

# Annual Financial Report

## City of Loretto

Loretto, Minnesota

For the Year Ended  
December 31, 2017

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City of Loretto, Minnesota  
Annual Financial Report  
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For the Year Ended December 31, 2017

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INTRODUCTORY SECTION

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2017

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City of Loretto, Minnesota  
Elected and Appointed Officials  
For the Year Ended December 31, 2017

**ELECTED OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kent Koch	Mayor	12/31/2018
John Neumann	Council Member	12/31/2018
Brenda Daniels	Council Member	12/31/2018
Brian Sevigny	Council Member	12/31/2020
Melissa Markham	Council Member	12/31/2020

**APPOINTED OFFICIALS**

Mary Schneider	Clerk/Treasurer
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FINANCIAL SECTION  
CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2017

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Loretto, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Loretto, 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 financial reporting provisions of the Minnesota Office of the State Auditor. Management is also responsible for 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 an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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 more fully in Note 1B, the City has prepared these financial statements using accounting practices prescribed or permitted by the Minnesota Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices 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 in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2017, the changes in its financial position for the year then ended.

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## Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements of the governmental funds referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the City, as of December 31, 2017, and their respective cash receipts and disbursements, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B. Also, in our opinion, the financial statements of the proprietary funds referred to in the first paragraph present fairly, in all material respects, the respective financial position of each fund of the City as of December 31, 2017, and the respective changes in financial position and cash flows, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B.

## Other Matters

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Schedule of Employer's Shares of the Net Pension Liability and the Schedule of Employer's Contributions for defined benefit plans starting on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Information

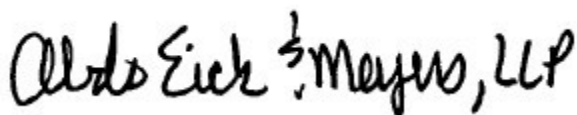
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, individual fund financial schedules and supplementary information are presented for purposes of additional analysis and are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

The individual fund financial 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 taken as a whole.

The introductory section and supplementary information have 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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
February 19, 2018

People  
+ Process<sup>®</sup>  
Going  
Beyond the  
Numbers

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FINANCIAL STATEMENTS - REGULATORY BASIS

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2017

City of Loretto, Minnesota  
Statement of Balances Arising from Cash Transactions  
Governmental Funds  
December 31, 2017

	General	TIF District 1	Capital Improvements	Nonmajor Lions Park	Totals Governmental Funds
<b>Assets</b>					
Cash and temporary investments	\$ 471,300	\$ 28,975	\$ 115,190	\$ 19,652	\$ 635,117
Due from other funds	<u>32,313</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>42,313</u>
<b>Total Assets</b>	<b><u>\$ 503,613</u></b>	<b><u>\$ 28,975</u></b>	<b><u>\$ 125,190</u></b>	<b><u>\$ 19,652</u></b>	<b><u>\$ 677,430</u></b>
<b>Liabilities</b>					
Due to other funds	<u>\$ -</u>	<u>\$ 32,313</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 42,313</u>
<b>Cash Fund Balances</b>					
Restricted for street maintenance	8,199	-	-	-	8,199
Restricted for lions park	-	-	-	9,652	9,652
Assigned for capital purchases	-	-	125,190	-	125,190
Unassigned	<u>495,414</u>	<u>(3,338)</u>	<u>-</u>	<u>-</u>	<u>492,076</u>
<b>Total Cash Fund Balances</b>	<b><u>503,613</u></b>	<b><u>(3,338)</u></b>	<b><u>125,190</u></b>	<b><u>9,652</u></b>	<b><u>635,117</u></b>
<b>Total Liabilities and Cash Fund Balances</b>	<b><u>\$ 503,613</u></b>	<b><u>\$ 28,975</u></b>	<b><u>\$ 125,190</u></b>	<b><u>\$ 19,652</u></b>	<b><u>\$ 677,430</u></b>

The notes to the financial statements are an integral part of this statement.



