



Financial Statements  
December 31, 2015  
**City of Lonsdale**

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**CITY COUNCIL**

Tim Rud	Mayor
Kevin Kodada	Council-member
Cindy Furrer	Council-member
Scott Pelava	Council-member
Joseph Daleiden	Council-member

**ADMINISTRATION**

Joel Erickson	City Administrator
Tami Brokl	City Treasurer
Russ Vlasak	Public Works Director
Jason Schmitz	Police Chief
Mike Yetzer	Fire Chief



## Independent Auditor's Report

Honorable Mayor and City Council  
City of Lonsdale  
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 as of and for the year ended December 31, 2015, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### Adoption of a New Accounting Standard

As discussed in Notes 1 and 6 to the financial statements, the City has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of January 1, 2015. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of the city's share of net pension liability, and schedule of the city's contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 requires to 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 opinion on the basic financial statements is 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 of Lonsdale. The introductory section and supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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



Mankato, Minnesota  
May 19, 2016

City of Lonsdale  
Statement of Net Position  
December 31, 2015

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
<b>Assets</b>			
Cash and investments	\$ 1,902,678	\$ 4,525,939	\$ 6,428,617
Receivables			
Taxes	86,366	-	86,366
Special assessments	2,195,553	-	2,195,553
Accounts	26,141	151,006	177,147
Notes	202,665	-	202,665
Prepaid items	55,336	22,040	77,376
Inventory	-	232,210	232,210
Capital assets not being depreciated:			
Land	666,267	352,081	1,018,348
Construction in progress	66,948	-	66,948
Capital assets, net of accumulated depreciation:			
Infrastructure	8,485,603	7,809,827	16,295,430
Buildings	757,673	658,398	1,416,071
Machinery and equipment	717,848	174,305	892,153
Vehicles	419,091	-	419,091
Total assets	<u>15,582,169</u>	<u>13,925,806</u>	<u>29,507,975</u>
<b>Deferred Outflows of Resources</b>			
Pension plans	<u>206,634</u>	<u>60,795</u>	<u>267,429</u>
<b>Liabilities</b>			
Accounts payable	142,761	42,499	185,260
Salaries and wages payable	23,397	12,095	35,492
Sales tax payable	-	12,496	12,496
Customer deposits	36,000	-	36,000
Interest payable	91,405	33,678	125,083
Noncurrent liabilities:			
Due within one year	962,300	486,000	1,448,300
Due in more than one year	6,783,005	3,848,434	10,631,439
Net pension liability	658,369	292,044	950,413
Total liabilities	<u>8,697,237</u>	<u>4,727,246</u>	<u>13,424,483</u>
<b>Deferred Inflows of Resources</b>			
Pension plans	<u>243,155</u>	<u>68,367</u>	<u>311,522</u>
<b>Net Position</b>			
Net investment in capital assets	3,406,130	4,815,820	8,221,950
Restricted for:			
Debt service	670,834	-	670,834
Economic development	408,887	-	408,887
Capital projects	690,237	-	690,237
Unrestricted	<u>1,672,323</u>	<u>4,375,168</u>	<u>6,047,491</u>
Total Net Position	<u>\$ 6,848,411</u>	<u>\$ 9,190,988</u>	<u>\$ 16,039,399</u>

City of Lonsdale  
Statement of Activities  
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Primary Government</b>							
Governmental activities							
General government	\$ 452,163	\$ 70,204	\$ -	\$ -	\$ (381,959)	\$ -	\$ (381,959)
Public safety	888,168	151,650	-	-	(736,518)	-	(736,518)
Streets and highways	832,790	-	-	-	(832,790)	-	(832,790)
Culture and recreation	346,739	2,791	-	-	(343,948)	-	(343,948)
Economic development	5,457,165	-	-	-	(5,457,165)	-	(5,457,165)
Interest and other charges on long-term debt	268,813	-	-	-	(268,813)	-	(268,813)
Total governmental activities	<u>8,245,838</u>	<u>224,645</u>	<u>-</u>	<u>-</u>	<u>(8,021,193)</u>	<u>-</u>	<u>(8,021,193)</u>
Business-type activities							
Water	446,045	492,167	-	-	-	46,122	46,122
Sewer	579,556	938,553	-	-	-	358,997	358,997
Liquor	1,296,504	1,353,466	-	-	-	56,962	56,962
Total business-type activities	<u>2,322,105</u>	<u>2,784,186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>462,081</u>	<u>462,081</u>
Total Primary Government	<u>\$ 10,567,943</u>	<u>\$ 3,008,831</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(8,021,193)</u>	<u>462,081</u>	<u>(7,559,112)</u>
			General Revenues				
					1,938,169	-	1,938,169
					603,452	-	603,452
					10,867	-	10,867
					725,537	-	725,537
					130,893	-	130,893
					124,658	-	124,658
					275	969	1,244
					120,760	-	120,760
					5,000	(5,000)	-
					<u>3,659,611</u>	<u>(4,031)</u>	<u>3,655,580</u>
					<u>(4,361,582)</u>	<u>458,050</u>	<u>(3,903,532)</u>
					11,956,507	9,062,822	21,019,329
					<u>(746,514)</u>	<u>(329,884)</u>	<u>(1,076,398)</u>
					<u>11,209,993</u>	<u>8,732,938</u>	<u>19,942,931</u>
					<u>\$ 6,848,411</u>	<u>\$ 9,190,988</u>	<u>\$ 16,039,399</u>

The notes to the financial statements are an integral part of the financial statements

