

# Annual Financial Report

City of Hamburg  
Hamburg, Minnesota

For the Year Ended  
December 31, 2018

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City of Hamburg, Minnesota  
Annual Financial Report  
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For the Year Ended December 31, 2018

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INTRODUCTORY SECTION

CITY OF HAMBURG  
HAMBURG, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

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City of Hamburg, Minnesota  
Elected and Appointed Officials  
For the Year Ended December 31, 2018

**ELECTED**

| <u>Name</u>     | <u>Title</u>              | <u>Term Expires</u> |
|-----------------|---------------------------|---------------------|
| Chris Lund      | Mayor                     | 12/31/18            |
| Steve Trebesch  | Council Member/Vice Mayor | 12/31/18            |
| Scott Feltman   | Council Member            | 12/31/18            |
| Jason Buckentin | Council Member            | 12/31/20            |
| Tim Tracy       | Council Member            | 12/31/20            |

**APPOINTED**

|                   |                 |
|-------------------|-----------------|
| Jeremy Gruenhagen | Clerk/Treasurer |
|-------------------|-----------------|

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FINANCIAL SECTION  
CITY OF HAMBURG  
HAMBURG, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Hamburg, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hamburg, Minnesota, (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's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## Other Matters

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedule of Employer's Shares of the Net Pension Liability, the Schedules of Employer's Contributions, the related note disclosures and the Schedule of Changes in the Fire Relief Association's Net Pension (Asset) and Related Ratios starting on page 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

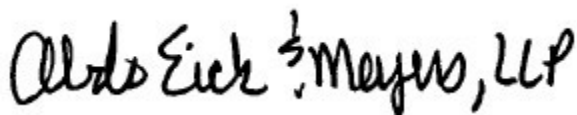
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2019, on our consideration of the City's internal control over financial reporting and 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 the City of Hamburg's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
July 2, 2019

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## Management's Discussion and Analysis

As management of the City of Hamburg, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2018.

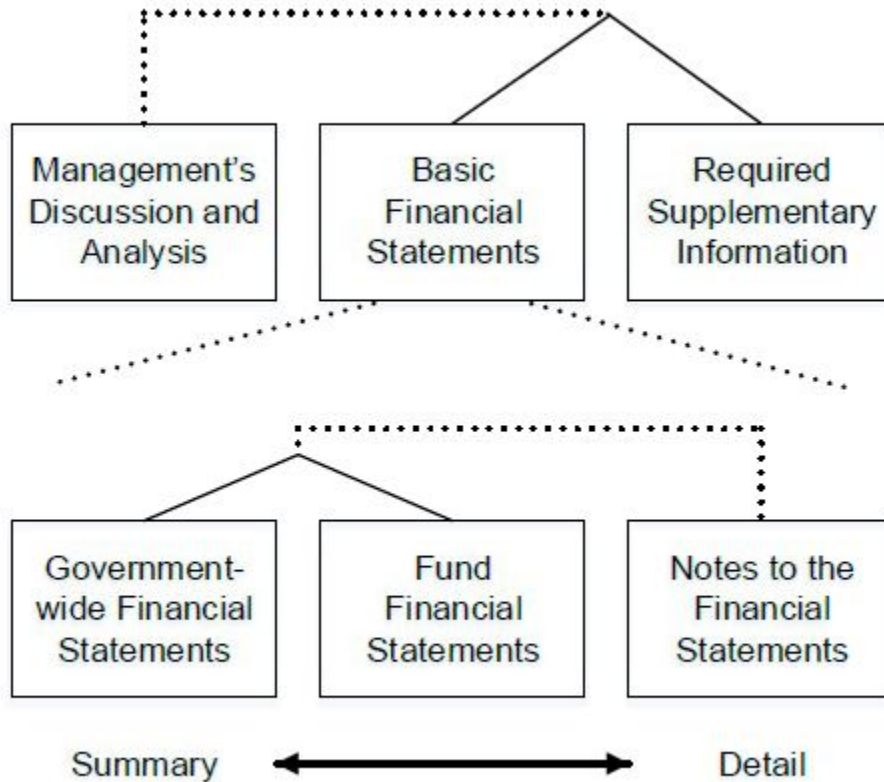
### Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,018,194 (net position). Of this amount, \$1,356,692 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$219,303. This was largely a result of governmental activities accounting for \$224,905 of the total increase.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$902,580, a decrease of \$21,456 from the prior year. Of this amount, \$854,390 is available for spending at the City's discretion (assigned and unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$403,265 or 41.9 percent of 2018 General fund expenditures and transfers out.
- The City's total long-term debt decreased \$25,000 (1.5 percent) during the current fiscal year.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves. The following chart shows how the required parts of this annual report are arranged and relate to one another.

### Organization of the City's Annual Financial Report





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

### Major Features of the Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General and Capital Purchases funds, both of which are considered to be major funds. Data from the other governmental funds are identified as nonmajor and presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances.

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements start on page 39 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements start on page 42 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 43 of this report.

**Required Supplementary Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Hamburg's share of net pension liabilities (assets) for defined benefits plans, schedules of contributions, and progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found starting on page 66 of this report.

**Other Information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules start on page 70 of this report.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,018,194 at the close of the most recent fiscal year.

The largest portion of the City's net position (53.2 percent) reflects its investment in capital assets (e.g., land, historical treasures and collectable, buildings, machinery and equipment, vehicles, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Hamburg's Summary of Net Position

|                                      | Governmental Activities |                     |                        | Business-type Activities |                   |                        |
|--------------------------------------|-------------------------|---------------------|------------------------|--------------------------|-------------------|------------------------|
|                                      | 2018                    | 2017                | Increase<br>(Decrease) | 2018                     | 2017              | Increase<br>(Decrease) |
| <b>Assets</b>                        |                         |                     |                        |                          |                   |                        |
| Current and other assets             | \$ 1,086,383            | \$ 1,010,350        | \$ 76,033              | \$ 657,833               | \$ 681,335        | \$ (23,502)            |
| Capital assets (net of depreciation) | 1,364,992               | 1,071,086           | 293,906                | 1,691,448                | 1,785,278         | (93,830)               |
| Total Assets                         | <u>2,451,375</u>        | <u>2,081,436</u>    | <u>369,939</u>         | <u>2,349,281</u>         | <u>2,466,613</u>  | <u>(117,332)</u>       |
| Deferred Outflows of Resources       | <u>59,534</u>           | <u>86,639</u>       | <u>(27,105)</u>        | <u>5,138</u>             | <u>10,316</u>     | <u>(5,178)</u>         |
| <b>Liabilities</b>                   |                         |                     |                        |                          |                   |                        |
| Noncurrent liabilities outstanding   | 289,316                 | 199,155             | 90,161                 | 1,434,667                | 1,569,892         | (135,225)              |
| Current and other liabilities        | <u>41,214</u>           | <u>16,602</u>       | <u>24,612</u>          | <u>41,474</u>            | <u>21,057</u>     | <u>20,417</u>          |
| Total Liabilities                    | <u>330,530</u>          | <u>215,757</u>      | <u>114,773</u>         | <u>1,476,141</u>         | <u>1,590,949</u>  | <u>(114,808)</u>       |
| Deferred Inflows of Resources        | <u>33,392</u>           | <u>30,236</u>       | <u>3,156</u>           | <u>7,071</u>             | <u>9,171</u>      | <u>(2,100)</u>         |
| <b>Net Position</b>                  |                         |                     |                        |                          |                   |                        |
| Net investment in capital assets     | 1,175,992               | 981,086             | 194,906                | 429,036                  | 424,879           | 4,157                  |
| Restricted for debt service          | 40,679                  | 50,390              | (9,711)                | 15,795                   | 30,198            | (14,403)               |
| Unrestricted                         | <u>930,316</u>          | <u>890,606</u>      | <u>39,710</u>          | <u>426,376</u>           | <u>421,732</u>    | <u>4,644</u>           |
| Total Net Position                   | <u>\$ 2,146,987</u>     | <u>\$ 1,922,082</u> | <u>\$ 224,905</u>      | <u>\$ 871,207</u>        | <u>\$ 876,809</u> | <u>\$ (5,602)</u>      |

An additional portion of the City's net position, \$56,474, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, \$1,356,692, may be used to meet the City's ongoing obligations to citizens and creditors.

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

**Statement of Activities.** Governmental activities increased the City's net position by \$224,905 and business-type activities decreased the City's net position by \$5,602 for a total increase of \$219,303. Significant changes from the prior year are noted below:

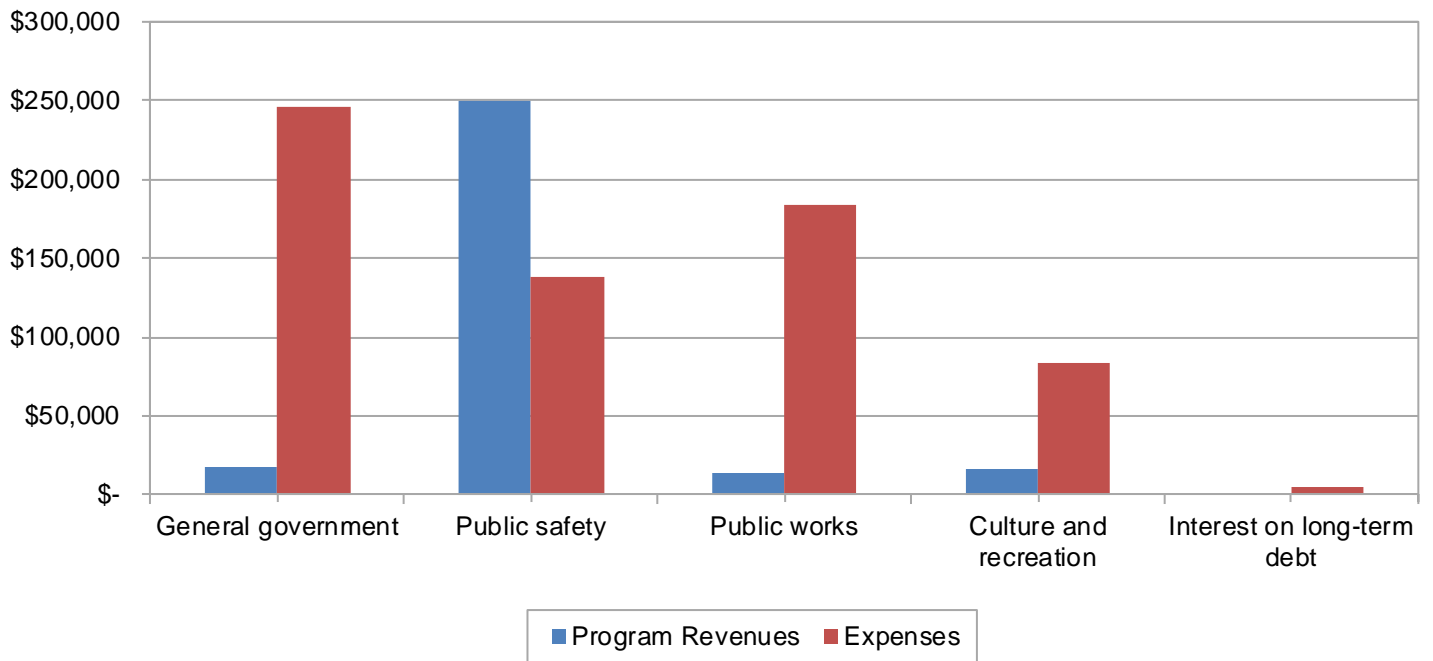
### City of Hamburg's Changes in Net Position

|   | Governmental Activities |                     |                        | Business-type Activities |                   |                        |
|---|-------------------------|---------------------|------------------------|--------------------------|-------------------|------------------------|
|   | 2018                    | 2017                | Increase<br>(Decrease) | 2018                     | 2017              | Increase<br>(Decrease) |
| Revenues  |                         |                     |                        |                          |                   |                        |
| Program revenues  |                         |                     |                        |                          |                   |                        |
| Charges for services  | \$ 49,863               | \$ 51,663           | \$ (1,800)             | \$ 299,334               | \$ 293,609        | \$ 5,725               |
| Operating grants and contributions                              | 49,044                  | 46,730              | 2,314                  | -                        | -                 | -                      |
| Capital grants and contributions                                | 198,741                 | 13,049              | 185,692                | 2,248                    | 2,501             | (253)                  |
| General revenues  |                         |                     |                        |                          |                   |                        |
| Property taxes  |                         |                     |                        |                          |                   |                        |
| Levied for general purposes                                     | 477,349                 | 451,835             | 25,514                 | -                        | -                 | -                      |
| Levied for debt service   | 10,000                  | 10,000              | -                      | -                        | -                 | -                      |
| Grants and contributions not<br>restricted to specific programs | 81,142                  | 84,391              | (3,249)                | -                        | -                 | -                      |
| Unrestricted investment earnings                                | 2,391                   | 1,038               | 1,353                  | -                        | -                 | -                      |
| Gain on sale of capital assets                                  | -                       | 5,566               | (5,566)                | -                        | -                 | -                      |
| Total Revenues  | <u>868,530</u>          | <u>664,272</u>      | <u>204,258</u>         | <u>301,582</u>           | <u>296,110</u>    | <u>5,472</u>           |
| Expenses  |                         |                     |                        |                          |                   |                        |
| General government  | 245,714                 | 247,751             | (2,037)                | -                        | -                 | -                      |
| Public safety   | 138,544                 | 151,189             | (12,645)               | -                        | -                 | -                      |
| Public works  | 183,964                 | 156,239             | 27,725                 | -                        | -                 | -                      |
| Culture and recreation  | 83,200                  | 117,029             | (33,829)               | -                        | -                 | -                      |
| Interest on long-term debt                                      | 5,083                   | 4,593               | 490                    | -                        | -                 | -                      |
| Water   | -                       | -                   | -                      | 163,099                  | 138,037           | 25,062                 |
| Sewer   | -                       | -                   | -                      | 82,392                   | 73,692            | 8,700                  |
| Storm water   | -                       | -                   | -                      | 48,813                   | 49,357            | (544)                  |
| Total Expenses  | <u>656,505</u>          | <u>676,801</u>      | <u>(20,296)</u>        | <u>294,304</u>           | <u>261,086</u>    | <u>33,218</u>          |
| Change in Net Position Before Transfers                         | 212,025                 | (12,529)            | 224,554                | 7,278                    | 35,024            | (27,746)               |
| Transfers   | 12,880                  | 12,880              | -                      | (12,880)                 | (12,880)          | -                      |
| Change in Net Position  | 224,905                 | 351                 | 224,554                | (5,602)                  | 22,144            | (27,746)               |
| Net Position, January 1   | <u>1,922,082</u>        | <u>1,921,731</u>    | <u>351</u>             | <u>876,809</u>           | <u>854,665</u>    | <u>22,144</u>          |
| Net Position, December 31                                       | <u>\$ 2,146,987</u>     | <u>\$ 1,922,082</u> | <u>\$ 224,905</u>      | <u>\$ 871,207</u>        | <u>\$ 876,809</u> | <u>\$ (5,602)</u>      |

