the basis of the financial reporting provisions prescribed by the State of Minnesota's Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Minnesota.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1.C. and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### *Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Rice, Minnesota, as of December 31, 2018, or changes in financial position, or cash flows thereof for the year then ended.

### *Unmodified Opinion on Regulatory Basis*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the City of Rice, Minnesota, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the financial reporting provisions of the State of Minnesota's Office of the State Auditor described in Note 1.C.

## **Other Matters**

### *Required Supplementary Information*

Financial reporting provisions referenced above require that the Schedules of City's Proportionate Share of the Net Pension Liability and City Contributions be presented to supplement the basic financial statements. Such information, though not a part of the basic financial statements, is required by the reporting provisions referenced above, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section, budgetary comparison schedules, combining nonmajor funds financial statements, schedules of indebtedness, accounts receivable, and accounts payable and contingent liabilities have 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 them.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2019 on our consideration of the City of Rice's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Rice's internal control over financial reporting and compliance.

## **Report on Other Legal and Regulatory Requirements**

In accordance with Minnesota Statutes, we have also issued our report dated March 14, 2019, on our consideration of the City of Rice's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

*Schlenner Wenner & Co.*

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota



## **BASIC FINANCIAL STATEMENTS**

**CITY OF RICE, MINNESOTA**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Revolving Loan Fund</u>	<u>Utility Improvements Fund</u>	<u>Nonmajor Special Revenue Governmental Funds</u>	<u>Nonmajor Tax Increment District No. 8 Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash, Cash Equivalents, and Time Deposits	\$ 155,354	\$ 384,300	\$ 306,910	\$ 191,440	\$ 25,150	\$ 1,063,154
<b>CASH FUND BALANCES</b>						
Restricted	\$ -	\$ 384,300	\$ -	\$ -	\$ 25,150	\$ 409,450
Committed	32,095	-	306,910	35,792	-	374,797
Assigned	-	-	-	155,648	-	155,648
Unassigned	<u>123,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,259</u>
<b>TOTAL CASH FUND BALANCES</b>	<u>\$ 155,354</u>	<u>\$ 384,300</u>	<u>\$ 306,910</u>	<u>\$ 191,440</u>	<u>\$ 25,150</u>	<u>\$ 1,063,154</u>

**CITY OF RICE, MINNESOTA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Revolving Loan Fund	Utility Improvements Fund	Nonmajor Special Revenue Governmental Funds	Nonmajor Tax Increment District No. 8 Fund	Total Governmental Funds
<b>RECEIPTS</b>						
Property Taxes	\$ 444,234	\$ 16	\$ -	\$ 7,113	\$ 26,194	\$ 477,557
Special Assessments	-	-	7,861	-	-	7,861
Franchise Fees	7,718	-	-	-	-	7,718
Gravel Tax	168	-	-	-	-	168
Licenses, Permits and Fees	46,135	-	-	-	-	46,135
Intergovernmental	247,375	-	-	14,693	-	262,068
Charges for Services	120,349	-	-	3,530	-	123,879
Fines	10,227	-	-	-	-	10,227
Investment Income	7,300	1,924	-	128	-	9,352
Contributions	15,387	-	-	4,000	-	19,387
Loan Repayment	-	12,216	-	-	-	12,216
Miscellaneous	1,946	-	-	-	-	1,946
<b>TOTAL RECEIPTS</b>	<b>900,839</b>	<b>14,156</b>	<b>7,861</b>	<b>29,464</b>	<b>26,194</b>	<b>978,514</b>
<b>DISBURSEMENTS</b>						
Current:						
General Government:						
City Clerk	59,007	-	-	-	-	59,007
Council	14,204	-	-	-	-	14,204
Elections	2,358	-	-	-	-	2,358
General Government	127,469	-	-	-	-	127,469
Total General Government	203,038	-	-	-	-	203,038
Public Safety:						
Building Inspector	33,422	-	-	-	-	33,422
Police	208,762	-	-	-	-	208,762
Fire	207,542	-	-	-	-	207,542
Total Public Safety	449,726	-	-	-	-	449,726
Public Works	114,976	-	-	-	-	114,976
Economic Development	451	12,777	-	-	25,467	38,695
Parks and Recreation	14,440	-	-	15,159	-	29,599

See accompanying notes.

**CITY OF RICE, MINNESOTA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES (CONTINUED)**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Revolving Loan Fund	Utility Improvements Fund	Nonmajor Special Revenue Governmental Funds	Nonmajor Tax Increment District No. 8 Fund	Total Governmental Funds
Debt Service:						
Principal	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ 25,000
Interest and Fiscal Charges	2,500	-	-	-	-	2,500
Total Debt Service	27,500	-	-	-	-	27,500
Capital Outlay	11,756	-	-	43,155	-	54,911
<b>TOTAL DISBURSEMENTS</b>	<u>821,887</u>	<u>12,777</u>	<u>-</u>	<u>58,314</u>	<u>25,467</u>	<u>918,445</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	78,952	1,379	7,861	(28,850)	727	60,069
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of Assets	6,153	-	-	-	-	6,153
MIF Loan Proceeds	-	17,853	-	-	-	17,853
MIF Loan Payment	-	(17,853)	-	-	-	(17,853)
Operating Transfers In	-	-	-	157,764	-	157,764
Operating Transfers Out	(157,764)	-	-	-	-	(157,764)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(151,611)</u>	<u>-</u>	<u>-</u>	<u>157,764</u>	<u>-</u>	<u>6,153</u>
<b>NET CHANGE IN CASH FUND BALANCES</b>	(72,659)	1,379	7,861	128,914	727	66,222
<b>CASH FUND BALANCES - BEGINNING</b>	<u>228,013</u>	<u>382,921</u>	<u>299,049</u>	<u>62,526</u>	<u>24,423</u>	<u>996,932</u>
<b>CASH FUND BALANCES - ENDING</b>	<u>\$ 155,354</u>	<u>\$ 384,300</u>	<u>\$ 306,910</u>	<u>\$ 191,440</u>	<u>\$ 25,150</u>	<u>\$ 1,063,154</u>