City of Lonsdale  
Balance Sheet – Governmental Funds  
December 31, 2015

	General Fund	Idaho Street Debt Fund	Area 5 Capital Project	Business Park Capital Project	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments	\$ 2,383,462	\$ -	\$ 300,464	\$ -	\$ 446,352	\$ 3,130,278
Receivables			-			
Taxes	55,157	17,973	-	4,045	9,191	86,366
Special assessments	6,044	224,630	418,656	1,057,207	489,016	2,195,553
Accounts	26,141	-	-	-	-	26,141
Notes	-	-	-	-	202,665	202,665
Prepaid items	55,336	-	-	-	-	55,336
Land held for resale	-	-	-	-	-	-
<b>Total assets</b>	<b><u>\$ 2,526,140</u></b>	<b><u>\$ 242,603</u></b>	<b><u>\$ 719,120</u></b>	<b><u>\$ 1,061,252</u></b>	<b><u>\$ 1,147,224</u></b>	<b><u>\$ 5,696,339</u></b>
<b>Liabilities</b>						
Checks in excess of deposits	\$ -	218,701	\$ -	\$ 1,008,899	\$ -	\$ 1,227,600
Accounts payable	61,525	-	81,236	-	-	142,761
Salaries and wages payable	23,397	-	-	-	-	23,397
Customer deposits	36,000	-	-	-	-	36,000
<b>Total liabilities</b>	<b><u>120,922</u></b>	<b><u>218,701</u></b>	<b><u>81,236</u></b>	<b><u>1,008,899</u></b>	<b><u>-</u></b>	<b><u>1,429,758</u></b>
<b>Deferred inflows of resources</b>						
Unavailable revenue	50,084	239,015	418,656	1,058,904	695,301	2,461,960
<b>Fund Balances</b>						
Nonspendable	55,336	-	-	-	-	55,336
Restricted	-	-	219,228	-	451,923	671,151
Assigned	921,367	-	-	-	-	921,367
Unassigned	1,378,431	(215,113)	-	(1,006,551)	-	156,767
<b>Total fund balances</b>	<b><u>2,355,134</u></b>	<b><u>(215,113)</u></b>	<b><u>219,228</u></b>	<b><u>(1,006,551)</u></b>	<b><u>451,923</u></b>	<b><u>1,804,621</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 2,526,140</u></b>	<b><u>\$ 242,603</u></b>	<b><u>\$ 719,120</u></b>	<b><u>\$ 1,061,252</u></b>	<b><u>\$ 1,147,224</u></b>	<b><u>\$ 5,696,339</u></b>



City of Lonsdale  
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
 December 31, 2015

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Total Fund Balances for Governmental Funds	\$	1,804,621
<p>Amounts reported for governmental activities          in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$16,914,521 and the accumulated depreciation is \$5,801,092.</p>		11,113,430
<p>Some of the City's receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred inflows in the funds.</p>		2,461,960
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$91,405.</p>		(91,405)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.</p>		(36,521)
<p>Compensated absences are not accrued in governmental funds, but rather are recognized as an expenditure when due. The compensated absences liability is \$38,005.</p>		(38,005)
<p>Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:</p>		
Bonds payable	\$	7,645,000
Net pension liability		658,369
Capital lease payable		62,300
		(8,365,669)
Total Net Position for Governmental Activities	\$	6,848,411

City of Lonsdale

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended December 31, 2015

	General Fund	Idaho Street Debt Fund	Area 5 Capital Project	Business Park Capital Project	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 1,122,445	\$ 439,093	\$ -	\$ 97,908	\$ 292,618	\$ 1,952,064
Franchise taxes	10,867	-	-	-	-	10,867
Special assessments	2,428	4,788	118,427	141,459	149,458	416,560
Fees and fines	14,573	-	-	-	-	14,573
Licenses and permits	130,893	-	-	-	-	130,893
Intergovernmental	676,284	-	49,253	-	-	725,537
Charges for services	224,645	-	-	-	-	224,645
Interest earnings	275	-	-	-	-	275
Contributions	124,658	-	-	-	-	124,658
Miscellaneous	79,438	30,000	950	3,930	15,541	129,859
Total revenue	<u>2,386,506</u>	<u>473,881</u>	<u>168,630</u>	<u>243,297</u>	<u>457,617</u>	<u>3,729,931</u>
<b>Expenditures</b>						
<b>Current</b>						
General government	366,030	-	-	-	-	366,030
Public safety	827,127	-	-	-	-	827,127
Streets and highways	405,303	-	1,167,664	149,687	-	1,722,654
Culture and recreation	670,071	-	-	-	-	670,071
Economic development	-	-	-	-	15,966	15,966
<b>Debt Service</b>						
Principal	14,330	370,000	-	130,000	350,000	864,330
Interest and other charges	3,320	25,423	-	82,135	104,669	215,547
Total expenditures	<u>2,286,181</u>	<u>395,423</u>	<u>1,167,664</u>	<u>361,822</u>	<u>470,635</u>	<u>4,681,725</u>
Excess (deficiency) of revenues over (under) expenditures	<u>100,325</u>	<u>78,458</u>	<u>(999,034)</u>	<u>(118,525)</u>	<u>(13,018)</u>	<u>(951,794)</u>
<b>Other Financing Sources (Uses)</b>						
Transfers in	15,000	-	-	-	2,046	17,046
Transfers out	-	-	-	-	(12,046)	(12,046)
Bonds issued	-	-	1,335,000	-	-	1,335,000
Sale of land held for resale	-	-	-	118,155	-	118,155
Total other financing sources (uses)	<u>15,000</u>	<u>-</u>	<u>1,335,000</u>	<u>118,155</u>	<u>(10,000)</u>	<u>1,458,155</u>
Net change in fund balances	115,325	78,458	335,966	(370)	(23,018)	506,361
Fund Balances - Beginning	<u>2,239,809</u>	<u>(293,571)</u>	<u>(116,738)</u>	<u>(1,006,181)</u>	<u>474,941</u>	<u>1,298,260</u>
Fund Balances - Ending	<u>\$ 2,355,134</u>	<u>\$ (215,113)</u>	<u>\$ 219,228</u>	<u>\$ (1,006,551)</u>	<u>\$ 451,923</u>	<u>\$ 1,804,621</u>

City of Lonsdale

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
Year Ended December 31, 2015

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Total Net Change in Fund Balances - Governmental Funds	\$ 506,361
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$1,563,757) exceeds depreciation expense (\$548,327), in the current period.	1,015,430
In governmental funds, issuance of new debt is reported as a source of financing. However, in the statement of activities, a new issuance is not revenue, rather it constitutes a long-term liability in the statement of net position.	(1,335,000)
The governmental funds report compensated absence costs as expenditures when paid, on the other hand, the statement of activities reports compensated absence costs as expenditures as the employees earn the compensated absences. In the statement of net position, the payment of compensated absences results in a reduction of the liability. This amount is the net effect of these differences.	(1,198)
Because some revenues will not be collected for several months after the City's year end, they are not considered "available" revenues and are deferred in the governmental funds. Delinquent property taxes and assessments decreased by \$13,895, deferred special assessments increased by \$186,892, deferred notes receivable decreased by \$23,672, and land held for resale decreased by \$5,559,188.	(5,409,863)
The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability.	864,330
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	51,624
Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. There was \$91,405, and \$38,139 of accrued interest at December 31, 2015 and 2014, respectively.	<u>(53,266)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (4,361,582)</u></u>

City of Lonsdale  
Statement of Net Position – Proprietary Funds  
December 31, 2015