City of Loretto, Minnesota  
Statement of Receipts, Disbursements and  
Changes in Cash Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2017

	General	TIF District 1	Capital Improvements	Nonmajor Lions Park	Totals Governmental Funds
<b>Receipts</b>					
Taxes	\$ 363,688	\$ 13,641	\$ -	\$ -	\$ 377,329
Licenses and permits	28,136	-	-	-	28,136
Intergovernmental	82,610	-	-	-	82,610
Charges for services	2,974	-	-	-	2,974
Fines and forfeitures	5,068	-	-	-	5,068
Interest on investments	1,389	-	668	-	2,057
Miscellaneous	70,503	-	-	10,000	80,503
Total Receipts	<u>554,368</u>	<u>13,641</u>	<u>668</u>	<u>10,000</u>	<u>578,677</u>
<b>Disbursements</b>					
<b>Current</b>					
General government	131,419	-	-	-	131,419
Public safety	154,372	-	-	-	154,372
Streets and highways	120,672	-	-	-	120,672
Culture and recreation	65,273	-	-	348	65,621
Economic development	-	10,561	-	-	10,561
Miscellaneous	(239)	-	-	-	(239)
<b>Capital outlay</b>					
Streets and highways	7,990	-	18,502	-	26,492
Culture and recreation	28,613	-	7,243	-	35,856
Total Disbursements	<u>508,100</u>	<u>10,561</u>	<u>25,745</u>	<u>348</u>	<u>544,754</u>
Excess (Deficiency) of Receipts over (Under) Disbursements	<u>46,268</u>	<u>3,080</u>	<u>(25,077)</u>	<u>9,652</u>	<u>33,923</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	32,500	-	32,500
Transfers out	(32,500)	-	-	-	(32,500)
Total Other Financing Sources (Uses)	<u>(32,500)</u>	<u>-</u>	<u>32,500</u>	<u>-</u>	<u>-</u>
<b>Net Change in Cash Fund Balances</b>	13,768	3,080	7,423	9,652	33,923
Cash Fund Balances, January 1	<u>489,845</u>	<u>(6,418)</u>	<u>117,767</u>	<u>-</u>	<u>601,194</u>
Cash Fund Balances, December 31	<u>\$ 503,613</u>	<u>\$ (3,338)</u>	<u>\$ 125,190</u>	<u>\$ 9,652</u>	<u>\$ 635,117</u>

The notes to the financial statements are an integral part of this statement.

City of Loretto, Minnesota  
Statement of Net Position  
Proprietary Funds  
December 31, 2017

	Business-type Activities - Enterprise Funds				Total
	Water	Wastewater	Garbage	Storm Water	
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 165,509	\$ 148,416	\$ 5,070	\$ 32,825	\$ 351,820
Accounts receivable	14,963	12,108	4,381	5,453	36,905
Total Current Assets	<u>180,472</u>	<u>160,524</u>	<u>9,451</u>	<u>38,278</u>	<u>388,725</u>
<b>Noncurrent Assets</b>					
<b>Capital assets</b>					
Machinery and equipment	27,073	49,282	-	15,488	91,843
Infrastructure	858,113	-	-	21,710	879,823
Less accumulated depreciation	<u>(238,060)</u>	<u>(38,651)</u>	<u>-</u>	<u>(11,927)</u>	<u>(288,638)</u>
Net Capital Assets	<u>647,126</u>	<u>10,631</u>	<u>-</u>	<u>25,271</u>	<u>683,028</u>
Total Assets	<u>827,598</u>	<u>171,155</u>	<u>9,451</u>	<u>63,549</u>	<u>1,071,753</u>
<b>Deferred Outflows of Resources</b>					
Deferred pension resources	<u>10,365</u>	<u>12,880</u>	<u>1,803</u>	<u>6,211</u>	<u>31,259</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	2,391	8,135	835	278	11,639
Salaries and wages payable	1,258	1,783	191	392	3,624
Accrued interest payable	2,849	-	-	-	2,849
Compensated absences - current	799	1,130	145	264	2,338
Bonds payable - current	43,000	-	-	-	43,000
Total Current Liabilities	<u>50,297</u>	<u>11,048</u>	<u>1,171</u>	<u>934</u>	<u>63,450</u>
<b>Noncurrent Liabilities</b>					
Bonds payable	327,000	-	-	-	327,000
Net pension liability	<u>28,906</u>	<u>35,888</u>	<u>5,037</u>	<u>17,524</u>	<u>87,355</u>
Total Noncurrent Liabilities	<u>355,906</u>	<u>35,888</u>	<u>5,037</u>	<u>17,524</u>	<u>414,355</u>
Total Liabilities	<u>406,203</u>	<u>46,936</u>	<u>6,208</u>	<u>18,458</u>	<u>477,805</u>
<b>Deferred Inflows Of Resources</b>					
Deferred pension resources	<u>7,371</u>	<u>9,155</u>	<u>1,284</u>	<u>4,446</u>	<u>22,256</u>
<b>Net Position</b>					
Net investment in capital assets	277,126	10,631	-	25,271	313,028
Unrestricted	<u>147,263</u>	<u>117,313</u>	<u>3,762</u>	<u>21,585</u>	<u>289,923</u>
Total Net Position	<u>\$ 424,389</u>	<u>\$ 127,944</u>	<u>\$ 3,762</u>	<u>\$ 46,856</u>	<u>\$ 602,951</u>

The notes to the financial statements are an integral part of this statement.

