



Financial Statements
December 31, 2016

City of Lambertton

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CITY COUNCIL

Bill Schaffran	Mayor
Lydell Sik	Councilor
Terry Neperman	Councilor
Darrell Knutson	Councilor
Dave Irlbeck	Councilor

ADMINISTRATION

Steven Flaig	City Clerk
Paul Muske	City Attorney



Independent Auditor's Report

Honorable Mayor and City Council
City of Lamberton
Lamberton, 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 Lamberton, Minnesota (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of the City's share of net pension liability, and schedule of the City's contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


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

Other Information

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

The combining fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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.


Eide Bailly LLP
Mankato, Minnesota
April 12, 2017

City of Lambertton
Statement of Net Position
December 31, 2016

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 1,161,620	\$ 350,025	\$ 1,511,645
Receivables:			
Taxes	17,015	-	17,015
Special assessments	163,484	146,997	310,481
Accounts	13,044	41,196	54,240
Notes	503,510	-	503,510
Capital assets not being depreciated:			
Land	371,900	35,056	406,956
Capital assets, net of accumulated depreciation:			
Buildings	552,114	-	552,114
Distribution plant	-	2,073,423	2,073,423
Equipment	245,032	101,353	346,385
Land improvements	2,968,151	-	2,968,151
Vehicles	220,037	-	220,037
Total assets	<u>6,215,907</u>	<u>2,748,050</u>	<u>8,963,957</u>
Deferred Outflows of Resources			
Pension plans	257,520	12,977	270,497
Deferred charge on refunding	-	39,000	39,000
Total deferred outflows	<u>257,520</u>	<u>51,977</u>	<u>309,497</u>
Liabilities			
Accounts payable and accrued wages	22,262	6,076	28,338
Interest payable	12,810	18,715	31,525
Customer deposits payable	-	3,500	3,500
Unearned revenue	3,640	-	3,640
Noncurrent liabilities:			
Net pension liability	474,490	34,244	508,734
Due within one year	205,000	51,000	256,000
Due in more than one year	2,046,000	1,426,000	3,472,000
Total liabilities	<u>2,764,202</u>	<u>1,539,535</u>	<u>4,303,737</u>
Deferred Inflows of Resources			
Pension plans	46,607	2,783	49,390
Net Position			
Net investment in capital assets	2,106,234	732,832	2,839,066
Restricted for:			
Debt service	561,471	-	561,471
Unrestricted	994,913	524,877	1,519,790
Total net position	<u>\$ 3,662,618</u>	<u>\$ 1,257,709</u>	<u>\$ 4,920,327</u>

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

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Position		Totals
			Primary Government		
		Charges for Services	Governmental Activities	Business-Type Activities	
PRIMARY GOVERNMENT					
Governmental activities					
General government	\$ 190,044	\$ 9,255	\$ (180,789)	\$ -	\$ (180,789)
Public safety	369,609	131,924	(237,685)	-	(237,685)
Streets and highways	284,111	-	(284,111)	-	(284,111)
Health and sanitation	12,625	381	(12,244)	-	(12,244)
Culture and recreation	227,314	3,153	(224,161)	-	(224,161)
Housing and economic development	87,740	-	(87,740)	-	(87,740)
Miscellaneous	27,924	-	(27,924)	-	(27,924)
Interest and other charges on long-term debt	58,979	-	(58,979)	-	(58,979)
Total governmental activities	<u>1,258,346</u>	<u>144,713</u>	<u>(1,113,633)</u>	<u>-</u>	<u>(1,113,633)</u>
Business-type activities					
Water	148,598	148,901	-	303	303
Sanitary Sewer	129,819	135,988	-	6,169	6,169
Refuse	21,137	18,567	-	(2,570)	(2,570)
Storm sewer	789	60,146	-	59,357	59,357
Total business-type activities	<u>300,343</u>	<u>363,602</u>	<u>-</u>	<u>63,259</u>	<u>63,259</u>
Total primary government	<u>\$ 1,558,689</u>	<u>\$ 508,315</u>	<u>(1,113,633)</u>	<u>63,259</u>	<u>(1,050,374)</u>
General Revenues					
Property taxes			447,417	-	447,417
Special assessments			11,134	5,209	16,343
State aid			362,220	-	362,220
Fees and fines			1,487	-	1,487
Licenses and permits			3,161	-	3,161
Federal aid			47,685	-	47,685
Interest earnings			1,192	115	1,307
Miscellaneous			93,647	-	93,647
Transfers			105,763	(105,763)	-
Total general revenues and transfers			<u>1,073,706</u>	<u>(100,439)</u>	<u>973,267</u>
Changes in net position			(39,927)	(37,180)	(77,107)
Net position - beginning			<u>3,702,545</u>	<u>1,294,889</u>	<u>4,997,434</u>
Net position - ending			<u>\$ 3,662,618</u>	<u>\$ 1,257,709</u>	<u>\$ 4,920,327</u>