**CITY OF RICE, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2018**

	Water Fund	Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets			
Cash, Cash Equivalents, and Time Deposits	\$ 1,064,002	\$ 861,960	\$ 1,925,962
Accounts Receivable	10,813	16,429	27,242
Prepays	571	518	1,089
Total Current Assets	1,075,386	878,907	1,954,293
Noncurrent Assets			
Capital Assets Not Being Depreciated	24,300	162,336	186,636
Capital Assets Being Depreciated (Net)	466,099	1,387,006	1,853,105
Total Noncurrent Assets	490,399	1,549,342	2,039,741
<b>TOTAL ASSETS</b>	1,565,785	2,428,249	3,994,034
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	9,331	11,893	21,224
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	4,263	1,522	5,785
Accrued Expenses	2,704	3,639	6,343
Accrued Interest	-	2,936	2,936
Compensated Absences	2,588	5,403	7,991
Bonds Due within One Year	-	65,000	65,000
Total Current Liabilities	9,555	78,500	88,055
Noncurrent Liabilities			
Bonds Payable	-	342,000	342,000
Net Pension Liability	37,158	47,451	84,609
Total Noncurrent Liabilities	37,158	389,451	426,609
<b>TOTAL LIABILITIES</b>	46,713	467,951	514,664
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	8,856	11,309	20,165
<b>NET POSITION</b>			
Net Investment in Capital Assets	490,399	1,142,342	1,632,741
Unrestricted	1,029,148	818,540	1,847,688
<b>TOTAL NET POSITION</b>	\$ 1,519,547	\$ 1,960,882	\$ 3,480,429

**CITY OF RICE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 196,729	\$ 244,130	\$ 440,859
<b>OPERATING EXPENSES</b>			
Personnel Services	66,785	71,594	138,379
Professional Services	9,618	3,306	12,924
Utilities	21,494	10,363	31,857
Repairs and Maintenance	24,980	31,220	56,200
Supplies	10,497	13,019	23,516
Permits and Licenses	5,665	1,450	7,115
Insurance	2,741	2,159	4,900
Other	3,073	2,298	5,371
Depreciation	<u>37,241</u>	<u>87,583</u>	<u>124,824</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>182,094</u>	<u>222,992</u>	<u>405,086</u>
<b>OPERATING INCOME</b>	14,635	21,138	35,773
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Special Assessments	1,022	1,022	2,044
Investment Income	5,015	5,015	10,030
Intergovernmental	285	364	649
Interest Expense	<u>-</u>	<u>(8,851)</u>	<u>(8,851)</u>
<b>NET NONOPERATING REVENUE (EXPENSE)</b>	<u>6,322</u>	<u>(2,450)</u>	<u>3,872</u>
<b>CHANGE IN NET POSITION</b>	20,957	18,688	39,645
<b>NET POSITION-BEGINNING OF YEAR</b>	<u>1,498,590</u>	<u>1,942,194</u>	<u>3,440,784</u>
<b>NET POSITION-END OF YEAR</b>	<u>\$ 1,519,547</u>	<u>\$ 1,960,882</u>	<u>\$ 3,480,429</u>

**CITY OF RICE, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Water Fund	Sewer Fund	Totals
	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 195,009	\$ 248,722	\$ 443,731
Cash Paid to Suppliers	(84,496)	(65,338)	(149,834)
Cash Paid to Employees	(67,774)	(75,221)	(142,995)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	42,739	108,163	150,902
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Special Assessment Revenue	1,533	1,533	3,066
Intergovernmental Receipts	285	364	649
	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	1,818	1,897	3,715
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Bond Payments	-	(63,000)	(63,000)
Cash Paid for Interest	-	(9,306)	(9,306)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	-	(72,306)	(72,306)
Net Increase (Decrease) in Cash	44,557	37,754	82,311
Cash and Cash Equivalents - Beginning of Year	<u>459,850</u>	<u>264,611</u>	<u>724,461</u>
Cash and Cash Equivalents - End of Year	504,407	302,365	806,772
Certificates of Deposits and Money Market Savings	<u>559,595</u>	<u>559,595</u>	<u>1,119,190</u>
Cash, Cash Equivalents and Time Deposits	<u>\$ 1,064,002</u>	<u>\$ 861,960</u>	<u>\$ 1,925,962</u>

**CITY OF RICE, MINNESOTA  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income	\$ 14,635	\$ 21,138	\$ 35,773
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Cash Flows Reported in Other Categories:			
Depreciation	37,241	87,583	124,824
Change in Assets and Liabilities:			
Accounts Receivable	(1,720)	4,592	2,872
Prepays	(571)	(518)	(1,089)
Accounts Payable	(5,857)	(1,005)	(6,862)
Accrued Wages	213	(49)	164
Deferred Outflows of			
Resources - Pensions	2,117	3,086	5,203
Net Pension Liability	(3,154)	(5,521)	(8,675)
Deferred Inflows of			
Resources - Pensions	(829)	(1,418)	(2,247)
Compensated Absences	664	275	939
	<u>42,739</u>	<u>108,163</u>	<u>150,902</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 42,739</b>	<b>\$ 108,163</b>	<b>\$ 150,902</b>



**CITY OF RICE, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Rice, Minnesota (the City), complies with accounting practices prescribed or permitted by the *Reporting and Publishing Requirements for City Financial Statements for Cities under 2,500 in Population Reporting on the Cash or Regulatory Basis of Accounting* prescribed by the State of Minnesota's Office of the State Auditor. See Note 1.C. for additional information.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: water, sewer, recreation, public improvements, public safety, planning and zoning, and general administrative services.

**1.A. FINANCIAL REPORTING ENTITY**

The City's financial reporting entity is comprised of the primary governmental unit of the City of Rice, Minnesota.

In determining the financial reporting entity, the City complies with the provisions of GASB No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

**Blended Component Units**

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 type to compose the primary government presentation. Currently, the City has no blended component units.

**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.

**1.B. BASIS OF PRESENTATION**

**Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

**CITY OF RICE, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.B. BASIS OF PRESENTATION (Continued)**

**Fund Financial Statements (Continued)**

The City reports the following major governmental funds:

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 activities except those legally or administratively required to be accounted for in other funds.

The *Revolving Loan Fund* is used to account for the proceeds of a grant under the Small Cities Development Program that is restricted to providing economic development loans, as well as the activity of a Minnesota Investment Fund loan.

The *Utility Improvements Fund* is used to account for the proceeds of financial resources that are committed to providing for improvements in the City's water and sewer system.

The City reports the following major proprietary funds:

The *Water Fund* is used to account for business-like activities related to the water system 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 *Sewer Fund* is used to account for business-like activities related to the sewer system 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.

