

# Annual Financial Report

City of Isanti

Isanti, Minnesota

For the Year Ended  
December 31, 2018

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Annual Financial Report  
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INTRODUCTORY SECTION

CITY OF ISANTI  
ISANTI, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

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

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires December 31,</u>
George Wimmer	Mayor	2018
Ross Lorinser	Council Member	2020
Steve Lundeen	Council Member	2020
Paul Bergley	Council Member	2018
Dan Collison	Council Member	2018

**APPOINTED**

Donald Lorsung	Administrator
Mike Betker	Finance Director

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FINANCIAL SECTION

CITY OF ISANTI  
ISANTI, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Isanti, 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 Isanti, 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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## ***Change in Accounting Standards***

As described in Note 7 to the financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, for the year ended December 31, 2018. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

## **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 17 and the Schedules of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions, the related note disclosures, and the Schedule of Changes in the City's OPEB Liability and Related Ratios starting on page 80 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 inquires 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***

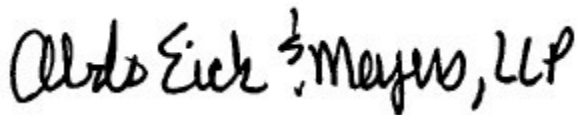
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the 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 basic the 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 April 18, 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 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  
April 18, 2019

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## **Management's Discussion and Analysis**

As management of the City of Isanti, 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.

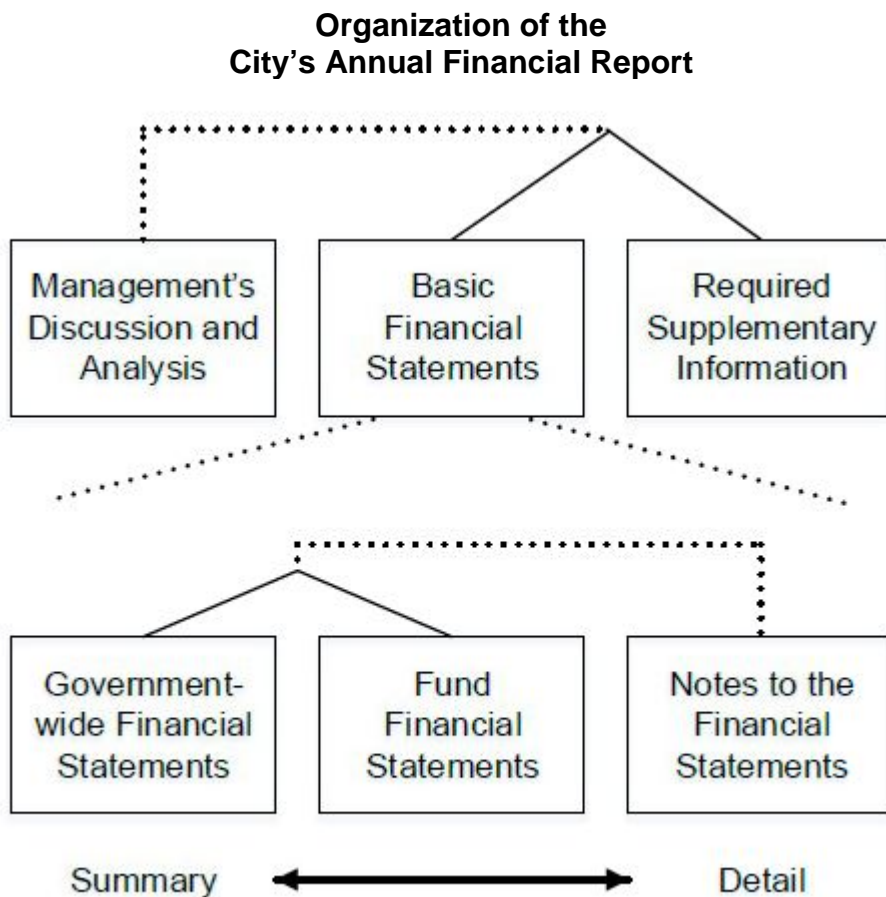
### **Financial Highlights**

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$44,573,393. Of this amount, \$6,539,712 (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 \$453,461. This was largely a result of operating income within business-type activities of \$953,391 as well as capital contributions of \$566,517 from connection fees.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,074,744, a decrease of \$286,736, in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$1,400,273, or 29.7 percent of 2018 expenditures and transfers out.

## 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. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.



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

	Government-wide Statements	Fund Financial 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 and sewer system	Instances in which the City administers resources on behalf of someone else, such as developers
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>Statements of Net Position</li> <li>Statements of Revenues, Expenses and Changes in Fund Net Position</li> <li>Statements 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	All assets and liabilities, both short-term and long-term; fund do not currently contain capital assets, although they can
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; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid	
Type of inflow/out flow 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 inflows and liabilities and deferred outflows, with the difference between the four 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, economic development and interest on long-term debt. The business-type activities of the City include water, sewer, storm water and a liquor store.

The government-wide financial statements start on page 31 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 the fiduciary fund.

**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 35 individual governmental funds, 7 of which are Debt Service 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 fund and Debt Service fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

The basic governmental fund financial statements start on page 36 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, liquor store, and storm water.

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, all of which are considered to be major funds of the City.

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

**Fiduciary Fund.** The fiduciary fund is used to account for resources held for the benefit of parties outside the City. The fiduciary fund is *not* reflected in the government-wide financial statements because the resources of this fund are not available to support the City's own programs.

The basic fiduciary fund financial statement can be found on page 48 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 49 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 80 of this report.

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 financial statements and schedules start on page 86 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 exceeded liabilities and deferred inflows of resources by \$44,573,393 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (79.0 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is 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 Isanti's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
<b>Assets</b>						
Current and other assets	\$ 6,104,257	\$ 6,060,970	\$ 43,287	\$ 6,984,348	\$ 6,229,514	\$ 754,834
Capital assets, net of depreciation	18,086,837	18,999,082	(912,245)	28,873,075	29,419,467	(546,392)
Total Assets	24,191,094	25,060,052	(868,958)	35,857,423	35,648,981	208,442
<b>Deferred Outflows of Resources</b>						
Deferred pension resource	1,144,849	1,704,525	(559,676)	81,352	133,949	(52,597)
<b>Liabilities</b>						
Noncurrent liabilities outstanding	5,620,888	6,361,814	(740,926)	8,533,521	9,346,470	(812,949)
Other liabilities	156,454	294,371	(137,917)	206,406	214,400	(7,994)
Total Liabilities	5,777,342	6,656,185	(878,843)	8,739,927	9,560,870	(820,943)
<b>Deferred Inflows of Resources</b>						
Resources received in advance	475,687	207,556	268,131	-	-	-
Deferred pension resource	1,598,249	1,882,760	(284,511)	110,120	120,204	(10,084)
Total Deferred Inflows of Resources	2,073,936	2,090,316	(16,380)	110,120	120,204	(10,084)
<b>Net Position</b>						
Net investment in capital assets	14,287,678	14,636,421	(348,743)	20,924,492	20,652,977	271,515
Restricted	2,821,511	3,287,731	(466,220)	-	172,524	(172,524)
Unrestricted	375,476	93,924	281,552	6,164,236	5,276,355	887,881
Total Net Position	\$ 17,484,665	\$ 18,018,076	\$ (533,411)	\$ 27,088,728	\$ 26,101,856	\$ 986,872

An additional portion of the City's net position (6.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, \$6,539,712, 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.

**Governmental Activities.** The City's net position increased \$453,461 during the current fiscal year. Governmental activities decreased the City's net position by \$533,411. Significant changes from the prior year are noted below:

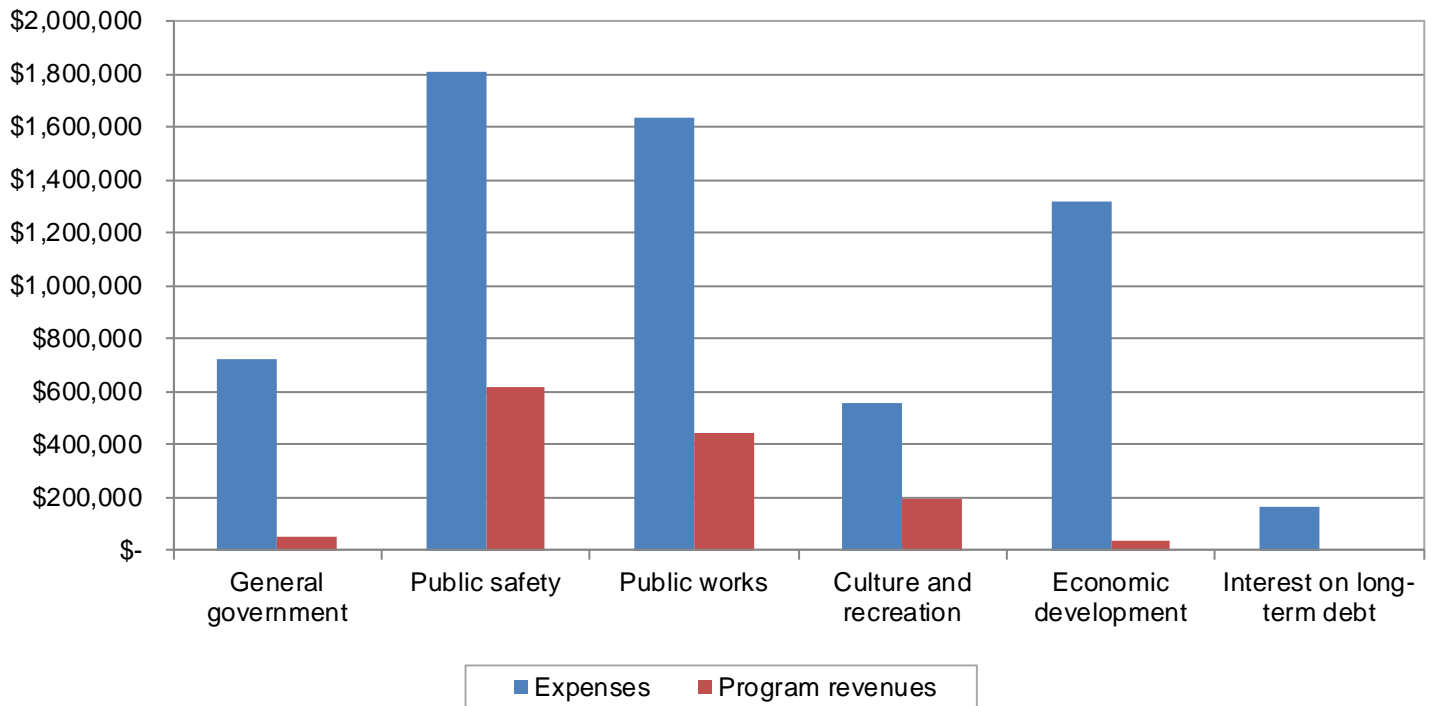
### City of Isanti's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 703,113	\$ 621,573	\$ 81,540	\$ 5,503,469	\$ 5,046,100	\$ 457,369
Operating grants and contributions	228,006	190,268	37,738	12,247	12,133	114
Capital grants and contributions	415,502	413,260	2,242	566,947	964,569	(397,622)
General Revenues						
Taxes						
Property taxes	2,812,032	2,590,526	221,506	-	-	-
Tax increment	15,479	19,403	(3,924)	-	-	-
Other taxes	325,236	313,276	11,960	-	-	-
Grants and contributions not restricted to specific programs	646,624	605,002	41,622	-	-	-
Unrestricted investment earnings	54,747	33,215	21,532	60,029	47,804	12,225
Gain on sale of capital assets	737	-	737	-	-	-
Total Revenues	<u>5,201,476</u>	<u>4,786,523</u>	<u>414,953</u>	<u>6,142,692</u>	<u>6,070,606</u>	<u>72,086</u>
Expenses						
General government	722,906	765,063	(42,157)	-	-	-
Public safety	1,807,152	1,762,192	44,960	-	-	-
Public works	1,638,261	1,546,982	91,279	-	-	-
Culture and recreation	558,939	572,223	(13,284)	-	-	-
Economic development	1,317,206	262,028	1,055,178	-	-	-
Interest on long-term debt	163,131	120,909	42,222	-	-	-
Water	-	-	-	937,988	1,023,601	(85,613)
Sewer	-	-	-	1,009,703	1,076,496	(66,793)
Storm Water	-	-	-	168,280	149,826	18,454
Liquor store	-	-	-	2,567,141	2,477,553	89,588
Total Expenses	<u>6,207,595</u>	<u>5,029,397</u>	<u>1,178,198</u>	<u>4,683,112</u>	<u>4,727,476</u>	<u>(44,364)</u>
Changes in Net Position Before Transfers and Special Items	(1,006,119)	(242,874)	(763,245)	1,459,580	1,343,130	116,450
Transfers - Capital Assets	(261,542)	-	(261,542)	261,542	-	261,542
Transfers - Internal Activities	<u>734,250</u>	<u>389,001</u>	<u>345,249</u>	<u>(734,250)</u>	<u>(389,001)</u>	<u>(345,249)</u>
Change in Net Position	(533,411)	146,127	(679,538)	986,872	954,129	32,743
Net Position, January 1	<u>18,018,076</u>	<u>17,871,949</u>	<u>146,127</u>	<u>26,101,856</u>	<u>25,147,727</u>	<u>954,129</u>
Net Position, December 31	<u>\$ 17,484,665</u>	<u>\$ 18,018,076</u>	<u>\$ (533,411)</u>	<u>\$ 27,088,728</u>	<u>\$ 26,101,856</u>	<u>\$ 986,872</u>

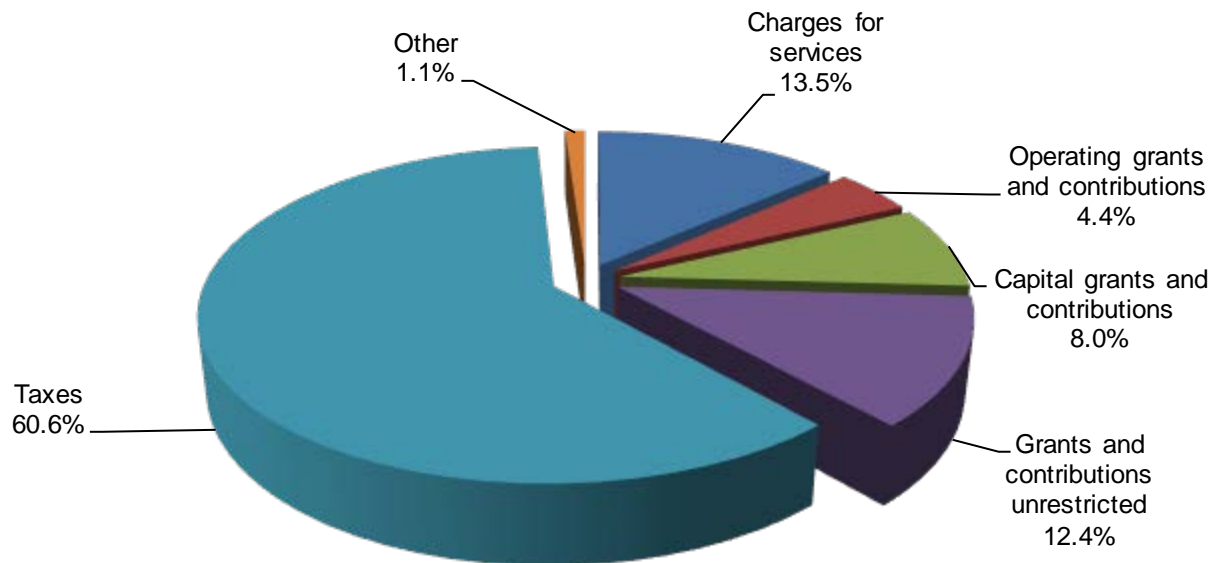
- Property taxes increased \$221,506 from the prior year in line with the City's budget and capital improvement plan.
- Economic development expenses increased \$1,055,178 during the year due to a business subsidy agreement. The City also recognized a loss on land sold during the year.

