

CITY OF LANESBORO, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2018

CITY OF LANESBORO, MINNESOTA
FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

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CITY OF LANESBORO, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2018

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CITY OF LANESBORO, MINNESOTA
LIST OF ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2018

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, 2018

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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, 2018, 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, 2017, from which such partial information was derived.

We have previously audited the City's 2017 financial statements and our report dated April 27, 2018, 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, 2017, 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.

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.

Honorable Mayor and Members
of the City Council
Page 3

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2019, 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
April 25, 2019

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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, 2018.

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 \$7,984,814 (*net position*). Of this amount, \$1,088,976 (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 \$578,141.
- As of the close of the current fiscal year, the City of Lanesboro, Minnesota's governmental funds reported combined ending fund balances of \$968,047. Approximately \$486,504 of this total amount, or 50% 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 \$260,642 or 30% of total general fund expenditures.
- The City of Lanesboro, Minnesota increased total outstanding debt obligations by \$405,000 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 deferred outflows of resources and liabilities and deferred inflows of resources, 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, and 2017A Zenith/Auburn capital project fund all of which are considered to be major funds. Data from the other seventeen 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 \$7,984,814 at the close of the most recent fiscal year.

By far the largest portion of the City of Lanesboro, Minnesota's net position (78%) 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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 1,221,932	\$ 1,163,903	\$ 1,789,218	\$ 1,454,028	\$ 3,011,150	\$ 2,617,931
Capital assets	4,295,789	3,927,010	7,524,679	7,289,334	11,820,468	11,216,344
Total assets	<u>5,517,721</u>	<u>5,090,913</u>	<u>9,313,897</u>	<u>8,743,362</u>	<u>14,831,618</u>	<u>13,834,275</u>
Deferred outflow s of resources	<u>50,138</u>	<u>39,727</u>	<u>36,929</u>	<u>29,150</u>	<u>87,067</u>	<u>68,877</u>
Long-term liabilities outstanding	2,429,139	2,487,172	4,142,125	3,772,677	6,571,264	6,259,849
Other liabilities	108,458	93,031	153,013	128,416	261,471	221,447
Total liabilities	<u>2,537,597</u>	<u>2,580,203</u>	<u>4,295,138</u>	<u>3,901,093</u>	<u>6,832,735</u>	<u>6,481,296</u>
Deferred inflow s of resources	<u>59,196</u>	<u>8,711</u>	<u>41,940</u>	<u>6,472</u>	<u>101,136</u>	<u>15,183</u>
Net position:						
Net investment in capital assets	2,071,196	1,709,544	4,183,209	3,828,447	6,254,405	5,537,991
Restricted for debt	419,173	156,618	222,260	222,170	641,433	378,788
Unrestricted	480,697	675,564	608,279	814,330	1,088,976	1,489,894
Total net position	<u>\$ 2,971,066</u>	<u>\$ 2,541,726</u>	<u>\$ 5,013,748</u>	<u>\$ 4,864,947</u>	<u>\$ 7,984,814</u>	<u>\$ 7,406,673</u>

The balance of *unrestricted net position* (\$1,088,976) 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 \$429,340.

Business-type activities. Business-type activities increased the City of Lanesboro, Minnesota's net position by \$148,801.

A condensed version of the Statement of Activities follows:

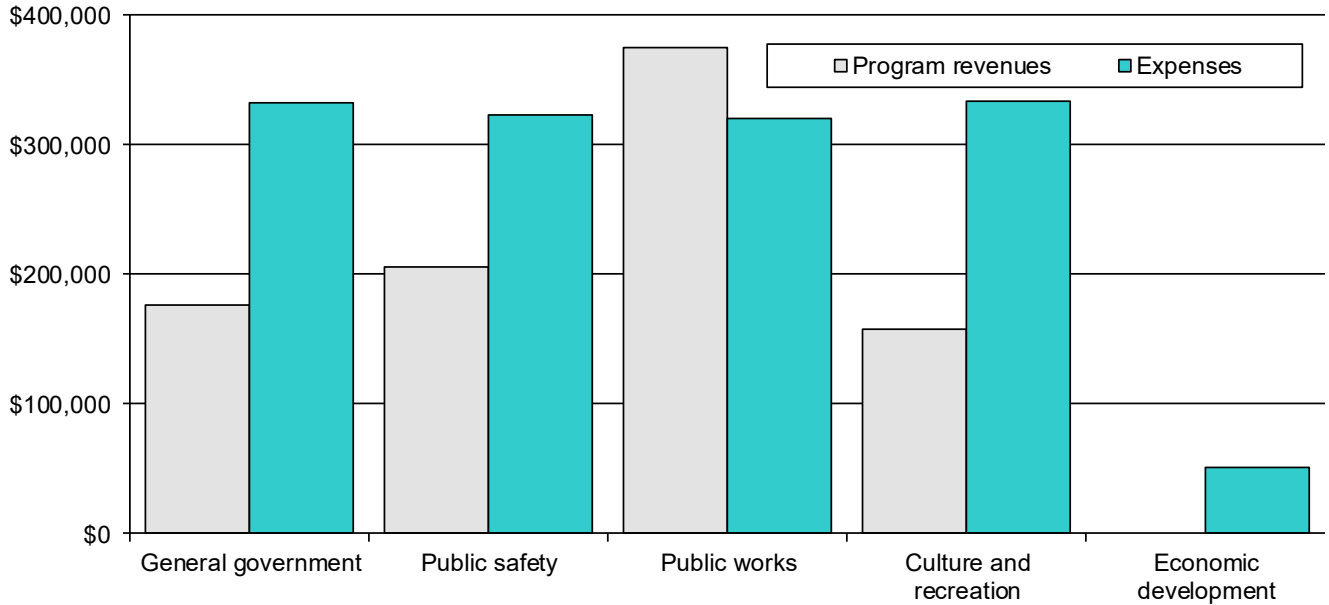
City of Lanesboro, Minnesota's Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenue:						
Program revenues:						
Charges for services	\$ 245,053	\$ 230,209	\$ 1,639,753	\$ 1,558,969	\$ 1,884,806	\$ 1,789,178
Operating grants and contributions	409,250	221,981			409,250	221,981
Capital grants and contributions	260,561	10,611	30,000		290,561	10,611
General revenues:						
Property taxes	545,206	571,193			545,206	571,193
Sales tax	53,153	55,986			53,153	55,986
Tax increments	28,616	32,032			28,616	32,032
Grants and contributions not restricted to specific programs	213,561	211,219			213,561	211,219
Other	8,697	12,974	84,117	83,293	92,814	96,267
Total revenues	<u>1,764,097</u>	<u>1,346,205</u>	<u>1,753,870</u>	<u>1,642,262</u>	<u>3,517,967</u>	<u>2,988,467</u>
Expenses:						
General government	331,543	230,112			331,543	230,112
Public safety	322,740	325,808			322,740	325,808
Public works	320,407	274,381			320,407	274,381
Parks and recreation	333,821	343,133			333,821	343,133
Economic development	51,385	40,700			51,385	40,700
Interest on long-term debt	69,861	24,178			69,861	24,178
Utilities commission			1,510,069	1,265,393	1,510,069	1,265,393
Total expenses	<u>1,429,757</u>	<u>1,238,312</u>	<u>1,510,069</u>	<u>1,265,393</u>	<u>2,939,826</u>	<u>2,503,705</u>
Increase in net position before transfers	334,340	107,893	243,801	376,869	578,141	484,762
Transfers	95,000		(95,000)			
Increase in net position	429,340	107,893	148,801	376,869	578,141	484,762
Net position, beginning of year	2,541,726	2,433,833	4,864,947	4,488,078	7,406,673	6,921,911
Net position, end of year	<u>\$ 2,971,066</u>	<u>\$ 2,541,726</u>	<u>\$ 5,013,748</u>	<u>\$ 4,864,947</u>	<u>\$ 7,984,814</u>	<u>\$ 7,406,673</u>