	Water	Sewer	Liquor	Enterprise Fund Total
<b>Assets</b>				
Cash and investments	\$ 2,553,973	\$ 1,899,999	\$ 71,967	\$ 4,525,939
Accounts Receivable	55,223	94,933	850	151,006
Inventory	-	-	232,210	232,210
Prepaid items	5,797	9,131	7,112	22,040
Due from other funds	-	150,000	-	150,000
Total current assets	<u>2,614,993</u>	<u>2,154,063</u>	<u>312,139</u>	<u>5,081,195</u>
<b>Noncurrent Assets</b>				
Capital assets not being depreciated:				
Land	36,000	84,450	231,631	352,081
Capital assets, net of accumulated depreciation:				
Infrastructure	3,006,430	4,803,397	-	7,809,827
Buildings	-	-	658,398	658,398
Machinery and equipment	78,186	82,345	13,774	174,305
Total noncurrent assets	<u>3,120,616</u>	<u>4,970,192</u>	<u>903,803</u>	<u>8,994,611</u>
Total assets	<u>5,735,609</u>	<u>7,124,255</u>	<u>1,215,942</u>	<u>14,075,806</u>
<b>Deferred Outflows of Resources</b>				
Pension plans	<u>21,151</u>	<u>16,215</u>	<u>23,429</u>	<u>60,795</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	11,538	6,485	24,476	42,499
Sales tax payable	56	-	12,440	12,496
Salaries and wages payable	4,449	3,341	4,305	12,095
Compensated absences	-	-	5,643	5,643
Bonds payable - current	59,000	427,000	-	486,000
Interest payable	6,582	27,096	-	33,678
Due to other funds	-	-	150,000	150,000
Total current liabilities	<u>81,625</u>	<u>463,922</u>	<u>196,864</u>	<u>742,411</u>
<b>Noncurrent Liabilities</b>				
Net pension liability	101,605	77,895	112,544	292,044
Bonds payable	991,000	2,851,791	-	3,842,791
Total noncurrent liabilities	<u>1,092,605</u>	<u>2,929,686</u>	<u>112,544</u>	<u>5,027,246</u>
Total liabilities	<u>1,174,230</u>	<u>3,393,608</u>	<u>309,408</u>	<u>4,877,246</u>
<b>Deferred Inflows of Resources</b>				
Pension plans	<u>23,786</u>	<u>18,235</u>	<u>26,346</u>	<u>68,367</u>
<b>Net Position</b>				
Net investment in capital assets	2,070,616	1,691,401	903,803	4,665,820
Unrestricted	<u>2,488,128</u>	<u>2,037,226</u>	<u>(186)</u>	<u>4,525,168</u>
Total net position	<u>\$ 4,558,744</u>	<u>\$ 3,728,627</u>	<u>\$ 903,617</u>	<u>\$ 9,190,988</u>

The notes to the financial statements are an integral part of the financial statements

City of Lonsdale  
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
Year Ended December 31, 2015

	Water	Sewer	Liquor	Enterprise Fund Total
<b>Operating Revenues</b>				
Sales and service	\$ 399,283	\$ 792,155	\$ 1,352,582	\$ 2,544,020
Miscellaneous	26,235	40,413	850	67,498
Total operating revenues	<u>425,518</u>	<u>832,568</u>	<u>1,353,432</u>	<u>2,611,518</u>
<b>Operating Expenses</b>				
Cost of goods sold	-	-	1,025,583	1,025,583
Purchases and supplies	89,186	76,454	5,092	170,732
Personnel services	145,780	110,746	169,541	426,067
General and administrative	24,372	56,644	46,574	127,590
Utilities	52,450	63,996	19,464	135,910
Depreciation	114,673	188,086	30,250	333,009
Total operating expenses	<u>426,461</u>	<u>495,926</u>	<u>1,296,504</u>	<u>2,218,891</u>
Operating income (loss)	<u>(943)</u>	<u>336,642</u>	<u>56,928</u>	<u>392,627</u>
<b>Nonoperating Revenues (Expenses)</b>				
Connection and developer fees	65,200	95,500	-	160,700
Interest and investment revenue	638	327	4	969
Miscellaneous revenue	1,449	10,485	34	11,968
Interest and other expenses	(19,584)	(83,630)	-	(103,214)
Total nonoperating revenues (expenses), net	<u>47,703</u>	<u>22,682</u>	<u>38</u>	<u>70,423</u>
Income before transfers	46,760	359,324	56,966	463,050
Transfers to other funds	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
Change in net position	<u>46,760</u>	<u>359,324</u>	<u>51,966</u>	<u>458,050</u>
Total Net Position - Beginning	4,626,754	3,457,292	978,776	9,062,822
Adoption of a new accounting standard	<u>(114,770)</u>	<u>(87,989)</u>	<u>(127,125)</u>	<u>(329,884)</u>
Total Net Position - Beginning - Restated	<u>4,511,984</u>	<u>3,369,303</u>	<u>851,651</u>	<u>8,732,938</u>
Total Net Position - Ending	<u>\$ 4,558,744</u>	<u>\$ 3,728,627</u>	<u>\$ 903,617</u>	<u>\$ 9,190,988</u>

City of Lonsdale  
Statement of Cash Flows – Proprietary Funds  
Year Ended December 31, 2015