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 Sources - Governmental Activities

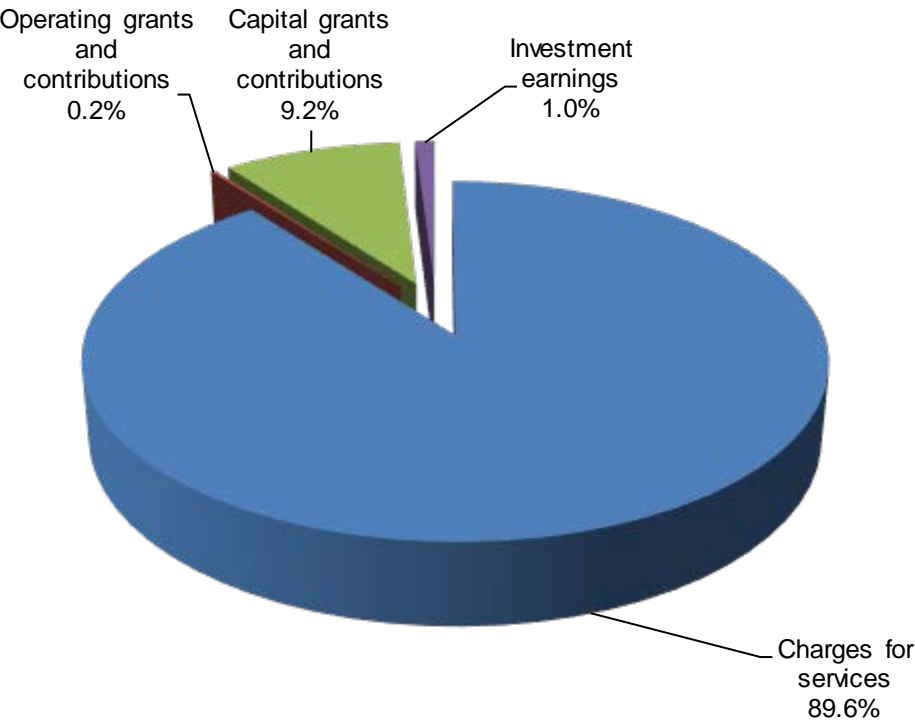


**Business-type Activities.** Business-type activities increased the City's net position by \$986,872. The main reason for the increase was charges for services increased \$457,369 from the prior year. Additional information noted below:

**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 \$4,074,744, a decrease of \$286,736 in comparison with the prior year. Of this total amount, 15.0 percent, or \$612,611, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance of \$3,462,133 is not available for new spending because it is either 1) nonspendable (\$11,333), 2) restricted (\$1,561,719), or 3) committed (\$1,889,081). For further classification, refer to Note 3F on page 68 of this report.

The General fund is the chief operating fund of the City. As a measure of the General fund's liquidity, it may be useful to compare fund balance to total fund expenditures and transfers out. Fund balance represents 34.0 percent of budgeted 2019 expenditures and transfers out. Of the fund balance, \$1,400,273 is unassigned and will be used for cash flow for general operations and will be used to support operations until funds are received in June from the first tax settlement.

The debt service funds decreased \$13,325 during the year mainly due to regularly scheduled principal and interest payments exceeding sources during the year.

**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 \$6,164,236. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

### General Fund Budgetary Highlights

The City's original General fund budget was amended during the year, increasing expenditures \$41,553 and increasing revenues \$125,000 with a budget to increase fund balance by \$254,202. Revenues were \$135,140 over budget. This is primarily due to licenses and permits being more than budgeted by \$50,821. Expenditures were over budget by \$803,587. The largest variance in the general fund expenditures is due to economic development which was \$962,453 over budget. The budget variance is due to recognizing a loss on sold land and business subsidy payments.

## Capital Assets 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 \$46,959,912 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads and highways.

Major capital asset events during the current fiscal year included the following:

- The Wastewater Treatment Improvement Project was finalized in 2018.
- 2018 Pavement Management Project
- 2018 Street Improvements
- Water Chlorination System
- City purchased 2019 Silverado
- Tennis Court re-surfacing

### City of Isanti's Capital Asset (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Land	\$ 2,424,266	\$ 2,424,266	\$ -	\$ 94,237	\$ 94,237	\$ -
Construction in Progress	358,518	688,270	(329,752)	-	3,333,909	(3,333,909)
Land Improvements	6,279	6,279	-	87,660	87,660	-
Buildings	3,650,855	3,794,005	(143,150)	3,500,398	166,537	3,333,861
Infrastructure	11,131,462	11,488,854	(357,392)	24,603,015	25,169,863	(566,848)
Machinery and Equipment	379,752	445,261	(65,509)	515,502	504,028	11,474
Vehicles	135,705	152,147	(16,442)	72,263	63,233	9,030
Total	<u>\$ 18,086,837</u>	<u>\$ 18,999,082</u>	<u>\$ (912,245)</u>	<u>\$ 28,873,075</u>	<u>\$ 29,419,467</u>	<u>\$ (546,392)</u>

Additional information on the City's capital assets can be found in Note 3D starting on page 62 of this report.

**Long-term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$11,643,056. 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 Isanti's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
G.O. Bonds	\$ 2,390,000	\$ 2,585,000	\$ (195,000)	\$ -	\$ -	\$ -
G.O. Improvement Bonds	1,370,000	1,735,000	(365,000)	370,000	400,000	(30,000)
G.O. Revenue Bonds	-	-	-	7,513,056	8,294,945	(781,889)
Bond Premium	39,159	42,661	(3,502)	65,527	71,545	(6,018)
Total	<u>\$ 3,799,159</u>	<u>\$ 4,362,661</u>	<u>\$ (563,502)</u>	<u>\$ 7,948,583</u>	<u>\$ 8,766,490</u>	<u>\$ (817,907)</u>

Minnesota statutes limit the amount of net general obligation debt a City may issue to 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.

Additional information on the City's long-term debt can be found in Note 3E starting on page 64 of this report.

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

- Property tax valuations within the City increased in 2018 and have continued to increase for 2019.
- The 2019 budget includes a property tax levy of \$2,414,591 which is 12.51% lower than the 2018 levy.
- The 2019 budget includes an amount for Local Government Aid in the amount of \$635,435.
- Franchise fees were implemented in 2016 to offset capital improvements, specifically pavement management costs.
- Isanti County has an average unemployment rate for 2018 of 3.8%. This compares with unemployment rates of 2.9% for the State of Minnesota and 3.9% for the United States.

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 Finance Director, City of Isanti, 110 1st Avenue Northwest, PO Box 428, Isanti, Minnesota 55040.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ISANTI  
ISANTI, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

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City of Isanti, Minnesota

Statement of Net Position

December 31, 2018

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and temporary investments	\$ 5,200,225	\$ 5,077,479	\$ 10,277,704
Cash with fiscal agent	314,634	-	314,634
Receivables			
Accrued interest	11,045	12,155	23,200
Taxes	143,780	-	143,780
Accounts	138,400	286,763	425,163
Loans	212,595	-	212,595
Special assessments	1,280,754	46,692	1,327,446
Internal balances	(1,234,897)	1,234,897	-
Due from other governments	2,488	-	2,488
Inventories	-	323,025	323,025
Prepaid items	11,333	3,337	14,670
Land held for resale	23,900	-	23,900
Capital assets			
Land and construction in progress	2,782,784	94,237	2,877,021
Depreciable assets (net of accumulated depreciation)	15,304,053	28,778,838	44,082,891
Total Assets	<u>24,191,094</u>	<u>35,857,423</u>	<u>60,048,517</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension resources	1,144,849	81,352	1,226,201
<b>Liabilities</b>			
Accounts payable	89,918	119,042	208,960
Due to other governments	14,083	29,482	43,565
Accrued salaries payable	34,804	14,349	49,153
Accrued interest payable	11,187	43,533	54,720
Unearned revenue	6,462	-	6,462
Noncurrent liabilities			
Due within one year	715,754	700,677	1,416,431
Due in more than one year	4,905,134	7,832,844	12,737,978
Total Liabilities	<u>5,777,342</u>	<u>8,739,927</u>	<u>14,517,269</u>
<b>Deferred Inflows of Resources</b>			
Resources received in advance	475,687	-	475,687
Deferred pension resources	1,598,249	110,120	1,708,369
Total Deferred Inflows of Resources	<u>2,073,936</u>	<u>110,120</u>	<u>2,184,056</u>
<b>Net Position</b>			
Net investment in capital assets	14,287,678	20,924,492	35,212,170
Restricted for			
Debt service	2,556,755	-	2,556,755
Public safety	4,805	-	4,805
Community center improvements	10,000	-	10,000
Economic development	249,951	-	249,951
Unrestricted	375,476	6,164,236	6,539,712
Total Net Position	<u>\$ 17,484,665</u>	<u>\$ 27,088,728</u>	<u>\$ 44,573,393</u>

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

City of Isanti, 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	\$ 722,906	\$ 52,554	\$ -	\$ -
Public safety	1,807,152	516,755	101,713	-
Public works	1,638,261	34,142	65,864	341,952
Culture and recreation	558,939	93,210	31,369	73,550
Economic development	1,317,206	6,452	29,060	-
Interest on long-term debt	163,131	-	-	-
Total Governmental Activities	<u>6,207,595</u>	<u>703,113</u>	<u>228,006</u>	<u>415,502</u>
<b>Business-type Activities</b>				
Water	937,988	1,006,435	8,434	254,492
Sewer	1,009,703	1,227,807	757	310,929
Liquor store	2,567,141	2,942,860	-	1,293
Stormwater	168,280	326,367	3,056	233
Total Business-type Activities	<u>4,683,112</u>	<u>5,503,469</u>	<u>12,247</u>	<u>566,947</u>
<b>Total</b>	<u>\$ 10,890,707</u>	<u>\$ 6,206,582</u>	<u>\$ 240,253</u>	<u>\$ 982,449</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers - capital assets

Transfers - Internal Activities

Total General Revenues and Transfers

Change in Net Position

Net Position - January 1 as restated (Note 7)

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 Activities	Business-type Activities	Total
\$ (670,352)	\$ -	\$ (670,352)
(1,188,684)	-	(1,188,684)
(1,196,303)	-	(1,196,303)
(360,810)	-	(360,810)
(1,281,694)	-	(1,281,694)
(163,131)	-	(163,131)
<u>(4,860,974)</u>	<u>-</u>	<u>(4,860,974)</u>
-	331,373	331,373
-	529,790	529,790
-	377,012	377,012
-	161,376	161,376
<u>-</u>	<u>1,399,551</u>	<u>1,399,551</u>
<u>(4,860,974)</u>	<u>1,399,551</u>	<u>(3,461,423)</u>
2,281,096	-	2,281,096
530,936	-	530,936
15,479	-	15,479
325,236	-	325,236
646,624	-	646,624
54,747	60,029	114,776
737	-	737
(261,542)	261,542	-
734,250	(734,250)	-
<u>4,327,563</u>	<u>(412,679)</u>	<u>3,914,884</u>
(533,411)	986,872	453,461
<u>18,018,076</u>	<u>26,101,856</u>	<u>44,119,932</u>
<u>\$ 17,484,665</u>	<u>\$ 27,088,728</u>	<u>\$ 44,573,393</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF ISANTI  
ISANTI, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

City of Isanti, Minnesota

Balance Sheet

Governmental Funds

December 31, 2018

	101	900's	Other	Total
	General	Debt Service	Governmental Funds	Governmental Funds
<b>Assets</b>				
Cash and temporary investments	\$ 2,626,571	\$ 1,055,793	\$ 1,517,861	\$ 5,200,225
Cash with fiscal agent	-	314,634	-	314,634
Receivables				
Accrued interest	5,634	2,232	3,179	11,045
Taxes	69,277	-	74,503	143,780
Accounts	54,841	-	83,559	138,400
Loan	-	-	212,595	212,595
Special assessments	5,171	1,196,784	78,799	1,280,754
Due from other governments	2,488	-	-	2,488
Due to other funds	25,060	-	-	25,060
Prepaid items	10,156	-	1,177	11,333
Land held for resale	5,000	-	18,900	23,900
<b>Total Assets</b>	<b>\$ 2,804,198</b>	<b>\$ 2,569,443</b>	<b>\$ 1,990,573</b>	<b>\$ 7,364,214</b>
<b>Liabilities</b>				
Accounts payable	\$ 44,773	\$ 1,501	\$ 43,644	\$ 89,918
Due to other governments	14,083	-	-	14,083
Accrued salaries payable	34,773	-	31	34,804
Advances from other funds	1,234,897	-	25,060	1,259,957
Unearned revenue	6,462	-	-	6,462
<b>Total Liabilities</b>	<b>1,334,988</b>	<b>1,501</b>	<b>68,735</b>	<b>1,405,224</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - delinquent taxes	53,640	-	74,503	128,143
Unavailable revenue - special assessments	5,141	1,196,476	78,799	1,280,416
Resources received in advance	-	-	475,687	475,687
<b>Total Deferred Inflows of Resources</b>	<b>58,781</b>	<b>1,196,476</b>	<b>628,989</b>	<b>1,884,246</b>
<b>Fund Balances</b>				
Nonspendable	10,156	-	1,177	11,333
Restricted	-	1,371,466	190,253	1,561,719
Committed	-	-	1,889,081	1,889,081
Unassigned	1,400,273	-	(787,662)	612,611
<b>Total Fund Balances</b>	<b>1,410,429</b>	<b>1,371,466</b>	<b>1,292,849</b>	<b>4,074,744</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 2,804,198</b>	<b>\$ 2,569,443</b>	<b>\$ 1,990,573</b>	<b>\$ 7,364,214</b>

