

CITY OF LONSDALE, MINNESOTA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2018

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

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**INTRODUCTORY
SECTION**

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

CITY COUNCIL

Term Expires

Tim Rud	Mayor	December 31, 2019
Steve Cherney	Council Member	December 31, 2021
Cindy Furrer	Council Member	December 31, 2019
Kevin Kodada	Council Member	December 31, 2019
Scott Pelava	Council Member	December 31, 2021

CITY OFFICIALS

Joel Erickson	City Administrator
Tami Brokl	City Treasurer

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

April 17, 2019

Honorable Mayor and City Council
City of Lonsdale, 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 Lonsdale, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 of Lonsdale, Minnesota, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Information

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

The introductory section, combining nonmajor fund financial statements, and schedule of indebtedness have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated April 17, 2019, on our consideration of the City of Lonsdale's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

BASIC FINANCIAL STATEMENTS

**CITY OF LONSDALE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash, Cash Equivalents, and Investments	\$ 3,852,028	\$ 4,858,617	\$ 8,710,645
Cash with Fiscal Agent	2,692,439	-	2,692,439
Property Taxes Receivable	33,922	-	33,922
Assessments Receivable	2,911,726	-	2,911,726
Accounts Receivable	10,824	139,272	150,096
Loans Receivable	159,435	-	159,435
Inventory	-	219,854	219,854
Prepays	58,093	25,350	83,443
Noncurrent Assets:			
Capital Assets not Being Depreciated	4,042,897	1,817,960	5,860,857
Capital Assets Being Depreciated (Net)	10,878,395	7,691,537	18,569,932
Net Pension Asset	362,362	-	362,362
	<u>25,002,121</u>	<u>14,752,590</u>	<u>39,754,711</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	631,333	65,014	696,347
LIABILITIES			
Accounts Payable	74,286	48,146	122,432
Sales Tax Payable	-	14,863	14,863
Retainage Payable	147,513	51,249	198,762
Accrued Salaries	45,227	22,969	68,196
Accrued Interest	142,111	43,368	185,479
Customer Deposits	151,000	-	151,000
Noncurrent Liabilities:			
Compensated Absences	61,133	44,774	105,907
Bonds Due Within One Year	515,000	561,000	1,076,000
Bonds Due After One Year	11,471,142	4,132,301	15,603,443
Net Pension Liability	665,392	336,295	1,001,687
	<u>13,272,804</u>	<u>5,254,965</u>	<u>18,527,769</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions	832,520	84,928	917,448
NET POSITION			
Net Investment in Capital Assets	5,627,589	4,816,196	10,443,785
Restricted	4,140,672	-	4,140,672
Unrestricted	1,759,869	4,661,515	6,421,384
	<u>\$ 11,528,130</u>	<u>\$ 9,477,711</u>	<u>\$ 21,005,841</u>

**CITY OF LONSDALE, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 622,954	\$ 225,149	\$ -	\$ -	\$ (397,805)	\$ -	\$ (397,805)
Public Safety	899,905	159,554	109,017	-	(631,334)	-	(631,334)
Public Works	821,328	11,649	-	1,178,450	368,771	-	368,771
Parks and Recreation	413,105	3,047	15,937	19,769	(374,352)	-	(374,352)
Economic Development	41,702	2,276	-	-	(39,426)	-	(39,426)
Debt Service	359,903	-	-	-	(359,903)	-	(359,903)
Total Governmental Activities	3,158,897	401,675	124,954	1,198,219	(1,434,049)	-	(1,434,049)
Business-Type Activities:							
Water	650,124	696,699	-	23,066	-	69,641	69,641
Sewer	820,705	1,103,947	-	-	-	283,242	283,242
Liquor	1,509,129	1,581,952	-	-	-	72,823	72,823
Total Business-Type Activities	2,979,958	3,382,598	-	23,066	-	425,706	425,706
TOTALS	\$ 6,138,855	\$ 3,784,273	\$ 124,954	\$ 1,221,285	(1,434,049)	425,706	(1,008,343)
General Revenues:							
Taxes					1,865,406	-	1,865,406
Tax Increment					72,136	-	72,136
Intergovernmental					483,040	-	483,040
Franchise Fees					108,365	-	108,365
Investment Income					26,232	11,234	37,466
Miscellaneous					75,898	19,454	95,352
Gain on Disposal of Assets					28,026	2,788	30,814
Capital Asset Transfers					8,250	(8,250)	-
Transfers					747,994	(747,994)	-
Total General Revenues and Transfers					3,415,347	(722,768)	2,692,579
CHANGE IN NET POSITION					1,981,298	(297,062)	1,684,236
NET POSITION - BEGINNING OF YEAR					9,546,832	9,774,773	19,321,605
NET POSITION - END OF YEAR					\$ 11,528,130	\$ 9,477,711	\$ 21,005,841

**CITY OF LONSDALE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General Fund	Business Park Debt Fund	Area 5 Capital Project Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash, Cash Equivalents and Investments	\$ 2,137,484	\$ -	\$ 1,452,093	\$ 262,451	\$ 3,852,028
Cash with Fiscal Agent	-	1,811,815	-	880,624	2,692,439
Property Taxes Receivable	24,631	3,526	1,772	3,993	33,922
Assessments Receivable	114	759,245	1,908,505	243,862	2,911,726
Accounts Receivable	10,824	-	-	-	10,824
Loans Receivable	-	-	-	159,435	159,435
Due from Other Funds	964,960	-	-	-	964,960
Prepays	58,061	-	-	32	58,093
	\$ 3,196,074	\$ 2,574,586	\$ 3,362,370	\$ 1,550,397	\$ 10,683,427
LIABILITIES					
Accounts Payable	\$ 68,540	\$ 102	\$ 5,644	\$ -	\$ 74,286
Retainage Payable	22,653	-	124,860	-	147,513
Accrued Salaries	44,915	-	-	312	45,227
Due to Other Funds	-	964,960	-	-	964,960
Customer Deposits	151,000	-	-	-	151,000
Total Liabilities	287,108	965,062	130,504	312	1,382,986
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Property Taxes	17,680	2,727	1,363	3,086	24,856
Special Assessments	114	759,245	1,903,857	243,210	2,906,426
Total Deferred Inflows of Resources	17,794	761,972	1,905,220	246,296	2,931,282
FUND BALANCES					
Nonspendable	58,061	-	-	159,467	217,528
Restricted	-	1,811,815	1,326,646	1,144,322	4,282,783
Assigned	981,978	-	-	-	981,978
Unassigned	1,851,133	(964,263)	-	-	886,870
Total Fund Balance	2,891,172	847,552	1,326,646	1,303,789	6,369,159
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
	\$ 3,196,074	\$ 2,574,586	\$ 3,362,370	\$ 1,550,397	\$ 10,683,427

**CITY OF LONSDALE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Total Fund Balance for Governmental Funds		\$	6,369,159
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets (net of accumulated depreciation of \$7,685,421) used in governmental activities are not financial resources and, therefore, are not reported in the funds:			14,921,292
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds:			
Property Taxes Receivable	24,856		
Special Assessments Receivable	<u>2,906,426</u>		
			2,931,282
Interest payable on long-term debt does not require current financial resources and, therefore, is not reported as a liability in the governmental funds Balance Sheet:			(142,111)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds Balance Sheet:			
Compensated Absences	(61,133)		
Unamortized Bond Premium and Discounts	(196,142)		
Bonds Due Within One Year	(515,000)		
Bonds Due In More Than One Year	<u>(11,275,000)</u>		
			(12,047,275)
The net pension asset/liability and related inflows/outflows represent the allocation of pension obligations to the City. Such balances are not reported in the funds:			
Net Pension Asset	362,362		
Net Pension Liability	(665,392)		
Deferred Outflows - Pensions	631,333		
Deferred Inflows - Pensions	<u>(832,520)</u>		
			<u>(504,217)</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		\$	<u>11,528,130</u>

