



Financial Statements  
December 31, 2016  
**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



CPAs & BUSINESS ADVISORS

## 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, 2016, 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, 2016, 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.

## **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 combining schedules 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.

  
Erik Bailly LLP  
Mankato, Minnesota  
March 13, 2017

City of Lonsdale  
Statement of Net Position  
December 31, 2016

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
<b>Assets</b>			
Cash and investments	\$ 2,508,386	\$ 4,908,306	\$ 7,416,692
Cash and investments with fiscal agent	2,758,921	-	2,758,921
Receivables			
Taxes	50,457	-	50,457
Special assessments	2,445,856	-	2,445,856
Accounts	48,400	152,087	200,487
Notes	241,935	-	241,935
Prepaid items	48,266	21,806	70,072
Inventory	-	216,853	216,853
Capital assets not being depreciated:			
Land	650,696	352,081	1,002,777
Construction in progress	12,962	-	12,962
Capital assets, net of accumulated depreciation:			
Buildings	725,957	637,617	1,363,574
Infrastructure	9,764,730	7,542,633	17,307,363
Machinery and equipment	700,969	152,437	853,406
Vehicles	392,059	-	392,059
Total assets	<u>20,349,594</u>	<u>13,983,820</u>	<u>34,333,414</u>
<b>Deferred Outflows of Resources</b>			
Pension plans	<u>886,873</u>	<u>158,692</u>	<u>1,045,565</u>
<b>Liabilities</b>			
Accounts payable	172,243	55,965	228,208
Salaries and wages payable	28,958	14,471	43,429
Sales tax payable	-	13,445	13,445
Customer deposits	80,250	-	80,250
Interest payable	125,398	30,063	155,461
Noncurrent liabilities:			
Due within one year	1,105,000	499,000	1,604,000
Due in more than one year	10,259,181	3,349,925	13,609,106
Net pension liability	<u>1,518,890</u>	<u>442,505</u>	<u>1,961,395</u>
Total liabilities	<u>13,289,920</u>	<u>4,405,374</u>	<u>17,695,294</u>
<b>Deferred Inflows of Resources</b>			
Pension plans	<u>225,845</u>	<u>58,321</u>	<u>284,166</u>
<b>Net Position</b>			
Net investment in capital assets	3,682,526	4,841,977	8,524,503
Restricted for:			
Debt service	3,513,916	-	3,513,916
Economic development	378,575	-	378,575
Capital projects	1,558,929	-	1,558,929
Unrestricted	<u>(1,413,244)</u>	<u>4,836,840</u>	<u>3,423,596</u>
Total Net Position	<u>\$ 7,720,702</u>	<u>\$ 9,678,817</u>	<u>\$ 17,399,519</u>

City of Lonsdale  
Statement of Activities  
Year Ended December 31, 2016

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	Primary Government		
					Governmental Activities	Business-type Activities	
<b>Primary Government</b>							
Governmental activities							
General government	\$ 607,917	\$ 68,247	\$ -	\$ -	\$ (539,670)	\$ -	\$ (539,670)
Public safety	931,566	151,023	-	-	(780,543)	-	(780,543)
Streets and highways	880,752	-	-	-	(880,752)	-	(880,752)
Culture and recreation	428,911	3,388	-	-	(425,523)	-	(425,523)
Economic development	167,019	-	-	-	(167,019)	-	(167,019)
Interest and other charges on long-term debt	462,284	-	-	-	(462,284)	-	(462,284)
Total governmental activities	<u>3,478,449</u>	<u>222,658</u>	<u>-</u>	<u>-</u>	<u>(3,255,791)</u>	<u>-</u>	<u>(3,255,791)</u>
Business-type activities							
Water	503,516	560,959	-	-	-	57,443	57,443
Sewer	635,834	1,048,344	-	-	-	412,510	412,510
Liquor	1,367,186	1,385,288	-	-	-	18,102	18,102
Total business-type activities	<u>2,506,536</u>	<u>2,994,591</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>488,055</u>	<u>488,055</u>
Total Primary Government	<u>\$ 5,984,985</u>	<u>\$ 3,217,249</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,255,791)</u>	<u>488,055</u>	<u>(2,767,736)</u>
			General Revenues				
					2,028,362	-	2,028,362
					783,738	-	783,738
					10,305	-	10,305
					556,458	-	556,458
					208,422	-	208,422
					22,282	-	22,282
					-	2,274	2,274
					307,800	-	307,800
					208,215	-	208,215
					2,500	(2,500)	-
				Total general revenues and transfers	<u>4,128,082</u>	<u>(226)</u>	<u>4,127,856</u>
				Change in net position	<u>872,291</u>	<u>487,829</u>	<u>1,360,120</u>
				Net Position - Beginning	<u>6,848,411</u>	<u>9,190,988</u>	<u>16,039,399</u>
				Net Position - Ending	<u>\$ 7,720,702</u>	<u>\$ 9,678,817</u>	<u>\$ 17,399,519</u>