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

	General Fund	2013B Debt Service	2011A Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 388,743	\$ 385,942	\$ 23,656	\$ 363,279	\$ 1,161,620
Receivables:					
Taxes	15,816	925	274	-	17,015
Special assessments	-	106,459	57,025	-	163,484
Accounts	-	-	-	13,044	13,044
Notes	429,838	-	-	73,672	503,510
Total assets	<u>\$ 834,397</u>	<u>\$ 493,326</u>	<u>\$ 80,955</u>	<u>\$ 449,995</u>	<u>\$ 1,858,673</u>
Liabilities					
Accounts payable and accrued wages	\$ 16,344	\$ -	\$ -	\$ 5,918	\$ 22,262
Unearned revenue	3,640	-	-	-	3,640
Total liabilities	<u>19,984</u>	<u>-</u>	<u>-</u>	<u>5,918</u>	<u>25,902</u>
Deferred Inflows of Resources					
Unavailable revenue	441,451	104,909	57,009	74,454	677,823
Fund Balances					
Restricted	-	388,417	23,946	369,623	781,986
Unassigned	372,962	-	-	-	372,962
Total fund balances	<u>372,962</u>	<u>388,417</u>	<u>23,946</u>	<u>369,623</u>	<u>1,154,948</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 834,397</u>	<u>\$ 493,326</u>	<u>\$ 80,955</u>	<u>\$ 449,995</u>	<u>\$ 1,858,673</u>

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

Total Fund Balances for Governmental Funds		\$ 1,154,948
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		4,357,234
Some of the City's receivables will be collected after year end and are not available soon enough to pay for the current period's expenditures, and therefore, are reported as unavailable in the funds.		677,823
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		210,913
Interest on long-term debt is not accrued in governmental funds, but rather, is recognized as an expenditure when due.		(12,810)
Long-term liabilities that pertain to governmental funds are not due and payable in the current period, and therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at year-end are:		
Bonds payable	\$ 2,251,000	
Net pension liability	<u>474,490</u>	
		<u>(2,725,490)</u>
Total Net Position for Governmental Activities		<u><u>\$ 3,662,618</u></u>

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

	General Fund	2013B Debt Service	2011A Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 318,683	\$ 69,719	\$ 20,477	\$ 36,000	\$ 444,879
Special assessments	-	37,498	9,217	-	46,715
Fees and fines	917	143	-	428	1,488
Licenses and permits	3,161	-	-	-	3,161
Intergovernmental	392,127	-	-	17,778	409,905
Charges for services	52,206	-	-	92,507	144,713
Interest earnings	79	88	-	1,025	1,192
Contributions and donations	26,189	-	-	13,324	39,513
Miscellaneous	44,374	-	60	11,199	55,633
Total revenue	837,736	107,448	29,754	172,261	1,147,199
Expenditures					
Current:					
General government	115,853	-	-	-	115,853
Public safety	176,505	-	-	65,852	242,357
Streets and highways	189,795	-	-	-	189,795
Culture and recreation	135,882	-	-	51,143	187,025
Housing and economic development	388	-	-	49,717	50,105
Clinic	768	-	-	-	768
Miscellaneous	27,156	-	-	-	27,156
Debt Services:					
Principal	-	100,000	95,000	10,000	205,000
Interest and other charges	-	25,580	33,140	763	59,483
Capital Outlay	139,773	-	-	4,625	144,398
Total expenditures	786,120	125,580	128,140	182,100	1,221,940
Excess (deficiency) of revenues over (under) expenditures	51,616	(18,132)	(98,386)	(9,839)	(74,741)
Other Financing Sources (Uses)					
Transfers in	-	-	95,000	19,023	114,023
Transfers out	(8,260)	-	-	-	(8,260)
Sale of assets	9,000	-	-	-	9,000
Total other financing sources (uses)	740	-	95,000	19,023	114,763
Net change in fund balances	52,356	(18,132)	(3,386)	9,184	40,022
Fund Balances - Beginning	320,606	406,549	27,332	360,439	1,114,926
Fund Balances - Ending	\$ 372,962	\$ 388,417	\$ 23,946	\$ 369,623	\$ 1,154,948

City of Lamberton

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended December 31, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	40,022
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is the net affect of capital outlay and depreciation expense.		(158,367)
Proceeds from the sale of fixed assets are recorded as revenue in the governmental funds. In the statement of activities only the gain or loss on the sale is reported. The difference between the proceeds and the gain or loss is the net book value of the assets sold.		(16,667)
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.		(38,242)
The governmental funds report repayment of bond principal as expenditures. In the statement of net assets, however, repayment of principal reduces the liability.		205,000
Because some revenues will not be collected for several months after the City's fiscal year ends, they are considered unavailable revenues in the governmental funds. This amount is the net affect of changes in unavailable revenue from the prior year.		(72,177)
Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due.		504
		<hr style="border-top: 1px solid black;"/>
Change in Net Position of Governmental Activities	\$	<u><u>(39,927)</u></u>