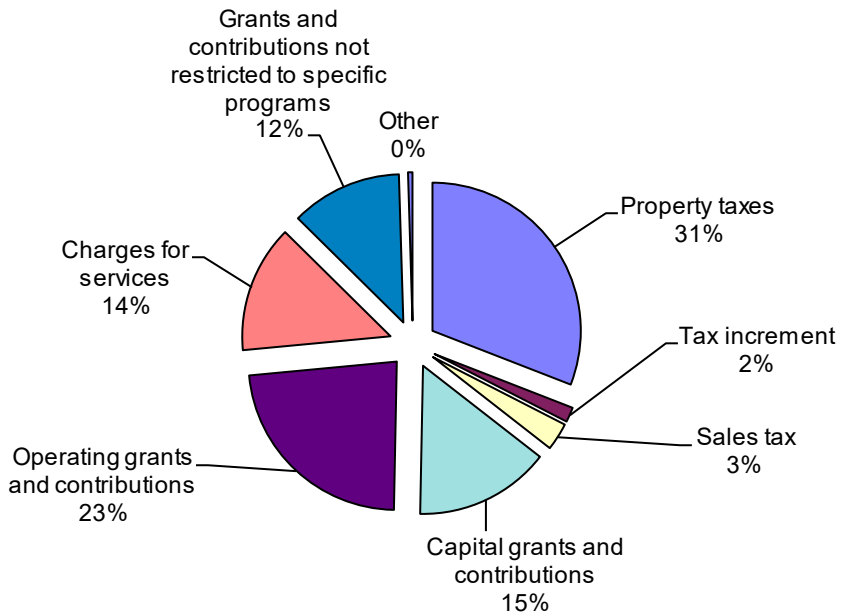
CITY OF LANESBORO, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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



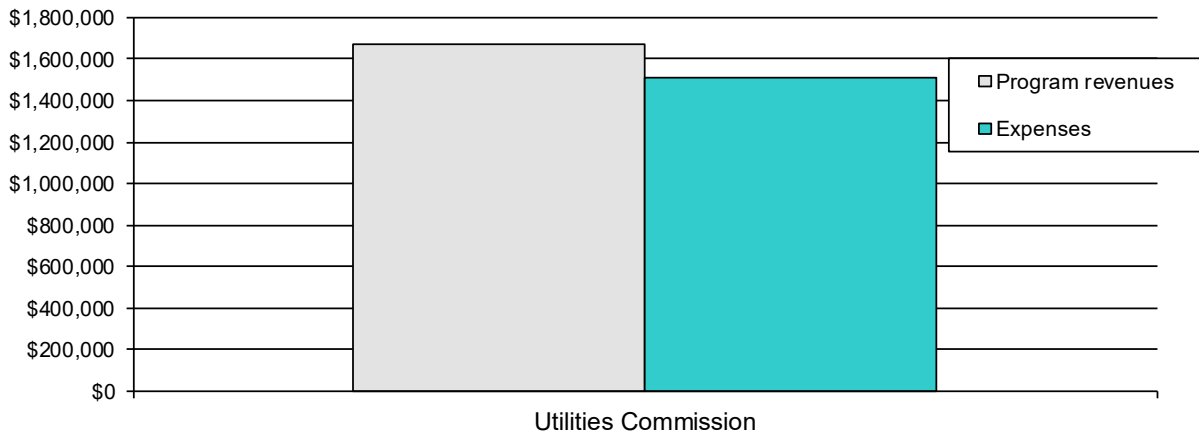
Revenues by Source - Governmental Activities



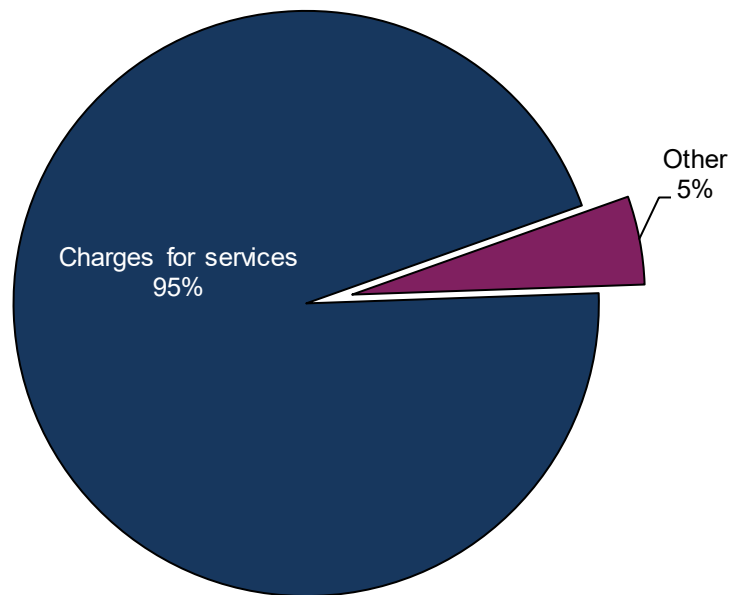
**CITY OF LANESBORO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$968,047, a decrease of \$73,167. Approximately \$486,504 of this total amount, or 50%, 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 \$260,642. 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 30% of total general fund expenditures.

The general fund's total fund balance decreased by \$32,003 during the current fiscal year.

The fire fund increased its fund balance by \$5,393 for the year, and ended the year with a deficit fund balance of (\$58,178). The Fire department applied for and received grant funding for several pieces of equipment: UTV, gloves, helmets, and a new emergency siren for town. The items have been purchased, and grant funding was received.

**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 \$608,279.

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

General Fund Budgetary Highlights

The City approved the 2018 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, 2018, amounts to \$11,820,468 (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 \$604,124, or 5.4%.

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

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 264,500	\$ 264,500	\$ 13,686	\$ 13,686	\$ 278,186	\$ 278,186
Dam			516,510	267,471	516,510	267,471
Buildings and improvements	602,729	643,716	4,347,414	4,463,168	4,950,143	5,106,884
Infrastructure	2,599,568	1,115,244			2,599,568	1,115,244
Machinery and equipment	673,874	674,209	110,198	84,927	784,072	759,136
Production and distribution			1,792,979	1,939,439	1,792,979	1,939,439
Work in progress	155,118	1,229,341	743,892	520,643	899,010	1,749,984
Total	<u>\$ 4,295,789</u>	<u>\$ 3,927,010</u>	<u>\$ 7,524,679</u>	<u>\$ 7,289,334</u>	<u>\$11,820,468</u>	<u>\$11,216,344</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 \$6,245,000 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	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 2,143,000	\$ 2,238,000	\$	\$	\$ 2,143,000	\$ 2,238,000
General obligation revenue bonds	100,000		1,276,000	785,000	1,376,000	785,000
Notes			2,726,000	2,817,000	2,726,000	2,817,000
Total	<u>\$ 2,243,000</u>	<u>\$ 2,238,000</u>	<u>\$ 4,002,000</u>	<u>\$ 3,602,000</u>	<u>\$ 6,245,000</u>	<u>\$ 5,840,000</u>

The City of Lanesboro, Minnesota's total bonds and notes payable increased by \$405,000 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 in the amount of \$4,000,000. The City also has committed funding sources from the DNR in the amount of \$450,000 with a 50/50 cost share. The design has been completed and the project is due to be bid out in early 2019.

**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 referencing 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 2019 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, 2018

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CITY OF LANESBORO, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2018
With Comparative Totals for December 31, 2017

	Governmental	Business-Type	Totals	
	Activities	Activities	2018	2017
ASSETS				
Cash and investments	\$ 885,879	\$ 1,696,948	\$ 2,582,827	\$ 2,304,854
Receivables (net of allowance for uncollectibles)	274,393	119,042	393,435	283,389
Internal balances	55,374	(55,374)		
Inventory		28,340	28,340	23,026
Prepaid expenses	6,286	262	6,548	6,662
Capital assets:				
Nondepreciable	419,618	757,578	1,177,196	2,028,170
Depreciable, net	3,876,171	6,767,101	10,643,272	9,188,174
Total Assets	<u>5,517,721</u>	<u>9,313,897</u>	<u>14,831,618</u>	<u>13,834,275</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from pension activity	50,138	36,929	87,067	68,877
LIABILITIES				
Accounts payable	20,495	54,001	74,496	82,163
Accrued liabilities	3,900	38,729	42,629	24,395
Deposits payable		19,568	19,568	19,164
Accrued interest payable	23,293		23,293	13,740
Compensated absences	29,230	40,715	69,945	81,985
Noncurrent liabilities:				
Due within one year	192,000	207,000	399,000	291,000
Due in more than one year	2,032,593	3,790,172	5,822,765	5,522,353
Net pension liability	204,546	144,953	349,499	414,956
Fire relief pension liability	31,540		31,540	31,540
Total Liabilities	<u>2,537,597</u>	<u>4,295,138</u>	<u>6,832,735</u>	<u>6,481,296</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pension activity	59,196	41,940	101,136	15,183
NET POSITION				
Net investment in capital assets	2,071,196	4,183,209	6,254,405	5,537,991
Restricted for debt	419,173	222,260	641,433	378,788
Unrestricted	480,697	608,279	1,088,976	1,489,894
Total Net Position	<u>\$ 2,971,066</u>	<u>\$ 5,013,748</u>	<u>\$ 7,984,814</u>	<u>\$ 7,406,673</u>