	Water	Sewer	Liquor	Enterprise Fund Total
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 397,199	\$ 800,969	\$ 1,352,882	\$ 2,551,050
Other receipts	27,684	50,898	884	79,466
Payments to employees	(155,170)	(118,002)	(180,921)	(454,093)
Payments to suppliers	(164,504)	(214,054)	(1,134,504)	(1,513,062)
Net cash from operating activities	<u>105,209</u>	<u>519,811</u>	<u>38,341</u>	<u>663,361</u>
<b>Cash Flows provided by (used for) Noncapital Financing Activities</b>				
Transfers to other funds	-	-	(5,000)	(5,000)
<b>Cash Flows provided by (used for) Capital and Related Financing Activities</b>				
Connection and developer fees	65,200	95,500	-	160,700
Principal paid on bonds and notes payable	(70,000)	(407,000)	-	(477,000)
Interest and other expenses paid	(19,983)	(86,978)	-	(106,961)
Loan receipts (payments) from (to) other funds	-	50,000	(50,000)	-
Acquisition of property, plant, and equipment	(356,869)	(16,900)	-	(373,769)
Net cash provided by (used for) capital and related financing activities	<u>(381,652)</u>	<u>(365,378)</u>	<u>(50,000)</u>	<u>(797,030)</u>
<b>Cash Flows provided by (used for) Investing Activities</b>				
Earnings on investments and cash	638	327	4	969
Net change in cash	(275,805)	154,760	(16,655)	(137,700)
Balances - Beginning	<u>2,829,778</u>	<u>1,745,239</u>	<u>88,622</u>	<u>4,663,639</u>
Balances - Ending	<u>\$ 2,553,973</u>	<u>\$ 1,899,999</u>	<u>\$ 71,967</u>	<u>\$ 4,525,939</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>				
Operating income (loss)	\$ (943)	\$ 336,642	\$ 56,928	\$ 392,627
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	114,673	188,086	30,250	333,009
Miscellaneous revenue	1,449	10,485	34	11,968
Deferred outflows	(9,352)	(7,170)	(10,360)	(26,882)
Deferred inflows	(3,138)	(2,406)	(3,476)	(9,020)
Net pension liabilities	1,960	1,502	2,172	5,634
Decrease (increase) in assets:				
Accounts receivable	(2,084)	8,814	300	7,030
Prepaid items	(2,576)	(3,766)	(3,368)	(9,710)
Inventory	-	-	(21,809)	(21,809)
Increase (decrease) in liabilities:				
Accounts payable	4,024	(13,194)	(13,374)	(22,544)
Sales tax payable	56	-	760	816
Salaries and wages payable	1,140	818	94	2,052
Compensated absences	-	-	190	190
Net cash provided by operating activities	<u>\$ 105,209</u>	<u>\$ 519,811</u>	<u>\$ 38,341</u>	<u>\$ 663,361</u>

## **Note 1 - Summary of Significant Accounting Policies**

The City of Lonsdale (the City) is a municipal corporation governed by a mayor and a four member council elected by eligible voters of the City. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City applies all relevant GASB pronouncements. The significant City accounting policies are described below.

### **A. Financial Reporting Entity**

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City is the basic level of government which has oversight responsibility and control over all activities related to the government in the City's area. The City receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by the GASB's pronouncement, since mayor and council members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City has no component units.

### **B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

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

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

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

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

The government reports the following major governmental funds:

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

The *Idaho Street Debt fund* accounts for the sources of revenue for and the payment for the debt related to the Idaho Street project.

The *Area 5 Capital Project fund* accounts for the sources of revenue for and the payment for the debt related to the Area 5 Street project.

The *Business Park Project fund* accounts for the bond proceeds and the related revenues and expenses of the Business Park project.



The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the government's water distribution operations.

The *sewer fund* accounts for the activities of the government's sewage pumping stations and collection systems.

The *liquor fund* accounts for the activities of the government's off sale liquor operation.

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

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

#### **D. Assets, Liabilities, and Net Position or Fund Balance**

##### **1. Cash and Investments**

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits, certificates of deposit, as well as short-term investments with an original maturity date within three months of the date acquired by the City. For the purpose of the statement of cash flows, cash for each fund includes all demand deposit account balances.

##### **2. Receivables and Payables**

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, special assessments, and state and federal aids. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible.

Interest and certain receivables are recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

On or before September 30th of each year, the City Council certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date.

Beginning on November 29th and through December 20th of each year, the City is required by state law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the City Council certifies its final adopted property taxes payable the following year to the county auditor. If the City has not certified its final property tax by this time, its property tax shall be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities three times a year, in January, June, and November.

All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. Uncollectible accounts are periodically charged to operations on a direct write off method. The effect of this policy on the financial statements is not significant.

### **3. Inventories and Prepaid Items**

Inventory in the proprietary funds consists of beer and liquor in the Liquor fund.

All inventories are valued at the lower of cost or market, using the average cost method. Inventories of the proprietary funds are recorded as expenditures when consumed rather than when purchased.

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

### **4. Land Held for Resale**

Land held for resale in the governmental funds consists of industrial lots accounted for in the General Fund and in the Business Park Capital Project Fund.

All land held for resale is valued at the lower of cost or market.

### **5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Lift stations	50 years
Sanitary sewer mains	40 years
Water mains	40 years
Storm sewer mains	40 years
Sump pump lines	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 (tankers, rescue van, ladder trucks, etc.)	20 years
Office equipment	10 years
Machinery, equipment, radios, phones	10 years
Computer equipment/software	5 years
Vehicles	5 years
Land	Not Depreciated

## 6. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position or governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period and so will *not* be recognized as an outflow (expense/expenditure) until then. The City has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the proprietary fund and government-wide statement of net position.

In addition to liabilities, the statement of financial position or the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The city has two items that qualify for reporting in this category, *unavailable revenue*, which arises only under the modified accrual basis of accounting. Accordingly, *unavailable revenue* is only reported on the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available. The other item is changes in the net pension liability not included in pension expense reported in the proprietary fund and government-wide statements of net position.

## 7. Compensated Absences

All full-time employees who leave the City because of retirement, death, or resignation shall receive pay of unused vacation leave and compensatory time not taken. All employees hired prior to January 1, 2011 may accumulate sick leave and be paid out to the extent of one half of all unused sick leave up to a maximum accumulation of 18 working days. Amounts are paid out if an employee has three years of continuous service with the City and is leaving employment in good standing. Employees have the option of directing those dollars into a health savings account (subject to internal revenue service (IRS) maximum deferral regulations and Minnesota law).

## 8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued is reported as other financing sources.

## 9. Fund Equity and Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

- Nonspendable fund balance—amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City approved a resolution stating that the City will strive to maintain a minimum unassigned general fund balance equivalent to a minimum of five months or 42 percent of the prior fiscal year expenditures. If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

## **10. Pensions**

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

As of January 1, 2015, the City adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

### **E. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues and expenditures for the year ended December 31, 2015, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

Before the end of July of each year, all agencies of the government submit requests for appropriation to the government's manager so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The city's council reviews the budget at their regular meetings from July to November and make changes as they see fit. All changes are approved by an affirmative vote of a majority of the city's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with state requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

### **B. Excess of Expenditures over Appropriations**

For the year ended December 31, 2015, expenditures exceeded appropriations in the following funds: General Fund: \$51,261, Idaho Street Debt Service Fund: \$6,323, 7<sup>th</sup> Ave NW Debt Service Fund: \$33,495, and in the Capital Projects Fund: \$648,950. The excess expenditures were funded by greater than anticipated revenues and available fund balance except for the Idaho Street Debt Service Fund which had a deficit fund balance of \$215,113 at the end of December 31, 2015. The excess expenditures in the Idaho Street Debt Service Fund will be funded by future revenues or a transfer from another fund.

A budget was not set for the Business Park Capital Project Fund.