City of Lonsdale  
Balance Sheet – Governmental Funds  
December 31, 2016

	General Fund	Idaho Street Debt Fund	Business Park Debt Fund	Area 5 Capital Project	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments	\$ 1,426,008	\$ -	\$ -	\$ 703,610	\$ 378,768	\$ 2,508,386
Cash and investments with fiscal agent	-	-	1,840,884	-	918,037	2,758,921
<b>Receivables</b>						
Taxes	31,089	11,241	1,359	955	5,813	50,457
Special assessments	2,450	229,706	911,094	936,177	366,429	2,445,856
Accounts	48,400	-	-	-	-	48,400
Notes	-	-	-	-	241,935	241,935
Due from other funds	1,018,709	-	-	-	-	1,018,709
Prepaid items	48,241	-	-	-	25	48,266
<b>Total assets</b>	<b>\$ 2,574,897</b>	<b>\$ 240,947</b>	<b>\$ 2,753,337</b>	<b>\$ 1,640,742</b>	<b>\$ 1,911,007</b>	<b>\$ 9,120,930</b>
<b>Liabilities</b>						
Accounts payable	\$ 55,238	\$ -	\$ 34,316	\$ 81,813	\$ 876	\$ 172,243
Salaries and wages payable	28,958	-	-	-	-	28,958
Due to other funds	-	159,879	849,339	-	9,491	1,018,709
Sales tax payable	-	-	-	-	-	-
Customer deposits	80,250	-	-	-	-	80,250
<b>Total liabilities</b>	<b>164,446</b>	<b>159,879</b>	<b>883,655</b>	<b>81,813</b>	<b>10,367</b>	<b>1,300,160</b>
<b>Deferred inflows of resources</b>						
Unavailable revenue	24,498	237,673	912,058	936,832	610,790	2,721,851
<b>Fund Balances</b>						
Nonspendable	48,241	-	-	-	25	48,266
Restricted	-	-	1,840,884	622,097	1,299,719	3,762,700
Assigned	910,588	-	-	-	-	910,588
Unassigned	1,427,124	(156,605)	(883,260)	-	(9,894)	377,365
<b>Total fund balances</b>	<b>2,385,953</b>	<b>(156,605)</b>	<b>957,624</b>	<b>622,097</b>	<b>1,289,850</b>	<b>5,098,919</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 2,574,897</b>	<b>\$ 240,947</b>	<b>\$ 2,753,337</b>	<b>\$ 1,640,742</b>	<b>\$ 1,911,007</b>	<b>\$ 9,120,930</b>



City of Lonsdale  
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
 December 31, 2016

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Total Fund Balances for Governmental Funds	\$	5,098,919
<p>Amounts reported for governmental activities          in the statement of net position are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		12,247,373
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.		2,721,851
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(125,398)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		661,028
Compensated absences are not accrued in governmental funds, but rather are recognized as an expenditure when due.		(40,413)
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:		
Bonds payable	\$ 11,323,768	
Net pension liability	<u>1,518,890</u>	<u>(12,842,658)</u>
Total Net Position for Governmental Activities	\$	<u><u>7,720,702</u></u>

City of Lonsdale

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended December 31, 2016

	General Fund	Idaho Street Debt Fund	Business Park Debt Fund	Area 5 Capital Project	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 1,215,743	\$ 450,107	\$ 54,248	\$ 37,808	\$ 302,155	\$ 2,060,061
Franchise taxes	10,305	-	-	-	-	10,305
Special assessments	7,535	-	128,475	250,501	144,907	531,418
Fees and fines	15,549	-	-	-	-	15,549
Licenses and permits	207,480	-	-	-	942	208,422
Intergovernmental	556,458	-	-	-	-	556,458
Charges for services	222,658	-	-	-	-	222,658
Interest earnings	287	-	-	-	(32,463)	(32,176)
Contributions	22,282	-	-	-	-	22,282
Miscellaneous	22,173	-	3,929	-	8,526	34,628
Total revenue	<u>2,280,470</u>	<u>450,107</u>	<u>186,652</u>	<u>288,309</u>	<u>424,067</u>	<u>3,629,605</u>
<b>Expenditures</b>						
<b>Current</b>						
General government	389,911	-	-	-	-	389,911
Public safety	872,318	-	-	-	-	872,318
Streets and highways	451,751	-	134,141	1,498,625	-	2,084,517
Culture and recreation	486,534	-	-	-	-	486,534
Economic development	-	-	-	38,423	128,596	167,019
<b>Debt Service</b>						
Principal	62,300	380,000	160,000	-	360,000	962,300
Interest and other charges	2,700	11,599	129,606	35,898	97,544	277,347
Total expenditures	<u>2,265,514</u>	<u>391,599</u>	<u>423,747</u>	<u>1,572,946</u>	<u>586,140</u>	<u>5,239,946</u>
Excess (deficiency) of revenues over (under) expenditures	<u>14,956</u>	<u>58,508</u>	<u>(237,095)</u>	<u>(1,284,637)</u>	<u>(162,073)</u>	<u>(1,610,341)</u>
<b>Other Financing Sources (Uses)</b>						
Transfers in	2,500	-	-	-	-	2,500
Refunding bonds issued	-	-	1,835,000	-	1,000,000	2,835,000
Premium on refunding bonds issued	-	-	56,262	-	-	56,262
General obligation bonds issued	-	-	-	1,625,000	-	1,625,000
Premium on general obligation bonds issued	-	-	-	62,506	-	62,506
Sale of land held for resale	13,363	-	310,008	-	-	323,371
Total other financing sources (uses)	<u>15,863</u>	<u>-</u>	<u>2,201,270</u>	<u>1,687,506</u>	<u>1,000,000</u>	<u>4,904,639</u>
Net change in fund balances	30,819	58,508	1,964,175	402,869	837,927	3,294,298
Fund Balances - Beginning	<u>2,355,134</u>	<u>(215,113)</u>	<u>(1,006,551)</u>	<u>219,228</u>	<u>451,923</u>	<u>1,804,621</u>
Fund Balances - Ending	<u>\$ 2,385,953</u>	<u>\$ (156,605)</u>	<u>\$ 957,624</u>	<u>\$ 622,097</u>	<u>\$ 1,289,850</u>	<u>\$ 5,098,919</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, 2016

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Total Net Change in Fund Balances - Governmental Funds	\$ 3,294,298
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 affect of capital outlays and depreciation expense in the current period.	1,149,514
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.	(4,460,000)
In governmental funds, the effect of premiums and discounts are recorded when debt is first issued. However, in the statement of activities, premiums and discounts are deferred and amortized.	(118,768)
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in assets differs from the change in fund balances by the cost of the capital assets less the accumulated depreciation.	(15,571)
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.	(2,408)
Because some revenues will not be collected for several months after the City's year end, they are considered "unavailable" revenues in the governmental funds.	259,891
The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability.	962,300
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.	(162,972)
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.	(33,993)
Change in Net Position of Governmental Activities	<u>\$ 872,291</u>