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 331,543	\$ 26,229	\$ 139,214	\$ 10,438
Public safety	322,740	93,568	112,563	
Public works	320,407	6,369	118,435	250,123
Culture and recreation	333,821	118,887	39,038	
Economic development	51,385			
Interest on long-term debt	69,861			
Total governmental activities	<u>1,429,757</u>	<u>245,053</u>	<u>409,250</u>	<u>260,561</u>
Business-Type activities:				
Utilities commission	1,510,069	1,639,753		30,000
Total	<u>\$ 2,939,826</u>	<u>\$ 1,884,806</u>	<u>\$ 409,250</u>	<u>\$ 290,561</u>

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

Change in net position

Net position - beginning

Net position - ending

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2018	2017
\$ (155,662)	\$	\$ (155,662)	\$ (124,015)
(116,609)		(116,609)	(132,431)
54,520		54,520	(271,176)
(175,896)		(175,896)	(185,511)
(51,385)		(51,385)	(38,200)
(69,861)		(69,861)	(24,178)
(514,893)		(514,893)	(775,511)
	159,684	159,684	293,576
(514,893)	159,684	(355,209)	(481,935)
545,206		545,206	571,193
28,616		28,616	32,032
53,153		53,153	55,986
213,561		213,561	211,219
2,102	3,891	5,993	6,863
6,595	80,226	86,821	89,404
95,000	(95,000)		
944,233	(10,883)	933,350	966,697
429,340	148,801	578,141	484,762
2,541,726	4,864,947	7,406,673	6,921,911
\$ 2,971,066	\$ 5,013,748	\$ 7,984,814	\$ 7,406,673

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CITY OF LANESBORO, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2018

CITY OF LANESBORO, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018
With Comparative Totals for December 31, 2017

	100 General	220 Fire Fund	407 2017A Zenith/Auburn
ASSETS			
Cash and investments	\$ 123,434	\$	\$
Accounts receivable	5,098		
Due from other governmental units	4,700	335	
Taxes receivable delinquent	6,565	517	
Loans receivable			
Special assessments receivable	3,632		
Due from other funds	145,840		
Prepaid expenses	6,286		
TOTAL ASSETS	\$ 295,555	\$ 852	\$
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 10,285	\$ 4,021	\$
Accrued liabilities	3,224		
Due to other funds		54,492	
Total Liabilities	13,509	58,513	
Deferred Inflows of Resources			
Unavailable revenue:			
Property taxes	6,565	517	
Loans receivable			
Special assessments	3,632		
Total Deferred Inflows of Resources	10,197	517	
Fund Balance:			
Nonspendable	6,286		
Restricted:			
Contributors			
Grantors	4,921		
Regulators			
Debt service			
Assigned			
Unassigned	260,642	(58,178)	
Total Fund Balance	271,849	(58,178)	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 295,555	\$ 852	\$

See Notes to the Financial Statements

Other Governmental Funds	Total Governmental Funds	
	2018	2017
\$ 762,445	\$ 885,879	\$ 944,310
32,526	37,624	59,623
2,244	7,279	6,630
3,248	10,330	18,196
27,360	27,360	15,774
188,168	191,800	52,335
	145,840	192,185
	6,286	5,607
<u>\$ 1,015,991</u>	<u>\$ 1,312,398</u>	<u>\$ 1,294,660</u>

\$ 6,189	\$ 20,495	\$ 32,961
676	3,900	3,423
35,974	90,466	130,757
<u>42,839</u>	<u>114,861</u>	<u>167,141</u>

3,248	10,330	18,196
27,360	27,360	15,774
188,168	191,800	52,335
<u>218,776</u>	<u>229,490</u>	<u>86,305</u>

	6,286	5,607
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26,268	26,268	23,333
	4,921	47,275
24,895	24,895	34,335
419,173	419,173	156,618
302,253	302,253	627,447
(18,213)	184,251	146,599
<u>754,376</u>	<u>968,047</u>	<u>1,041,214</u>

<u>\$ 1,015,991</u>	<u>\$ 1,312,398</u>	<u>\$ 1,294,660</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, 2018
With Comparative Totals for the Year Ended December 31, 2017

	100 General	220 Fire Fund	407 2017A Zenith/Auburn
REVENUES			
Property taxes	\$ 353,926	\$ 26,854	\$
Sales taxes			
Special assessments	6,369		
Tax increments			
Licenses and permits	12,050		
Fines and forfeits	807		
Intergovernmental revenues	226,304	59,499	
Charges for services	86,811	8,200	
Interest income	1,781		
Donations/miscellaneous	155,738	28,290	
TOTAL REVENUES	843,786	122,843	
EXPENDITURES			
General government	131,600		
Public safety	94,809	102,450	
Public works	249,024		
Culture and recreation	225,929		
Economic development			
Unallocated	166,327		
Capital outlay			215,829
Debt service:			
Principal			
Interest and fiscal charges			
TOTAL EXPENDITURES	867,689	102,450	215,829
Excess (deficiency) of revenues over (under) expenditures	(23,903)	20,393	(215,829)
OTHER FINANCING SOURCES (USES)			
Bond proceeds			
Transfers in	11,900		
Transfers out	(20,000)	(15,000)	(24,273)
TOTAL OTHER FINANCING SOURCES (USES)	(8,100)	(15,000)	(24,273)
Net change in fund balances	(32,003)	5,393	(240,102)
FUND BALANCES, beginning	303,852	(63,571)	240,102
FUND BALANCES, ending	\$ 271,849	\$ (58,178)	\$

See Notes to the Financial Statements

Other Governmental Funds	Total Governmental Funds	
	2018	2017
\$ 179,952	\$ 560,732	\$ 570,953
53,153	53,153	55,986
110,658	117,027	32,385
28,616	28,616	32,032
	12,050	12,580
	807	2,002
171,731	457,534	334,765
134,829	229,840	222,981
321	2,102	2,770
17,708	201,736	134,222
<u>696,968</u>	<u>1,663,597</u>	<u>1,400,676</u>
	131,600	131,278
123,361	320,620	350,499
	249,024	212,482
134,506	360,435	380,741
52,912	52,912	42,325
	166,327	18,253
281,836	497,665	1,186,742
95,000	95,000	604,000
53,631	53,631	29,883
<u>741,246</u>	<u>1,927,214</u>	<u>2,956,203</u>
<u>(44,278)</u>	<u>(263,617)</u>	<u>(1,555,527)</u>
95,450	95,450	1,425,212
239,296	251,196	576,486
(96,923)	(156,196)	(576,486)
<u>237,823</u>	<u>190,450</u>	<u>1,425,212</u>
193,545	(73,167)	(130,315)
<u>560,831</u>	<u>1,041,214</u>	<u>1,171,529</u>
<u>\$ 754,376</u>	<u>\$ 968,047</u>	<u>\$1,041,214</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, 2018**

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

Total governmental fund balances (pages 18 and 19)		\$ 968,047
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 7,884,757	
Less: Accumulated depreciation	<u>(3,588,968)</u>	4,295,789
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Delinquent property taxes	\$ 10,330	
Loans receivable	27,360	
Deferred and delinquent special assessments	<u>191,800</u>	229,490
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	\$ (2,224,593)	
Net pension liability	(213,604)	
Fire pension liability	(31,540)	
Compensated absences	(29,230)	
Accrued interest	<u>(23,293)</u>	<u>(2,522,260)</u>
Net position of governmental activities (page 15)		<u>\$ 2,971,066</u>