City of Loretto, Minnesota  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds				Total
	Water	Wastewater	Garbage	Storm Water	
Operating Revenues					
Charges for services	\$ 182,186	\$ 133,608	\$ 45,836	\$ 52,581	\$ 414,211
Operating Expenses					
Personal services	39,255	52,417	6,708	21,983	120,363
Supplies	6,905	24,107	935	2,206	34,153
Other charges	50,556	88,184	41,638	17,300	197,678
Depreciation	23,938	5,265	-	3,043	32,246
Total Operating Expenses	<u>120,654</u>	<u>169,973</u>	<u>49,281</u>	<u>44,532</u>	<u>384,440</u>
Operating Income (Loss)	<u>61,532</u>	<u>(36,365)</u>	<u>(3,445)</u>	<u>8,049</u>	<u>29,771</u>
Nonoperating Revenues (Expenses)					
Grants	-	-	2,440	-	2,440
Interest on investments	623	977	45	153	1,798
Interest and other fiscal charges	<u>(8,878)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,878)</u>
Total Nonoperating Revenues (Expenses)	<u>(8,255)</u>	<u>977</u>	<u>2,485</u>	<u>153</u>	<u>(4,640)</u>
Change in Net Position	53,277	(35,388)	(960)	8,202	25,131
Net Position, January 1	<u>371,112</u>	<u>163,332</u>	<u>4,722</u>	<u>38,654</u>	<u>577,820</u>
Net Position, December 31	<u>\$ 424,389</u>	<u>\$ 127,944</u>	<u>\$ 3,762</u>	<u>\$ 46,856</u>	<u>\$ 602,951</u>

The notes to the financial statements are an integral part of this statement.

City of Loretto, Minnesota  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds				
	Water	Wastewater	Garbage	Storm Water	Total
	2017	2017	2017	2017	2017
Cash Flows from Operating Activities					
Receipts from customers	\$ 182,150	\$ 133,702	\$ 45,843	\$ 52,716	\$ 414,411
Other receipts	-	-	2,440	-	2,440
Payments to suppliers	(56,860)	(104,156)	(42,582)	(19,228)	(222,826)
Payments to employees	(37,715)	(47,404)	(6,073)	(22,187)	(113,379)
Net Cash Provided (Used) by Operating Activities	<u>87,575</u>	<u>(17,858)</u>	<u>(372)</u>	<u>11,301</u>	<u>80,646</u>
Cash Flows from Capital and Related Financing Activities					
Principal paid on bonds	(42,000)	-	-	-	(42,000)
Interest paid on bonds	(9,201)	-	-	-	(9,201)
Net Cash Used by Capital and Related Financing Activities	<u>(51,201)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(51,201)</u>
Cash Flows from Investing Activities					
Interest on investments	<u>623</u>	<u>977</u>	<u>45</u>	<u>153</u>	<u>1,798</u>
Net Increase (Decrease) in Cash and Cash Equivalents	36,997	(16,881)	(327)	11,454	31,243
Cash and Cash Equivalents, January 1	<u>128,512</u>	<u>165,297</u>	<u>5,397</u>	<u>21,371</u>	<u>320,577</u>
Cash and Cash Equivalents, December 31	<u>\$ 165,509</u>	<u>\$ 148,416</u>	<u>\$ 5,070</u>	<u>\$ 32,825</u>	<u>\$ 351,820</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 61,532	\$ (36,365)	\$ (3,445)	\$ 8,049	\$ 29,771
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	23,938	5,265	-	3,043	32,246
Other receipts	-	-	2,440	-	2,440
(Increase) decrease in assets/deferred outflows					
Accounts receivable	(36)	94	7	135	200
Deferred pension resources	673	(325)	(23)	648	973
Increase (decrease) in liabilities/deferred inflows					
Accounts payable	601	8,135	(9)	278	9,005
Salaries and wages payable	102	455	31	(327)	261
Compensated absences payable	(145)	73	25	(285)	(332)
Net pension liability	(2,014)	714	38	(1,885)	(3,147)
Deferred pension resources	2,924	4,096	564	1,645	9,229
Net Cash Provided (Used) by Operating Activities	<u>\$ 87,575</u>	<u>\$ (17,858)</u>	<u>\$ (372)</u>	<u>\$ 11,301</u>	<u>\$ 80,646</u>

The notes to the financial statements are an integral part of this statement.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2017

## Note 1: Summary of Significant Accounting Policies

### A. Reporting Entity

The City of Loretto, Minnesota (the City), operates under “Optional Plan A” as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member City Council. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the GASB criteria.