Additionally, the government reports the following nonmajor fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Tax Increment District No. 8 Fund* accounts for the inflows and outflows related to a tax increment financing agreement with a local entity.

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements have been prepared on the regulatory basis of accounting as described in the Minnesota's Office of the State Auditor's *Reporting and Publishing Requirements for City Audited Financial Statements for Cities under 2,500 in Population Reporting on the Cash or Regulatory Basis of Accounting*. Under this regulatory basis of accounting:

- In the governmental fund statements, receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. These statements do not give effect to receivables, payables, accrued expenses and inventories and, accordingly are not presented in accordance with accounting principles generally accepted in the United States of America.

**CITY OF RICE, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)**

- The proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used and are presented in accordance with accounting principles generally accepted in the United States of America.

The basis differs from accounting principles generally accepted in the United States of America primarily because the City has not reported a management discussion and analysis letter, government-wide statement of net position and government-wide statement of activities and the City does not recognize governmental receipts and disbursements in accordance with the modified accrual basis of accounting.

**1.D. USE OF ESTIMATES**

The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred outflows/inflows of resources, and disclosure of contingent assets, liabilities, and deferred outflows/inflows of resources at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY**

**Cash, Cash Equivalents, and Time Deposits**

For purposes of the Statement of Balances Arising from Cash Transactions and the proprietary funds Statement of Net Position and Statement of Cash Flows, “cash, cash equivalents, and time deposits” include all demand and savings accounts, and certificates of deposit. Certificates of deposit are stated at cost, which approximates fair value.

See Note 3.A. for additional information related to Cash, Cash Equivalents, and Time Deposits.

**Receivables**

In the fund financial statements, no receivables are recorded in governmental funds. In the proprietary funds, material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

**Special Assessment Receivable**

Special assessments are recognized upon receipt in the governmental funds and in the proprietary funds are recorded as revenue when they are certified to the County.

**Capital Assets**

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations as follows:

Governmental Statements

Capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**CITY OF RICE, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY  
(Continued)**

**Capital Assets (Continued)**

Proprietary Statements

In the proprietary financial statements, capital acquisitions are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated acquisition value at the date of donation.

Capitalization Policy

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The City maintains a threshold of \$2,000 or more for capitalizing capital assets. The system for accumulation of capital assets cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

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

The range of estimated useful lives by type of asset is as follows:

Buildings	10-40 years
Machinery and Equipment	5-10 years

**Accounts Payable**

Payables in the proprietary funds are composed almost entirely of payables to vendors.

**Compensated Absences**

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation leave. All vacation pay is accrued when incurred in the proprietary fund financial statements.

**Noncurrent Liabilities**

The accounting treatment of long-term debt depends on whether the proceeds are used in governmental fund operations or proprietary fund operations.

Governmental Funds

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. Bond premiums and discounts, as well as bond issuance costs, are recognized during the current period.

Proprietary Funds

Long-term debt of the proprietary funds is to be repaid from proprietary resources and is reported as liabilities in the Statement of Net Position. Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are recognized in the current period.

**CITY OF RICE, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY**  
(Continued)

**Net Pension Liability**

The net pension liability represents the City's allocation of their pro-rata share of the statewide pension plans net pension liability.

PERA

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.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the proprietary funds Statement of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This element represents an acquisition of net position that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports deferred inflows of resources in the proprietary funds Statement of Net Position in relation to the activity of the pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in that period that they become available.

See Note 4.A. for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

**Equity Classifications**

Governmental Funds

In the governmental fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

**CITY OF RICE, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY**  
(Continued)

**Equity Classifications (Continued)**

Governmental Funds (Continued)

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact.

Restricted – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Council has delegated the authority to assign fund balance amounts to the Clerk or Treasurer.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

The City has adopted a formal policy under which it strives to maintain a minimum unassigned general fund balance greater than 50% of the next year’s budgeted General Fund expenditures.

It is the City’s policy to consider restricted cash fund balances to have been depleted before unrestricted cash fund balances is applied.

See Note 3.F. for additional disclosures.

Proprietary Funds

In the proprietary fund financial statements, net position is displayed in three components:

Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.” Unrestricted net position is further split between designated and undesignated. See Note 3.G. for additional disclosures.

**CITY OF RICE, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.F. REVENUES, RECEIPTS, DISBURSEMENTS, AND EXPENSES**

**Property Tax**

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of October. The County of Benton is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected.

December 31 is the last day the City can certify a tax levy to the County for collection the following year. The County creates 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 also collects all special assessments, except for certain prepayments paid directly to the City. The County collects all taxes and assessments, except as noted above. The County mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

**Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods and/or services in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating items which include revenue and expenses related to capital and related financing, noncapital financing, or investing activities.

**Disbursements and Expenses**

In the fund financial statements, expenditures are classified as follows:

Governmental Funds-By Character	Current (further classified by Function)
	Debt Service
	Capital Outlay

Proprietary Funds-By Operating and Nonoperating

In the fund financial statements, governmental funds report disbursements of financial resources. Proprietary funds report expenses relating to use of economic resources.

**Interfund Transfers**

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. See additional information at Note 3.E.

**1.G. RECLASSIFICATIONS**

Certain amounts from 2017 have been reclassified to conform to the 2018 presentation within the footnotes.

**CITY OF RICE, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**2.A. FUND ACCOUNTING REQUIREMENTS AND DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS**

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The City complies with all state and local laws and regulations requiring the use of separate funds.

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at market. Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC or FSLIC insurance (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The City complies with such laws.

**2.B. BUDGETARY INFORMATION**

Annual budgets for the General Fund are adopted on the regulatory (cash) basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

Each year, all departments of the City submit requests for appropriations to the Treasurer so that a budget may be prepared. The proposed budget is presented to the Council for review. The Council adopts a preliminary maximum levy. Truth-in-taxation notices are mailed out to residents by Benton County. The Council adopts a final budget and tax levy in December.

The appropriated budget is prepared by fund, function and department. The City’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. The original and final budgets, if amended, for the General Fund and all major special revenue funds are presented in the supplementary information.