CITY OF LONSDALE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	General Fund	Business Park Debt Fund	Area 5 Capital Project Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,436,494	\$ 171,284	\$ 87,573	\$ 194,487	\$ 1,889,838
Special Assessments	305,481	120,471	414,699	50,213	890,864
Tax Increment	-	-	-	72,136	72,136
Franchise Fees	108,365	-	-	-	108,365
Licenses, Permits and Fees	202,734	-	-	-	202,734
Intergovernmental	591,036	-	95,732	-	686,768
Charges for Services	196,433	-	17	-	196,450
Fines	29,029	-	-	-	29,029
Investment Income	149	16,997	-	9,086	26,232
Miscellaneous	46,602	521	-	2,277	49,400
TOTAL REVENUES	<u>2,916,323</u>	<u>309,273</u>	<u>598,021</u>	<u>328,199</u>	<u>4,151,816</u>
EXPENDITURES					
Current:					
General Government	422,814	-	-	-	422,814
Public Safety	845,755	-	-	-	845,755
Public Works	397,092	95,227	8,373	-	500,692
Parks and Recreation	343,540	-	-	-	343,540
Economic Development	-	-	-	42,116	42,116
Debt Service:					
Principal	-	165,000	180,000	320,000	665,000
Interest and Other Charges	-	109,880	133,085	112,081	355,046
Capital Outlay	255,716	-	1,764,314	-	2,020,030
TOTAL EXPENDITURES	<u>2,264,917</u>	<u>370,107</u>	<u>2,085,772</u>	<u>474,197</u>	<u>5,194,993</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	651,406	(60,834)	(1,487,751)	(145,998)	(1,043,177)
OTHER FINANCING SOURCES (USES)					
Bonds Issued	-	-	1,395,000	-	1,395,000
Proceeds on Sale of Assets	25,197	-	-	-	25,197
Premium on Bond Issuance	-	-	71,153	-	71,153
Operating Transfers In	11,364	40,384	659,153	167,054	877,955
Operating Transfers Out	(95,460)	-	(34,009)	(492)	(129,961)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(58,899)</u>	<u>40,384</u>	<u>2,091,297</u>	<u>166,562</u>	<u>2,239,344</u>
NET CHANGE IN FUND BALANCES	592,507	(20,450)	603,546	20,564	1,196,167
FUND BALANCE - BEGINNING	<u>2,298,665</u>	<u>868,002</u>	<u>723,100</u>	<u>1,283,225</u>	<u>5,172,992</u>
FUND BALANCE - ENDING	<u>\$ 2,891,172</u>	<u>\$ 847,552</u>	<u>\$ 1,326,646</u>	<u>\$ 1,303,789</u>	<u>\$ 6,369,159</u>

**CITY OF LONSDALE, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net Change in Fund Balances - Total Governmental Funds	\$	1,196,167
Amounts reported for governmental activities in the Statement of Activities are different due to the following:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital Outlay Capitalized	\$	1,979,148
Capital Assets Acquired via Trade-In		8,250
Net Loss on the Disposal of Assets		(5,421)
Donated Assets		19,514
Transfer of Capital Assets		8,250
Depreciation Expense		<u>(663,706)</u>
		1,346,035
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in Long-term Receivables		167,422
Proceeds from the issuance of long-term debt is an other financing source in the governmental funds, while repayment of debt principal is an expenditure in the governmental funds. However, neither transaction has any effect on net position:		
Bond Proceeds	(1,395,000)	
Premium on Bond Issuance	(71,153)	
Bond Payments	<u>665,000</u>	
		(801,153)
Net change in accrued interest on bonds is not reported as expenses in the funds:		
		(20,186)
The effects of bond premiums and discounts are reported in the governmental fund financial statements upon issuance of the debt. These amounts are deferred and amortized in the Statement of Activities:		
		15,329
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in Accrued Compensated Absences		(9,786)
Net pension asset/liability balances do not represent the impending use of current resources. Therefore, the change in this asset/liability and the related deferrals is not reported in the governmental funds:		
		<u>87,470</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>1,981,298</u>

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

	Water Fund	Sewer Fund	Liquor Fund	Totals
ASSETS				
Current Assets				
Cash, Cash Equivalents and Investments	\$ 2,513,996	\$ 2,211,785	\$ 132,836	\$ 4,858,617
Accounts Receivable	53,870	84,202	1,200	139,272
Inventory	-	-	219,854	219,854
Prepays	8,155	9,844	7,351	25,350
Total Current Assets	2,576,021	2,305,831	361,241	5,243,093
Noncurrent Assets				
Capital Assets Not Depreciated	1,295,353	290,976	231,631	1,817,960
Capital Assets Being Depreciated (Net)	2,730,516	4,350,496	610,525	7,691,537
Total Noncurrent Assets	4,025,869	4,641,472	842,156	9,509,497
TOTAL ASSETS	6,601,890	6,947,303	1,203,397	14,752,590
DEFERRED OUTFLOWS OF RESOURCES				
Pensions	23,592	18,896	22,526	65,014
LIABILITIES				
Current Liabilities				
Accounts Payable	13,851	10,873	23,422	48,146
Sales Tax Payable	73	-	14,790	14,863
Retainage Payable	39,579	11,670	-	51,249
Accrued Salaries	8,527	6,890	7,552	22,969
Accrued Interest	25,965	17,403	-	43,368
Bonds Due Within One Year	164,000	397,000	-	561,000
Total Current Liabilities	251,995	443,836	45,764	741,595
Noncurrent Liabilities				
Compensated Absences	17,460	13,038	14,276	44,774
Bonds Due After One Year	2,381,828	1,750,473	-	4,132,301
Net Pension Liability	122,008	97,613	116,674	336,295
Total Noncurrent Liabilities	2,521,296	1,861,124	130,950	4,513,370
TOTAL LIABILITIES	2,773,291	2,304,960	176,714	5,254,965
DEFERRED INFLOWS OF RESOURCES				
Pensions	30,812	24,651	29,465	84,928
NET POSITION				
Net Investment in Capital Assets	1,480,041	2,493,999	842,156	4,816,196
Unrestricted	2,341,338	2,142,589	177,588	4,661,515
TOTAL NET POSITION	\$ 3,821,379	\$ 4,636,588	\$ 1,019,744	\$ 9,477,711

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

	Water Fund	Sewer Fund	Liquor Fund	Totals
SALES AND COSTS OF SALES				
Sales	\$ -	\$ -	\$ 1,580,610	\$ 1,580,610
Cost of Sales	<u>-</u>	<u>-</u>	<u>(1,218,361)</u>	<u>(1,218,361)</u>
GROSS PROFIT	-	-	362,249	362,249
OPERATING REVENUES				
Charges for Services	<u>495,443</u>	<u>850,715</u>	<u>-</u>	<u>1,346,158</u>
TOTAL GROSS PROFIT AND OPERATING REVENUES	495,443	850,715	362,249	1,708,407
OPERATING EXPENSES				
Wages and Benefits	230,981	184,766	197,041	612,788
Materials and Supplies	25,168	36,947	7,252	69,367
Repairs and Maintenance	86,397	179,533	9,527	275,457
Professional Services	44,450	56,448	14,507	115,405
Insurance	7,927	11,616	7,956	27,499
Utilities	70,080	101,668	24,401	196,149
Advertising	967	624	4,465	6,056
Miscellaneous	3,132	2,969	1,155	7,256
Depreciation and Amortization	<u>126,641</u>	<u>190,470</u>	<u>24,464</u>	<u>341,575</u>
TOTAL OPERATING EXPENSES	<u>595,743</u>	<u>765,041</u>	<u>290,768</u>	<u>1,651,552</u>
NET OPERATING INCOME (LOSS)	(100,300)	85,674	71,481	56,855
NONOPERATING INCOME (EXPENSE)				
Intergovernmental	23,066	-	-	23,066
Gain on Disposal of Capital Assets	1,394	1,394	-	2,788
Connection Fees	190,750	247,500	-	438,250
Investment Income	7,535	3,687	12	11,234
Capital Contribution	(4,125)	(4,125)	-	(8,250)
Miscellaneous	15,435	19,183	2,416	37,034
Interest and Other Charges	<u>(54,381)</u>	<u>(55,664)</u>	<u>-</u>	<u>(110,045)</u>
TOTAL NONOPERATING INCOME	<u>179,674</u>	<u>211,975</u>	<u>2,428</u>	<u>394,077</u>
CHANGE IN NET POSITION PRIOR TO TRANSFERS	79,374	297,649	73,909	450,932
TRANSFERS				
Operating Transfers In	29,973	4,236	-	34,209
Operating Transfers Out	<u>(640,115)</u>	<u>(142,088)</u>	<u>-</u>	<u>(782,203)</u>
NET TRANSFERS	<u>(610,142)</u>	<u>(137,852)</u>	<u>-</u>	<u>(747,994)</u>
CHANGE IN NET POSITION	(530,768)	159,797	73,909	(297,062)
NET POSITION - BEGINNING OF YEAR	<u>4,352,147</u>	<u>4,476,791</u>	<u>945,835</u>	<u>9,774,773</u>
NET POSITION - END OF YEAR	<u>\$ 3,821,379</u>	<u>\$ 4,636,588</u>	<u>\$ 1,019,744</u>	<u>\$ 9,477,711</u>

