



Financial Statements  
December 31, 2017  
**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**

Madonna Peterson	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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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.

### Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the City on the basis of financial reporting provisions permitted by the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City as of December 31, 2017, or changes in financial position and, where applicable, cash flows thereof for the year then ended.

**Unmodified Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the basis of accounting described in Note 1.

**Change in Accounting Method**

As discussed in Note 1 and 6 to the financial statements, during the year ended December 31, 2017, the City changed to a method of accounting permitted by the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This change in accounting method resulted in a restatement of fund balance and net position as of January 1, 2017. Our opinions are not modified with respect to this matter.

**Restatement of Fund Balances and Net Position**

As discussed in Note 6 to the financial statements, the beginning fund balances of the general fund and nonmajor governmental funds, as well as net position of the business-type activities and water fund have been restated in order to reflect the reclassification of funds. Our opinions are not modified with respect to this matter.

**Other Matters***Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lambertton’s financial statements as a whole. The listing of elected and appointed officials, and the other supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information section is the responsibility of management and was 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 listing of elected and appointed officials 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 them.



Mankato, Minnesota  
May 14, 2018

City of Lambertton  
Statement of Net Position  
December 31, 2017

	Primary Government	
	Cash Basis	Regulatory Basis
	Governmental Activities	Business-Type Activities
<b>Assets</b>		
Cash and cash equivalents	\$ 1,287,524	\$ 338,104
Receivables:		
Special assessments	-	138,696
Accounts	-	39,023
Capital assets not being depreciated:		
Land	-	35,056
Capital assets, net of accumulated depreciation:		
Distribution plant	-	1,998,382
Equipment	-	96,084
Total assets	<u>1,287,524</u>	<u>2,645,345</u>
<b>Deferred Outflows of Resources</b>		
Deferred charge on refunding	-	36,000
Total deferred outflows	<u>-</u>	<u>36,000</u>
<b>Liabilities</b>		
Interest payable	-	18,391
Customer deposits payable	-	3,850
Noncurrent liabilities:		
Due within one year	-	61,000
Due in more than one year	-	1,386,000
Total liabilities	<u>-</u>	<u>1,469,241</u>
<b>Net Position</b>		
Net investment in capital assets	-	682,522
Restricted for:		
Debt service	374,136	-
Economic development	104,633	-
Unrestricted	808,755	529,582
Total net position	<u>\$ 1,287,524</u>	<u>\$ 1,212,104</u>

City of Lambertton  
Statement of Activities  
Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Position	
			Primary Government	
			Cash Basis	Regulatory Basis
		Charges for Services	Governmental Activities	Business-Type Activities
<b>PRIMARY GOVERNMENT</b>				
Governmental activities - cash basis				
General government	\$ 114,546	\$ 9,184	\$ (105,362)	\$ -
Public safety	278,537	151,410	(127,127)	-
Streets and highways	188,367	-	(188,367)	-
Health and sanitation	-	643	643	-
Culture and recreation	221,692	3,330	(218,362)	-
Housing and economic development	37,950	-	(37,950)	-
Miscellaneous	21,773	-	(21,773)	-
Principal	195,000	-	(195,000)	-
Interest and other charges on long-term debt	55,945	-	(55,945)	-
Capital outlay	31,551	-	(31,551)	-
Total governmental activities - cash basis	<u>1,145,361</u>	<u>164,567</u>	<u>(980,794)</u>	<u>-</u>
Business-type activities - regulatory basis				
Water	158,720	160,210	-	1,490
Sanitary Sewer	95,643	132,106	-	36,463
Refuse	21,540	18,085	-	(3,455)
Storm sewer	518	57,045	-	56,527
Total business-type activities - regulatory basis	<u>\$ 276,421</u>	<u>\$ 367,446</u>	<u>-</u>	<u>91,025</u>
General Revenues				
Taxes				
Property taxes			458,510	-
Special assessments			35,719	5,756
State aid			373,424	-
Fees and fines			1,456	-
Licenses and permits			3,108	-
Federal aid			37,329	-
Interest earnings			3,681	111
Interest expense			-	(45,171)
Miscellaneous			103,471	(376)
Transfers			90,000	(90,000)
Total general revenues and transfers			<u>1,106,698</u>	<u>(129,680)</u>
Changes in net position			125,904	(38,655)
Net position - beginning, as restated (Note 6)			<u>1,161,620</u>	<u>1,250,759</u>
Net position - ending			<u>\$ 1,287,524</u>	<u>\$ 1,212,104</u>