**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, 2018**

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)	\$	(73,167)
<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	\$ 595,648	
Depreciation expense	(218,599)	
Loss on disposal of capital asset	<u>(8,270)</u>	
		368,779
<p>Revenues in the statement of activities do not provide current financial resources are not reported as revenues in the funds.</p>		
		143,185
<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		13,677
<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	\$ 95,000	
Proceeds from issuance of long term debt	(100,000)	
Change in net pension liability	(6,454)	
Amortization of bond discount	(2,127)	
Change in accrued interest	<u>(9,553)</u>	
		<u>(23,134)</u>
Change in net position of governmental activities (pages 16 and 17)	\$	<u><u>429,340</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, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 353,275	\$ 353,275	\$ 353,926	\$ 651	\$ 342,698
Special Assessments	6,500	6,500	6,369	(131)	3,205
Licenses and Permits	12,100	12,100	12,050	(50)	12,580
Intergovernmental Revenues					
Local government aid	213,561	213,561	213,561		211,219
Market value credit			940	940	915
Other	1,365	1,365	11,803	10,438	13,276
Total Intergovernmental Revenues	214,926	214,926	226,304	11,378	225,410
Fines and Forfeits					
Court fines and other	2,500	2,500	807	(1,693)	2,002
Interest Income	700	700	1,781	1,081	2,481
Charges for Services					
Park and recreation	13,000	13,000	86,811	73,811	97,695
Miscellaneous Revenues					
Cable franchise fees	12,000	12,000	12,641	641	12,390
Refunds and reimbursements			1,549	1,549	4,310
Contributions and donations					4,287
Rhubarb Fest/Farmers Market			3,492	3,492	3,960
Sons of Norway	130,442	130,442	130,442		53,820
Other	18,646	18,646	7,614	(11,032)	7,627
Total Miscellaneous Revenues	161,088	161,088	155,738	(5,350)	86,394
TOTAL REVENUES	\$ 764,089	\$ 764,089	\$ 843,786	\$ 79,697	\$ 772,465

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, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with	2017 Actual Amounts
	Original	Final		Final Budget -	
				Positive (Negative)	
EXPENDITURES					
General Government					
Clerk/deputy clerk salaries	\$ 41,294	\$ 41,294	\$ 40,114	\$ 1,180	\$ 37,962
PERA and social security	6,867	6,867	5,104	1,763	5,771
Office supplies/small equipment	4,000	4,000	3,840	160	3,873
Employee benefits	8,160	8,160	8,513	(353)	8,104
Elections	2,200	2,200	876	1,324	
Postage	750	750	1,705	(955)	734
Telephone	4,000	4,000	3,711	289	3,354
Insurance	6,250	6,250	5,265	985	9,229
Publishing and printing	500	500	441	59	463
Assessor	2,500	2,500	2,471	29	2,411
Professional fees	39,200	39,200	46,371	(7,171)	42,718
Other general expenses	4,550	4,550	7,589	(3,039)	11,059
Mayor and council	7,000	7,000	5,600	1,400	5,600
Total General Government	127,271	127,271	131,600	(4,329)	131,278
Public Safety					
Contracted services	94,809	94,809	94,809		101,467
Public Works					
Street Department					
Salaries	84,724	84,724	90,105	(5,381)	72,561
PERA and social security	13,979	13,979	12,827	1,152	11,957
Employee benefits	15,370	15,370	15,537	(167)	15,219
Gas and oil	8,000	8,000	5,639	2,361	5,358
Supplies/small equipment	5,500	5,500	6,140	(640)	5,028
Repairs and maintenance	34,906	34,906	23,004	11,902	18,480
Utilities	7,000	7,000	4,886	2,114	4,751
Professional services	13,400	13,400	15,519	(2,119)	3,204
Seal coating	1,250	1,250	862	388	698
Other	16,450	16,450	14,838	1,612	23,044
Capital outlay	60,000	60,000	44,020	15,980	34,939
Total Street Department	260,579	260,579	233,377	27,202	195,239
Street Lights	\$ 19,000	\$ 19,000	\$ 15,647	\$ 3,353	\$ 17,243

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, 2018

With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with	2017 Actual Amounts
	Original	Final		Final Budget - Positive (Negative)	
EXPENDITURES (continued)					
Culture and Recreation					
Salaries	\$ 58,651	\$ 58,651	\$ 54,692	\$ 3,959	\$ 58,140
PERA and social security	8,853	8,853	8,007	846	9,005
Office supplies/small equipment	11,000	11,000	11,193	(193)	10,397
Employee benefits	12,870	12,870	11,795	1,075	12,837
Telephone	500	500	463	37	379
Insurance	3,900	3,900	5,687	(1,787)	3,623
Professional fees	2,100	2,100	4,327	(2,227)	3,395
Other	19,700	19,700	24,369	(4,669)	22,969
Utilities	40,000	40,000	37,422	2,578	35,319
Repairs and maintenance	15,000	15,000	17,734	(2,734)	19,670
Capital outlay	22,500	22,500	35,873	(13,373)	49,189
Lanesboro Museum	5,000	5,000	5,000		5,000
Community Education	5,500	5,500	5,500		5,500
Rhubarb Fest/Farmers Market			3,867	(3,867)	3,089
Total Culture and Recreation	<u>205,574</u>	<u>205,574</u>	<u>225,929</u>	<u>(20,355)</u>	<u>238,512</u>
Unallocated					
Sons of Norway	<u>166,327</u>	<u>166,327</u>	<u>166,327</u>		<u>18,253</u>
TOTAL EXPENDITURES	<u>873,560</u>	<u>873,560</u>	<u>867,689</u>	<u>5,871</u>	<u>701,992</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(109,471)</u>	<u>(109,471)</u>	<u>(23,903)</u>	<u>85,568</u>	<u>70,473</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	11,786	11,786	11,900	114	9,000
Transfers out			(20,000)	(20,000)	(24,111)
Total Other Financing Sources (Uses)	<u>11,786</u>	<u>11,786</u>	<u>(8,100)</u>	<u>(19,886)</u>	<u>(15,111)</u>
Net change in fund balances	(97,685)	(97,685)	(32,003)	65,682	55,362
FUND BALANCES, beginning	<u>303,852</u>	<u>303,852</u>	<u>303,852</u>		<u>248,490</u>
FUND BALANCES, ending	<u>\$ 206,167</u>	<u>\$ 206,167</u>	<u>\$ 271,849</u>	<u>\$ 65,682</u>	<u>\$ 303,852</u>

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, 2018

With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		Operations	Equipment	2018 Actual Amounts	Variance with	2017 Actual Amounts
	Original	Final				Final Budget - Positive (Negative)	
REVENUES							
Property taxes	\$ 26,500	\$ 26,500	\$ 26,854	\$	\$ 26,854	\$ 354	\$ 34,771
Intergovernmental	43,400	43,400	59,499		59,499	16,099	50,413
Charges for services	3,000	3,000	8,200		8,200	5,200	3,510
Donations/miscellaneous				28,290	28,290	28,290	31,000
TOTAL REVENUES	72,900	72,900	94,553	28,290	122,843	49,943	119,694
EXPENDITURES							
Salaries	13,000	13,000	13,730		13,730	(730)	20,314
PERA and social security	950	950	1,050		1,050	(100)	1,057
Employee benefits	6,250	6,250	4,619		4,619	1,631	5,434
Fire relief contributions	3,500	3,500	19,799		19,799	(16,299)	19,432
Supplies/small equipment	1,600	1,600	2,849	22,177	25,026	(23,426)	11,736
Repairs and maintenance	5,500	5,500	10,839		10,839	(5,339)	6,201
Training	1,000	1,000	3,849		3,849	(2,849)	2,168
Telephone	2,100	2,100	2,598		2,598	(498)	2,157
Utilities	7,000	7,000	5,652		5,652	1,348	5,429
Capital outlay			3,725	7,080	10,805	(10,805)	67,199
Miscellaneous	7,000	7,000	4,483		4,483	2,517	7,089
TOTAL EXPENDITURES	47,900	47,900	73,193	29,257	102,450	(54,550)	148,216
Excess (deficiency) of revenues over (under) expenditures	25,000	25,000	21,360	(967)	20,393	(4,607)	(28,522)
OTHER FINANCING SOURCES (USES)							
Transfers out			(15,000)		(15,000)	15,000	
TOTAL OTHER FINANCING (USES)			(15,000)		(15,000)	15,000	
Net change in fund balances	25,000	25,000	6,360	(967)	5,393	10,393	(28,522)
FUND BALANCES, beginning	(63,571)	(63,571)	(139,107)	75,536	(63,571)		(35,049)
FUND BALANCES, ending	\$(38,571)	\$(38,571)	\$(132,747)	\$ 74,569	\$(58,178)	\$ 10,393	\$(63,571)