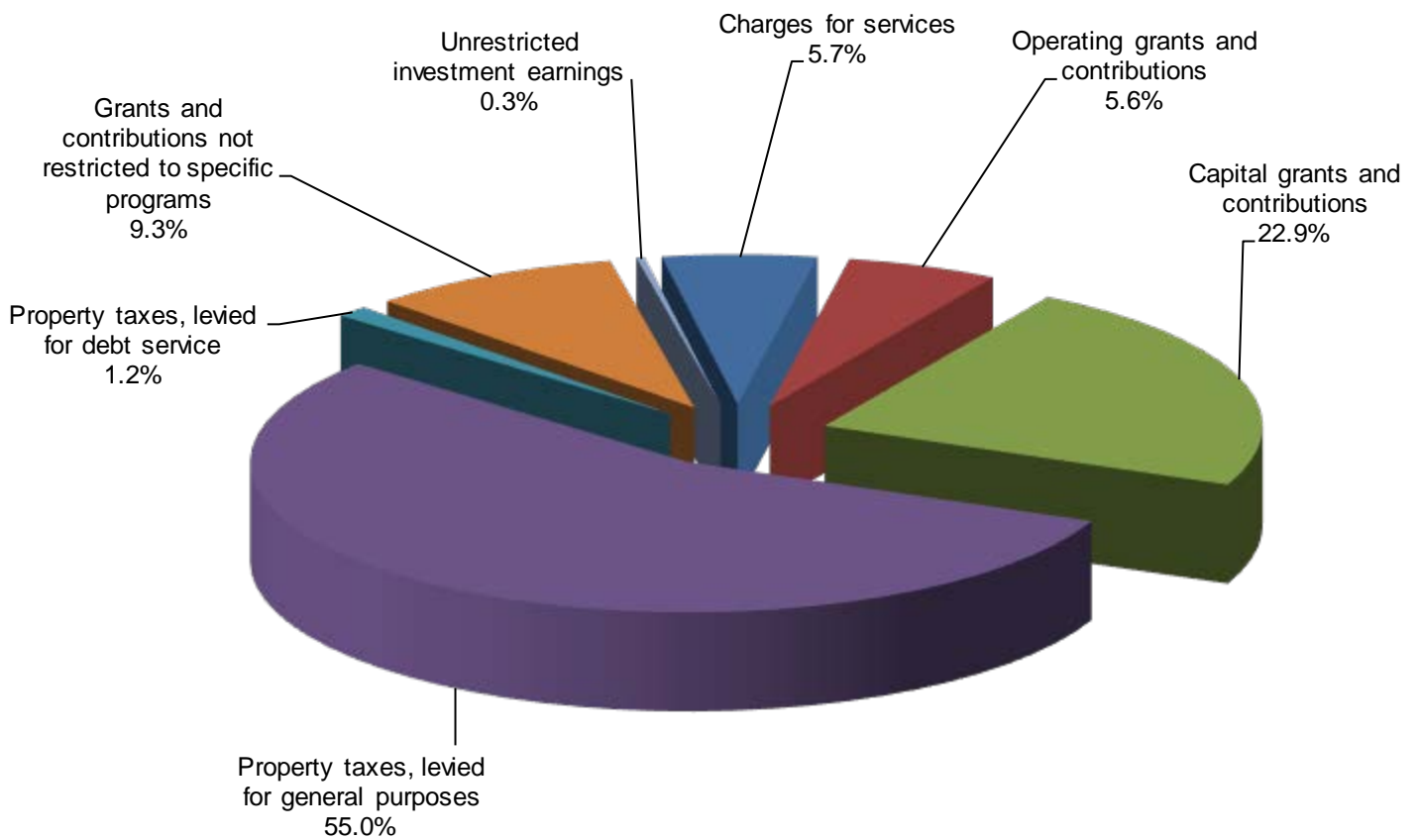
The increase in capital grants and contributions was a result of contributions from townships for their share of the new fire engine purchase.

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

### Expenses and Program Revenues - Governmental Activities



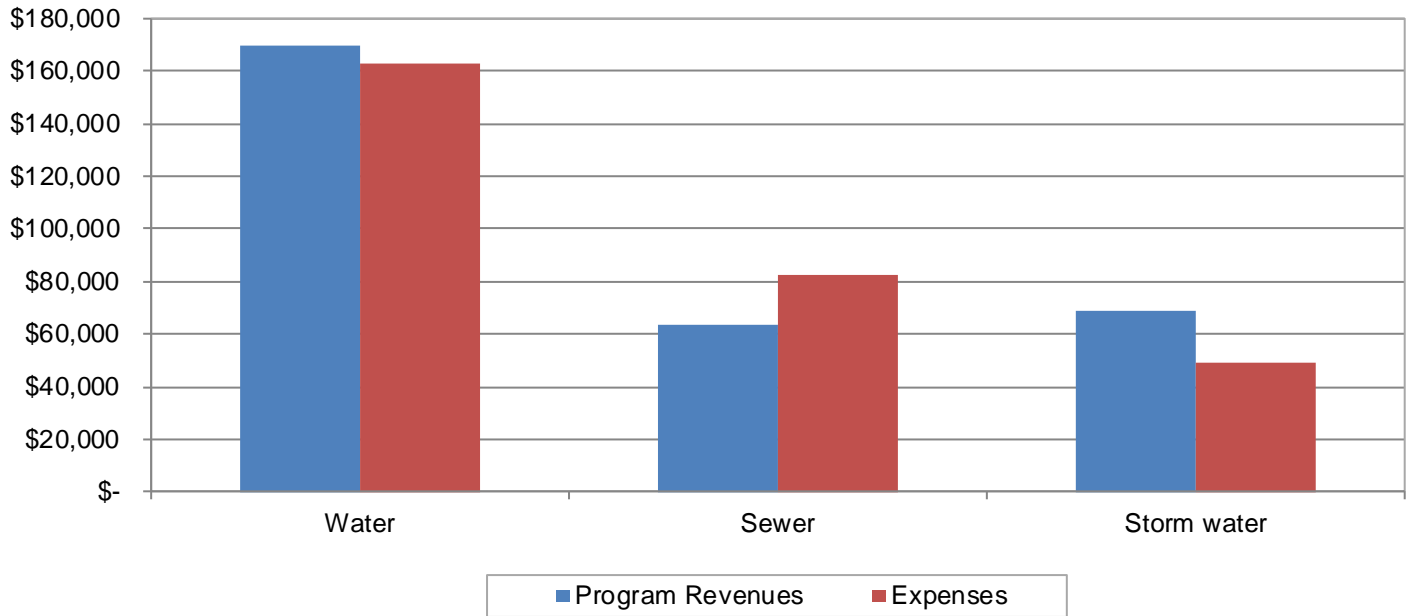
### Revenues by Source - Governmental Activities



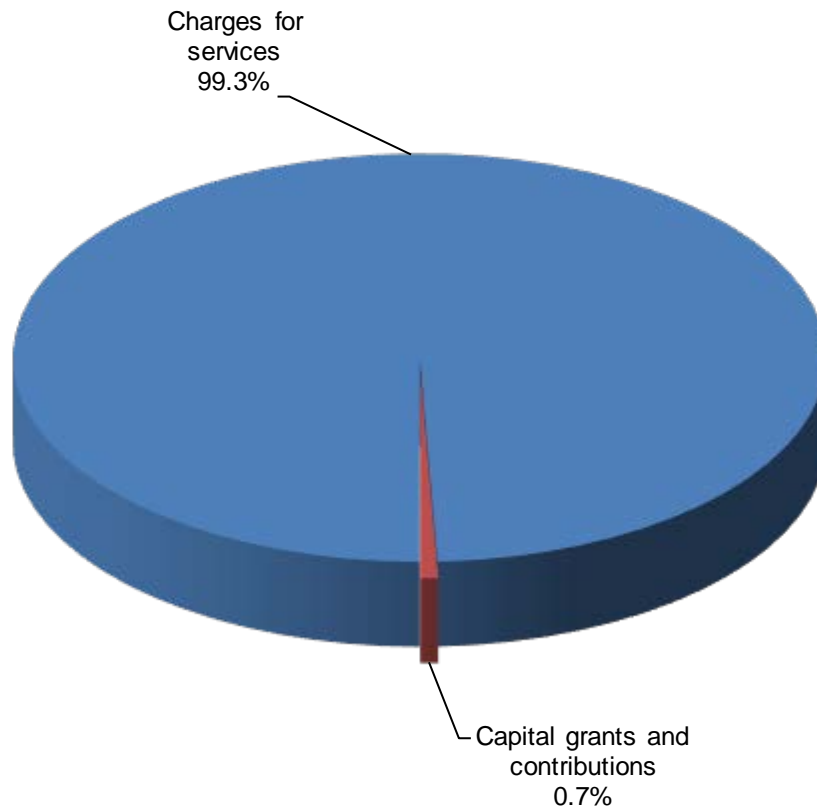
**Business-type Activities.** Business-type activities decreased the City's net position by \$5,602. Key elements of this decrease are as follows:

- Operating income within the proprietary fund financial statements of \$426,376 over net nonoperating revenue/expenses and transfers totaling \$56,303.

**Expenses and Program Revenues - Business-type Activities**



**Revenues by Source - Business-type Activities**



## Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$902,580, a decrease of \$21,456 in comparison with the prior year. Of this amount, \$403,265 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund the balance is not available for new spending because it is either 1) nonspendable for prepaid items (\$9,613), 2) restricted for debt service (\$38,577), or 3) assigned for capital outlay (\$451,125).

| <u>Major Funds</u>   | Fund Balances<br>December 31, |            | Increase<br>(Decrease) |
|--|-------------------------------|------------|------------------------|
|  | 2018                          | 2017       |                        |
| <b>General</b>   | \$ 412,878                    | \$ 282,887 | \$ 129,991             |
| The General fund is the chief operating fund of the City. The increase in fund balance primarily relates not budgeting for Local Government Aid. |                               |            |                        |
| <b>Capital Purchases</b>   | \$ 443,125                    | \$ 469,494 | \$ (26,369)            |
| The Capital Purchases fund balance decreased primarily due to transfers to the General fund of \$61,500.   |                               |            |                        |

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the enterprise funds at the end of the year amounted to \$426,376.

### General Fund Budgetary Highlights

The final budget approved by City Council indicated excess expenditures over revenues in the amount of \$34,464 prior to net transfers with other funds for \$30,700, resulting in a budgeted decrease of \$3,764 to fund balance. Actual year-end figures resulted in an increase to fund balance of \$129,991.

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

- The largest revenue budget variance was in intergovernmental revenues of \$255,740 primarily from unbudgeted collections of local government aid and contributions from townships for the purchase of the fire engine.
- The largest expenditure variance was in capital outlay with the purchase of the fire engine.

## Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of December 31, 2018, amounts to \$3,056,440 (net of accumulated depreciation). This investment in capital assets includes land, historical treasures and collectables, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. Major capital asset activity includes:

- Overall, total capital assets, net of depreciation, increased \$200,076 as a result of the purchase of the fire engine.

### City of Hamburg's Capital Assets (Net of Depreciation)

|                                       | Governmental Activities |                     |                        | Business-type Activities |                     |                        |
|---------------------------------------|-------------------------|---------------------|------------------------|--------------------------|---------------------|------------------------|
|                                       | 2018                    | 2017                | Increase<br>(Decrease) | 2018                     | 2017                | Increase<br>(Decrease) |
| Land                                  | \$ 100,000              | \$ 100,000          | \$ -                   | \$ 37,000                | \$ 37,000           | \$ -                   |
| Historical Treasures and Collectables | 11,873                  | 11,873              | -                      | -                        | -                   | -                      |
| Buildings                             | 12,740                  | 14,927              | (2,187)                | -                        | -                   | -                      |
| Machinery and Equipment               | 116,085                 | 104,539             | 11,546                 | 56,763                   | 53,969              | 2,794                  |
| Vehicles                              | 495,767                 | 119,303             | 376,464                | -                        | -                   | -                      |
| Infrastructure                        | 628,527                 | 720,444             | (91,917)               | 1,597,685                | 1,694,309           | (96,624)               |
| <b>Total</b>                          | <b>\$ 1,364,992</b>     | <b>\$ 1,071,086</b> | <b>\$ 293,906</b>      | <b>\$ 1,691,448</b>      | <b>\$ 1,785,278</b> | <b>\$ (93,830)</b>     |

Additional information on the City's capital assets can be found in Note 3B starting on page 51 of this report.

**Long-term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,594,227. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

### City of Hamburg's Outstanding Debt

|                              | Governmental Activities |                  |                        | Business-type Activities |                     |                        |
|------------------------------|-------------------------|------------------|------------------------|--------------------------|---------------------|------------------------|
|                              | 2018                    | 2017             | Increase<br>(Decrease) | 2018                     | 2017                | Increase<br>(Decrease) |
| Certificates of Indebtedness | \$ 114,000              | \$ -             | \$ 114,000             | \$ -                     | \$ -                | \$ -                   |
| G.O. Improvement Bonds       | 75,000                  | 90,000           | (15,000)               | -                        | -                   | -                      |
| G.O. Revenue Bonds           | -                       | -                | -                      | 1,405,227                | 1,529,227           | (124,000)              |
| <b>Total</b>                 | <b>\$ 189,000</b>       | <b>\$ 90,000</b> | <b>\$ 99,000</b>       | <b>\$ 1,405,227</b>      | <b>\$ 1,529,227</b> | <b>\$ (124,000)</b>    |

The City's total long-term debt decreased \$25,000 (1.5 percent) during the current fiscal year. This is primarily due to regular scheduled debt payments net of debt issuance.

The City's statutory debt limit is computed as three percent of the taxable market value of property within the City. Long-term debt issued and financed partially or entirely by special assessments or the net revenues of enterprise fund operations is excluded from the debt limit computation. As of December 31, 2018, the market value of property within the City is \$32,614,200 for an allowable margin of \$978,426. There is currently no outstanding debt at year end that is applied against the statutory debt limit.

Additional information on the City's long-term debt can be found in Note 3D starting on page 53 of this report.