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

	Water	Sanitary Sewer	Refuse	Storm Sewer	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 190,914	\$ 122,939	\$ 17,726	\$ 18,446	\$ 350,025
Special assessments receivable	146,997	-	-	-	146,997
Accounts receivable	15,645	16,127	2,066	7,358	41,196
Total current assets	353,556	139,066	19,792	25,804	538,218
Noncurrent Assets					
Capital assets, not being depreciated:					
Land	9,438	25,618	-	-	35,056
Capital assets, net of accumulated depreciation:					
Distribution plant	739,852	1,333,571	-	-	2,073,423
Equipment	100,135	1,218	-	-	101,353
Total noncurrent assets	849,425	1,360,407	-	-	2,209,832
Total assets	1,202,981	1,499,473	19,792	25,804	2,748,050
Deferred Outflows of Resources					
Pension plans	6,184	6,184	609	-	12,977
Deferred charge on refunding	-	39,000	-	-	39,000
Total deferred outflows	6,184	45,184	609	-	51,977
Liabilities					
Current Liabilities					
Accounts payable	3,490	1,011	1,575	-	6,076
Interest payable	2,699	16,016	-	-	18,715
Customer deposits	3,500	-	-	-	3,500
Bonds payable - current	16,000	35,000	-	-	51,000
Total current liabilities	25,689	52,027	1,575	-	79,291
Noncurrent Liabilities					
Net pension liability	16,318	16,318	1,608	-	34,244
Bonds payable	226,000	1,200,000	-	-	1,426,000
Total noncurrent liabilities	242,318	1,216,318	1,608	-	1,460,244
Total liabilities	268,007	1,268,345	3,183	-	1,539,535
Deferred Inflows of Resources					
Pension plans	1,326	1,326	131	-	2,783
Net Position					
Net investment in capital assets	607,425	125,407	-	-	732,832
Unrestricted	332,407	149,579	17,087	25,804	524,877
Total net position	\$ 939,832	\$ 274,986	\$ 17,087	\$ 25,804	\$ 1,257,709

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

	Water	Sanitary Sewer	Refuse	Storm Sewer	Total
Operating Revenues					
Utility sales	\$ 137,631	\$ 135,988	\$ 18,567	\$ 60,146	\$ 352,332
Miscellaneous	11,270	-	-	-	11,270
Total operating revenues	<u>148,901</u>	<u>135,988</u>	<u>18,567</u>	<u>60,146</u>	<u>363,602</u>
Operating Expenses					
Distribution system	101,543	40,044	3,230	411	145,228
General and administrative	2,186	2,316	17,907	378	22,787
Amortization	-	3,000	-	-	3,000
Depreciation	37,925	45,661	-	-	83,586
Total operating expenses	<u>141,654</u>	<u>91,021</u>	<u>21,137</u>	<u>789</u>	<u>254,601</u>
Operating income (loss)	<u>7,247</u>	<u>44,967</u>	<u>(2,570)</u>	<u>59,357</u>	<u>109,001</u>
Nonoperating Revenues (Expenses)					
Special assessment revenue	5,209	-	-	-	5,209
Interest revenue	-	94	-	21	115
Miscellaneous expense	(375)	-	-	-	(375)
Interest expense	(6,569)	(38,798)	-	-	(45,367)
Total nonoperating revenues (expenses)	<u>(1,735)</u>	<u>(38,704)</u>	<u>-</u>	<u>21</u>	<u>(40,418)</u>
Income (loss) before transfers	5,512	6,263	(2,570)	59,378	68,583
Transfers out	<u>(25,763)</u>	<u>(20,000)</u>	<u>-</u>	<u>(60,000)</u>	<u>(105,763)</u>
Change in net position	(20,251)	(13,737)	(2,570)	(622)	(37,180)
Net Position - Beginning	<u>960,083</u>	<u>288,723</u>	<u>19,657</u>	<u>26,426</u>	<u>1,294,889</u>
Net Position - Ending	<u>\$ 939,832</u>	<u>\$ 274,986</u>	<u>\$ 17,087</u>	<u>\$ 25,804</u>	<u>\$ 1,257,709</u>

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

	Water	Sanitary Sewer	Refuse	Storm Sewer	Total
Cash Flows from (used for) Operating Activities					
Receipts from customers	\$ 161,596	\$ 138,276	\$ 18,291	\$ 59,285	\$ 377,448
Payments to employees	(1,345)	(1,475)	(17,822)	(378)	(21,020)
Payments to suppliers	(101,874)	(40,039)	(6,254)	(411)	(148,578)
Net cash provided by (used for) operating activities	<u>58,377</u>	<u>96,762</u>	<u>(5,785)</u>	<u>58,496</u>	<u>207,850</u>
Cash Flows from (used for) Noncapital Financing Activity					
Transfers to governmental funds	<u>(25,763)</u>	<u>(20,000)</u>	<u>-</u>	<u>(60,000)</u>	<u>(105,763)</u>
Cash Flows from (used for) Capital and Related Financing Activities					
Special assessment revenue	5,209	-	-	-	5,209
Principal paid on bonds	(15,000)	(35,000)	-	-	(50,000)
Interest paid on bonds	(6,736)	(38,906)	-	-	(45,642)
Net cash provided by (used for) capital and related financing activities	<u>(16,527)</u>	<u>(73,906)</u>	<u>-</u>	<u>-</u>	<u>(90,433)</u>
Cash Flows from Investing Activity					
Earnings on cash	<u>-</u>	<u>94</u>	<u>-</u>	<u>21</u>	<u>115</u>
Net increase (decrease) in cash and cash equivalents	16,087	2,950	(5,785)	(1,483)	11,769
Cash and cash equivalents - January 1	<u>174,827</u>	<u>119,989</u>	<u>23,511</u>	<u>19,929</u>	<u>338,256</u>
Cash and cash equivalents - December 31	<u>\$ 190,914</u>	<u>\$ 122,939</u>	<u>\$ 17,726</u>	<u>\$ 18,446</u>	<u>\$ 350,025</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ 7,247	\$ 44,967	\$ (2,570)	\$ 59,357	\$ 109,001
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	37,925	45,661	-	-	83,586
Amortization	-	3,000	-	-	3,000
Miscellaneous expense	(375)	-	-	-	(375)
Change in assets and liabilities:					
Decrease (increase) in accounts receivable	4,071	2,288	(276)	(861)	5,222
Decrease (increase) in special assessments receivable	8,624	-	-	-	8,624
Decrease (increase) in deferred outflows	(3,950)	(3,950)	(388)	-	(8,288)
Increase (decrease) in customer deposits	(350)	-	-	-	(350)
Increase (decrease) in accounts payable	394	5	(3,024)	-	(2,625)
Increase (decrease) in net pension liability	5,903	5,903	582	-	12,388
Increase (decrease) in deferred inflows	(1,112)	(1,112)	(109)	-	(2,333)
Net Cash Provided by (used for) Operating Activities	<u>\$ 58,377</u>	<u>\$ 96,762</u>	<u>\$ (5,785)</u>	<u>\$ 58,496</u>	<u>\$ 207,850</u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