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

	Water Fund	Sewer Fund	Liquor Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 681,003	\$ 1,115,518	\$ 1,581,068	\$ 3,377,589
Cash Paid to Suppliers	(236,591)	(400,260)	(1,275,515)	(1,912,366)
Cash Paid to Employees	(225,358)	(181,106)	(194,851)	(601,315)
NET CASH PROVIDED BY OPERATING ACTIVITIES	219,054	534,152	110,702	863,908
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Special Assessments, Intergovernmental, and Other Revenue	38,501	19,184	2,416	60,101
Payments on Amounts Due from (to) Other Funds	-	49,200	(49,200)	-
Net Operating Subsidies and Transfers to Other Funds	(640,115)	(142,088)	-	(782,203)
Net Operating Subsidies and Transfers from Other Funds	29,973	4,236	-	34,209
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(571,641)	(69,468)	(46,784)	(687,893)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of Capital Assets	(689,716)	(53,246)	(3,871)	(746,833)
Payments on Bond Principal	(178,000)	(388,000)	-	(566,000)
Proceeds from Debt Issuance	525,566	73,669	-	599,235
Cash Paid for Interest	(48,466)	(57,498)	-	(105,964)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(390,616)	(425,075)	(3,871)	(819,562)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment Income	7,535	3,687	12	11,234
Net Change in Cash, Cash Equivalents and Investments	(735,668)	43,296	60,059	(632,313)
Cash, Cash Equivalents and Investments - Beginning of Year	3,249,664	2,168,489	72,777	5,490,930
Cash, Cash Equivalents and Investments - End of Year	\$ 2,513,996	\$ 2,211,785	\$ 132,836	\$ 4,858,617

CITY OF LONSDALE, MINNESOTA
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Water Fund	Sewer Fund	Liquor Fund	Totals
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO				
NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net Operating Income (Loss)	\$ (100,300)	\$ 85,674	\$ 71,481	\$ 56,855
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization Expense	126,641	190,470	24,464	341,575
Nonoperating Revenue from Customers	190,750	247,500	-	438,250
Change in Assets, Liabilities, and Deferrals:				
Accounts Receivable	(5,222)	17,303	(425)	11,656
Inventory	-	-	4,498	4,498
Prepays	(1,172)	(895)	(559)	(2,626)
Accounts Payable	2,702	(9,560)	8,170	1,312
Accrued Salaries	1,441	1,356	529	3,326
Sales Tax Payable	32	-	883	915
Compensated Absences	4,863	441	3,420	8,724
Deferred Outflows of Resources - Pensions	7,232	5,249	7,836	20,317
Net Pension Liability	(6,441)	(2,799)	(7,780)	(17,020)
Deferred Inflows of Resources - Pensions	(1,472)	(587)	(1,815)	(3,874)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 219,054</u>	<u>\$ 534,152</u>	<u>\$ 110,702</u>	<u>\$ 863,908</u>
SCHEDULE OF NONCASH CAPITAL AND RELATED				
FINANCING ACTIVITIES				
Contribution of Capital Assets to Governmental Funds	<u>\$ (4,125)</u>	<u>\$ (4,125)</u>	<u>\$ -</u>	<u>\$ (8,250)</u>

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lonsdale (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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

1.A. FINANCIAL REPORTING ENTITY

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

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

Blended Component Units

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

Economic Development Authority of the City of Lonsdale

The Authority was established in 2001 pursuant to the provisions of Minnesota Statutes Section 469.090 to 469.108 to promote and provide incentives for economic development, and to preserve and create jobs, enhance the City's tax base and promote the general welfare of the people. The EDA is governed by a board of commissioners consisting of seven members, five from the business community and two City Councilmembers.

The financial activity of the Authority is performed by the City of Lonsdale and treated as routine City business.

Discretely Presented Component Units

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

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements

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

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

The City reports the following major governmental funds:

The *General Fund* is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

The *Business Park Debt Fund* is a debt service fund used to account for the sources of revenue for and the payment for the debt related to the Business Park project.

The *Area 5 Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of capital projects (other than those financed by proprietary funds).

The City reports the following major proprietary funds:

Proprietary Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains *Water, Sewer, and Liquor Proprietary Funds*.

The City reports the following nonmajor governmental fund types:

The *Special Revenue Funds* account for funds received by the City with a specific purpose.

The *Debt Service Funds* account for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by proprietary funds. Tax levies, special assessments, and tax increment financing are used for the payment of principal and interest on the City's indebtedness.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the *economic resources* measurement focus as defined in the second bullet point below.

In the fund financial statements, the *current financial resources* measurement focus or the *economic resources* measurement focus is used as appropriate:

- All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- The government-wide financial statements and proprietary funds utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, liabilities, and deferred outflows/inflows resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the *modified accrual* basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonable estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting.

1.D. USE OF ESTIMATES

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 the reported amounts of assets, deferred outflows, liabilities, and deferred inflows, and disclosure of contingent assets, liabilities, and deferred outflows/inflows at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash, Cash Equivalents, and Investments

For purposes of the Statement of Net Position and proprietary fund Statement of Cash Flows, “cash, cash equivalents, and investments” includes all demand, savings, money market, and investment accounts for the City.

See Note 3.A. for additional information related to cash, cash equivalents, and investments.

Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to good and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities, as well as interfund receivables and payables between funds within business-type activities, are eliminated in the Statement of Net Position. See Note 3.E. for details of interfund transactions, including receivables and payables at year-end.

Prepays

Prepays represent expenditures/expenses paid during the current year to be recognized in future periods.

Inventory

The Liquor Fund carries inventory that consists of items held for resale. Inventory is recognized on the first in, first out (FIFO) method.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and not deemed necessary at year end. Major receivable balances for the governmental activities include taxes, special assessments, loans, and charges for services. Business-type activities report utility charges as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, assessments, other intergovernmental revenues, loans, fines, and charges for services since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and must have an estimated useful life in excess of one year.

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

Land	Not Depreciated
Lift Stations	50 years
Sanitary Sewer Mains	40 years
Water Mains	40 years
Storm Sewer Mains	40 years
Buildings	40 years
Concrete Curb and Gutter	30 years
Sidewalks	30 years
Wells and Pump Houses	25 years
Water Meters	20 years
Fire Trucks	20 years
Office Equipment	10 years
Machinery, Equipment, Radios, Phones	10 years
Computer Equipment/Software	5 years
Vehicles	5 years

Government-wide Statements

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

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

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation, sick, and compensatory time. All vacation, sick, and compensatory pay are accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as the result of an employee's resignation or retirement. In the event a liability is recorded in the governmental funds, General Fund resources would be used to liquidate the compensated absences.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Net Pension Asset/Liability

Lonsdale Fireman's Relief Association

The net pension asset represents the Lonsdale Fireman's Relief Association's net pension asset as of the most recent actuarial valuation date.