### B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accompanying financial statements have been prepared using the regulatory basis of accounting as described in the Minnesota Office of the State Auditor’s Reporting and Publishing Requirements for Cities fewer than 2,500 in population published in February, 2016. Under that basis, governmental receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. That basis differs from generally accepted accounting principles in the United States of America (GAAP) primarily because the City has not included a management discussion and analysis letter, government-wide statement of net position and government-wide statement of activities and the City does not recognize governmental revenue and expenditures in accordance with the modified accrual basis of accounting.

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

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.

*Governmental funds* are used to account for the City’s general government activities and are accounted for using the regulatory basis of accounting. Their receipts are recognized when received in cash and disbursements are recognized when paid in cash. The regulatory basis of accounting is a special purpose framework other than GAAP. Under GAAP, governmental funds use the modified accrual method of accounting. The difference between the regulatory basis and modified accrual basis of accounting is that under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

*Proprietary funds* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2017

**Note 1: Summary of Significant Accounting Policies (Continued)**

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On the regulatory basis, receipts from property taxes are recognized in the year the tax is collected. Receipts from grants, entitlements and donations are recognized in the year in which they are collected. For proprietary funds, revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City has the following major governmental funds:

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

The *TIF District 1 fund* accounts for the financial activity of the City's tax increment financing district and accounts for tax increment revenue, which is restricted under the tax increment financing district.

The *Capital Improvements fund* accounts for resources accumulated and payments made for improvements projects.

The City reports the following major proprietary funds:

The *Water fund* accounts for the activities of the water distribution system the City maintains.

The *Wastewater fund* accounts for the activities of the City's wastewater collection operations.

The *Garbage fund* accounts for the revenue and expenses related to collection, disposal and recycling of residential garbage.

The *Storm Water fund* accounts for the costs associated with the City's storm water system.

*Enterprise funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

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 enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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.

## Note 1: Summary of Significant Accounting Policies (Continued)

### C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

#### *Deposits and Investments*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statement of cash flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2017

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Property Taxes***

The City Council annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, July and December of each year.

***Accounts Receivable***

Accounts receivable in the enterprise funds include amounts billed for services provided before year end. The City can annually certify delinquent water and sewer accounts to the County for collection. As a result there is no allowance for uncollectible accounts.

***Special Assessments***

Special assessments represent the financing for public improvements paid for by benefiting property owners. In the proprietary funds, these assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue upon receipt in the governmental funds.

***Capital Assets***

Under the regulatory basis, the City does not account for capital assets used in the governmental funds.

Property, plant and equipment in the proprietary funds of the City are recorded at cost. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Property, plant and equipment donated to these proprietary fund type operations are recorded at estimated acquisition value at the date of donation.

Capital assets in the proprietary funds prior to 2005 are considered fully depreciated and not shown on the financial statements.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized in the proprietary funds.

Property, plant and equipment are depreciated in the proprietary funds of the City using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Land Improvements	4 - 25
Buildings and Improvements	5 - 50
System and Improvements	20 - 50
Office Furniture and Fixtures	3 - 15
Machinery and Equipment	4 - 20
Automotive Equipment	2 - 10



## **Note 1: Summary of Significant Accounting Policies (Continued)**

### ***Deferred Outflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

### ***Compensated Absences***

It is the City's policy to permit employees to accumulate a portion of earned but unused vacation and sick pay benefits. Accumulated vacation and sick pay are accrued when incurred in the proprietary fund financial statements. In governmental funds, in the case of an employee leaving, the General fund would be responsible for liquidation of the liability.

### ***Long-term Obligations***

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported 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 disbursements.

### ***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. 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. The General fund is typically used to liquidate governmental net pension liability.

### ***Deferred Inflows of Resources***

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one item which qualifies for reporting in this category on the statement of net position. The item, deferred pension resources, is reported only in the statement of net position and results from actuarial calculations involving net differences between projected and actual earnings on plan investments and changes in proportions.

## **Note 1: Summary of Significant Accounting Policies (Continued)**

### ***Fund Balance***

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

*Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Clerk.

*Unassigned* - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when disbursements are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 50 percent of budgeted operating disbursements for cash-flow timing needs.