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA
PROPRIETARY FUND
Statement of Net Position
December 31, 2018
With Comparative Totals as of December 31, 2017

	Totals - Utilities Commission	
	2018	2017
ASSETS		
Current Assets		
Cash and investments	\$ 1,696,948	\$ 1,360,544
Due from other funds	6,054	
Accounts receivable, net	119,042	130,831
Inventory	28,340	23,026
Other receivables/prepaid	262	1,055
Total Current Assets	1,850,646	1,515,456
Noncurrent Assets		
Capital assets:		
Nondepreciable	757,578	534,329
Depreciable	11,870,781	11,509,012
Less: Accumulated depreciation	5,103,680	4,754,007
Net capital assets	7,524,679	7,289,334
Total Assets	9,375,325	8,804,790
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pension activity	36,929	29,150
LIABILITIES		
Current Liabilities		
Accounts payable	54,001	49,202
Accrued liabilities	79,444	60,050
Due to other funds	61,428	61,428
Customer deposits	19,568	19,164
Current maturities of bonds payable	207,000	196,000
Total Current Liabilities	421,441	385,844
Noncurrent Liabilities		
Notes payable	3,230,000	2,726,000
Bonds payable	565,000	680,000
Net pension liability	144,953	176,790
Less: bond discount, net of amortization	(4,828)	(6,113)
Total Noncurrent Liabilities	3,935,125	3,576,677
Total Liabilities	4,356,566	3,962,521
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pension activity	41,940	6,472
NET POSITION		
Net investment in capital assets	4,183,209	3,828,447
Restricted for debt	222,260	222,170
Unrestricted	608,279	814,330
Total Net Position	\$ 5,013,748	\$ 4,864,947

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, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Totals - Utilities Commission	
	2018	2017
Operating Revenues		
Charges for services	\$ 1,639,753	\$ 1,558,969
Operating Expenses		
Purchased power/facility charge	474,574	357,264
Contracted services		12,948
Utilities	72,207	75,958
Salaries and wages	263,112	195,800
Employee benefits	63,640	72,303
Repairs and maintenance	114,711	31,566
Materials, chemicals and supplies	33,333	52,142
Professional fees	27,233	33,195
Laboratory testing	2,072	2,364
Depreciation and amortization	352,541	335,580
Insurance	17,595	17,718
Other	17,435	25,387
Total Operating Expenses	<u>1,438,453</u>	<u>1,212,225</u>
Operating Income	<u>201,300</u>	<u>346,744</u>
Nonoperating Revenues (Expenses)		
Interest income	3,891	4,093
Interest expense	(71,616)	(53,168)
Other income	80,226	79,200
Total Nonoperating Revenue (Expenses)	<u>12,501</u>	<u>30,125</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	213,801	376,869
Contributed capital/grants	30,000	
Transfers out	(95,000)	
CHANGE IN NET POSITION	148,801	376,869
NET POSITION - BEGINNING OF YEAR	<u>4,864,947</u>	<u>4,488,078</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 5,013,748</u>	<u>\$ 4,864,947</u>

See Notes to the Financial Statements

CITY OF LANESBORO, MINNESOTA
PROPRIETARY FUND
Statement of Cash Flows
For the Year Ended December 31, 2018
With Comparative Totals for December 31, 2017

	Totals - Utilities Commission	
	2018	2017
Cash Flows From Operating Activities		
Cash received from customers and users	\$ 1,651,542	\$ 1,546,391
Cash paid to suppliers and employers	(1,069,984)	(851,224)
Other income	80,226	79,200
	661,784	774,367
Net Cash Provided By Operating Activities		
Cash Flows From Noncapital Financing Activities		
Operating transfers out, net	(95,000)	
Due from other funds	(6,054)	
	(101,054)	
Net Cash Used In Noncapital Financing Activities		
Cash Flows From Capital and Related Financing Activities		
Capital asset acquisitions	(556,601)	(838,983)
Principal payments on bonds	(196,000)	(204,445)
Proceeds from issuance of long term debt	596,000	285,000
Interest payments on bonds	(71,616)	(53,168)
	(228,217)	(811,596)
Net Cash Used In Capital and Related Financing Activities		
Cash Flows From Investing Activities		
Investment income received	3,891	4,093
	336,404	(33,136)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,360,544	1,393,680
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,696,948	\$ 1,360,544

See Notes to the Financial Statements

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

	Totals - Utilities Commission	
	2018	2017
Operating Income	\$ 200,550	\$ 346,744
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	353,291	335,580
Change in net pension liability	(4,148)	11,357
Other income	80,226	79,200
(Increase) Decrease In:		
Accounts receivable	11,789	(12,578)
Inventory	(5,314)	6,896
Prepaid items	793	1,317
Increase In:		
Accounts payable	4,799	3,336
Accrued expenses and customer deposits	19,798	2,515
	\$ 661,784	\$ 774,367
 Non-Cash Transactions:		
Receipts of contributed property	\$ 30,000	\$
Capital assets acquired on account	5,400	

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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 *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, 2018.

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)

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 2017 financial statements have been reclassified to conform with the 2018 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, 2018, the City's cash and investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$	865,258
Cash on hand		75
Non-negotiable CD's		20,321
Money market funds		1,697,173
		<hr/>
Total Cash and investments	\$	2,582,827
		<hr/> <hr/>

Investments Authorized by Minnesota Statues

The City is authorized by Minnesota Statues 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 Statues 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 Statues 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	\$ 1,697,173

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, 2018 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 264,500	\$	\$	\$ 264,500
Construction in process	1,229,341	413,432	1,487,655	155,118
Total capital assets, not being depreciated	1,493,841	413,432	1,487,655	419,618
Capital assets, being depreciated:				
Buildings and improvements	1,638,022			1,638,022
Infrastructure	2,727,863	1,575,918		4,303,781
Machinery and equipment	1,451,860	93,953	22,477	1,523,336
Total capital assets, being depreciated	5,817,745	1,669,871	22,477	7,465,139
Less accumulated depreciation for:				
Buildings and improvements	994,306	40,987		1,035,293
Infrastructure	1,612,619	91,594		1,704,213
Machinery and equipment	777,651	86,018	14,207	849,462
Total accumulated depreciation	3,384,576	218,599	14,207	3,588,968
Total capital assets, being depreciated, net	2,433,169	1,451,272	8,270	3,876,171
 Governmental activities capital assets, net	 \$ 3,927,010	 \$1,864,704	 \$ 1,495,925	 \$ 4,295,789

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
Construction in progress	520,643	223,249		743,892
Total capital assets, not being depreciated	534,329	223,249		757,578
Capital assets, being depreciated:				
Dam	470,872	277,047		747,919
Buildings and improvements	5,397,564	24,237		5,421,801
Production systems	937,553			937,553
Distribution systems	4,482,517	18,869		4,501,386
Machinery and equipment	220,506	43,200	1,584	262,122
Total capital assets, being depreciated	11,509,012	363,353	1,584	11,870,781
Less accumulated depreciation for:				
Dam	203,401	28,008		231,409
Buildings and improvements	934,396	139,991		1,074,387
Production systems	593,381	20,233		613,614
Distribution systems	2,887,250	145,096		3,032,346
Machinery and equipment	135,579	17,929	1,584	151,924
Total accumulated depreciation	4,754,007	351,257	1,584	5,103,680
Total capital assets, being depreciated, net	6,755,005	12,096		6,767,101
Business-type activities capital assets, net	\$ 7,289,334	\$ 235,345	\$	\$ 7,524,679

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 24,358
Public safety	51,092
Public works	88,355
Culture and recreation	40,705
Economic development	14,089

Total depreciation expense - governmental activities \$ 218,599

Business-Type Activities:

Utilities Commission	<u>\$ 351,257</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, 2018, 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	\$ 145,840	\$
Special Revenue:		
Fire Fund		54,492
Local Sales Tax		11,785
Capital Projects:		
Dam Project		12,143
Debt Service:		
2017A Zenith/Auburn		6,054
2017B Park Road		5,992
Utilities Commission	6,054	61,428
	<u>\$ 151,894</u>	<u>\$ 151,894</u>

Transfers during the year ended December 31, 2018 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 11,900	\$ 20,000
Special Revenue:		
Ambulance		9,000
Fire		15,000
Economic Development	2,500	
Local Sales Tax		48,215
Debt Service:		
2017A Zenith/Auburn Fund	144,988	
2018A Zenith Paving Fund	7,187	
2017B Park/Road Fund	49,621	
Capital Projects:		
2017A Zenith/Auburn Project Fund		24,273
Vehicle Replacement Fund	35,000	2,900
Zenith Street Paving Fund		7,187
Park/Road Improvement Fund		29,621
Enterprise:		
Utilities Commission		95,000
Total Transfers	<u>\$ 251,196</u>	<u>\$ 251,196</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 2018 are as follows:

Special Revenue Funds:		
Ambulance	\$	25,331
Library		1,866
Fire		54,550
Small City Grant		11,708

All excess expenditures were the result of planned processes.