City of Lonsdale  
Statement of Net Position – Proprietary Funds  
December 31, 2016

	Water	Sewer	Liquor	Enterprise Fund Total
<b>Assets</b>				
Cash and investments	\$ 2,671,835	\$ 2,141,974	\$ 94,497	\$ 4,908,306
Accounts Receivable	48,967	102,320	800	152,087
Inventory	-	-	216,853	216,853
Prepaid items	6,181	8,880	6,745	21,806
Due from other funds	-	99,600	-	99,600
Total current assets	<u>2,726,983</u>	<u>2,352,774</u>	<u>318,895</u>	<u>5,398,652</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:				
Buildings	-	-	637,617	637,617
Infrastructure	2,902,693	4,639,940	-	7,542,633
Machinery and equipment	70,816	69,690	11,931	152,437
Total noncurrent assets	<u>3,009,509</u>	<u>4,794,080</u>	<u>881,179</u>	<u>8,684,768</u>
Total assets	<u>5,736,492</u>	<u>7,146,854</u>	<u>1,200,074</u>	<u>14,083,420</u>
<b>Deferred Outflows of Resources</b>				
Pension plans	<u>55,211</u>	<u>42,327</u>	<u>61,154</u>	<u>158,692</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	8,692	22,329	24,944	55,965
Sales tax payable	152	-	13,293	13,445
Salaries and wages payable	5,304	4,136	5,031	14,471
Bonds payable - current	72,000	427,000	-	499,000
Interest payable	6,172	23,891	-	30,063
Due to other funds	-	-	99,600	99,600
Total current liabilities	<u>92,320</u>	<u>477,356</u>	<u>142,868</u>	<u>712,544</u>
<b>Noncurrent Liabilities</b>				
Compensated absences	-	-	6,134	6,134
Net pension liability	153,952	118,027	170,526	442,505
Bonds payable	907,000	2,436,791	-	3,343,791
Total noncurrent liabilities	<u>1,060,952</u>	<u>2,554,818</u>	<u>176,660</u>	<u>3,792,430</u>
Total liabilities	<u>1,153,272</u>	<u>3,032,174</u>	<u>319,528</u>	<u>4,504,974</u>
<b>Deferred Inflows of Resources</b>				
Pension plans	<u>20,290</u>	<u>15,556</u>	<u>22,475</u>	<u>58,321</u>
<b>Net Position</b>				
Net investment in capital assets	2,030,509	1,930,289	881,179	4,841,977
Unrestricted	<u>2,587,632</u>	<u>2,211,162</u>	<u>38,046</u>	<u>4,836,840</u>
Total net position	<u>\$ 4,618,141</u>	<u>\$ 4,141,451</u>	<u>\$ 919,225</u>	<u>\$ 9,678,817</u>

City of Lonsdale  
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
Year Ended December 31, 2016

	Water	Sewer	Liquor	Enterprise Fund Total
Operating Revenues				
Sales and service	\$ 412,033	\$ 820,615	\$ 1,384,488	\$ 2,617,136
Miscellaneous	25,547	31,396	800	57,743
Total operating revenues	<u>437,580</u>	<u>852,011</u>	<u>1,385,288</u>	<u>2,674,879</u>
Operating Expenses				
Cost of goods sold	-	-	1,058,565	1,058,565
Purchases and supplies	85,159	93,172	9,351	187,682
Personnel services	188,432	146,155	196,841	531,428
General and administrative	26,541	62,925	50,009	139,475
Utilities	50,919	67,361	21,345	139,625
Depreciation	134,170	191,927	31,075	357,172
Total operating expenses	<u>485,221</u>	<u>561,540</u>	<u>1,367,186</u>	<u>2,413,947</u>
Operating income (loss)	<u>(47,641)</u>	<u>290,471</u>	<u>18,102</u>	<u>260,932</u>
Nonoperating Revenues (Expenses)				
Connection and developer fees	121,500	183,750	-	305,250
Interest and investment revenue	1,954	314	6	2,274
Miscellaneous revenue	1,879	12,583	-	14,462
Interest and other expenses	<u>(18,295)</u>	<u>(74,294)</u>	<u>-</u>	<u>(92,589)</u>
Total nonoperating revenues (expenses), net	<u>107,038</u>	<u>122,353</u>	<u>6</u>	<u>229,397</u>
Income before transfers	59,397	412,824	18,108	490,329
Transfers to other funds	<u>-</u>	<u>-</u>	<u>(2,500)</u>	<u>(2,500)</u>
Change in net position	59,397	412,824	15,608	487,829
Net Position - Beginning	<u>4,558,744</u>	<u>3,728,627</u>	<u>903,617</u>	<u>9,190,988</u>
Net Position - Ending	<u>\$ 4,618,141</u>	<u>\$ 4,141,451</u>	<u>\$ 919,225</u>	<u>\$ 9,678,817</u>

City of Lonsdale  
Statement of Cash Flows – Proprietary Funds  
Year Ended December 31, 2016