PERA

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the Statements of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position that applies to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The City reports unavailable revenues as deferred inflows of resources. Unavailable revenues consist of property taxes and special assessments. Accordingly, these amounts are deferred and recognized as inflows of resources in the period that they become available. Because this type of unavailable revenue is only reported under a modified accrual basis of accounting, these deferred inflows of resources are only reported in the governmental funds Balance Sheet. In addition, the City reports deferred inflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

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

Restricted – The portion of net position for which use is constrained by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the City’s policy to consider restricted net position to its depletion before unrestricted net position is applied.

Fund Statements

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

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2018 consist of prepaid expenditures and loans receivable.

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

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the City Council, which is the 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 that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The Council currently has the ability to assign and has also delegated this authority to the City Administrator and City Treasurer.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The City strives to maintain a minimum unassigned general fund balance equal to approximately five months or 42% of the prior year’s expenditures.

See Note 3.F. for additional disclosures.

Proprietary Fund Financial Statements – Proprietary fund equity is classified the same as in the government-wide statements, as described above.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of December. Rice County is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

The last day the City can certify a tax levy to the County for collection the following year is five working days after December 20th. The County creates the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County also collects all special assessments, except for certain prepayments paid directly to the City. The County collects all taxes and assessments, except as noted above. The County mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

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

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

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

Governmental Funds - By Character	Current (further classified by Function)
	Debt Service
	Capital Outlay
Proprietary Fund - By Operating and Nonoperating	

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

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 3.E.

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

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

2.B. BUDGETARY INFORMATION

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

Prior to August of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared for the following year. Public hearings are conducted to allow for taxpayer comments, and the proposed budget is then reviewed and approved by the Council.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. See original and final General Fund budget presented as Required Supplementary Information.

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

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

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

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

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated "A" or better;
- A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;

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

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

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Deposits (Continued)

- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

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

At December 31, 2018, the City’s deposits were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance or by collateral held by the City’s agent in the City’s name.

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase 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. The City does not have any investment policies that would further limit investment choices.

The Minnesota Municipal Money Market Fund (the 4M Fund) is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares. The investment in the Minnesota Municipal Money Market Fund is not subject to the credit risk classifications as noted in paragraph 9 of the GASB Statement No. 72.

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

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

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments (Continued)

Investment balances at December 31, 2018 are as follows:

<u>Deposit/Investment</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Moody's Credit Rating</u>	<u>Percent of Total</u>
Pooled Investments:					
Minnesota Municipal Money Market Fund	2.09	<1 year	\$ 506,551	NR	15.27
Non-Pooled Investments:					
State and Local Government Securities	0.56-0.94	<5 years	1,811,815	NR	54.62
U.S. Government Bonds and Securities	1.25-2.13	<5 years	880,624	Aaa	26.55
Certificate of Deposit	2.55	<1 year	<u>118,036</u>	NR	<u>3.56</u>
Totals			<u>\$ 3,317,026</u>		<u>100.00</u>

The investments of the City are subject to the following risks:

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the City's investments.
- Custodial credit risk is the risk that in the event of a 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 does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- Concentration of Credit Risk is the risk associated with the magnitude of the City's investments (considered five percent or more) in the investments of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City has no formal policy limiting the amounts that may be invested in any one issuer. At December 31, 2018, the City's concentration of credit risk is shown in the table above.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no formal policy to address interest rate risk.

The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. 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.

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

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

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments (Continued)

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

- Money market funds of \$506,551 are deemed to be level 1 investments and are valued by using quoted market prices.
- State and Local Government Securities of \$1,811,815, U.S. Government Bonds of \$880,624, and Certificates of Deposits of \$118,036 are deemed to be level 2 investments.

Deposits and Investments Summary

A reconciliation of cash and investments as shown on the Statements of Net Position for the City follows:

Carrying Amount of Deposits	\$	8,086,058
Investments		<u>3,317,026</u>
Total	\$	<u><u>11,403,084</u></u>
Government-wide Cash, Cash Equivalents and Investments	\$	8,710,645
Government-wide Cash Held in Escrow		<u>2,692,439</u>
Total	\$	<u><u>11,403,084</u></u>

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

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

3.B. CAPITAL ASSETS

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

	Balance at 01/01/18	Additions	Disposals	Transfers	Balance at 12/31/18
Governmental Activities:					
Capital Assets not Being					
Depreciated					
Land	\$ 679,315	\$ -	\$ -	\$ -	\$ 679,315
Construction In Progress	1,712,798	1,882,371	-	(231,587)	3,363,582
Total Capital Assets not Being					
Depreciated	2,392,113	1,882,371	-	(231,587)	4,042,897
Capital Assets Being					
Depreciated					
Buildings and Improvements	1,777,351	26,990	-	-	1,804,341
Infrastructure	13,086,214	-	-	231,587	13,317,801
Equipment	1,926,087	65,962	(11,300)	8,250	1,988,999
Vehicles	1,446,265	31,589	(25,179)	-	1,452,675
Total Capital Assets Being					
Depreciated	18,235,917	124,541	(36,479)	239,837	18,563,816
Less: Accumulated Depreciation					
Buildings and Improvements	(1,092,240)	(44,151)	-	-	(1,136,391)
Infrastructure	(3,620,467)	(475,466)	-	-	(4,095,933)
Equipment	(1,246,624)	(83,070)	5,879	-	(1,323,815)
Vehicles	(1,093,442)	(61,019)	25,179	-	(1,129,282)
Total Accumulated					
Depreciation	(7,052,773)	(663,706)	31,058	-	(7,685,421)
Total Capital Assets Being					
Depreciated, Net	11,183,144	(539,165)	(5,421)	239,837	10,878,395
Capital Assets, Net	<u>\$ 13,575,257</u>	<u>\$ 1,343,206</u>	<u>\$ (5,421)</u>	<u>\$ 8,250</u>	<u>\$ 14,921,292</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 171,031
Public Safety	85,418
Public Works	338,525
Parks and Recreation	<u>68,732</u>
Total Depreciation Expense	<u>\$ 663,706</u>

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

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

3.B. CAPITAL ASSETS (Continued)

	Balance at 01/01/18	Additions	Disposals	Transfers	Balance at 12/31/18
Business-Type Activities:					
Capital Assets not Being					
Depreciated					
Land	\$ 352,081	\$ -	\$ -	\$ -	\$ 352,081
Construction In Progress	824,268	641,611	-	-	1,465,879
Total Capital Assets not Being					
Depreciated	1,176,349	641,611	-	-	1,817,960
Capital Assets Being					
Depreciated					
Buildings and Improvements	831,238	-	-	-	831,238
Infrastructure	10,954,826	-	-	-	10,954,826
Machinery and Equipment	431,164	66,865	(11,300)	(8,250)	478,479
Vehicles	90,146	-	-	-	90,146
Total Capital Assets Being					
Depreciated	12,307,374	66,865	(11,300)	(8,250)	12,354,689
Less: Accumulated Depreciation					
Buildings and Improvements	(214,402)	(20,781)	-	-	(235,183)
Infrastructure	(3,705,976)	(293,783)	-	-	(3,999,759)
Machinery and Equipment	(323,009)	(26,734)	5,837	-	(343,906)
Vehicles	(77,083)	(7,221)	-	-	(84,304)
Total Accumulated					
Depreciation	(4,320,470)	(348,519)	5,837	-	(4,663,152)
Total Capital Assets Being					
Depreciated, Net	7,986,904	(281,654)	(5,463)	(8,250)	7,691,537
Capital Assets, Net	<u>\$ 9,163,253</u>	<u>\$ 359,957</u>	<u>\$ (5,463)</u>	<u>\$ (8,250)</u>	<u>\$ 9,509,497</u>

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

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

3.C. LOANS RECEIVABLE

The City uses revolving loans for economic development purposes. Additionally, the City provides grants for economic development in the form of loans that are forgiven over a defined period of time, provided the recipient maintains compliance with the terms of the loan agreement. The City has the following loans receivable as of December 31, 2018:

	Interest Rate	Principal Balance December 31, 2018
Lonsdale Hardware & Rental	4.00%	\$ 11,414
Whittney Land Holding Co.	2.00%	47,526
Lonsdale Hardware & Rental	0.00%	20,167
Taste of Lonsdale	2.00%	35,582
Total Traditional Loans		114,689
Forgiveable Loans		44,746
Total Loans Receivable		\$ 159,435

3.D. NONCURRENT LIABILITIES

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. All bonds set forth below are direct obligations of the City and pledge the full faith and credit of the City.