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

City of Isanti, 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	\$ 4,074,744
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	34,221,077
Less: accumulated depreciation	(16,134,240)
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	(3,760,000)
Plus bond premium	(39,159)
Compensated absences payable	(204,529)
Other postemployment benefits payable	(183,764)
Pension liability	(1,433,436)
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	128,143
Special assessments receivable	1,280,416
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	1,144,849
Deferred inflows of pension resources	(1,598,249)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(11,187)</u>
Total Net Position - Governmental Activities	<u><u>\$ 17,484,665</u></u>

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

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

	101	900's	Other	Total
	General	Debt Service	Governmental Funds	Governmental Funds
Revenues				
Taxes	\$ 2,170,166	\$ 530,936	\$ 397,042	\$ 3,098,144
Licenses and permits	388,821	-	-	388,821
Intergovernmental	789,501	-	197,593	987,094
Charges for services	225,713	-	107,159	332,872
Fines and forfeitures	56,808	-	-	56,808
Special assessments	-	134,109	22,231	156,340
Investment earnings (loss)	22,482	10,368	21,897	54,747
Miscellaneous	13,217	-	66,647	79,864
Total Revenues	<u>3,666,708</u>	<u>675,413</u>	<u>812,569</u>	<u>5,154,690</u>
Expenditures				
Current				
General government	628,356	-	7,773	636,129
Public safety	1,829,463	-	481	1,829,944
Public works	492,898	-	-	492,898
Culture and recreation	319,936	-	38,932	358,868
Economic development	963,684	-	363,834	1,327,518
Capital outlay				
General government	4,950	-	2,465	7,415
Public safety	-	-	-	-
Public works	32,486	-	712,046	744,532
Culture and recreation	44,823	-	10,468	55,291
Economic development	-	-	946	946
Debt service				
Principal	-	560,000	-	560,000
Interest and other	962	161,910	-	162,872
Total Expenditures	<u>4,317,558</u>	<u>721,910</u>	<u>1,136,945</u>	<u>6,176,413</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(650,850)</u>	<u>(46,497)</u>	<u>(324,376)</u>	<u>(1,021,723)</u>
Other Financing Sources (Uses)				
Gain on sale of capital assets	737	-	-	737
Transfers in	369,150	39,001	1,060,942	1,469,093
Transfers out	(390,195)	(5,829)	(338,819)	(734,843)
Total Other Financing Sources (Uses)	<u>(20,308)</u>	<u>33,172</u>	<u>722,123</u>	<u>734,987</u>
Net Change in Fund Balances	(671,158)	(13,325)	397,747	(286,736)
Fund Balances, January 1	<u>2,081,587</u>	<u>1,384,791</u>	<u>895,102</u>	<u>4,361,480</u>
Fund Balances, December 31	<u>\$ 1,410,429</u>	<u>\$ 1,371,466</u>	<u>\$ 1,292,849</u>	<u>\$ 4,074,744</u>

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

City of Isanti, 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	\$ (286,736)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	712,158
Depreciation expense	(1,360,449)
Governmental funds report a gain (loss) on sale of capital assets to the extent of cash exchanged, whereas the disposition of the assets book value is included in the total gain (loss) in the statement of activities.	
Gain on trade in	(2,412)
Governmental fund report projects in capital project funds. Some of the capital assets constructed in the project will be maintained from business-type activity funds. The assets are reported as a transfer from the government-activities to the business-type activities.	(261,542)
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.	
Principal repayments	560,000
Amortization of bond premium	3,502
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.	(3,761)
Long-term pension activity is not reported in governmental funds.	
Pension expense	79,280
OPEB expense	(14,760)
Pension other revenue	11,483
Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.	
Property taxes	54,603
Special assessments	(20,037)
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.	
Compensated absences	(4,740)
Change in Net Position - Governmental Activities	<u><u>\$ (533,411)</u></u>

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

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City of Isanti, 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	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 2,172,468	\$ 2,172,468	\$ 2,170,166	\$ (2,302)
Licenses and permits	213,000	338,000	388,821	50,821
Intergovernmental	762,250	762,250	789,501	27,251
Charges for services	188,450	188,450	225,713	37,263
Fines and forfeitures	32,400	32,400	56,808	24,408
Investment earnings	12,000	12,000	22,482	10,482
Miscellaneous	26,000	26,000	13,217	(12,783)
Total Revenues	<u>3,406,568</u>	<u>3,531,568</u>	<u>3,666,708</u>	<u>135,140</u>
Expenditures				
Current				
General government	691,681	691,681	628,356	63,325
Public safety	1,793,285	1,835,173	1,829,463	5,710
Public works	501,384	501,384	492,898	8,486
Culture and recreation	370,805	370,805	319,936	50,869
Economic development	1,231	1,231	963,684	(962,453)
Capital outlay	114,032	113,697	82,259	31,438
Debt service				
Interest and other	-	-	962	(962)
Total Expenditures	<u>3,472,418</u>	<u>3,513,971</u>	<u>4,317,558</u>	<u>(803,587)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(65,850)</u>	<u>17,597</u>	<u>(650,850)</u>	<u>(668,447)</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	737	737
Transfers in	369,150	369,150	369,150	-
Transfers out	<u>(132,545)</u>	<u>(132,545)</u>	<u>(390,195)</u>	<u>(257,650)</u>
Total Other Financing Sources (Uses)	<u>236,605</u>	<u>236,605</u>	<u>(20,308)</u>	<u>(256,913)</u>
Net Change in Fund Balances	170,755	254,202	(671,158)	(925,360)
Fund Balances, January 1	<u>2,081,587</u>	<u>2,081,587</u>	<u>2,081,587</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 2,252,342</u>	<u>\$ 2,335,789</u>	<u>\$ 1,410,429</u>	<u>\$ (925,360)</u>

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

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

	Business-type Activities - Enterprise Funds				
	601 Water	439, 602 Sewer	609 Liquor Store	Nonmajor	Total
				603 Storm Water	
<b>Assets</b>					
<b>Current Assets</b>					
Cash and temporary investments	\$ 1,753,071	\$ 2,572,786	\$ 401,942	\$ 349,680	\$ 5,077,479
Receivables					
Accrued interest	4,591	5,545	1,325	694	12,155
Accounts	106,306	144,855	(618)	36,220	286,763
Special assessments	2,321	5,606	-	3,160	11,087
Due from other funds	283,300	-	-	-	283,300
Inventories	-	-	323,025	-	323,025
Prepaid items	947	964	1,363	63	3,337
<b>Total Current Assets</b>	<b>2,150,536</b>	<b>2,729,756</b>	<b>727,037</b>	<b>389,817</b>	<b>5,997,146</b>
<b>Noncurrent Assets</b>					
Special assessments receivable	-	35,605	-	-	35,605
Advances to other funds	4,768	581,940	364,889	-	951,597
<b>Capital assets</b>					
Land	11,078	5,000	57,159	21,000	94,237
Buildings	37,156	3,349,403	337,305	-	3,723,864
Improvements other than buildings	-	-	268,238	-	268,238
Machinery and equipment	611,883	331,911	41,357	290,601	1,275,752
Infrastructure	14,868,680	19,749,269	-	323,455	34,941,404
Less accumulated depreciation	(4,229,109)	(6,615,073)	(441,551)	(144,687)	(11,430,420)
<b>Total Capital Assets</b>	<b>11,299,688</b>	<b>16,820,510</b>	<b>262,508</b>	<b>490,369</b>	<b>28,873,075</b>
(Net of Accumulated Depreciation)					
<b>Total Noncurrent Assets</b>	<b>11,304,456</b>	<b>17,438,055</b>	<b>627,397</b>	<b>490,369</b>	<b>29,860,277</b>
<b>Total Assets</b>	<b>13,454,992</b>	<b>20,167,811</b>	<b>1,354,434</b>	<b>880,186</b>	<b>35,857,423</b>
<b>Deferred Outflows of Resources</b>					
Deferred pension resources	19,135	24,291	32,209	5,717	81,352

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

City of Isanti, Minnesota  
Statement of Net Position (Continued)  
Proprietary Funds  
December 31, 2018

	Business-type Activities - Enterprise Funds				
	601 Water	439, 602 Sewer	609 Liquor Store	Nonmajor	Total
				603 Storm Water	
Liabilities					
Current Liabilities					
Accounts payable	\$ 15,476	\$ 22,207	\$ 79,029	\$ 2,330	\$ 119,042
Due to other governments	5,038	-	24,444	-	29,482
Accrued salaries payable	3,548	4,561	5,437	803	14,349
Accrued interest payable	37,441	6,092	-	-	43,533
Current portion of compensated absences payable	10,808	14,829	14,630	2,410	42,677
Current portion of bonds payable	398,000	260,000	-	-	658,000
Total Current Liabilities	<u>470,311</u>	<u>307,689</u>	<u>123,540</u>	<u>5,543</u>	<u>907,083</u>
Noncurrent Liabilities					
Compensated absences payable	4,357	5,980	5,900	972	17,209
Other postemployment benefits payable	25,210	31,755	29,454	5,036	91,455
Pension liability	101,986	129,469	171,670	30,472	433,597
Bonds payable	4,000,056	3,290,527	-	-	7,290,583
Total Noncurrent Liabilities	<u>4,131,609</u>	<u>3,457,731</u>	<u>207,024</u>	<u>36,480</u>	<u>7,832,844</u>
Total Liabilities	<u>4,601,920</u>	<u>3,765,420</u>	<u>330,564</u>	<u>42,023</u>	<u>8,739,927</u>
Deferred Inflows of Resources					
Deferred pension resources	<u>25,901</u>	<u>32,881</u>	<u>43,599</u>	<u>7,739</u>	<u>110,120</u>
Net Position					
Net investment in capital assets	6,901,632	13,269,983	262,508	490,369	20,924,492
Unrestricted	<u>1,944,674</u>	<u>3,123,818</u>	<u>749,972</u>	<u>345,772</u>	<u>6,164,236</u>
Total Net Position	<u>\$ 8,846,306</u>	<u>\$ 16,393,801</u>	<u>\$ 1,012,480</u>	<u>\$ 836,141</u>	<u>\$ 27,088,728</u>

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

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

	Business-type Activities - Enterprise Funds				Total
	601 Water	439, 602 Sewer	609 Liquor Store	Nonmajor 603 Storm Water	
Operating Revenues					
Sales	\$ -	\$ -	\$ 2,942,860	\$ -	\$ 2,942,860
Cost of sales	-	-	(2,129,562)	-	(2,129,562)
Gross Profit	-	-	813,298	-	813,298
Charges for services	1,007,231	1,224,147	-	326,336	2,557,714
Total Operating Revenues	1,007,231	1,224,147	813,298	326,336	3,371,012
Operating Expenses					
Personnel services	216,821	269,524	327,473	53,211	867,029
Supplies	70,375	56,779	5,338	11,103	143,595
Professional services	35,442	31,035	4,579	51,696	122,752
Communications	3,869	3,460	2,031	618	9,978
Insurance	17,043	16,746	6,999	797	41,585
Utilities	51,535	99,106	12,791	4,074	167,506
Repairs and maintenance	25,549	43,359	5,206	5,782	79,896
Depreciation	388,042	483,077	21,245	40,999	933,363
Other services and charges	-	-	51,917	-	51,917
Total Operating Expenses	808,676	1,003,086	437,579	168,280	2,417,621
Operating Income	198,555	221,061	375,719	158,056	953,391
Nonoperating Revenues (Expenses)					
Other revenues	9,213	1,746	1,293	3,320	15,572
Investment earnings	20,173	28,492	6,089	5,275	60,029
Interest expense and other	(129,312)	(6,617)	-	-	(135,929)
Total Nonoperating Revenues (Expenses)	(99,926)	23,621	7,382	8,595	(60,328)
Income Before Contributions and Transfers	98,629	244,682	383,101	166,651	893,063
Capital Contributions	252,917	313,600	-	-	566,517
Capital Contributions - Other Funds	261,542	-	-	-	261,542
Transfers In	1,590	11,115	-	-	12,705
Transfers Out	(343,047)	(53,908)	(350,000)	-	(746,955)
Change in Net Position	271,631	515,489	33,101	166,651	986,872
Net Position, January 1 as restated (Note 7)	8,574,675	15,878,312	979,379	669,490	26,101,856
Net Position, December 31	<u>\$ 8,846,306</u>	<u>\$ 16,393,801</u>	<u>\$ 1,012,480</u>	<u>\$ 836,141</u>	<u>\$ 27,088,728</u>

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

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

	Business-type Activities - Enterprise Funds				Total
	601 Water	439, 602 Sewer	609 Liquor Store	Nonmajor 603 Storm Water	
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 1,001,627	\$ 1,210,964	\$ 2,944,154	\$ 321,070	\$ 5,477,815
Other receipts	9,213	1,746	1,293	3,320	15,572
Payments to suppliers	(465,032)	(234,156)	(2,201,459)	(70,827)	(2,971,474)
Payments to employees	(228,464)	(288,306)	(338,838)	(51,685)	(907,293)
Net Cash Provided by Operating Activities	317,344	690,248	405,150	201,878	1,614,620
Cash Flows from Noncapital Financing Activities					
Receipt on advance to other funds	(3,178)	(570,808)	(622,541)	-	(1,196,527)
Advance to other fund	4,769	15,238	364,889	-	384,896
Transfers from other funds	1,590	11,115	-	-	12,705
Transfers to other funds	(81,506)	(53,908)	(350,000)	-	(485,414)
Net Cash Used by Noncapital Financing Activities	(78,325)	(598,363)	(607,652)	-	(1,284,340)
Cash Flows from Capital and Related Financing Activities					
Transfer to other funds	(261,541)	-	-	-	(261,541)
Connection fees received	252,917	313,600	-	-	566,517
Acquisition of capital assets	(78,804)	(46,625)	-	-	(125,429)
Interest paid on bonds	(132,530)	(11,817)	-	-	(144,347)
Principal paid on bonds	(383,000)	(428,889)	-	-	(811,889)
Net Cash Used by Capital and Related Financing Activities	(602,958)	(173,731)	-	-	(776,689)
Cash Flows from Investing Activities					
Investment received	20,171	28,670	6,361	4,912	60,114
Net Increase (Decrease) in Cash and Cash Equivalents	(343,768)	(53,176)	(196,141)	206,790	(386,295)
Cash and Cash Equivalents, January 1	2,096,839	2,625,962	598,083	142,890	5,463,774
Cash and Cash Equivalents, December 31	<u>\$ 1,753,071</u>	<u>\$ 2,572,786</u>	<u>\$ 401,942</u>	<u>\$ 349,680</u>	<u>\$ 5,077,479</u>