	Water	Sewer	Liquor	Enterprise Fund Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 418,290	\$ 813,229	\$ 1,384,538	\$ 2,616,057
Other receipts	27,426	43,979	800	72,205
Payments to employees	(172,785)	(134,019)	(179,237)	(486,041)
Payments to suppliers	(165,754)	(207,363)	(1,122,225)	(1,495,342)
Net cash from operating activities	<u>107,177</u>	<u>515,826</u>	<u>83,876</u>	<u>706,879</u>
Cash Flows provided by (used for) Noncapital Financing Activities				
Transfers to other funds	-	-	(2,500)	(2,500)
Cash Flows provided by (used for) Capital and Related Financing Activities				
Connection and developer fees	121,500	183,750	-	305,250
Principal paid on bonds and notes payable	(71,000)	(415,000)	-	(486,000)
Interest and other expenses paid	(18,705)	(77,499)	-	(96,204)
Loan receipts (payments) from (to) other funds	-	50,400	(50,400)	-
Acquisition of property, plant, and equipment	(23,064)	(15,814)	(8,451)	(47,329)
Net cash provided by (used for) capital and related financing activities	<u>8,731</u>	<u>(274,163)</u>	<u>(58,851)</u>	<u>(324,283)</u>
Cash Flows provided by (used for) Investing Activities				
Earnings on investments and cash	1,954	312	5	2,271
Net change in cash	117,862	241,975	22,530	382,367
Balances, January 1	<u>2,553,973</u>	<u>1,899,999</u>	<u>71,967</u>	<u>4,525,939</u>
Balances, December 31	<u>\$ 2,671,835</u>	<u>\$ 2,141,974</u>	<u>\$ 94,497</u>	<u>\$ 4,908,306</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ (47,641)	\$ 290,471	\$ 18,102	\$ 260,932
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	134,170	191,927	31,075	357,172
Miscellaneous revenue	1,879	12,583	-	14,462
Deferred outflows	(34,060)	(26,112)	(37,725)	(97,897)
Deferred inflows	(3,496)	(2,679)	(3,871)	(10,046)
Net pension liabilities	52,347	40,132	57,982	150,461
Decrease (increase) in assets:				
Accounts receivable	6,257	(7,386)	50	(1,079)
Prepaid items	(384)	250	368	234
Inventory	-	-	15,357	15,357
Increase (decrease) in liabilities:				
Accounts payable	(2,846)	15,845	468	13,467
Sales tax payable	95	-	852	947
Salaries and wages payable	856	795	727	2,378
Compensated absences	-	-	491	491
Net cash provided by operating activities	<u>\$ 107,177</u>	<u>\$ 515,826</u>	<u>\$ 83,876</u>	<u>\$ 706,879</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 collectable 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 *Business Park Debt fund* accounts for the sources of revenue for and the payment for the debt related to the Business Park project.

The *Area 5 Capital Project fund* accounts for the bond proceeds and the expenses related to the Area 5 Street 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, Deferred Outflows/Inflows of Resources, 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 and savings accounts, as well as short term investments with an original maturity date within three months of the date acquired by the City. Investments for the government are reported at fair value. Cash and investments include amounts held by trustees for bond refundings recorded as *cash and investments with fiscal agents*. For the purposes of the statement of cash flows, cash for each fund includes 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. As of December 31, 2016, there are no receivables that are estimated to be uncollectible.

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

Inventory in the proprietary funds consists of beer, liquor, wine, and a small amount of other products 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. 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 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

### 5. Deferred outflows/inflows of resources

In addition to assets, the statements of net 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 statements of net 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.

## 6. 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. 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).

## 7. 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 as other financing sources.

Bond premiums and discounts are deferred and amortized over the life of the bonds. In the fund financial statements, governmental fund types recognize premiums received on debt issuances as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current year expenditures.

## 8. Fund Balance 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.

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.

## **9. 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.

### **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, 2016, 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 City submit requests for appropriation to the City's administrator 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, 2016, expenditures exceeded appropriations in the following funds: General Fund: \$112,016, Economic Development Fund: \$35,893, 2012A G.O. Bond Fund: \$13,195, and in the TIF Fund: \$49,545. The excess expenditures were funded by greater than anticipated revenues and available fund balance.

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

### **C. Deficit Fund Balance**

The Idaho Street Debt Fund and the 8<sup>th</sup> Avenue Debt Service Bond Fund had deficit fund balances at December 31, 2016 of \$156,605 and \$9,894, respectively. 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, 2016, the City had the following investments:

<u>Investment Type</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Certificates of Deposit	\$ 115,863	\$ -	\$ 115,863	\$ -
State and local government securities	1,840,883	-	1,840,883	-
Federal treasury notes	914,550	-	914,550	-
Total Fair Value	<u>\$ 2,871,296</u>	<u>\$ -</u>	<u>\$ 2,871,296</u>	<u>\$ -</u>

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

**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, 2016, 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 Federal treasury notes (31.85%) and State and Local Government Securities issued by the Bureau of Public Debt (64.11%).

**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, 2016, none of the City's investments were exposed to custodial credit risk.

**B. Receivables**

The City issues promissory notes through the Economic Development Fund to local businesses. There are currently two loans outstanding under this program. The loans are receivable by the City over a period of ten years with monthly payments of \$516 and \$552 with interest at 4% and 2%, respectively. The notes are secured by a lien. The current outstanding balance of the loans are \$22,428 and \$58,642, respectively, as of December 31, 2016. The City also issued a \$10,000 forgivable grant in November 2016. The grant is fully forgiven if the grantee occupies the property for 5 years. Over the grant period, a fifth of the granted amount is forgiven each year. No forgiveness has occurred as of 12/31/2016.

As of December 31, 2016, the City also has an outstanding balance of \$150,865 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 unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

	Unavailable	Amounts not due in one year
Delinquent property taxes and assessments (general fund)	\$ 22,048	\$ -
Delinquent property taxes (special revenue fund)	59	-
Delinquent property taxes and assessments (debt service fund)	11,299	-
Delinquent property taxes and assessments (capital project fund)	677	-
Special assessments not yet due (general fund)	2,450	-
Special assessments not yet due (debt service fund)	1,507,228	1,131,272
Special assessments not yet due (capital project fund)	936,155	870,716
Notes receivable (special revenue fund)	241,935	229,035
Total deferred inflows of resources for governmental funds	\$ 2,721,851	\$ 2,231,023