Debt Detail

As of December 31, 2018, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

General Obligation Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
07/09	\$ 940,000	\$5,000 - \$105,000	5.25 - 6.80%	02/36	\$ 910,000
08/12	1,385,000	\$70,000 - \$110,000	2.00 - 2.60%	02/28	975,000
09/13	2,735,000	\$130,000 - \$225,000	2.00 - 4.00%	02/29	2,115,000
07/15	1,335,000	\$80,000 - \$100,000	2.00 - 3.50%	02/31	1,175,000
05/16	1,625,000	\$100,000 - \$125,000	0.77 - 3.00%	06/31	1,425,000
10/16	1,835,000	\$190,000 - \$220,000	2.00%	02/29	1,835,000
10/16	1,000,000	\$40,000 - \$105,000	2.10 - 3.32%	02/36	1,000,000
07/17	960,000	\$55,000 - \$75,000	2.00 - 3.00%	02/33	960,000
07/18	1,395,000	\$75,000 - \$125,000	3.00 - 4.00%	02/34	1,395,000
		Total Governmental Activities Bonds Payable			11,790,000
		Bonds Due Within One Year			515,000
		Bonds Due After One Year			\$ 11,275,000

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

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

3.D. NONCURRENT LIABILITIES (Continued)

Debt Detail (Continued)

Business-Type Activities

General Obligation Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
11/03	\$ 6,644,792	\$240,000 - \$430,000	2.34%	08/23	\$ 2,053,791
10/11	1,210,591	\$5,400 - \$77,000	1.76%	08/30	844,000
07/17	1,275,000	\$110,000 - \$140,000	2.00 - 3.00%	02/32	1,155,000
07/18	570,000	\$25,000 - \$50,000	3.00 - 4.00%	02/34	570,000
Total Business-Type Activities Bonds Payable					4,622,791
Bonds Due Within One Year					561,000
Bonds Due After One Year					\$ 4,061,791

On October 1, 2016, the City issued \$1,835,000 General Obligation Crossover Refunding Bonds, Series 2016B, with an interest rate of 2.00% to refund the 2013 General Obligation Improvement Bonds, Series 2013B. The net proceeds of the bond amount to \$1,840,884 and were placed in an escrow account to pay off the 2013 bond in 2020 and interest on the 2016 bond until 2020. The refunding reduced the total debt service payments over the next eleven years by \$101,132. The result is an economic gain (difference between the present values of the debt service payment and the old and new debt) of \$89,848. On October 12, 2016, the City issued \$1,000,000 General Obligation Taxable Tax Increment Refunding Bonds, Series 2016C, with an interest rate of 2.10-3.32% to refund the 2009 General Obligation Taxable Tax Increment Bonds, Series 2009A. The net proceeds of the bond amount to \$947,022 and were placed in an escrow account to pay off the 2009 bond in 2021 and interest on the 2016 bond until 2021. The refunding resulted in an economic gain (difference between the present values of the debt service payment and the old and new debt) of \$90,826.

Changes in Noncurrent Liabilities

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

Type of Debt	Balance 01/01/18	Additions	Deductions	Balance 12/31/18	Amounts Due Within One Year
Governmental Activities:					
Bonds	\$ 11,060,000	\$ 1,395,000	\$ (665,000)	\$ 11,790,000	\$ 515,000
Unamortized Bond Premium	140,318	71,153	(15,329)	196,142	-
Compensated Absences	51,347	96,267	(86,481)	61,133	-
Total	\$ 11,251,665	\$ 1,562,420	\$ (766,810)	\$ 12,047,275	\$ 515,000
Business-Type Activities:					
Bonds	\$ 4,618,791	\$ 570,000	\$ (566,000)	\$ 4,622,791	\$ 561,000
Unamortized Bond Premium	48,219	29,235	(6,944)	70,510	-
Compensated Absences	36,050	44,896	(36,172)	44,774	-
Total	\$ 4,703,060	\$ 644,131	\$ (609,116)	\$ 4,738,075	\$ 561,000

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

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

3.D. NONCURRENT LIABILITIES (Continued)

Changes in Noncurrent Liabilities (Continued)

Governmental activity debt is typically funded through Debt Service Funds. Business-Type activity debt is typically funded through the Water and Sewer Funds. Compensated absences is funded through the funds to which the respective employees' wages are allocated.

Annual Debt Service Requirements

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

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 515,000	\$ 359,011	\$ 874,011
2020	595,000	344,159	939,159
2021	790,000	328,104	1,118,104
2022	845,000	308,071	1,153,071
2023	860,000	285,494	1,145,494
2024-2028	4,805,000	1,025,162	5,830,162
2029-2033	2,750,000	369,437	3,119,437
2034-2036	630,000	36,746	666,746
Totals	<u>\$ 11,790,000</u>	<u>\$ 3,056,184</u>	<u>\$ 14,846,184</u>

Years Ending December 31,	Business-Type Activities		
	Principal	Interest	Total
2019	\$ 561,000	\$ 114,319	\$ 675,319
2020	606,000	100,158	706,158
2021	622,000	86,508	708,508
2022	637,000	72,332	709,332
2023	647,791	57,102	704,893
2024-2028	1,071,000	143,212	1,214,212
2029-2033	428,000	39,739	467,739
2034	50,000	1,000	51,000
Totals	<u>\$ 4,622,791</u>	<u>\$ 614,370</u>	<u>\$ 5,237,161</u>

Interest expense totals \$446,404 in the Statement of Activities (included in Debt Service, Water, and Sewer lines). Interest expenditures total \$316,173 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$110,045 in the Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds (included in the line Interest and Other Charges).

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

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

3.E. INTERFUND TRANSACTIONS AND BALANCES

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

Major Funds	Transfers Out	Transfers In						
		Major Funds					Nonmajor Funds	
		General	Business Park Debt	Area 5 Capital Project	Water	Sewer	Governmental	Total
General	\$ 95,460	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95,460	\$ 95,460
Area 5 Capital Projects	34,009	-	-	-	29,973	4,036	-	34,009
Water	640,115	5,436	20,192	578,570	-	200	35,717	640,115
Sewer	142,088	5,436	20,192	80,583	-	-	35,877	142,088
	911,672	10,872	40,384	659,153	29,973	4,236	167,054	911,672
<u>Nonmajor Funds</u>								
Governmental	492	492	-	-	-	-	-	492
Total	<u>\$ 912,164</u>	<u>\$ 11,364</u>	<u>\$ 40,384</u>	<u>\$ 659,153</u>	<u>\$ 29,973</u>	<u>\$ 4,236</u>	<u>\$ 167,054</u>	<u>\$ 912,164</u>

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

The interfund balances are as follows:

Short-Term Operating Balances	
Due To Fund	Due From Fund
General	Business Park Debt Fund
	<u>\$ 964,960</u> Eliminate negative cash

Interfund balances are to be repaid as cash flows become available.

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

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

3.F. FUND EQUITY

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

General Fund	
Nonspendable - Prepays	\$ 58,061
Assigned for Police	524
Assigned for Library	110,384
Assigned for Parks & Recreation	68,425
Assigned for Fire Department	802,645
Unassigned	<u>1,851,133</u>
 Total General Fund Balance	 <u>\$ 2,891,172</u>
 Business Park Debt Fund	
Restricted for Debt Service	\$ 1,811,815
Unassigned	<u>(964,263)</u>
 Total Business Park Debt Fund Balance	 <u>\$ 847,552</u>
 Area 5 Capital Project Fund	
Restricted for Capital Projects	<u>\$ 1,326,646</u>
 Nonmajor Governmental Funds	
Nonspendable - Loans Receivable and Prepays	159,467
Restricted for Economic Development	54,210
Restricted for Debt Service	<u>1,090,112</u>
 Total Nonmajor Governmental Funds Balance	 <u>\$ 1,303,789</u>

NOTE 4 OTHER NOTES

4.A. DEFINED BENEFIT PENSION PLANS – STATEWIDE

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.