### ***Net Position***

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

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

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2017

**Note 2: Stewardship, Compliance and Accountability**

**A. Budgetary Information**

Annual budgets are adopted on the regulatory basis, which is a comprehensive basis other than GAAP for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Clerk so that a budget may be prepared. Before September 30, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. There were no budget amendments in 2017.

**B. Excess of Disbursements over Appropriations**

For the year ended December 31, 2017 expenditures exceeded appropriations in the following fund:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess of Disbursements Over Appropriations</u>
General	<u>\$ 485,340</u>	<u>\$ 508,100</u>	<u>\$ 22,760</u>

The excess disbursements were funded by receipts in excess of expectations.

**C. Deficit Fund Equity**

The TIF District 1 special revenue fund had a fund equity deficit of \$3,338 at December 31, 2017. The deficit will be eliminated with future tax increment collections.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2017

### Note 3: Detailed Notes on Accounts

#### A. Deposits and Investments

##### *Deposits*

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which 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 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$266,163 and the bank balance was \$324,097. Of the bank balance \$276,482 was covered by Federal depository insurance. The remaining balance was covered by collateral help by the pledging financial institution's trust department in the City's name.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2017

**Note 3: Detailed Notes on Accounts (Continued)**

**Investments**

At year end, the City's investments balances were as follows:

Investment Type	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount
Pooled Investments at Amortized Costs			
Minnesota Municipal Money Market fund	N/A	less than 6 months	<u>\$ 720,724</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments to the list on page 22 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The investment in the Minnesota Municipal Money Market Mutual Fund is not subject to the custodial credit risk classifications as noted in paragraph 9 of GASB Statement No. 40. The City does not have an investment policy that addresses the risks described above.

A reconciliation of cash and temporary investments as shown on the financial statements for the City follows:

Carrying Amount of Deposits	\$ 266,163
Investments	720,724
Cash on Hand	<u>50</u>
 Total	 <u>\$ 986,937</u>
 Governmental Funds	 \$ 635,117
Business-type Funds	<u>351,820</u>
 Total	 <u>\$ 986,937</u>

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2017

**Note 3: Detailed Notes on Accounts (Continued)**

**B. Capital Assets**

A summary of changes in business-type capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital Assets being Depreciated				
Infrastructure	\$ 879,823	\$ -	\$ -	\$ 879,823
Machinery and Equipment	91,843	-	-	91,843
Total Capital Assets being Depreciated	<u>971,666</u>	<u>-</u>	<u>-</u>	<u>971,666</u>
Less Accumulated Depreciation for				
Infrastructure	(203,413)	(21,993)	-	(225,406)
Machinery and Equipment	(52,979)	(10,253)	-	(63,232)
Total Accumulated Depreciation	<u>(256,392)</u>	<u>(32,246)</u>	<u>-</u>	<u>(288,638)</u>
Business-type Activities Capital Assets, Net	<u>\$ 715,274</u>	<u>\$ (32,246)</u>	<u>\$ -</u>	<u>\$ 683,028</u>

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

<b>Business-type Activities</b>		
Water		\$ 23,938
Wastewater		5,265
Storm Water		<u>3,043</u>
Total Depreciation Expense - Business-type Activities		<u>\$ 32,246</u>

**C. Interfund Receivables, Payables and Transfers**

***Interfund Receivable/Payable***

The composition of interfund balances at December 31, 2017 is as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General	TIF District 1	To fund a deficit cash balance	\$ 32,313
Capital Improvements	Lions Park	To fund costs related to the lions park	<u>10,000</u>
Total			<u>\$ 42,313</u>

***Interfund Transfers***

The General fund transferred \$32,500 to the Capital Improvement fund for future capital purchases.

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2017

**Note 3: Detailed Notes on Accounts (Continued)**

**D. Long-term Debt**

General Obligation Revenue Bonds

The following bonds were issued to finance capital improvements in the Water fund. It will be repaid from future revenues pledged from the Water fund and are backed by the taxing power of the City. Annual principal and interest payments on the bond are expected to require approximately 29 percent of revenues from the Water fund. For 2017, principal and interest paid and total customer revenues for the Water fund were \$51,201 and \$182,186, respectively.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water Revenue Note of 2006	\$ 775,000	2.31 %	05/09/06	08/20/25	<u>\$ 370,000</u>

The annual requirements to amortize general obligation revenue bonds as of December 31, 2017 are as follows:

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2018	\$ 43,000	\$ 8,547	\$ 51,547
2019	43,000	7,554	50,554
2020	44,000	6,560	50,560
2021	46,000	5,544	51,544
2022	47,000	4,481	51,481
2023-2025	<u>147,000</u>	<u>6,838</u>	<u>153,838</u>
Total	<u>\$ 370,000</u>	<u>\$ 39,524</u>	<u>\$ 409,524</u>