**C. Capital Assets**

Capital asset activity for the year ended December 31, 2016, 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	\$ 666,267	\$ -	\$ 15,571	\$ 650,696
Construction in progress	66,948	12,962	66,948	12,962
Total Capital Assets, Not Being Depreciated	<u>733,215</u>	<u>12,962</u>	<u>82,519</u>	<u>663,658</u>
Capital Assets, Being Depreciated				
Building and improvements	1,764,704	10,497	-	1,775,201
Infrastructure	11,222,922	1,689,121	-	12,912,043
Equipment	1,800,362	76,972	2,960	1,874,374
Vehicles	1,393,319	39,147	12,575	1,419,891
Total Capital Assets, Being Depreciated	<u>16,181,307</u>	<u>1,815,737</u>	<u>15,535</u>	<u>17,981,509</u>
Less Accumulated Depreciation for:				
Building and improvements	1,007,031	42,213	-	1,049,244
Infrastructure	2,737,319	409,994	-	3,147,313
Equipment	1,082,514	93,851	2,960	1,173,405
Vehicles	974,228	66,179	12,575	1,027,832
Total Accumulated Depreciation	<u>5,801,092</u>	<u>612,237</u>	<u>15,535</u>	<u>6,397,794</u>
Total Capital Assets, Being Depreciated, Net	<u>10,380,215</u>	<u>1,203,500</u>	<u>-</u>	<u>11,583,715</u>
Governmental Activities Capital Assets, Net	<u>\$ 11,113,430</u>	<u>\$ 1,216,462</u>	<u>\$ 82,519</u>	<u>\$ 12,247,373</u>

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

Governmental Activities	
General government	\$ 167,199
Public safety	87,993
Highways and streets	280,108
Culture and recreation	<u>76,937</u>
	<u>\$ 612,237</u>

	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 352,081	\$ -	\$ -	\$ 352,081
Capital Assets, Being Depreciated				
Buildings	831,238	-	-	831,238
Infrastructure	10,928,602	26,226	-	10,954,828
Machinery and equipment	496,673	21,103	-	517,776
Total Capital Assets, Being Depreciated	12,256,513	47,329	-	12,303,842
Less Accumulated Depreciation for:				
Buildings	172,840	20,781	-	193,621
Infrastructure	3,118,775	293,420	-	3,412,195
Machinery and equipment	322,368	42,971	-	365,339
Total Accumulated Depreciation	3,613,983	357,172	-	3,971,155
Total Capital Assets, Being Depreciated, Net	8,642,530	(309,843)	-	8,332,687
Business-Type Activities Capital Assets, Net	\$ 8,994,611	\$ (309,843)	\$ -	\$ 8,684,768

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

Business-Type Activities:	
Water	\$ 134,170
Sewer	191,927
Liquor	31,075
	\$ 357,172

**D. 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 \$13,310,000. General Obligation bonds outstanding as of December 31, 2016, 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 an annual installment of \$50,000 on February 1, 2017.	3.65%	\$ 50,000
G.O. Taxable Tax Increment bonds 2009A of \$940,000. Due in annual installments of \$10,000 to \$105,000 through February 1, 2036.	5.25% to 6.50%	930,000
G.O. Improvement Crossover Refunding bonds 2011A of \$1,150,000. Due in an annual installment of \$390,000 on February 1, 2017.	2.00%	390,000
G.O. Improvement bonds 2012A of \$1,385,000. Due in annual installments of \$85,000 to \$110,000 through February 1, 2028.	2.00% to 2.60%	1,145,000
G.O. Crossover Refunding Improvement bonds 2013A of \$885,000. Due in annual installments of \$225,000 through February 1, 2018.	1.50%	450,000
G.O. Improvement bonds 2013B of \$2,735,000. Due in annual installments of \$165,000 to \$225,000 through February 1, 2029.	2.00% to 4.00%	2,445,000
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
G.O. Improvement bonds 2016A of \$1,625,000. Due in annual installments of \$100,000 to \$125,000 through June 1, 2031.	0.77% to 3.00%	1,625,000
G.O. Improvement Crossover Refunding bonds 2016B of \$1,835,000. Due in annual installments of \$190,000 to \$220,000 through February 1, 2029.	2.00%	1,835,000
G.O. Taxable Tax Increment Refunding bonds 2016C of \$1,000,000. Due in annual installments of \$40,000 to \$105,000 through February 1, 2036.	2.10% to 3.32%	<u>1,000,000</u>
Bonds Payable		<u><u>\$ 11,205,000</u></u>

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 revenue bonds are direct obligations and pledge the full faith and credit of the City. The original principle amount of general obligation revenue bonds issued in prior years was \$7,436,720. General Obligation Revenue Bonds outstanding as of December 31, 2016, 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 an annual installment of \$63,000 on December 1, 2017.	1.75% to 2.75%	\$ 63,000
G.O. Revenue (PFA) bonds 2003 of \$6,644,792. Due in annual installments of \$374,000 to \$429,792 through August 20, 2023.	2.34%	2,810,791
G.O. Revenue (PFA) bonds 2011 of \$728,928. Due in annual installments of \$62,000 to \$77,000 through August 20, 2030.	1.76%	<u>969,000</u>
Bonds Payable		<u>\$ 3,842,791</u>

Annual debt service requirements to maturity for general obligation bonds and general obligation 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>
2017	\$ 1,105,000	\$ 310,729	\$ 499,000	\$ 67,505
2018	665,000	288,169	446,000	57,021
2019	460,000	278,208	456,000	62,879
2020	465,000	268,734	466,000	52,583
2021	660,000	256,029	477,000	42,058
2022-2026	3,795,000	1,001,390	1,197,791	74,931
2027-2031	3,210,000	431,788	301,000	13,328
2032-2036	845,000	102,583	-	-
Total	<u>\$ 11,205,000</u>	<u>\$ 2,937,630</u>	<u>\$ 3,842,791</u>	<u>\$ 370,305</u>

During the year ended December 31, 2016, the following changes occurred in long-term liabilities.