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

City of Isanti, Minnesota  
Statement of Cash Flows (Continued)  
Proprietary Funds  
For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds				Total
	601 Water	439, 602 Sewer	609 Liquor Store	Nonmajor 603 Storm Water	
Reconciliation of Operating Income to					
Net Cash Provided by Operating Activities					
Operating income	\$ 198,555	\$ 221,061	\$ 375,719	\$ 158,056	\$ 953,391
Adjustments to reconcile operating income to					
net cash provided by operating activities					
Depreciation	388,042	483,077	21,245	40,999	933,363
Other receipts	9,213	1,746	1,293	3,320	15,572
(Increase) decrease in assets					
Accounts receivable	(8,070)	(17,600)	1,294	(8,079)	(32,455)
Special assessments	2,466	4,417	-	2,813	9,696
Due from other governments	(283,300)	-	-	-	(283,300)
Inventories	-	-	(20,932)	-	(20,932)
Prepaid items	(902)	(459)	(1,213)	(18)	(2,592)
(Increase) in deferred outflows of resources					
Deferred pension resources	13,257	17,896	19,368	2,076	52,597
Deferred other post employment benefit resources	-	-	-	-	-
Increase (decrease) in liabilities					
Accounts payable	12,078	9,182	32,792	2,226	56,278
Due to other governments	3,836	-	88	-	3,924
Accrued salaries payable	1,230	1,499	941	50	3,720
Compensated absences payable	1,924	2,568	1,355	(1,292)	4,555
Unearned revenue	-	-	(209)	-	(209)
Deferred other postemployment benefits payable	7,069	7,606	6,438	1,035	22,148
Pension liability	(24,887)	(35,768)	(30,344)	(53)	(91,052)
Increase (decrease) in deferred inflows of resources					
Deferred pension resources	(3,167)	(4,977)	(2,685)	745	(10,084)
Net Cash Provided					
by Operating Activities	<u>\$ 317,344</u>	<u>\$ 690,248</u>	<u>\$ 405,150</u>	<u>\$ 201,878</u>	<u>\$ 1,614,620</u>
Schedule of Noncash Capital and					
Related Financing Activities					
Capital contributions from (to) other funds	<u>\$ 261,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 261,542</u>
Amortiation of bond premium	<u>\$ -</u>	<u>\$ 6,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,018</u>

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

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

	Agency
	<b>505</b>
	Escrow
Assets	
Cash and temporary investments	\$ 19,258
Accounts receivable	20,682
	<hr/>
Total Assets	\$ 39,940
	<hr/>
Liabilities	
Accounts payable	\$ 39,940
	<hr/>

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



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

## Note 1: Summary of Significant Accounting Policies

### A. Reporting Entity

The City of Isanti, Minnesota (the City) operates under “Optional Plan A” form of government as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and four-member City Council. 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 blended component units, although legally separate entities are, in substance, part of the City’s operations and so data from these units are combined with data of the City. The City has the following component unit:

*Blended Component Unit.* The Economic Development Authority (EDA) of the City was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment consistent with policies established by the City Council. The City has the authority to approve and modify the EDA’s budget, and the City Council has the ability to veto, overrule, or modify the decisions of the EDA Board of Commissioners. The EDA is governed by a total of seven commissioners, two of which are residents and five are City Council members. The EDA activities are blended and reported as a special revenue fund due to substantively the same governing board and due to the City having operation responsibility. Separate financial statements are not issued for this component unit.

### 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 who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, 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.

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

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

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

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

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

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 general government, except those required to be accounted for in another fund.

The *Debt Service funds* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The City reports the following major proprietary funds:

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

The *Liquor Store fund* accounts for the costs associated with the City's liquor operations.

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

Additionally, the City reports the following fund types:

*Fiduciary fund* 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 modified accrual basis of accounting. This fund is used to account for assets that the City holds for others 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.

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

#### *Deposits and Investments*

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

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. It is the City's policy to refrain from investing in banks, savings and loan associations or credit unions whose equity to asset ratio is less than 10 percent. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's recurring fair value measurements are listed in detail on page 59.

The City has the following recurring fair value measurements as of December 31, 2018:

- US Treasury securities of \$1,397,330 are valued using quoted market prices (Level 1 inputs)
- Negotiable certificates of deposit of \$4,566,440 are valued using a matrix pricing model (Level 2 inputs)

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

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

The City may 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.

***Investment Policy***

The City's investment policy incorporates Minnesota statutes as described above which reduces the City's exposure to credit, custodial credit and interest rate risks. Specific risk information for the City is as follows:

- *Credit Risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings provided by various credit rating agencies where applicable indicate associated credit risk. The City's investments in Government Agencies are fully backed by the U.S. Government and are rated AAA.
- *Custodial Credit Risk* for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City limits its exposure to custodial credit risk by purchasing insured or registered investments. It is the City's policy to refrain from investing in banks, savings and loan associations or credit unions whose equity to asset ratio is less than 10%.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City limits investments in any one institution to 5%. The City has invested more than 5 percent of investments in the following issuers: Federal Home Loan Mortgage Corporation (8.056%).
- *Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Using the segmented time distribution method, the interest rate risk of these investments ranges from less than 6 months to more than 3 years.

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

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

***Property Taxes***

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

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

***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. 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 received in cash or within 60 days after year end. All special assessments receivable are offset by a deferred inflow of resources in the governmental fund financial statements.

***Interfund Receivables and Payables***

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

***Inventories and Prepaid Items***

Inventories are valued at lower of cost or market, using the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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.

***Land Held for Resale***

Land held for resale is valued at the lower of the cost or the market value of the property.

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

### **Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through 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. In the case of donations the City values these capital assets at the acquisition value of the item at the date of its donation.

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

Assets	Useful Lives in Years
Buildings and Structures	40
Infrastructure	10 to 50
Furniture and Equipment	3 to 20
Improvements other than Buildings	10 to 20

### **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 two items which qualify for reporting in this category. Accordingly, the items, deferred pension resources and deferred other postemployment benefit resources, are reported only in the statement of net position. These items result from actuarial calculations and current year pension contributions and OPEB contributions made subsequent to the measurement dates.

### **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.

### **Compensated Absences**

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation, which is paid to the employee upon separation. A portion of unused sick leave may also be paid upon separation from City service. In governmental fund types the cost of these benefits is recognized when payments are made to the employees. The General fund is typically used to liquidate governmental compensated absences payable.

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

### ***Postemployment Benefits other than Pensions***

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in a group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB 75, at January 1, 2018. The General fund is typically used to liquidate governmental other postemployment benefits 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 issuance costs are reported as an expense in the period incurred.

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

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

In addition to liabilities, the statement of 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 three types of items, *unavailable revenue* and *resources received in advance*, and *deferred pension resources*.

- *Unavailable revenue* arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- *Resources received in advance* is reported in both the governmental fund financial statements and within the government-wide financial statements. This item is reported for amounts that have been received before time requirements are met, but after all other eligibility requirements have been met.
- *Deferred pension resources* is reported only in the statements of net position and results from actuarial calculations.

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.

Furthermore, the City has additional items which qualify for reporting in this category on the statement of net position. The items, deferred pension resources and deferred other postemployment benefit resources, are reported only in the statement of net position and results from actuarial calculations involving net differences between projected and actual earnings on plan investments and changes in proportions.

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

### ***Fund Balance***

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

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

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

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

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

*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 50 percent of the following year's budgeted expenditures and transfers out.

### ***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 - Consists 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.



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

## 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 following funds:

- General
- Economic Development Authority
- Water
- Sewer
- Storm Water
- Liquor

All annual appropriations lapse at year end. The City does not use encumbrance accounting.

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

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The original budget was amended in 2018 increasing revenues \$125,000 and increasing expenditures \$41,553 for a total budgeted increase in fund balance of \$254,202.

### B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2018, expenditures exceeded appropriations in the following fund:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 3,513,971	\$ 4,317,558	\$ 803,587

### C. Deficit Fund Equity

The following funds had deficit fund equity at December 31, 2018.

Fund	Amount
Nonmajor	
Isanti Indoor Arena	\$ 178,172
2013 Railroad Avenue & Walk Improvements	5,316
City Parking Improvements	74,687
2017 Palomino Road Southeast Improvements	479,515
Highway 64 and Cajima	42,486

These deficits will be eliminated with future state aid, franchise taxes, and transfers from other funds.

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

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

#### **A. Deposits and Investments**

##### ***Deposits***

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

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, 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 \$4,552,328 and the bank balance was \$5,177,415. Of the bank balance, \$500,000 was covered by Federal depository insurance, \$2,833 was covered by National Credit Union Share Insurance Fund coverage, and \$4,465,271 by collateral pledged in the City's name. The remaining balance of \$677,647 was not sufficiently covered by either federal depository insurance, credit union coverage, or collateral held in the City's name.

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

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

At year end, the City's investment balances were as follows:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled Investments at Amortized Cost						
Broker Money Markets	N/A	less than 6 months	\$ 92,273	\$ -	\$ -	\$ -
Non-pooled Investments at Fair Value						
Negotiable CDs		less than 6 months	-	-	-	-
Negotiable CDs	N/A	6 months to 1 year	726,378	-	726,378	-
Negotiable CDs	N/A	1 to 3 years	2,468,042	-	2,468,042	-
Negotiable CDs	N/A	more than 3 years	1,372,020	-	1,372,020	-
U.S. Treasury Securities	Aaa	less than 6 months	314,634	314,634	-	-
U.S. Government Agency Securities	Aaa	more than 3 years	1,082,696	1,082,696	-	-
Total Investments			\$ 6,056,043	\$ 1,397,330	\$ 4,566,440	\$ -

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

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

N/A Indicates not applicable or available.

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

	Primary Government	Agency Fund	Totals
Carrying Amount of Deposits	\$ 4,533,070	\$ 19,258	\$ 4,552,328
Investments	6,056,043	-	6,056,043
Cash on Hand	3,225	-	3,225
Total	<u>\$ 10,592,338</u>	<u>\$ 19,258</u>	<u>\$ 10,611,596</u>
Cash and Temporary Investments			
Unrestricted	\$ 10,277,704	\$ 19,258	\$ 10,296,962
Cash with fiscal agent	314,634	-	314,634
Total	<u>\$ 10,592,338</u>	<u>\$ 19,258</u>	<u>\$ 10,611,596</u>

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

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

**B. Loans Receivables**

In 2008, the City's Revolving Loan fund loaned \$194,000 to EverCat Fuels for 10 years at 3 percent interest. The monthly payment is \$1,873 with the final payment being due in 2018. The loan was originated through the Minnesota Investment Fund and the City has agreed to remit 80 percent of the loan received back to the state. The loan was paid in full in 2018.

In 2011, the City's Revolving Loan fund loaned \$50,000 to H.M. Chris, LLC for 10 years at 3 percent interest. The monthly payment is \$529. As of December 31, 2018, the loan receivable was \$15,267.

In 2012, the City's Revolving Loan fund loaned \$22,500 to K & D Investments for 10 years at 3 percent interest. The monthly payment is \$298. As of December 31, 2018, the loan receivable was \$2,025.

In 2013, the City's Revolving Loan fund loaned \$25,000 to the Isanti Parkway Center for 7 years at 3 percent interest. The monthly payment is \$331. As of December 31, 2018, the loan receivable was \$6,120.

In 2015, the City's Revolving Loan fund loaned \$17,500 to Mom's Food Co-op Inc. for 5 years at 3 percent interest. The monthly payment is \$315. As of December 31, 2018, the loan was paid off in 2018.

In 2015, the City's Revolving Loan fund loaned \$427,000 to Mom's Food Co-op Inc. for 7 years at zero percent interest. The monthly payment is \$321. As of December 31, 2018, the loan receivable was \$179,167.

In 2016, the City's Revolving Loan fund loaned \$15,000 to RPF, LLC for 7 years at 3 percent interest. The monthly payment is \$199. As of December 31, 2018, the loan receivable was \$10,016.

**C. Interfund Receivables, Payables and Transfers**

In 2009, the Sewer enterprise fund advanced funds to the General fund to cover the City portion of the 2009 Street Improvements. Future General fund property tax levies will be utilized to repay the advance. Repayments will include interest of 3.25 percent. An additional \$23,274 was borrowed between the funds in 2010. The outstanding balance at December 31, 2018 is \$10,469.

In 2011, the Water and Sewer enterprise funds each loaned \$15,897 to the General fund to cover the City portion of the Deer Haven Improvements. General fund property tax levies will be utilized to repay these advances. Repayments are interest free. The outstanding balance at December 31, 2018 is \$9,539.

In 2016, the General fund loaned \$25,060 to the TIF 9 nonmajor governmental fund to cover demolition costs. Future tax increment or land sale proceeds will be utilized to repay these advances. Repayments are interest free. The outstanding balance at December 31, 2018 is \$25,060.

In 2017, the Liquor fund loaned \$107,237 to the General fund to cover land purchase costs. Future land sale proceeds will be utilized to repay these advances. Repayments are interest free. The outstanding balance at December 31, 2018 is \$107,237.

In 2018, the Liquor fund loaned \$257,652 to the General fund to cover the 2018 Street and Utility Improvement Project. 2019 and 2020 levy dollars will be utilized to repay these advances. Repayments are interest free. The outstanding balance at December 31, 2018 is \$257,652.

In 2018, the Water and Sewer funds loaned \$283,300 and \$566,700, respectively to the General fund for the business subsidy agreement relating to City development. The loan is expected to be paid back over a seven year period from future levy dollars. Repayments are interest free. The outstanding balance at December 31, 2018 is \$850,000.

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

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

***Interfund Transfers***

The following interfund transfers were made during 2018:

Fund	Transfer in					Total
	General	Debt Service	Nonmajor Governmental	Water	Sewer	
Transfer Out						
General	\$ -	\$ -	\$ 377,490	\$ 1,590	\$ 11,115	\$ 390,195
Nonmajor Governmental	19,150	-	319,669	-	-	338,819
Debt Service	-	-	5,829	-	-	5,829
Water	-	4,333	338,714	-	-	343,047
Sewer	-	34,668	19,240	-	-	53,908
Liquor Store	350,000	-	-	-	-	350,000
Total Transfers In	<u>\$ 369,150</u>	<u>\$ 39,001</u>	<u>\$ 1,060,942</u>	<u>\$ 1,590</u>	<u>\$ 11,115</u>	<u>\$ 1,481,798</u>

During the year ended December 31, 2018, the City made the following one-time transfer:

- Transfer of \$50,998 from nonmajor governmental funds to nonmajor governmental funds to close fund 432.
- Transfer of \$5,829 from nonmajor governmental funds to nonmajor governmental funds to close fund 436.
- Transfer of \$31,369 from nonmajor governmental funds to nonmajor governmental funds to close fund 437.
- Transfer of \$210,799 from nonmajor governmental funds to nonmajor governmental funds to close fund 439.
- Transfer of \$261,542 made from Sewer fund to nonmajor governmental funds for costs associated with street improvement projects.
- Transfer of \$237,301 made from the nonmajor governmental funds to other nonmajor governmental funds for costs associated with the Palamino road project.
- Transfers of \$257,652 made from the General fund to nonmajor governmental funds for 2018 improvement project funding. The City Water and Sewer fund also transferred \$77,142 and \$19,420, respectively to the nonmajor governmental funds for 2018 improvement project funding.