**2.C. EXPENDITURES IN EXCESS OF BUDGET**

Actual expenditures exceeded total budgeted expenditures for the current year end as follows:

Fund	Budgeted Expenditures	Actual Expenditures	Transfers Included In Actual
General	\$ 801,052	\$ 979,651	\$ 157,764
Revolving Loan	\$ 5,400	\$ 30,630	-

**NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, deferred outflows/inflows of resources, equity, receipts/revenues, and disbursements/expenses.



**CITY OF RICE, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.A.    CASH, CASH EQUIVALENTS, AND TIME DEPOSITS**

**Deposits**

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City's Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The City complies with such laws.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated "A" or better;
- A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- Time deposits insured by any federal agency.

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

At December 31, 2018, the City's deposits, including money markets and certificates of deposits, were not exposed to custodial credit risk. The City's deposits were sufficiently covered by federal depository insurance or by collateral held by the City's agent in the City's name.

**CITY OF RICE, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.A.    CASH, CASH EQUIVALENTS, AND TIME DEPOSITS (Continued)**

**Deposits (Continued)**

The following is a summary of cash, cash equivalents, and time deposits:

General Checking	\$     873,006
Money Market Savings	630,910
Petty Cash	200
Certificates of Deposit	<u>1,485,000</u>
Total Cash, Cash Equivalents, and Time Deposits	<u><u>\$   2,989,116</u></u>

Cash, cash equivalents, and time deposits are included on the basic financial statements as follows:

Cash, Cash Equivalents, and Time Deposits - Statement of Balances Arising from Cash Transactions	\$     1,063,154
Cash, Cash Equivalents, and Time Deposits - Statement of Net Position	<u>1,925,962</u>
Total Cash, Cash Equivalents, and Time Deposits	<u><u>\$   2,989,116</u></u>

**3.B.    LOANS RECEIVABLE**

A loan in the amount of \$164,000 was made to a local business on June 1, 2017. Terms called for monthly principal and interest payments of approximately \$1,018 with interest at 1.50%. The principal balance at December 31, 2018 is \$150,869. The activity for the loan is accounted for in the Revolving Loan Fund.

**CITY OF RICE, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.C.    CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2018 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not Being Depreciated				
Land	\$     186,636	\$            -	\$            -	\$     186,636
Capital Assets, Being Depreciated				
Equipment	125,175	-	2,000	123,175
Water Treatment Facility	1,138,495	-	-	1,138,495
Sewer Distribution System	3,218,765	-	-	3,218,765
Total Capital Assets				
Being Depreciated	4,482,435	-	2,000	4,480,435
Less Accumulated Depreciation for				
Equipment	86,395	7,446	2,000	91,841
Water Treatment Facility	654,545	33,518	-	688,063
Sewer Distribution System	1,763,566	83,860	-	1,847,426
Total Accumulated Depreciation	2,504,506	124,824	2,000	2,627,330
Total Capital Assets Being Depreciated, Net	1,977,929	(124,824)	-	1,853,105
Proprietary Funds				
Capital Assets, Net	\$     2,164,565	\$     (124,824)	\$            -	\$     2,039,741

Depreciation is charged to proprietary fund activities as follows:

Water Fund	\$     37,241
Sewer Fund	87,583
Total Depreciation Expense	\$     124,824

**3.D.    NONCURRENT LIABILITIES**

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental funds and amounts to be repaid from proprietary funds.

There are a number of limitations and restrictions contained in the general obligation bond indentures.

**CITY OF RICE, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.D.    NONCURRENT LIABILITIES (Continued)**

Governmental Funds

General Obligation Note					
Issue Date	Original Amount	Annual Payment	Interest Rate(s)	Maturity Date	Remaining Amount
12/12	\$ 250,000	\$25,000	2.00%	12/22	\$ 100,000
6/17	\$ 162,643	\$2,443 - \$12,216	0.00%	08/32	<u>152,265</u>
Total Long-Term Debt					\$ 252,265
Debt Due Within One Year					<u>31,725</u>
Debt Due After One Year					<u><u>\$ 220,540</u></u>

Proprietary Funds

General Obligation Note					
Issue Date	Original Amount	Annual Payment	Interest Rate(s)	Maturity Date	Remaining Amount
9/04	\$ 1,153,293	\$52,673 - \$71,000	1.98%	08/24	<u>\$ 407,000</u>
Total General Obligation Note					\$ 407,000
Debt Due Within One Year					<u>65,000</u>
Debt Due After One Year					<u><u>\$ 342,000</u></u>

All bonds are direct obligations of the City and pledge the full faith and credit of the City.

**Changes in Noncurrent Liabilities**

The following is a summary of changes in noncurrent liabilities, excluding the net pension liability, for the year ended December 31, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Funds:</b>					
Certificate of Indebtedness	\$ 125,000	\$ -	\$ (25,000)	\$ 100,000	\$ 25,000
Note Payable	<u>162,643</u>	<u>-</u>	<u>(10,378)</u>	<u>152,265</u>	<u>6,725</u>
Total Governmental Funds	<u><u>\$ 287,643</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (35,378)</u></u>	<u><u>\$ 252,265</u></u>	<u><u>\$ 31,725</u></u>
<b>Proprietary Funds:</b>					
General Obligation Note	<u>\$ 470,000</u>	<u>\$ -</u>	<u>\$ (63,000)</u>	<u>\$ 407,000</u>	<u>\$ 65,000</u>

**CITY OF RICE, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.D.    NONCURRENT LIABILITIES (Continued)**

**Changes in Noncurrent Liabilities (Continued)**

Governmental fund debt is typically funded through the General Fund, Debt Service Fund, and Revolving Loan Fund. Proprietary fund debt is funded through the Sewer Fund.

**Annual Debt Service Requirements**

At December 31, 2018, the estimated annual debt service requirements to maturity including principal and interest and excluding net pension liability are as follows:

Years Ending December 31,	Governmental Funds		
	Principal	Interest	Total
2019	\$ 31,725	\$ 1,000	\$ 32,725
2020	32,330	750	33,080
2021	32,905	500	33,405
2022	37,216	250	37,466
2023	12,216	-	12,216
2024-2028	61,080	-	61,080
2029-2032	44,793	-	44,793
Total	<u>\$ 252,265</u>	<u>\$ 2,500</u>	<u>\$ 254,765</u>
Years Ending December 31,	Proprietary Funds		
	Principal	Interest	Total
2019	\$ 65,000	\$ 8,059	\$ 73,059
2020	66,000	6,772	72,772
2021	67,000	5,465	72,465
2022	68,000	4,138	72,138
2023	70,000	2,792	72,792
2024	71,000	1,406	72,406
Total	<u>\$ 407,000</u>	<u>\$ 28,632</u>	<u>\$ 435,632</u>

Interest and fiscal charge expense totals \$2,500 in the Statement of Receipts, Disbursements and Changes in Cash Fund Balances-Governmental Funds. Interest expense totals \$8,851 in the Statement of Revenues, Expenses and Changes in Net Position-Proprietary Funds.