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities					
Bonds Payable					
General obligation bonds	\$ 7,645,000	\$ 4,460,000	\$ 900,000	\$ 11,205,000	\$ 1,105,000
Unamortized premium	-	118,768	-	118,768	-
Total Bonds Payable	<u>7,645,000</u>	<u>4,578,768</u>	<u>900,000</u>	<u>11,323,768</u>	<u>1,105,000</u>
Compensated absences	38,005	2,408	-	40,413	-
Capital lease	<u>62,300</u>	<u>-</u>	<u>62,300</u>	<u>-</u>	<u>-</u>
Governmental activity Long-term Liabilities	<u>\$ 7,745,305</u>	<u>\$ 4,581,176</u>	<u>\$ 962,300</u>	<u>\$ 11,364,181</u>	<u>\$ 1,105,000</u>
Refunding bonds included in governmental activities	<u>\$ 1,440,000</u>	<u>\$ 2,835,000</u>	<u>\$ 600,000</u>	<u>\$ 3,675,000</u>	<u>\$ 615,000</u>
Business-Type Activities					
GO revenue bonds (PFA)	\$ 4,206,791	\$ -	\$ 427,000	\$ 3,779,791	\$ 436,000
GO revenue bonds	122,000	-	59,000	63,000	63,000
Compensated absences	<u>5,643</u>	<u>491</u>	<u>-</u>	<u>6,134</u>	<u>-</u>
Business-type activity Long-term Liabilities	<u>\$ 4,334,434</u>	<u>\$ 491</u>	<u>\$ 486,000</u>	<u>\$ 3,848,925</u>	<u>\$ 499,000</u>
Refunding bonds included in business-type activities	<u>\$ 122,000</u>	<u>\$ -</u>	<u>\$ 59,000</u>	<u>\$ 63,000</u>	<u>\$ 63,000</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$7,356,675. Currently, none of the City's long-term liabilities apply against the legal debt limit.

The City issued \$1,835,000 of General Obligation Improvement Crossover Refunding Bonds, Series 2016B, with an average interest rate of 2.00% to advance refund \$2,445,000 of outstanding General Obligation Improvements Bonds, Series 2013B, with an average interest rate of 3.00%. The crossover date is February 1, 2020. The net proceeds of \$1,840,883 (after issuance costs and premium) were used to buy state and local government securities (SLGS). Those securities were deposited in an irrevocable trust with an escrow agent. The SLGS purchased from the 2016B series bonds are reported as cash and investments with fiscal agent in that fund. The District advance refunded the 2013B series bonds to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$89,848.

The City issued \$1,000,000 of General Obligation Taxable Tax Increment Refunding Bonds, Series 2016C, with an average interest rate of 2.70% to advance refund \$930,000 of outstanding General Obligation Taxable Increment Bonds, Series 2009A, with an average interest rate of 6.00%. The crossover date is February 1, 2021. The net proceeds of \$918,037 (after issuance costs) were used to buy federal treasury notes. Those securities were deposited in an irrevocable trust with an escrow agent. The federal treasury notes purchased from the 2016C series bonds are reported as cash and investments with fiscal agent in that fund. The District advance refunded the 2009A series bonds to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$87,348.

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

Inter-fund balances for the year ended December 31, 2016, consisted of the following:

	Idaho Street Debt Fund	Business Park Debt Fund	Liquor Enterprise Fund	Other Governmental Funds	Total
General Fund	\$ 159,879	\$ 849,339	\$ -	\$ 9,491	\$ 1,018,709
Sewer Enterprise Fund	-	-	99,600	-	99,600
Total	<u>\$ 159,879</u>	<u>\$ 849,339</u>	<u>\$ 99,600</u>	<u>\$ 9,491</u>	<u>\$ 1,118,309</u>

The purpose of the inter-fund balances was for deficits in pooled cash and for the construction of the municipal liquor store. Amounts will be repaid as funds become available.

During the year ended December 31, 2016, the City made the following transfer for operations:

<u>Transferred From:</u>	<u>Transferred To:</u>
	General Fund
Liquor Enterprise Fund	<u>\$ 2,500</u>

**F. Fund Balances**

As of December 31, 2016, fund balances are composed of the following:

	General Fund	Idaho Street Debt Fund	Business Park Debt Fund	Area 5 Capital Project	Other Governmental Funds	Total Governmental Funds
<b>Nonspendable:</b>						
Prepaid items	\$ 48,241	\$ -	\$ -	\$ -	\$ 25	\$ 48,266
Total nonspendable	<u>48,241</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25</u>	<u>48,266</u>
<b>Restricted:</b>						
Bond refunding	-	-	1,840,884	-	918,037	2,758,921
Debt service	-	-	-	-	245,126	245,126
Economic development	-	-	-	-	136,556	136,556
Capital projects	-	-	-	622,097	-	622,097
Total restricted	<u>-</u>	<u>-</u>	<u>1,840,884</u>	<u>622,097</u>	<u>1,299,719</u>	<u>3,762,700</u>
<b>Assigned:</b>						
Road and bridge	442,683	-	-	-	-	442,683
Fire department	467,905	-	-	-	-	467,905
Total assigned	<u>910,588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>910,588</u>
<b>Unassigned</b>						
	1,427,124	(156,605)	(883,260)	-	(9,894)	377,365
Total unassigned	<u>1,427,124</u>	<u>(156,605)</u>	<u>(883,260)</u>	<u>-</u>	<u>(9,894)</u>	<u>377,365</u>
Total fund balances	<u>\$ 2,385,953</u>	<u>\$ (156,605)</u>	<u>\$ 957,624</u>	<u>\$ 622,097</u>	<u>\$ 1,289,850</u>	<u>\$ 5,098,919</u>

## **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% 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.

### **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 members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

## **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 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the GERF for the year ended December 31, 2016, were \$54,248. 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 2016. The City was required to contribute 16.20% of pay for members in calendar year 2016. The City's contributions to the PEPFF for the year ended December 31, 2016, were \$45,266. The City's contributions were equal to the required contributions as set by state statute.



**D. Pension Costs**

**1. GERS Pension Costs**

At December 31, 2016, the City reported a liability of \$958,101 for its proportionate share of the GERS's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contributions meet the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$12,457. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0118%, which was a decrease of .0004% from the prior year.

For the year ended December 31, 2016, the City recognized pension expense of \$127,614 for its proportionate share of the GERS's pension expense.