City of Isanti, Minnesota  
Notes to the Financial Statements  
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**Note 3: Detailed Notes on All Funds (Continued)**

**D. Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets not being Depreciated				
Land	\$ 2,424,266	\$ -	\$ -	\$ 2,424,266
Construction in progress	688,270	358,518	(688,270)	358,518
Total Capital Assets not being Depreciated	<u>3,112,536</u>	<u>358,518</u>	<u>(688,270)</u>	<u>2,782,784</u>
Capital Assets, being Depreciated				
Land improvements	440,300	-	-	440,300
Buildings	5,616,339	-	-	5,616,339
Infrastructure	22,863,211	746,495	-	23,609,706
Machinery and equipment	1,355,549	31,570	(28,963)	1,358,156
Vehicles	397,488	16,304	-	413,792
Total Capital Assets being Depreciated	<u>30,672,887</u>	<u>794,369</u>	<u>(28,963)</u>	<u>31,438,293</u>
Less Accumulated Depreciation for				
Land improvements	(434,021)	-	-	(434,021)
Buildings	(1,822,334)	(143,150)	-	(1,965,484)
Infrastructure	(11,374,357)	(1,103,887)	-	(12,478,244)
Machinery and equipment	(910,288)	(80,666)	12,550	(978,404)
Vehicles	(245,341)	(32,746)	-	(278,087)
Total Accumulated Depreciation	<u>(14,786,341)</u>	<u>(1,360,449)</u>	<u>12,550</u>	<u>(16,134,240)</u>
Total Capital Assets being Depreciated, Net	<u>15,886,546</u>	<u>(566,080)</u>	<u>(16,413)</u>	<u>15,304,053</u>
Governmental Activities Capital Assets, Net	<u>\$ 18,999,082</u>	<u>\$ (207,562)</u>	<u>\$ (704,683)</u>	<u>\$ 18,086,837</u>

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

General Government	\$ 74,329
Public Safety	34,058
Public Works	1,075,378
Culture and Recreation	<u>176,684</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,360,449</u>

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

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital Assets not being Depreciated				
Land	\$ 94,237	\$ -	\$ -	\$ 94,237
Construction in progress	3,333,909	-	(3,333,909)	-
Total Capital Assets not being Depreciated	<u>3,428,146</u>	<u>-</u>	<u>(3,333,909)</u>	<u>94,237</u>
Capital Assets being Depreciated				
Land improvements	268,238	-	-	268,238
Buildings	374,461	3,349,402	-	3,723,863
Infrastructure	34,679,862	261,542	-	34,941,404
Machinery and equipment	1,074,878	93,631	-	1,168,509
Vehicles	90,939	16,304	-	107,243
Total Capital Assets being Depreciated	<u>36,488,378</u>	<u>3,720,879</u>	<u>-</u>	<u>40,209,257</u>
Less Accumulated Depreciation for				
Land improvements	(180,578)	-	-	(180,578)
Buildings	(207,924)	(15,541)	-	(223,465)
Infrastructure	(9,509,999)	(828,390)	-	(10,338,389)
Machinery and equipment	(570,850)	(82,157)	-	(653,007)
Vehicles	(27,706)	(7,274)	-	(34,980)
Total Accumulated Depreciation	<u>(10,497,057)</u>	<u>(933,362)</u>	<u>-</u>	<u>(11,430,419)</u>
Total Capital Assets being Depreciated, Net	<u>25,991,321</u>	<u>2,787,517</u>	<u>-</u>	<u>28,778,838</u>
Business-type Activities Capital Assets, Net	<u>\$ 29,419,467</u>	<u>\$ 2,787,517</u>	<u>\$ (3,333,909)</u>	<u>\$ 28,873,075</u>

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

Water	\$ 388,042
Sewer	483,077
Storm Water	40,999
Liquor Store	<u>21,244</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 933,362</u>

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

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

**E. Long-term Debt**

General Obligation (G.O.) Bonds

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

G.O. bonds are direct obligations and pledge the full faith and credit of the government. G.O. bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Tax Abatement Bonds, Series 2014A	\$ 2,560,000	0.50 - 2.50 %	10/01/14	02/01/30	\$ 2,120,000
G.O. Bonds, Series 2014B	1,420,000	0.50 - 2.50	10/01/14	02/01/24	270,000
Total G.O. Bonds					<u>\$ 2,390,000</u>

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 200,000	\$ 59,013	\$ 259,013
2020	205,000	55,266	260,266
2021	210,000	51,319	261,319
2022	210,000	47,220	257,220
2023	215,000	42,545	257,545
2024 - 2028	950,000	135,674	1,085,674
2029 - 2030	400,000	13,750	413,750
Total	<u>\$ 2,390,000</u>	<u>\$ 404,787</u>	<u>\$ 2,794,787</u>



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

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

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 and Sewer funds and are backed by the taxing power of the City. Annual principal and interest payments on the bonds and enterprise G.O. improvement bonds are expected to require over 87 and 51 percent of net revenues from the Water and Sewer funds, respectively. Principal and interest paid for 2018 and total customer net revenues for the Water fund were \$515,530 and \$1,007,231, respectively. Principal and interest paid for 2018 and total customer net revenues for the Sewer fund were \$440,706 and \$1,224,147 respectively.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
MPFA - Water Revenue Bonds, Series 2007A	\$ 965,000	2.63 %	07/10/08	08/20/26	\$ 468,000
MPFA - Water Revenue Bonds, Series 2008	5,064,256	3.04	10/07/08	08/20/28	2,950,056
G.O. Crossover Refunding Bonds, Series 2009A	510,000	1.75 - 3.50	02/26/09	12/01/19	55,000
G.O. Utility Revenue Bonds, Series 2010A	835,000	2.00 - 3.70	07/01/10	12/01/24	365,000
MPFA - Water Revenue Bonds, Series 2011	479,047	1.533	11/23/11	08/20/31	470,000
G.O. Utility Revenue Bonds, Series 2014B	1,030,000	0.50 - 2.50	10/01/14	02/01/25	745,000
MPFA-Sewer Revenue Bonds, Series 2016A	2,525,000	2.00	07/15/16	12/01/29	<u>2,460,000</u>
Total G.O. Revenue Bonds					<u>\$ 7,513,056</u>

- The 1996A Bonds are forgivable due to provisions of an agreement with the State of Minnesota. The forgiveness is recognized annually as each installment is due. The total forgiven in 2018 was \$173,893.

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

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2019	\$ 623,000	\$ 186,687	\$ 809,687
2020	728,000	170,504	898,504
2021	753,000	152,684	905,684
2022	774,000	133,922	907,922
2023	789,000	114,284	903,284
2024 - 2028	3,470,056	283,282	3,753,338
2029 - 2031	<u>376,000</u>	<u>8,772</u>	<u>384,772</u>
Total	<u>\$ 7,513,056</u>	<u>\$ 1,050,135</u>	<u>\$ 8,563,191</u>

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

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

G.O. Improvement (Special Assessment) Bonds

The following bonds were issued to finance various improvements and will be repaid from special assessments levied on the properties benefiting from the improvements and/or 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 of 5 percent is to cover any delinquencies in tax or assessment payments. The business-type bonds will be repaid from special assessments and future net revenues pledged from the Water and Sewer funds and are backed by the taxing power of the City.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Refunding					
Bonds, Series 2010B	\$ 1,825,000	2.00 - 3.20 %	12/01/10	12/01/21	\$ 1,030,000
G.O. Improvement					
Bonds, Series 2011A	790,000	0.60 - 2.70	09/29/11	02/01/22	340,000
G.O. Refunding					
Bonds, Series 2013A	2,160,000	0.35 - 2.50	02/01/13	12/01/28	370,000
Total G.O. Improvement Bonds					<u>\$ 1,740,000</u>

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

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 370,000	\$ 38,753	\$ 408,753	\$ 35,000	\$ 7,340	\$ 42,340
2020	450,000	28,631	478,631	35,000	6,990	41,990
2021	460,000	15,578	475,578	35,000	6,430	41,430
2022	90,000	1,215	91,215	35,000	5,870	40,870
2023	-	-	-	40,000	5,310	45,310
2024 - 2028	-	-	-	190,000	14,205	204,205
Total	<u>\$ 1,370,000</u>	<u>\$ 84,177</u>	<u>\$ 1,454,177</u>	<u>\$ 370,000</u>	<u>\$ 46,145</u>	<u>\$ 416,145</u>

City of Isanti, 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:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds Payable					
General obligation bonds	\$ 2,585,000	\$ -	\$ (195,000)	\$ 2,390,000	\$ 200,000
G.O. improvement bonds	1,735,000	-	(365,000)	1,370,000	370,000
Unamortized premium on bonds	42,661	-	(3,502)	39,159	-
Total Bonds Payable	4,362,661	-	(563,502)	3,799,159	570,000
Other Post Employment Benefits	169,004	14,760	-	183,764	
Pension Liability					
GERF	854,281	26,541	(105,044)	775,778	-
PEPFF	945,083	-	(287,425)	657,658	-
Compensated Absences					
Payable	199,789	99,895	(95,155)	204,529	145,754
Governmental Activities					
Long-term Liabilities	<u>\$ 6,530,818</u>	<u>\$ 141,196</u>	<u>\$ (1,051,126)</u>	<u>\$ 5,620,888</u>	<u>\$ 715,754</u>
<b>Business-type Activities</b>					
Bonds Payable					
G.O. revenue bonds	\$ 8,294,945	\$ -	\$ (781,889)	\$ 7,513,056	\$ 623,000
G.O. improvement bonds	400,000	-	(30,000)	370,000	35,000
Unamortized premium on bonds	71,545	-	(6,018)	65,527	
Total Bonds Payable	8,766,490	-	(817,907)	7,948,583	658,000
Other Post Employment Benefits	69,307	22,148	-	91,455	-
Pension Liability					
GERF	524,649	3,700	(94,752)	433,597	-
Compensated Absences					
Payable	55,331	27,666	(23,111)	59,886	42,677
Business-type Activities					
Long-term Liabilities	<u>\$ 9,415,777</u>	<u>\$ 53,514</u>	<u>\$ (935,770)</u>	<u>\$ 8,533,521</u>	<u>\$ 700,677</u>

\* The beginning balances include adjustment to prior period amounts for Other Post Employment Benefits

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

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

**F. Components of Fund Balance**

At December 31, 2018, portions of the City's fund balance are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted), City Council action (Committed), policy and/or intent (Assigned). The following is a summary of the components of fund balance:

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Nonspendable				
Prepaid items	\$ 10,156	\$ -	\$ 1,177	\$ 11,333
Restricted for				
Debt service	\$ -	\$ 1,371,466	\$ -	\$ 1,371,466
Public safety	-	-	4,805	4,805
Community center improvements	-	-	10,000	10,000
Economic development	-	-	175,448	175,448
Total Restricted	\$ -	\$ 1,371,466	\$ 190,253	\$ 1,561,719
Committed to				
Capital projects	\$ -	\$ -	\$ 1,093,521	\$ 1,093,521
Street maintenance	-	-	371,947	371,947
Culture and recreation	-	-	34,793	34,793
Economic development	-	-	379,817	379,817
City technology improvements	-	-	9,003	9,003
Total Committed	\$ -	\$ -	\$ 1,889,081	\$ 1,889,081

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

**A. Plan Description**

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

General Employees Retirement Fund (GERF)

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

Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

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

### **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.

#### GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. 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.

#### PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3.0 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. 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. For retirements after May 31, 2014, the first increase will be delayed two years.

### **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 and the City was required to contribute 7.50 percent of pay 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 \$108,556, \$104,864 and \$105,054, respectively. The City's contributions were equal to the required contributions for each year as set by Minnesota statute.

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

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

PEPFF Contributions

Plan members were required to contribute 10.80 percent of their annual covered salary in calendar year 2018. The City was required to contribute 16.20 percent of pay for PEPFF members in calendar year 2018. The City's contributions to the PEPFF for the years ending December 31, 2018, 2017 and 2016 were \$104,266, \$113,975 and \$110,692, respectively. The City's contributions were equal to the 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 \$1,209,375 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 2016. 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 \$39,643. 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 proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 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 0.0218 percent which was an increase of 0.0002 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of \$166,403 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$9,245 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the GERF.

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Economic Experience	\$ 32,051	\$ 37,066
Changes in Actuarial Assumptions	116,149	135,886
Net Difference between Projected and Actual Earnings on Plan Investments	-	123,124
Changes in Proportion	24,904	11,070
Contributions to GERF Subsequent to the Measurement Date	<u>53,803</u>	<u>-</u>
Total	<u><u>\$ 226,907</u></u>	<u><u>\$ 307,146</u></u>

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

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

Deferred outflows of resources totaling \$53,803 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	\$ 40,064
2019	(54,847)
2020	(94,010)
2021	(25,249)

PEPFF Pension Costs

At December 31, 2018, the City reported a liability of \$657,658 for its proportionate share of the PEPFF's net pension liability. 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 0.0617 percent which was a decrease of 0.0002 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of \$86,114 for its proportionate share of PEPFF's pension expense. The City also recognized \$5,553 for the year ended December 31, 2018, as pension revenue for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Economic Experience	\$ 26,699	\$ 145,132
Changes in Actuarial Assumptions	843,944	968,159
Net Difference between Projected and Actual Earnings on Plan Investments	-	156,470
Changes in Proportion	72,930	131,462
Contributions to PEPFF Subsequent to the Measurement Date	<u>55,721</u>	<u>-</u>
Total	<u><u>\$ 999,294</u></u>	<u><u>\$ 1,401,223</u></u>

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

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

Deferred outflows of resources totaling \$55,721 related to pensions resulting from the City's contributions to PEPFF 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 GERP pensions will be recognized in pension expense as follows:

2019	\$ 16,360
2020	(48,123)
2021	(99,654)
2022	(298,664)

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2018, was \$175,648.

**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 disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for the GERP through 2044 and PEPFF through 2064 and then 2.5 percent thereafter for both plans.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERP was completed in 2015. The most recent five-year experience study for PEPFF was completed in 2016.