**CITY OF RICE, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.E.    OPERATING TRANSFERS AND BALANCES**

Operating transfers consist of the following for the year ended December 31, 2018:

Funds	Transfers Out	Transfers In NonMajor Governmental
General Fund	<u>\$ (157,764)</u>	<u>\$ 157,764</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**3.F.    CASH FUND BALANCES**

At December 31, 2018, governmental fund balances consists of the following:

	General Fund	Major Special Revenue Funds	Nonmajor Special Revenue Funds	Nonmajor Debt Service Fund	Total Governmental Funds
Restricted for:					
Debt Service	\$ -	\$ -	\$ -	\$ 25,150	\$ 25,150
Special Revenue - Revolving Loan	-	<u>384,300</u>	-	-	<u>384,300</u>
Total Restricted	-	384,300	-	25,150	409,450
Committed for:					
Police Equipment	13,444	-	-	-	13,444
Fire Equipment	7,951	-	-	-	7,951
Public Works	1,600	-	-	-	1,600
Street Improvements	-	-	14,430	-	14,430
Utility Improvements	-	306,910	-	-	306,910
Park Dedication	-	-	21,362	-	21,362
Parks Maintenance	1,600	-	-	-	1,600
Park Boards	<u>7,500</u>	-	-	-	<u>7,500</u>
Total Committed	32,095	306,910	35,792	-	374,797
Assigned for:					
Special Revenue - General Improvements	-	-	93,543	-	93,543
Special Revenue - Recreation	-	-	<u>62,105</u>	-	<u>62,105</u>
Total Assigned	-	-	155,648	-	155,648
Unassigned	<u>123,259</u>	-	-	-	<u>123,259</u>
Total Fund Balances	<u>\$ 155,354</u>	<u>\$ 691,210</u>	<u>\$ 191,440</u>	<u>\$ 25,150</u>	<u>\$ 1,063,154</u>

**CITY OF RICE, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.G.    DESIGNATED NET POSITION**

The City Council has designated a portion of its unrestricted proprietary fund net position. Designated amounts consist of the following:

Water Fund	
Designated for Equipment and Vehicles	\$           6,500
Undesignated	<u>          1,022,648</u>
 Total Water Fund Unrestricted Net Position	 <u><u>          \$       1,029,148</u></u>
 Sewer Fund	
Designated for Equipment and Vehicles	\$           6,500
Undesignated	<u>          812,040</u>
 Total Sewer Fund Unrestricted Net Position	 <u><u>          \$       818,540</u></u>

**NOTE 4    OTHER NOTES**

**4.A.    DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**Plan Descriptions**

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

General Employees Retirement Plan (General Employees Plan; accounted for in the General Employees Fund)

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

**Benefits Provided**

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

**CITY OF RICE, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

**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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018; the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018 were \$14,439, of which \$7,865 came from the City's proprietary funds. The City's contributions were equal to the required contributions as set by state statute.

**Pension Costs**

General Employees Fund Pension Costs

At December 31, 2018 the City reported a liability of \$155,333, of which \$84,609 was reported in the City's proprietary funds, for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. 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 \$5,110. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018 the City's proportionate share was 0.0028 percent which was an increase of 0.0002 percent from its proportion measured as of June 30, 2017.



**CITY OF RICE, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of a 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

For the year ended December 31, 2018 the City recognized pension expense of \$6,645 for its proportionate share of the General Employees Plan's pension expense associated with the City's proprietary funds. In addition, the City recognized an additional \$649 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,831	\$ 4,045
Changes in actuarial assumptions	13,248	16,600
Differences between projected and actual investment earnings		16,375
Changes in proportion	14,874	-
Contributions paid to PERA subsequent to the measurement date	7,259	-
 Total City Deferred Outflows/Inflows	 \$ 39,212	 \$ 37,020
 Proprietary Funds Deferred Outflows/Inflows	 \$ 21,224	 \$ 20,165

The City contributed a total of \$7,259 to the General Employees Fund subsequent to the measurement date and during the year ended December 31, 2018, of which \$3,820 was paid from proprietary funds and has been reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be amortized as noted in the following schedule, with the portion relative to the proprietary funds being recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ 10,277
2020	\$ (3,231)
2021	\$ (8,870)
Thereafter	\$ (3,243)

**CITY OF RICE, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**Actuarial Assumptions**

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

Assumptions	Rates
Inflation	2.5% per year
Salary Growth	3.25% after 26 years of service
Investment Rate of Return	7.5%

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service, to 3.25 percent after 26 years of service.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA’s experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	<u>2%</u>	0.00%
Total	<u>100%</u>	

**CITY OF RICE, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)**

**Discount Rate**

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liability Sensitivity**

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

	1% Lower (6.50%)	Current Discount Rate (7.50%)	1% Higher (8.50%)
Entire City	\$252,435	\$155,333	\$75,177
Proprietary Funds	\$137,500	\$84,609	\$40,949

**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](http://www.mnpera.org).

**4.B. 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. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

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

**4.C. COMMITMENTS**

**Pay-as-You-Go-Tax Increment Financing**

The City has entered into a Pay-as-You-Go developer agreement to finance a tax increment project. Such projects are financed with the developers of the projects. The note is not a general obligation of the City as it is payable only to the extent of future tax increments received. As such, these obligations do not appear on the City’s financial statements. At December 31, 2018, the outstanding Pay-as-You-Go debt with the developer is \$150,900. Once completed, the Developer will be reimbursed for the property, site improvements, and administrative costs in an amount not to exceed \$226,000, together with interest of 5.00%, until all costs are reimbursed by December 15, 2026.