Changes in Long-term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Business-type Activities</b>					
Bonds Payable					
General obligation revenue bonds	\$ 412,000	\$ -	\$ (42,000)	\$ 370,000	\$ 43,000
Compensated Absences Payable	2,670	9,173	(9,505)	2,338	2,338
Net Pension Liability GERF	<u>90,502</u>	<u>32,802</u>	<u>(35,949)</u>	<u>87,355</u>	<u>-</u>
Total	<u>\$ 505,172</u>	<u>\$ 41,975</u>	<u>\$ (87,454)</u>	<u>\$ 459,693</u>	<u>\$ 45,338</u>

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

### **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.

#### General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City, other than teachers, 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.

### **B. Benefits Provided**

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota 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 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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.

#### GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten 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 ten 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 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.

### **C. Contributions**

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

#### GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City's contributions to the GERF for the years ending December 31, 2017, 2016 and 2015 were \$12,202, \$10,689 and \$8,966, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.



City of Loretto, Minnesota  
Notes to the Financial Statements  
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**Note 4: Defined Benefit Pension Plan - Statewide (Continued)**

**D. Pension Costs**

GERF Pension Costs

At December 31, 2017, the City reported a liability of \$153,214 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,929. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0024 percent, which is an increase of 0.0004 from 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$16,542 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$56 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

At December 31, 2017, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 5,080	\$ 9,447
Changes in Actuarial Assumptions	25,650	15,360
Net Difference between Projected and Actual Earnings on Plan Investments	-	7,587
Changes in Proportion	18,292	6,885
Contributions to GERF Subsequent to the Measurement Date	<u>6,566</u>	<u>-</u>
Total	<u>\$ 55,588</u>	<u>\$ 39,279</u>

Deferred outflows of resources totaling \$6,566 related to pensions resulting from the City's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2018	\$ 1,742
2019	11,604
2020	2,904
2021	(6,507)

City of Loretto, Minnesota  
Notes to the Financial Statements  
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**Note 4: Defined Benefit Pension Plan - Statewide (Continued)**

**E. Actuarial Assumptions**

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for the GERF through 2044 and PEPFF through 2064 and then 2.5 percent thereafter for both plans.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015. The most recent five-year experience study for PEPFF was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

GERF

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	39.00 %	5.10 %
International Stocks	19.00	5.30
Bonds	20.00	0.75
Alternative Assets	20.00	5.90
Cash	2.00	-
Total	100.00 %	

City of Loretto, Minnesota  
Notes to the Financial Statements  
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**Note 4: Defined Benefit Pension Plan - Statewide (Continued)**

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF and PEPFF 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.

**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:

City Proportionate Share of NPL		
1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
\$ 237,647	\$ 153,214	\$ 84,091

**H. Pension Plan Fiduciary Net Position**

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

City of Loretto, Minnesota  
Notes to the Financial Statements  
December 31, 2017

**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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded this City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNR's). The City's management is not aware of any incurred but not reported claims.

**B. Legal Debt Margin**

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The City has no debt subject to this limit.

**C. Tax Increment Districts**

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2017

City of Loretto, Minnesota  
Required Supplementary Information  
December 31, 2017

**Schedule of Employer's Share of PERA Net Pension Liability - General Employees Retirement Fund**

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/17	0.0024 %	\$ 153,214	\$ 1,929	\$ 155,143	\$ 154,839	99.0 %	75.9 %
06/30/16	0.0020	162,390	-	162,390	119,088	136.4	68.9
06/30/15	0.0022	114,015	-	114,015	119,660	95.3	78.2

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of Employer's PERA Contributions - General Employees Retirement Fund**

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/17	\$ 12,202	\$ 12,202	\$ -	\$ 162,693	7.5 %
12/31/16	10,689	10,689	-	142,520	7.5
12/31/15	8,438	8,438	-	112,507	7.5

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

City of Loretto, Minnesota  
Required Supplementary Information (Continued)  
December 31, 2017

**Notes to the Required Supplementary Information - General Employee Retirement Fund**

Changes in Actuarial Assumptions

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. 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 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

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INDIVIDUAL FUND FINANCIAL SCHEDULES