The following changes in actuarial assumptions occurred in 2018:

GERP

- 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.

PEPFF

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.



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

**Note 4: Defined Benefit Pension Plans - 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
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	2.00	-
Total	<u>100.00 %</u>	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF and PEPFF were 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:

	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
GERF	\$ 1,965,389	\$ 1,209,375	\$ 585,307
PEPFF	1,410,061	657,658	35,453

**H. Pension Plan Fiduciary Net Position**

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

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

**Note 5: Postemployment Benefits other than Pensions**

**A. Plan Description**

The City operates a single-employer retiree benefit plan ("the Plan") that provides health, life and dental insurance to eligible employees and their families through the City's health insurance plan. The full cost of the benefits is covered by the plan. Benefit and eligibility provisions are established through negotiations between the City and various unions representing City employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available report. At December 31, 2018, the 31 active plan members/employees were covered by the benefit terms.

**B. Funding Policy**

OPEB benefits have historically been funded on a pay-as-you-go basis (PAYGO). Plan sponsors may set up a trust and pre-fund the benefits. There is no requirement to pre-fund benefit. However, continuing on a PAYGO basis will create a Total OPEB Liability (TOL) on the balance sheet. Results throughout the report assume continued funding under PAYGO. The overall single discount rate is 3.30%.

**C. Actuarial Methods and Assumptions**

The City's total OPEB liability of \$275,219 was measured as of December 31, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of January 1, 2018. Roll forward procedures were used to roll forward the total OPEB liability to the measurement date.

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.30%
20-Year Municipal Bond Yield	3.30%
Inflation Rate	2.50%
Salary Increases	3.00%
Medical Trend Rate	6.50% as of January 1, 2018 grading to 5.00% over 6 y

The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds. The overall single discount rate is 3.30%. Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale. The actuarial assumptions used in the December 31, 2018 valuation were based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as for consistency with the other economic assumptions.

**D. Changes in the Total OPEB Liability**

	Total OPEB Liability (a)
Balances at December 31, 2017	\$ 238,311
Changes for the Year:	
Service cost	28,117
Interset	8,791
Benefit payments	-
Net Changes	36,908
Balances at December 31, 2018	\$ 275,219

Due to this being the first valuation, there are no assumption changes.

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

**Note 5: Postemployment Benefits other than Pensions (Continued)**

**E. Sensitivity of the Total OPEB Liability**

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.30 percent) or 1-percentage-point higher (4.30 percent) than the current discount rate:

1 Percent Decrease (2.3%)	Current (3.3%)	1 Percent Increase (4.3%)
\$ 301,141	\$ 275,219	\$ 251,032

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a Healthcare Cost Trend Rates that is 1-percentage point lower (5.50 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.50 percent increasing to 6.00 percent) than the current discount rate:

1 Percent Decrease (5.5% Decreasing to 4%)	Healthcare Cost Trend Rates (6.5% Decreasing to 5%)	1 Percent Increase (7.5% Decreasing to 6%)
\$ 239,343	\$ 275,219	\$ 317,370

**F. OPEB Expense**

For the year ended December 31, 2018, the City recognized OPEB expense of \$36,908. There are no deferred inflows or outflows associated with the OPEB plan.

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

**Note 6: Other Information**

**A. 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 estimated 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.

**B. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters 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.

**C. Isanti Area Joint Operating Fire Board District**

In October of 2002, the City and the towns of Athens, Bradford, Isanti, Oxford, Spencer Brook and Stanford, entered a joint powers agreement to acquire and pay for new fire department substations in the townships. The City shall deposit in advance quarterly contributions with the treasurer of the Isanti Area Joint Operating Fire fund. The amount of the quarterly contributions to the fund shall be according to the proportions established in the fire protection contract. Upon termination of the agreement, any real property or buildings owned by the Board shall become the sole property of the City or Township in which the property lies. The City contributed \$224,513 to the Board in 2018. The City's equity interest and its share of the net income (loss) of the District is not measurable and it is not explicit; therefore, no equity interest is reported in the government-wide financial statements.

**D. Cambridge-Isanti Bike-Walk Trail**

On September 8, 2008, the City entered into a joint and cooperative agreement with Isanti County, Isanti Township, and the City of Cambridge for the construction, operation, and maintenance of a bike-walk trail that connects the cities of Cambridge and Isanti. The trail was constructed with Federal and State grants received by Isanti County and the City of Cambridge. Isanti is responsible for maintaining and operating the part of the trail lying south of the centerline of the right of way of 301<sup>st</sup> Avenue. The agreement will terminate after 20 years. The City contributed \$7,500 to the cooperative during 2018.

**E. North Trunk Highway 65 Corridor Coalition**

On September 19, 2006, the City of Isanti joined the North Trunk Highway 65 Corridor Coalition. The Coalition consists of cities, counties, and towns from Highway 10 in Blaine to the northern reaches of Kanabec County. The agreement states that the City must support the preservation and upgrade of the corridor to meet future transportation needs for various modes including, but not limited to, highway improvements, bus improvements, commuter, freight rail, multi-use paths, and Intelligent Transportation Systems (ITS).

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

## Note 7: Commitments and Contingencies

### A. 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 \$631,811 for LGA. This accounted for 17.2 percent of General fund revenues.

### B. Tax Increment Districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

## Note 8: Change in Accounting Principle

During fiscal year 2018, the City implemented a new accounting pronouncement issued by the Government Accounting Standards Board (GASB), Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2018 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 1.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2017 balances to the December 31, 2018 financial statements:

Fund	December 31, 2018		
	Net Position January 1, 2018 as Previously Reported	Prior Period Restatement	Net Position January 1, 2018 as Restated
Governmental Activities	<u>\$ 18,018,076</u>	<u>\$ (169,004)</u>	<u>\$ 17,849,072</u>
Business-type Activities	<u>\$ 26,101,856</u>	<u>\$ (69,307)</u>	<u>\$ 26,032,549</u>
Business-type Activities			
Water	\$ 7,748,325	\$ (18,141)	\$ 7,730,184
Sewer	14,037,115	(24,149)	14,012,966
Stormwater	171,380	(4,001)	167,379
Liquor	<u>1,195,545</u>	<u>(23,016)</u>	<u>1,172,529</u>
Total Business-type Activities	<u>\$ 23,152,365</u>	<u>\$ (69,307)</u>	<u>\$ 23,083,058</u>

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ISANTI  
ISANTI, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

City of Isanti, 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 Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/18	0.0218 %	\$ 1,209,375	\$ 39,643	\$ 1,249,018	\$1,465,877	85.2 %	79.5 %
06/30/17	0.0216	1,378,930	17,319	1,396,249	1,389,926	100.5	75.9
06/30/16	0.0211	1,713,216	22,401	1,735,617	1,332,954	130.2	68.9
06/30/15	0.0219	1,134,972	-	1,134,972	1,284,497	88.4	78.2

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

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

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/18	\$ 108,556	\$ 108,556	\$ -	\$ 1,447,413	7.5 %
12/31/17	104,864	104,864	-	1,398,187	7.5
12/31/16	105,054	105,054	-	1,400,720	7.5
12/31/15	97,034	97,034	-	1,293,787	7.5

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



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

**Notes to the Required Supplementary Information - General Employee Retirement Fund**

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

2017 - The State's special funding contribution increased from \$6 million to \$16 million.

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.

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

**Schedule of Employer's Share of PERA Net Pension Liability - Public Employees Police and Fire Fund**

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/18	0.0617 %	\$ 657,658	\$ -	\$ 657,658	\$ 649,935	101.2 %	88.8 %
06/30/17	0.0700	945,083	-	945,083	723,699	130.6	85.4
06/30/16	0.0660	2,648,695	-	2,648,695	656,570	403.4	63.9
06/30/15	0.0620	704,465	-	704,465	563,393	125.0	86.6

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

**Schedule of Employer's PERA Contributions - Public Employees Police And Fire Fund**

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/18	\$ 104,266	\$ 104,266	\$ -	\$ 643,617	16.2 %
12/31/17	113,975	113,975	-	703,552	16.2
12/31/16	110,692	110,692	-	683,284	16.2
12/31/15	98,214	98,214	-	606,259	16.2

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

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

**Notes to the Required Supplementary Information - Public Employees Police and Fire Fund**

Changes in Actuarial Assumptions

2018 - The mortality projection scale was changed from MP-2016 to MP-2017. As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.6 percent to 7.5 percent.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 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 5.6 percent. 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 2037 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2015 - The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

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

**Schedule of Changes in the City's Total OPEB Liability and Related Ratios**

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 28,116
Interest	8,792
Net Change in Total OPEB Liability	36,908
Total OPEB Liability - Beginning	<u>238,311</u>
Total OPEB Liability - Ending	<u><u>\$ 275,219</u></u>
Covered - Employee Payroll	\$ 1,999,517
City's total OPEB liability as a percentage of covered employee payroll	13.76 %

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
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COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF ISANTI  
ISANTI, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

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

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
<b>Assets</b>			
Cash and temporary investments	\$ 512,472	\$ 1,005,389	\$ 1,517,861
Receivables			
Accrued interest	811	2,368	3,179
Taxes	74,503	-	74,503
Accounts	83,559	-	83,559
Loans	212,595	-	212,595
Special assessments	-	78,799	78,799
Prepaid items	1,177	-	1,177
Land held for resale	18,900	-	18,900
	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 904,017</u>	<u>\$ 1,086,556</u>	<u>\$ 1,990,573</u>
<b>Liabilities</b>			
Accounts payable	\$ 5,605	\$ 38,039	\$ 43,644
Accrued salaries payable	31	-	31
Advances from other funds	25,060	-	25,060
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>30,696</u>	<u>38,039</u>	<u>68,735</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - delinquent taxes	74,503	-	74,503
Unavailable revenue - special assessments	-	78,799	78,799
Resources received in advance	-	475,687	475,687
	<u>          </u>	<u>          </u>	<u>          </u>
Total Deferred Inflows of Resources	<u>74,503</u>	<u>554,486</u>	<u>628,989</u>
<b>Fund Balances</b>			
Nonspendable	1,177	-	1,177
Restricted	180,253	10,000	190,253
Committed	795,560	1,093,521	1,889,081
Unassigned	(178,172)	(609,490)	(787,662)
	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>798,818</u>	<u>494,031</u>	<u>1,292,849</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 904,017</u>	 <u>\$ 1,086,556</u>	 <u>\$ 1,990,573</u>

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

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
Revenues			
Taxes	\$ 397,042	\$ -	\$ 397,042
Intergovernmental	-	197,593	197,593
Charges for services	107,159	-	107,159
Special assessments	-	22,231	22,231
Investment earnings	8,770	13,127	21,897
Miscellaneous	60,816	5,831	66,647
Total Revenues	<u>573,787</u>	<u>238,782</u>	<u>812,569</u>
Expenditures			
Current			
General government	7,773	-	7,773
Public safety	481	-	481
Public works	-	-	-
Culture and recreation	38,932	-	38,932
Economic development	363,834	-	363,834
Capital outlay			
General government	2,465	-	2,465
Public works	-	712,046	712,046
Culture and recreation	2,968	7,500	10,468
Economic development	946	-	946
Total Expenditures	<u>417,399</u>	<u>719,546</u>	<u>1,136,945</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>156,388</u>	<u>(480,764)</u>	<u>(324,376)</u>
Other Financing Sources (Uses)			
Transfers in	92,340	968,602	1,060,942
Transfers out	(256,451)	(82,368)	(338,819)
Total Other Financing Sources (Uses)	<u>(164,111)</u>	<u>886,234</u>	<u>722,123</u>
Net Change in Fund Balances	(7,723)	405,470	397,747
Fund Balances, January 1	<u>806,541</u>	<u>88,561</u>	<u>895,102</u>
Fund Balances, December 31	<u><u>\$ 798,818</u></u>	<u><u>\$ 494,031</u></u>	<u><u>\$ 1,292,849</u></u>

City of Isanti, Minnesota  
Nonmajor Special Revenue Funds  
Combining Balance Sheet  
December 31, 2018

	104	108	214	219	220
	Redbirds Maintenance	Economic Development Authority	Park	Revolving Loan	Forfeiture Fund
<b>Assets</b>					
Cash and temporary investments	\$ 24,386	\$ 36,279	\$ 6,317	\$ 122,548	\$ 4,994
Receivables					
Accrued interest	52	83	-	259	11
Taxes	-	-	-	-	-
Accounts	-	8,125	-	-	-
Loans	-	-	-	212,595	-
Prepaid items	-	1,177	-	-	-
Land held for resale	-	-	-	-	-
<b>Total Assets</b>	<u>\$ 24,438</u>	<u>\$ 45,664</u>	<u>\$ 6,317</u>	<u>\$ 335,402</u>	<u>\$ 5,005</u>
<b>Liabilities</b>					
Accounts payable	\$ 596	\$ 41	\$ -	\$ -	\$ 200
Accrued salaries payable	-	31	-	-	-
Advance from other funds	-	-	-	-	-
<b>Total Liabilities</b>	<u>596</u>	<u>72</u>	<u>-</u>	<u>-</u>	<u>200</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - delinquent taxes	-	-	-	-	-
<b>Fund Balances</b>					
Nonspendable	-	1,177	-	-	-
Restricted	-	-	-	-	4,805
Committed	23,842	44,415	6,317	335,402	-
Unassigned	-	-	-	-	-
<b>Total Fund Balances</b>	<u>23,842</u>	<u>45,592</u>	<u>6,317</u>	<u>335,402</u>	<u>4,805</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 24,438</u>	<u>\$ 45,664</u>	<u>\$ 6,317</u>	<u>\$ 335,402</u>	<u>\$ 5,005</u>