## **Economic Factors and Next Year's Budgets and Rates**

- General Fund revenues for 2019 Budget were decreased by \$66,893 and General Fund expenditures for 2019 were decreased by \$68,519 (Including transfers). A net loss of \$0 is projected for 2019. Local Government Aid (LGA) was not included in the 2018/2019 Budgets. The General Fund had a net gain of \$129,991, after transfers, for 2018. The property tax levy for 2019 was increased 2.985 percent.
- The City General Fund Balance as a Percent of Next Year's Budgeted Expenditures/Transfers at the end of 2018 was 75.4 percent. The same percent is projected for 2019. City Policy requires the City to maintain a range between 35 to 50 percent.
- Governmental expenses in the General fund for 2019 increased by \$21,089 due mainly to increased expenses in wages, health insurance and projected legal fees for 2019.
- Public safety expenditures for 2019 were decreased by \$10,375 mainly due to a reduction in the Cities required contribution to HFD Relief Association.
- Public works expenses for 2019 were decreased by \$60,185 due to the fact that no street improvements are scheduled for 2019.
- Park Expenditures for 2019 were decreased \$16,793 due to no major equipment or capital improvements scheduled for 2019.
- Hall Expenditures for 2019 decreased \$2,255. Repair and maintenance expenditures for 2018 decreased by \$3,500.
- General Fund budgeted transfers out for 2019 include the following: \$5,000 to the City Equipment Replacement fund (City Savings Account), \$5,000 to the City Maintenance fund (City Savings Account), \$2,000 to the Community Center Fund (City Savings Account), \$2,000 to Park Handicap Bathrooms Fund (City Savings Account),
- Debt Service Fund revenues increased by \$39,101 in 2019. Debt Service expenditures for 2019 increased by \$28,973. The City (HFD) purchased a brand-new Fire Engine in 2018. A net loss of \$8,094 was projected for 2018 and a net income of \$2,034 is projected for 2019.
- Water rates were increased 4.1% in 2018 and 4.80% for 2019. The Capital Improvement Fee was increased from \$8 to \$10/month in 2019 for the New Water Tower. This trend will continue over the next few years to help fund the new water tower anticipated to be constructed in 2019/2020.
- Sewer rates remained the same for 2018 and 2019. 2019 budgeted sewer fund revenues and expenditures remained relatively the same as 2018. Debt payments for 2019 decreased by \$188. A net loss of \$11,007 is projected for 2019.
- Storm Water rates remained the same for 2018/2019. Storm Water fund revenues and expenditures for 2019 are projected to remain relatively the same as 2018.

All of these factors were considered in preparing the City's budget for the 2019 fiscal year.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk/Treasurer, City of Hamburg, 181 Broadway Ave, Hamburg, Minnesota 55339.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HAMBURG  
HAMBURG, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

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City of Hamburg, Minnesota  
Statement of Net Position  
December 31, 2018

|  | Governmental<br>Activities | Business-type<br>Activities | Total               |
|--|----------------------------|-----------------------------|---------------------|
| <b>Assets</b>  |                            |                             |                     |
| Cash and temporary investments                       | \$ 898,578                 | \$ 564,644                  | \$ 1,463,222        |
| Receivables  |                            |                             |                     |
| Taxes  | 4,161                      | -                           | 4,161               |
| Accounts   | 2,778                      | 26,700                      | 29,478              |
| Special assessments                                  | 4,633                      | 64,293                      | 68,926              |
| Due from other governments                           | 65,166                     | -                           | 65,166              |
| Prepaid items  | 9,613                      | 2,196                       | 11,809              |
| Net pension asset                                    | 101,454                    | -                           | 101,454             |
| Capital assets                                       |                            |                             |                     |
| Land, collectables, and construction in progress     | 111,873                    | 37,000                      | 148,873             |
| Depreciable assets (net of accumulated depreciation) | 1,253,119                  | 1,654,448                   | 2,907,567           |
| Total Assets   | <u>2,451,375</u>           | <u>2,349,281</u>            | <u>4,800,656</u>    |
| <b>Deferred Outflows of Resources</b>                |                            |                             |                     |
| Deferred pension resources                           | <u>59,534</u>              | <u>5,138</u>                | <u>64,672</u>       |
| <b>Liabilities</b>                                   |                            |                             |                     |
| Accounts payable                                     | 35,287                     | 22,475                      | 57,762              |
| Accrued salaries payable                             | 2,204                      | 1,304                       | 3,508               |
| Due to other governments                             | 1,192                      | 184                         | 1,376               |
| Accrued interest payable                             | 2,531                      | 17,511                      | 20,042              |
| Noncurrent liabilities                               |                            |                             |                     |
| Due within one year                                  | 49,053                     | 133,004                     | 182,057             |
| Due in more than one year                            | 240,263                    | 1,301,663                   | 1,541,926           |
| Total Liabilities                                    | <u>330,530</u>             | <u>1,476,141</u>            | <u>1,806,671</u>    |
| <b>Deferred Inflows of Resources</b>                 |                            |                             |                     |
| Deferred pension resources                           | <u>33,392</u>              | <u>7,071</u>                | <u>40,463</u>       |
| <b>Net Position</b>                                  |                            |                             |                     |
| Net investment in capital assets                     | 1,175,992                  | 429,036                     | 1,605,028           |
| Restricted for debt service                          | 40,679                     | 15,795                      | 56,474              |
| Unrestricted   | 930,316                    | 426,376                     | 1,356,692           |
| Total Net Position                                   | <u>\$ 2,146,987</u>        | <u>\$ 871,207</u>           | <u>\$ 3,018,194</u> |

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

City of Hamburg, Minnesota  
Statement of Activities  
For the Year Ended December 31, 2018

| Functions/Programs              | Expenses          | Program Revenues     |                                    |                                  |
|---------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|
|                                 |                   | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Governmental Activities</b>  |                   |                      |                                    |                                  |
| General government              | \$ 245,714        | \$ 1,885             | \$ 16,000                          | \$ -                             |
| Public safety                   | 138,544           | 31,384               | 26,937                             | 191,250                          |
| Public works                    | 183,964           | -                    | 6,107                              | 7,491                            |
| Culture and recreation          | 83,200            | 16,594               | -                                  | -                                |
| Interest on long-term debt      | 5,083             | -                    | -                                  | -                                |
| Total Governmental Activities   | <u>656,505</u>    | <u>49,863</u>        | <u>49,044</u>                      | <u>198,741</u>                   |
| <b>Business-type Activities</b> |                   |                      |                                    |                                  |
| Water                           | 163,099           | 169,475              | -                                  | -                                |
| Sewer                           | 82,392            | 61,142               | -                                  | 2,248                            |
| Storm water                     | 48,813            | 68,717               | -                                  | -                                |
| Total Business-type Activities  | <u>294,304</u>    | <u>299,334</u>       | <u>-</u>                           | <u>2,248</u>                     |
| Total                           | <u>\$ 950,809</u> | <u>\$ 349,197</u>    | <u>\$ 49,044</u>                   | <u>\$ 200,989</u>                |

General Revenues

- Taxes
  - Property taxes, levied for general purposes
  - Property taxes, levied for debt service
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Transfers
  - Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

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

Net (Expenses) Revenues  
and Changes in Net Position

| Governmental<br>Activities | Business-type<br>Activities | Total               |
|----------------------------|-----------------------------|---------------------|
| \$ (227,829)               | \$ -                        | \$ (227,829)        |
| 111,027                    | -                           | 111,027             |
| (170,366)                  | -                           | (170,366)           |
| (66,606)                   | -                           | (66,606)            |
| (5,083)                    | -                           | (5,083)             |
| <u>(358,857)</u>           | <u>-</u>                    | <u>(358,857)</u>    |
| -                          | 6,376                       | 6,376               |
| -                          | (19,002)                    | (19,002)            |
| -                          | 19,904                      | 19,904              |
| <u>-</u>                   | <u>7,278</u>                | <u>7,278</u>        |
| <u>(358,857)</u>           | <u>7,278</u>                | <u>(351,579)</u>    |
| 477,349                    | -                           | 477,349             |
| 10,000                     | -                           | 10,000              |
| 81,142                     | -                           | 81,142              |
| 2,391                      | -                           | 2,391               |
| 12,880                     | (12,880)                    | -                   |
| <u>583,762</u>             | <u>(12,880)</u>             | <u>570,882</u>      |
| 224,905                    | (5,602)                     | 219,303             |
| <u>1,922,082</u>           | <u>876,809</u>              | <u>2,798,891</u>    |
| <u>\$ 2,146,987</u>        | <u>\$ 871,207</u>           | <u>\$ 3,018,194</u> |

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

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FUND FINANCIAL STATEMENTS

CITY OF HAMBURG  
HAMBURG, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

City of Hamburg, Minnesota

Balance Sheet  
 Governmental Funds  
 December 31, 2018

|  | <b>101</b>        | <b>203</b>           | Total                    | Total                 |
|--|-------------------|----------------------|--------------------------|-----------------------|
|  | General           | Capital<br>Purchases | Nonmajor<br>Governmental | Governmental<br>Funds |
| <b>Assets</b>  |                   |                      |                          |                       |
| Cash and temporary investments   | \$ 408,876        | \$ 443,125           | \$ 46,577                | \$ 898,578            |
| Receivables  |                   |                      |                          |                       |
| Taxes  | 4,161             | -                    | -                        | 4,161                 |
| Accounts   | 2,778             | -                    | -                        | 2,778                 |
| Special assessments  | -                 | -                    | 4,633                    | 4,633                 |
| Due from other governments   | 29,501            | -                    | 35,665                   | 65,166                |
| Prepaid items  | 9,613             | -                    | -                        | 9,613                 |
|  | <u>9,613</u>      | <u>-</u>             | <u>-</u>                 | <u>9,613</u>          |
| Total Assets   | <u>\$ 454,929</u> | <u>\$ 443,125</u>    | <u>\$ 86,875</u>         | <u>\$ 984,929</u>     |
| <b>Liabilities</b>   |                   |                      |                          |                       |
| Accounts payable   | \$ 35,287         | \$ -                 | \$ -                     | \$ 35,287             |
| Accrued salaries payable   | 2,204             | -                    | -                        | 2,204                 |
| Due to other governments   | 1,192             | -                    | -                        | 1,192                 |
| Total Liabilities  | <u>38,683</u>     | <u>-</u>             | <u>-</u>                 | <u>38,683</u>         |
| <b>Deferred Inflows of Resources</b>                                     |                   |                      |                          |                       |
| Unavailable revenue - taxes  | 3,368             | -                    | -                        | 3,368                 |
| Unavailable revenue - special assessments                                | -                 | -                    | 4,633                    | 4,633                 |
| Unavailable revenue - intergovernmental                                  | -                 | -                    | 35,665                   | 35,665                |
| Total Deferred Inflows<br>of Resources                                   | <u>3,368</u>      | <u>-</u>             | <u>40,298</u>            | <u>43,666</u>         |
| <b>Fund Balances</b>   |                   |                      |                          |                       |
| Nonspendable for prepaid items   | 9,613             | -                    | -                        | 9,613                 |
| Restricted for debt service  | -                 | -                    | 38,577                   | 38,577                |
| Assigned for capital outlay  | -                 | 443,125              | 8,000                    | 451,125               |
| Unassigned   | 403,265           | -                    | -                        | 403,265               |
| Total Fund Balances  | <u>412,878</u>    | <u>443,125</u>       | <u>46,577</u>            | <u>902,580</u>        |
|  |                   |                      |                          |                       |
| Total Liabilities, Deferred<br>Inflows of Resources<br>and Fund Balances | <u>\$ 454,929</u> | <u>\$ 443,125</u>    | <u>\$ 86,875</u>         | <u>\$ 984,929</u>     |

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

City of Hamburg, Minnesota  
 Reconciliation of the Balance Sheet  
 to the Statement of Net Position  
 Governmental Funds  
 December 31, 2018

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

|  |              |
|--|--------------|
| Total Fund Balances - Governmental Funds   | \$ 902,580   |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.                   |              |
| Cost of capital assets   | 4,928,078    |
| Less: accumulated depreciation   | (3,563,086)  |
| Long-term assets from pensions reported in governmental activities are not financial resources and therefore are not reported as assets in the funds.        |              |
| Net pension asset  | 101,454      |
| Noncurrent liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. |              |
| Noncurrent liabilities at year-end consist of  |              |
| Bond principal payable   | (189,000)    |
| Compensated absences payable   | (11,253)     |
| Pension liability  | (89,063)     |
| Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are reported as unavailable revenue in the funds. |              |
| Taxes receivable   | 3,368        |
| Special assessments receivable   | 4,633        |
| Intergovernmental receivable   | 35,665       |
| Governmental funds do not report a liability for accrued interest until due and payable.   | (2,531)      |
| Governmental funds do not report long-term amounts related to pensions.  |              |
| Deferred outflow of resources  | 59,534       |
| Deferred inflow of resources   | (33,392)     |
| Total Net Position - Governmental Activities   | \$ 2,146,987 |

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

City of Hamburg, Minnesota  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2018

|  | 101<br>General    | 203<br>Capital<br>Purchases | Total<br>Nonmajor<br>Governmental | Total<br>Governmental<br>Funds |
|--|-------------------|-----------------------------|-----------------------------------|--------------------------------|
| <b>Revenues</b>  |                   |                             |                                   |                                |
| Property taxes   | \$ 477,384        | \$ -                        | \$ 10,000                         | \$ 487,384                     |
| Licenses and permits   | 3,091             | -                           | -                                 | 3,091                          |
| Intergovernmental  | 276,554           | -                           | -                                 | 276,554                        |
| Charges for services   | 45,554            | -                           | -                                 | 45,554                         |
| Fines and forfeitures  | 1,218             | -                           | -                                 | 1,218                          |
| Special assessments  | -                 | -                           | 1,127                             | 1,127                          |
| Investment earnings  | -                 | 1,451                       | 940                               | 2,391                          |
| Miscellaneous  | 15,676            | -                           | -                                 | 15,676                         |
| Total Revenues   | <u>819,477</u>    | <u>1,451</u>                | <u>12,067</u>                     | <u>832,995</u>                 |
| <b>Expenditures</b>  |                   |                             |                                   |                                |
| Current  |                   |                             |                                   |                                |
| General government   | 236,019           | -                           | -                                 | 236,019                        |
| Public safety  | 101,731           | -                           | -                                 | 101,731                        |
| Public works   | 95,273            | -                           | -                                 | 95,273                         |
| Culture and recreation                                       | 73,597            | -                           | -                                 | 73,597                         |
| Capital outlay   |                   |                             |                                   |                                |
| General government   | 1,487             | -                           | -                                 | 1,487                          |
| Public safety  | 443,733           | -                           | -                                 | 443,733                        |
| Culture and recreation                                       | 10,270            | -                           | -                                 | 10,270                         |
| Debt service   |                   |                             |                                   |                                |
| Principal  | -                 | -                           | 15,000                            | 15,000                         |
| Interest and other charges                                   | -                 | -                           | 4,221                             | 4,221                          |
| Total Expenditures   | <u>962,110</u>    | <u>-</u>                    | <u>19,221</u>                     | <u>981,331</u>                 |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>(142,633)</u>  | <u>1,451</u>                | <u>(7,154)</u>                    | <u>(148,336)</u>               |
| <b>Other Financing Sources (Uses)</b>                        |                   |                             |                                   |                                |
| Equipment certificate issued                                 | 114,000           | -                           | -                                 | 114,000                        |
| Transfers in   | 179,424           | 33,680                      | -                                 | 213,104                        |
| Transfers out  | <u>(20,800)</u>   | <u>(61,500)</u>             | <u>(117,924)</u>                  | <u>(200,224)</u>               |
| Total Other Financing<br>Sources (Uses)                      | <u>272,624</u>    | <u>(27,820)</u>             | <u>(117,924)</u>                  | <u>126,880</u>                 |
| Net Change in Fund Balances                                  | 129,991           | (26,369)                    | (125,078)                         | (21,456)                       |
| Fund Balances, January 1                                     | <u>282,887</u>    | <u>469,494</u>              | <u>171,655</u>                    | <u>924,036</u>                 |
| Fund Balances, December 31                                   | <u>\$ 412,878</u> | <u>\$ 443,125</u>           | <u>\$ 46,577</u>                  | <u>\$ 902,580</u>              |