At December 31, 2016, the City reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 2,836	\$ 77,832
Changes in actuarial assumptions	206,639	-
Difference between projected and actual investment earnings	106,965	-
Change in proportion and differences between contributions made and City's proportionate share of contributions	-	48,431
City's contributions to GERS subsequent to the measurement date	<u>27,124</u>	<u>-</u>
Total	<u>\$ 343,564</u>	<u>\$ 126,263</u>

\$27,124 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, 2017. 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
2017	\$ 45,054
2018	23,177
2019	87,338
2020	34,608
2021	-

## 2. PEPFF Pension Costs

At December 31, 2016, the City reported a liability of \$1,003,294 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0250%, which was a decrease of .0030% over the prior year.

For the year ended December 31, 2016, the City recognized pension expense of \$170,600 for its proportionate share of the PEPFF's pension expense. The City also recognized \$164,918 for the year ended December 31, 2016, 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, 2016, 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	\$ 227	\$ 115,097
Changes in actuarial assumptions	592,649	-
Difference between projected and actual investment earnings	86,493	-
Change in proportion and differences between contributions made and City's proportionate share of contributions	-	42,806
City's contributions to PEPFF subsequent to the measurement date	22,632	-
Total	\$ 702,001	\$ 157,903

\$22,632 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, 2017. 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
2017	\$ 97,924
2018	97,924
2019	131,232
2020	105,286
2021	89,100

### E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

<u>Assumptions</u>	<u>GERF</u>
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

Salary increases were based on a service-related table. Mortality rates for active members, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan and Police and Fire Plan, and 2.5 percent for all years for the Correctional Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

#### General Employees Fund

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

#### Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The long-term expected rate of return on pension plan investments is 7.5%. 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:

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
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 in 2016 was 7.5%, a reduction from the 7.9% used in 2015. 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.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year ended June 30, 2057, when projected benefit payments exceed the fund's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

**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	6.50%	7.50%	8.50%
City’s proportionate share of the GERF net pension liability	\$ 1,360,788	\$ 958,101	\$ 626,397
PEPFF discount rate	4.60%	5.60%	6.60%
City’s proportionate share of the PEPFF net pension liability	\$ 1,404,478	\$ 1,003,294	\$ 675,496

**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).

**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:

<u>Project</u>	<u>Contracted Total Cost</u>	<u>Costs Incurred</u>	<u>Commitment to Complete</u>
Area 5 Capital Project Phase II	<u>\$1,387,481</u>	<u>\$ 1,191,129</u>	<u>\$ 196,352</u>

**D. Related Party Transactions**

The City and council members entered into various contracts during 2016 for small construction projects, auto repairs, and embroidery services. The total amount paid for these services were \$4,192, \$950, \$567, and \$255.



Required Supplementary Information  
December 31, 2016

# 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, 2016

**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	City's Proportionate Share (Amount) of the Net Pension Liability (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 as a Percentage of it's Covered - Employee Payroll (d/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	06/30/16	0.0118%	\$ 958,101	N/A	\$ 958,101	\$ 707,664	135.4%	68.9%
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	06/30/16	0.025%	\$ 1,003,294	N/A	\$ 1,003,294	\$ 263,977	380.1%	63.9%
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	12/31/16	\$ 54,248	\$ 54,248	\$ -	\$ 723,307	7.5%
GERF	12/31/15	\$ 52,732	\$ 52,732	\$ -	\$ 703,093	7.5%
GERF	12/31/14	\$ 53,205	\$ 53,205	\$ -	\$ 733,862	7.3%
PEPFF	12/31/16	\$ 45,266	\$ 45,266	\$ -	\$ 279,420	16.2%
PEPFF	12/31/15	\$ 40,879	\$ 40,879	\$ -	\$ 252,338	16.2%
PEPFF	12/31/14	\$ 37,918	\$ 37,918	\$ -	\$ 247,830	15.3%

\* 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 City will present information for those years for which information is available.

City of Lonsdale  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes				
Property	\$ 1,118,965	\$ 1,118,965	\$ 1,215,743	\$ 96,778
Franchise	8,700	8,700	10,305	1,605
Special assessments	68,789	68,789	7,535	(61,254)
Licenses and permits	117,550	117,550	207,480	89,930
Intergovernmental revenue				
Local government aid	430,027	430,027	430,029	2
Police and fire aid	80,500	80,500	89,196	8,696
Other state aids and grants	17,168	17,168	37,233	20,065
Charges for services				
General government	4,500	4,500	7,450	2,950
Police and fire contracts	142,998	142,998	146,009	3,011
Other public safety	3,200	3,200	5,014	1,814
Other charges for services	2,650	2,650	3,388	738
Tower rent	62,226	62,226	60,797	(1,429)
Fines and forfeits	17,500	17,500	15,549	(1,951)
Interest earnings	100	100	287	187
Refunds and reimbursements	4,884	4,884	6,465	1,581
Contributions	5,150	5,150	22,282	17,132
Miscellaneous revenue	6,050	6,050	15,708	9,658
Total revenues	<u>2,090,957</u>	<u>2,090,957</u>	<u>2,280,470</u>	<u>189,513</u>