### **C. Deficit Fund Equity**

The Idaho Street Debt Fund, and the Business Park Capital Project Fund had deficit fund equity of \$215,113, and \$1,006,551, respectively, at December 31, 2015. The deficits will be eliminated with future revenues or transfers from other funds.

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

### **A. Cash and Investments**

#### **1. Cash**

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

**Custodial Credit Risk-Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

## 2. Investments

As of December 31, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of Deposit	\$ 114,286	0.68

**Interest Rate Risk.** The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk.** The City may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds are invested in accordance with Minnesota Statutes. Each Minnesota City owns a pro-rata share of each investment which is held in the name of the funds. The City has an investment policy that would further limit its investment choices. As of December 31, 2015, the City's Minnesota 4M General Fund is not rated, they are insured by the investments of Minnesota 4M Fund.

**Concentration of Credit Risk.** The City places no limit on the amount the City may invest in any one issuer. More than 5% of the City's investments are in the Bank of China New York City BRH (100%).

**Custodial Credit Risk-Investments.** For investments, this is the risk that, in the event of a failure of the counter party, the City will not be able to recover its investment. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have an investment policy for custodial credit risk. As of December 31, 2015, none of the City's investments were exposed to custodial credit risk.

### B. Receivables

Receivables at year end for the City are reported on the Statement of Net Position. The City reviewed its accounts receivable and determined that no estimates for allowances for uncollectible receivables is necessary as of December 31, 2015.

The City issues promissory notes through the Economic Development Fund to local businesses. There is currently only one loan outstanding under this program. The loan is receivable by the City over a period of ten years with monthly payments of \$516 with interest at 4%. The note is secured by a mortgage. The current outstanding balance of the loan is \$27,615 as of December 31, 2015.

As of December 31, 2015, the City also has an outstanding balance of \$175,050 of deferred loans provided to City residents for the rehabilitation of housing. If the property is sold, transferred, or otherwise conveyed or if the property no longer is the owner's place of residence within the ten years of the loan disbursement, the resident must repay the loan in full or in an amount negotiated with the project committee. The loans term at various dates through 2022. The City has a lien on the related properties.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows and unearned revenue reported in the governmental funds were as follows:

	Unavailable
Delinquent property taxes and assessments (general fund)	\$ 44,540
Delinquent property taxes (special revenue fund)	165
Delinquent property taxes and assessments (debt service fund)	17,840
Delinquent property taxes and assessments (capital project fund)	3,237
Special assessments not yet due (general fund)	5,544
Special assessments not yet due (debt service fund)	713,646
Special assessments not yet due (capital project fund)	1,474,323
Notes receivable (special revenue fund)	202,665
Total deferred inflows of resources for governmental funds	\$ 2,461,960

The only receivables not expected to be collectible within one year are the following: Special Revenue Fund: Economic Development Fund - \$197,479 of notes receivable; Debt Service Funds: Idaho Street Debt Fund - \$54,000 of special assessments, 7<sup>th</sup> Ave. NW Debt Service Bond Fund - \$93,043 of special assessments, 2012A G.O. Bond Fund- \$294,086 of special assessments, Business Park Capital Project Fund - \$974,461 of special assessments and Area 5 Capital Project Fund - \$390,746 of special assessments.



**C. Capital Assets**

Capital asset activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 650,696	\$ 15,571	\$ -	\$ 666,267
Construction in progress	168,581	66,948	168,581	66,948
Total Capital Assets, Not Being Depreciated	<u>819,277</u>	<u>82,519</u>	<u>168,581</u>	<u>733,215</u>
Capital Assets, Being Depreciated				
Building and improvements	1,764,704	-	-	1,764,704
Infrastructure	9,792,308	1,430,614	-	11,222,922
Equipment	1,581,984	219,371	993	1,800,362
Vehicles	1,393,319	-	-	1,393,319
Total Capital Assets, Being Depreciated	<u>14,532,315</u>	<u>1,649,985</u>	<u>993</u>	<u>16,181,307</u>
Less Accumulated Depreciation for:				
Building and improvements	965,336	41,695	-	1,007,031
Infrastructure	2,394,303	343,016	-	2,737,319
Equipment	997,923	85,418	827	1,082,514
Vehicles	896,030	78,198	-	974,228
Total Accumulated Depreciation	<u>5,253,592</u>	<u>548,327</u>	<u>827</u>	<u>5,801,092</u>
Total Capital Assets, Being Depreciated, Net	<u>9,278,723</u>	<u>1,101,658</u>	<u>166</u>	<u>10,380,215</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,098,000</u>	<u>\$ 1,184,177</u>	<u>\$ 168,747</u>	<u>\$ 11,113,430</u>

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

Governmental Activities	
General government	\$ 158,016
Public safety	90,053
Highways and streets	239,760
Culture and recreation	<u>60,498</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 548,327</u>

Capital asset activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 352,081	\$ -	\$ -	\$ 352,081
Capital Assets, Being Depreciated				
Buildings	831,238	-	-	831,238
Infrastructure	10,576,233	352,369	-	10,928,602
Machinery and equipment	475,273	21,400	-	496,673
Total Capital Assets, Being Depreciated	<u>11,882,744</u>	<u>373,769</u>	<u>-</u>	<u>12,256,513</u>
Less Accumulated Depreciation for:				
Buildings	152,059	20,781	-	172,840
Infrastructure	2,843,660	275,115	-	3,118,775
Machinery and equipment	285,255	37,113	-	322,368
Total Accumulated Depreciation	<u>3,280,974</u>	<u>333,009</u>	<u>-</u>	<u>3,613,983</u>
Total Capital Assets, Being Depreciated, Net	<u>8,601,770</u>	<u>40,760</u>	<u>-</u>	<u>8,642,530</u>
Business-Type Activities Capital Assets, Net	<u>\$ 8,953,851</u>	<u>\$ 40,760</u>	<u>\$ -</u>	<u>\$ 8,994,611</u>

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

Business-Type Activities:	
Water	\$ 114,673
Sewer	188,086
Liquor	<u>30,250</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 333,009</u>

#### **D. Capital Lease**

The City entered into a 60 month lease agreement as lessee for financing the acquisition of a John Deere Loader. The agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease will run through January 17, 2016 with lease payments of \$65,001 and carry an interest rate of 4.25%. As of December 31, 2015, the asset acquired through the capital lease is recorded at a value of \$109,378 and the amount of accumulated amortization totals \$53,777. Amortization expense for the capital lease is included in depreciation expense in the government-wide financial statements.