**City of Lambertton**

Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis – Governmental Funds  
Year Ended December 31, 2017

	General Fund	2013B Debt Service	2011A Debt Service	Nonmajor Economic Development Fund	Total Governmental Funds
<b>Receipts</b>					
Property taxes	\$ 369,170	\$ 69,247	\$ 20,093	\$ -	\$ 458,510
Special assessments	-	29,195	6,524	-	35,719
Fees and fines	1,340	116	-	-	1,456
Licenses and permits	3,108	-	-	-	3,108
Intergovernmental	410,753	-	-	-	410,753
Charges for services	155,909	-	-	8,658	164,567
Interest earnings	563	267	-	2,851	3,681
Contributions and donations	42,641	-	-	-	42,641
Miscellaneous	17,954	-	41	17,581	35,576
<b>Total receipts</b>	<b>1,001,438</b>	<b>98,825</b>	<b>26,658</b>	<b>29,090</b>	<b>1,156,011</b>
<b>Disbursements</b>					
<b>Current:</b>					
General government	114,546	-	-	-	114,546
Public safety	278,537	-	-	-	278,537
Streets and highways	188,367	-	-	-	188,367
Culture and recreation	221,692	-	-	-	221,692
Housing and economic development	46	-	-	37,904	37,950
Clinic	4,232	-	-	-	4,232
Miscellaneous	17,541	-	-	-	17,541
<b>Debt Services:</b>					
Principal	-	100,000	95,000	-	195,000
Interest and other charges	-	24,705	31,240	-	55,945
Capital Outlay	31,551	-	-	-	31,551
<b>Total disbursements</b>	<b>856,512</b>	<b>124,705</b>	<b>126,240</b>	<b>37,904</b>	<b>1,145,361</b>
Excess (deficiency) of revenues over (under) expenditures	144,926	(25,880)	(99,582)	(8,814)	10,650
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	90,000	-	90,000
Sale of assets	25,254	-	-	-	25,254
<b>Total other financing sources (uses)</b>	<b>25,254</b>	<b>-</b>	<b>90,000</b>	<b>-</b>	<b>115,254</b>
<b>Net change in fund balances</b>	<b>170,180</b>	<b>(25,880)</b>	<b>(9,582)</b>	<b>(8,814)</b>	<b>125,904</b>
<b>Fund Balances - Beginning, as restated (Note 6)</b>	<b>638,575</b>	<b>385,942</b>	<b>23,656</b>	<b>113,447</b>	<b>1,161,620</b>
<b>Fund Balances - Ending</b>	<b>\$ 808,755</b>	<b>\$ 360,062</b>	<b>\$ 14,074</b>	<b>\$ 104,633</b>	<b>\$ 1,287,524</b>



City of Lambertton

Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis – Governmental Funds  
Year Ended December 31, 2017

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	General Fund	2013B Debt Service	2011A Debt Service	Nonmajor Economic Development Fund	Total Governmental Funds
Cash Basis Assets - End of Year					
Cash and cash equivalents	\$ 808,755	\$ 360,062	\$ 14,074	\$ 104,633	\$ 1,287,524
Fund Balances					
Restricted for:					
Debt service	-	360,062	14,074	-	374,136
Economic development	-	-	-	104,633	104,633
Unassigned	808,755	-	-	-	808,755
Total fund balances	<u>\$ 808,755</u>	<u>\$ 360,062</u>	<u>\$ 14,074</u>	<u>\$ 104,633</u>	<u>\$ 1,287,524</u>

City of Lambertton  
Statement of Net Position – Regulatory Basis – Proprietary Funds  
December 31, 2017