As of December 31, 2018, the following funds had deficit fund balances:

Special Revenue Funds:		
Fire Fund	\$	58,178
Capital Projects		
Dam Project		18,213

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, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
2010B GO Tax Abatement Bond (2-3.9%)	\$ 270,000	\$	\$ 25,000	\$ 245,000	\$ 25,000
2016A GO Refunding Bond (2.00%)	527,000		70,000	457,000	71,000
2017A GO Improvement (2.0% - 2.5%)	1,180,000			1,180,000	75,000
2017B GO Improvement Note (2.9%)	261,000			261,000	21,000
2018A GO Improvement Note (4.1%)		100,000		100,000	
Less: Unamortized Discount	(20,534)		(2,127)	(18,407)	
Total Bonds and Notes Payable	2,217,466	100,000	92,873	2,224,593	192,000
Other Liabilities:					
Compensated Absences	42,907		13,677	29,230	
Governmental Activities					
Long-term Liabilities	2,260,373	100,000	106,550	2,253,823	192,000
BUSINESS-TYPE ACTIVITIES					
Bonds:					
General Obligation Revenue Bonds:					
2010A Utility Refunding Bond (1%-4%)	500,000		90,000	410,000	95,000
2017A Utility Bond (2.0%-2.5%)	285,000		15,000	270,000	20,000
Notes					
2014 PFA Water Revenue Note (1.00%)	2,657,000		86,000	2,571,000	87,000
2015 PFA Water Revenue Note (1.00%)	160,000		5,000	155,000	5,000
2018B GO Utility Revenue Note (3.6%)		596,000		596,000	
Less: Unamortized Discount	(6,113)		(1,285)	(4,828)	
Total Bonds and Notes	3,595,887	596,000	194,715	3,997,172	207,000
Other Liabilities:					
Compensated Absences	39,078	1,637		40,715	
Business-type Activities					
Long-term Liabilities	3,634,965	597,637	194,715	4,037,887	207,000
Total	<u>\$ 5,895,338</u>	<u>\$ 697,637</u>	<u>\$ 301,265</u>	<u>\$ 6,291,710</u>	<u>\$ 399,000</u>

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, 2018, 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>								
2019	\$ 192,000	\$ 53,983					\$ 192,000	\$ 53,983
2020	232,000	48,913					232,000	48,913
2021	242,000	43,409					242,000	43,409
2022	247,000	37,689					247,000	37,689
2023	250,000	31,881					250,000	31,881
2024-2028	948,000	80,068					948,000	80,068
2029	132,000	3,246						
Totals	<u>\$2,243,000</u>	<u>\$ 299,187</u>					<u>\$ 2,243,000</u>	<u>\$ 299,187</u>
<u>Business-Type Activities</u>								
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			726,000	8,600	93,000	25,410	819,000	34,010
2022			135,000	4,400	94,000	24,480	229,000	28,880
2023			25,000		95,000	23,540	120,000	23,540
2024-2028			125,000		495,000	103,150	620,000	103,150
2029-2033			25,000		520,000	77,900	545,000	77,900
2034-2038					547,000	51,390	547,000	51,390
2039-2043					578,000	23,420	578,000	23,420
2044					119,000	1,190	119,000	1,190
Totals			<u>\$ 1,276,000</u>	<u>\$ 41,114</u>	<u>\$ 2,726,000</u>	<u>\$ 103,490</u>	<u>\$ 4,002,000</u>	<u>\$ 144,604</u>

Tax Increment Financing

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

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Lanesboro are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

A. Defined Benefit Pension Plans – Statewide (continued)

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.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019; the [entity] was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employee Fund for the year ended December 31, 2018 were \$31,528. The City's contributions were equal to the required contributions as set by state statute.

General Employee Benefit Plan Pension Costs

At December 31, 2018, the City reported a liability of \$349,499 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 \$16 million to the fund in 2019. 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 \$11,452. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was .0063% at the end of the measurement period and .0065% for the beginning of the period.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019;

For the year ended December 31, 2018, the City recognized pension expense of \$35,121 for its proportionate share of the General Employee Benefit Plan's pension expense. In addition, the City recognized an additional \$2,671 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

A. Defined Benefit Pension Plans – Statewide (continued)

At December 31, 2018, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 9,531	\$ 9,385
Difference between projected and actual investment earnings		40,757
Changes in actuarial assumptions	30,737	40,123
Changes in proportion	28,418	10,871
Contributions paid to GERP subsequent to the measurement date	18,381	
Total	<u>\$ 87,067</u>	<u>\$ 101,136</u>

\$18,381 reported as deferred outflows of resources related to pensions is resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
<u> </u>	<u> </u>
2019	\$ 17,112
2020	(10,183)
2021	(32,093)
2022	(7,286)

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, 2018 actuarial valuation was determined using the following actuarial assumptions:

	General Employee Plan
Inflation	2.5% per year
Active Member Payroll Growth	3.25% after 26 years of service
Investment Rate of Return	7.50%

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees and Police and Fire Plans. Inflation is assumed to be 2.0 percent for the Correctional Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service, to 3.25 percent after 26 years of service. In the Police and Fire Plan, salary growth assumptions decrease from 12.25 percent after one year of service to 3.25 percent after 25 years of service. In the Correctional Plan, salary growth assumptions decrease from 8.50 percent at age 20 to 3.50 percent at age 65.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. The most recent five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

1. General Employees Fund

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

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

A. Defined Benefit Pension Plans – Statewide (continued)

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	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2018 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	\$ 567,979	\$ 349,499	\$ 169,148

Pension Plan Fiduciary Net Position

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

CITY OF LANESBORO, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Information (Continued)

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*.

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 2018 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, 2018.

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 2018.

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 2018. 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, 2018, remaining notes outstanding totaled \$630,000.

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, 2018, the City paid tax increments totaling \$34,699 related to these agreements.

CITY OF LANESBORO, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

CITY OF LANESBORO, MINNESOTA
Schedules of Contributions
December 31, 2018

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 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	31,528	31,528		420,373	7.5%
2019					
2020					
2021					
2022					
2023					

CITY OF LANESBORO, MINNESOTA
Schedules of Proportionate Share of Net Pension Liability
December 31, 2018

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)	State's Proportionate Share of the Net Pension Liability (Asset) (b)	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Position Liability Associated with the City (a+b)	Covered Payroll (c)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a+b) / c	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0066%	\$ 310,035	\$	\$ 310,035	\$ 326,055	95.1%	78.7%
2015	0.0059%	305,769		305,769	337,597	90.6%	78.2%
2016	0.0058%	470,931	6,176	477,107	350,533	134.3%	68.9%
2017	0.0065%	414,956	5,237	420,193	389,447	106.6%	75.9%
2018	0.0063%	349,499	11,452	360,951	420,353	83.1%	79.5%
2019							
2020							
2021							
2022							
2023							

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CITY OF LANESBORO, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR FUNDS
STATEMENTS AND SCHEDULES
DECEMBER 31, 2018