**CITY OF RICE, MINNESOTA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2018**

**NOTE 4 OTHER NOTES (Continued)**

**4.D. TAX INCREMENT FINANCING**

The City is the administering authority for the following tax increment financing district:

Name of District:	TIF 1-8 Roach Rental Townhomes
Type of District:	Housing
Authorizing Law:	MN Statutes Sections 469.174
Year Established:	2011
Duration of District:	27 Years
Original Base Net Tax Capacity:	<u>\$ 289</u>
Current Net Tax Capacity:	<u>\$ 20,150</u>
Captured Net Tax Capacity:	
Retained by City	<u>\$ 19,861</u>
Shared with Other Taxing Districts	<u>\$ -</u>
Total Notes Issued:	
Pay as you go Debt	\$ 226,000
Less: Cumulative Amounts Redeemed	<u>(75,100)</u>
Total Notes Outstanding-December 31, 2018	<u>\$ 150,900</u>

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF RICE, MINNESOTA**  
**SCHEDULE OF CITY'S PROPORTIONATE**  
**SHARE OF THE NET PENSION LIABILITY**  
**LAST TEN YEARS (Presented Prospectively)**

For the Fiscal Year Ended June 30	City's Portion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b>General Employees Retirement Fund Pension Plan</b>							
2018	0.0028%	\$ 155,333	\$ 5,110	\$ 160,443	\$ 185,107	86.7%	79.5%
2017	0.0026%	\$ 165,982	\$ 2,089	\$ 168,071	\$ 167,673	100.2%	75.9%
2016	0.0025%	\$ 202,988	-	\$ 202,988	\$ 157,200	129.1%	68.9%
2015	0.0024%	\$ 124,380	-	\$ 124,380	\$ 137,373	90.5%	78.2%

This schedule is provided prospectively with the City's year ended December 31, 2015 (June 30, 2015 measurement date) and is intended to show a ten year trend. Additional years will be reported as they become available.

**CITY OF RICE, MINNESOTA**  
**SCHEDULE OF CITY CONTRIBUTIONS**  
**LAST TEN YEARS (Presented Prospectively)**

For the Calendar Year Ended December 31	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
<b><i>General Employees Retirement Fund Pension Plan</i></b>					
2018	\$ 14,439	\$ 14,439	\$ -	\$ 192,517	7.5%
2017	\$ 13,217	\$ 13,217	\$ -	\$ 176,233	7.5%
2016	\$ 11,895	\$ 11,895	\$ -	\$ 158,600	7.5%
2015	\$ 11,259	\$ 11,259	\$ -	\$ 150,342	7.5%

This schedule is provided prospectively with the City's year ended December 31, 2015 (June 30, 2015 measurement date) and is intended to show a ten year trend. Additional years will be reported as they become available.

**CITY OF RICE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2018**

**NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND**

**2018 Changes**

Changes in Actuarial Assumptions

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

**2017 Changes**

Changes in Actuarial Assumptions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

**2015 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 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.



**SUPPLEMENTARY INFORMATION**

**CITY OF RICE, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>RESOURCES (INFLOWS):</b>			
Property Taxes	\$ 434,386	\$ 444,234	\$ 9,848
Franchise Fees	7,600	7,718	118
Gravel Tax	500	168	(332)
Licenses, Permits and Fees	24,450	46,135	21,685
Intergovernmental	217,411	247,375	29,964
Charges for Services	106,925	120,349	13,424
Fines	7,200	10,227	3,027
Investment Income	6,000	7,300	1,300
Contributions	1,500	15,387	13,887
Miscellaneous	2,900	1,946	(954)
Sale of Assets	-	6,153	6,153
<b>AMOUNTS AVAILABLE</b>	808,872	906,992	98,120
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>			
Current:			
General Government:			
City Clerk	63,598	59,007	(4,591)
Council	16,810	14,204	(2,606)
Elections	2,320	2,358	38
General Government	159,698	127,469	(32,229)
Public Safety:			
Building Inspector	15,700	33,422	17,722
Police	211,131	208,762	(2,369)
Fire	160,990	207,542	46,552
Public Works	88,847	114,976	26,129
Economic Development	1,333	451	(882)
Parks and Recreation	18,475	14,440	(4,035)
Debt Service:			
Principal	25,000	25,000	-
Interest and Fiscal Charges	2,500	2,500	-
Capital Outlay	43,150	11,756	(31,394)
Operating Transfers Out	-	157,764	157,764
<b>TOTAL CHARGES</b>	809,552	979,651	170,099
<b>NET CHANGE IN CASH FUND BALANCE</b>	\$ (680)	(72,659)	\$ (71,979)
<b>CASH FUND BALANCE - BEGINNING</b>		228,013	
<b>CASH FUND BALANCE - ENDING</b>		\$ 155,354	

**CITY OF RICE, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE-REVOLVING LOAN FUND  
 REGULATORY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>RESOURCES (INFLOWS):</b>			
Property Taxes	\$ -	\$ 16	\$ 16
Investment Income	2,400	1,924	(476)
Loan Repayment	1,400	12,216	10,816
MIF Loan Proceeds	-	17,853	17,853
<b>AMOUNTS AVAILABLE</b>	<u>3,800</u>	<u>32,009</u>	<u>28,209</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>			
Current:			
Economic Development	5,400	12,777	7,377
MIF Loan Payment	-	17,853	17,853
<b>TOTAL CHARGES</b>	<u>5,400</u>	<u>30,630</u>	<u>25,230</u>
<b>NET CHANGE IN CASH FUND BALANCE</b>	<u>\$ (1,600)</u>	1,379	<u>\$ 2,979</u>
<b>CASH FUND BALANCE - BEGINNING</b>		<u>382,921</u>	
<b>CASH FUND BALANCE - ENDING</b>		<u>\$ 384,300</u>	

**CITY OF RICE, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE-UTILITY IMPROVEMENTS FUND  
 REGULATORY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>RESOURCES (INFLOWS):</b>			
Special Assessments	\$ 12,000	\$ 7,861	\$ (4,139)
<b>NET CHANGE IN CASH FUND BALANCE</b>	\$ 12,000	7,861	\$ (4,139)
<b>CASH FUND BALANCE - BEGINNING</b>		299,049	
<b>CASH FUND BALANCE - ENDING</b>		\$ 306,910	

**CITY OF RICE, MINNESOTA**  
**COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS -**  
**NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2018**

