

CITY OF LANESBORO, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2017

CITY OF LANESBORO, MINNESOTA
FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

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CITY OF LANESBORO, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2017

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CITY OF LANESBORO, MINNESOTA
LIST OF ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2017

Autumn Johnson	Mayor
Tom Smith	Council member
Marge Drake	Council member
Bridget Harvey	Council member
Jason Resseman	Council member
Michele Peterson	City Administrator
Darla Taylor	Deputy Clerk

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CITY OF LANESBORO, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Lanesboro, 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 Lanesboro, Minnesota as of and for the year ended December 31, 2017, 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 estimates made by management, as well as evaluating the overall financial statement presentation.

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 Lanesboro, Minnesota as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows and the respective budgetary comparison for the General Fund and the major special revenues funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 14 and the required supplementary information 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.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2016, from which such partial information was derived.

We have previously audited the City's 2016 financial statements and our report dated June 22, 2017, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lanesboro, Minnesota's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (continued)

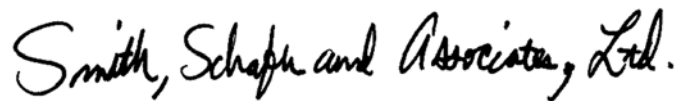
Other Information (continued)

The combining and individual nonmajor fund financial statements and supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2018, on our consideration of the City of Lanesboro, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lanesboro, Minnesota's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Smith, Schafn and Associates, Ltd." in a cursive script.

Rochester, Minnesota
April 27, 2018

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CITY OF LANESBORO, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lanesboro, Minnesota, we offer readers of the City of Lanesboro, Minnesota's financial statements this narrative overview and analysis of the financial activities of the City of Lanesboro, Minnesota for the fiscal year ended December 31, 2017.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Lanesboro, Minnesota exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$7,406,673 (*net position*). Of this amount, \$1,489,894 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position increased by \$484,762.
- As of the close of the current fiscal year, the City of Lanesboro, Minnesota's governmental funds reported combined ending fund balances of \$1,041,214. Approximately \$774,046 of this total amount, or 74% is available for use within the City's designations and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$262,678 or 37% of total general fund expenditures.
- The City of Lanesboro, Minnesota increased total outstanding debt obligations by \$908,555 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Lanesboro, Minnesota's basic financial statements. The City of Lanesboro, Minnesota's basic financial statements comprise three components:

1. Government-wide financial statements, providing information for the City as a whole.
2. Fund financial statements, providing detailed information for the City's significant funds.
3. Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements themselves. Additional explanation of these sections of the financial statements follows.

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

CITY OF LANESBORO, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned, but not used, compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Lanesboro, Minnesota that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Lanesboro, Minnesota include general government, public safety, public works, culture and recreation and economic development. The business-type activities of the City of Lanesboro, Minnesota include the utilities commission fund. The government-wide financial statements can be found on pages 15-17 of this report.

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

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

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

The City of Lanesboro, Minnesota maintains twenty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the fire fund, the 2008A Whittier/Maple debt service fund, and 2017A Zenith/Auburn capital project fund all of which are considered to be major funds. Data from the other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

CITY OF LANESBORO, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Lanesboro, Minnesota adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund (pages 24-26) and the special revenue funds (page 27 and pages 62 - 64) to demonstrate compliance with the budget.

The governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary funds. The City of Lanesboro, Minnesota maintains one type of proprietary funds – enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Lanesboro, Minnesota uses enterprise funds to account for its utilities commission fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the utilities commission which is considered to be a major fund of the City of Lanesboro, Minnesota.

The proprietary fund financial statements can be found on pages 28-31 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-54 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 57-60 of this report.

**CITY OF LANESBORO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lanesboro, Minnesota, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$7,406,673 at the close of the most recent fiscal year.

By far the largest portion of the City of Lanesboro, Minnesota's net position (75%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, vehicles, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Lanesboro, Minnesota uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Lanesboro, Minnesota's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	City of Lanesboro, Minnesota's Net Position					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 1,163,903	\$ 1,291,897	\$ 1,454,028	\$ 1,482,799	\$ 2,617,931	\$ 2,774,696
Capital assets	3,927,010	2,838,290	7,289,334	6,784,643	11,216,344	9,622,933
Total assets	<u>5,090,913</u>	<u>4,130,187</u>	<u>8,743,362</u>	<u>8,267,442</u>	<u>13,834,275</u>	<u>12,397,629</u>
Deferred outflow s of resources	<u>39,727</u>	<u>114,597</u>	<u>29,150</u>	<u>82,913</u>	<u>68,877</u>	<u>197,510</u>
Long-term liabilities outstanding	2,487,172	1,702,160	3,772,677	3,714,682	6,259,849	5,416,842
Other liabilities	93,031	75,066	128,416	122,565	221,447	197,631
Total liabilities	<u>2,580,203</u>	<u>1,777,226</u>	<u>3,901,093</u>	<u>3,837,247</u>	<u>6,481,296</u>	<u>5,614,473</u>
Deferred inflow s of resources	<u>8,711</u>	<u>33,725</u>	<u>6,472</u>	<u>25,030</u>	<u>15,183</u>	<u>58,755</u>
Net position:						
Net investment in capital assets	1,709,544	1,943,542	3,828,447	3,270,599	5,537,991	5,214,141
Restricted for debt	156,618	127,627	222,170	222,360	378,788	349,987
Unrestricted	675,564	362,664	814,330	995,119	1,489,894	1,357,783
Total net position	<u>\$ 2,541,726</u>	<u>\$ 2,433,833</u>	<u>\$ 4,864,947</u>	<u>\$ 4,488,078</u>	<u>\$ 7,406,673</u>	<u>\$ 6,921,911</u>

The balance of *unrestricted net position* (\$1,489,894) may be used to meet the government's ongoing obligations to citizens and creditors.

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

**CITY OF LANESBORO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental activities. Governmental activities increased the City of Lanesboro, Minnesota's net position by \$107,893.

Business-type activities. Business-type activities increased the City of Lanesboro, Minnesota's net position by \$376,869.

A condensed version of the Statement of Activities follows:

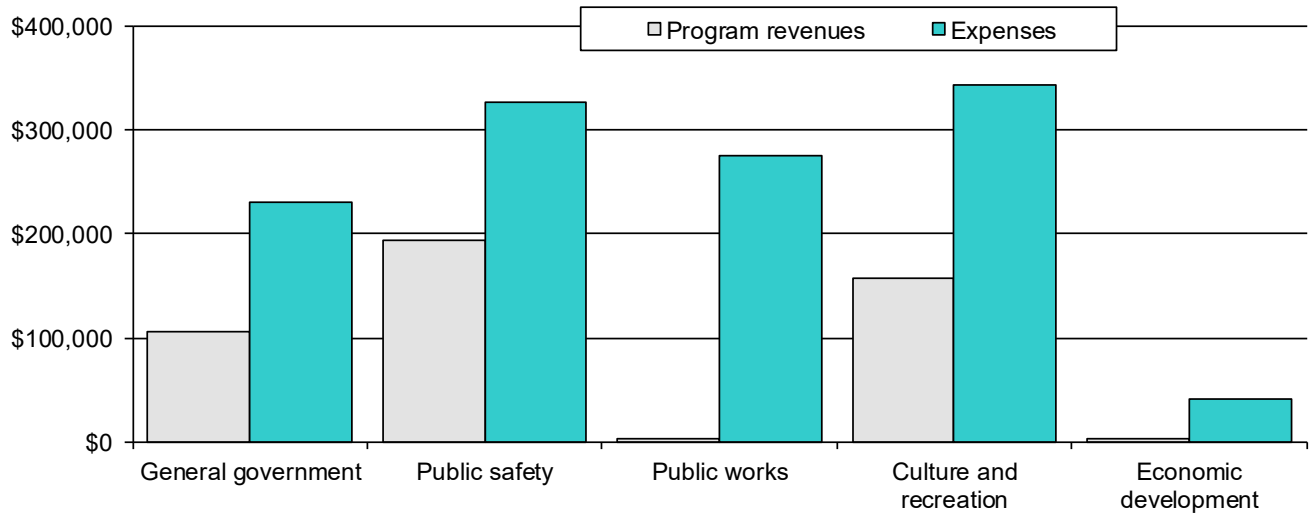
City of Lanesboro, Minnesota's Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenue:						
Program revenues:						
Charges for services	\$ 230,209	\$ 285,857	\$ 1,558,969	\$ 1,511,559	\$ 1,789,178	\$ 1,797,416
Operating grants and contributions	221,981	240,619			221,981	240,619
Capital grants and contributions	10,611	1,824		80,579	10,611	82,403
General revenues:						
Property taxes	571,193	549,774			571,193	549,774
Sales tax	55,986	58,183			55,986	58,183
Tax increments	32,032	26,047			32,032	26,047
Grants and contributions not restricted to specific programs	211,219	211,025			211,219	211,025
Other	12,974	27,235	83,293	69,432	96,267	96,667
Total revenues	<u>1,346,205</u>	<u>1,400,564</u>	<u>1,642,262</u>	<u>1,661,570</u>	<u>2,988,467</u>	<u>3,062,134</u>
Expenses:						
General government	230,112	208,217			230,112	208,217
Public safety	325,808	362,897			325,808	362,897
Public works	274,381	304,404			274,381	304,404
Parks and recreation	343,133	365,810			343,133	365,810
Economic development	40,700	81,671			40,700	81,671
Interest on long-term debt	24,178	60,362			24,178	60,362
Utilities commission			1,265,393	1,227,121	1,265,393	1,227,121
Total expenses	<u>1,238,312</u>	<u>1,383,361</u>	<u>1,265,393</u>	<u>1,227,121</u>	<u>2,503,705</u>	<u>2,610,482</u>
Increase (decrease) in net position	107,893	17,203	376,869	434,449	484,762	451,652
Net position, beginning of year	<u>2,433,833</u>	<u>2,416,630</u>	<u>4,488,078</u>	<u>4,053,629</u>	<u>6,921,911</u>	<u>6,470,259</u>
Net position, end of year	<u>\$ 2,541,726</u>	<u>\$ 2,433,833</u>	<u>\$ 4,864,947</u>	<u>\$ 4,488,078</u>	<u>\$ 7,406,673</u>	<u>\$ 6,921,911</u>

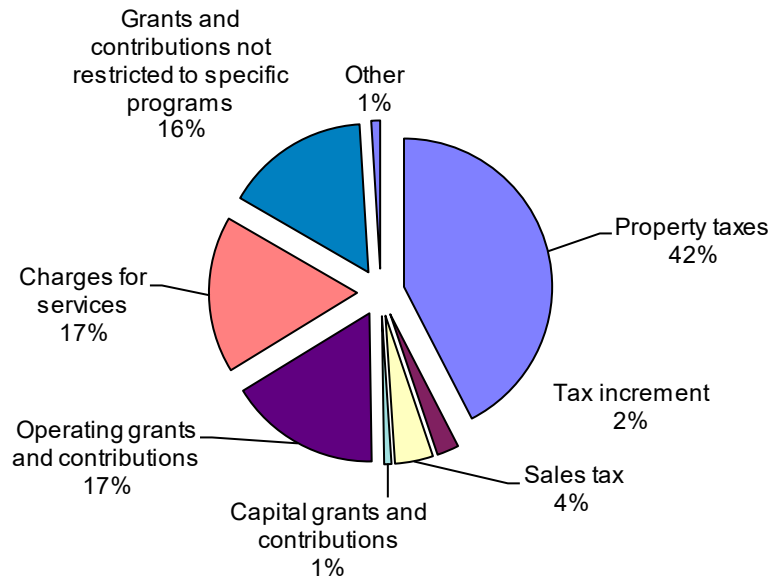
CITY OF LANESBORO, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