	Water	Sanitary Sewer	Nonmajor Funds	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 195,870	\$ 113,755	\$ 28,479	\$ 338,104
Special assessments receivable	138,696	-	-	138,696
Accounts receivable	14,765	15,623	8,635	39,023
<b>Total current assets</b>	<b>349,331</b>	<b>129,378</b>	<b>37,114</b>	<b>515,823</b>
<b>Noncurrent Assets</b>				
Capital assets, not being depreciated:				
Land	9,438	25,618	-	35,056
Capital assets, net of accumulated depreciation:				
Distribution plant	709,263	1,289,119	-	1,998,382
Equipment	95,784	300	-	96,084
<b>Total noncurrent assets</b>	<b>814,485</b>	<b>1,315,037</b>	<b>-</b>	<b>2,129,522</b>
<b>Total assets</b>	<b>1,163,816</b>	<b>1,444,415</b>	<b>37,114</b>	<b>2,645,345</b>
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding	-	36,000	-	36,000
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Interest payable	2,520	15,871	-	18,391
Customer deposits	3,850	-	-	3,850
Bonds payable - current	26,000	35,000	-	61,000
<b>Noncurrent Liabilities</b>				
Bonds payable, net of current maturities	221,000	1,165,000	-	1,386,000
<b>Total liabilities</b>	<b>253,370</b>	<b>1,215,871</b>	<b>-</b>	<b>1,469,241</b>
<b>Net Position</b>				
Net investment in capital assets	567,485	115,037	-	682,522
Unrestricted	342,961	149,507	37,114	529,582
<b>Total net position</b>	<b>\$ 910,446</b>	<b>\$ 264,544</b>	<b>\$ 37,114</b>	<b>\$ 1,212,104</b>

City of Lambertton  
Statement of Changes in Net Position – Regulatory Basis – Proprietary Funds  
Year Ended December 31, 2017

	Water	Sanitary Sewer	Nonmajor Funds	Total
Operating Revenues				
Utility sales	\$ 147,824	\$ 132,106	\$ 75,130	\$ 355,060
Miscellaneous	12,386	-	-	12,386
Total operating revenues	<u>160,210</u>	<u>132,106</u>	<u>75,130</u>	<u>367,446</u>
Operating Expenses				
Distribution system	110,822	39,451	3,352	153,625
General and administrative	10,637	7,822	18,706	37,165
Amortization	-	3,000	-	3,000
Depreciation	37,261	45,370	-	82,631
Total operating expenses	<u>158,720</u>	<u>95,643</u>	<u>22,058</u>	<u>276,421</u>
Operating income (loss)	<u>1,490</u>	<u>36,463</u>	<u>53,072</u>	<u>91,025</u>
Nonoperating Revenues (Expenses)				
Special assessment revenue	5,756	-	-	5,756
Interest revenue	-	90	21	111
Miscellaneous expense	(376)	-	-	(376)
Interest expense	(6,716)	(38,455)	-	(45,171)
Total nonoperating revenues (expenses)	<u>(1,336)</u>	<u>(38,365)</u>	<u>21</u>	<u>(39,680)</u>
Income (loss) before transfers	154	(1,902)	53,093	51,345
Other financing uses				
Transfers out	<u>(10,000)</u>	<u>(20,000)</u>	<u>(60,000)</u>	<u>(90,000)</u>
Change in net position	(9,846)	(21,902)	(6,907)	(38,655)
Net Position - Beginning, as restated (Note 6)	<u>920,292</u>	<u>286,446</u>	<u>44,021</u>	<u>1,250,759</u>
Net Position - Ending	<u>\$ 910,446</u>	<u>\$ 264,544</u>	<u>\$ 37,114</u>	<u>\$ 1,212,104</u>

City of Lamberton  
Statement of Cash Flows – Regulatory Basis – Proprietary Funds  
Year Ended December 31, 2017