	<u>General Improvements Fund</u>	<u>Recreation Fund</u>	<u>Park Dedication Fund</u>	<u>Total Nonmajor Special Revenue Governmental Funds</u>
<b>ASSETS</b>				
Cash, Cash Equivalents, and Time Deposits	\$ <u>107,973</u>	\$ <u>62,105</u>	\$ <u>21,362</u>	\$ <u>191,440</u>
<b>CASH FUND BALANCES</b>				
Committed	\$ 14,430	\$ -	\$ 21,362	\$ 35,792
Assigned	93,543	62,105	-	155,648
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL CASH FUND BALANCES</b>	<u>\$ 107,973</u>	<u>\$ 62,105</u>	<u>\$ 21,362</u>	<u>\$ 191,440</u>

**CITY OF RICE, MINNESOTA**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES -**  
**NONMAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Improvements Fund	Recreation Fund	Park Dedication Fund	Total Nonmajor Special Revenue Governmental Funds
<b>RECEIPTS</b>				
Property Taxes	\$ -	\$ 7,113	\$ -	\$ 7,113
Intergovernmental	14,693	-	-	14,693
Charges for Services	-	3,530	-	3,530
Investment Income	-	128	-	128
Contributions	-	4,000	-	4,000
<b>TOTAL RECEIPTS</b>	<u>14,693</u>	<u>14,771</u>	<u>-</u>	<u>29,464</u>
<b>DISBURSEMENTS</b>				
Current:				
Parks and Recreation	-	15,159	-	15,159
Capital Outlay	43,155	-	-	43,155
<b>TOTAL DISBURSEMENTS</b>	<u>43,155</u>	<u>15,159</u>	<u>-</u>	<u>58,314</u>
<b>DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS</b>	(28,462)	(388)	-	(28,850)
<b>OTHER FINANCING SOURCES</b>				
Operating Transfers In	<u>157,764</u>	<u>-</u>	<u>-</u>	<u>157,764</u>
<b>NET CHANGE IN CASH FUND BALANCES</b>	129,302	(388)	-	128,914
<b>CASH FUND BALANCES - BEGINNING</b>	<u>(21,329)</u>	<u>62,493</u>	<u>21,362</u>	<u>62,526</u>
<b>CASH FUND BALANCES - ENDING</b>	<u>\$ 107,973</u>	<u>\$ 62,105</u>	<u>\$ 21,362</u>	<u>\$ 191,440</u>

**CITY OF RICE, MINNESOTA  
SCHEDULE OF INDEBTEDNESS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(UNAUDITED)**

	Issue Date	Interest Rate	Maturity Date	Initial Authorized Issue	Outstanding Balance 01/01/18	Issued	Paid	Outstanding Balance 12/31/18	Principal Due in 2019
<b>GOVERNMENTAL DEBT</b>									
2012 Certificates of Indebtedness	12/28/12	2.00%	12/28/2022	\$ 250,000	\$ 125,000	\$ -	\$ 25,000	\$ 100,000	\$ 25,000
2017 Note Payable	06/01/17	0.00%	8/1/2032	<u>162,643</u>	<u>162,643</u>	<u>-</u>	<u>10,378</u>	<u>152,265</u>	<u>6,725</u>
<b>TOTAL GOVERNMENTAL DEBTS</b>				412,643	287,643	-	35,378	252,265	31,725
<b>ENTERPRISE DEBT</b>									
2004 General Obligation Revenue Note (PFA)	09/23/04	1.98%	8/20/2024	<u>1,153,293</u>	<u>470,000</u>	<u>-</u>	<u>63,000</u>	<u>407,000</u>	<u>65,000</u>
<b>TOTAL INDEBTEDNESS</b>				<u>\$ 1,565,936</u>	<u>\$ 757,643</u>	<u>\$ -</u>	<u>\$ 98,378</u>	<u>\$ 659,265</u>	<u>\$ 96,725</u>

**CITY OF RICE, MINNESOTA  
SCHEDULE OF ACCOUNTS RECEIVABLE  
DECEMBER 31, 2018  
(UNAUDITED)**

<u>Fund</u>	<u>Item and Purpose</u>	<u>Amount</u>
General	Taxes	\$ 3,023
General	Fire Contracts and Calls	1,400
General	Court Fines	559
General	Parking Tickets	25
General	Assessment Search	10
Utility Improvements	Special Assessments	75
Water	Customer Charges	10,813
Sewer	Customer Charges	<u>16,429</u>
		<u>\$ 32,334</u>



**CITY OF RICE, MINNESOTA**  
**SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES**  
**DECEMBER 31, 2018**  
**(UNAUDITED)**

<u>Fund</u>	<u>Vendor</u>	<u>Item and Purpose</u>	<u>Amount</u>
General	Burski Excavating	Snow Removal	\$ 10,703
	Cardmember Services	Misc. Sup/Mem/Post/Train.	870
	East Central Energy	FOD	45
	Galls	FD Uniform	47
	Gopher State One Call	Locates	1
	Holiday	PD Fuel	50
	Kelm & Reuter	Monthly Retainer	1,296
	Kennedy & Graven	Storm Water Ordinance	884
	Kennedy & Graven	Work Agreemt/StormSewer	78
	Kennedy & Graven	Ordinance-Stormsewer	411
	LMC	Mayor Membership	30
	MidAmerica	Q-2018	150
	Mn Dept of Revenue	Q-4 2018 Sales Tax	52
	MN Power	Light Opt 3	789
	MN Power	Shelter/Hockey Rink	129
	MN Power	Light Opt 1	169
	MN Power	OVH/Siren	287
	MN Power	Maint Bldg	45
	MN Power	Xmas	12
	MN Power	City Hall	375
	MN Power	Utility	12
	MN Power	Softball Field	24
	MN Power	Light Opt 2	656
	MN Power	Light Opt 2	278
	MN Power	Light Opt 1	78
	MN Power	Rink/Shelter	123
	MN Power	Light Opt 3	339
	MN Power	Softball Field	12
	MN Power	Utility	7
	MN Power	Xmas	7
	MN Power	City Hall	151
	MN Power	Maint Bldg	36
	MN Power	OVH/Siren	164
	Premium Waters	Supplies	23
	Rice Automotive	PD Explorer Oil	57
	Rice Hardware Hank	Supplies	322
	Star Publications LLC	BP Sign	45
	Verizon	Squad Service	70
	Verizon	Squad Service	16
	Voigt, Caleb	Cards	40
	Wex Fleet	FD Fuel	246
	Xcel Energy	Utility	131
	Xcel Energy	City Hall	351
	Xcel Energy	Lion's Bldg	100
	Xcel Energy	OVH	314
			\$ 20,025