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2017

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City of Loretto, Minnesota  
 General Fund  
 Budgetary Comparison Schedule - Regulatory Basis (Continued on the Following Pages)  
 For the Year Ended December 31, 2017  
 (With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Budgetary Cash Fund Balances, January 1	\$ 489,845	\$ 489,845	\$ 489,845	\$ -	\$ 474,727
Receipts					
Property taxes	365,220	365,220	363,688	(1,532)	344,645
Licenses and permits	18,300	18,300	28,136	9,836	20,646
Intergovernmental					
State					
Local government aid	26,975	26,975	35,180	8,205	26,623
PERA aid	95	95	95	-	95
Fire aid	20,000	20,000	39,638	19,638	39,531
Other State aids	-	-	5,000	5,000	1,825
County					
County grants	1,200	1,200	2,697	1,497	-
Total Intergovernmental	48,270	48,270	82,610	34,340	68,074
Charges for services					
General government	250	250	864	614	827
Culture and recreation	2,000	2,000	2,110	110	3,330
Total Charges for Services	2,250	2,250	2,974	724	4,157
Fines and forfeitures	6,000	6,000	5,068	(932)	3,078
Interest on investments	300	300	1,389	1,089	445
Miscellaneous					
Refunds and reimbursements	21,000	21,000	32,705	11,705	32,513
Contributions and donations	10,000	10,000	19,909	9,909	13,492
Other	9,000	9,000	17,889	8,889	7,473
Total Miscellaneous	40,000	40,000	70,503	30,503	53,478
Total Receipts	480,340	480,340	554,368	74,028	494,523
Other Financing Sources					
Transfer in	5,000	5,000	-	(5,000)	-
Total Receipts and Other Financing Sources	485,340	485,340	554,368	69,028	494,523
Amounts Available for Appropriation	975,185	975,185	1,044,213	69,028	969,250

City of Loretto, Minnesota  
 General Fund  
 Budgetary Comparison Schedule - Regulatory Basis (Continued)  
 For the Year Ended December 31, 2017  
 (With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Disbursements					
Current					
General government					
Mayor and Council					
Personal services	\$ 15,430	\$ 15,430	\$ 16,038	\$ (608)	\$ 14,031
Other services and charges	500	500	111	389	650
Total	<u>15,930</u>	<u>15,930</u>	<u>16,149</u>	<u>(219)</u>	<u>14,681</u>
City Clerk					
Personal services	25,070	25,070	25,300	(230)	25,341
Other services and charges	7,800	7,800	7,044	756	6,770
Total	<u>32,870</u>	<u>32,870</u>	<u>32,344</u>	<u>526</u>	<u>32,111</u>
City hall					
Supplies	3,000	3,000	3,218	(218)	2,827
Other services and charges	31,690	31,690	31,114	576	29,120
Total	<u>34,690</u>	<u>34,690</u>	<u>34,332</u>	<u>358</u>	<u>31,947</u>
Elections					
Other services and charges	1,000	1,000	692	308	2,198
Assessor					
Other services and charges	7,000	7,000	7,008	(8)	6,550
Legal					
Other services and charges	21,000	21,000	12,769	8,231	19,562
Planning and zoning					
Other services and charges	10,000	10,000	28,125	(18,125)	6,783
Total General Government	<u>122,490</u>	<u>122,490</u>	<u>131,419</u>	<u>(8,929)</u>	<u>113,832</u>
Public safety					
Police					
Other services and charges	54,000	54,000	53,966	34	53,140
Fire					
Personal services	18,570	18,570	20,342	(1,772)	16,598
Supplies	1,300	1,300	1,066	234	1,387
Other services and charges	54,180	54,180	75,451	(21,271)	75,523
Total	<u>74,050</u>	<u>74,050</u>	<u>96,859</u>	<u>(22,809)</u>	<u>93,508</u>
Building inspection					
Other services and charges	4,100	4,100	3,547	553	4,498
Total Public Safety	<u>132,150</u>	<u>132,150</u>	<u>154,372</u>	<u>(22,222)</u>	<u>151,146</u>