	Water	Sanitary Sewer	Nonmajor Funds	Total
Cash Flows from (used for) Operating Activities				
Receipts from customers	\$ 161,090	\$ 132,610	\$ 75,919	\$ 369,619
Payments to employees	(10,637)	(7,822)	(18,706)	(37,165)
Payments to suppliers	(114,338)	(40,462)	(4,927)	(159,727)
Net cash provided by (used for) operating activities	<u>36,115</u>	<u>84,326</u>	<u>52,286</u>	<u>172,727</u>
Cash Flows from (used for) Noncapital Financing Activity				
Transfers to other funds	(10,000)	(20,000)	(60,000)	(90,000)
Cash Flows from (used for) Capital and Related Financing Activities				
Special assessment revenue	14,057	-	-	14,057
Principal paid on bonds	(26,000)	(35,000)	-	(61,000)
Interest paid on bonds	(6,895)	(38,600)	-	(45,495)
Acquisition of capital assets	(2,321)	-	-	(2,321)
Net cash provided by (used for) capital and related financing activities	<u>(21,159)</u>	<u>(73,600)</u>	<u>-</u>	<u>(94,759)</u>
Cash Flows from Investing Activity				
Earnings on cash	-	90	21	111
Net increase (decrease) in cash and cash equivalents	4,956	(9,184)	(7,693)	(11,921)
Cash and cash equivalents - January 1	<u>190,914</u>	<u>122,939</u>	<u>36,172</u>	<u>350,025</u>
Cash and cash equivalents - December 31	<u>\$ 195,870</u>	<u>\$ 113,755</u>	<u>\$ 28,479</u>	<u>\$ 338,104</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 1,490	\$ 36,463	\$ 53,072	\$ 91,025
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	37,261	45,370	-	82,631
Amortization	-	3,000	-	3,000
Miscellaneous expense	(376)	-	-	(376)
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	880	504	789	2,173
Increase (decrease) in customer deposits	350	-	-	350
Increase (decrease) in accounts payable	(3,490)	(1,011)	(1,575)	(6,076)
Net Cash Provided by (used for) Operating Activities	<u>\$ 36,115</u>	<u>\$ 84,326</u>	<u>\$ 52,286</u>	<u>\$ 172,727</u>

## Note 1 - Summary of Significant Accounting Policies

The City of Lamberton (the City) is a municipal corporation governed by a mayor and a four member council elected by eligible voters of the City. The City's financial statements are prepared using accounting practices prescribed or permitted by the State of Minnesota Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America. Governmental activity and governmental fund financial statements are reported using the cash basis and business-type activities and proprietary fund financial statements are reported on the regulatory basis. The more significant accounting policies used by the City are discussed 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**

Governmental fund financial statements are presented in accordance with a cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred.

This cash basis of accounting differs from GAAP primarily because revenues (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures or expenses (cash disbursements) are recognized when paid rather than when incurred or subject to accrual. As a result, only cash and cash equivalents and related net position or fund balances arising from cash transactions are reported in the statements of net position and balance sheets. All other economic assets, deferred outflows of resources, liabilities and deferred inflows of resources that would be reported in GAAP basis financial statements are not reported in this cash basis presentation.

Proprietary fund financial statements are presented in accordance with a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting on an economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of the cash flows.

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.

Amounts reported as program revenues include the following: amounts received from those who purchase, use or directly benefit from a program; amounts received from parties outside the City that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program. Revenues that do not meet the previous criteria are reported as general revenues, including all taxes.

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.

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.

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

Net position is equal to assets in the City's financial statements for governmental funds. Net position for business type activities and proprietary funds represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of 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.

### **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 business-type activities column 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.

#### **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 the cash basis of accounting for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2017, 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 Disbursements over Appropriations**

For the year ended December 31, 2017, expenditures exceeded appropriations in the General Fund by \$65,039. These over disbursements were funded by greater than anticipated receipts.

### **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, 2017, 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. Property Taxes and Special Assessments**

Property tax levies are set by the city council in October each year and are certified to Redwood County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads all levies over assessable property. Such taxes become a lien on January 1 and receivables by the City at that date. Property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15. The county provides tax settlements to the City three times a year, on or before April 15, June 30 and November 30.

### Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with state statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue. Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties. Special assessments are generally collected by the county and remitted to the City at the same time property tax settlements are made.