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

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

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

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

The government reports the following major governmental funds:

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

The *2013B debt service fund* provides for the debt service of the 2013B G.O. Refunding bonds.

The *2011A debt service fund* provides for the debt service of the 2011A G.O. Utility Revenue bonds.

The government reports the following major proprietary funds:

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

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

The *refuse fund* accounts for the activities of the government's sanitation collection operations.

The *storm sewer fund* accounts for the activities of the government's storm sewer system.

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

Proprietary funds distinguish *operating* revenues and expenses from *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 refuse, water, storm sewer, and sanitary sewer enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue recycling charges, refunds and reimbursements, and penalties. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance

1. Cash and Cash Equivalents

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

2. Receivables and Payables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, special assessments, and state and federal aids. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. The City reviews receivables and determines the uncollectible amount based on past history and the collectability of the amounts due at year end. The City has determined no allowance for doubtful accounts is necessary.

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

On or before September 15th of each year, the City Council certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date.

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

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

3. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

Lift Station	50 years
Sanitary Sewer Mains	40 years
Water Mains	40 years
Storm Sewer Mains	40 years
Sump Pump Lines	40 years
Buildings	40 years
Concrete Curb and Gutter	30 years
Sidewalks	30 years
Well and Pump Houses	25 years
Land improvements	20 years
Water Meters	20 years
Office Equipment	10 years
Machinery, Equipment, Radios, Phones	10 years
Computer Equipment and Software	5 years
Vehicles	5 years
Land	Not Depreciated

4. Compensated Absences

Vacation leave is allowed to carryover one year and, if not used during that year, it expires. The City allows sick leave to accrue to a maximum of 40 days for full-time employees. Unused sick leave will not be paid when employment is discontinued with the City.

5. Long-Term Obligations

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

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

6. Deferred Outflows/Inflows of Resources

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

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

7. Fund Equity and Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the government-wide financial statements and proprietary funds. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements and proprietary funds when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. It is the City's policy to spend restricted net position before unrestricted net position. The following classifications describe the relative strength of the spending constraints:

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

The City approved a minimum unassigned general fund balance of 50% of the annual budget. If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

8. Pensions

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

E. Inter-Fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses in the government-wide financial statements and fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Transfers have been removed from the government-wide financial statements.

Note 2 - Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2016, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the city's manager so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The City Council reviews the budget at their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the City Council.

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

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2016, expenditures exceeded appropriations in the General fund, Ambulance fund, and EDA fund by \$111,591; \$5,576; and \$49,717, respectively. The excess expenditures were funded by greater than anticipated revenues and available fund balance.

Note 3 - Detailed Notes on All Funds

A. Cash and Cash Equivalents

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

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2016, none of the City's bank balances were exposed to custodial credit risk. The securities pledged as collateral are held in safekeeping in a financial institution other than that furnishing the collateral.

B. Receivables

Receivables as of the year end for the City are reported on the Statements of Net Position and Balance Sheet. The City has determined no allowance for doubtful accounts is necessary.

The City entered into agreements with the State of Minnesota’s Department of Employment and Economic Development. Under these agreements, the city makes zero-interest loans to 40 households for property improvement with a maximum loan amount of \$24,999. Ten percent of the loan is forgiven per year and the loan is fully forgiven after ten full years, as long as improved property remains the borrower’s principal place of residence. The loans are secured by liens on the property. As of December 31, 2016, the total amount of loans outstanding was \$429,838. The City also issues loans via the Economic Development Fund. The loans carry interest rates from 2-4%. The current outstanding balance of loans is \$73,672. EDA loans are secured by underlying assets of the loan recipients.

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

	Unavailable	Unearned
Property taxes past due (general fund)	\$ 11,313	\$ -
Special assessments not yet due (debt service fund)	161,918	-
Accounts receivable (ambulance fund)	782	-
Accounts receivable (general fund)	300	-
Deferred loans (general fund)	429,838	-
Lease agreement (general fund)	-	3,640
Loans receivable (special revenue fund)	73,672	-
	\$ 677,823	\$ 3,640

The receivables not expected to be collected within one year are \$130,174 of special assessments in the debt service fund, \$429,838 of deferred loans in the general fund, and \$59,275 of loan receivable in the Economic Development special revenue fund.

C. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Non-Depreciable Assets				
Land	\$ 388,567	\$ -	\$ 16,667	\$ 371,900
Depreciable Assets				
Buildings	1,221,985	24,809	1,157	1,245,637
Equipment	557,135	29,109	16,369	569,875
Land improvements	3,681,270	-	-	3,681,270
Vehicles	870,760	-	-	870,760
Total Depreciable Assets	<u>6,331,150</u>	<u>53,918</u>	<u>17,526</u>	<u>6,367,542</u>
Accumulated Depreciation				
Buildings	661,861	32,819	1,157	693,523
Equipment	301,811	39,401	16,369	324,843
Land improvements	608,154	104,965	-	713,119
Vehicles	615,623	35,100	-	650,723
Total Accumulated Depreciation	<u>2,187,449</u>	<u>212,285</u>	<u>17,526</u>	<u>2,382,208</u>
Total Capital Assets, Being Depreciated, Net	<u>4,143,701</u>	<u>(158,367)</u>	<u>-</u>	<u>3,985,334</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,532,268</u>	<u>\$ (158,367)</u>	<u>\$ 16,667</u>	<u>\$ 4,357,234</u>

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

Governmental Activities:	
General government	\$ 28,283
Public safety	51,361
Highways and streets	86,229
Health and sanitation	12,625
Culture and recreation	33,787
	<u>\$ 212,285</u>

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Non-Depreciable Assets				
Land	\$ 35,056	\$ -	\$ -	\$ 35,056
Depreciable Assets				
Distribution plant	3,004,029	-	-	3,004,029
Equipment	194,818	-	-	194,818
Total Depreciable Assets	<u>3,198,847</u>	<u>-</u>	<u>-</u>	<u>3,198,847</u>
Accumulated Depreciation				
Distribution plant	855,565	75,041	-	930,606
Equipment	84,920	8,545	-	93,465
Total Accumulated Depreciation	<u>940,485</u>	<u>83,586</u>	<u>-</u>	<u>1,024,071</u>
Total Capital Assets, Being Depreciated, Net	<u>2,258,362</u>	<u>(83,586)</u>	<u>-</u>	<u>2,174,776</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,293,418</u>	<u>\$ (83,586)</u>	<u>\$ -</u>	<u>\$ 2,209,832</u>

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

Business-Type Activities:	
Water	\$ 37,925
Sewer	45,661
Total Depreciation Expense – Business-Type Activities	<u>\$ 83,586</u>

D. Long-Term Debt

General Obligation Bonds. The City issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General Obligation currently outstanding are as follows:

<u>Bond Issue and Purpose</u>	<u>Average Interest Rates</u>	<u>Amount</u>
G.O Crossover Refunding Bonds of 2013B of \$1,445,000, due in annual installments of \$40,000 to 110,000 through June 30, 2029	0.40% to 3.25%	<u>\$ 1,155,000</u>

General Obligation Revenue Bonds. The City issued General Obligation Revenue Bonds where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. The Revenue Bonds are backed by the full faith and credit of the City. The City also issued General Obligation Refunding Bonds where the government applies the income derived from the issuance towards repayment of older bonds. General Obligation Revenue and Refunding Bonds currently outstanding are as follows:

<u>Bond Issue and Purpose</u>	<u>Average Interest Rates</u>	<u>Amount</u>
G.O. Utility Revenue bonds of 2011A of \$1,500,000, due in annual installments of \$95,000 to \$120,000 through December 1, 2026	2.00% to 3.70%	\$ 1,065,000
G.O. PFA Revenue bonds of 1999 of \$262,182, due in annual installments of \$10,000 to \$11,000 through August 20, 2019	1.86%	31,000
G.O. Refunding bonds of 2013B of \$1,350,000, due in annual installments of \$35,000 to \$70,000 through February 1, 2041	0.40% to 3.75%	1,235,000
G.O. Revenue bonds of 2013C of \$282,000, due in annual installments of \$16,000 to \$22,000 through February 1, 2029	2.70%	<u>242,000</u>
Total		<u><u>\$ 2,573,000</u></u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 205,000	\$ 55,592	\$ 51,000	\$ 44,918
2018	210,000	52,381	51,000	44,092
2019	211,000	48,632	57,000	43,154
2020	200,000	44,540	57,000	42,120
2021	205,000	40,265	57,000	41,010
2022-2026	1,090,000	117,598	300,000	184,327
2027-2031	130,000	6,663	299,000	138,700
2032-2036	-	-	275,000	91,513
2037-2041	-	-	330,000	33,925
Total	<u><u>\$ 2,251,000</u></u>	<u><u>\$ 365,671</u></u>	<u><u>\$ 1,477,000</u></u>	<u><u>\$ 663,759</u></u>

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities:					
General Obligation Revenue Bonds	\$ 1,201,000	\$ -	\$ 105,000	\$ 1,096,000	\$ 105,000
General Obligation Refunding Bonds	1,255,000	-	100,000	1,155,000	100,000
Total	<u>\$ 2,456,000</u>	<u>\$ -</u>	<u>\$ 205,000</u>	<u>\$ 2,251,000</u>	<u>\$ 205,000</u>
Business-Type Activities:					
General Obligation Revenue Bonds	<u>\$ 1,527,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 1,477,000</u>	<u>\$ 51,000</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$990,225. As of December 31, 2016, none of the above debt applies to the legal debt margin.