The future minimum lease obligation and the present value of the net minimum lease payments as of December 31, 2015, are as follows:

Year Ending December 31,	Capital Lease Payable
2016	\$ 65,000
Less: amount representing interest	(2,700)
Present value of future minimum lease payments	\$ 62,300

### E. Long-Term Debt

General Obligation Bonds. The City issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The original principle amount of general obligation bonds issued in prior years was \$16,639,720. General Obligation bonds outstanding as of December 31, 2015, are as follows:

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
G.O. Improvement bonds 2006A of \$420,000. Due in annual installments of \$45,000 to \$50,000 through February 1, 2017.	3.65%	\$ 100,000
G.O. Taxable Tax Increment bonds 2009A of \$940,000. Due in annual installments of \$5,000 to \$105,000 through February 1, 2036.	5.25% to 6.50%	935,000
G.O. Improvement Crossover Refunding bonds 2011A of \$1,150,000. Due in annual installments of \$370,000 to \$390,000 through February 1, 2017.	2.00%	770,000
G.O. Improvement bonds 2012A of \$1,385,000. Due in annual installments of \$70,000 to \$110,000 through February 1, 2028.	2.00% to 2.60%	1,230,000
G.O. Crossover Refunding Improvement bonds 2013A of \$885,000. Due in annual installments of \$215,000 to \$225,000 through February 1, 2018.	1.50%	670,000
G.O. Improvement bonds 2013B of \$2,735,000. Due in annual installments of \$130,000 to \$225,000 through February 1, 2029.	2.00% to 4.00%	2,605,000
G.O. Improvement bonds 2015A of \$1,335,000. Due in annual installments of \$80,000 to \$100,000 through February 1, 2031.	2.00% to 3.50%	1,335,000
Bonds Payable		\$ 7,645,000

General Obligation Revenue Bonds. The City issued revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General Obligation Revenue Bonds outstanding as of December 31, 2015, are as follows:

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
G.O. Sewer and Water Refunding bonds 2010A of \$416,000. Due in annual installments of \$60,000 to \$63,000 through December 1, 2017.	1.75% to 2.75%	\$ 122,000
G.O. Revenue (PFA) bonds 2003 of \$6,644,792. Due in annual installments of \$357,000 to \$429,792 through August 20, 2023.	2.34%	3,176,791
G.O. Revenue (PFA) bonds 2011 of \$728,928. Due in annual installments of \$60,000 to \$71,000 through August 20, 2023.	1.76%	<u>1,030,000</u>
Bonds Payable		<u>\$ 4,328,791</u>

Annual debt service requirements to maturity for general obligation and revenue bonds are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 900,000	\$ 225,316	\$ 486,000	\$ 95,779
2017	1,005,000	204,500	499,000	67,505
2018	565,000	189,100	446,000	57,021
2019	355,000	179,929	456,000	62,879
2020	360,000	171,909	466,000	52,583
2021-2025	1,975,000	705,288	1,602,791	110,439
2026-2030	1,895,000	348,270	373,000	19,878
2031-2035	535,000	99,715	-	-
2036-2040	55,000	1,870	-	-
Total	<u>\$ 7,645,000</u>	<u>\$ 2,125,897</u>	<u>\$ 4,328,791</u>	<u>\$ 466,084</u>

Changes in Long-term Liabilities. During the year ended December 31, 2015, the following changes occurred in liabilities reported in the general long-term debt.

	<u>Balance January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds Payable					
General obligation bonds	\$ 7,160,000	\$ 1,335,000	\$ 850,000	\$ 7,645,000	\$ 900,000
Compensated absences	36,807	1,198	-	38,005	-
Capital lease	76,630	-	14,330	62,300	62,300
Governmental activity					
Long-term Liabilities	<u>\$ 7,273,437</u>	<u>\$ 1,336,198</u>	<u>\$ 864,330</u>	<u>\$ 7,745,305</u>	<u>\$ 962,300</u>
General obligation refunding bonds	<u>\$ 2,025,000</u>	<u>\$ -</u>	<u>\$ 585,000</u>	<u>\$ 1,440,000</u>	<u>\$ 600,000</u>
Business-Type Activities					
Bonds Payable					
GO revenue bonds (PFA)	\$ 4,623,791	\$ -	\$ 417,000	\$ 4,206,791	\$ 427,000
GO revenue bonds	182,000	-	60,000	122,000	59,000
Compensated absences	5,453	190	-	5,643	-
Business-type activity					
Long-term Liabilities	<u>\$ 4,811,244</u>	<u>\$ 190</u>	<u>\$ 477,000</u>	<u>\$ 4,334,434</u>	<u>\$ 486,000</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$7,776,150. The computed legal debt margin of December 31, 2015, equals \$7,713,850.

**F. Inter-Fund Balances and Transfers**

Inter-fund balances for the year ended December 31, 2015, consisted of the following:

	Due From:
	Liquor
	Enterprise
Due To:	Fund
Enterprise Fund - Sewer	\$ 150,000

The purpose of the inter-fund balance was for the construction of the municipal liquor store and is being repaid as funds are available from liquor operations.

During the year ended December 31, 2015, the City made the following transfers:

Transferred From:	Transferred To:
	General
	Fund
Liquor fund	\$ 5,000
Other Governmental Funds	10,000
Total Transfers	\$ 15,000

**G. Fund Balances**

As of December 31, 2015, fund balances are composed of the following:

	General Fund	Idaho Street Debt Fund	Area 5 Capital Proj. Fund	Business Park Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepaid items	\$ 55,336	\$ -	\$ -	\$ -	\$ -	\$ 55,336
Restricted:						
Debt service	-	-	-	-	245,866	245,866
Economic development	-	-	-	-	206,057	206,057
Capital projects	-	-	219,228	-	-	219,228
Total restricted	-	-	219,228	-	451,923	671,151
Assigned:						
Road and bridge	442,683	-	-	-	-	442,683
Fire department	478,684	-	-	-	-	478,684
Total assigned	921,367	-	-	-	-	921,367
Unassigned	1,378,431	(215,113)	-	(1,006,551)	-	156,767
Total fund balances	\$ 2,355,134	\$ (215,113)	\$219,228	\$ (1,006,551)	\$ 451,923	\$ 1,804,621

## **Note 4 - Defined Benefit Pension Plans**

### **A. Plan Description**

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

#### **1. General Employees Retirement Fund (GERF)**

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

#### **2. Public Employees Police and Fire Fund (PEPFF)**

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

### **B. Benefits Provided**

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

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

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

### **1. GERF Benefits**

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

### **2. PEPFF Benefits**

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

## **C. Contributions**

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

### **1. GERF Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$52,732. The City's contributions were equal to the required contributions as set by state statute.