### C. Capital Assets

Capital asset activity for the business-type activities for the year ended December 31, 2017, 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	2,321	-	197,139
Total Depreciable Assets	<u>3,198,847</u>	<u>2,321</u>	<u>-</u>	<u>3,201,168</u>
Accumulated Depreciation				
Distribution plant	930,606	75,041	-	1,005,647
Equipment	93,465	7,590	-	101,055
Total Accumulated Depreciation	<u>1,024,071</u>	<u>82,631</u>	<u>-</u>	<u>1,106,702</u>
Total Capital Assets, Being Depreciated, Net	<u>2,174,776</u>	<u>(80,310)</u>	<u>-</u>	<u>2,094,466</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,209,832</u>	<u>\$ (80,310)</u>	<u>\$ -</u>	<u>\$ 2,129,522</u>

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

Business-Type Activities:	
Water	\$ 37,261
Sewer	45,370
Total Depreciation Expense – Business-Type Activities	<u>\$ 82,631</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>\$ 1,055,000</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 \$100,000 to \$120,000 through December 1, 2026	2.00% to 3.70%	\$ 970,000
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%	21,000
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%	1,200,000
G.O. Revenue bonds of 2013C of \$282,000, due in annual installments of \$20,000 to \$22,000 through February 1, 2029	2.70%	<u>226,000</u>
Total		<u>\$ 2,417,000</u>

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 200,000	\$ 51,990	\$ 61,000	\$ 44,483
2019	200,000	48,428	68,000	43,359
2020	200,000	44,540	57,000	43,358
2021	205,000	40,265	57,000	41,010
2022	205,000	35,450	58,000	39,788
2023-2027	925,000	85,723	308,000	176,240
2028-2032	90,000	3,088	283,000	129,225
2033-2037	-	-	285,000	81,213
2038-2041	-	-	270,000	22,000
<b>Total</b>	<b>\$ 2,025,000</b>	<b>\$ 309,484</b>	<b>\$ 1,447,000</b>	<b>\$ 620,676</b>

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Revenue Bonds	\$ 1,065,000	\$ -	\$ 95,000	\$ 970,000	\$ 100,000
General Obligation Refunding Bonds	1,155,000	-	100,000	1,055,000	100,000
<b>Total</b>	<b>\$ 2,220,000</b>	<b>\$ -</b>	<b>\$ 195,000</b>	<b>\$ 2,025,000</b>	<b>\$ 200,000</b>
<b>Business-Type Activities:</b>					
General Obligation Revenue Bonds	\$ 1,508,000	\$ -	\$ 61,000	\$ 1,447,000	\$ 61,000

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$1,004,103. As of December 31, 2017, none of the above debt applies to the legal debt margin.

### E. Inter-Fund Transfers

Inter-fund transfers during 2017 consisted of the following:

<u>Transferred From</u>	<u>Transferred To</u> <u>2011A Debt Service</u>
Enterprise water fund	\$ 10,000
Enterprise sanitary sewer fund	20,000
Enterprise storm sewer fund	60,000
<b>Total</b>	<b>\$ 90,000</b>

Purpose for Inter-fund Transfers:

- 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.

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

##### **A. Plan Description**

All full-time and certain part-time employees of the City of Lamberton, Minnesota are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

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. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement 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 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 percent of average salary for each of the first 10 years of service and 2.7 percent 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 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent of each year of service. For all PEPFF members, and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees, Police and Fire, and Correctional plans. That report may be obtained on the PERA's website at [www.mnpera.org](http://www.mnpera.org).

## **Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in 2017. PEPFF members were required to contribute 10.8% of their annual covered salary in 2017. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.5% for Coordinated Plan GERF members, and 16.2% for PEPFF members. The City's contributions to the GERF for the years ending December 31, 2017, 2016, and 2015, were \$15,757, \$15,640, and \$12,956, respectively. The City's contributions to the PEPFF for the years ending December 31, 2017, 2016, and 2015, were \$11,436, \$9,946, and \$9,468, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. The City's portion of the Net Pension Liability is \$210,670 for GERF and \$94,508 for PEPFF.