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

City of Hamburg, Minnesota  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances to the Statement of Activities  
 Governmental Funds  
 For the Year Ended December 31, 2018

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

|  |             |
|--|-------------|
| Total Net Change in Fund Balances - Governmental Funds   | \$ (21,456) |
| <p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>   |             |
| Capital outlay   | 426,471     |
| Depreciation expense   | (132,260)   |
| Contributions for capital  | 35,665      |
| <p>Sales of capital assets are reported in the governmental funds as other financing sources. However, in the statement of activities, proceeds are eliminated and gains and losses are recorded.</p>  |             |
| Net book value on disposal of capital assets   | (305)       |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p>   |             |
| Debt issued  | (114,000)   |
| Principal repayments   | 15,000      |
| <p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p> |             |
|  | (862)       |
| <p>Long-term pension activity is not reported in governmental funds.</p>   |             |
| Pension expense  | 14,634      |
| Pension revenue  | 660         |
| <p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>  |             |
| Special assessments  | (755)       |
| Property taxes   | (35)        |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.</p>   |             |
| Compensated absences   | 2,148       |
| Change in Net Position - Governmental Activities   | \$ 224,905  |

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

City of Hamburg, Minnesota  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual  
General Fund  
For the Year Ended December 31, 2018

|   | Budgeted Amounts  |                   | Actual<br>Amounts | Variance with<br>Final Budget |
|---|-------------------|-------------------|-------------------|-------------------------------|
|   | Original          | Final             |                   |                               |
| <b>Revenues</b>                         |                   |                   |                   |                               |
| Property taxes                          | \$ 476,994        | \$ 476,994        | \$ 477,384        | \$ 390                        |
| Licenses and permits                    | 5,620             | 5,620             | 3,091             | (2,529)                       |
| Intergovernmental                       | 20,814            | 20,814            | 276,554           | 255,740                       |
| Charges for services                    | 45,560            | 45,560            | 45,554            | (6)                           |
| Fines and forfeitures                   | 750               | 750               | 1,218             | 468                           |
| Miscellaneous                           | 3,000             | 3,000             | 15,676            | 12,676                        |
| Total Revenues                          | <u>552,738</u>    | <u>552,738</u>    | <u>819,477</u>    | <u>266,739</u>                |
| <b>Expenditures</b>                     |                   |                   |                   |                               |
| <b>Current</b>                          |                   |                   |                   |                               |
| General government                      | 205,075           | 205,075           | 236,019           | (30,944)                      |
| Public safety                           | 104,373           | 108,137           | 101,731           | 6,406                         |
| Public works                            | 55,335            | 55,335            | 95,273            | (39,938)                      |
| Culture and recreation                  | 88,455            | 88,455            | 73,597            | 14,858                        |
| Capital outlay                          | 130,200           | 130,200           | 455,490           | (325,290)                     |
| Total Expenditures                      | <u>583,438</u>    | <u>587,202</u>    | <u>962,110</u>    | <u>(374,908)</u>              |
| Excess of Revenues<br>Over Expenditures | <u>(30,700)</u>   | <u>(34,464)</u>   | <u>(142,633)</u>  | <u>(108,169)</u>              |
| <b>Other Financing Sources (Uses)</b>   |                   |                   |                   |                               |
| Equipment certificate proceeds          | -                 | -                 | 114,000           | 114,000                       |
| Transfers in                            | 61,500            | 61,500            | 179,424           | 117,924                       |
| Transfers out                           | (30,800)          | (30,800)          | (20,800)          | 10,000                        |
| Total Other Financing Sources (Uses)    | <u>30,700</u>     | <u>30,700</u>     | <u>272,624</u>    | <u>241,924</u>                |
| Net Change in Fund Balances             | -                 | (3,764)           | 129,991           | 133,755                       |
| Fund Balances, January 1                | <u>282,887</u>    | <u>282,887</u>    | <u>282,887</u>    | <u>-</u>                      |
| Fund Balances, December 31              | <u>\$ 282,887</u> | <u>\$ 279,123</u> | <u>\$ 412,878</u> | <u>\$ 133,755</u>             |

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

City of Hamburg, Minnesota  
Statement of Net Position  
Proprietary Funds  
December 31, 2018

|  | Business-type Activities - Enterprise Funds |                   |                    |                    |
|--|---|-------------------|--------------------|--------------------|
|  | 601<br>Water                                | 602<br>Sewer      | 603<br>Storm Water | Total              |
| <b>Assets</b>  |   |                   |                    |                    |
| <b>Current Assets</b>                                  |   |                   |                    |                    |
| Cash and temporary investments                         | \$ 92,017                                   | \$ 363,769        | \$ 108,858         | \$ 564,644         |
| Receivables  |   |                   |                    |                    |
| Accounts   | 15,022                                      | 5,343             | 6,335              | 26,700             |
| Special assessments                                    | -   | 4,493             | -                  | 4,493              |
| Prepaid items  | 1,196                                       | 1,000             | -                  | 2,196              |
| Total Current Assets                                   | <u>108,235</u>                              | <u>374,605</u>    | <u>115,193</u>     | <u>598,033</u>     |
| <b>Noncurrent Assets</b>                               |   |                   |                    |                    |
| Special assessments receivable                         | -   | 59,800            | -                  | 59,800             |
| Capital assets   |   |                   |                    |                    |
| Land   | -   | -                 | 37,000             | 37,000             |
| Machinery and equipment                                | 4,422                                       | 97,057            | -                  | 101,479            |
| Infrastructure   | 1,744,341                                   | 1,041,543         | 731,674            | 3,517,558          |
| Less accumulated depreciation                          | <u>(985,084)</u>                            | <u>(848,466)</u>  | <u>(131,039)</u>   | <u>(1,964,589)</u> |
| Total Capital Assets (Net of Accumulated Depreciation) | <u>763,679</u>                              | <u>290,134</u>    | <u>637,635</u>     | <u>1,691,448</u>   |
| Total Noncurrent Assets                                | <u>763,679</u>                              | <u>349,934</u>    | <u>637,635</u>     | <u>1,751,248</u>   |
| Total Assets   | <u>871,914</u>                              | <u>724,539</u>    | <u>752,828</u>     | <u>2,349,281</u>   |
| <b>Deferred Outflows of Resources</b>                  |   |                   |                    |                    |
| Deferred pension resources                             | <u>2,466</u>                                | <u>2,672</u>      | <u>-</u>           | <u>5,138</u>       |
| <b>Liabilities</b>                                     |   |                   |                    |                    |
| <b>Current Liabilities</b>                             |   |                   |                    |                    |
| Accounts payable                                       | 22,189                                      | 286               | -                  | 22,475             |
| Accrued salaries payable                               | 806   | 498               | -                  | 1,304              |
| Due to other governments                               | 184   | -                 | -                  | 184                |
| Accrued interest payable                               | 4,103                                       | 668               | 12,740             | 17,511             |
| Compensated absences payable                           | 970   | 1,034             | -                  | 2,004              |
| Current portion of bonds payable                       | <u>68,500</u>                               | <u>15,000</u>     | <u>47,500</u>      | <u>131,000</u>     |
| Total Current Liabilities                              | <u>96,752</u>                               | <u>17,486</u>     | <u>60,240</u>      | <u>174,478</u>     |
| <b>Noncurrent Liabilities</b>                          |   |                   |                    |                    |
| Bonds payable  | 363,500                                     | 141,227           | 769,500            | 1,274,227          |
| Pension liability                                      | <u>13,296</u>                               | <u>14,140</u>     | <u>-</u>           | <u>27,436</u>      |
| Total Noncurrent Liabilities                           | <u>376,796</u>                              | <u>155,367</u>    | <u>769,500</u>     | <u>1,301,663</u>   |
| Total Liabilities                                      | <u>473,548</u>                              | <u>172,853</u>    | <u>829,740</u>     | <u>1,476,141</u>   |
| <b>Deferred Inflows of Resources</b>                   |   |                   |                    |                    |
| Deferred pension resources                             | <u>3,371</u>                                | <u>3,700</u>      | <u>-</u>           | <u>7,071</u>       |
| <b>Net Position</b>                                    |   |                   |                    |                    |
| Net investment in capital assets                       | 331,679                                     | 157,822           | (60,465)           | 429,036            |
| Restricted for debt service                            | -   | 15,795            | -                  | 15,795             |
| Unrestricted   | <u>65,782</u>                               | <u>377,041</u>    | <u>(16,447)</u>    | <u>426,376</u>     |
| Total Net Position                                     | <u>\$ 397,461</u>                           | <u>\$ 550,658</u> | <u>\$ (76,912)</u> | <u>\$ 871,207</u>  |

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

City of Hamburg, Minnesota  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended December 31, 2018

|   | Business-type Activities - Enterprise Funds |                   |                    |                   |
|---|---|-------------------|--------------------|-------------------|
|   | 601<br>Water                                | 602<br>Sewer      | 603<br>Storm Water | Total             |
| Operating Revenues  |   |                   |                    |                   |
| Charges for services  | \$ 168,395                                  | \$ 61,044         | \$ 68,717          | \$ 298,156        |
| Operating Expenses  |   |                   |                    |                   |
| Personnel services  | 23,500                                      | 23,891            | -                  | 47,391            |
| Supplies  | 6,637                                       | 1,078             | -                  | 7,715             |
| Other services and charges                                  | 49,110                                      | 19,420            | 638                | 69,168            |
| Maintenance and repairs                                     | 19,231                                      | 818               | -                  | 20,049            |
| Depreciation  | 51,911                                      | 35,177            | 18,292             | 105,380           |
| Total Operating Expenses                                    | <u>150,389</u>                              | <u>80,384</u>     | <u>18,930</u>      | <u>249,703</u>    |
| Operating Income (Loss)                                     | <u>18,006</u>                               | <u>(19,340)</u>   | <u>49,787</u>      | <u>48,453</u>     |
| Nonoperating Revenues (Expenses)                            |   |                   |                    |                   |
| Interest expense and other                                  | (12,710)                                    | (2,008)           | (29,883)           | (44,601)          |
| Other revenue   | 1,080                                       | 98                | -                  | 1,178             |
| Total Nonoperating Revenues (Expenses)                      | <u>(11,630)</u>                             | <u>(1,910)</u>    | <u>(29,883)</u>    | <u>(43,423)</u>   |
| Income (Loss) Before Transfers and Contributions            | 6,376                                       | (21,250)          | 19,904             | 5,030             |
| Capital Contributions - Connection Fees/Special Assessments | -   | 2,248             | -                  | 2,248             |
| Transfers In  | -   | -                 | 6,800              | 6,800             |
| Transfer Out  | (19,680)                                    | -                 | -                  | (19,680)          |
| Change in Net Position                                      | (13,304)                                    | (19,002)          | 26,704             | (5,602)           |
| Net Position, January 1                                     | <u>410,765</u>                              | <u>569,660</u>    | <u>(103,616)</u>   | <u>876,809</u>    |
| Net Position, December 31                                   | <u>\$ 397,461</u>                           | <u>\$ 550,658</u> | <u>\$ (76,912)</u> | <u>\$ 871,207</u> |

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



City of Hamburg, Minnesota  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2018

|   | Business-type Activities - Enterprise Funds |                   |                    |                   |
|---|---|-------------------|--------------------|-------------------|
|   | 601<br>Water                                | 602<br>Sewer      | 603<br>Storm Water | Total             |
| Cash Flows from Operating Activities                            |   |                   |                    |                   |
| Receipts from customers   | \$ 169,415                                  | \$ 61,596         | \$ 69,112          | \$ 300,123        |
| Other income related to operating activities                    | 1,080                                       | 98                | -                  | 1,178             |
| Payments to suppliers   | (54,085)                                    | (22,121)          | (638)              | (76,844)          |
| Payments to employees   | (28,937)                                    | (25,297)          | -                  | (54,234)          |
| Net Cash Provided<br>by Operating Activities                    | <u>87,473</u>                               | <u>14,276</u>     | <u>68,474</u>      | <u>170,223</u>    |
| Cash Flows from Noncapital<br>Financing Activities              |   |                   |                    |                   |
| Transfers from other funds                                      | -   | -                 | 6,800              | 6,800             |
| Transfers to other funds  | (19,680)                                    | -                 | -                  | (19,680)          |
| Net Cash Provided (Used) by<br>Noncapital Financing Activities  | <u>(19,680)</u>                             | <u>-</u>          | <u>6,800</u>       | <u>(12,880)</u>   |
| Cash Flows from Capital<br>and Related Financing Activities     |   |                   |                    |                   |
| Acquisition of capital assets                                   | -   | (11,550)          | -                  | (11,550)          |
| Special assessments collected                                   | -   | 6,540             | -                  | 6,540             |
| Principal paid on bonds   | (66,250)                                    | (15,000)          | (42,750)           | (124,000)         |
| Interest paid on bonds  | (13,275)                                    | (2,074)           | (30,300)           | (45,649)          |
| Net Cash Used by<br>Capital and Related<br>Financing Activities | <u>(79,525)</u>                             | <u>(22,084)</u>   | <u>(73,050)</u>    | <u>(174,659)</u>  |
| Net Increase (Decrease) in<br>Cash and Cash Equivalents         | (11,732)                                    | (7,808)           | 2,224              | (17,316)          |
| Cash and Cash Equivalents, January 1                            | <u>103,749</u>                              | <u>371,577</u>    | <u>106,634</u>     | <u>581,960</u>    |
| Cash and Cash Equivalents, December 31                          | <u>\$ 92,017</u>                            | <u>\$ 363,769</u> | <u>\$ 108,858</u>  | <u>\$ 564,644</u> |

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

City of Hamburg, Minnesota  
Statement of Fiduciary Net Position  
Fiduciary Fund  
December 31, 2018

|                                | <u>801</u><br><u>Agency</u> |
|--------------------------------|-----------------------------|
| Assets                         |                             |
| Cash and temporary investments | <u>\$ 11,336</u>            |
| Liabilities                    |                             |
| Accounts payable               | <u>\$ 11,336</u>            |

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

## Note 1: Summary of Significant Accounting Policies

### A. Reporting Entity

The City of Hamburg, Minnesota (the City) operates under the “Optional Plan A” form of government as defined in Minnesota statutes. Under this plan, the government of the City is directed by a City Council composed of an elected Mayor and four elected City Council members. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the criteria above.