### **2. PEPFF Contributions**

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2015, were \$40,879. The City's contributions were equal to the required contributions as set by state statute.



**D. Pension Costs**

**1. GERF Pension Costs**

At December 31, 2015, the City reported a liability of \$632,267 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0122%, which was a decrease of .0010% from the prior year.

For the year ended December 31, 2015, the City recognized pension expense of \$72,536 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the City reported its proportionate share of the GERF'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	\$ 5,863	\$ 31,877
Changes in actuarial assumptions	39,375	-
Difference between projected and actual investment earnings	59,854	116,137
City's contributions to GERF subsequent to the measurement date	26,526	-
Total	\$ 131,618	\$ 148,014

\$26,526 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended December 31, 2015	Pension Expense Amount
2016	\$ (11,755)
2017	(11,755)
2018	(34,375)
2019	14,963
2020	-

## 2. PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$318,146 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0280%, which was an increase of .0010% over the prior year.

For the year ended December 31, 2015, the City recognized pension expense of \$59,144 for its proportionate share of the PEPFF's pension expense. The City also recognized \$56,624 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City reported its proportionate share of the PEPFF'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	\$ 338	\$ 51,593
Changes in actuarial assumptions	60,471	-
Difference between projected and actual investment earnings	55,433	111,915
City's contributions to PEPFF subsequent to the measurement date	19,569	-
Total	\$ 135,811	\$ 163,508

\$19,569 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended December 31,	Pension Expense Amount
2016	\$ (18,564)
2017	(18,564)
2018	(18,564)
2019	18,742
2020	(10,316)

### E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

<u>Assumptions</u>	<u>GERF</u>
Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1<sup>st</sup> through 2034 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2015: None

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocations</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

### F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.90%	7.90%	8.90%
City’s proportionate share of the GERF net pension liability	994,149	632,267	333,409
PEPPF discount rate	6.90%	7.90%	8.90%
City’s proportionate share of the PEPFF net pension liability	620,069	318,146	68,704

**H. Pension Plan Fiduciary Net Position**

Detailed information about each pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling 651-296-7460 or 800-652-9026.

**Note 5 - Other Information**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In accordance with Section C50 of the 1995 “Codification of Governmental Accounting and Financial Reporting Standards” of the Governmental Accounting Standards Board, the City accounts for and reports risk management activities in the General Fund within the constraints of the modified accrual basis of accounting.

The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

**B. Contingencies**

The City participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant.

**C. Commitments**

The City has the following ongoing construction commitment:

Project	Contracted Total Cost	Costs Incurred	Commitment to Complete
Area 5 Capital Project	\$1,111,482	\$ 919,621	\$ 191,861

**D. Related Party Transactions**

The City and council members entered into various contracts during 2015 for small construction projects, auto repairs, and embroidery services. The total amount paid for these services were \$38,508, \$1,690, \$1,014, and \$979. As of December 31, 2015, \$2,691 of accounts payable is due to related parties.

**Note 6 - Adoption of a New Accounting Standard**

As of January 1, 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated by \$1,076,398 as shown below.

	Deferred Outflows	Deferred Inflows	Net Pension Liability	Net Position
Governmental activities	\$ 112,803	\$ (234,046)	\$ (625,271)	\$ 746,514
Business-type activities				
Water Fund	\$ 11,799	\$ (26,924)	\$ (99,645)	\$ 114,770
Sewer Fund	9,045	(20,641)	(76,393)	87,989
Liquor Fund	13,069	(29,822)	(110,372)	127,125
Total business-type activities	\$ 33,913	\$ (77,387)	\$ (286,410)	\$ 329,884



Required Supplementary Information  
December 31, 2015

# City of Lonsdale

City of Lonsdale  
 Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions  
 Year Ended December 31, 2015

**Schedule of Employer's Share of Net Pension Liability  
 Last 10 Fiscal Years \***

Pension Plan	Measurement Date	City's Proportion (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With City (b)	Total (d) (a+b)	City's Covered - Employee Payroll (e)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered - Employee Payroll (a/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	06/30/15	0.0122%	\$ 632,267	N/A	\$ 632,267	\$ 703,107	89.9%	78.2%
GERF	06/30/14	0.0132%	\$ 620,070	N/A	\$ 620,070	\$ 710,496	87.3%	78.9%
PEPFF	06/30/15	0.028%	\$ 318,146	N/A	\$ 318,146	\$ 252,326	126.1%	86.6%
PEPFF	06/30/14	0.027%	\$ 291,611	N/A	\$ 291,611	\$ 247,834	117.7%	87.1%

**Schedule of Employer's Contributions  
 Last 10 Fiscal Years \***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered - Employee Payroll (d)	Contributions as a Percentage of Covered - Employee Payroll (b/d)
GERF	12/31/15	\$ 52,732	\$ 52,732	\$ -	\$ 677,593	7.8%
GERF	12/31/14	\$ 53,205	\$ 53,205	\$ -	\$ 677,392	7.9%
PEPFF	12/31/15	\$ 40,879	\$ 40,879	\$ -	\$ 374,116	10.9%
PEPFF	12/31/14	\$ 37,918	\$ 37,918	\$ -	\$ 356,640	10.6%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

City of Lonsdale  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2015

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes				
Property	\$ 1,119,705	\$ 1,119,705	\$ 1,122,445	\$ 2,740
Franchise	7,002	7,002	10,867	3,865
Special assessments	-	-	2,428	2,428
Licenses and permits	87,950	87,950	130,893	42,943
Intergovernmental revenue				
Local government aid	459,350	459,350	424,355	(34,995)
Police and fire aid	70,500	70,500	85,145	14,645
Other state aids and grants	107,020	107,020	166,784	59,764
Charges for services				
General government	4,500	4,500	10,750	6,250
Police and fire contracts	141,774	141,774	143,082	1,308
Other public safety	3,250	3,250	8,568	5,318
Other charges for services	200	200	2,791	2,591
Tower rent	59,454	59,454	59,454	-
Fines and forfeits	17,500	17,500	14,573	(2,927)
Interest earnings	400	400	275	(125)
Refunds and reimbursements	1,850	1,850	65,941	64,091
Contributions	37,950	37,950	124,658	86,708
Miscellaneous revenue	6,800	6,800	13,497	6,697
Total revenues	<u>2,125,205</u>	<u>2,125,205</u>	<u>2,386,506</u>	<u>261,301</u>