223 Youth Rec Education Safety	224 Cambridge Isanti Joint Event	225 Utility Franchise Fund	226 Isanti Indoor Arena	409 TIF 9	410 TIF 10	411 TIF 11	614 City Technology Improvement	Total
\$ 3,155	\$ 1,472	\$ 297,628	\$ (174,584)	\$ 124,832	\$ 57,445	\$ 129	\$ 7,871	\$ 512,472
7	-	-	-	264	118	-	17	811
-	-	-	-	60,948	-	13,555	-	74,503
-	-	74,319	-	-	-	-	1,115	83,559
-	-	-	-	-	-	-	-	212,595
-	-	-	-	-	-	-	-	1,177
-	-	-	-	18,900	-	-	-	18,900
<u>\$ 3,162</u>	<u>\$ 1,472</u>	<u>\$ 371,947</u>	<u>\$ (174,584)</u>	<u>\$ 204,944</u>	<u>\$ 57,563</u>	<u>\$ 13,684</u>	<u>\$ 9,003</u>	<u>\$ 904,017</u>
\$ -	\$ -	\$ -	\$ 3,588	\$ -	\$ 1,180	\$ -	\$ -	\$ 5,605
-	-	-	-	-	-	-	-	31
-	-	-	-	25,060	-	-	-	25,060
-	-	-	3,588	25,060	1,180	-	-	30,696
-	-	-	-	60,948	-	13,555	-	74,503
-	-	-	-	-	-	-	-	1,177
-	-	-	-	118,936	56,383	129	-	180,253
3,162	1,472	371,947	-	-	-	-	9,003	795,560
-	-	-	(178,172)	-	-	-	-	(178,172)
<u>3,162</u>	<u>1,472</u>	<u>371,947</u>	<u>(178,172)</u>	<u>118,936</u>	<u>56,383</u>	<u>129</u>	<u>9,003</u>	<u>798,818</u>
<u>\$ 3,162</u>	<u>\$ 1,472</u>	<u>\$ 371,947</u>	<u>\$ (174,584)</u>	<u>\$ 204,944</u>	<u>\$ 57,563</u>	<u>\$ 13,684</u>	<u>\$ 9,003</u>	<u>\$ 904,017</u>

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

	104	108	214	219	220
	Redbirds Maintenance	Economic Development Authority	Park	Revolving Loan	Forfeiture Fund
Revenues					
Taxes					
Property taxes	\$ -	\$ 56,327	\$ -	\$ -	\$ -
Tax increments	-	-	-	-	-
Franchise taxes	-	20,654	-	-	-
Charges for services	-	6,452	73,500	1,680	-
Investment earnings (loss)	192	473	(96)	1,315	48
Miscellaneous	30,500	27,380	175	-	2,067
Total Revenues	<u>30,692</u>	<u>111,286</u>	<u>73,579</u>	<u>2,995</u>	<u>2,115</u>
Expenditures					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	481
Culture and recreation	14,527	-	-	-	-
Economic development	-	129,774	-	222,654	-
Capital outlay					
General government	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Economic development	-	196	-	-	-
Total Expenditures	<u>14,527</u>	<u>129,970</u>	<u>-</u>	<u>222,654</u>	<u>481</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>16,165</u>	<u>(18,684)</u>	<u>73,579</u>	<u>(219,659)</u>	<u>1,634</u>
Other Financing Sources (Uses)					
Transfers in	-	92,340	-	-	-
Transfers out	-	(19,150)	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>73,190</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	16,165	54,506	73,579	(219,659)	1,634
Fund Balances, January 1	<u>7,677</u>	<u>(8,914)</u>	<u>(67,262)</u>	<u>555,061</u>	<u>3,171</u>
Fund Balances, December 31	<u>\$ 23,842</u>	<u>\$ 45,592</u>	<u>\$ 6,317</u>	<u>\$ 335,402</u>	<u>\$ 4,805</u>

223 Youth Rec Education Safety	224 Cambridge Isanti Joint Event	225 Utility Franchise Fund	226 Isanti Indoor Arena	409 TIF 9	410 TIF 10	411 TIF 11	614 City Technology Improvement	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,327
-	-	-	-	13,494	1,985	-	-	15,479
-	-	290,812	-	-	-	-	13,770	325,236
-	-	-	25,527	-	-	-	-	107,159
34	-	4,976	(293)	1,270	582	-	269	8,770
-	-	-	694	-	-	-	-	60,816
34	-	295,788	25,928	14,764	2,567	-	14,039	517,460
-	-	-	-	-	-	-	7,773	7,773
-	-	-	-	-	-	-	-	481
-	-	-	24,405	-	-	-	-	38,932
-	-	-	-	3,692	7,714	-	-	363,834
-	-	-	-	-	-	-	2,465	2,465
-	-	-	2,968	-	-	-	-	2,968
-	-	-	-	750	-	-	-	946
-	-	-	27,373	4,442	7,714	-	10,238	417,399
34	-	295,788	(1,445)	10,322	(5,147)	-	3,801	100,061
-	-	-	-	-	-	-	-	92,340
-	-	(237,301)	-	-	-	-	-	(256,451)
-	-	(237,301)	-	-	-	-	-	(164,111)
34	-	58,487	(1,445)	10,322	(5,147)	-	3,801	(7,723)
3,128	1,472	313,460	(176,727)	108,614	61,530	129	5,202	806,541
\$ 3,162	\$ 1,472	\$ 371,947	\$ (178,172)	\$ 118,936	\$ 56,383	\$ 129	\$ 9,003	\$ 798,818

City of Isanti, Minnesota  
Nonmajor Capital Projects Funds  
Combining Balance Sheet  
December 31, 2018

	<b>420</b> Signal Light Improvement	<b>427</b> Fairway Blvd/ County 5 Signal	<b>432</b> Railroad Avenue Improvements	<b>434</b> 2013 Railroad Avenue & Walk Improvements	<b>436</b> Public Works 2014 Site Improvements	<b>437</b> Pavement Management Improvements
<b>Assets</b>						
Cash and temporary investments	\$ 349,079	\$ 193,611	\$ -	\$ 4,637	\$ -	\$ -
Receivables						
Accrued interest	738	409	-	10	-	-
Special assessments	-	-	-	-	-	-
<b>Total Assets</b>	<u><u>\$ 349,817</u></u>	<u><u>\$ 194,020</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,647</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<b>Liabilities</b>						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Deferred Inflows of Resources</b>						
Unavailable revenue - special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Resources received in advance	-	-	-	9,963	-	-
<b>Total Deferred Inflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,963</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>						
Restricted	-	-	-	-	-	-
Committed	349,817	194,020	-	-	-	-
Unassigned	-	-	-	(5,316)	-	-
<b>Total Fund Balances</b>	<u>349,817</u>	<u>194,020</u>	<u>-</u>	<u>(5,316)</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u><u>\$ 349,817</u></u>	<u><u>\$ 194,020</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,647</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

<b>438</b> City Parking Improvements	<b>440</b> 2017 Pavement Management Improvements	<b>441</b> 2017 Palomino Road Southeast Improvements	<b>442</b> 2018 Pavement Management Improvements	<b>443</b> 2018 Utility And Street Construction	<b>444</b> Highway 64 and Cajima	<b>920</b> Capital Replacement	Total
\$ (74,687)	\$ (7,486)	\$ (13,824)	\$ -	\$ 38,039	\$ (42,486)	\$ 558,506	\$ 1,005,389
-	-	33	-	-	-	1,178	2,368
-	-	63,655	-	-	-	15,144	78,799
<u>\$ (74,687)</u>	<u>\$ (7,486)</u>	<u>\$ 49,864</u>	<u>\$ -</u>	<u>\$ 38,039</u>	<u>\$ (42,486)</u>	<u>\$ 574,828</u>	<u>\$ 1,086,556</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,039</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,039</u>
\$ -	\$ -	\$ 63,655	\$ -	\$ -	\$ -	\$ 15,144	\$ 78,799
-	-	465,724	-	-	-	-	475,687
-	-	529,379	-	-	-	15,144	554,486
-	-	-	-	-	-	10,000	10,000
-	-	-	-	-	-	549,684	1,093,521
(74,687)	(7,486)	(479,515)	-	-	(42,486)	-	(609,490)
<u>(74,687)</u>	<u>(7,486)</u>	<u>(479,515)</u>	<u>-</u>	<u>-</u>	<u>(42,486)</u>	<u>559,684</u>	<u>494,031</u>
<u>\$ (74,687)</u>	<u>\$ (7,486)</u>	<u>\$ 49,864</u>	<u>\$ -</u>	<u>\$ 38,039</u>	<u>\$ (42,486)</u>	<u>\$ 574,828</u>	<u>\$ 1,086,556</u>

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

	<b>420</b> Signal Light Improvement	<b>427</b> Fairway Blvd/ County 5 Signal	<b>432</b> Railroad Avenue Improvements	<b>434</b> 2013 Railroad Avenue & Walk Improvements	<b>436</b> Public Works 2014 Site Improvements	<b>437</b> Pavement Management Improvements
Revenues						
Intergovernmental	\$ -	\$ -	\$ -	\$ 197,593	\$ -	\$ -
Special assessments	-	-	6,584	-	-	-
Investment earnings (loss)	3,639	2,034	259	50	(10)	157
Miscellaneous	5,831	-	-	-	-	-
Total Revenues	<u>9,470</u>	<u>2,034</u>	<u>6,843</u>	<u>197,643</u>	<u>(10)</u>	<u>157</u>
Expenditures						
Capital outlay						
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,470</u>	<u>2,034</u>	<u>6,843</u>	<u>197,643</u>	<u>(10)</u>	<u>157</u>
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	5,829	-
Transfers out	-	-	(50,999)	-	-	(31,369)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(50,999)</u>	<u>-</u>	<u>5,829</u>	<u>(31,369)</u>
Net Change in Fund Balances	9,470	2,034	(44,156)	197,643	5,819	(31,212)
Fund Balances, January 1	<u>340,347</u>	<u>191,986</u>	<u>44,156</u>	<u>(202,959)</u>	<u>(5,819)</u>	<u>31,212</u>
Fund Balances, December 31	<u>\$ 349,817</u>	<u>\$ 194,020</u>	<u>\$ -</u>	<u>\$ (5,316)</u>	<u>\$ -</u>	<u>\$ -</u>

<b>438</b> City Parking Improvements	<b>440</b> 2017 Pavement Management Improvements	<b>441</b> 2017 Palomino Road Southeast Improvements	<b>442</b> 2018 Pavement Management Improvements	<b>443</b> 2018 Utility And Street Construction	<b>444</b> Highway 64 and Cajima	<b>920</b> Capital Replacement	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 197,593
-	-	15,647	-	-	-	-	22,231
(133)	845	1,093	-	6	-	5,187	13,127
-	-	-	-	-	-	-	5,831
<u>(133)</u>	<u>845</u>	<u>16,740</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>5,187</u>	<u>238,782</u>
-	8,331	69,858	237,301	354,070	42,486	-	712,046
-	-	-	-	-	-	7,500	7,500
<u>-</u>	<u>8,331</u>	<u>69,858</u>	<u>237,301</u>	<u>354,070</u>	<u>42,486</u>	<u>7,500</u>	<u>719,546</u>
<u>(133)</u>	<u>(7,486)</u>	<u>(53,118)</u>	<u>(237,301)</u>	<u>(354,064)</u>	<u>(42,486)</u>	<u>(2,313)</u>	<u>(480,764)</u>
-	-	261,541	237,301	354,064	-	109,867	968,602
-	-	-	-	-	-	-	(82,368)
<u>-</u>	<u>-</u>	<u>261,541</u>	<u>237,301</u>	<u>354,064</u>	<u>-</u>	<u>109,867</u>	<u>886,234</u>
(133)	(7,486)	208,423	-	-	(42,486)	107,554	405,470
<u>(74,554)</u>	<u>-</u>	<u>(687,938)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>452,130</u>	<u>88,561</u>
<u>\$ (74,687)</u>	<u>\$ (7,486)</u>	<u>\$ (479,515)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (42,486)</u>	<u>\$ 559,684</u>	<u>\$ 494,031</u>

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City of Isanti, 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
	Budget Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 2,172,468	\$ 2,172,468	\$ 2,170,166	\$ (2,302)	\$ 2,018,262
Licenses and permits					
Business	13,000	13,000	13,325	325	12,138
Nonbusiness	200,000	325,000	375,496	50,496	349,292
Total licenses and permits	213,000	338,000	388,821	50,821	361,430
Intergovernmental					
Federal					
Other	5,000	5,000	6,477	1,477	10,906
State					
Local government aid	631,811	631,811	631,811	-	585,309
Property tax credits	-	-	391	391	18
Police aid	65,500	65,500	83,753	18,253	72,777
Municipal state aid					
street maintenance	58,734	58,734	65,864	7,130	58,734
Other	1,205	1,205	1,205	-	1,205
Regional					
Other	-	-	-	-	2,500
Total intergovernmental	762,250	762,250	789,501	27,251	731,449
Charges for services					
General government	140,900	140,900	48,838	(92,062)	37,663
Public safety	32,250	32,250	96,965	64,715	65,287
Public works	2,450	2,450	12,227	9,777	9,528
Culture and recreation	12,850	12,850	67,683	54,833	92,892
Total charges for services	188,450	188,450	225,713	37,263	205,370
Fines and forfeitures	32,400	32,400	56,808	24,408	47,217
Investment earnings	12,000	12,000	22,482	10,482	13,640
Miscellaneous					
Refunds and reimbursements	25,000	25,000	7,748	(17,252)	13,149
Other	1,000	1,000	5,469	4,469	2,821
Total miscellaneous	26,000	26,000	13,217	(12,783)	15,970
Total Revenues	3,406,568	3,531,568	3,666,708	135,140	3,393,338

City of Isanti, 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
	Budget Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures					
Current expenditures					
General government					
Mayor and City Council					
Personnel services	\$ 26,834	\$ 26,834	\$ 24,304	\$ 2,530	\$ 24,062
Supplies	4,875	4,875	707	4,168	919
Other services and charges	9,614	9,614	8,815	799	9,456
Total Mayor and City Council	41,323	41,323	33,826	7,497	34,437
Elections					
Personnel services	5,560	5,560	3,592	1,968	-
Supplies	1,400	1,400	661	739	-
Other services and charges	8,600	8,600	5,373	3,227	1,138
Total elections	15,560	15,560	9,626	5,934	1,138
Financial administration					
Personnel services	366,682	366,682	354,017	12,665	368,371
Supplies	30,417	30,417	12,942	17,475	12,290
Other services and charges	101,894	101,894	80,464	21,430	101,262
Total finance administration	498,993	498,993	447,423	51,570	481,923
Planning and zoning					
Personnel services	83,945	83,945	87,616	(3,671)	70,872
Supplies	3,145	3,145	2,157	988	3,086
Other services and charges	14,794	14,794	13,389	1,405	60,689
Total planning and zoning	101,884	101,884	103,162	(1,278)	134,647
Municipal building					
Supplies	2,565	2,565	1,060	1,505	759
Other services and charges	31,356	31,356	33,259	(1,903)	29,146
Total municipal building	33,921	33,921	34,319	(398)	29,905
Total General Government	691,681	691,681	628,356	63,325	682,050