### B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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

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

## Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

The City reports the following major governmental funds:

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

The *Capital Purchases fund* is used to account for various capital purchases by governmental departments.

The City reports the following major proprietary funds:

The *Water fund* accounts for the costs associated with the City's water system and to ensure that user charges are sufficient to pay for those costs.

The *Sewer fund* accounts for the costs associated with the City's sewer system and to ensure that user charges are sufficient to pay for those costs.

The *Storm Water fund* accounts for the costs associated with the City's storm water system and to ensure that user charges are sufficient to pay for those costs.

Additionally, the City reports the following fund types:

*Fiduciary funds* accounts for assets held by the City in a trustee capacity or as an agent on behalf of others.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the City holds for the Joint Powers Board for Cable Communications of the City of Norwood-Young America and Hamburg (JPBCC) in an agency capacity.

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

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

## Note 1: Summary of Significant Accounting Policies (Continued)

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

#### *Deposits and Investments*

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

Cash balances from all funds except certain special revenue and debt service funds are pooled and kept in the City's checking account. The account does not earn any interest; therefore, interest is not allocated to the funds with pooled cash. The City does not have a formal investment policy.

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

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

#### *Property Taxes*

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

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

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable**

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2018. To the extent considered necessary, the City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

**Special Assessments**

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

**Prepaid Items**

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

**Capital Assets**

Capital assets, which include land, historical treasures and collectables, property, plant, equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Donated capital assets are recorded at acquisition value at the date of donation.

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

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

| Assets                             | Useful Lives<br>in Years |
|------------------------------------|--------------------------|
| Buildings and Improvements         | 10 to 40                 |
| Other Improvements                 | 10 to 20                 |
| System Improvements/Infrastructure | 20 to 50                 |
| Machinery and Equipment            | 5 to 15                  |

## **Note 1: Summary of Significant Accounting Policies (Continued)**

### ***Deferred Outflows of Resources***

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

### ***Pensions***

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

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the defined benefit plan administered by the Hamburg Fire Relief Association and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. Investments are reported at fair value.

### ***Compensated Absences***

It is the City's policy to permit employees to accumulate one day of vacation for every 10 full weeks of employment from the date of hire to the end of the calendar year (December 31) of that year for the first year of employment. Employees are entitled to a percentage, based on years of service, of unused sick pay due to retirement or termination. Employees are entitled to accumulated vacation pay up to a maximum of 256 hours at retirement or termination. The General fund is typically used to liquidate governmental compensated absences payable.

### ***Long-term Obligations***

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

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

## Note 1: Summary of Significant Accounting Policies (Continued)

### ***Deferred Inflows of Resources***

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: taxes, special assessments, and due from other governments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

### ***Fund Balance***

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

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

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

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

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

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

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

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 35-50 percent of budgeted operating expenditures for cash-flow timing needs.



## **Note 1: Summary of Significant Accounting Policies (Continued)**

### ***Net Position***

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

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

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

## **Note 2: Stewardship, Compliance and Accountability**

### **A. Budgetary Information**

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

On or before July 1 of each year, all departments of the City submit requests for appropriations to the City Clerk-Treasurer so that a budget may be prepared. Before September 30, the proposed budget is presented to the City for review. The City Council holds public hearings and a final budget is prepared and adopted in December.

The appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Clerk-Treasurer, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is at the department level. The City did amend the budget during the year.

The general fund spent \$378,554 over appropriations. The excess expenditures were covered by excess revenues over budget and available fund balance.

### **B. Deficit Fund Equity**

The Storm Water enterprise fund had a deficit at December 31, 2018 of \$76,912. This deficit will be eliminated with future charges for services.

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds**

**A. Deposits**

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

Minnesota statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was \$1,474,558 and the bank balance was \$1,656,858. The bank balance was covered by federal depository insurance totaling \$500,000, and the remaining balance was covered by collateral held by the City's agent in the City's name.

A reconciliation of cash and temporary investments as shown on the financial statements for the City follows:

|                                     |                     |
|-------------------------------------|---------------------|
| Cash and Temporary Investments      |                     |
| Statement of net position           | \$ 1,463,222        |
| Statement of fiduciary net position | <u>11,336</u>       |
| Total                               | <u>\$ 1,474,558</u> |

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

**B. Capital Assets**

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

|  | Beginning<br>Balance | Increases         | Decreases       | Ending<br>Balance   |
|--|----------------------|-------------------|-----------------|---------------------|
| <b>Governmental Activities</b>                 |                      |                   |                 |                     |
| Capital Assets not Being Depreciated           |                      |                   |                 |                     |
| Land   | \$ 100,000           | \$ -              | \$ -            | \$ 100,000          |
| Historical treasures and collectables          | 11,873               | -                 | -               | 11,873              |
| Total Capital Assets<br>not Being Depreciated  | <u>111,873</u>       | <u>-</u>          | <u>-</u>        | <u>111,873</u>      |
| Capital Assets Being Depreciated               |                      |                   |                 |                     |
| Buildings                                      | 406,947              | -                 | -               | 406,947             |
| Machinery and equipment                        | 565,669              | 31,100            | (4,953)         | 591,816             |
| Vehicles                                       | 297,034              | 395,371           | -               | 692,405             |
| Infrastructure                                 | 3,125,037            | -                 | -               | 3,125,037           |
| Total Capital Assets<br>Being Depreciated      | <u>4,394,687</u>     | <u>426,471</u>    | <u>(4,953)</u>  | <u>4,816,205</u>    |
| Less Accumulated Depreciation for              |                      |                   |                 |                     |
| Buildings                                      | (392,020)            | (2,187)           | -               | (394,207)           |
| Machinery and equipment                        | (461,130)            | (19,249)          | 4,648           | (475,731)           |
| Vehicles                                       | (177,731)            | (18,907)          | -               | (196,638)           |
| Infrastructure                                 | (2,404,593)          | (91,917)          | -               | (2,496,510)         |
| Total Accumulated Depreciation                 | <u>(3,435,474)</u>   | <u>(132,260)</u>  | <u>4,648</u>    | <u>(3,563,086)</u>  |
| Total Capital Assets<br>Being Depreciated, Net | <u>959,213</u>       | <u>294,211</u>    | <u>(305)</u>    | <u>1,253,119</u>    |
| Governmental Activities<br>Capital Assets, Net | <u>\$ 1,071,086</u>  | <u>\$ 294,211</u> | <u>\$ (305)</u> | <u>\$ 1,364,992</u> |

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

|  |                   |
|--|-------------------|
| General Government                                   | \$ 7,945          |
| Public Safety  | 27,214            |
| Public Works   | 88,634            |
| Culture and Recreation                               | <u>8,467</u>      |
| Total Depreciation Expense - Governmental Activities | <u>\$ 132,260</u> |

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

|   | Beginning<br>Balance | Increases          | Decreases   | Ending<br>Balance   |
|---|----------------------|--------------------|-------------|---------------------|
| <b>Business-type Activities</b>                 |                      |                    |             |                     |
| Capital Assets not Being Depreciated            |                      |                    |             |                     |
| Land  | \$ 37,000            | \$ -               | \$ -        | \$ 37,000           |
| Capital Assets Being Depreciated                |                      |                    |             |                     |
| Machinery and equipment                         | 89,929               | 11,550             | -           | 101,479             |
| Infrastructure                                  | 3,517,558            | -                  | -           | 3,517,558           |
| Total Capital Assets<br>Being Depreciated       | 3,607,487            | 11,550             | -           | 3,619,037           |
| Less Accumulated Depreciation for               |                      |                    |             |                     |
| Machinery and equipment                         | (35,960)             | (8,756)            | -           | (44,716)            |
| Infrastructure                                  | (1,823,249)          | (96,624)           | -           | (1,919,873)         |
| Total Accumulated Depreciation                  | (1,859,209)          | (105,380)          | -           | (1,964,589)         |
| Total Capital Assets<br>Being Depreciated, Net  | 1,748,278            | (93,830)           | -           | 1,654,448           |
| Business-type Activities<br>Capital Assets, Net | <u>\$ 1,785,278</u>  | <u>\$ (93,830)</u> | <u>\$ -</u> | <u>\$ 1,691,448</u> |

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

|   |                   |
|---|-------------------|
| Water   | \$ 51,911         |
| Sewer   | 35,177            |
| Storm Water   | 18,292            |
| Total Depreciation Expense - Business-type Activities | <u>\$ 105,380</u> |

**C. Interfund Transfers**

| Fund                  | Transfers in      |                      |                           | Total             |
|-----------------------|-------------------|----------------------|---------------------------|-------------------|
|                       | General           | Capital<br>Purchases | Storm Water<br>Enterprise |                   |
| Transfers Out         |                   |                      |                           |                   |
| General               | \$ -              | \$ 14,000            | \$ 6,800                  | \$ 20,800         |
| Capital Purchases     | 61,500            | -                    | -                         | 61,500            |
| Nonmajor governmental | 117,924           | -                    | -                         | 117,924           |
| Water                 | -                 | 19,680               | -                         | 19,680            |
| Total Transfer In     | <u>\$ 179,424</u> | <u>\$ 33,680</u>     | <u>\$ 6,800</u>           | <u>\$ 219,904</u> |

The Water fund transferred \$19,680 to the Capital Purchases fund as a budgeted transfer. The Capital Purchases fund transferred \$61,500 to the General fund as a budgeted transfer. The General fund also transferred \$14,000 to the Capital Purchases fund for future capital purchases and \$6,800 fund to the Storm Water enterprise fund to assist with operating costs. Nonmajor governmental funds transferred \$117,924 to the General fund to support the purchase of fire truck.

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

**D. Long-term Debt**

General Obligation (G.O.) Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. G.O. bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues.

G.O. Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be repaid from future net revenues pledged from the Water, Sewer, and Storm Water funds and are backed by the taxing power of the City. Annual principal and interest payments on the bonds are expected to require approximately 49, 28, and 107 percent of net revenues from the Water, Sewer, and Storm Water funds, respectively. Principal and interest paid for 2018 and total customer net revenues for the Water fund were \$79,525 and \$168,395, respectively. Principal and interest paid for 2018 and total customer net revenues for the Sewer fund were \$17,074 and \$61,044, respectively. Principal and interest paid for 2018 and total customer net revenues for the Storm Water fund were \$73,050 and \$68,717, respectively.

| Description  | Authorized<br>and Issued | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Balance at<br>Year End     |
|--|--------------------------|------------------|---------------|------------------|----------------------------|
| MPFA Water Revenue<br>Note, 2003                   | \$ 225,640               | 2.49 %           | 08/20/03      | 08/20/22         | \$ 57,000                  |
| MPFA Water Revenue<br>Note, 2004                   | 950,709                  | 2.34             | 08/20/04      | 08/20/24         | 332,000                    |
| G.O. Public Utility Revenue<br>Bonds, Series 2011A | 1,120,000                | 2.25 - 4.10      | 06/02/11      | 02/01/32         | 860,000                    |
| MPFA Sewer Revenue<br>Note, 2011                   | 290,242                  | 1.26             | 12/08/11      | 08/20/30         | <u>156,227</u>             |
| Total G.O. Revenue Bonds                           |                          |                  |               |                  | <u><u>\$ 1,405,227</u></u> |

Annual debt service requirements to maturity for the G.O. revenue bonds are as follows:

| Year Ending<br>December 31, | Business-type Activities   |                          |                            |
|-----------------------------|----------------------------|--------------------------|----------------------------|
|                             | Principal                  | Interest                 | Total                      |
| 2019                        | \$ 131,000                 | \$ 41,573                | \$ 172,573                 |
| 2020                        | 132,000                    | 38,444                   | 170,444                    |
| 2021                        | 135,000                    | 35,042                   | 170,042                    |
| 2022                        | 142,000                    | 31,499                   | 173,499                    |
| 2023                        | 128,000                    | 27,827                   | 155,827                    |
| 2024 - 2028                 | 442,227                    | 94,349                   | 536,576                    |
| 2029 - 2032                 | <u>295,000</u>             | <u>24,909</u>            | <u>319,909</u>             |
| Total                       | <u><u>\$ 1,405,227</u></u> | <u><u>\$ 293,643</u></u> | <u><u>\$ 1,698,870</u></u> |

G.O. Improvement (Special Assessment) Bonds

The following bonds were issued to finance capital improvements and will be repaid primarily from special assessment certified on the properties benefiting from the improvements. Some issues, however, are partially financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess 5 percent is to cover any delinquencies in tax or assessment payments.