City of Lonsdale  
 Budgetary Comparison Schedule – General Fund - Continued  
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Expenditures</b>				
General government				
Mayor and council	17,738	17,738	19,833	(2,095)
Administration and finance	136,107	136,107	138,037	(1,930)
Other general government	207,079	207,079	230,018	(22,939)
Capital outlay	-	-	2,023	(2,023)
Public safety				
Police				
Current expenditures	591,566	591,566	547,672	43,894
Capital outlay	48,300	48,300	52,144	(3,844)
Fire				
Current expenditures	185,778	185,778	193,439	(7,661)
Capital outlay	70,009	70,009	-	70,009
Other public safety	62,500	62,500	79,063	(16,563)
Streets and highways				
Street maintenance	306,821	306,821	306,415	406
Snow and ice removal	21,000	21,000	7,527	13,473
Street lighting	55,000	55,000	61,689	(6,689)
Street construction - capital outlay	-	-	68,435	(68,435)
Street construction - other capital outlay	7,200	7,200	7,685	(485)
Culture and recreation				
Parks and recreation - current expenditures	166,430	166,430	211,799	(45,369)
Parks and recreation - capital outlay	86,000	86,000	176,981	(90,981)
Library - current expenditures	100,470	100,470	88,894	11,576
Library - capital outlay	15,000	15,000	8,860	6,140
Debt service - principal	76,500	76,500	62,300	14,200
Debt service - interest and fiscal charges	-	-	2,700	(2,700)
Total expenditures	<u>2,153,498</u>	<u>2,153,498</u>	<u>2,265,514</u>	<u>(112,016)</u>
Excess (deficiency) of revenues over (under) expenditures	(62,541)	(62,541)	14,956	77,497
<b>Other Financing Sources</b>				
Gain on sale of assets and land held for resale	-	-	13,363	13,363
Transfers in	-	-	2,500	2,500
Total other financing sources	<u>-</u>	<u>-</u>	<u>15,863</u>	<u>15,863</u>
Net Change in Fund Balances	(62,541)	(62,541)	30,819	93,360
Fund Balance - Beginning	<u>2,355,134</u>	<u>2,355,134</u>	<u>2,355,134</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 2,292,593</u>	<u>\$ 2,292,593</u>	<u>\$ 2,385,953</u>	<u>\$ 93,360</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, 2016, 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 City submit requests for appropriation to the City's administrator 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 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 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, 2016, expenditures exceeded appropriations in the General Fund by \$112,016. The excess expenditures were funded by greater than anticipated revenues.

### **C. Pension Information**

The following changes in actuarial assumptions occurred in 2016:

#### General Employees Fund

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

#### Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.



Supplementary Information  
December 31, 2016  
**City of Lonsdale**

City of Lonsdale  
Combining Balance Sheet – Nonmajor Governmental Funds  
December 31, 2016

	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		
<b>Assets</b>							
Cash and investments	\$ 136,449	\$ 90,363	\$ 37,522	\$ -	\$ 114,434	\$ 242,319	\$ 378,768
Cash and investments with fiscal agent	-	-	-	-	918,037	918,037	918,037
Receivables							
Taxes	166	4,735	912	-	-	5,647	5,813
Special assessments	-	99,814	266,142	473	-	366,429	366,429
Notes	241,935	-	-	-	-	-	241,935
Prepaid items	25	-	-	-	-	-	25
Total assets	<u>\$ 378,575</u>	<u>\$ 194,912</u>	<u>\$ 304,576</u>	<u>\$ 473</u>	<u>\$ 1,032,471</u>	<u>\$ 1,532,432</u>	<u>\$ 1,911,007</u>
<b>Liabilities</b>							
Accounts payable	\$ -	\$ -	\$ -	\$ 876	\$ -	\$ 876	\$ 876
Due to other funds	-	-	-	9,491	-	9,491	9,491
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,367</u>	<u>-</u>	<u>10,367</u>	<u>10,367</u>
Deferred inflows of resources							
Unavailable revenue	<u>241,994</u>	<u>103,170</u>	<u>265,626</u>	<u>-</u>	<u>-</u>	<u>368,796</u>	<u>610,790</u>
<b>Fund Balances:</b>							
Nonspendable	25	-	-	-	-	-	25
Restricted	136,556	91,742	38,950	-	1,032,471	1,163,163	1,299,719
Unassigned	-	-	-	(9,894)	-	(9,894)	(9,894)
Total fund balances	<u>136,581</u>	<u>91,742</u>	<u>38,950</u>	<u>(9,894)</u>	<u>1,032,471</u>	<u>1,153,269</u>	<u>1,289,850</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 378,575</u>	<u>\$ 194,912</u>	<u>\$ 304,576</u>	<u>\$ 473</u>	<u>\$ 1,032,471</u>	<u>\$ 1,532,432</u>	<u>\$ 1,911,007</u>

City of Lonsdale

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds  
Year Ended December 31, 2016

	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 Debt Service Bond Fund	TIF Fund		
Revenues							
Property Taxes	\$ 107	\$ 188,904	\$ 36,329	\$ 22	\$ 76,793	\$ 302,048	\$ 302,155
Special assessments	-	41,526	77,041	26,340	-	144,907	144,907
Licenses and permits	942	-	-	-	-	-	942
Interest earnings	-	-	-	-	(32,463)	(32,463)	(32,463)
Miscellaneous	8,526	-	-	-	-	-	8,526
Total revenues	<u>9,575</u>	<u>230,430</u>	<u>113,370</u>	<u>26,362</u>	<u>44,330</u>	<u>414,492</u>	<u>424,067</u>
Expenditures							
Economic Development							
Current expenditures	78,849	-	-	-	49,545	49,545	128,394
Miscellaneous	202	-	-	-	-	-	202
Debt Service							
Principal	-	220,000	85,000	50,000	5,000	360,000	360,000
Interest and other charges	-	8,895	26,240	3,495	58,914	97,544	97,544
Total expenditures	<u>79,051</u>	<u>228,895</u>	<u>111,240</u>	<u>53,495</u>	<u>113,459</u>	<u>507,089</u>	<u>586,140</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(69,476)</u>	<u>1,535</u>	<u>2,130</u>	<u>(27,133)</u>	<u>(69,129)</u>	<u>(92,597)</u>	<u>(162,073)</u>
Other Financing Uses							
Refunding bonds issued	-	-	-	-	1,000,000	1,000,000	1,000,000
Net Change in Fund Balances	<u>(69,476)</u>	<u>1,535</u>	<u>2,130</u>	<u>(27,133)</u>	<u>930,871</u>	<u>907,403</u>	<u>837,927</u>
Fund Balance - Beginning	<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>
Fund Balance - Ending	<u>\$ 136,581</u>	<u>\$ 91,742</u>	<u>\$ 38,950</u>	<u>\$ (9,894)</u>	<u>\$ 1,032,471</u>	<u>\$ 1,153,269</u>	<u>\$ 1,289,850</u>



CPAs & BUSINESS ADVISORS

## 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, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2017.

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  
March 13, 2017