**CITY OF LANESBORO, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2018**

	Special Revenue							
	211 Library	230 / 630 Ambulance	235 Buffalo Bill Days	240 Church Hill TIF District	250 Economic Development	405 Small Cities Grant Fund	418 Local Sales Tax	620 Revolving Loan
ASSETS								
Cash and investments	\$ 35,017	\$ 182,765	\$ 26,268	\$ 24,551	\$ 10,626		\$ 11,785	\$ 344
Accounts receivable		32,526						
Due from other governmental units	715	299						
Taxes receivable delinquent	1,041	440						
Loans receivable								27,360
Special assessments receivable								
TOTAL ASSETS	\$ 36,773	\$ 216,030	\$ 26,268	\$ 24,551	\$ 10,626	\$	\$ 11,785	\$ 27,704
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE								
Liabilities								
Accounts payable	\$ 19							
Accrued liabilities	676							
Due to other funds							11,785	
Total Liabilities	795						11,785	
Deferred Inflows of Resources								
Unavailable revenue								
Property taxes	1,041	440						
Loans receivable								27,360
Special assessments								
Total Deferred Inflows of Resources	1,041	440						27,360
Fund Balance								
Restricted:								
Contributors			26,268					
Grantors								
Regulators				24,551				344
Debt service								
Assigned	34,937	215,590			10,626			
Unassigned								
Total Fund Balance	34,937	215,590	26,268	24,551	10,626			344
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 36,773	\$ 216,030	\$ 26,268	\$ 24,551	\$ 10,626	\$	\$ 11,785	\$ 27,704

Debt Service					Capital Project				Total Nonmajor Governmental Funds 2018
307 2017A Zenith/Auburn Bond	309 2017B Park Road Bond	310 2018A Zenith Paving Bond	303 2016A Refunding Bond	304 2010 Tax Abatement Bonds	408 Park Road Improvement Bond	409 Zenith Street Paving Project	417 Dam Project	425 Vehicle Replacement	
\$ 234,994	\$ 49,621	\$ 20,724	\$ 73,944	\$ 50,706	\$	\$	\$	\$ 41,100	\$ 762,445
			789	441					32,526
			120	647					2,244
									3,248
									27,360
<u>123,553</u>		<u>20,963</u>	<u>43,652</u>						<u>188,168</u>
<u>\$ 358,547</u>	<u>\$ 49,621</u>	<u>\$ 41,687</u>	<u>\$ 119,505</u>	<u>\$ 51,794</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 41,100</u>	<u>\$ 1,015,991</u>
\$	\$	\$	\$	\$	\$	\$	\$ 6,070	\$	\$ 6,189
									676
<u>6,054</u>	<u>5,992</u>						<u>12,143</u>		<u>35,974</u>
<u>6,054</u>	<u>5,992</u>						<u>18,213</u>		<u>42,839</u>
			120	647					3,248
									27,360
<u>123,553</u>		<u>20,963</u>	<u>43,652</u>						<u>188,168</u>
<u>123,553</u>		<u>20,963</u>	<u>44,772</u>	<u>647</u>					<u>218,776</u>
									26,268
									24,895
228,940	43,629	20,724	74,733	51,147					419,173
								41,100	302,253
							(18,213)		(18,213)
<u>228,940</u>	<u>43,629</u>	<u>20,724</u>	<u>74,733</u>	<u>51,147</u>			<u>(18,213)</u>	<u>41,100</u>	<u>754,376</u>
<u>\$ 358,547</u>	<u>\$ 49,621</u>	<u>\$ 41,687</u>	<u>\$ 119,505</u>	<u>\$ 51,794</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 41,100</u>	<u>\$ 1,015,991</u>

**CITY OF LANESBORO, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended December 31, 2018**

	Special Revenue							
	211	230 / 630	235	240	250	405	418	620
	Library	Ambulance	Buffalo Bill Days	Church Hill TIF District	Economic Development	Small Cities Grant Fund	Local Sales Tax	Revolving Loan
REVENUES								
Property tax collected	\$ 55,509	\$ 25,711	\$	\$	\$	\$	\$	\$
Sales taxes							53,153	
Tax Increment				28,616				
Special assessments								
Intergovernmental	28,522	24,774						
Charges for services	1,341	84,386	49,102					
Interest income	321							
Donations/miscellaneous	10,516	1,632			2,500			3,060
TOTAL REVENUES	<u>96,209</u>	<u>136,503</u>	<u>49,102</u>	<u>28,616</u>	<u>2,500</u>	<u></u>	<u>53,153</u>	<u>3,060</u>
EXPENDITURES								
Public safety		123,361						
Culture and recreation	88,339		46,167					
Economic development				26,616	88	11,708		14,500
Capital outlay								
Debt service								
Principal retirement								
Interest and fiscal charges								
TOTAL EXPENDITURES	<u>88,339</u>	<u>123,361</u>	<u>46,167</u>	<u>26,616</u>	<u>88</u>	<u>11,708</u>	<u></u>	<u>14,500</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,870</u>	<u>13,142</u>	<u>2,935</u>	<u>2,000</u>	<u>2,412</u>	<u>(11,708)</u>	<u>53,153</u>	<u>(11,440)</u>
OTHER FINANCING SOURCES (USES)								
Bond proceeds								
Transfer in					2,500			
Transfer out		(9,000)					(48,215)	
TOTAL OTHER FINANCING SOURCES (USES)		<u>(9,000)</u>			<u>2,500</u>		<u>(48,215)</u>	
Net change in fund balances	7,870	4,142	2,935	2,000	4,912	(11,708)	4,938	(11,440)
FUND BALANCES, beginning	<u>27,067</u>	<u>211,448</u>	<u>23,333</u>	<u>22,551</u>	<u>5,714</u>	<u>11,708</u>	<u>(4,938)</u>	<u>11,784</u>
FUND BALANCES, ending	<u>\$ 34,937</u>	<u>\$ 215,590</u>	<u>\$ 26,268</u>	<u>\$ 24,551</u>	<u>\$ 10,626</u>	<u>\$</u>	<u>\$</u>	<u>\$ 344</u>

Debt Service					Capital Project				Total Nonmajor Governmental Funds 2018
307 2017A Zenith/Auburn Bond	309 2017B Park Road Bond	310 2018A Zenith Paving Bond	303 2016A GO Bond Fund	304 2010 Tax Abatement Bonds	408 Park Road Improvement Project	409 Zenith Street Paving Project	417 Dam Project	425 Vehicle Replacement	
\$	\$	\$	\$ 63,372	\$ 35,360	\$	\$	\$	\$	\$ 179,952
									53,153
91,098		13,537	6,023						28,616
							118,435		110,658
									171,731
									134,829
									321
									17,708
91,098		13,537	69,395	35,360			118,435		696,968
									123,361
									134,506
									52,912
					104,495	88,263	89,078		281,836
			70,000	25,000					95,000
28,338	5,992		9,840	9,461					53,631
28,338	5,992		79,840	34,461	104,495	88,263	89,078		741,246
62,760	(5,992)	13,537	(10,445)	899	(104,495)	(88,263)	29,357		(44,278)
									95,450
144,988	49,621	7,187				95,450			239,296
					(29,621)	(7,187)		35,000	(96,923)
								(2,900)	
144,988	49,621	7,187			(29,621)	88,263		32,100	237,823
207,748	43,629	20,724	(10,445)	899	(134,116)		29,357	32,100	193,545
21,192			85,178	50,248	134,116		(47,570)	9,000	560,831
\$ 228,940	\$ 43,629	\$ 20,724	\$ 74,733	\$ 51,147	\$	\$	\$ (18,213)	\$ 41,100	\$ 754,376

**CITY OF LANESBORO, MINNESOTA
LIBRARY FUND
Balance Sheet
December 31, 2018
With Comparative Totals as of December 31, 2017**

	Totals	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 35,017	\$ 27,120
Taxes receivable	715	629
Taxes receivable delinquent	1,041	1,809
Total Current Assets	36,773	29,558
 LIABILITIES		
Current Liabilities		
Accounts payable	119	
Accrued liabilities	676	682
Total Current Liabilities	795	682
 DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue:		
Property taxes	1,041	1,809
 FUND BALANCE		
Assigned:		
Book/Memorial	36,029	27,159
Library operations	(1,092)	(92)
Total Fund Balance	\$ 34,937	\$ 27,067