Expenses and Program Revenues - Governmental Activities



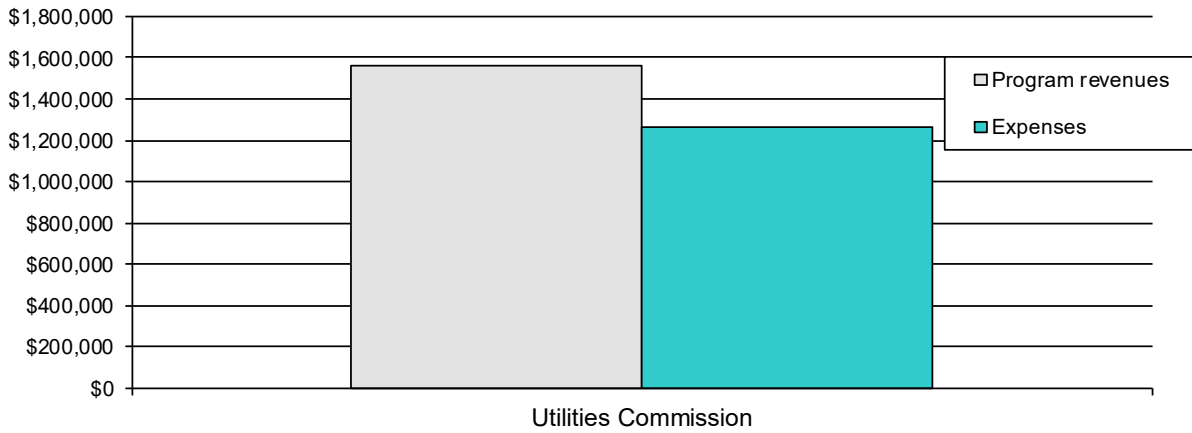
Revenues by Source - Governmental Activities



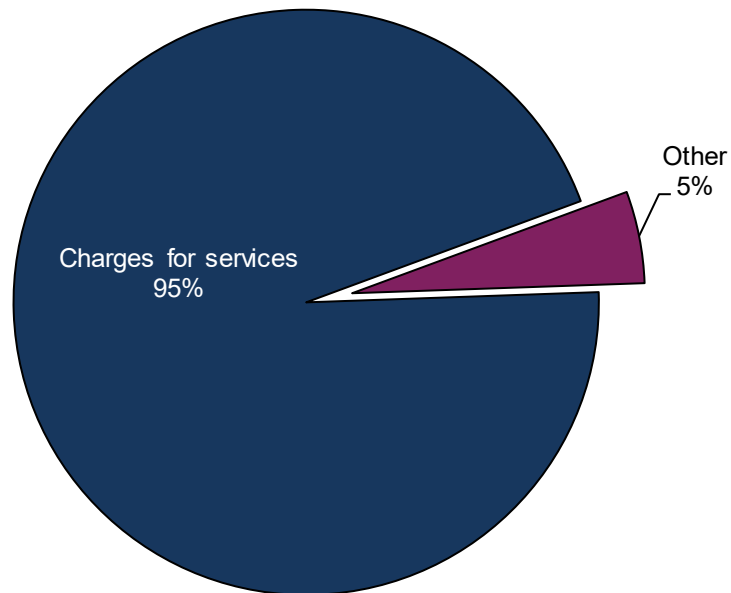
**CITY OF LANESBORO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the various business-type activities' program revenues with their expenses. Since all of these activities require significant physical assets to operate, any excess revenues are held for planned capital expenses to keep pace with growing demand for services.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



CITY OF LANESBORO, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

FUND BASIS FINANCIAL ANALYSIS

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

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

Fund balance is classified as non-spendable, restricted, committed, assigned or unassigned according to the following definitions:

Nonspendable – representing that portion of fund balance that is not in a spendable form. Included in this category are advances to other funds, prepaid items and inventory.

Restricted – reports resources that have external constraints placed upon their use.

Committed – reports those resources for a specific purpose by Council action. The constraints cannot be changed or removed without Council action.

Assigned – represents the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

Unassigned – comparable to the old unreserved, undesignated classification of fund balance, this represents the amount available for any purpose. However, only the General Fund may report a positive fund balance. Fund balance in other governmental funds will fall into one or more of the categories listed above, unless a fund has a negative fund balance.

As of the end of the current fiscal year, the City of Lanesboro, Minnesota's governmental funds reported combined ending fund balances of \$1,041,214, a decrease of \$130,315. Approximately \$774,046 of this total amount, or 74%, constitutes *unassigned and assigned fund balance*, which is available for spending at the government's discretion. The remainder of this fund balance is *restricted or nonspendable* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period or 2) to repay debt.

The general fund is the chief operating fund of the City of Lanesboro, Minnesota. At the end of the current fiscal year, unassigned fund balance of the general fund was \$262,678. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 37% of total general fund expenditures.

The general fund's total fund balance increased by \$55,362 during the current fiscal year primarily due to receiving a grant for the Sons of Norway and not spending all of the grant dollars in 2017.

The fire fund decreased its fund balance by \$28,522 for the year, and ended the year with a deficit fund balance of (\$63,571). The Fire department applied for and received grant funding for several pieces of equipment: UTV, turn out gear, helmets, and a new emergency siren for town. The items have been purchased, and grant funding will be complete in 2018 to replace the expenses incurred.

**CITY OF LANESBORO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Proprietary funds. The City of Lanesboro, Minnesota's proprietary funds statements found on pages 28-31 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position in the respective proprietary fund of the Utilities Commission is \$814,330.

Further information regarding utility operations can be found in the utility commissions separate financial report.

General Fund Budgetary Highlights

The City approved the 2017 general fund budget anticipating minimal change in general fund reserves.

Capital Asset and Debt Administration

Capital assets. The City of Lanesboro, Minnesota's investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$11,216,314 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and building improvements, machinery and equipment, vehicles, roads, and bridges, and production and distribution systems. The total increase in the City of Lanesboro, Minnesota's reported investment in capital assets for the current fiscal year was \$1,593,411, or 16.6%.

**City of Lanesboro, Minnesota's Capital Assets
(net of depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 264,500	\$ 264,500	\$ 13,686	\$ 13,686	\$ 278,186	\$ 278,186
Dam			267,471	283,936	267,471	283,936
Buildings and improvements	643,716	684,703	4,463,168	4,603,092	5,106,884	5,287,795
Infrastructure	1,115,244	1,200,598			1,115,244	1,200,598
Machinery and equipment	674,209	645,830	84,927	64,332	759,136	710,162
Production and distribution			1,939,439	1,819,597	1,939,439	1,819,597
Work in progress	1,229,341	42,659	520,643		1,749,984	42,659
Total	<u>\$ 3,927,010</u>	<u>\$ 2,838,290</u>	<u>\$ 7,289,334</u>	<u>\$ 6,784,643</u>	<u>\$11,216,344</u>	<u>\$ 9,622,933</u>

Additional information on the City of Lanesboro, Minnesota's capital assets can be found in Note 3B on pages 42-43 of this report.

**CITY OF LANESBORO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Long-term debt. At the end of the current fiscal year, the City of Lanesboro, Minnesota had \$5,840,000 in bonds and notes outstanding. All of this debt is backed by the full faith and credit of the City.

City of Lanesboro, Minnesota's Outstanding Debt
General Obligation and Revenue Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 2,238,000	\$ 1,410,000	\$	\$	\$ 2,238,000	\$ 1,410,000
General obligation revenue bonds			785,000	614,098	785,000	614,098
Notes			2,817,000	2,907,347	2,817,000	2,907,347
Total	<u>\$ 2,238,000</u>	<u>\$ 1,410,000</u>	<u>\$ 3,602,000</u>	<u>\$ 3,521,445</u>	<u>\$ 5,840,000</u>	<u>\$ 4,931,445</u>

The City of Lanesboro, Minnesota's total bonds and notes payable increased by \$908,555 during the current fiscal year. A more detailed breakdown of these obligations can be found in Note 3D, beginning on page 46.

Economic Factors and Next Year's Budgets and Rates

- The City has been granted funding from the Minnesota Legislature to repair the 1868 Lanesboro Stone Dam. The City has committed funding sources from the DNR in the amount of \$450,000 with a 50/50 cost share as well. We are currently working with our engineer to complete the design of the repairs needed.

**CITY OF LANESBORO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Economic Factors and Next Year's Budgets and Rates (Continued)

- With the implementation of the .5% sales tax legislation that was approved in 2011, the City intends to continue building reserves in order to address much needed infrastructure improvements. The City is faced with aging infrastructure and will be revisiting the City's Capital Improvement Plan, in order to ensure it properly addresses the current infrastructure needs.
- The City will continue to rely upon fees for services to fund various departments. These fees are assessed annually to ensure expenses being incurred are covered by incoming revenues.

All of these factors were considered in preparing the City of Lanesboro, Minnesota's budget for the 2017 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources.

Requests for Information

This financial report is designed to provide a general overview of the City of Lanesboro, Minnesota's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Administrator, Lanesboro Community Memorial Center, 202 Parkway Ave. S, Lanesboro, MN 55949.