City of Lonsdale  
 Budgetary Comparison Schedule – General Fund - Continued  
 Year Ended December 31, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Expenditures				
General government				
Mayor and council	17,890	17,890	18,240	(350)
Administration and finance	129,933	129,933	133,221	(3,288)
Other general government	197,073	197,073	208,268	(11,195)
Capital outlay	15,700	15,700	6,301	9,399
Public safety				
Police				
Current expenditures	539,012	539,012	512,692	26,320
Capital outlay	24,850	24,850	8,217	16,633
Fire				
Current expenditures	172,378	172,378	213,330	(40,952)
Capital outlay	68,509	68,509	36,336	32,173
Other public safety	33,000	33,000	56,552	(23,552)
Streets and highways				
Street maintenance	355,247	355,247	336,460	18,787
Snow and ice removal	20,000	20,000	10,853	9,147
Street lighting	60,000	60,000	57,490	2,510
Street construction - other capital outlay	-	-	500	(500)
Culture and recreation				
Parks and recreation - current expenditures	153,672	153,672	202,690	(49,018)
Parks and recreation - capital outlay	417,000	417,000	364,562	52,438
Library - current expenditures	95,921	95,921	87,903	8,018
Library - capital outlay	13,600	13,600	14,916	(1,316)
Debt service - principal	17,651	17,651	14,330	3,321
Debt service - interest and fiscal charges	-	-	3,320	(3,320)
Total expenditures	<u>2,331,436</u>	<u>2,331,436</u>	<u>2,286,181</u>	<u>45,255</u>
Excess (deficiency) of revenues over (under) expenditures	(206,231)	(206,231)	100,325	306,556
Other Financing Sources				
Transfers in	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Net Change in Fund Balances	(206,231)	(206,231)	115,325	321,556
Fund Balance - Beginning	<u>2,239,809</u>	<u>2,239,809</u>	<u>2,239,809</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 2,033,578</u>	<u>\$ 2,033,578</u>	<u>\$ 2,355,134</u>	<u>\$ 321,556</u>

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2015, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

Before the end of July each year, all agencies of the government submit requests for appropriation to the government's manager so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The government's council reviews the budget at their regular meetings from July to November and make changes as they see fit. All changes are approved by an affirmative vote of a majority of the city's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts, or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.



Supplementary Information  
December 31, 2015  
**City of Lonsdale**

City of Lonsdale  
Combining Balance Sheet – Nonmajor Governmental Funds  
December 31, 2015

	Special Revenue Fund	Debt Service Funds				Total Debt Service Funds	Total Non-Major Governmental Funds
	Economic Development Fund	7th Ave NW Debt Service Bond Fund	2012A G.O. Bond Fund	8th Ave NW Debt Service Bond Fund	TIF Fund		
Assets							
Cash and investments	\$ 205,937	\$ 85,545	\$ 36,041	\$ 17,229	\$ 101,600	\$ 240,415	\$ 446,352
Receivables							
Taxes	285	7,354	1,552	-	-	8,906	9,191
Special assessments	-	139,559	324,417	25,040	-	489,016	489,016
Notes	202,665	-	-	-	-	-	202,665
Total assets	<u>\$ 408,887</u>	<u>\$ 232,458</u>	<u>\$ 362,010</u>	<u>\$ 42,269</u>	<u>\$ 101,600</u>	<u>\$ 738,337</u>	<u>\$ 1,147,224</u>
Deferred inflows of resources							
Unavailable revenue	\$ 202,830	\$ 142,251	\$ 325,190	\$ 25,030	\$ -	\$ 492,471	\$ 695,301
Fund Balances:							
Restricted	<u>206,057</u>	<u>90,207</u>	<u>36,820</u>	<u>17,239</u>	<u>101,600</u>	<u>245,866</u>	<u>451,923</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 408,887</u>	<u>\$ 232,458</u>	<u>\$ 362,010</u>	<u>\$ 42,269</u>	<u>\$ 101,600</u>	<u>\$ 738,337</u>	<u>\$ 1,147,224</u>

City of Lonsdale

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds  
Year Ended December 31, 2015

	Special Revenue Fund		Debt Service Funds				Total Non-Major Governmental Funds
	Economic Development Fund	7th Ave NW Debt Service Bond Fund	2012A G.O. Bond Fund	8th Ave Debt Service Bond Fund	TIF Fund	Total Debt Service Funds	
Revenues							
Property Taxes	\$ 119	\$ 179,891	\$ 37,913	\$ 43	\$ 74,652	\$ 292,499	\$ 292,618
Special assessments	-	49,193	71,835	28,430	-	149,458	149,458
Miscellaneous	15,541	-	-	-	-	-	15,541
Total revenues	<u>15,660</u>	<u>229,084</u>	<u>109,748</u>	<u>28,473</u>	<u>74,652</u>	<u>441,957</u>	<u>457,617</u>
Expenditures							
Economic Development							
Current expenditures	14,967	-	-	-	-	-	14,967
Miscellaneous	999	-	-	-	-	-	999
Debt Service							
Principal	-	215,000	85,000	45,000	5,000	350,000	350,000
Interest and other charges	-	12,158	27,940	5,395	59,176	104,669	104,669
Total expenditures	<u>15,966</u>	<u>227,158</u>	<u>112,940</u>	<u>50,395</u>	<u>64,176</u>	<u>454,669</u>	<u>470,635</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(306)</u>	<u>1,926</u>	<u>(3,192)</u>	<u>(21,922)</u>	<u>10,476</u>	<u>(12,712)</u>	<u>(13,018)</u>
Other Financing Uses							
Operating transfers in	2,046	-	-	-	-	-	2,046
Operating transfers out	<u>(12,046)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,046)</u>
Total other financing sources (uses)	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
Net Change in Fund Balances	(10,306)	1,926	(3,192)	(21,922)	10,476	(12,712)	(23,018)
Fund Balance - Beginning	<u>216,363</u>	<u>88,281</u>	<u>40,012</u>	<u>39,161</u>	<u>91,124</u>	<u>258,578</u>	<u>474,941</u>
Fund Balance - Ending	<u>\$ 206,057</u>	<u>\$ 90,207</u>	<u>\$ 36,820</u>	<u>\$ 17,239</u>	<u>\$ 101,600</u>	<u>\$ 245,866</u>	<u>\$ 451,923</u>



## Independent Auditor's Report on Minnesota Legal Compliance

Honorable Mayor and City Council  
City of Lonsdale  
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, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated May 19, 2016.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statutes Sec. 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 the City of Lonsdale failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Lonsdale'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 those specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Mankato, Minnesota  
May 19, 2016