## **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 regulatory 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.

### **C. Construction Commitment**

The City has entered into a contract for the renovation and improvement of Kuhar Park. The total cost of the project is \$128,623 and the City has spent \$27,097 as of December 31, 2017. The City has a remaining commitment of \$101,526.

**Note 6 - Restatement of Fund Balances and Net Position**

The beginning fund balances of all funds within the City have been restated in order to reflect the change from the accrual basis of accounting to the regulatory basis of accounting described in Note 1. In addition, debt previously recorded in the Water Revenue Bonds 1999 Debt Service Fund was reclassified to be included in the Water fund. The beginning fund balances of all the General, Ambulance, and Library Funds within the City have been restated in order to reflect a restatement in classification of funds. The effect on beginning net position and fund balances presented are as follows:

	Governmental Activities	Business-Type Activities	Water Fund	Sanitary Sewer Fund	Nonmajor Proprietary Funds
Net position - Beginning, as previously reported	\$ 3,662,618	\$ 1,257,709	\$ 939,832	\$ 274,986	\$ 42,891
Restatement due to change in classification of funds	-	(31,000)	(31,000)	-	-
Restatement due to change in basis of accounting	(2,500,998)	24,050	11,460	11,460	1,130
Net position - Beginning, as restated	<u>\$ 1,161,620</u>	<u>\$ 1,250,759</u>	<u>\$ 920,292</u>	<u>\$ 286,446</u>	<u>\$ 44,021</u>

	General Fund	2013B Debt Service	2011A Debt Service	Nonmajor Governmental Funds
Fund Balance - Beginning, as previously reported	\$ 372,962	\$ 388,417	\$ 23,946	\$ 369,623
Restatement due to change in classification of funds	249,832	-	-	(249,832)
Restatement due to change in basis of accounting	15,781	(2,475)	(290)	(6,344)
Fund Balance - Beginning, as restated	<u>\$ 638,575</u>	<u>\$ 385,942</u>	<u>\$ 23,656</u>	<u>\$ 113,447</u>



Other Supplementary Information  
December 31, 2017

# City of Lambertton



City of Lambertton  
 Budgetary Comparison Schedule – Cash Basis - General Fund  
 Year Ended December 31, 2017

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget
<b>Revenues:</b>				
Taxes				
Property taxes	\$ 332,420	\$ 332,420	\$ 369,170	\$ 36,750
Licenses and permits	2,970	2,970	3,108	138
Intergovernmental revenue				
Local government aid	306,750	306,750	311,750	5,000
Residential market value credit	-	-	-	-
Agricultural market value credit	(26)	(26)	-	26
Fire state aid	11,000	11,000	16,856	5,856
Other state aids and grants	67,826	67,826	44,818	(23,008)
Federal grants	-	-	37,329	37,329
Garbage, recycling and other refuse	600	600	643	43
Charges for Services				
General government	44,250	44,250	55,913	11,663
Other service charges	-	-	526	526
Other public safety	-	-	95,497	95,497
Parks and recreation	1,000	1,000	3,330	2,330
Fines and forfeits	1,600	1,600	1,340	(260)
Interest earnings	-	-	563	563
Contributions and donations	40,000	40,000	42,641	2,641
Refunds and reimbursements	4,000	4,000	6,623	2,623
Miscellaneous revenue	200	200	11,331	11,131
Total revenues	<u>812,590</u>	<u>812,590</u>	<u>1,001,438</u>	<u>188,848</u>
<b>Expenditures:</b>				
General government				
Mayor and council	11,170	11,170	7,674	3,496
Administration and finance	66,398	66,398	70,057	(3,659)
Other general government	41,235	41,235	36,815	4,420
Capital outlay	-	-	3,188	(3,188)
Public safety				
Police				
Current expenditures	102,066	102,066	111,207	(9,141)
Fire				
Current expenditures	55,473	55,473	58,819	(3,346)
Capital outlay	10,000	10,000	15,440	(5,440)
Other protection				
Current expenditures	4,252	4,252	2,821	1,431
Ambulance				
Current expenditures	-	-	105,690	(105,690)
Capital outlay	-	-	5,550	(5,550)
Streets and highways				
Street maintenance	193,326	193,326	167,549	25,777
Snow and ice removal	500	500	-	500
Street lighting	16,500	16,500	20,818	(4,318)
Street construction - capital outlay	8,500	8,500	6,823	1,677
Sanitation				
Garbage and other refuse collection	700	700	-	700
Culture and recreation				
Parks and recreation - current expenditures	172,035	172,035	93,046	78,989
Parks and recreation - capital outlay	-	-	-	-
Swimming pool - current expenditures	57,380	57,380	66,224	(8,844)
Swimming pool - capital outlay	5,000	5,000	550	4,450
Swimming Pool - other equipment	-	-	-	-
Other culture and recreation - current expenditures	4,000	4,000	-	4,000
Libraries - current expenditures	-	-	49,816	(49,816)
Economic development - current expenditures	-	-	46	(46)
Clinic - current expenditures	4,976	4,976	4,232	744
Community center - current expenditures	17,362	17,362	12,606	4,756
Community center - capital outlay	3,000	3,000	-	3,000
Miscellaneous	17,600	17,600	17,541	59
Total expenditures	<u>791,473</u>	<u>791,473</u>	<u>856,512</u>	<u>(65,039)</u>