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CITY OF LANESBORO, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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CITY OF LANESBORO, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2017
With Comparative Totals for December 31, 2016

	Governmental	Business-Type	Totals	
	Activities	Activities	2017	2016
ASSETS				
Cash and investments	\$ 944,310	\$ 1,360,544	\$ 2,304,854	\$ 2,396,348
Receivables (net of allowance for uncollectibles)	152,558	130,831	283,389	338,496
Internal balances	61,428	(61,428)		
Inventory		23,026	23,026	29,922
Prepaid expenses	5,607	1,055	6,662	9,930
Capital assets:				
Nondepreciable	1,493,841	534,329	2,028,170	320,845
Depreciable, net	2,433,169	6,755,005	9,188,174	9,302,088
Total Assets	<u>5,090,913</u>	<u>8,743,362</u>	<u>13,834,275</u>	<u>12,397,629</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from pension activity	39,727	29,150	68,877	197,510
LIABILITIES				
Accounts payable	32,961	49,202	82,163	64,367
Accrued liabilities	3,423	20,972	24,395	21,575
Deposits payable		19,164	19,164	20,941
Accrued interest payable	13,740		13,740	15,371
Compensated absences	42,907	39,078	81,985	75,377
Noncurrent liabilities:				
Due within one year	95,000	196,000	291,000	294,445
Due in more than one year	2,122,466	3,399,887	5,522,353	4,619,927
Net pension liability	269,706	176,790	446,496	502,470
Total Liabilities	<u>2,580,203</u>	<u>3,901,093</u>	<u>6,481,296</u>	<u>5,614,473</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pension activity	8,711	6,472	15,183	58,755
NET POSITION				
Net investment in capital assets	1,709,544	3,828,447	5,537,991	5,214,141
Restricted for debt	156,618	222,170	378,788	349,987
Unrestricted	675,564	814,330	1,489,894	1,357,783
Total Net Position	<u>\$ 2,541,726</u>	<u>\$ 4,864,947</u>	<u>\$ 7,406,673</u>	<u>\$ 6,921,911</u>

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 230,112	\$ 26,454	\$ 69,032	\$ 10,611
Public safety	325,808	81,045	112,332	
Public works	274,381	3,205		
Culture and recreation	343,133	119,505	38,117	
Economic development	40,700		2,500	
Interest on long-term debt	24,178			
Total governmental activities	1,238,312	230,209	221,981	10,611
Business-Type activities:				
Utilities commission	1,265,393	1,558,969		
Total	\$ 2,503,705	\$ 1,789,178	\$ 221,981	\$ 10,611

General revenues:
General property taxes
Tax increments
Sales tax
Grants and contributions not restricted to specific programs
Interest earnings
Miscellaneous
Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2017	2016
\$ (124,015)	\$	\$ (124,015)	\$ (164,169)
(132,431)		(132,431)	(121,311)
(271,176)		(271,176)	(287,611)
(185,511)		(185,511)	(170,750)
(38,200)		(38,200)	(50,858)
(24,178)		(24,178)	(60,362)
<u>(775,511)</u>		<u>(775,511)</u>	<u>(855,061)</u>
	293,576	293,576	365,017
<u>(775,511)</u>	<u>293,576</u>	<u>(481,935)</u>	<u>(490,044)</u>
571,193		571,193	549,774
32,032		32,032	26,047
55,986		55,986	58,183
211,219		211,219	211,025
2,770	4,093	6,863	4,637
10,204	79,200	89,404	92,030
<u>883,404</u>	<u>83,293</u>	<u>966,697</u>	<u>941,696</u>
107,893	376,869	484,762	451,652
<u>2,433,833</u>	<u>4,488,078</u>	<u>6,921,911</u>	<u>6,470,259</u>
<u>\$ 2,541,726</u>	<u>\$ 4,864,947</u>	<u>\$ 7,406,673</u>	<u>\$ 6,921,911</u>

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CITY OF LANESBORO, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2017

**CITY OF LANESBORO, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS**

December 31, 2017

With Comparative Totals for December 31, 2016

	100 General	220 Fire Fund	302 2008A Whittier/Maple	407 2017A Zenith/Auburn
ASSETS				
Cash and investments	\$ 115,355	\$	\$	\$ 240,102
Accounts receivable	4,744	32,390		
Due from other governmental units	3,951			
Taxes receivable delinquent	11,391	1,098		
Loans receivable				
Special assessments receivable	4,540			
Due from other funds	192,185			
Prepaid expenses	5,607			
TOTAL ASSETS	\$ 337,773	\$ 33,488	\$	\$ 240,102
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 15,249	\$ 7,612	\$	\$
Accrued liabilities	2,741			
Due to other funds		88,349		
Total Liabilities	17,990	95,961		
Deferred Inflows of Resources				
Unavailable revenue:				
Property taxes	11,391	1,098		
Loans receivable				
Special assessments	4,540			
Total Deferred Inflows of Resources	15,931	1,098		
Fund Balance:				
Nonspendable	5,607			
Restricted:				
Contributors				
Grantors	35,567			
Regulators				
Debt service				
Assigned				240,102
Unassigned	262,678	(63,571)		
Total Fund Balance	303,852	(63,571)		240,102
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 337,773	\$ 33,488	\$	\$ 240,102

See Notes to the Financial Statements

Other Governmental Funds	Total Governmental Funds	
	2017	2016
\$ 588,853	\$ 944,310	\$ 1,002,668
22,489	59,623	113,067
2,679	6,630	8,567
5,707	18,196	10,868
15,774	15,774	
47,795	52,335	87,741
	192,185	227,097
	5,607	7,558
<u>\$ 683,297</u>	<u>\$ 1,294,660</u>	<u>\$ 1,457,566</u>

\$ 10,100	\$ 32,961	\$ 18,501
682	3,423	3,258
42,408	130,757	165,669
<u>53,190</u>	<u>167,141</u>	<u>187,428</u>

5,707	18,196	10,868
15,774	15,774	
47,795	52,335	87,741
<u>69,276</u>	<u>86,305</u>	<u>98,609</u>

	5,607	7,558
--	-------	-------

23,333	23,333	19,124
11,708	47,275	39,384
34,335	34,335	87,562
156,618	156,618	633,207
387,345	627,447	215,004
(52,508)	146,599	169,690
<u>560,831</u>	<u>1,041,214</u>	<u>1,171,529</u>

<u>\$ 683,297</u>	<u>\$ 1,294,660</u>	<u>\$ 1,457,566</u>
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CITY OF LANESBORO, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	100 General	220 Fire Fund	302 2008A Whittier/Maple	407 2017A Zenith/Auburn
REVENUES				
Property taxes	\$ 342,698	\$ 34,771	\$ 62,432	\$
Sales taxes				
Special assessments	3,205		29,180	
Tax increments				
Licenses and permits	12,580			
Fines and forfeits	2,002			
Intergovernmental revenues	225,410	50,413		
Charges for services	97,695	3,510		
Interest income	2,481			
Donations/miscellaneous	86,394	31,000		
TOTAL REVENUES	<u>772,465</u>	<u>119,694</u>	<u>91,612</u>	
EXPENDITURES				
General government	131,278			
Public safety	101,467	148,216		
Public works	212,482			
Culture and recreation	238,512			
Economic development				
Unallocated	18,253			
Capital outlay				871,588
Debt service:				
Principal			570,000	
Interest and fiscal charges			12,530	
TOTAL EXPENDITURES	<u>701,992</u>	<u>148,216</u>	<u>582,530</u>	<u>871,588</u>
Excess (deficiency) of revenues over (under) expenditures	<u>70,473</u>	<u>(28,522)</u>	<u>(490,918)</u>	<u>(871,588)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds				1,146,820
Transfers in	9,000		413,375	
Transfers out	(24,111)			
TOTAL OTHER FINANCING SOURCES (USES)	<u>(15,111)</u>		<u>413,375</u>	<u>1,146,820</u>
Net change in fund balances	55,362	(28,522)	(77,543)	275,232
FUND BALANCES, beginning	<u>248,490</u>	<u>(35,049)</u>	<u>77,543</u>	<u>(35,130)</u>
FUND BALANCES, ending	<u>\$ 303,852</u>	<u>\$ (63,571)</u>	<u>\$</u>	<u>\$ 240,102</u>

See Notes to the Financial Statements

Other Governmental Funds	Total Governmental Funds	
	2017	2016
\$ 131,052	\$ 570,953	\$ 557,589
55,986	55,986	58,183
	32,385	16,537
32,032	32,032	26,047
	12,580	12,785
	2,002	3,357
58,942	334,765	358,403
121,776	222,981	248,602
289	2,770	1,184
16,828	134,222	141,508
<u>416,905</u>	<u>1,400,676</u>	<u>1,424,195</u>
	131,278	138,814
100,816	350,499	473,952
	212,482	308,710
142,229	380,741	373,257
42,325	42,325	67,582
	18,253	7,188
315,154	1,186,742	35,130
34,000	604,000	101,000
17,353	29,883	38,117
<u>651,877</u>	<u>2,956,203</u>	<u>1,543,750</u>
<u>(234,972)</u>	<u>(1,555,527)</u>	<u>(119,555)</u>
278,392	1,425,212	505,580
154,111	576,486	29,000
(552,375)	(576,486)	(29,000)
<u>(119,872)</u>	<u>1,425,212</u>	<u>505,580</u>
(354,844)	(130,315)	386,025
<u>915,675</u>	<u>1,171,529</u>	<u>785,504</u>
<u>\$ 560,831</u>	<u>\$ 1,041,214</u>	<u>\$ 1,171,529</u>

**CITY OF LANESBORO, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2017**

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

Total governmental fund balances (pages 18 and 19)		\$ 1,041,214
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 7,311,586	
Less: Accumulated depreciation	(3,384,576)	3,927,010
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Delinquent property taxes	\$ 18,196	
Loans receivable	15,774	
Deferred and delinquent special assessments	52,335	86,305
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and capital lease payable	\$ (2,217,466)	
Net pension liability	(238,690)	
Compensated absences	(42,907)	
Accrued interest	(13,740)	(2,512,803)
Net position of governmental activities (page 15)		\$ 2,541,726

**CITY OF LANESBORO, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017**

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

Net change in fund balances - total governmental funds (pages 20 and 21)	\$	(130,315)
<p>Governmental funds reported capital outlays 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.</p>		
Capital outlay	\$ 1,345,401	
Depreciation expense	(209,758)	
Loss on disposal of capital asset	<u>(46,923)</u>	
		1,088,720
<p>Revenues in the statement of activities do not provide current financial resources are not reported as revenues in the funds.</p>		
		(12,304)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Change in compensated absences		(4,971)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal retirement on long-term debt	\$ 613,000	
Proceeds from issuance of long term debt	(1,429,012)	
Change in net pension liability	(17,730)	
Amortization of bond discount	(1,126)	
Change in accrued interest	<u>1,631</u>	
		<u>(833,237)</u>
Change in net position of governmental activities (pages 16 and 17)	\$	<u><u>107,893</u></u>

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 346,139	\$ 346,139	\$ 342,698	\$ (3,441)	\$ 325,615
Special Assessments	4,000	4,000	3,205	(795)	469
Licenses and Permits	11,900	11,900	12,580	680	12,785
Intergovernmental Revenues					
Local government aid	211,219	211,219	211,219		211,025
Market value credit			915	915	1,051
Other	1,365	1,365	13,276	11,911	2,980
Total Intergovernmental Revenues	212,584	212,584	225,410	12,826	215,056
Fines and Forfeits					
Court fines and other	2,500	2,500	2,002	(498)	3,357
Interest Income	500	500	2,481	1,981	773
Charges for Services					
Park and recreation	100,000	100,000	97,695	(2,305)	107,695
Miscellaneous Revenues					
Cable franchise fees	8,500	8,500	12,390	3,890	14,067
Refunds and reimbursements			4,310	4,310	15,294
Contributions and donations			4,287	4,287	100
Rhubarb Fest/Farmers Market			3,960	3,960	3,454
Other	18,646	18,646	61,447	42,801	17,798
Total Miscellaneous Revenues	27,146	27,146	86,394	59,248	50,713
TOTAL REVENUES	\$ 704,769	\$ 704,769	\$ 772,465	\$ 67,696	\$ 716,463