E. Inter-Fund Transfers

Inter-fund transfers during 2016 consisted of the following:

<u>Transferred From</u>	<u>Transferred To</u>		
	2011A Debt Service	Other Governmental Funds	Total
General fund	\$ -	\$ 8,260	\$ 8,260
Enterprise water fund	15,000	10,763	25,763
Enterprise sanitary sewer fund	20,000	-	20,000
Enterprise storm sewer fund	60,000	-	60,000
Total	<u>\$ 95,000</u>	<u>\$ 19,023</u>	<u>\$ 114,023</u>

Purpose for Inter-fund Transfers:

- The general fund transferred funds to the Ambulance special revenue funds for cash flow.
- The water, sanitary sewer, and storm sewer enterprise funds transferred a share of their current year profits to the 2011A debt service funds for debt service payments.
- The water enterprise fund transferred a share of its current year profits to the Water Revenue Bonds 1999 for debt service payments.

F. Fund Balances and Net Position

Fund Balances as of December 31, 2016:

	General Fund	2013B Bond Refunding	2011A Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:					
Debt service	\$ -	\$ 388,417	\$ 23,946	\$ -	\$ 412,363
Ambulance	-	-	-	203,166	203,166
Library	-	-	-	53,010	53,010
Economic development	-	-	-	113,447	113,447
Unassigned	372,962	-	-	-	372,962
 Total Fund Balances	 <u>\$ 372,962</u>	 <u>\$ 388,417</u>	 <u>\$ 23,946</u>	 <u>\$ 369,623</u>	 <u>\$ 1,154,948</u>

Note 4 - Pension Plans

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

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

2. Public Employees Police and Fire Fund (PEPFF)

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

B. Benefits Provided

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

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

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

1. GERS Benefits

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

2. PEPFF Benefits

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

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the GERF for the year ended December 31, 2016, were \$15,447. The City's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for members in calendar year 2016. The City's contributions to the PEPFF for the year ended December 31, 2016, were \$9,946. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2016, the City reported a liability of \$267,944 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and state's contributions 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 \$3,454. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0033%, same as the prior year.

For the year ended December 31, 2016, the City recognized pension expense of \$37,138 for its proportionate share of the GERF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 793	\$ 21,766
Changes in actuarial assumptions	57,789	-
Difference between projected and actual investment earnings	29,914	-
Change in proportion and differences between contributions made and City's proportionate share of contributions	4,697	-
City's contributions to GERF subsequent to the measurement date	8,361	-
Total	\$ 101,554	\$ 21,766

\$8,361 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended December 31,	Pension Expense Amount
2017	\$ 20,997
2018	14,877
2019	25,875
2020	9,678
2021	-

2. PEPFF Pension Costs

At December 31, 2016, the City reported a liability of \$240,790 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016 the City's proportion was 0.006%, same as the prior year.

For the year ended December 31, 2016, the City recognized pension expense of \$40,944 for its proportionate share of the PEPFF's pension expense. The City recognized \$540 for the year ended December 31, 2016, as grant revenue for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 55	\$ 27,624
Changes in actuarial assumptions	142,236	-
Difference between projected and actual investment earnings	20,759	-
City's contributions to PEPFF subsequent to the measurement date	5,893	-
Total	\$ 168,943	\$ 27,624

\$5,893 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended December 31,	Pension Expense Amount
2017	\$ 25,729
2018	25,729
2019	33,723
2020	27,496
2021	22,749

E. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years for the General Employees plan and Police and Fire Plan.

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

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

Police and Fire Fund

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

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

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

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.50%	7.50%	8.50%
City's proportionate share of the GERF net pension liability	\$ 380,559	\$ 267,944	175,179
PEPFF discount rate	4.60%	5.60%	6.60%
City's proportionate share of the PEPFF net pension liability	\$ 337,075	\$ 240,790	162,119

H. Pension Plan Fiduciary Net Position

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

Note 5 - Other Information

A. Risk Management

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

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

B. Contingent Liabilities

The City participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the City believes that any disallowed costs as a result of such audits will be immaterial.



Required Supplementary Information
December 31, 2016

City of Lambertton

City of Lamberton
 Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions
 Year Ended December 31, 2016

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

Pension Plan	Measurement Date	City's Proportion (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With City (b)	Total (d) (a+b)	City's Covered - Employee Payroll (e)	City's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered - Employee Payroll (d/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	06/30/16	0.0033%	\$ 267,944	N/A	\$ 267,944	\$ 205,849	130.2%	68.9%
GERF	06/30/15	0.0033%	\$ 171,023	N/A	\$ 171,023	\$ 208,531	82.0%	78.2%
GERF	06/30/14	0.0031%	\$ 145,622	N/A	\$ 145,622	\$ 179,115	81.3%	78.9%
PEPFF	06/30/16	0.006%	\$ 240,790	N/A	\$ 240,790	\$ 60,564	397.6%	63.9%
PEPFF	06/30/15	0.006%	\$ 68,174	N/A	\$ 68,174	\$ 58,443	116.7%	86.6%
PEPFF	06/30/14	0.006%	\$ 64,802	N/A	\$ 64,802	\$ 51,308	126.3%	87.1%

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

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered - Employee Payroll (d)	Contributions as a Percentage of Covered - Employee Payroll (b/d)
GERF	12/31/16	\$ 15,447	\$ 15,447	\$ -	\$ 205,957	7.5%
GERF	12/31/15	\$ 15,640	\$ 15,640	\$ -	\$ 208,533	7.5%
GERF	12/31/14	\$ 12,956	\$ 12,956	\$ -	\$ 178,703	7.3%
PEPFF	12/31/16	\$ 9,946	\$ 9,946	\$ -	\$ 61,393	16.2%
PEPFF	12/31/15	\$ 9,468	\$ 9,468	\$ -	\$ 58,444	16.2%
PEPFF	12/31/14	\$ 8,142	\$ 8,142	\$ -	\$ 53,216	15.3%