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

NOTE 4 OTHER NOTES (Continued)

4.A. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Plan Description (Continued)

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

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

Public Employees Police and Fire Plan (Police and Fire Plan; accounted for in the Police and Fire Fund)

The Police and Fire Plan, 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 Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.20 percent for each of the first 10 years of service and 1.70 percent for each additional year. The rates are 2.20 percent and 2.70 percent, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.70 percent for all years of service, and 2.70 percent for Basic members. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

Police and Fire Plan Benefits

Benefits for Police and Fire Plan 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 Police and Fire Plan 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 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

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

NOTE 4 OTHER NOTES (Continued)

4.A. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Benefits Provided (Continued)

Police and Fire Plan Benefits (Continued)

Beginning in 2019, the COLA will be fixed at 1 percent. Under funding measurements from 2017, the 2.50 percent COLA trigger was never expected to occur and was subsequently removed from law. Post retirement increases are given each year except for annuitants who have been receiving a benefit for only 31 to 41 months. These annuitants will receive a prorated amount of the increase on a sliding scale.

Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2018; the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018 total \$61,101. The City's contributions were equal to the required contributions as set by State Statute.

Police and Fire Fund Contributions

Legislation increased both employee and employer contribution rates in the Police and Fire Plan. Employee rates increased from 10.80 percent of pay to 11.30 percent and employer rates increase from 16.20 percent to 16.95 percent on January 1, 2018. On January 1, 2020 employee rates increase to 11.80 percent and employer rates increase to 17.70 percent. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018 total \$56,779. The City's contributions are equal to the required contributions as set by State Statute.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$671,258 for its proportionate share of the General Employees Fund's net pension liability. The City of Lonsdale's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$22,024. 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 0.0121 percent which was an increase of 0.0004 percent from its proportion measured as of June 30, 2017.

Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of a 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.

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

NOTE 4 OTHER NOTES (Continued)

4.A. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2018, the City recognized pension expense of \$45,313 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$5,136 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 17,206	\$ 19,092
Changes in actuarial assumptions	62,532	73,717
Difference between projected and actual investment earnings	-	67,468
Changes in proportionate share	19,152	9,242
Contributions paid to PERA subsequent to the measurement date	30,130	-
Total Deferred Outflows/Inflows	\$ 129,020	\$ 169,519

A total of \$30,130 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2019	\$ 21,555
2020	\$ (31,175)
2021	\$ (46,999)
2022	\$ (14,010)

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

NOTE 4 OTHER NOTES (Continued)

4.A. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Pension Costs (Continued)

Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$330,429 for its proportionate share of the Police and Fire Fund’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 proportion was 0.0310 percent which was the same as its proportion measured as of June 30, 2017. The City also recognized \$2,790 for the year ended December 31, 2018 as pension revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

Beginning in January 1, 2019, the COLA will be fixed at 1.00 percent. Under funding measurements from 2017, the 2.50 percent COLA trigger was never expected to occur and was subsequently removed from law.

For the year ended December 31, 2018, the City recognized pension expense of \$29,930 for its proportionate share of the Police and Fire Plan’s pension expense.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 13,394	\$ 65,373
Changes in actuarial assumptions	344,792	486,433
Difference between projected and actual investment earnings	-	86,098
Changes in proportionate share	160,525	24,244
Contributions paid to PERA subsequent to the measurement date	<u>28,616</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 547,327</u>	<u>\$ 662,148</u>

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

NOTE 4 OTHER NOTES (Continued)

4.A. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Pension Costs (Continued)

Police and Fire Fund Pension Costs (Continued)

A total of \$28,616 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2019	\$ 5,940
2020	\$ (20,006)
2021	\$ (36,191)
2022	\$ (92,090)
2023	\$ (1,090)

Actuarial Assumptions

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

Assumptions	General Employees Plan	Police & Fire Plan
Inflation	2.50% per year	2.50% per year
Salary Growth	3.25% after 26 years of service	3.25% after 25 years of service
Investment Rate of Return	7.50%	7.50%

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees and Police and Fire Plans. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service, to 3.25 percent after 26 years of service. In the Police and Fire Plan, salary growth assumptions decrease from 12.25 percent after one year of service to 3.25 percent after 25 years of service.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA’s experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. The most recent four-year experience study for the Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

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

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

NOTE 4 OTHER NOTES (Continued)

4.A. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Actuarial Assumptions (Continued)

Police and Fire Fund

- The morality projection scale was changed from MP-2016 to MP-2017.

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

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

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 positions of the General Employees Fund and the Police and Fire Fund 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.

Pension Liability Sensitivity

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

Sensitivity Analysis						
Net Pension Liability at Different Discount Rates						
	General Employees Fund			Police and Fire Fund		
1% Decrease in Discount Rate	6.50%	\$	1,090,881	6.50%	\$	708,459
Current Discount Rate	7.50%	\$	671,258	7.50%	\$	330,429
1% Increase in Discount Rate	8.50%	\$	324,872	8.50%	\$	17,813

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.

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

NOTE 4 OTHER NOTES (Continued)

4.B. DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION

Plan Description

Firefighters of the City of Lonsdale are members of the Lonsdale Fireman’s Relief Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters. The plan operates under the provisions of Minnesota laws 1965 Ch. 446 as amended, and the applicable provisions of *Minnesota Statutes* Chs. 69 and 424 and 424A. It is governed by a Board of Trustees consisting of nine members elected by the members of the Association, and the Mayor, City Administrator, and Fire Chief, who serve as the ex-officio members of the Board.

Benefits Provided

At the age of 50 and upon retirement, each member who has served as an active firefighter in the Association is eligible for varying levels of pension benefits, dependent upon the individual’s years of service. In addition, members or their beneficiaries may qualify for death or disability benefits.

Contributions

The Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (Chapter 261 as amended by Chapter 509 of Minnesota Statute 1980) specifies minimum contributions required on an annual basis. The minimum support rates from the municipality and state aid are determined in the amount required to meet the normal cost plus amortizing any existing prior year service costs over a 10-year period. The City’s contributions to the Association for the year ended December 31, 2018 total \$20,000.

Pension Costs

At December 31, 2018, the City reported a net pension asset of \$362,362 for the Fire Relief Association’s plan. The net pension asset was measured as of December 31, 2017, as determined by an actuarial valuation as of that date.

For the year ended December 31, 2017, the City recognized pension expense of \$8,658 for the Association. The City also recognized \$61,100 for the year ended December 31, 2017, as pension expense (and grant revenue) for the State of Minnesota’s contributions to the Association.

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

NOTE 4 OTHER NOTES (Continued)

4.B. DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

Pension Costs (Continued)

The following table presents the changes in net pension asset during the year.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Beginning Balance 12/31/16	\$ 709,740	\$ 1,008,424	\$ (298,684)
Service Cost	25,971	-	25,971
Interest on Pension Liability	40,464	-	40,464
Plan Changes	84,334	-	84,334
Projected Investment Earnings	-	57,482	(57,482)
Contributions (Employer)	-	20,000	(20,000)
Contributions (State)	-	61,100	(61,100)
Asset (Gain)/Loss	-	83,540	(83,540)
Administrative Fee	-	(7,675)	7,675
Net Changes	<u>150,769</u>	<u>214,447</u>	<u>(63,678)</u>
Balance End of Year 12/31/17	<u>\$ 860,509</u>	<u>\$ 1,222,871</u>	<u>\$ (362,362)</u>

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual investment earnings	\$ -	\$ 85,781
Contributions paid to PERA subsequent to the measurement date	<u>20,000</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 20,000</u>	<u>\$ 85,781</u>

A total of \$20,000 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an addition to the net pension asset in the year ended December 31, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense</u>
2019	\$ (23,024)
2020	\$ (23,024)
2021	\$ (23,024)
2022	\$ (16,709)

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

NOTE 4 OTHER NOTES (Continued)

4.B. DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

Actuarial Assumptions

The net pension asset at December 31, 2017 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

<u>Assumptions</u>	<u>Rates</u>
Investment Rate of Return (Discount)	5.50%
Expected Long-Term Rate of Return	5.50%
20-Year Municipal Bond Yield	3.50%
Salary Increases	2.50%

The following changes in actuarial assumptions occurred in 2017:

- A benefit level increase from \$2,500 to \$2,800 was reflected in the active liability.

Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate (4.50%)</u>	<u>Discount Rate (5.50%)</u>	<u>1% Increase in Discount Rate (6.50%)</u>
Net Pension Asset	\$ 350,522	\$ 362,362	\$ 373,882

Asset Allocation

The long-term expected rate of return on pension plan investments is 5.50%. The asset allocation at the measurement date and best estimates of geometric real rates of return for each major asset class of the Association’s pension fund investments are summarized in the following table:

<u>Asset Class</u>	<u>Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and equivalents	19.00%	2.25%
Fixed Income	22.00%	3.40%
Equities	58.00%	7.50%
Other	1.00%	6.00%

Description of significant investment policy changes during the year

The Association made no significant changes to their investment policy during 2017.

Pension Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in a separately-issued financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the City at 415 Central Street West, Lonsdale, MN 55046.

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

NOTE 4 OTHER NOTES (Continued)

4.C. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The City’s management is not aware of any incurred but no reported claims.

4.D. TAX INCREMENT FINANCING DISTRICTS

The City occasionally enters into tax increment financing arrangements with local businesses for the purpose of stimulating economic growth within the City. Eligibility for businesses seeking tax abatements of this nature is determined in accordance the applicable Minnesota Statutes, and such arrangements generally include a commitment by the local business to use the abated funds for financing a development or redevelopment project. For a pay-as-you-go district, any tax increment generated by the district and not retained by the City for administrative costs is returned to the business to finance the debt incurred for the related improvements. For the District summarized below, the City financed the initial costs of the project, therefore all increment generated by the District is being used to finance the related debt service payments.

The following is a summary of the City’s current tax increment financing district:

	District #1
Business Name	Lonsdale Senior Housing LLC
Purpose	Housing
Authorizing MN Statute:	469.174
Year Established:	2010
Duration of District:	Through 2035
Original Base Net Tax Capacity:	\$ <u>2,296</u>
Current Net Tax Capacity:	\$ <u>65,038</u>
Captured Net Tax Capacity:	
Retained by City	\$ <u>62,742</u>
Taxes Abated in Current Year:	\$ <u>-</u>
Total Bonds Issued:	\$ <u>940,000</u>
Balance at 12/31/18:	\$ <u>910,000</u>

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

NOTE 4 OTHER NOTES (Continued)

4.E. COMMITMENTS

Construction Contracts

The City entered into various contracts during the year for construction services. Remaining commitments under these contracts at December 31, 2018 totals \$778,666, not including retainage which has been accrued in these financial statements.

4.F. SUBSEQUENT EVENTS

Subsequent to year end and prior to issuance of these financial statements, the City approved a bid of \$145,004 for the 2019 8th Avenue Northeast Mill and Overlay Project.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LONSDALE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
RESOURCES (INFLOWS):			
Taxes	\$ 1,422,850	\$ 1,436,494	\$ 13,644
Special Assessments	1,000	305,481	304,481
Franchise Fees	78,590	108,365	29,775
Licenses, Permits, and Fees	190,400	202,734	12,334
Intergovernmental	579,790	591,036	11,246
Charges for Services	171,226	196,433	25,207
Fines	17,300	29,029	11,729
Investment Income	200	149	(51)
Sale of Assets	5,000	25,197	20,197
Miscellaneous	35,434	46,602	11,168
Transfers In	-	11,364	11,364
AMOUNTS AVAILABLE	2,501,790	2,952,884	451,094
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
Current:			
General Government:			
Administration	268,540	253,967	(14,573)
Council and Planning Commission	182,748	152,276	(30,472)
Professional Fees	19,868	16,571	(3,297)
Public Safety:			
Police	638,783	647,755	8,972
Fire	211,210	198,000	(13,210)
Public Works	451,179	397,092	(54,087)
Parks and Recreation	334,909	343,540	8,631
Capital Outlay	552,709	255,716	(296,993)
Transfers Out	5,000	95,460	90,460
TOTAL CHARGES	2,664,946	2,360,377	(304,569)
BUDGETARY CHANGE IN FUND BALANCE	\$ (163,156)	592,507	\$ 755,663
FUND BALANCE - BEGINNING		2,298,665	
FUND BALANCE - ENDING		\$ 2,891,172	

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

For the Measurement Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<i>General Employees Retirement Pension Plan</i>							
2018	0.0121%	\$ 671,258	\$ 22,024	\$ 693,282	\$ 813,747	85.2%	79.5%
2017	0.0117%	\$ 746,920	\$ 9,379	\$ 756,299	\$ 752,680	100.5%	75.9%
2016	0.0118%	\$ 958,101	\$ -	\$ 958,101	\$ 707,664	135.4%	68.9%
2015	0.0122%	\$ 632,267	\$ -	\$ 632,267	\$ 703,107	89.9%	78.2%
2014	0.0132%	\$ 620,070	\$ -	\$ 620,070	\$ 710,496	87.3%	78.9%
<i>Public Employees Police and Fire Pension Plan</i>							
2018	0.0310%	\$ 330,429	\$ -	\$ 330,429	\$ 326,605	101.2%	88.8%
2017	0.0310%	\$ 418,537	\$ -	\$ 418,537	\$ 319,414	131.0%	85.4%
2016	0.0250%	\$ 1,003,294	\$ -	\$ 1,003,294	\$ 263,977	380.1%	63.9%
2015	0.0280%	\$ 318,146	\$ -	\$ 318,146	\$ 252,326	126.1%	86.6%
2014	0.0270%	\$ 291,611	\$ -	\$ 291,611	\$ 247,326	117.9%	87.1%

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2014 and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF LONSDALE, MINNESOTA
SCHEDULE OF CITY PENSION CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)

For the Calendar Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
<i>General Employees Retirement Pension Plan</i>					
2018	\$ 61,101	\$ 61,101	\$ -	814,680	7.5%
2017	\$ 59,387	\$ 59,387	\$ -	791,827	7.5%
2016	\$ 54,248	\$ 54,248	\$ -	723,307	7.5%
2015	\$ 52,732	\$ 52,732	\$ -	703,093	7.5%
2014	\$ 53,205	\$ 53,205	\$ -	733,862	7.3%
<i>Public Employees Police and Fire Pension Plan</i>					
2018	\$ 56,779	\$ 56,779	\$ -	350,488	16.2%
2017	\$ 53,860	\$ 53,860	\$ -	332,469	16.2%
2016	\$ 45,266	\$ 45,266	\$ -	279,420	16.2%
2015	\$ 40,879	\$ 40,879	\$ -	252,338	16.2%
2014	\$ 37,918	\$ 37,918	\$ -	247,830	15.3%
<i>Volunteer Fire Relief Association</i>					
2018	\$ -	\$ 20,000	\$ (20,000)	N/A	N/A
2017	\$ -	\$ 20,000	\$ (20,000)	N/A	N/A

Note: The schedule is provided prospectively beginning with the City's fiscal years ending December 31, 2014 and 2017 and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF LONSDALE, MINNESOTA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
FIRE RELIEF ASSOCIATION
LAST TEN YEARS (Presented Prospectively)

	2017	2016
Changes in Total Pension Liability (TPL)		
Balance at January 1st	\$ 709,740	\$ 768,198
Service Cost	25,971	25,338
Interest on the TPL	40,464	40,234
Assumption Changes	84,334	-
Benefit Payments	-	(124,030)
Balance at December 31st	\$ 860,509	\$ 709,740
Plan Fiduciary Net Position (PFNP)		
Balance at January 1st	\$ 1,008,424	\$ 974,476
Fire State Aid	61,100	62,962
Municipal Contributions	20,000	20,000
Projected Investment Income	57,482	52,225
Gain or Loss	83,540	31,581
Total Additions	222,122	166,768
Benefit Payments	-	(124,030)
Administrative Expenses	(7,675)	(8,790)
Total Reductions	(7,675)	(132,820)
Balance at December 31st	\$ 1,222,871	\$ 1,008,424
Net Pension Liability (Asset) - December 31st	\$ (362,362)	\$ (298,684)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Asset)	142%	142%

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2016 and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF LONSDALE, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2018 Changes

Changes in Actuarial Assumptions

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

2017 Changes

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

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

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2016 to MP-2017.