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		2017	Variance with	2016
	Original	Final	Actual Amounts	Final Budget - Positive (Negative)	Actual Amounts
EXPENDITURES					
General Government					
Clerk/deputy clerk salaries	\$ 32,252	\$ 32,252	\$ 37,962	\$ (5,710)	\$ 35,056
PERA and social security	14,398	14,398	5,771	8,627	5,900
Office supplies/small equipment	4,300	4,300	3,873	427	4,193
Employee benefits	17,160	17,160	8,104	9,056	8,145
Elections					1,148
Postage	750	750	734	16	2,178
Telephone	4,000	4,000	3,354	646	3,721
Insurance	9,250	9,250	9,229	21	9,221
Publishing and printing	500	500	463	37	583
Assessor	2,500	2,500	2,411	89	2,386
Professional fees	34,700	34,700	42,718	(8,018)	55,723
Other general expenses	3,550	3,550	11,059	(7,509)	3,960
Mayor and council	7,000	7,000	5,600	1,400	6,600
Total General Government	130,360	130,360	131,278	(918)	138,814
Public Safety					
Contracted services	\$ 101,467	\$ 101,467	\$ 101,467	\$	\$ 104,903
Public Works					
Street Department					
Salaries	\$ 72,492	\$ 72,492	\$ 72,561	\$ (69)	\$ 72,495
PERA and social security	11,961	11,961	11,957	4	12,246
Employee benefits	15,170	15,170	15,219	(49)	20,253
Gas and oil	8,000	8,000	5,358	2,642	5,063
Supplies/small equipment	5,000	5,000	5,028	(28)	7,225
Repairs and maintenance	17,806	17,806	18,480	(674)	33,679
Utilities	7,000	7,000	4,751	2,249	3,313
Professional services	3,500	3,500	3,204	296	9,567
Seal coating	1,000	1,000	698	302	721
Other	15,300	15,300	23,044	(7,744)	25,039
Capital outlay	95,393	95,393	34,939	60,454	100,105
Total Street Department	252,622	252,622	195,239	57,383	289,706
Street Lights	19,000	19,000	17,243	1,757	19,004

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with	2016 Actual Amounts
	Original	Final		Final Budget - Positive (Negative)	
EXPENDITURES (continued)					
Culture and Recreation					
Salaries	\$ 60,260	\$ 60,260	\$ 58,140	\$ 2,120	\$ 54,603
PERA and social security	9,942	9,942	9,005	937	8,400
Office supplies/small equipment	9,500	9,500	10,397	(897)	12,146
Employee benefits	12,870	12,870	12,837	33	4,123
Telephone	500	500	379	121	385
Insurance	3,900	3,900	3,623	277	4,018
Professional fees	1,300	1,300	3,395	(2,095)	3,765
Other	19,550	19,550	22,969	(3,419)	25,019
Utilities	40,000	40,000	35,319	4,681	41,061
Repairs and maintenance	15,000	15,000	19,670	(4,670)	46,192
Capital outlay	47,500	47,500	49,189	(1,689)	9,335
Lanesboro Museum	5,000	5,000	5,000		5,000
Community Education	5,500	5,500	5,500		5,500
Rhubarb Fest/Farmers Market			3,089	(3,089)	5,455
Total Culture and Recreation	230,822	230,822	238,512	(7,690)	225,002
Unallocated					
Sons of Norway			18,253	(18,253)	7,188
TOTAL EXPENDITURES	734,271	734,271	701,992	32,279	784,617
Excess (deficiency) of revenues over (under) expenditures	(29,502)	(29,502)	70,473	99,975	(68,154)
OTHER FINANCING SOURCES (USES)					
Transfers in	9,000	9,000	9,000		9,000
Transfers out			(24,111)	(24,111)	(20,000)
Total Other Financing Sources (Uses)	9,000	9,000	(15,111)	(24,111)	(11,000)
Net change in fund balances	(20,502)	(20,502)	55,362	75,864	(79,154)
FUND BALANCES, beginning	248,490	248,490	248,490		327,644
FUND BALANCES, ending	\$ 227,988	\$ 227,988	\$ 303,852	\$ 75,864	\$ 248,490

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA

FIRE FUND

**Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

For the Year Ended December 31, 2017

With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		Operations	Equipment	2017 Actual Amounts	Variance with	2016 Actual Amounts
	Original	Final				Final Budget - Positive (Negative)	
REVENUES							
Property taxes	\$ 35,100	\$ 35,100	\$ 34,771	\$	\$ 34,771	\$ (329)	\$ 34,440
Intergovernmental	28,000	28,000	47,913	2,500	50,413	22,413	64,001
Charges for services	3,000	3,000	3,510		3,510	510	5,100
Interest income							328
Donations/miscellaneous				31,000	31,000	31,000	55,407
TOTAL REVENUES	66,100	66,100	86,194	33,500	119,694	53,594	159,276
EXPENDITURES							
Salaries	13,000	13,000	20,314		20,314	(7,314)	21,750
PERA and social security	950	950	1,057		1,057	(107)	1,167
Employee benefits	6,250	6,250	5,434		5,434	816	6,228
Fire relief contributions	13,500	13,500	19,432		19,432	(5,932)	20,830
Supplies/small equipment	1,600	1,600	11,736		11,736	(10,136)	30,006
Repairs and maintenance	8,500	8,500	6,201		6,201	2,299	9,496
Training	4,200	4,200	2,168		2,168	2,032	4,220
Telephone	2,100	2,100	2,157		2,157	(57)	2,129
Utilities	7,000	7,000	5,429		5,429	1,571	5,834
Capital outlay	12,000	12,000	5,646	61,553	67,199	(55,199)	150,500
Miscellaneous	4,000	4,000	7,089		7,089	(3,089)	11,842
TOTAL EXPENDITURES	73,100	73,100	86,663	61,553	148,216	(75,116)	264,002
Net change in fund balances	(7,000)	(7,000)	(469)	(28,053)	(28,522)	(21,522)	(104,726)
FUND BALANCES, beginning	(35,049)	(35,049)	(138,638)	103,589	(35,049)		69,677
FUND BALANCES, ending	\$ (42,049)	\$ (42,049)	\$ (139,107)	\$ 75,536	\$ (63,571)	\$ (21,522)	\$ (35,049)

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA
PROPRIETARY FUND
Statement of Net Position
December 31, 2017
With Comparative Totals as of December 31, 2016

	Totals - Utilities Commission	
	2017	2016
ASSETS		
Current Assets		
Cash and investments	\$ 1,360,544	\$ 1,393,680
Accounts receivable, net	130,831	118,253
Inventory	23,026	29,922
Other receivables/prepaid	1,055	2,372
Total Current Assets	1,515,456	1,544,227
Noncurrent Assets		
Capital assets:		
Nondepreciable	534,329	13,686
Depreciable	11,509,012	11,205,752
Less: Accumulated depreciation	4,754,007	4,434,795
Net capital assets	7,289,334	6,784,643
Total Assets	8,804,790	8,328,870
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pension activity	29,150	82,913
LIABILITIES		
Current Liabilities		
Accounts payable	49,202	45,866
Accrued liabilities	60,050	55,758
Due to other funds	61,428	61,428
Customer deposits	19,164	20,941
Current maturities of bonds payable	196,000	204,445
Total Current Liabilities	385,844	388,438
Noncurrent Liabilities		
Notes payable	2,726,000	2,817,000
Bonds payable	680,000	500,000
Net pension liability	176,790	200,638
Less: bond discount, net of amortization	(6,113)	(7,401)
Total Noncurrent Liabilities	3,576,677	3,510,237
Total Liabilities	3,962,521	3,898,675
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pension activity	6,472	25,030
NET POSITION		
Net investment in capital assets	3,828,447	3,270,599
Restricted for debt	222,170	222,360
Unrestricted	814,330	995,119
Total Net Position	\$ 4,864,947	\$ 4,488,078

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA
PROPRIETARY FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Totals - Utilities Commission	
	2017	2016
Operating Revenues		
Charges for services	\$ 1,558,969	\$ 1,511,559
Operating Expenses		
Purchased power/facility charge	357,264	350,969
Contracted services	12,948	37,963
Generation fuel/oil		594
Utilities	75,958	70,550
Salaries and wages	195,800	178,462
Employee benefits	72,303	72,242
Repairs and maintenance	31,566	12,636
Materials, chemicals and supplies	52,142	56,935
Professional fees	33,195	32,283
Laboratory testing	2,364	4,142
Depreciation and amortization	335,580	307,565
Insurance	17,718	17,860
Other	25,387	32,360
Total Operating Expenses	1,212,225	1,174,561
Operating Income	346,744	336,998
Nonoperating Revenues (Expenses)		
Interest income	4,093	3,453
Interest expense	(53,168)	(52,560)
Other income	79,200	65,979
Total Nonoperating Revenue (Expenses)	30,125	16,872
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	376,869	353,870
Contributed capital/grants		80,579
CHANGE IN NET POSITION	376,869	434,449
NET POSITION - BEGINNING OF YEAR	4,488,078	4,053,629
TOTAL NET POSITION - END OF YEAR	\$ 4,864,947	\$ 4,488,078

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA
PROPRIETARY FUND
Statement of Cash Flows
For the Year Ended December 31, 2017
With Comparative Totals for December 31, 2016

	Totals - Utilities Commission	
	2017	2016
Cash Flows From Operating Activities		
Cash received from customers and users	\$ 1,546,391	\$ 1,511,096
Cash paid to suppliers and employers	(851,224)	(919,028)
Other income	79,200	65,979
	774,367	658,047
Net Cash Provided By Operating Activities		
Cash Flows From Noncapital Financing Activities		
Due to (from) other funds		21,413
		21,413
Net Cash Provided By Noncapital Financing Activities		
Cash Flows From Capital and Related Financing Activities		
Capital asset acquisitions	(838,983)	(82,869)
Principal payments on bonds	(204,445)	(253,387)
Proceeds from contributed capital/grants		80,579
Proceeds from issuance of long term debt	285,000	
Interest payments on bonds	(53,168)	(52,560)
	(811,596)	(308,237)
Net Cash (Used In) Capital and Related Financing Activities		
Cash Flows From Investing Activities		
Investment income received	4,093	3,453
	4,093	3,453
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(33,136)	374,676
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,393,680	1,019,004
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,360,544	\$ 1,393,680

See Notes to the Financial Statements

**RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

	Totals - Utilities Commission	
	2017	2016
Operating Income	\$ 346,744	\$ 336,998
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	335,580	307,565
Change in net pension liability	11,357	11,459
Other income	79,200	65,979
(Increase) Decrease In:		
Accounts receivable	(12,578)	(463)
Inventory	6,896	3,088
Prepaid items	1,317	(174)
Increase (Decrease) In:		
Accounts payable	3,336	(70,628)
Accrued expenses and customer deposits	2,515	4,223
	<u>\$ 774,367</u>	<u>\$ 658,047</u>
 Net Cash Provided By Operating Activities		
	<u>\$ 774,367</u>	<u>\$ 658,047</u>
 Non-Cash Transactions:		
Capital assets acquired with long term debt	\$	\$ 771,922

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CITY OF LANESBORO, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The City of Lanesboro, Minnesota was first incorporated in 1869. The City operates under the “optional Plan A” form of government as defined by Minnesota State Statutes which prescribes a Mayor-Council form of government. The Council consists of four Council members, elected to four year terms, and the Mayor, elected to two year terms.