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

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

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget
Revenues:				
Taxes:				
Property taxes	\$ 321,000	\$ 321,000	\$ 318,683	\$ (2,317)
Licenses and permits	2,970	2,970	3,161	191
Intergovernmental revenue				
Local government aid	306,079	306,079	306,523	444
Agricultural market value credit	-	-	52	52
Fire state aid	11,000	11,000	14,172	3,172
Other state aids and grants	8,826	8,826	23,695	14,869
Federal grants	-	-	47,685	47,685
General government	41,050	41,050	48,672	7,622
Garbage, recycling and other refuse	600	600	381	(219)
Parks and recreation	250	250	3,153	2,903
Fines and forfeits	1,600	1,600	917	(683)
Interest earnings	200	200	79	(121)
Contributions and donations	3,500	3,500	26,189	22,689
Refunds and reimbursements	4,000	4,000	36,449	32,449
Miscellaneous revenue	-	-	7,925	7,925
Total revenues	<u>701,075</u>	<u>701,075</u>	<u>837,736</u>	<u>136,661</u>
Expenditures:				
General government				
Mayor and council	11,120	11,120	7,267	3,853
Administration and finance	63,489	63,489	67,999	(4,510)
Other general government	45,936	45,936	40,587	5,349
Public safety				
Police				
Current expenditures	106,519	106,519	104,145	2,374
Fire				
Current expenditures	53,450	53,450	69,416	(15,966)
Capital outlay	10,000	10,000	100,375	(90,375)
Other protection				
Current expenditures	3,995	3,995	2,944	1,051
Streets and highways				
Street maintenance	177,434	177,434	174,790	2,644
Snow and ice removal	500	500	-	500
Street lighting	17,200	17,200	15,005	2,195
Street construction - capital outlay	8,500	8,500	8,087	413
Culture and recreation				
Parks and recreation - current expenditures	56,726	56,726	68,178	(11,452)
Swimming pool - current expenditures	56,300	56,300	55,863	437
Swimming pool - capital outlay	5,000	5,000	6,502	(1,502)
Other culture and recreation - current expenditures	1,000	1,000	-	1,000
Economic development - current expenditures	-	-	388	(388)
Clinic - current expenditures	1,500	1,500	768	732
Community center - current expenditures	17,260	17,260	11,841	5,419
Community center - capital outlay	17,000	17,000	24,809	(7,809)
Miscellaneous	21,600	21,600	27,156	(5,556)
Total expenditures	<u>674,529</u>	<u>674,529</u>	<u>786,120</u>	<u>(111,591)</u>

City of Lambertton
 Budgetary Comparison Schedule – General Fund (Continued)
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget
Excess (Deficiency) of Revenue over (under) Expenditures	26,546	26,546	51,616	25,070
Other Financing Sources (Uses)				
Sale of assets	8,000	8,000	9,000	1,000
Transfers to other funds	(8,260)	(8,260)	(8,260)	-
Total Other Financing Sources and (Uses)	(260)	(260)	740	1,000
Net Change in Fund Balances	26,286	26,286	52,356	26,070
Fund Balance - Beginning	306,644	306,644	320,606	13,962
Fund Balance - Ending	<u>\$ 332,930</u>	<u>\$ 332,930</u>	<u>\$ 372,962</u>	<u>\$ 40,032</u>

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2016, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per State Statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the City submit requests for appropriation to the City's manager so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The City Council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the City Council.

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

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2016, expenditures exceeded appropriations in the General fund by \$111,591. These excess expenditures were funded by greater than anticipated revenues.



Supplementary Information
December 31, 2016
City of Lambertton

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

	Special Revenue Funds			Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Funds
	Ambulance Fund	Library Fund	Economic Development Fund		Water Revenue Bonds 1999	
Assets						
Cash and cash equivalents	\$ 195,824	\$ 54,008	\$ 113,447	\$ 363,279	\$ -	\$ 363,279
Receivables:						
Notes	-	-	73,672	73,672	-	73,672
Accounts	13,044	-	-	13,044	-	13,044
Total Assets	\$ 208,868	\$ 54,008	\$ 187,119	\$ 449,995	\$ -	\$ 449,995
Liabilities						
Accounts payable	\$ 4,920	\$ 998	\$ -	\$ 5,918	\$ -	\$ 5,918
Deferred Inflows of Resources						
Unavailable revenue	782	-	73,672	74,454	-	74,454
Fund Balances						
Restricted	203,166	53,010	113,447	369,623	-	369,623
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 208,868	\$ 54,008	\$ 187,119	\$ 449,995	\$ -	\$ 449,995

City of Lamberton

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Major and Nonmajor - Governmental Funds
Year Ended December 31, 2016