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

| Description                           | Authorized<br>and Issued | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Balance at<br>Year End |
|---------------------------------------|--------------------------|------------------|---------------|------------------|------------------------|
| G.O. Improvement Bonds<br>Series 2007 | \$ 180,000               | 4.15 - 4.45 %    | 05/17/07      | 02/01/23         | <u>\$ 75,000</u>       |

Annual requirement to maturity for G.O. special assessment bonds are as follows:

| Year Ending<br>December 31, | Governmental Activities |                 |                  |
|-----------------------------|-------------------------|-----------------|------------------|
|                             | Principal               | Interest        | Total            |
| 2019                        | \$ 15,000               | \$ 3,004        | \$ 18,004        |
| 2020                        | 15,000                  | 2,336           | 17,336           |
| 2021                        | 15,000                  | 1,669           | 16,669           |
| 2022                        | 15,000                  | 1,001           | 16,001           |
| 2023                        | <u>15,000</u>           | <u>334</u>      | <u>15,334</u>    |
| Total                       | <u>\$ 75,000</u>        | <u>\$ 8,344</u> | <u>\$ 83,344</u> |

Certificates of Indebtedness

The following certificate was issued to finance the purchase a fire truck and will be repaid primarily from contributions from other governments and tax levies.

| Description                   | Authorized<br>and Issued | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Balance at<br>Year End |
|-------------------------------|--------------------------|------------------|---------------|------------------|------------------------|
| 2018 Freightliner Fire Engine | \$ 114,000               | 6.00 %           | 10/31/18      | 10/31/23         | <u>\$ 114,000</u>      |

Annual requirement to maturity for the certificate of indebtedness are as follows:

| Year Ending<br>December 31, | Governmental Activities |                  |                   |
|-----------------------------|-------------------------|------------------|-------------------|
|                             | Principal               | Interest         | Total             |
| 2019                        | \$ 22,800               | \$ 6,840         | \$ 29,640         |
| 2020                        | 22,800                  | 5,472            | 28,272            |
| 2021                        | 22,800                  | 4,104            | 26,904            |
| 2022                        | 22,800                  | 2,736            | 25,536            |
| 2023                        | <u>22,800</u>           | <u>1,368</u>     | <u>24,168</u>     |
| Total                       | <u>\$ 114,000</u>       | <u>\$ 20,520</u> | <u>\$ 134,520</u> |

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2018 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Reductions</u>   | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|--|------------------------------|-------------------|---------------------|---------------------------|--------------------------------|
| <b>Governmental Activities</b>               |                              |                   |                     |                           |                                |
| Bonds Payable                                |                              |                   |                     |                           |                                |
| G.O. improvement bonds                       | \$ 90,000                    | \$ -              | \$ (15,000)         | \$ 75,000                 | \$ 15,000                      |
| Certificate of indebtedness                  | -                            | 114,000           | -                   | 114,000                   | 22,800                         |
| Compensated Absences Payable                 | 13,401                       | 7,825             | (9,973)             | 11,253                    | 11,253                         |
| Pension Liability                            | 95,754                       | 5,854             | (12,545)            | 89,063                    | -                              |
|  | <u>199,155</u>               | <u>127,679</u>    | <u>(37,518)</u>     | <u>289,316</u>            | <u>49,053</u>                  |
| Governmental Activity Long-term Liabilities  | <u>\$ 199,155</u>            | <u>\$ 127,679</u> | <u>\$ (37,518)</u>  | <u>\$ 289,316</u>         | <u>\$ 49,053</u>               |
| <b>Business-type Activities</b>              |                              |                   |                     |                           |                                |
| Bonds Payable                                |                              |                   |                     |                           |                                |
| G.O. revenue bonds                           | \$ 1,529,227                 | \$ -              | \$ (124,000)        | \$ 1,405,227              | \$ 131,000                     |
| Compensated Absences Payable                 | 2,356                        | 1,425             | (1,777)             | 2,004                     | 2,004                          |
| Pension Liability                            | 38,309                       | -                 | (10,873)            | 27,436                    | -                              |
|  | <u>1,569,892</u>             | <u>1,425</u>      | <u>(136,650)</u>    | <u>1,434,667</u>          | <u>133,004</u>                 |
| Business-type Activity Long-term Liabilities | <u>\$ 1,569,892</u>          | <u>\$ 1,425</u>   | <u>\$ (136,650)</u> | <u>\$ 1,434,667</u>       | <u>\$ 133,004</u>              |

**Note 4: Defined Benefit Pension Plan - Statewide**

**A. Plan Description**

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

General Employees Retirement Fund (GERF)

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

**B. Benefits Provided**

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota statute and can only be modified by the state legislature. 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 Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 4: Defined Benefit Pension Plan - Statewide (Continued)**

GERF Benefits

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. 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.

**C. Contributions**

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

GERF Contributions

Plan members were required to contribute 6.50 percent, of their annual covered salary in fiscal year 2018. The City was required 7.50 percent for Coordinated Plan members in fiscal year 2018. The City's contributions to the GERF for the years ending December 31, 2018, 2017 and 2016 were \$10,523, \$10,117 and \$9,702, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**D. Pension Costs**

GERF Pension Costs

At December 31, 2018, the City reported a liability of \$116,499 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$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 \$3,700. 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 0.0021 percent which was the same percent from its proportion measured as of June 30, 2017.

|  |            |
|--|------------|
| City's Proportionate Share of the Net Pension Liability  | \$ 116,499 |
| State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City | 3,700      |
|  | 3,700      |
| Total  | \$ 120,199 |

For the year ended December 31, 2018, the City recognized pension expense of \$13,575 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$863 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.



City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 4: Defined Benefit Pension Plan - Statewide (Continued)**

At December 31, 2018, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

|  | Deferred<br>Outflows<br>of Resources | Deferred<br>Inflows<br>of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Experience                       | \$ 3,090                             | \$ 3,446                            |
| Changes in Actuarial Assumptions   | 11,182                               | 13,090                              |
| Net Difference Between Projected and Actual Earnings on Plan Investments | -                                    | 12,106                              |
| Changes in Proportion  | 3,049                                | 1,382                               |
| Contributions to GERF Subsequent to the Measurement Date                 | 4,496                                | -                                   |
| Total  | \$ 21,817                            | \$ 30,024                           |

Deferred outflows of resources totaling \$4,496 related to pensions resulting from the City's contributions to GERF 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 inflows of resources related to GERF pensions will be recognized in pension expense as follows:

|      |  |          |
|------|--|----------|
| 2019 |  | \$ 4,027 |
| 2020 |  | (4,850)  |
| 2021 |  | (9,454)  |
| 2022 |  | (2,426)  |

**E. Actuarial Assumptions**

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabled members were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for GERF.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the GERF plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

GERF

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 4: Defined Benefit Pension Plan - Statewide (Continued)**

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

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u>                   | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--------------------------------------|--------------------------|---|
| Domestic Stocks                      | 36.00 %                  | 5.10 %  |
| International Stocks                 | 17.00                    | 5.30  |
| Bonds (Fixed income)                 | 20.00                    | 0.75  |
| Alternative Assets (Private Markets) | 25.00                    | 5.90  |
| Cash                                 | <u>2.00</u>              | -   |
| Total                                | <u><u>100.00 %</u></u>   |   |

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2018 was 7.50 percent, a reduction from the 7.90 percent used in 2017. 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 GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

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

|      | <u>City Proportionate Share of NPL</u> |                        |                                   |
|------|--|------------------------|-----------------------------------|
|      | <u>1 Percent Decrease (6.50%)</u>      | <u>Current (7.50%)</u> | <u>1 Percent Increase (8.50%)</u> |
| GERF | \$ 189,326                             | \$ 116,499             | \$ 56,383                         |

**H. Pension Plan Fiduciary Net Position**

Detailed information about the 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).

## **Note 5: Defined Benefit Pension Plan - Fire Relief Association**

### **A. Plan Description**

The Hamburg Firefighter's Relief Association (the Association) is the administrator of a single employer Public Employee Retirement System (PERS) established to provide benefits to members of the Hamburg Volunteer Fire Department (the Department). As of December 31, 2017, the plan covered 25 active firefighters and 4 vested terminated fire fighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived primarily from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Associations Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

### **B. Benefits Provided**

A fire fighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

### **C. Contributions**

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$15,732 in fire state aid to the plan on behalf of the Department for the year ended December 31, 2018, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2018 was \$14,097. The City's contributions were equal to the required contributions as set by state statute. The City made no voluntary contributions to the plan. The firefighter has no obligation to contribute to the plan.

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)**

**D. Pension Costs**

At December 31, 2018, the City reported a net pension asset of \$101,454 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2017. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the Department.

For the year ended December 31, 2018, the City recognized pension revenue of \$863 and pension expense of \$12,091.

At December 31, 2018, the City reported deferred inflows of resources and deferred outflows of resources, its contributions subsequent to the measurement date, related to pension from the following sources:

|   | Deferred<br>Outflows<br>of Resources | Deferred<br>Inflows<br>of Resources |
|---|--------------------------------------|-------------------------------------|
| Changes in Actuarial Assumptions  | \$ 7,148                             | \$ 6,585                            |
| Net Difference between Projected and<br>Actual Earnings on Plan Investments | 5,878                                | 3,854                               |
| Contributions to Plan Subsequent<br>to the Measurement Date                 | 29,829                               | -                                   |
| Total   | \$ 42,855                            | \$ 10,439                           |

Deferred outflows of resources totaling \$29,829 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date and 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 inflows of resources related to the plan will be recognized in pension expense as follows:

|            |          |
|------------|----------|
| 2019       | \$ 7,524 |
| 2020       | 4,730    |
| 2021       | (3,108)  |
| 2022       | (5,136)  |
| 2023       | (467)    |
| Thereafter | (956)    |

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)**

**E. Actuarial Assumptions**

The total pension liability at December 31, 2018 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

|  |                |
|--|----------------|
| Retirement Eligibility at 50 Percent of Age 50, 20 Percent at Ages 51-64 and 100 Percent at Age 55 |                |
| Cost of Living Increases   | 2.75% per year |
| Investment Rate of Return  | 6.25%          |
| 20 Year Municipal Bond Yield   | 3.31%          |

The expected investment return and discount rate increased from 6.00 percent to 6.25 percent to reflect capital market assumptions.

The 6.00 percent long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan’s target investment allocation along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

**F. Asset Allocation**

The long-term expected rate of return on pension plan investments was set based on the plan’s target investment allocation along with long-term return expectations by asset class. All economic assumptions were based on input from various published sources and projected future financial data available.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u>           | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|------------------------------|--------------------------|---|
| Equities                     | 55.25 %                  | 10.19 %                                       |
| Fixed Income                 | 40.03                    | 1.99  |
| Real Estate and Alternatives | 0.98                     | 4.19  |
| Cash and Equivalent          | <u>3.74</u>              | 0.58  |
| Total                        | <u><u>100.00 %</u></u>   |   |

**G. Discount Rate**

The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)**

**H. Pension Liability (Asset) Sensitivity**

The following presents the City's net pension liability (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

|                      | 1 Percent<br>Decrease (5.25%) | Current (6.25%) | 1 Percent<br>Increase (7.25%) |
|----------------------|-------------------------------|-----------------|-------------------------------|
| Defined Benefit Plan | \$ (83,655)                   | \$ (101,454)    | \$ (118,358)                  |

**Note 6: Joint Ventures**

**Young America Township**

The City participates in a joint powers agreement with the Young America Township (the Township), which includes the rental of space at the Community Center. The agreement creates a Community Advisory Committee, composed of two members from each organization, consisting of four members. It shall be the duty of this Advisory Committee to make recommendations concerning maintenance, repair, upkeep and improvements to the Community Center. Said recommendations shall be considered by both the Township and the City; it being specifically understood that the City shall have the ultimate decision-making right and responsibility concerning maintenance, repair, upkeep and improvements. The Township shall pay to the City a portion of the maintenance costs associated with the Community Center. The agreement may be terminated mutual consent. Upon termination, the City shall refund to the Township its original principal payment of \$44,000.

**Note 7: Other Information**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

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

**B. Legal Debt Margin**

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. As of December 31, 2018, the City is under the legal debt margin.

**C. Concentrations**

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA). The amount received in 2018 was \$78,033. This accounted for 9.5 percent of General fund revenues.

City of Hamburg, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 8: Conduit Debt Obligations**

The City issued the following conduit debt to Ridgeview Medical Center, a Minnesota nonprofit corporation located in the City of Waconia, to provide financial assistance for the expansion and remodeling of its existing hospital facilities.

- The Health Care Facilities Revenue Note, Series 2007, was issued in the amount of \$7,000,000. The note balance at December 31, 2018 was \$5,155,788.
- The Health Care Facilities Revenue Note, Series 2013A, was issued in the amount of \$8,912,500. The new conduit debt was not for refinancing the prior conduit debt. The note balance at December 31, 2018 was \$5,488,459.

Under each loan agreement, Ridgeview Medical Center is obligated for repayment of the notes. The City is not obligated in any manner for repayment of the note. Accordingly, the notes are not reported as liabilities in these financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HAMBURG  
HAMBURG, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

City of Hamburg, Minnesota  
Required Supplementary Information  
For the Year Ended December 31, 2018

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

| Fiscal<br>Year<br>Ending | City's<br>Proportion of<br>the Net Pension<br>Liability | City's<br>Proportionate<br>Share of<br>the Net Pension<br>Liability<br>(a) | State's<br>Proportionate<br>Share of<br>the Net Pension<br>Liability<br>Associated with<br>the City<br>(b) | Total<br>(a+b) | City's<br>Covered<br>Payroll<br>(c) | City's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability as a<br>Percentage of<br>Covered<br>Payroll<br>(a/c) | Plan Fiduciary<br>Net Position<br>as a Percentage<br>of the Total<br>Pension Liability |
|--------------------------|---|--|--|----------------|-------------------------------------|--|--|
| 06/30/18                 | 0.0021 %  | \$ 116,499   | \$ 3,700   | \$ 120,199     | \$ 145,053                          | 80.3 %   | 79.5 %   |
| 06/30/17                 | 0.0021  | 134,063  | 1,661  | 135,724        | 140,382                             | 95.5   | 75.9   |
| 06/30/16                 | 0.0020  | 162,390  | 2,198  | 164,588        | 120,494                             | 134.8  | 68.9   |
| 06/30/15                 | 0.0021  | 108,833  | -  | 108,833        | 125,745                             | 86.6   | 78.2   |

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

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

| Year<br>Ending | Statutorily<br>Required<br>Contribution<br>(a) | Contributions in<br>Relation to the<br>Statutorily<br>Required<br>Contribution<br>(b) | Contribution<br>Deficiency<br>(Excess)<br>(a-b) | City's<br>Covered<br>Payroll<br>(c) | Contributions as<br>a Percentage of<br>Covered<br>Payroll<br>(b/c) |
|----------------|--|---|---|-------------------------------------|--|
| 12/31/18       | \$ 10,523                                      | \$ 10,523   | \$ -  | \$ 140,307                          | 7.5 %  |
| 12/31/17       | 10,117   | 10,117  | -   | 134,893                             | 7.5  |
| 12/31/16       | 9,702  | 9,702   | -   | 129,360                             | 7.5  |
| 12/31/15       | 9,310  | 9,310   | -   | 124,133                             | 7.5  |

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

City of Hamburg, Minnesota  
 Required Supplementary Information (Continued)  
 For the Year Ended December 31, 2018

Changes in Actuarial Assumptions

2018 - The mortality 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 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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