The accounting policies of the City of Lanesboro, Minnesota, conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City’s financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City’s reporting entity, as set forth in Section 2100 of GASB’s *Codification of Governmental Accounting and Financial Reporting Standards*, include whether the organization is legally separate, holds the corporate powers of the organization, appoints a voting majority of the organization’s board, is able to impose its will on the organization, the organization has the potential to impose a financial benefit/burden on the City, and there is fiscal dependency by the organization on the City. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City’s reporting entity.

Excluded – Fire Relief Association – This association is organized as a nonprofit organization by their members to provide pension and other benefits to such members in accordance with Minnesota statutes. Their board of directors are appointed by the membership of the organization. All funding is conducted in accordance with Minnesota statutes, whereby state aids flow to the association, tax levies are determined by the association and are only reviewed by the City, and the associations pay benefits directly to their members.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund 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.

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

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

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met are recorded as unearned revenue. Grants received before time requirements are met are recorded as a deferred inflow of resources.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Description of Funds

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

GASB Statement #34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the individual funds in the governmental fund category) for the determination of major funds. The City electively added as major funds, those which had specific community focus.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It is used to account for all financial resources except those required to be or otherwise accounted for in another fund.

The *fire fund* accounts for financial resources to be used for operating activities of the fire department.

The *2008A Whittier/Maple Bond fund* accounts for the accumulation of resources for payment of general obligation bonds and interest.

The *2017A Zenith/Auburn Project fund* accounts for the accumulation of resources for payment of the project.

The City reports the following major proprietary funds:

The *utilities commission fund* accounts for the operations a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for services between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

D. Description of Funds (Continued)

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

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

E. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is not utilized in any of the fund types. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. There are no encumbrances at December 31, 2017.

F. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

Cash and Investments

Cash and cash equivalents consist of checking accounts, savings accounts, and certificates of deposit.

Inventory

Inventories are valued at the lower of cost or market by applying the first-in, first-out method.

Accounts Receivable

Accounts receivables are carried at original invoice. Management determines bad debts by regularly evaluation individual customer accounts receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of accounts receivables previously written off are recorded when received.

Special Assessments Receivable

Assessments are levied at various times upon City Council resolution for property owner improvements made by the City. Assessment collections are deferred over periods ranging from one to twenty nine years. Revenue from these assessments is recognized as the annual installments become collectible. Special assessments receivable represent uncollected assessments, which will be collected by the County. The amount of delinquent assessments receivable are fully offset by deferred inflows of resources in the Governmental Fund Types because they are not known to be available to finance current expenditures.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

Unearned Revenue

The City reports deferred revenue on its balance sheet. Unearned revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Prepaid Expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Capital Assets

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (excluding salvage value). The capitalization threshold varies per category. The categories are as follows:

Land	\$	10,000
Buildings		20,000
Infrastructure		100,000
Machinery and equipment		2,500

Donated capital assets are recorded at their estimated acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add value of the asset or materially extend asset lives are not capitalized.

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

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives:

	<u>Years</u>
Buildings	20 - 25
Infrastructure	10 - 40
Machinery and equipment	5 - 25

GASB Statement No. 34 required the City to report and depreciate new infrastructure assets effective January 1, 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation had been reported in the financial statements prior to 2004.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

Property Taxes

Property tax levies are set by the City Council in December each year and are certified to Fillmore County for collection in the following 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, following, and are recorded as receivables by the City at that date. Revenues for property taxes 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. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts four times a year in January, June, November, and December.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable, and are fully offset by inflows of resources because they are not known to be available to finance current expenditures. These offsetting balances are not reflected in the basic financial statements because of their non-effect on current year operations.

Compensated Absences

Vacation, sick pay and compensatory overtime are accrued when earned in the government-wide financial statements and the proprietary fund types. In the Governmental Funds of the fund financial statements, vacation, sick pay and compensatory overtime are recorded as expenditures and accrued as a current liability only if they have matured, for example, as a result of employee's resignations and retirements.

Concentration of Credit Risk

Financial instruments which expose the City to a concentration of credit risk consist primarily of cash investments and accounts receivable. Credit risk associated with cash and investments are discussed in Note 3. The City's accounts receivable are concentrated geographically, as for the most part, amounts are due from individuals residing in and businesses located in the City of Lanesboro.

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one type and is pension related and is reported on the statement of net position.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City recognized two types. The first type of deferred inflows of resources occurs because governmental fund revenues are not recognized until available under the modified accrual basis of accounting. The second type is pension related and reported in the statement of net position.

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.

Net Position / Fund Balance

In the government-wide and proprietary financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Stewardship, Compliance, and Accountability

The City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City Council through formal action (Resolution) and remain binding unless removed by the City Council by subsequent formal action (Resolution).

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has not adopted a formal minimum fund balance policy.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform with the 2017 presentation.

Budgets and Budgetary Accounting

Each fall, the City Council adopts an annual budget for the following year. The budgets are, in all material respects, prepared on the same basis of accounting used to prepare the financial statements. Budgeted amounts for the General Fund have been presented in the financial statements.

Spending control for City monies is at the fund level, but management control is exercised at budgetary line item level within each fund. The City Council may amend the budget after it is approved using the same procedures necessary to approve the original budget. The budgetary data presented represents the approved budget as amended. All annual appropriations lapse at year-end.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

A. Summary of Cash and Investments

As of December 31, 2017, the City's cash and investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$	929,073
Cash on hand		75
Non-negotiable CD's		15,235
Money market funds		1,360,471
		<hr/>
Total Cash and investments	\$	<u>2,304,854</u>

Investments Authorized by Minnesota Statutes

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- a) Direct obligations or obligations guaranteed by the United States or its agencies.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c) General obligations of the State of Minnesota or its municipalities.
- d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer in to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

Collateralization of Cash Deposits

The City's deposits are entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name.

Minnesota Statutes require that all City deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state of local government obligations and legal investments. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

Interest Rate Risk

The City does not have 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 has no investment policy that would limit its investment choices.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

Summary of Cash and Investments (Continued)

Fair Value Measurement

Fair value measurements are determined by utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to the unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means

If the asset or liability has a specific (contractual) term, Level 2, inputs must be observable for substantially the full term of the asset or liability

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable.

The City held no investments that were required to be recorded at fair value.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Investments in any one issuer that represent 5% or more of the total investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Merchants Bank	Money Market	\$ 1,360,471

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 264,500	\$	\$	\$ 264,500
Construction in process	42,659	1,186,682		1,229,341
Total capital assets, not being depreciated	307,159	1,186,682		1,493,841
Capital assets, being depreciated:				
Buildings and improvements	1,638,022			1,638,022
Infrastructure	2,727,863			2,727,863
Machinery and equipment	1,388,502	158,719	95,361	1,451,860
Total capital assets, being depreciated	5,754,387	158,719	95,361	5,817,745
Less accumulated depreciation for:				
Buildings and improvements	953,319	40,987		994,306
Infrastructure	1,527,265	85,354		1,612,619
Machinery and equipment	742,672	83,417	48,438	777,651
Total accumulated depreciation	3,223,256	209,758	48,438	3,384,576
Total capital assets, being depreciated, net	2,531,131	(51,039)	46,923	2,433,169
Governmental activities capital assets, net	<u>\$ 2,838,290</u>	<u>\$1,135,643</u>	<u>\$ 46,923</u>	<u>\$ 3,927,010</u>

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

B. *Capital Assets (continued)*

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 13,686	\$	\$	\$ 13,686
Work in progress		520,643		520,643
Total capital assets, not being depreciated	13,686	520,643		534,329
Capital assets, being depreciated:				
Dam	470,872			470,872
Buildings and improvements	5,397,564			5,397,564
Production systems	937,553			937,553
Distribution systems	4,197,517	285,000		4,482,517
Machinery and equipment	202,246	33,340	15,080	220,506
Total capital assets, being depreciated	11,205,752	318,340	15,080	11,509,012
Less accumulated depreciation for:				
Dam	186,936	16,465		203,401
Buildings and improvements	794,472	139,924		934,396
Production systems	573,145	20,236		593,381
Distribution systems	2,742,328	144,922		2,887,250
Machinery and equipment	137,914	12,745	15,080	135,579
Total accumulated depreciation	4,434,795	334,292	15,080	4,754,007
Total capital assets, being depreciated, net	6,770,957	(15,952)		6,755,005
Business-type activities capital assets, net	\$ 6,784,643	\$ 504,691	\$	\$ 7,289,334

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 23,349
Public safety	42,095
Public works	79,937
Culture and recreation	50,288
Economic development	14,089

Total depreciation expense - governmental activities \$ 209,758

Business-Type Activities:

Utilities Commission	<u>\$ 334,292</u>
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CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

C. Interfund Balances and Transfers

The amounts due to and from other funds as of December 31, 2017, at the individual fund level are summarized below:

<u>Funds</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 192,185	\$
Special Revenue:		
Fire Fund		88,349
Local Sales Tax		4,938
Capital Projects		
Dam Project		37,470
Utilities Commission		61,428
	<u>\$ 192,185</u>	<u>\$ 192,185</u>

Transfers during the year ended December 31, 2017 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 9,000	\$ 24,111
Special Revenue:		
Ambulance		9,000
Lanesboro Museum	2,133	
Local Sales Tax		130,000
Revolving Loan Fund	7,500	
Debt Service:		
2003 Bridge Bond	5,478	
2016A GO Bond Fund		413,375
Capital Projects:		
Vehicle Replacement Fund	9,000	
2008A Whittier/Maple	413,375	
Park/Road Improvement Fund	130,000	
Total Transfers	<u>\$ 576,486</u>	<u>\$ 576,486</u>

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

C. Interfund Balances and Transfers (Continued)

Excess of expenditures over budgeted appropriations at the individual fund level during 2017 are as follows:

Special Revenue Funds:		
Library	\$	10,520
Fire		75,116

All excess expenditures were the result of planned processes.