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, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		Library	Book/ Memorial	2018 Actual Amounts	Variance with	
	Original	Final				2017 Final Budget - Positive (Negative)	2017 Actual Amounts
Revenues							
Property taxes	\$ 55,117	\$ 55,117	\$ 55,509	\$	\$ 55,509	\$ 392	\$ 56,061
Intergovernmental	28,506	28,506	28,522		28,522	16	28,023
Charges for services	1,000	1,000	1,341		1,341	341	1,401
Other	650	650	180	10,336	10,516	9,866	10,094
Total Revenues	85,273	85,273	85,552	10,657	96,209	10,936	95,767
Expenses							
Salaries	46,366	46,366	46,957		46,957	(591)	45,996
PERA and social security	7,650	7,650	6,942		6,942	708	6,787
Employee benefits	8,580	8,580	8,561		8,561	19	8,570
Supplies	2,000	2,000	1,383	1,787	3,170	(1,170)	12,517
Books	7,000	7,000	9,185		9,185	(2,185)	7,770
Magazines	700	700	602		602	98	628
Videos/audios	1,000	1,000	917		917	83	795
Summer reading program	750	750	750		750		250
Library automation	4,737	4,737	5,371		5,371	(634)	5,679
Insurance	870	870	469		469	401	602
Telephone	1,000	1,000	1,102		1,102	(102)	900
Lease payments	3,600	3,600	3,256		3,256	344	3,552
Miscellaneous	2,120	2,120	1,057		1,057	1,063	1,392
Total Expenses	86,473	86,473	86,552	1,787	88,339	(1,866)	95,438
CHANGE IN FUND BALANCES	(1,200)	(1,200)	(1,000)	8,870	7,870	9,070	329
TOTAL FUND BALANCE - BEGINNING OF YEAR	27,067	27,067	(92)	27,159	27,067		26,738
TOTAL FUND BALANCE - END OF YEAR	\$ 25,867	\$ 25,867	\$ (1,092)	\$ 36,029	\$ 34,937	\$ 9,070	\$ 27,067

CITY OF LANESBORO, MINNESOTA
AMBULANCE FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 23,530	\$ 23,530	\$ 25,711	\$ 2,181	\$ 31,137
Charges for service	65,000	65,000	84,386	19,386	75,338
Intergovernmental	23,500	23,500	24,774	1,274	30,919
Donations/miscellaneous			1,632	1,632	
TOTAL REVENUES	112,030	112,030	136,503	24,473	137,394
EXPENDITURES					
Salaries	58,350	58,350	49,952	8,398	52,316
PERA and social security	6,500	6,500	6,388	112	6,309
Employee benefits	3,500	3,500	3,692	(192)	5,435
Supplies/small equipment	6,000	6,000	7,480	(1,480)	7,926
Repairs and maintenance	1,000	1,000	2,533	(1,533)	1,373
Fuel and oil	2,000	2,000	1,731	269	1,752
Travel and training	5,000	5,000	7,902	(2,902)	3,194
Contracted services	4,130	4,130	5,322	(1,192)	4,599
Capital outlay	1,000	1,000	26,033	(25,033)	3,950
Miscellaneous expense	10,550	10,550	12,328	(1,778)	13,962
TOTAL EXPENDITURES	98,030	98,030	123,361	(25,331)	100,816
Excess (deficiency) of revenues over (under) expenditures	14,000	14,000	13,142	(858)	36,578
OTHER FINANCING SOURCES (USES)					
Transfers out	(9,000)	(9,000)	(9,000)		(9,000)
Net change in fund balances	5,000	5,000	4,142	(858)	27,578
FUND BALANCES, beginning	211,448	211,448	211,448		183,870
FUND BALANCES, ending	\$ 216,448	\$ 216,448	\$ 215,590	\$ (858)	\$ 211,448

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, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
EXPENDITURES					
Capital projects	\$	\$	\$ 11,708	\$ (11,708)	\$ 13,176
TOTAL EXPENDITURES			11,708	(11,708)	13,176
Net change in fund balances			(11,708)	(11,708)	(13,176)
FUND BALANCES, beginning			11,708		24,884
FUND BALANCES, ending	\$	\$	\$	\$ (11,708)	\$ 11,708

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CITY OF LANESBORO, MINNESOTA
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

CITY OF LANESBORO, MINNESOTA
GOVERNMENTAL FUNDS
Bond Retirement Schedules
December 31, 2018

Year	\$420,000 General Obligation Tax Abatement Bonds of 2010		
	Principal	Interest	Total
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	\$ 245,000	\$ 38,128	\$ 283,128

Year	\$527,000 General Obligation Refunding Bonds of 2016A		
	Principal	Interest	Total
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	\$ 457,000	\$ 28,410	\$ 485,410

Year	\$1,180,000 General Obligation Improvement Bonds of 2017A		
	Principal	Interest	Total
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	\$ 166,288	\$ 1,346,288

**CITY OF LANESBORO, MINNESOTA
GOVERNMENTAL FUNDS
Bond Retirement Schedules (Continued)
December 31, 2018**

Year	\$261,000 General Obligation Improvement Note of 2017B		
	Principal	Interest	Total
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	\$ 39,918	\$ 300,918

Year	\$100,000 General Obligation Improvement Note of 2018A		
	Principal	Interest	Total
2019	\$	\$ 4,590	\$ 4,589.72
2020	8,000	3,936	11,936
2021	9,000	3,588	12,588
2022	9,000	3,219	12,219
2023	9,000	2,850	11,850
2024	10,000	2,460	12,460
2025	10,000	2,050	12,050
2026	11,000	1,620	12,620
2027	11,000	1,169	12,169
2028	11,000	718	11,718
2029	12,000	246	12,246
Totals	\$ 100,000	\$ 26,443	\$ 126,443

CITY OF LANESBORO, MINNESOTA
BUSINESS-TYPE FUNDS
Bond Retirement Schedules
December 31, 2018

\$1,030,000 Electric Revenue Refunding Bonds of 2010			
Year	Principal	Interest	Total
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	\$ 410,000	\$ 41,114	\$ 451,114

\$3,031,931 PFA Water Revenue Note of 2014			
Year	Principal	Interest	Total
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	\$ 2,571,000	\$ 362,190	\$ 2,933,190

CITY OF LANESBORO, MINNESOTA
BUSINESS-TYPE FUNDS
Bond Retirement Schedules
December 31, 2018

\$165,775 PFA Water Revenue
Note of 2015

Year	Principal	Interest	Total
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	\$ 155,000	\$ 21,890	\$ 176,890

\$285,000 GO Utility Revenue
Bond of 2017A

Year	Principal	Interest	Total
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	\$ 270,000	\$ 36,588	\$ 306,588

**CITY OF LANESBORO, MINNESOTA
 BUSINESS-TYPE FUNDS
 Bond Retirement Schedules
 December 31, 2018**

Year	\$596,000 GO Utility Revenue Note Bond of 2018B		
	Principal	Interest	Total
2019	\$	\$ 21,337	\$ 25,775
2020		21,456	30,375
2021	596,000	21,456	29,875
Totals	\$ 596,000	\$ 64,249	\$ 86,025

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, 2018 and 2017

	2018	2017
Revenues	\$ 112,709	\$ 112,570
Expenditures		
Principal	86,000	85,347
Interest	26,570	27,363
Total Expenditures	112,570	112,710
Excess (deficiency) of revenues over (under) expenditures	139	(140)
Fund Balance - Beginning of Year	112,571	112,711
Fund Balance - End of Year	\$ 112,710	\$ 112,571

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, 2018 and 2017

	2018	2017
Revenues	\$ 6,550	\$ 6,600
Expenditures		
Principal	5,000	5,000
Interest	1,600	1,650
Total Expenditures	6,600	6,650
Excess (deficiency) of revenues over (under) expenditures	(50)	(50)
Fund Balance - Beginning of Year	6,600	6,650
Fund Balance - End of Year	\$ 6,550	\$ 6,600

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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, 2018, 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 25, 2019.

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 25, 2019

**CITY OF LANESBORO, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2018-001 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.

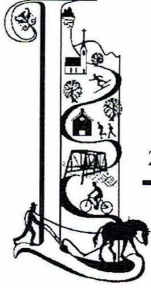
Criteria: The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. 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.

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CITY OF LANESBORO

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www.lanesboro-mn.gov

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.

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**CITY OF LANESBORO, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2017-001
2016-001
2015-001
2014-001

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.

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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, 2018, 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 25, 2019.

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, Schafner and Associates, Ltd.

Rochester, Minnesota
April 25, 2019