Changes in Plan Provisions

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

**Schedule of Employer's Fire Relief Association Contributions**

| Year<br>Ending | Actuarial<br>Determined<br>Contribution<br>(a) | Actual<br>Contributions<br>Paid<br>(b) | Contribution<br>Deficiency<br>(Excess)<br>(a-b) |
|----------------|--|--|---|
| 12/31/18       | \$ 29,829                                      | \$ 29,829                              | \$ -  |
| 12/31/17       | 25,826   | 25,826                                 | -   |
| 12/31/16       | 24,826   | 24,826                                 | -   |
| 12/31/15       | 28,855   | 28,855                                 | -   |
| 12/31/14       | 37,986   | 37,986                                 | -   |

City of Hamburg, Minnesota  
Required Supplementary Information (Continued)  
For the Year Ended December 31, 2018

**Schedule of Changes in the Fire Relief Association's Net Pension (Asset) and Related Ratios**

|  | 2018                | 2017               | 2016               | 2015               |
|--|---------------------|--------------------|--------------------|--------------------|
| <b>Total Pension Liability</b>   |                     |                    |                    |                    |
| Service cost   | \$ 17,755           | \$ 16,208          | \$ 16,103          | \$ 16,103          |
| Interest   | 22,490              | 24,708             | 25,717             | 25,717             |
| Changes of benefit terms   | -                   | 4,127              | 3,893              | 3,893              |
| Differences between expected and actual experience   | -                   | (4,688)            | -                  | -                  |
| Changes of assumptions   | (4,367)             | 8,696              | (3,848)            | (3,848)            |
| Benefit payments, including refunds of employee contributions                                  | (62,787)            | (49,000)           | (97,642)           | (97,642)           |
| <b>Net Change in Total Pension Liability</b>   | (26,909)            | 51                 | (55,777)           | (55,777)           |
| <b>Total Pension Liability - January 1,</b>  | 388,467             | 388,416            | 444,193            | 444,193            |
| <b>Total Pension Liability - December 31, (a)</b>  | <u>\$ 361,558</u>   | <u>\$ 388,467</u>  | <u>\$ 388,416</u>  | <u>\$ 388,416</u>  |
| <b>Plan Fiduciary Net Position</b>   |                     |                    |                    |                    |
| Contributions - employer   | \$ 11,185           | \$ 8,817           | \$ 12,843          | \$ 12,843          |
| Contributions - state  | 18,644              | 17,009             | 18,067             | 18,067             |
| Contributions - member   | 11                  |                    |                    |                    |
| Net investment income  | 48,074              | 18,439             | (9,338)            | (9,338)            |
| Other additions  | 211                 |                    |                    |                    |
| Benefit payments, including refunds of employee contributions                                  | (62,787)            | (49,000)           | (97,642)           | (97,642)           |
| Administrative expense   | (3,383)             | (3,467)            | (3,260)            | (3,260)            |
| <b>Net Change in Plan Fiduciary Net Position</b>   | 11,955              | (8,202)            | (79,330)           | (79,330)           |
| <b>Plan Fiduciary Net Position - January 1,</b>  | 451,057             | 459,259            | 538,589            | 538,589            |
| <b>Plan Fiduciary Net Position - December 31, (b)</b>  | <u>\$ 463,012</u>   | <u>\$ 451,057</u>  | <u>\$ 459,259</u>  | <u>\$ 459,259</u>  |
| <b>Fire Relief's Net Pension Liability (Asset) - December 31, (a-b)</b>                        | <u>\$ (101,454)</u> | <u>\$ (62,590)</u> | <u>\$ (70,843)</u> | <u>\$ (70,843)</u> |
| <b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a)</b>        | 128.06%             | 116.11%            | 118.24%            | 118.24%            |
| <b>Covered-employee Payroll</b>  | N/A                 | N/A                | N/A                | N/A                |
| <b>Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered-employee Payroll</b> | N/A                 | N/A                | N/A                | N/A                |

**Notes to Schedule:**

*Benefit Changes.* The lump sum benefit increased from \$1,575 to \$1,600

*Changes of Assumptions.* The following changes in assumption occurred from the previous valuation:

Investment rate of return: Increased .25% to 6.25%

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

COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF HAMBURG  
HAMBURG, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

City of Hamburg, Minnesota  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 December 31, 2018

|  | <u>Debt Service</u>           |                                  | <u>Capital Projects</u>         | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-------------------------------|----------------------------------|---------------------------------|--|
|  | <b>308</b><br>2007<br>GO Bond | <b>311</b><br>2018<br>Fire Truck | <b>201</b><br>Fire<br>Equipment |  |
| <b>Assets</b>  |                               |                                  |                                 |  |
| Cash and temporary investments                                   | \$ 38,577                     | \$ -                             | \$ 8,000                        | \$ 46,577                                  |
| Special assessments receivable                                   | 4,633                         | -                                | -                               | 4,633                                      |
| Due from other governments                                       | -                             | 35,665                           | -                               | 35,665                                     |
| <b>Total Assets</b>  | <u>\$ 43,210</u>              | <u>\$ 35,665</u>                 | <u>\$ 8,000</u>                 | <u>\$ 86,875</u>                           |
| <b>Deferred Inflows of Resources</b>                             |                               |                                  |                                 |  |
| Unavailable revenue - special assessments                        | \$ 4,633                      | \$ -                             | \$ -                            | \$ 4,633                                   |
| Unavailable revenue - intergovernmental                          | -                             | 35,665                           | -                               | 35,665                                     |
| <b>Total Deferred Inflows of Resources</b>                       | <u>4,633</u>                  | <u>35,665</u>                    | <u>-</u>                        | <u>40,298</u>                              |
| <b>Fund Balances</b>   |                               |                                  |                                 |  |
| Restricted for debt service                                      | 38,577                        | -                                | -                               | 38,577                                     |
| Assigned for capital outlay                                      | -                             | -                                | 8,000                           | 8,000                                      |
| <b>Total Fund Balances</b>                                       | <u>38,577</u>                 | <u>-</u>                         | <u>8,000</u>                    | <u>46,577</u>                              |
| <b>Total Deferred Inflows of Resources<br/>and Fund Balances</b> | <u>\$ 43,210</u>              | <u>\$ 35,665</u>                 | <u>\$ 8,000</u>                 | <u>\$ 86,875</u>                           |

City of Hamburg, Minnesota  
 Nonmajor Governmental Funds  
 Combining Statement of Revenues, Expenditures and  
 Changes in Fund Balances  
 For the Year Ended December 31, 2018

|  | <u>Debt Service</u>           |                                  | <u>Capital Projects</u>         | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-------------------------------|----------------------------------|---------------------------------|--|
|  | <b>308</b><br>2007<br>GO Bond | <b>311</b><br>2018<br>Fire Truck | <b>201</b><br>Fire<br>Equipment |  |
| Revenues   |                               |                                  |                                 |  |
| Property taxes   | \$ 10,000                     | \$ -                             | \$ -                            | \$ 10,000                                  |
| Special assessments  | 1,127                         | -                                | -                               | 1,127                                      |
| Investment earnings  | -                             | -                                | 940                             | 940  |
| Total Revenues   | <u>11,127</u>                 | <u>-</u>                         | <u>940</u>                      | <u>12,067</u>                              |
| Expenditures   |                               |                                  |                                 |  |
| Debt service   |                               |                                  |                                 |  |
| Principal  | 15,000                        | -                                | -                               | 15,000                                     |
| Interest and other charges                                   | 4,221                         | -                                | -                               | 4,221                                      |
| Total Expenditures   | <u>19,221</u>                 | <u>-</u>                         | <u>-</u>                        | <u>19,221</u>                              |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | (8,094)                       | -                                | 940                             | (7,154)                                    |
| Other Financing Sources                                      |                               |                                  |                                 |  |
| Transfers out  | <u>-</u>                      | <u>-</u>                         | <u>(117,924)</u>                | <u>(117,924)</u>                           |
| Net Change in Fund Balances                                  | (8,094)                       | -                                | (116,984)                       | (125,078)                                  |
| Fund Balances, January 1                                     | <u>46,671</u>                 | <u>-</u>                         | <u>124,984</u>                  | <u>171,655</u>                             |
| Fund Balances, December 31                                   | <u>\$ 38,577</u>              | <u>\$ -</u>                      | <u>\$ 8,000</u>                 | <u>\$ 46,577</u>                           |

City of Hamburg, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Continued on the Following Pages)  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for the Year Ended December 31, 2017)

|                             | 2018             |            |                   |                               | 2017              |
|-----------------------------|------------------|------------|-------------------|-------------------------------|-------------------|
|                             | Budgeted Amounts |            | Actual<br>Amounts | Variance with<br>Final Budget | Actual<br>Amounts |
|                             | Original         | Final      |                   |                               |                   |
| Revenues                    |                  |            |                   |                               |                   |
| Property taxes              | \$ 476,994       | \$ 476,994 | \$ 477,384        | \$ 390                        | \$ 452,917        |
| Licenses and permits        |                  |            |                   |                               |                   |
| Business                    | 5,600            | 5,600      | 3,042             | (2,558)                       | 1,500             |
| Nonbusiness                 | 20               | 20         | 49                | 29                            | 3,811             |
| Total licenses and permits  | 5,620            | 5,620      | 3,091             | (2,529)                       | 5,311             |
| Intergovernmental           |                  |            |                   |                               |                   |
| Federal                     |                  |            |                   |                               |                   |
| Other                       | -                | -          | -                 | -                             | 2,800             |
| State                       |                  |            |                   |                               |                   |
| Local government aid        | -                | -          | 78,033            | 78,033                        | 75,529            |
| Fire relief aid             | 16,000           | 16,000     | 15,732            | (268)                         | 15,724            |
| Police state aid            | 1,000            | 1,000      | 943               | (57)                          | 1,005             |
| Other                       | 3,814            | 3,814      | 33,035            | 29,221                        | 31,600            |
| County                      |                  |            |                   |                               |                   |
| Highway aid                 | -                | -          | 6,107             | 6,107                         | -                 |
| Other                       | -                | -          | -                 | -                             | 2,737             |
| Township                    | -                | -          | 142,704           | 142,704                       | -                 |
| Total intergovernmental     | 20,814           | 20,814     | 276,554           | 255,740                       | 129,395           |
| Charges for services        | 45,560           | 45,560     | 45,554            | (6)                           | 45,849            |
| Fines and forfeitures       | 750              | 750        | 1,218             | 468                           | 503               |
| Miscellaneous               |                  |            |                   |                               |                   |
| Donations and contributions | 1,000            | 1,000      | 12,881            | 11,881                        | 4,450             |
| Refunds and reimbursements  | 1,000            | 1,000      | 2,162             | 1,162                         | 7,359             |
| Other                       | 1,000            | 1,000      | 633               | (367)                         | 1,189             |
| Total miscellaneous         | 3,000            | 3,000      | 15,676            | 12,676                        | 12,998            |
| Total Revenues              | 552,738          | 552,738    | 819,477           | 266,739                       | 646,973           |



City of Hamburg, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Continued)  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for the Year Ended December 31, 2017)

|                                    | 2018             |                |                | Variance with<br>Final Budget | 2017           |
|------------------------------------|------------------|----------------|----------------|-------------------------------|----------------|
|                                    | Budgeted Amounts |                | Actual         |                               | Actual         |
|                                    | Original         | Final          | Amounts        |                               | Amounts        |
| Expenditures                       |                  |                |                |                               |                |
| Current                            |                  |                |                |                               |                |
| General government                 |                  |                |                |                               |                |
| Mayor and city council             |                  |                |                |                               |                |
| Personnel services                 | \$ 11,000        | \$ 11,000      | \$ 9,366       | \$ 1,634                      | \$ 8,935       |
| City Clerk                         |                  |                |                |                               |                |
| Personnel services                 | 93,285           | 93,285         | 105,222        | (11,937)                      | 94,024         |
| Supplies                           | 2,000            | 2,000          | 3,027          | (1,027)                       | 3,084          |
| Other services and charges         | 8,400            | 8,400          | 8,937          | (537)                         | 9,605          |
| Total city clerk                   | <u>103,685</u>   | <u>103,685</u> | <u>117,186</u> | <u>(13,501)</u>               | <u>106,713</u> |
| Elections                          |                  |                |                |                               |                |
| Other services and charges         | 1,600            | 1,600          | 1,429          | 171                           | -              |
| Auditing                           |                  |                |                |                               |                |
| Other services and charges         | 19,450           | 19,450         | 20,250         | (800)                         | 23,650         |
| Assessor                           |                  |                |                |                               |                |
| Other services and charges         | 3,300            | 3,300          | 3,571          | (271)                         | 3,434          |
| Legal                              |                  |                |                |                               |                |
| Other services and charges         | 5,000            | 5,000          | 15,517         | (10,517)                      | 2,885          |
| Planning consultants               |                  |                |                |                               |                |
| Other services and charges         | 1,000            | 1,000          | 38,634         | (37,634)                      | 15,337         |
| General government buildings       |                  |                |                |                               |                |
| Personnel services                 | 17,155           | 17,155         | 17,401         | (246)                         | 15,982         |
| Supplies                           | 5,000            | 5,000          | 1,382          | 3,618                         | 3,505          |
| Other services and charges         | 37,885           | 37,885         | 11,283         | 26,602                        | 47,845         |
| Total general government buildings | <u>60,040</u>    | <u>60,040</u>  | <u>30,066</u>  | <u>29,974</u>                 | <u>67,332</u>  |
| Total general government           | <u>205,075</u>   | <u>205,075</u> | <u>236,019</u> | <u>(30,944)</u>               | <u>228,286</u> |
| Public safety                      |                  |                |                |                               |                |
| Police                             |                  |                |                |                               |                |
| Other services and charges         | 19,205           | 19,205         | 18,978         | 227                           | 17,151         |
| Fire                               |                  |                |                |                               |                |
| Personnel services                 | 17,405           | 17,405         | 15,274         | 2,131                         | 15,144         |
| Supplies                           | 5,250            | 5,250          | 4,860          | 390                           | 8,883          |
| Other services and charges         | 29,658           | 29,658         | 28,892         | 766                           | 27,057         |
| Payments to relief association     | 26,355           | 30,119         | 29,851         | 268                           | 26,909         |
| Total fire                         | <u>78,668</u>    | <u>82,432</u>  | <u>78,877</u>  | <u>3,555</u>                  | <u>77,993</u>  |