As of December 31, 2017, the following funds had deficit fund balances:

Special Revenue Funds:		
Fire Fund	\$	63,571
Sales Tax Fund		4,938
Capital Projects		
Dam Project		47,570

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. *Long-Term Debt*

The following is a summary of changes in long-term debt obligations during the year ended December 31, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
2003 GO Bridge Bond (4.9%)	\$ 18,000	\$	\$ 18,000	\$	\$
2008A GO Bond (4.36%)	570,000		570,000		
2010B GO Tax Abatement Bond (2-3.9%)	295,000		25,000	270,000	25,000
2016A GO Refunding Bond (2.00%)	527,000			527,000	70,000
2017A GO Improvement (2.0% - 2.5%)		1,180,000		1,180,000	
2017B GO Improvement Note (2.9%)		261,000		261,000	
Less: Unamortized Discount	(9,672)	(11,988)	(1,126)	(20,534)	
Total Bonds and Notes Payable	1,400,328	1,429,012	611,874	2,217,466	95,000
Other Liabilities:					
Compensated Absences	37,936	4,971		42,907	
Governmental Activities					
Long-term Liabilities	1,438,264	1,433,983	611,874	2,260,373	95,000
BUSINESS-TYPE ACTIVITIES					
Bonds:					
General Obligation Revenue Bonds:					
2010A Utility Refunding Bond (1%-4%)	585,000		85,000	500,000	90,000
2017A Utility Bond (2.0%-2.5%)		285,000		285,000	15,000
Notes					
1996 General Obligation Sewer Loan (2.68%)	29,098		29,098		
2014 PFA Water Revenue Note (1.00%)	2,742,347		85,347	2,657,000	86,000
2015 PFA Water Revenue Note (1.00%)	165,000		5,000	160,000	5,000
Less: Unamortized Discount	(7,401)		(1,288)	(6,113)	
Total Bonds and Notes	3,514,044	285,000	203,157	3,595,887	196,000
Other Liabilities:					
Compensated Absences	37,441	1,637		39,078	
Business-type Activities					
Long-term Liabilities	3,551,485	286,637	203,157	3,634,965	196,000
Total	\$ 4,989,749	\$ 1,720,620	\$ 815,031	\$ 5,895,338	\$ 291,000

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2017, over the life of the debt, are summarized below:

Years	General Obligation Bonds		General Obligation Revenue Bonds		Notes Payable		Total Principal	Total Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
<u>Governmental Activities</u>								
2018	\$ 95,000	\$ 39,999					\$ 95,000	\$ 39,999
2019	192,000	49,393					192,000	49,393
2020	224,000	44,977					224,000	44,977
2021	233,000	39,821					233,000	39,821
2022	238,000	34,470					238,000	34,470
2023-2027	986,000	94,648					986,000	94,648
2028-2029	270,000	9,435						
Totals	<u>\$2,238,000</u>	<u>\$ 312,743</u>					<u>\$ 2,238,000</u>	<u>\$ 312,743</u>
<u>Business-Type Activities</u>								
2018			\$ 105,000	\$ 18,876	\$ 91,000	\$ 28,170	\$ 196,000	\$ 47,046
2019			115,000	15,814	92,000	27,260	207,000	43,074
2020			125,000	12,300	93,000	26,340	218,000	38,640
2021			130,000	8,600	93,000	25,410	223,000	34,010
2022			135,000	4,400	94,000	24,480	229,000	28,880
2023-2027			125,000		489,000	108,040	614,000	108,040
2028-2032			50,000		515,000	83,050	565,000	83,050
2033-2037					541,000	56,800	541,000	56,800
2038-2042					572,000	29,140	572,000	29,140
2043-2044					237,000	3,560	237,000	3,560
Totals			<u>\$ 785,000</u>	<u>\$ 59,990</u>	<u>\$ 2,817,000</u>	<u>\$ 107,180</u>	<u>\$ 3,602,000</u>	<u>\$ 167,170</u>

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Detailed Notes on All Funds (Continued)

D. Long-Term Debt (Continued)

Tax Increment Financing

Tax increment financing was used to partially finance the construction of the Church Hill condominium development.

4. Other Information

A. Defined Benefit Pension Plans - Statewide

Plan Description

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

General Employees Retirement Plan - All full-time and certain part-time employees of the City of Houston are covered by the General Employees Plan. General Employees Plan 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.

General Employee Benefit Plan 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.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

A. Defined Benefit Pension Plans – Statewide (continued)

Plan Description (continued)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

General Employee Benefit Plan Contributions

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

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 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employee Benefit Plan for the year ended December 31, 2017 were \$31,525. The City's contributions were equal to the required contributions as set by state statute.

General Employee Benefit Plan Pension Costs

At December 31, 2017, the City reported a liability of \$414,956 for its proportionate share of the General Employee Benefit Plan'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 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$5,237. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was .0065% at the end of the measurement period and .0058% for the beginning of the period.

For the year ended December 31, 2017, the City recognized pension expense of \$31,230 for its proportionate share of the General Employee Benefit Plan's pension expense. In addition, the City recognized an additional \$151 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

A. Defined Benefit Pension Plans – Statewide (continued)

At December 31, 2017, the City reported its proportionate share of the General Employee Benefit Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 10,231
Changes in actuarial assumptions		4,952
Difference between projected and actual investment earnings	19,874	
Changes in proportion	31,816	
Contributions paid to GERP subsequent to the measurement date	17,187	
Total	<u>\$ 68,877</u>	<u>\$ 15,183</u>

Included in deferred outflows of resources related to pensions is \$17,187 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2018	\$ 18,234
2019	31,591
2020	4,296
2021	(17,614)

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

A. Defined Benefit Pension Plans – Statewide (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%	Per year
Active Member Payroll Growth	3.25%	Per year
Investment Rate of Return	7.50%	

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables 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 the General Employees Plan through 2044.

Actuarial assumptions used in the June 30, 2017, 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 following changes in actuarial assumptions occurred in 2017:

1. General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are not 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for on-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.10%
International Stocks	15%	5.60%
Bonds	18%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

A. Defined Benefit Pension Plans – Statewide (continued)

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. 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.

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 (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
City's proportionate share of the GERF net pension liability	\$ 643,627	\$ 414,956	\$ 227,747

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.

B. Defined Benefit Pension Plan – Fire Relief Association

The Lanesboro Firemen's Relief Association has not had an actuarial study performed. The Association believes the funding status determined using the calculation required by the Minnesota State Auditor is sufficient to determine the reportable amounts under GASB No. 68, *Accounting and Financial Reporting for Pensions*.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

B. Defined Benefit Pension Plan – Fire Relief Association (continued)

Plan Description

The City contributes to the Lanesboro Firemen's Relief Association ("Association"), a single employer public employee retirement system that acts as a common investment and administrator for the City's firefighters.

Volunteer firefighters of the City are members of the Lanesboro Firemen's Relief Association. Association members are eligible to receive a lump sum pension benefit of \$1,200 per person per year of service after reaching a minimum retirement age of 50 and at least 20 years of service in the association. Association members are eligible to receive partial pension benefits for service of 10 years with 10 years of membership in the association. These benefit provisions are consistent with enabling State statutes. Volunteers of the department are not required to contribute to the relief association. The City levies property taxes at the direction of and for the benefit of the fire relief association and passes through state aids allocated to the plan, all in accordance with enabling state statutes.

Funding Status and Progress

At December 31, 2016 (latest available information), the Association funding status is as follows:

Total plan assets	\$ 299,240
Total accrued liability	<u>330,780</u>
Deficiency of Plan Assets Over Accrued Liability	<u>\$ (31,540)</u>

Contributions Required and Contributions Made

Financial requirements of the Association are determined on a computation based on member years of service. The City's minimum obligation is the financial requirement for the year less Association investment earnings and State aids. The funding strategy should provide sufficient resources to pay relief association benefits on a timely basis.

Total contributions made by the City to the Association in 2017 amount to \$19,432 (\$15,932 pass-through of State aids and \$3,500 in City funds). The contributed amount was determined as described above and was based on the Association's requirements as of December 31, 2017.

The payments received from the State of Minnesota on behalf of the Association have been recognized as revenue and the contribution to the Association has been recognized as an expenditure in the accompanying financial statements.

The computation of the pension contribution requirements for 2016 was based on the same assumptions, benefit provision, lump sum funding method, and other significant factors used to determine pension contributions requirements in previous years.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

C. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for liability, property, and automotive insurance through the League of Minnesota Cities Insurance Trust (LMCIT). The City provides employee health insurance through a private insurance carrier.

Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There were no reductions in insurance coverage in 2017.

The City participates in a group workers' compensation plan of the LMCIT, which is a public entity risk pool currently operating as a common risk management and insurance program for member Minnesota Cities. All cities participating in the plan are jointly and severally liable for all claims and expenses of the plan. The LMCIT workers' compensation plan is self-sustaining based on the premiums charged, so that total contributions plus compounded earnings on those contributions will be sufficient to satisfy claims, liabilities and other expenses of the plan. The LMCIT plan participates in the Workers' Compensation Reinsurance Association with coverage of \$1,000,000 per claim for plan year 2017. The amount of any liability in excess of plan assets may be assessed to participating Cities in a method and amount determined by the LMCIT.

D. Conduit Debt Obligation

To provide financing for improvements to Commonweal Theatre, the City of Lanesboro, Minnesota issued \$1,200,000 of Commercial Facility Revenue Notes dated May 9, 2006. These notes are special limited obligations of the City, payable solely from income sources of the non-profit corporation. The notes do not constitute a debt or pledge of the faith and credit of the City, and accordingly have not been reported in the accompanying financial statements. At December 31, 2017, remaining notes outstanding totaled \$620,000.

E. Tax Abatement – Pay-As-You-Go Tax Increment

The City may enter into tax abatement agreements as authorized by Minnesota Abatement Laws under State Statutes Sections 469.174 to 469.1794 through a pay-as-you-go tax increment financing program. Any parcel of property in the City could qualify for tax abatement under this program. The City negotiates tax increment financing agreements on an individual basis generally with the purpose of promoting economic development within the City.

The City has made no commitments, other than tax abatement, under the agreements. Under the program, the City agrees to abate real estate taxes based on the increased property value from improvements on the subject property. Generally, the agreements require 90% of the property tax increments collected to be returned to the property owner as reimbursement of certain improvement costs. The remaining 10% is retained by the City for administrative costs.

The City has one pay-as-you-go tax increment financing districts. For the year ended December 31, 2017, the City paid tax increments totaling \$34,699 related to these agreements.