**CITY OF RICE, MINNESOTA**  
**SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES (CONTINUED)**  
**DECEMBER 31, 2018**  
**(UNAUDITED)**

<u>Fund</u>	<u>Vendor</u>	<u>Item and Purpose</u>	<u>Amount</u>
TIF No. 8	Rice Townhomes	TIF 2018	<u>\$ 23,575</u>
			\$ 23,575
Water Fund	Hawkins	Chlorine Cylinder	31
	MN Power	Pump House 3	129
	MN Power	Water Trmt Plant	568
	MN Power	Water Tower	31
	MN Power	Pump 2	495
	MN Power	Pump 1	107
	MN Power	Pump 3	89
	MN Power	Water Trmt Plant	379
	MN Power	Pump 1	75
	MN Power	Water Tower	25
	MN Power	Pump 2	358
	Xcel Energy	Well 1	117
	Xcel Energy	Water Trmt Plant	197
	Xcel Energy	Well	56
	Rice Automotive	2008 Chev	170
	Rice Hardware Hank	Supplies	35
	MN DNR Ecol. & Water	Water Use Permit 1979-3036	781
	MN DNR Ecol. & Water	Water Permit 2016-0533	155
	Mn Dept of Revenue	Q-4 2018 Sales Tax	<u>465</u>
			4,263
Sewer Fund	Stearns DHIA Central Lab	Influent	99
	East Central Energy	30th Lift Station	65
	East Central Energy	Pond RD NW	139
	East Central Energy	118th Lift Station	173
	East Central Energy	30th Lift Station	21
	East Central Energy	Pond RD NW	49
	East Central Energy	118th Lift Station	53
	MN Power	Lift-Pines	30
	MN Power	Lift Fox Meadows	139
	MN Power	Lift 1	278
	MN Power	Lift 5	21
	MN Power	Lift 4	34
	MN Power	Lift 2	62
	MN Power	Lift - Pines	20
	MN Power	Lift 2	42
	MN Power	Lift 4	21
	MN Power	Lift 5	13
	MN Power	Lift 1	187
	MN Power	Lift Fox Meadows	<u>76</u>
			1,522
			<u>\$ 49,385</u>

## **OTHER REQUIRED REPORTS**

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

March 14, 2019

Honorable Mayor and City Council  
City of Rice, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the City of Rice (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Rice's basic financial statements, and have issued our report thereon dated March 14, 2019.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses: 2012-001 and 2012-002.

## **Compliance and Other Matters**

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

## **City's Response to Findings**

The City of Rice's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses* and *Corrective Action Plans*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

*Schlenner Wenner & Co.*

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

**INDEPENDENT AUDITORS' REPORT ON  
MINNESOTA LEGAL COMPLIANCE**

March 14, 2019

Honorable Mayor and City Council  
City of Rice, Minnesota

We have audited, 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, the financial statements of each major fund and the aggregate remaining fund information of the City of Rice, Minnesota (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2019.

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

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

This report is intended solely for the information and use of the City Council and management of the City of Rice and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

*Schlenner Wenner & Co.*

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

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**CITY OF RICE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2018**

**FINANCIAL STATEMENT FINDINGS**

**Finding 2012-001      Limited Segregation of Duties**

*Condition:*                      During our audit we reviewed procedures over cash receipts, cash disbursements, payroll and financial reporting and found the City to have limited segregation of duties over those transaction cycles.

*Criteria:*                         Internal control that supports the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties. In other words, no one person had control over two or more of these responsibilities.

*Cause:*                              Limited number of staff members.

*Effect:*                             The existence of limited segregation of duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

*Recommendation:*            Although the number of staff members may not be large enough to eliminate this deficiency, we recommend the City evaluate current procedures and segregate where possible and implement compensating controls. The City can do this by evaluating its Internal Control policy on an annual basis in order to find ways to better segregate duties and also allow for better monitoring of this segregation and of the different departments by the City Council. It is important that the Council is aware of this condition and monitor all financial information.

*Management's Response:* Management agrees with the recommendation.

**Finding 2012-002      Material Audit Adjustments and Financial Statement Preparation**

*Condition:*                         Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the City, as well as various adjustments to correct material misstatements identified in the financial statements. It is management's responsibility to provide for the preparation of accurate financial statements and the auditors' responsibility to determine the fairness of the presentation. This deficiency could result in uncorrected material misstatements, which could have been prevented or detected by management.

*Criteria:*                         Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis, as well as the adjustments required to ensure the financial statements are free from material misstatement.

*Cause:*                             The City failed to record all year-end adjustments required under the accrual basis of accounting and various other adjustments were required to correct misstatements. In addition, the City's staff does not possess the expertise to prepare financial statements internally. This is not unusual for a City of your size.

*Effect:*                             The misstatements in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation in accordance with accounting practices prescribed by the State of Minnesota's Office of the State Auditor. The inability to internally prepare the City's financial statements can result in undetected errors in financial reporting.

**CITY OF RICE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2018**

**FINANCIAL STATEMENT FINDINGS** (Continued)

**Finding 2012-002**      **Material Audit Adjustments and Financial Statement Preparation** (Continued)

*Recommendation:*            We recommend management perform a thorough review of the trial balance prior to the audit and ensure all accounts have been properly adjusted at year-end. We also recommend management review a draft of the financial statements in detail for accuracy.

*Management's Response:* Management agrees with the recommendation.



**CITY OF RICE, MINNESOTA  
CORRECTIVE ACTION PLANS  
DECEMBER 31, 2018**

**FINANCIAL STATEMENT FINDINGS**

**Finding 2012-001      Limited Segregation of Duties**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The City will review current procedures and implement additional controls where possible.
3. Official Responsible  
Sheri Johnson, Treasurer, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion  
The City Council will be monitoring this Corrective Action Plan.

**Finding 2012-002      Material Audit Adjustments and Financial Statement Preparation**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The City may continue to have the auditor prepare the financial statements and will continue to document the annual review of the financial statements and related footnote disclosures. The City will revisit this decision on an ongoing, annual basis. In addition, the City will thoroughly review the trial balance prior to fieldwork and make any adjusting entries before submitting the trial balance to the auditors.
3. Official Responsible  
Sheri Johnson, Treasurer, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion  
The City Council will be monitoring this Corrective Action Plan.