City of Lambertton  
 Budgetary Comparison Schedule – Cash Basis - General Fund (Continued)  
 Year Ended December 31, 2017

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	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget
Excess (Deficiency) of Revenue over (under) Expenditures	21,117	21,117	144,926	123,809
Other Financing Sources (Uses)				
Sale of assets	11,000	11,000	25,254	14,254
Net Transfers	(8,260)	(8,260)	-	8,260
Total Other Financing Sources and (Uses)	2,740	2,740	25,254	22,514
Net Change in Fund Balances	23,857	23,857	170,180	146,323
Fund Balance - Beginning, as restated (Note 6)			638,575	
Fund Balance - Ending			\$ 808,755	

City of Lamberton  
Schedule of Accounts Receivable  
December 31, 2017

<u>Fund and Vendor</u>	<u>Item and Purpose</u>	<u>Amount</u>
General Fund		
Redwood County Treasurer	Property tax payments	\$ 17,789
Deferred Loan Recipients	Forgivable property improvement loans	359,508
Ambulance Fund		
Expert T. Billing	Ambulance services provided	16,396
Economic Development Fund		
EDA Loan Recipients	EDA loans	88,091
2011A Debt Service Fund		
Redwood County Treasurer	Property tax payments	53,019
2013B Debt Service Fund		
Redwood County Treasurer	Property tax payments	<u>83,700</u>
		<u><u>\$ 618,503</u></u>

City of Lambertton  
Schedule of Accounts Payable  
December 31, 2017

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<u>Fund and Vendor</u>	<u>Item and Purpose</u>	<u>Amount</u>
None		

City of Lambertton  
 Combining Statement of Net Position – Regulatory Basis – Nonmajor Proprietary Funds  
 December 31, 2017

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	Refuse	Storm Sewer	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 12,900	\$ 15,579	\$ 28,479
Accounts receivable	1,862	6,773	8,635
Total current assets	14,762	22,352	37,114
Total assets	14,762	22,352	37,114
Net Position			
Unrestricted	\$ 14,762	\$ 22,352	\$ 37,114

**City of Lambertton**

Combining Statement of Changes in Net Position – Regulatory Basis – Nonmajor Proprietary Funds  
Year Ended December 31, 2017

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	Refuse	Storm Sewer	Total
Operating Revenues			
Utility sales	\$ 18,085	\$ 57,045	\$ 75,130
Operating Expenses			
Distribution system	3,253	99	3,352
General and administrative	18,287	419	18,706
Total operating expenses	21,540	518	22,058
Operating income (loss)	(3,455)	56,527	53,072
Nonoperating Revenues (Expenses)			
Interest revenue	-	21	21
Income (loss) before transfers	(3,455)	56,548	53,093
Other financing uses			
Transfers out	-	(60,000)	(60,000)
Change in net position	(3,455)	(3,452)	(6,907)
Net Position - Beginning, as restated (Note 6)	18,217	25,804	44,021
Net Position - Ending	\$ 14,762	\$ 22,352	\$ 37,114