City of Hamburg, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Continued)  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for the Year Ended December 31, 2017)

|                              | 2018             |          |                   | Variance with<br>Final Budget | 2017              |
|------------------------------|------------------|----------|-------------------|-------------------------------|-------------------|
|                              | Budgeted Amounts |          | Actual<br>Amounts |                               | Actual<br>Amounts |
|                              | Original         | Final    |                   |                               |                   |
| Expenditures (Continued)     |                  |          |                   |                               |                   |
| Current (continued)          |                  |          |                   |                               |                   |
| Public safety (continued)    |                  |          |                   |                               |                   |
| Building inspection          |                  |          |                   |                               |                   |
| Other services and charges   | \$ 3,500         | \$ 3,500 | \$ 1,043          | \$ 2,457                      | \$ 3,351          |
| Animal control               |                  |          |                   |                               |                   |
| Other services and charges   | 3,000            | 3,000    | 2,833             | 167                           | 2,832             |
| Total public safety          | 104,373          | 108,137  | 101,731           | 6,406                         | 101,327           |
| Public works                 |                  |          |                   |                               |                   |
| Streets                      |                  |          |                   |                               |                   |
| Personnel services           | 7,485            | 7,485    | 8,304             | (819)                         | 4,422             |
| Supplies                     | 1,500            | 1,500    | 2,377             | (877)                         | 1,606             |
| Other services and charges   | 5,600            | 5,600    | 5,073             | 527                           | 15,436            |
| Maintenance and repair       | 18,750           | 18,750   | 60,654            | (41,904)                      | 29,676            |
| Total streets                | 33,335           | 33,335   | 76,408            | (43,073)                      | 51,140            |
| Snow and ice removal         |                  |          |                   |                               |                   |
| Other services and charges   | 11,000           | 11,000   | 9,858             | 1,142                         | 2,789             |
| Street lighting              |                  |          |                   |                               |                   |
| Other services and charges   | 7,500            | 7,500    | 7,422             | 78                            | 8,437             |
| Sanitation                   |                  |          |                   |                               |                   |
| Other services and charges   | 3,500            | 3,500    | 1,585             | 1,915                         | 2,942             |
| Total public works           | 55,335           | 55,335   | 95,273            | (39,938)                      | 65,308            |
| Culture and recreation       |                  |          |                   |                               |                   |
| Parks                        |                  |          |                   |                               |                   |
| Personnel services           | 20,955           | 20,955   | 16,945            | 4,010                         | 18,491            |
| Supplies                     | 3,750            | 3,750    | 2,523             | 1,227                         | 3,046             |
| Other services and charges   | 13,375           | 13,375   | 16,896            | (3,521)                       | 10,458            |
| Total parks                  | 38,080           | 38,080   | 36,364            | 1,716                         | 31,995            |
| Hall                         |                  |          |                   |                               |                   |
| Personnel services           | 12,430           | 12,430   | 11,014            | 1,416                         | 12,478            |
| Supplies                     | 5,100            | 5,100    | 6,360             | (1,260)                       | 4,359             |
| Other services and charges   | 32,845           | 32,845   | 19,859            | 12,986                        | 56,383            |
| Total hall                   | 50,375           | 50,375   | 37,233            | 13,142                        | 73,220            |
| Total culture and recreation | 88,455           | 88,455   | 73,597            | 14,858                        | 105,215           |
| Total current                | 453,238          | 457,002  | 506,620           | (49,618)                      | 500,136           |

City of Hamburg, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Continued)  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for the Year Ended December 31, 2017)

|  | 2018              |                   |                   |                               | 2017              |
|--|-------------------|-------------------|-------------------|-------------------------------|-------------------|
|  | Budgeted Amounts  |                   | Actual<br>Amounts | Variance with<br>Final Budget | Actual<br>Amounts |
|  | Original          | Final             |                   |                               |                   |
| Expenditures (Continued)                                     |                   |                   |                   |                               |                   |
| Capital outlay   |                   |                   |                   |                               |                   |
| General government   | \$ 11,500         | \$ 11,500         | \$ 1,487          | \$ 10,013                     | \$ 3,710          |
| Public safety  | 30,000            | 30,000            | 443,733           | (413,733)                     | 42,208            |
| Public works   | 56,000            | 56,000            | -                 | 56,000                        | 2,038             |
| Culture and recreation                                       | 32,700            | 32,700            | 10,270            | 22,430                        | 1,512             |
| Total capital outlay   | <u>130,200</u>    | <u>130,200</u>    | <u>455,490</u>    | <u>(325,290)</u>              | <u>49,468</u>     |
| Total Expenditures   | <u>583,438</u>    | <u>587,202</u>    | <u>962,110</u>    | <u>(374,908)</u>              | <u>549,604</u>    |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>(30,700)</u>   | <u>(34,464)</u>   | <u>(142,633)</u>  | <u>(108,169)</u>              | <u>97,369</u>     |
| Other Financing Sources (Uses)                               |                   |                   |                   |                               |                   |
| Equipment certificate proceeds                               | -                 | -                 | 114,000           | 114,000                       | -                 |
| Insurance recovery   | -                 | -                 | -                 | -                             | 578               |
| Transfers in   | 61,500            | 61,500            | 179,424           | 117,924                       | 6,663             |
| Transfers out  | (30,800)          | (30,800)          | (20,800)          | 10,000                        | (210,894)         |
| Sale of capital assets                                       | -                 | -                 | -                 | -                             | 5,566             |
| Total Other Financing<br>Sources (Uses)                      | <u>30,700</u>     | <u>30,700</u>     | <u>272,624</u>    | <u>241,924</u>                | <u>(198,087)</u>  |
| Net Change in Fund Balances                                  | -                 | (3,764)           | 129,991           | 133,755                       | (100,718)         |
| Fund Balances, January 1                                     | <u>282,887</u>    | <u>282,887</u>    | <u>282,887</u>    | -                             | <u>383,605</u>    |
| Fund Balances, December 31                                   | <u>\$ 282,887</u> | <u>\$ 279,123</u> | <u>\$ 412,878</u> | <u>\$ 133,755</u>             | <u>\$ 282,887</u> |

City of Hamburg, Minnesota  
 Agency Fund  
 Schedule of Changes in Assets and Liabilities  
 For the Year Ended December 31, 2018

|  | Balance<br>January 1 | Additions | Deductions  | Balance<br>December 31 |
|--|----------------------|-----------|-------------|------------------------|
| <b>Joint Powers Board for Cable Communications</b> |                      |           |             |                        |
| Assets   |                      |           |             |                        |
| Cash and temporary investments                     | \$ 58,762            | \$ 1,904  | \$ (49,330) | \$ 11,336              |
| Liabilities  |                      |           |             |                        |
| Accounts payable                                   | \$ 58,762            | \$ 1,904  | \$ (49,330) | \$ 11,336              |

City of Hamburg, Minnesota  
 Summary Financial Report  
 Revenues and Expenditures For General Operations  
 Governmental Funds  
 For the Years Ended December 31, 2018 and 2017

|                                    | Total             |                   | Percent<br>Increase<br>(Decrease) |
|------------------------------------|-------------------|-------------------|-----------------------------------|
|                                    | 2018              | 2017              |                                   |
| <b>Revenues</b>                    |                   |                   |                                   |
| Property taxes                     | \$ 487,384        | \$ 462,917        | 5.29 %                            |
| Licenses and permits               | 3,091             | 5,311             | (41.80)                           |
| Intergovernmental                  | 276,554           | 129,395           | 113.73                            |
| Charges for services               | 45,554            | 45,849            | (0.64)                            |
| Fines and forfeitures              | 1,218             | 503               | 142.15                            |
| Special assessments                | 1,127             | 9,256             | (87.82)                           |
| Investment earnings                | 2,391             | 1,038             | 130.35                            |
| Miscellaneous                      | 15,676            | 12,998            | 20.60                             |
|                                    | <u>\$ 832,995</u> | <u>\$ 667,267</u> |                                   |
| Total Revenues                     | <u>\$ 832,995</u> | <u>\$ 667,267</u> | 24.84 %                           |
| Per Capita                         | <u>\$ 1,693</u>   | <u>\$ 1,329</u>   | 27.39 %                           |
| <b>Expenditures</b>                |                   |                   |                                   |
| <b>Current</b>                     |                   |                   |                                   |
| General government                 | \$ 236,019        | \$ 228,286        | 3.39 %                            |
| Public safety                      | 101,731           | 101,327           | 0.40                              |
| Public works                       | 95,273            | 65,308            | 45.88                             |
| Culture and recreation             | 73,597            | 105,215           | (30.05)                           |
| <b>Capital outlay</b>              |                   |                   |                                   |
| General government                 | 1,487             | 3,710             | (59.92)                           |
| Public safety                      | 443,733           | 42,208            | 951.30                            |
| Public works                       | -                 | 2,038             | (100.00)                          |
| Culture and recreation             | 10,270            | 1,512             | 579.23                            |
| <b>Debt service</b>                |                   |                   |                                   |
| Principal                          | 15,000            | 10,000            | 50.00                             |
| Interest and other charges         | 4,221             | 4,778             | (11.66)                           |
|                                    | <u>\$ 981,331</u> | <u>\$ 564,382</u> |                                   |
| Total Expenditures                 | <u>\$ 981,331</u> | <u>\$ 564,382</u> | 73.88 %                           |
| Per Capita                         | <u>\$ 1,995</u>   | <u>\$ 1,124</u>   | 77.49 %                           |
| Total Long-term Indebtedness       | \$ 189,000        | \$ 90,000         | 110.00 %                          |
| Per Capita                         | 384               | 179               | 114.53                            |
| General Fund Balance - December 31 | \$ 412,878        | \$ 282,887        | 45.95 %                           |
| Per Capita                         | 839               | 564               | 48.76                             |

The purpose of this report is to provide a summary of financial information concerning the City of Hamburg to  
 The complete financial statements may be examined at City Hall, 181 Broadway Ave, Hamburg, MN 55339. Questions  
 about this report should be directed to Jeremy Gruenhagen, Clerk/Treasurer at (952) 467-3232.

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OTHER REQUIRED REPORTS

CITY OF HAMBURG  
HAMBURG, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Hamburg, 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 the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hamburg, 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 July 2, 2019.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described as item 2018-003 on the Schedule of Finding and Responses. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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

ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
July 2, 2019



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

Honorable Mayor and City Council  
City of Hamburg, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hamburg, Minnesota (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's basic financial statements and have issued our report thereon dated July 2, 2019.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

#### **Compliance and Other Matters**

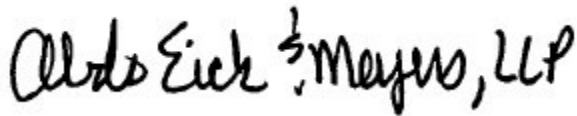
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*, except as described as item 2018-003 on the Schedule of Finding and Responses.

## The City's Responses to the Findings

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.



ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
July 2, 2019

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City of Hamburg, Minnesota  
Schedule of Findings and Responses  
For the Year Ended December 31, 2018

| <u>Finding</u>              | <u>Description</u>   |
|-----------------------------|--|
| <b>2018-001</b>             | <b>Preparation of Financial Statements</b>   |
| <i>Condition:</i>           | As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.                 |
| <i>Criteria:</i>            | Internal controls should be in place to provide reasonable assurance over the reliability of financial records and reporting.  |
| <i>Cause:</i>               | From a practical standpoint, we both prepare your statements and determine the fairness of that presentation at the same time in connection with our audit. This is not unusual for us to do with organizations of your size.  |
| <i>Effect:</i>              | The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting. We have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.             |
| <i>Recommendation:</i>      | Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situations listed above, we would offer the following specific recommendations: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your accounting information from QuickBooks to the amounts reported in the financial statements. |
| <i>Management Response:</i> |  |
|                             | For now, the City accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.  |

City of Hamburg, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2018

| <u>Finding</u>         | <u>Description</u>   |
|------------------------|--|
| <b>2018-002</b>        | <b>Limited Segregation of Duties</b>   |
| <i>Condition:</i>      | During our audit, we reviewed procedures over major transaction cycles and found the City to have limited segregation of duties related to cash disbursements, payroll, utility billing, and receipting.   |
| <i>Criteria:</i>       | <p>There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.</p> <p>Also, a well-designed system of internal control has documentation of significant transaction cycles. Documentation is especially important in the event of staff turnover.</p>  |
| <i>Cause:</i>          | As a result of the limited number of staff, the City is not able to completely segregate all accounting functions. All cycles have the same person performing some of the authorization, custody, and recording functions.   |
| <i>Effect:</i>         | The existence of this limited segregation of duties increases the risk of fraud and error.   |
| <i>Recommendation:</i> | <p>While we recognize that the number of staff is not large enough to eliminate these deficiencies, we believe the risk can be reduced with better monitoring.</p> <ul style="list-style-type: none"><li>• We recommend that the Billing Clerk continue to review the unopened bank statement, looking for activity within cancelled checks that appears inconsistent to the checks she prepared and payroll checks.</li><li>• For the deposits, we recommend that the Billing Clerk pay close attention to deposits that were made by the Clerk/Treasurer looking for inconsistencies.</li><li>• The utility billings should be reviewed by someone other than the person entering and printing billing registers.</li><li>• City Council should also be reminded of their duties over finance at least annually. Some typical monitoring duties would include the following tasks:<ul style="list-style-type: none"><li>○ Claims approval is an important control and should be at the front of the meeting to ensure that the City Council reviews the claims closely.</li><li>○ The check sequence should be reported in each set of approved minutes with a corresponding amount of all checks that agrees to the City Council claims listing. The City Council should review the order the checks are approved to ensure that they are in sequence and any gaps in numbers are explained.</li><li>○ A thorough review of budget versus actual reporting and narrative at least quarterly.</li><li>○ Monitor progress over the development of documented policies and procedures.</li><li>○ Consider personnel policies that require someone else to fill finance duties for a period of time. A mandatory vacation period of one week for all finance staff and distribution of their duties for that week is often recommended.</li></ul></li></ul> |

*Management Response:*

The City has evaluated the accounting procedures and has determined that the job duties are assigned to the staff most capable. This doesn't always allow for complete segregation. The City will continue to review its processes and make changes where possible.

City of Hamburg, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2018

**2018-003**

**Time Period for Payment**

*Condition:*

During our audit procures, it came to our attention that the City had not remitted several PERA payments within the required timeframe.

*Criteria:*

Minnesota statute section 471.425 requires that the City pay bills within the shorter of 35 days from receipt or under the terms of the vendor. If the invoice is not paid within the 35 days, interest at 1.5 percent per month is to be added to amount due.

*Cause:*

We noted that several PERA invoices that indicated payments had not been remitted within required timeframe.

*Effect:*

The City is out of compliance with Minnesota statute.

*Recommendation:*

We recommend that the City develop policies and procedures related to the accounts payable cycle. These policies and procedures should include payment terms that are outlined within State statutes. Implementing this recommendation will not result in any additional cost to the City.

*Management Response:*

The City is aware of the situation and plans to implement procedures to ensure that timely payments are made from now on.