CITY OF LANESBORO, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

CITY OF LANESBORO, MINNESOTA
Schedules of Contributions
December 31, 2017

Schedule of Contributions
PERA General Employees Retirement Fund

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 25,039	\$ 25,039	\$	\$ 332,687	7.5%
2015	25,688	25,688		342,507	7.5%
2016	26,892	26,892		358,560	7.5%
2017	31,525	31,525		420,333	7.5%
2018					
2019					
2020					
2021					
2022					
2023					

CITY OF LANESBORO, MINNESOTA
Schedules of Proportionate Share of Net Pension Liability
December 31, 2017

Schedule of Proportionate Share of Net Pension Liability
PERA General Employees Retirement Fund

Fiscal Year Ended June 30	Proportionate (Percentage) of Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0066%	\$ 310,035	\$ 326,055	95.1%	78.7%
2015	0.0059%	305,769	337,597	90.6%	78.2%
2016	0.0058%	470,931	350,533	134.3%	68.9%
2017	0.0065%	414,956	389,447	106.6%	75.9%
2018					
2019					
2020					
2021					
2022					
2023					

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CITY OF LANESBORO, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR FUNDS
STATEMENTS AND SCHEDULES
DECEMBER 31, 2017

**CITY OF LANESBORO, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2017**

	Special Revenue							
	211 Library	230 / 630 Ambulance	205 Lanesboro Museum	235 Buffalo Bill Days	240 Church Hill TIF District	250 Economic Development	405 Small Cities Grant Fund	418 Local Sales Tax
ASSETS								
Cash and investments	\$ 27,120	\$ 188,959	\$	\$ 23,333	\$ 21,593	\$ 5,714	\$ 11,708	\$
Accounts receivable		22,489						
Due from other governmental units	629				958			
Taxes receivable delinquent	1,809	945						
Loans receivable								
Special assessments receivable								
TOTAL ASSETS	\$ 29,558	\$ 212,393	\$	\$ 23,333	\$ 22,551	\$ 5,714	\$ 11,708	\$
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE								
Liabilities								
Accounts payable	\$	\$	\$	\$	\$	\$	\$	\$
Accrued liabilities	682							
Due to other funds								4,938
Total Liabilities	682							4,938
Deferred Inflows of Resources								
Unavailable revenue								
Property taxes	1,809	945						
Loans receivable								
Special assessments								
Total Deferred Inflows of Resources	1,809	945						
Fund Balance								
Restricted:								
Contributors				23,333				
Grantors						11,708		
Regulators					22,551			
Debt service								
Assigned	27,067	211,448				5,714		
Unassigned								(4,938)
Total Fund Balance	27,067	211,448		23,333	22,551	5,714	11,708	(4,938)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 29,558	\$ 212,393	\$	\$ 23,333	\$ 22,551	\$ 5,714	\$ 11,708	\$

Special Revenue	Debt Service				Capital Project			Total Nonmajor Governmental Funds 2017
620 Revolving Loan	307 2017A Zenith/Auburn Bond	308 2003 Bridge Bond	303 2016A Refunding Bond	304 2010 Tax Abatement Bonds	408 Park Road Improvement Bond	417 Dam Project	425 Vehicle Replacement	
\$ 11,784	\$ 21,192	\$	\$ 84,477	\$ 49,857	\$ 134,116	\$	\$ 9,000	\$ 588,853
			701	391				22,489
			1867	1086				2,679
15,774								5,707
			47,795					15,774
								47,795
<u>\$ 27,558</u>	<u>\$ 21,192</u>	<u>\$</u>	<u>\$ 134,840</u>	<u>\$ 51,334</u>	<u>\$ 134,116</u>	<u>\$</u>	<u>\$ 9,000</u>	<u>\$ 683,297</u>
\$	\$	\$	\$	\$	\$	\$ 10,100	\$	\$ 10,100
						37,470		682
						47,570		42,408
								53,190
			1867	1086				5,707
15,774								15,774
			47,795					47,795
<u>15,774</u>			<u>49,662</u>	<u>1086</u>				<u>69,276</u>
								23,333
11,784								11,708
	21,192		85,178	50,248				34,335
					134,116		9,000	156,618
						(47,570)		387,345
						(47,570)		(52,508)
<u>11,784</u>	<u>21,192</u>	<u>\$</u>	<u>85,178</u>	<u>50,248</u>	<u>134,116</u>	<u>(47,570)</u>	<u>9,000</u>	<u>560,831</u>
<u>\$ 27,558</u>	<u>\$ 21,192</u>	<u>\$</u>	<u>\$ 134,840</u>	<u>\$ 51,334</u>	<u>\$ 134,116</u>	<u>\$</u>	<u>\$ 9,000</u>	<u>\$ 683,297</u>

**CITY OF LANESBORO, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2017**

	Special Revenue							
	211 Library	230 / 630 Ambulance	205 Lanesboro Museum	235 Buffalo Bill Days	240 Church Hill TIF District	250 Economic Development	405 Small Cities Grant Fund	418 Local Sales Tax
REVENUES								
Property tax collected	\$ 56,061	\$ 31,137	\$	\$	\$	\$	\$	\$
Sales taxes								55,986
Tax Increment					32,032			
Special assessments								
Intergovernmental	28,023	30,919						
Charges for services	1,401	75,338		45,037				
Interest income	188		23	28				
Donations/miscellaneous	10,094					2,500		
TOTAL REVENUES	<u>95,767</u>	<u>137,394</u>	<u>23</u>	<u>45,065</u>	<u>32,032</u>	<u>2,500</u>		<u>55,986</u>
EXPENDITURES								
Public safety		100,816						
Culture and recreation	95,438		5,935	40,856				
Economic development					27,967	1,182	13,176	
Capital outlay								
Debt service								
Principal retirement								
Interest and fiscal charges								
TOTAL EXPENDITURES	<u>95,438</u>	<u>100,816</u>	<u>5,935</u>	<u>40,856</u>	<u>27,967</u>	<u>1,182</u>	<u>13,176</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>329</u>	<u>36,578</u>	<u>(5,912)</u>	<u>4,209</u>	<u>4,065</u>	<u>1,318</u>	<u>(13,176)</u>	<u>55,986</u>
OTHER FINANCING SOURCES (USES)								
Bond proceeds								
Transfer in			2,133					
Transfer out		(9,000)						(130,000)
TOTAL OTHER FINANCING SOURCES (USES)		<u>(9,000)</u>	<u>2,133</u>					<u>(130,000)</u>
Net change in fund balances	329	27,578	(3,779)	4,209	4,065	1,318	(13,176)	(74,014)
FUND BALANCES, beginning	<u>26,738</u>	<u>183,870</u>	<u>3,779</u>	<u>19,124</u>	<u>18,486</u>	<u>4,396</u>	<u>24,884</u>	<u>69,076</u>
FUND BALANCES, ending	<u>\$ 27,067</u>	<u>\$ 211,448</u>	<u>\$</u>	<u>\$ 23,333</u>	<u>\$ 22,551</u>	<u>\$ 5,714</u>	<u>\$ 11,708</u>	<u>\$ (4,938)</u>

Special Revenue	Debt Service			Capital Project			Total Nonmajor Governmental Funds 2017	
620 Revolving Loan	307 2017A Zenith/Auburn Bond	308 2003 Bridge Bond	303 2016A GO Bond Fund	304 2010 Tax Abatement Bonds	408 Park Road Improvement Bond	417 Dam Project	425 Vehicle Replacement	
\$	\$	\$ 8,991	\$	\$ 34,863	\$	\$	\$	\$ 131,052
								55,986
								32,032
								58,942
								121,776
50								289
4,234								16,828
4,284		8,991		34,863				416,905
								100,816
								142,229
					253,084	62,070		42,325
								315,154
		9,000		25,000				34,000
		627	7,027	9,699				17,353
		9,627	7,027	34,699	253,084	62,070		651,877
4,284		(636)	(7,027)	164	(253,084)	(62,070)		(234,972)
								278,392
7,500	21,192	5,478			257,200		9,000	154,111
			(413,375)		130,000			(552,375)
7,500	21,192	5,478	(413,375)		387,200		9,000	(119,872)
11,784	21,192	4,842	(420,402)	164	134,116	(62,070)	9,000	(354,844)
		(4,842)	505,580	50,084		14,500		915,675
\$ 11,784	\$ 21,192	\$	\$ 85,178	\$ 50,248	\$ 134,116	\$ (47,570)	\$ 9,000	\$ 560,831

**CITY OF LANESBORO, MINNESOTA
LIBRARY FUND
Balance Sheet
December 31, 2017
With Comparative Totals as of December 31, 2016**

	Totals	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 27,120	\$ 27,540
Taxes receivable	629	990
Taxes receivable delinquent	1,809	1,103
Total Current Assets	29,558	29,633
LIABILITIES		
Current Liabilities		
Accounts payable		1,074
Accrued liabilities	682	718
Total Current Liabilities	682	1,792
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue		
Property taxes	1,809	1,103
FUND BALANCE		
Assigned		
Book/Memorial	27,159	29,434
Library operations	(92)	(2,696)
Total Fund Balance	\$ 27,067	\$ 26,738

CITY OF LANESBORO, MINNESOTA
LIBRARY FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position - Budget and Actual
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		Library	Book/ Memorial	2017 Actual Amounts	Variance with	
	Original	Final				Final Budget -	2016
						Positive (Negative)	Actual Amounts
Revenues							
Property taxes	\$ 56,568	\$ 56,568	\$ 56,061	\$	\$ 56,061	\$ (507)	\$ 56,596
Intergovernmental	27,000	27,000	28,023		28,023	1,023	27,359
Charges for services	1,200	1,200	1,401		1,401	201	1,315
Other	650	650	750	9,344	10,094	9,444	8,841
Total Revenues	85,418	85,418	86,235	9,532	95,767	10,349	94,158
Expenses							
Salaries	45,457	45,457	45,996		45,996	(539)	43,640
PERA and social security	7,691	7,691	6,787		6,787	904	6,985
Employee benefits	8,580	8,580	8,570		8,570	10	8,582
Supplies	2,000	2,000	1,777	10,740	12,517	(10,517)	6,679
Books	7,000	7,000	7,770		7,770	(770)	7,755
Magazines	600	600	628		628	(28)	543
Videos/audios	1,000	1,000	795		795	205	701
Summer reading program	750	750	250		250	500	0
Library automation	5,300	5,300	5,679		5,679	(379)	6,623
Insurance	870	870	602		602	268	655
Telephone	1,200	1,200	900		900	300	953
Lease payments	3,600	3,600	3,552		3,552	48	2,600
Miscellaneous	870	870	1,392		1,392	(522)	472
Total Expenses	84,918	84,918	84,698	10,740	95,438	(10,520)	86,188
CHANGE IN FUND BALANCES	500	500	1,537	(1,208)	329	(171)	7,970
TOTAL FUND BALANCE - BEGINNING OF YEAR	26,738	26,738	(1,629)	28,367	26,738		18,768
TOTAL FUND BALANCE - END OF YEAR	\$ 27,238	\$ 27,238	\$ (92)	\$ 27,159	\$ 27,067	\$ (171)	\$ 26,738

CITY OF LANESBORO, MINNESOTA
AMBULANCE FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 31,380	\$ 31,380	\$ 31,137	\$ (243)	\$ 33,749
Charges for service	65,000	65,000	75,338	10,338	84,642
Intergovernmental	23,500	23,500	30,919	7,419	28,644
Donations/miscellaneous					796
TOTAL REVENUES	119,880	119,880	137,394	17,514	147,831
EXPENDITURES					
Salaries	61,000	61,000	52,316	8,684	64,720
PERA and social security	9,000	9,000	6,309	2,691	5,438
Employee benefits	3,500	3,500	5,435	(1,935)	3,429
Supplies/small equipment	6,000	6,000	7,926	(1,926)	6,938
Repairs and maintenance	2,000	2,000	1,373	627	3,269
Fuel and oil	2,000	2,000	1,752	248	1,662
Travel and training	5,000	5,000	3,194	1,806	1,923
Contracted services	5,930	5,930	4,599	1,331	5,841
Capital outlay	5,900	5,900	3,950	1,950	2,688
Miscellaneous expense	10,050	10,050	13,962	(3,912)	9,139
TOTAL EXPENDITURES	110,380	110,380	100,816	9,564	105,047
Excess (deficiency) of revenues over (under) expenditures	9,500	9,500	36,578	27,078	42,784
OTHER FINANCING SOURCES (USES)					
Transfers out	(9,000)	(9,000)	(9,000)		(9,000)
Net change in fund balances	500	500	27,578	27,078	33,784
FUND BALANCES, beginning	183,870	183,870	183,870		150,086
FUND BALANCES, ending	\$ 184,370	\$ 184,370	\$ 211,448	\$ 27,078	\$ 183,870