City of Lambertton

Combining Statement of Cash Flows – Regulatory Basis – Nonmajor Proprietary Funds  
Year Ended December 31, 2017

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	Refuse	Storm Sewer	Total
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 18,289	\$ 57,630	\$ 75,919
Payments to employees	(18,287)	(419)	(18,706)
Payments to suppliers	(4,828)	(99)	(4,927)
Net cash provided by (used for) operating activities	(4,826)	57,112	52,286
Cash Flows from (used for) Noncapital Financing Activity			
Transfers to other funds	-	(60,000)	(60,000)
Cash Flows from Investing Activity			
Earnings on cash	-	21	21
Net increase (decrease) in cash and cash equivalents	(4,826)	(2,867)	(7,693)
Cash and cash equivalents - January 1	17,726	18,446	36,172
Cash and cash equivalents - December 31	\$ 12,900	\$ 15,579	\$ 28,479
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ (3,455)	\$ 56,527	\$ 53,072
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	204	585	789
Increase (decrease) in accounts payable	(1,575)	-	(1,575)
Net Cash Provided by (used for) Operating Activities	\$ (4,826)	\$ 57,112	\$ 52,286



## Independent Auditor's Report on Minnesota Legal Compliance

Honorable Mayor and City Council  
City of Lamberton  
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 Lamberton as of and for the year ended December 31, 2017 and the related notes to the financial statements, and have issued our report thereon dated May 14, 2018.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, 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, three items came to our attention that caused us to believe that the City of Lamberton failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. See finding 2017-A, 2017-B, and 2017-C in the attached schedule of findings and questioned costs. 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 Lamberton'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 Lamberton and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota  
May 14, 2018



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**Section I – Minnesota Legal Compliance Findings**

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**2017-A Conflict of Interest**

*Criteria:* Minnesota statutes required that public officers not have a personal interest or personally benefit from transactions with the City.

*Condition:* Per review of the EDA minutes, the Mayor did not abstain from voting on the approval of an EDA loan to himself.

*Cause:* The City does not have an internal control system designed to properly monitor and ensure the City is in compliance with all Minnesota statutes.

*Effect:* The City was not in compliance with Minnesota statutes. Additionally, noncompliance increases the custodial risks of the City.

*Recommendation:* The City needs to ensure that all transactions involving public officers satisfy the requirements to avoid conflicts of interest.

*Views of Responsible Officials:* Management agrees with this finding.

**2017-B Lack of Bid Documentation**

*Criteria:* Minnesota statutes required that the City fulfill various requirements regarding the requesting and accepting of bids, as well as maintain proper documentation to support process.

*Condition:* The City did not maintain adequate records to indicate whether or not the proper procedures were followed in regard to bids.

*Cause:* The City does not have an internal control system designed to properly monitor and ensure the City is in compliance with all Minnesota statutes.

*Effect:* The City was not in compliance with Minnesota statutes. Additionally, noncompliance increases the custodial risks of the City.

*Recommendation:* The City needs to retain all supporting documentation related to offering and accepting bids so that it can be ensured that the process was properly followed.

*Views of Responsible Officials:* Management agrees with this finding.

**2017-C          Retroactive Salary Payments**

*Criteria:* Minnesota statutes prohibit Cities from paying bonuses or pay increases retroactively unless it is based on a pre-existing agreement or pursuant to collective bargaining.

*Condition:* The City approved an increase in Ambulance salaries in July and retroactively paid out the higher rates for the earlier months of the year.

*Cause:* The City does not have an internal control system designed to properly monitor and ensure the City is in compliance with all Minnesota statutes.

*Effect:* The City was not in compliance with Minnesota statutes. Additionally, noncompliance increases the custodial risks of the City.

*Recommendation:* The City needs to ensure that all pay increases and bonuses are only applied on a prospective basis.

*Views of Responsible Officials:* Management agrees with this finding.