	Special Revenue Funds				Debt Service	Total Nonmajor Funds	Total Major Funds	Total Governmental Funds
	Ambulance Fund	Library Fund	Economic Development Fund	Total Special Revenue Funds	Water Revenue Bonds 1999			
Revenues:								
Property taxes	\$ -	\$ 36,000	\$ -	\$ 36,000	\$ -	\$ 36,000	\$ 408,879	\$ 444,879
Special assessments	-	-	-	-	-	-	46,715	46,715
Licenses and permits	-	-	-	-	-	-	3,161	3,161
Intergovernmental Revenue								
Federal grants	-	-	-	-	-	-	47,685	47,685
Local government aid	5,500	-	-	5,500	-	5,500	320,695	326,195
Agricultural market value credit	-	-	-	-	-	-	52	52
Other state grants and aids	-	12,278	-	12,278	-	12,278	23,695	35,973
Charges for Services								
Other public safety	83,252	-	-	83,252	-	83,252	48,672	131,924
Garbage, recycling and other refuse	-	-	-	-	-	-	381	381
Park and recreation	-	-	-	-	-	-	3,153	3,153
Other service charges	-	597	8,658	9,255	-	9,255	-	9,255
Fees and fines	-	428	-	428	-	428	1,059	1,487
Interest earnings	68	24	933	1,025	-	1,025	167	1,192
Contributions and donations	11,894	1,430	-	13,324	-	13,324	26,189	39,513
Refunds and reimbursements	1,400	-	-	1,400	-	1,400	36,449	37,849
Miscellaneous revenue	-	-	9,799	9,799	-	9,799	7,985	17,784
Total revenues	102,114	50,757	19,390	172,261	-	172,261	974,937	1,147,198

City of Lambertton

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Major and Nonmajor –
Governmental Funds (Continued)
Year Ended December 31, 2016

	Special Revenue Funds			Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Funds	Total Major Funds	Total Governmental Funds
	Ambulance Fund	Library Fund	Economic Development Fund		Water Revenue Bonds 1999			
Expenditures:								
General Government								
Mayor and council	-	-	-	-	-	-	7,267	7,267
Administration and finance	-	-	-	-	-	-	67,999	67,999
Other general government	-	-	-	-	-	-	40,586	40,586
Public Safety								
Police - current expenditures	-	-	-	-	-	-	104,145	104,145
Ambulance - current expenditures	65,852	-	-	65,852	-	65,852	-	65,852
Ambulance - capital outlays	4,625	-	-	4,625	-	4,625	-	4,625
Fire - current expenditures	-	-	-	-	-	-	69,416	69,416
Fire - capital outlay	-	-	-	-	-	-	100,375	100,375
Other protection current expenditures	-	-	-	-	-	-	2,944	2,944
Streets and Highways								
Street maintenance	-	-	-	-	-	-	174,790	174,790
Street lighting	-	-	-	-	-	-	15,005	15,005
Street construction - capital outlay	-	-	-	-	-	-	8,087	8,087
Culture and Recreation								
Libraries - current expenditures	-	51,143	-	51,143	-	51,143	-	51,143
Parks and recreation - current expenditures	-	-	-	-	-	-	68,178	68,178
Pool - current expenditures	-	-	-	-	-	-	55,863	55,863
Pool - capital expenditures	-	-	-	-	-	-	6,502	6,502
Community center - current expenditures	-	-	-	-	-	-	11,841	11,841
Community center - capital expenditures	-	-	-	-	-	-	24,809	24,809
Housing and Economic Development								
Current expenditures	-	-	49,717	49,717	-	49,717	388	50,105
Nondepartmental								
Miscellaneous	-	-	-	-	-	-	27,156	27,156
Clinic - current expenditures	-	-	-	-	-	-	768	768
Debt Service								
Principal payments on long-term debt	-	-	-	-	10,000	10,000	195,000	205,000
Interest and fiscal charges	-	-	-	-	763	763	58,720	59,483
Total expenditures	<u>70,477</u>	<u>51,143</u>	<u>49,717</u>	<u>171,337</u>	<u>10,763</u>	<u>182,100</u>	<u>1,039,839</u>	<u>1,221,939</u>
Excess (deficiency) of revenues over (under) expenditures	<u>31,637</u>	<u>(386)</u>	<u>(30,327)</u>	<u>924</u>	<u>(10,763)</u>	<u>(9,839)</u>	<u>(64,902)</u>	<u>(74,741)</u>
Other Financing Sources (Uses)								
Sale of assets	-	-	-	-	-	-	9,000	9,000
Operating transfers in	8,260	-	-	8,260	10,763	19,023	95,000	114,023
Operating transfers out	-	-	-	-	-	-	(8,260)	(8,260)
Total other financing sources (uses)	<u>8,260</u>	<u>-</u>	<u>-</u>	<u>8,260</u>	<u>10,763</u>	<u>19,023</u>	<u>95,740</u>	<u>114,763</u>
Net Change in Fund Balances	39,897	(386)	(30,327)	9,184	-	9,184	30,838	40,022
Fund Balance at Beginning of Year	<u>163,269</u>	<u>53,396</u>	<u>143,774</u>	<u>360,439</u>	<u>-</u>	<u>360,439</u>	<u>754,487</u>	<u>1,114,926</u>
Fund Balance at End of Year	<u>\$ 203,166</u>	<u>\$ 53,010</u>	<u>\$ 113,447</u>	<u>\$ 369,623</u>	<u>\$ -</u>	<u>\$ 369,623</u>	<u>\$ 785,325</u>	<u>\$ 1,154,948</u>



Independent Auditor's Report on Minnesota Legal Compliance

Honorable Mayor and City Council
City of Lambertton
Lamberton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lambertton as of and for the year ended December 31, 2016 and the related notes to the financial statements, and have issued our report thereon dated April 12, 2017.

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, except that we did not test for compliance with the provisions for tax increment financing because the City did not use tax increment financing.

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

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

Eide Bailly LLP
Mankato, Minnesota
April 12, 2017