CITY OF LANESBORO, MINNESOTA
SMALL CITY GRANT FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$	\$	\$	\$	\$ 8,843
Donations/miscellaneous					3,746
Interest income					20
TOTAL REVENUES					12,609
EXPENDITURES					
Capital projects			13,176	(13,176)	14,242
TOTAL EXPENDITURES			13,176	(13,176)	14,242
Excess (deficiency) of revenues over (under) expenditures			(13,176)	(13,176)	(1,633)
OTHER FINANCING SOURCES (USES)					
Transfers out					
Net change in fund balances			(13,176)	(13,176)	(1,633)
FUND BALANCES, beginning	24,884	24,884	24,884		26,517
FUND BALANCES, ending	\$ 24,884	\$ 24,884	\$ 11,708	\$ (13,176)	\$ 24,884

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CITY OF LANESBORO, MINNESOTA
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

**CITY OF LANESBORO, MINNESOTA
GOVERNMENTAL FUNDS
Bond Retirement Schedules
December 31, 2017**

Year	\$420,000 General Obligation Tax Abatement Bonds of 2010		
	Principal	Interest	Total
2018	\$ 25,000	\$ 9,011	\$ 34,011
2019	25,000	8,324	33,324
2020	30,000	7,470	37,470
2021	30,000	6,450	36,450
2022	30,000	5,430	35,430
2023	30,000	4,410	34,410
2024	30,000	3,315	33,315
2025	35,000	2,047	37,047
2026	35,000	682	35,682
Totals	\$ 270,000	\$ 47,139	\$ 317,139

Year	\$527,000 General Obligation Refunding Bonds of 2016A		
	Principal	Interest	Total
2018	\$ 70,000	\$ 9,840	\$ 79,840
2019	71,000	8,430	79,430
2020	70,000	7,020	77,020
2021	74,000	5,580	79,580
2022	78,000	4,060	82,060
2023	80,000	2,480	82,480
2024	84,000	840	84,840
Totals	\$ 527,000	\$ 38,250	\$ 565,250

**CITY OF LANESBORO, MINNESOTA
GOVERNMENTAL FUNDS
Bond Retirement Schedules (Continued)
December 31, 2017**

\$1,180,000 General Obligation Improvement Bonds of 2017A			
Year	Principal	Interest	Total
2018	\$	\$ 15,155	\$ 15,155
2019	75,000	25,375	100,375
2020	100,000	23,875	123,875
2021	105,000	21,875	126,875
2022	105,000	19,775	124,775
2023	105,000	17,675	122,675
2024	110,000	15,575	125,575
2025	110,000	13,375	123,375
2026	115,000	11,175	126,175
2027	115,000	8,588	123,588
2028	120,000	6,000	126,000
2029	120,000	3,000	123,000
Totals	\$ 1,180,000	\$ 181,443	\$ 1,361,443

\$261,000 General Obligation Improvement Note of 2017B			
Year	Principal	Interest	Total
2018	\$	\$ 5,993	\$ 5,993
2019	21,000	7,264	28,264
2020	24,000	6,612	30,612
2021	24,000	5,916	29,916
2022	25,000	5,205	30,205
2023	26,000	4,466	30,466
2024	27,000	3,698	30,698
2025	27,000	2,915	29,915
2026	28,000	2,116	30,116
2027	29,000	1,291	30,291
2028	30,000	435	30,435
Totals	\$ 261,000	\$ 45,911	\$ 306,911

CITY OF LANESBORO, MINNESOTA
BUSINESS-TYPE FUNDS
Bond Retirement Schedules
December 31, 2017

\$1,030,000 Electric Revenue Refunding Bonds of 2010			
Year	Principal	Interest	Total
2018	\$ 90,000	\$ 18,876	\$ 108,876
2019	95,000	15,814	110,814
2020	100,000	12,300	112,300
2021	105,000	8,600	113,600
2022	110,000	4,400	114,400
Totals	\$ 500,000	\$ 59,990	\$ 559,990

\$3,031,931 PFA Water Revenue Note of 2014			
Year	Principal	Interest	Total
2018	\$ 86,000	\$ 26,570	\$ 112,570
2019	87,000	25,710	112,710
2020	88,000	24,840	112,840
2021	88,000	23,960	111,960
2022	89,000	23,080	112,080
2023	90,000	22,190	112,190
2024	91,000	21,290	112,290
2025	92,000	20,380	112,380
2026	93,000	19,460	112,460
2027	94,000	18,530	112,530
2028	95,000	17,590	112,590
2029	96,000	16,640	112,640
2030	97,000	15,680	112,680
2031	98,000	14,710	112,710
2032	99,000	13,730	112,730
2033	100,000	12,740	112,740
2034	101,000	11,740	112,740
2035	102,000	10,730	112,730
2036	103,000	9,710	112,710
2037	105,000	8,680	113,680
2038	106,000	7,630	113,630
2039	107,000	6,570	113,570
2040	108,000	5,500	113,500
2041	109,000	4,420	113,420
2042	110,000	3,330	113,330
2043	111,000	2,230	113,230
2044	112,000	1,120	113,120
Totals	\$ 2,657,000	\$ 388,760	\$ 3,045,760

CITY OF LANESBORO, MINNESOTA
BUSINESS-TYPE FUNDS
Bond Retirement Schedules
December 31, 2017

\$165,775 PFA Water Revenue

Note of 2015

Year	Principal	Interest	Total
2018	\$ 5,000	\$ 1,600	\$ 6,600
2019	5,000	1,550	6,550
2020	5,000	1,500	6,500
2021	5,000	1,450	6,450
2022	5,000	1,400	6,400
2023	5,000	1,350	6,350
2024	6,000	1,300	7,300
2025	6,000	1,240	7,240
2026	6,000	1,180	7,180
2027	6,000	1,120	7,120
2028	6,000	1,060	7,060
2029	6,000	1,000	7,000
2030	6,000	940	6,940
2031	6,000	880	6,880
2032	6,000	820	6,820
2033	6,000	760	6,760
2034	6,000	700	6,700
2035	6,000	640	6,640
2036	6,000	580	6,580
2037	6,000	520	6,520
2038	6,000	460	6,460
2039	6,000	400	6,400
2040	6,000	340	6,340
2041	7,000	280	7,280
2042	7,000	210	7,210
2043	7,000	140	7,140
2044	7,000	70	7,070
Totals	\$ 160,000	\$ 23,490	\$ 183,490

\$285,000 GO Utility Revenue

Bond of 2017A

Year	Principal	Interest	Total
2018	\$ 15,000	\$ 3,628	\$ 18,628
2019	20,000	5,775	25,775
2020	25,000	5,375	30,375
2021	25,000	4,875	29,875
2022	25,000	4,375	29,375
2023	25,000	3,875	28,875
2024	25,000	3,375	28,375
2025	25,000	2,875	27,875
2026	25,000	2,375	27,375
2027	25,000	1,813	26,813
2028	25,000	1,250	26,250
2029	25,000	625	25,625
Totals	\$ 285,000	\$ 40,216	\$ 325,216

**CITY OF LANESBORO, MINNESOTA
PFA WATER NOTE OF 2014
LOAN RETIREMENT DEBT SERVICE FUND
Supplemental Schedule of Revenues, Expenditures and Change in Fund Balance
For the Years Ended December 31, 2017 and 2016**

	2017	2016
Revenues	<u>\$ 112,570</u>	<u>\$ 110,183</u>
Expenditures		
Principal	85,347	90,000
Interest	27,363	23,108
Total Expenditures	<u>112,710</u>	<u>113,108</u>
Excess (deficiency) of revenues over (under) expenditures	(140)	(2,925)
Fund Balance - Beginning of Year	<u>112,711</u>	<u>115,636</u>
Fund Balance - End of Year	<u><u>\$ 112,571</u></u>	<u><u>\$ 112,711</u></u>

**CITY OF LANESBORO, MINNESOTA
PFA WATER NOTE OF 2015
LOAN RETIREMENT DEBT SERVICE FUND
Supplemental Schedule of Revenues, Expenditures and Change in Fund Balance
For the Years Ended December 31, 2017 and 2016**

	2017	2016
Revenues	<u>\$ 6,600</u>	<u>\$ 5,782</u>
Expenditures		
Principal	5,000	775
Interest	1,650	638
Total Expenditures	<u>6,650</u>	<u>1,413</u>
Excess (deficiency) of revenues over (under) expenditures	(50)	4,369
Fund Balance - Beginning of Year	<u>6,650</u>	<u>2,281</u>
Fund Balance - End of Year	<u><u>\$ 6,600</u></u>	<u><u>\$ 6,650</u></u>

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

To the City Council
City of Lanesboro, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lanesboro, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Lanesboro, Minnesota's basic financial statements, and have issued our report thereon dated April 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lanesboro, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lanesboro, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lanesboro, Minnesota's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, finding 2017-001 described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

Compliance and Other Matters

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

To the City Council
City of Lanesboro, Minnesota

City of Lanesboro, Minnesota's Response to Findings

City of Lanesboro, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Lanesboro, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
April 27, 2018

**CITY OF LANESBORO, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2017**

FINDINGS – FINANCIAL STATEMENT AUDIT AND MAJOR FEDERAL AWARD PROGRAMS AUDIT

SIGNIFICANT DEFICIENCIES

2017-001 Limited Segregation of Duties

Condition: A limited number of personnel are primarily responsible for the accounting and financial duties relating to the revenue and receipt cycle and the purchase and disbursement cycle.

Criteria: The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. An important element of internal accounting controls is an adequate segregation of duties that minimizes the opportunities for any one individual to be in a position to both perpetrate and conceal errors or irregularities in the normal course of business.

Effect: Because of the limited size of the City's administrative staff, there is not an adequate segregation of duties.

Cause: There is a limited number of administrative staff.

Recommendation: We recommend that the City continue to segregate duties as best it can within the limits of what the City considers to be cost beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with the Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Findings:

Our City employs a limited number of individuals to provide the accounting services for the City. The City will continue to segregate duties as best it can within the limits of what it considers to be cost beneficial.

Official Responsible for Ensuring CAP:

City Administrator Michele Peterson is the official responsible for ensuring correction action of the deficiency.

Planned Completion Date of CAP:

The City will continue to segregate duties the best it can within the limits of what it considers to be cost beneficial.

Plan to Monitor Completion of CAP:

Mayor and City Council will monitor this process.

**CITY OF LANESBORO, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2017**

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2016-001
2015-001
2014-001

Limited Segregation of Duties

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Recommendation: We recommend that the City continue to segregate duties as best it can within the limits of what the City considers to be cost beneficial.

MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Lanesboro, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the City of Lanesboro, Minnesota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Lanesboro, Minnesota's basic financial statements, and have issued our report thereon dated April 27, 2018.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Lanesboro, Minnesota 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 Lanesboro, Minnesota's noncompliance with the above referenced provisions.

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

Smith, Schaffer and Associates, Ltd.

Rochester, Minnesota
April 27, 2018