City of Isanti, 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
	Budget Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current expenditures (continued)					
Public safety					
Police					
Personnel services	\$ 1,195,125	\$ 1,031,125	\$ 1,025,703	\$ 5,422	\$ 1,111,136
Supplies	23,560	23,560	22,078	1,482	19,400
Other services and charges	136,691	136,691	147,619	(10,928)	132,696
Total police	1,355,376	1,191,376	1,195,400	(4,024)	1,263,232
Fire protection					
Other services and charges	233,593	233,593	224,513	9,080	209,043
Building inspection					
Personnel services	127,216	59,249	56,557	2,692	104,729
Supplies	4,365	4,665	1,440	3,225	2,432
Other services and charges	28,996	310,246	304,051	6,195	39,302
Total building inspection	160,577	374,160	362,048	12,112	146,463
Code enforcement					
Personnel services	30,469	22,774	40,424	(17,650)	26,541
Supplies	550	550	90	460	33
Other services and charges	7,411	7,411	3,266	4,145	6,356
Total code enforcement	38,430	30,735	43,780	(13,045)	32,930
Animal control					
Supplies	200	200	-	200	200
Other services and charges	5,109	5,109	3,722	1,387	4,520
Total animal control	5,309	5,309	3,722	1,587	4,720
Total Public Safety	1,793,285	1,835,173	1,829,463	5,710	1,656,388
Public works					
Streets and highways					
Personnel services	201,213	201,213	202,462	(1,249)	191,844
Supplies	91,750	91,750	100,087	(8,337)	67,819
Other services and charges	74,834	74,834	77,453	(2,619)	74,133
Total streets and highways	367,797	367,797	380,002	(12,205)	333,796

City of Isanti, 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
	Budget Amounts		Actual Amounts	Actual Amounts
	Original	Final		
Expenditures (Continued)				
Current expenditures (continued)				
Public works (continued)				
Street lighting				
Other services and charges	\$ 60,200	\$ 60,200	\$ 46,738	\$ 50,391
Sanitation and waste control				
Personnel services	13,698	13,698	13,793	13,163
Supplies	950	950	1,057	766
Other services and charges	3,729	3,729	2,876	2,572
Total sanitation and waste control	18,377	18,377	17,726	16,501
General city maintenance				
Personnel services	27,416	27,416	28,177	29,068
Supplies	6,925	6,925	4,095	4,561
Other services and charges	20,669	20,669	16,160	18,292
Total general city maintenance	55,010	55,010	48,432	51,921
Total Public Works	501,384	501,384	492,898	452,609
Culture and recreation				
Parks and recreation				
Personnel services	204,141	204,141	202,927	181,169
Supplies	18,340	18,340	13,883	8,552
Other services and charges	148,324	148,324	103,126	130,913
Total parks and recreation	370,805	370,805	319,936	320,634
Total Culture and Recreation	370,805	370,805	319,936	320,634
Economic development				
Other services and charges	1,231	1,231	963,684	5,084
Total Current Expenditures	3,358,386	3,400,274	4,234,337	3,116,765

City of Isanti, 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
	Budget Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Capital outlay					
General government	\$ 5,972	\$ 8,597	\$ 4,950	\$ 3,647	\$ 3,801
Public safety	4,000	4,000	-	4,000	62,523
Public works	41,730	41,730	32,486	9,244	30,593
Culture and recreation	62,330	59,370	44,823	14,547	43,831
Total capital outlay	<u>114,032</u>	<u>113,697</u>	<u>82,259</u>	<u>31,438</u>	<u>140,748</u>
Debt service					
Interest and other	-	-	962	(962)	961
Total Expenditures	<u>3,472,418</u>	<u>3,513,971</u>	<u>4,317,558</u>	<u>(803,587)</u>	<u>3,258,474</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(65,850)</u>	<u>17,597</u>	<u>(650,850)</u>	<u>(668,447)</u>	<u>134,864</u>
Other Financing Sources (Uses)					
Sale of capital assets	-	-	737	737	-
Transfers in	369,150	369,150	369,150	-	396,183
Transfers out	<u>(132,545)</u>	<u>(132,545)</u>	<u>(390,195)</u>	<u>(257,650)</u>	<u>(147,400)</u>
Total Other Financing Sources (Uses)	<u>236,605</u>	<u>236,605</u>	<u>(20,308)</u>	<u>(256,913)</u>	<u>248,783</u>
Net Change in Fund Balances	170,755	254,202	(671,158)	(925,360)	383,647
Fund Balances, January 1	<u>2,081,587</u>	<u>2,081,587</u>	<u>2,081,587</u>	<u>-</u>	<u>1,697,940</u>
Fund Balances, December 31	<u>\$ 2,252,342</u>	<u>\$ 2,335,789</u>	<u>\$ 1,410,429</u>	<u>\$ (925,360)</u>	<u>\$ 2,081,587</u>

City of Isanti, Minnesota  
Debt Service Funds  
Combining Balance Sheet  
December 31, 2018

	<b>918</b> 2006A Improvement Bonds	<b>919</b> 2008A Improvement Bonds	<b>928</b> 2009A Crossover Refunding Bonds	<b>929</b> 2010B G.O. Improvement Refunding Bonds
<b>Assets</b>				
Cash and temporary investments	\$ 88,461	\$ 2,372	\$ 50,422	\$ 770,138
Cash With fiscal agent	-	-	-	-
Receivables				
Accrued interest	187	5	107	1,628
Special assessments	<u>74,853</u>	<u>449,229</u>	<u>316,174</u>	<u>286,541</u>
 Total Assets	 <u><u>\$ 163,501</u></u>	 <u><u>\$ 451,606</u></u>	 <u><u>\$ 366,703</u></u>	 <u><u>\$ 1,058,307</u></u>
<b>Liabilities</b>				
Accounts payable	\$ 268	\$ 268	\$ 161	\$ 268
 Deferred Inflows of Resources				
Unavailable revenue - special assessments	74,853	449,229	316,174	286,517
 Fund Balances				
Restricted for debt service	<u>88,380</u>	<u>2,109</u>	<u>50,368</u>	<u>771,522</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u><u>\$ 163,501</u></u>	 <u><u>\$ 451,606</u></u>	 <u><u>\$ 366,703</u></u>	 <u><u>\$ 1,058,307</u></u>

<b>930</b> 2011A G.O. Improvement Bonds	<b>931</b> 2014A G.O. Tax Abatement Bonds	<b>932</b> 2014B G.O. Improvement Bonds	Total
\$ 96,892	\$ 43,627	\$ 3,881	\$ 1,055,793
84,218	183,031	47,385	314,634
205	92	8	2,232
69,987	-	-	1,196,784
<u>\$ 251,302</u>	<u>\$ 226,750</u>	<u>\$ 51,274</u>	<u>\$ 2,569,443</u>
\$ 268	\$ -	\$ 268	\$ 1,501
69,703	-	-	1,196,476
181,331	226,750	51,006	1,371,466
<u>\$ 251,302</u>	<u>\$ 226,750</u>	<u>\$ 51,274</u>	<u>\$ 2,569,443</u>

City of Isanti, Minnesota  
Debt Service Funds  
Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
For the Year Ended December 31, 2018

	<b>918</b> 2006A Improvement Bonds	<b>919</b> 2008A Improvement Bonds	<b>928</b> 2009A Crossover Refunding Bonds	<b>929</b> 2010B G.O. Improvement Refunding Bonds
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ 250,000
Special assessments	76,509	11,399	4,830	8,811
Investment earnings	628	142	774	7,105
Total Revenues	<u>77,137</u>	<u>11,541</u>	<u>5,604</u>	<u>265,916</u>
Expenditures				
Debt service				
Principal	-	90,000	-	195,000
Interest and other	48,561	4,092	160	36,852
Total Expenditures	<u>48,561</u>	<u>94,092</u>	<u>160</u>	<u>231,852</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>28,576</u>	<u>(82,551)</u>	<u>5,444</u>	<u>34,064</u>
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	28,576	(82,551)	5,444	34,064
Fund Balances, January 1	<u>59,804</u>	<u>84,660</u>	<u>44,924</u>	<u>737,458</u>
Fund Balances, December 31	<u>\$ 88,380</u>	<u>\$ 2,109</u>	<u>\$ 50,368</u>	<u>\$ 771,522</u>



<b>930</b> 2011A G.O. Improvement Bonds	<b>931</b> 2014A G.O. Tax Abatement Bonds	<b>932</b> 2014B G.O. Improvement Bonds	Total
\$ 7,061	\$ 221,616	\$ 52,259	\$ 530,936
32,560	-	-	134,109
1,485	201	33	10,368
<u>41,106</u>	<u>221,817</u>	<u>52,292</u>	<u>675,413</u>
80,000	155,000	40,000	560,000
9,405	57,613	5,227	161,910
<u>89,405</u>	<u>212,613</u>	<u>45,227</u>	<u>721,910</u>
(48,299)	9,204	7,065	(46,497)
39,001	-	-	39,001
<u>-</u>	<u>-</u>	<u>(5,829)</u>	<u>(5,829)</u>
<u>39,001</u>	<u>-</u>	<u>(5,829)</u>	<u>33,172</u>
(9,298)	9,204	1,236	(13,325)
<u>190,629</u>	<u>217,546</u>	<u>49,770</u>	<u>1,384,791</u>
<u>\$ 181,331</u>	<u>\$ 226,750</u>	<u>\$ 51,006</u>	<u>\$ 1,371,466</u>

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b>Developer Escrow Accounts</b>				
Assets				
Cash and temporary investments	\$ 62,852	\$ 219,228	\$ (262,822)	\$ 19,258
Accounts receivable	<u>1,387</u>	<u>22,598</u>	<u>(3,303)</u>	<u>20,682</u>
Total Assets	<u><u>\$ 64,239</u></u>	<u><u>\$ 241,826</u></u>	<u><u>\$ (266,125)</u></u>	<u><u>\$ 39,940</u></u>
Liabilities				
Accounts payable	<u><u>\$ 64,239</u></u>	<u><u>\$ 215,925</u></u>	<u><u>\$ (240,224)</u></u>	<u><u>\$ 39,940</u></u>

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

	Total		Percent Increase (Decrease)
	2018	2017	
Revenues			
Taxes	\$ 3,098,144	\$ 2,929,416	5.76 %
Licenses and permits	388,821	361,430	7.58
Intergovernmental	987,094	907,652	8.75
Charges for services	332,872	237,111	40.39
Fines and forfeits	56,808	52,282	8.66
Special assessments	156,340	147,211	6.20
Investment earnings	54,747	33,215	64.83
Miscellaneous	79,864	102,607	(22.17)
Total Revenues	<u>\$ 5,154,690</u>	<u>\$ 4,770,924</u>	8.04 %
Per Capita	<u>\$ 891</u>	<u>\$ 850</u>	4.83 %
Expenditures			
Current			
General government	\$ 636,129	\$ 683,550	(6.94) %
Public safety	1,829,944	1,667,777	9.72
Public works	492,898	452,609	8.90
Culture and recreation	358,868	355,263	1.01
Economic development	1,327,518	248,419	434.39
Capital outlay			
General government	7,415	9,125	(18.74)
Public safety	-	62,523	(100.00)
Public works	744,532	939,452	(20.75)
Culture and recreation	55,291	51,331	7.71
Economic development	946	12,298	(92.31)
Debt service			
Principal	560,000	570,000	(1.75)
Interest and other	162,872	131,487	23.87
Total Expenditures	<u>\$ 6,176,413</u>	<u>\$ 5,183,834</u>	19.15 %
Per Capita	<u>\$ 1,067</u>	<u>\$ 923</u>	15.61 %
Total Long-term Indebtedness	\$ 3,760,000	\$ 4,320,000	(12.96) %
Per Capita	650	770	(15.55)
General Fund Balance - December 31	\$ 1,410,429	\$ 2,081,587	(32.24) %
Per Capita	244	371	(34.26)

The purpose of this report is to provide a summary of financial information concerning the City of Isanti to interested citizens. The complete financial statements may be examined at City Hall, 110 1st Avenue Northwest, PO Box 428, Isanti, MN 55040. Questions about this report should be directed to the Finance Director at (763) 444-5512.

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OTHER REQUIRED REPORTS

CITY OF ISANTI  
ISANTI, 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 Isanti, 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 Isanti, 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 April 18, 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.

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 noted on the Schedule of Findings and Responses as item 2018-003. However, our audit was not directed primarily toward procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions. 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 statements and, accordingly, we express no opinion on it.

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

ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
April 18, 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 Isanti, 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 Isanti, 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 April 18, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-002 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-001 to be a significant deficiency.



## Compliance and Other Matters

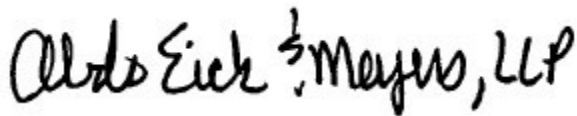
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance as item 2018-003 and identified no other matters that are required to be reported under *Government Auditing Standards*.

## 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  
April 18, 2019

City of Isanti, 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. Recent auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. 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 your accounting software 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 Isanti, Minnesota  
Schedule of Findings and Responses  
For the Year Ended December 31, 2018

<u>Finding</u>	<u>Description</u>
<b>2018-002</b>	<b>Material Audit Adjustments</b>
<i>Condition:</i>	During our audit, a material audit adjustment was necessary to reclassify business subsidy payments as expenses.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management; therefore, the City must be able to prevent or detect a material misstatement in the financial statements including footnote disclosures.
<i>Cause:</i>	The year-end trial balance and supporting work papers did not reflect all necessary accounting entries.
<i>Effect:</i>	This indicates that a misstatement has occurred and was not detected by the City's system of internal control.
<i>Recommendation:</i>	We recommend that management review the final audit work paper and related journal entries, obtain an understanding of why the entries were necessary and modify current procedures to ensure that future corrections are not needed.
<i>Management Response:</i>	
Management understands the finding, and concurs that complete reconciliations of all accounts, including journal entries to adjust balances to these reconciliations needs to be done prior to the start of the audit. Staff strives to make sure this is done.	
<b>2018-003</b>	<b>Collateral Coverage</b>
<i>Condition:</i>	Auditing of legal compliance requires a review of the City's deposits and investments. Our testing indicated an instance of non-compliance that we believe is required to be remedied.
<i>Criteria:</i>	In accordance with Minnesota statute, section 118A.03, the City is required to have pledged collateral equal to 110 percent of the deposit not covered with insurance.
<i>Cause:</i>	The City had \$467,538 of deposits uncollateralized on December 31, 2018, which calculates to the City being \$677,647 under collateralized. The Minnesota Statute requires deposits over FDIC coverage to be collateralized at 110%. In the past, the City's cash has not exceeded the amount covered by Federal Depository Insurance.
<i>Effect:</i>	At year end, the City did not have sufficient collateral pledged and therefore was not in compliance with state statute.
<i>Recommendation:</i>	We recommend that the City reviews collateral coverage each month when completing the bank reconciliation and when planning for cash flow. This will not result in any additional cost and will ensure that the City complies with the applicable statute.
<i>Management Response:</i>	
The Finance Director has taken the appropriate action to ensure that City's deposits are sufficiently covered by collateral throughout the entire year on a monthly basis.	