2017 Changes

Changes in Actuarial Assumptions

- 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 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.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 5.60 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 Changes

Changes in Plan Provisions

- The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

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

NOTE 3 DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION

2017 Changes

Changes in Plan Provisions

- A benefit level increase from \$2,500 to \$2,800 was reflected in the active liability.

SUPPLEMENTARY INFORMATION

**CITY OF LONSDALE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	Special Revenue		Debt Service			Total Nonmajor Governmental Funds	
	Economic Development Fund	7th Ave NW Debt Service Bond Fund	2012A G.O. Bond Fund	8th Ave NW Debt Service Bond Fund	Idaho Street Debt Fund		TIF Fund
ASSETS							
Cash, Cash Equivalents, and Investments	\$ 54,522	\$ 15,925	\$ 60,947	\$ -	\$ -	\$ 131,057	\$ 262,451
Cash with Fiscal Agent	-	-	-	-	-	880,624	880,624
Property Taxes Receivable	-	2,777	1,216	-	-	-	3,993
Assessments Receivable	-	49,398	194,464	-	-	-	243,862
Loans Receivable	159,435	-	-	-	-	-	159,435
Prepays	32	-	-	-	-	-	32
TOTAL ASSETS	\$ 213,989	\$ 68,100	\$ 256,627	\$ -	\$ -	\$ 1,011,681	\$ 1,550,397
LIABILITIES							
Accrued Salaries	\$ 312	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 312
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue:							
Property Taxes	-	2,153	933	-	-	-	3,086
Special Assessments	-	49,398	193,812	-	-	-	243,210
Total Deferred Inflows of Resources	-	51,551	194,745	-	-	-	246,296
FUND BALANCES							
Nonspendable	159,467	-	-	-	-	-	159,467
Restricted	54,210	16,549	61,882	-	-	1,011,681	1,144,322
Total Fund Balances	213,677	16,549	61,882	-	-	1,011,681	1,303,789
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 213,989	\$ 68,100	\$ 256,627	\$ -	\$ -	\$ 1,011,681	\$ 1,550,397

CITY OF LONSDALE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Special Revenue		Debt Service				Total
	Economic Development Fund	7th Ave NW Debt Service Bond Fund	2012A G.O. Bond Fund	8th Ave NW Debt Service Bond Fund	Idaho Street Debt Fund	TIF Fund	Nonmajor Governmental Funds
REVENUES							
Taxes	\$ -	\$ 133,774	\$ 60,713	\$ -	\$ -	\$ -	\$ 194,487
Special Assessments	-	10,790	39,423	-	-	-	50,213
Tax Increment	-	-	-	-	-	72,136	72,136
Investment Income	-	-	-	-	-	9,086	9,086
Miscellaneous	2,277	-	-	-	-	-	2,277
TOTAL REVENUES	<u>2,277</u>	<u>144,564</u>	<u>100,136</u>	<u>-</u>	<u>-</u>	<u>81,222</u>	<u>328,199</u>
EXPENDITURES							
Current:							
Economic Development	42,116	-	-	-	-	-	42,116
Debt Service:							
Principal	-	225,000	85,000	-	-	10,000	320,000
Interest and Other Charges	-	1,687	22,840	-	2	87,552	112,081
TOTAL EXPENDITURES	<u>42,116</u>	<u>226,687</u>	<u>107,840</u>	<u>-</u>	<u>2</u>	<u>97,552</u>	<u>474,197</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(39,839)	(82,123)	(7,704)	-	(2)	(16,330)	(145,998)
OTHER FINANCING SOURCES (USES)							
Operating Transfers In	-	-	12,589	-	154,465	-	167,054
Operating Transfers Out	-	-	-	(492)	-	-	(492)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>12,589</u>	<u>(492)</u>	<u>154,465</u>	<u>-</u>	<u>166,562</u>
NET CHANGE IN FUND BALANCES	(39,839)	(82,123)	4,885	(492)	154,463	(16,330)	20,564
FUND BALANCES - BEGINNING	<u>253,516</u>	<u>98,672</u>	<u>56,997</u>	<u>492</u>	<u>(154,463)</u>	<u>1,028,011</u>	<u>1,283,225</u>
FUND BALANCES - ENDING	<u>\$ 213,677</u>	<u>\$ 16,549</u>	<u>\$ 61,882</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,011,681</u>	<u>\$ 1,303,789</u>

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

	Issue Dates	Interest Rates	Maturity Dates	Initial Authorized Issue	Outstanding Balance 01/01/18	Issued	Paid	Outstanding Balance 12/31/18	Principal Due in 2019
GENERAL OBLIGATION BONDS									
GO Taxable Increment Bonds - 2009A	7/1/2009	5.25-6.80%	2/1/2036	\$ 940,000	\$ 920,000	\$ -	\$ 10,000	\$ 910,000	\$ 15,000
GO Improvement Bonds - 2012A	8/8/2012	2.00-2.60%	2/1/2028	1,385,000	1,060,000	-	85,000	975,000	90,000
GO Crossover Refunding Improvement Bonds - 2013A	3/6/2013	1.50%	2/1/2018	885,000	225,000	-	225,000	-	-
GO Improvement Bonds - 2013B	9/30/2013	2.00-4.00%	2/1/2029	2,735,000	2,280,000	-	165,000	2,115,000	170,000
GO Improvement Bonds - 2015A	7/15/2015	2.00-3.50%	2/1/2031	1,335,000	1,255,000	-	80,000	1,175,000	80,000
GO Improvement Bond - 2016A	5/17/2016	0.77-3.00%	6/1/2031	1,625,000	1,525,000	-	100,000	1,425,000	105,000
GO Improvement Crossover Refunding Bonds - 2016B	10/6/2016	2.00%	2/1/2029	1,835,000	1,835,000	-	-	1,835,000	-
GO Taxable Increment Refunding Bonds - 2016C	10/12/2016	2.10-3.32%	2/1/2036	1,000,000	1,000,000	-	-	1,000,000	-
GO Improvement and Utility Revenue Bonds - 2017A	7/12/2017	2.00-3.00%	2/1/2033	960,000	960,000	-	-	960,000	55,000
GO Improvement and Utility Revenue Bonds - 2018A	7/9/2018	3.00-4.00%	2/1/2034	1,395,000	-	1,395,000	-	1,395,000	-
TOTAL GENERAL OBLIGATION BONDS				14,095,000	11,060,000	1,395,000	665,000	11,790,000	515,000
ENTERPRISE DEBT									
GO Revenue (PFA) Bonds - 2003	11/3/2003	2.34%	8/20/2023	6,644,792	2,436,791	-	383,000	2,053,791	392,000
GO Revenue (PFA) Bonds - 2011	6/9/2011	1.76%	8/20/2030	1,210,591	907,000	-	63,000	844,000	64,000
GO Improvement and Utility Revenue Bonds - 2017A	7/12/2017	2.00-3.00%	2/1/2032	1,275,000	1,275,000	-	120,000	1,155,000	105,000
GO Improvement and Utility Revenue Bonds - 2018A	7/9/2018	3.00-4.00%	2/1/2034	570,000	-	570,000	-	570,000	-
TOTAL ENTERPRISE DEBT				9,700,383	4,618,791	570,000	566,000	4,622,791	561,000
TOTAL INDEBTEDNESS				<u>\$ 23,795,383</u>	<u>\$ 15,678,791</u>	<u>\$ 1,965,000</u>	<u>\$ 1,231,000</u>	<u>\$ 16,412,791</u>	<u>\$ 1,076,000</u>

OTHER REQUIRED REPORT

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

April 17, 2019

Honorable Mayor and City Council
City of Lonsdale, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lonsdale, 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 17, 2019.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains seven categories of compliance to be tested: 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*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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

SCHLENNER WENNER & CO.
St. Cloud, Minnesota