City of Loretto, Minnesota  
General Fund  
Budgetary Comparison Schedule - Regulatory Basis (Continued)  
For the Year Ended December 31, 2017  
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Disbursements (Continued)					
Current (continued)					
Streets and highways					
Street maintenance					
Personal services	\$ 41,470	\$ 41,470	\$ 41,918	\$ (448)	\$ 38,349
Supplies	2,200	2,200	2,172	28	2,132
Other services and charges	59,000	59,000	51,685	7,315	62,081
Total	<u>102,670</u>	<u>102,670</u>	<u>95,775</u>	<u>6,895</u>	<u>102,562</u>
Snow and ice removal					
Supplies	<u>7,000</u>	<u>7,000</u>	<u>8,149</u>	<u>(1,149)</u>	<u>6,375</u>
Street lighting					
Other services and charges	<u>18,000</u>	<u>18,000</u>	<u>16,748</u>	<u>1,252</u>	<u>15,263</u>
Total Streets and Highways	<u>127,670</u>	<u>127,670</u>	<u>120,672</u>	<u>6,998</u>	<u>124,200</u>
Culture and recreation					
Parks					
Personal services	21,120	21,120	19,522	1,598	17,310
Supplies	5,200	5,200	4,851	349	5,325
Other services and charges	32,000	32,000	40,900	(8,900)	40,517
Total Culture and Recreation	<u>58,320</u>	<u>58,320</u>	<u>65,273</u>	<u>(6,953)</u>	<u>63,152</u>
Miscellaneous					
Unallocated	<u>710</u>	<u>710</u>	<u>(239)</u>	<u>949</u>	<u>706</u>
Capital outlay					
General government	3,000	3,000	-	3,000	4,946
Public safety	5,000	5,000	-	5,000	-
Streets and highways	9,000	9,000	7,990	1,010	1,920
Culture and recreation	27,000	27,000	28,613	(1,613)	2,003
Total Capital Outlay	<u>44,000</u>	<u>44,000</u>	<u>36,603</u>	<u>7,397</u>	<u>8,869</u>
Total Disbursements	485,340	485,340	508,100	(22,760)	461,905
Other Financing Uses					
Transfers out	<u>-</u>	<u>-</u>	<u>32,500</u>	<u>(32,500)</u>	<u>17,500</u>
Total Disbursements and Other Financing Uses	<u>485,340</u>	<u>485,340</u>	<u>540,600</u>	<u>(55,260)</u>	<u>479,405</u>
Budgetary Cash Fund Balances, December 31	<u>\$ 489,845</u>	<u>\$ 489,845</u>	<u>\$ 503,613</u>	<u>\$ 13,768</u>	<u>\$ 489,845</u>

City of Loretto, Minnesota  
 Summary Financial Report  
 Receipts and Disbursements for General Operations -  
 Governmental Funds  
 For the Years Ended December 31, 2017 and 2016

	Total		Percent Increase (Decrease)
	2017	2016	
Receipts			
Taxes	\$ 377,329	\$ 366,733	2.89 %
Licenses and permits	28,136	20,646	36.28
Intergovernmental	82,610	68,074	21.35
Charges for services	2,974	4,157	(28.46)
Fines and forfeitures	5,068	3,078	64.65
Interest on investments	2,057	664	209.79
Miscellaneous	80,503	53,478	50.53
Total Receipts	<u>\$ 578,677</u>	<u>\$ 516,830</u>	11.97 %
Per Capita	<u>\$ 893</u>	<u>\$ 796</u>	12.14 %
Disbursements			
Current			
General government	\$ 131,419	\$ 113,832	15.45 %
Public safety	154,372	151,146	2.13
Streets and highways	120,672	124,200	(2.84)
Culture and recreation	65,621	63,152	3.91
Economic development	10,561	7,918	33.38
Miscellaneous	(239)	706	(133.85)
Capital outlay			
General government	-	4,946	(100.00)
Streets and highways	26,492	13,304	99.13
Culture and recreation	35,856	4,716	660.31
Total Disbursements	<u>\$ 544,754</u>	<u>\$ 483,920</u>	12.57 %
Per Capita	<u>\$ 841</u>	<u>\$ 746</u>	12.74 %
General Fund Balance - December 31	\$ 503,613	\$ 489,845	2.81 %
Per Capita	777	755	2.97

The purpose of this report is to provide a summary of financial information concerning the City of Loretto to interested citizens. The complete financial statements may be examined at City Hall, 279 North Medina Street, Suite 260, Loretto, Minnesota 55357. Questions about this report should be directed to Mary Schneider, City Clerk at (763) 479-4305.

SUPPLEMENTARY INFORMATION - UNAUDITED

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2017

City of Loretto, Minnesota  
 Supplementary Information - Unaudited  
 December 31, 2017

**Schedule of Accounts Receivable**

Fund	Source of Revenue and Purpose		Amount
General	Hennepin County - Tax settlement	General Property Taxes	\$ 4,510
TIF District 1	Hennepin County - Tax increment	Tax Increment Financing	<u>1,509</u>
	Total		<u><u>\$ 6,019</u></u>

**Schedule of Accounts Payable and Contingent Liabilities**

Fund	Vendor Name	Item and Purpose	Amount
General	Herald Journal Publishing	Publishing	\$ 28
General	Kochs Korner, Llc	Repairs & Maint Cont	22
General	Lano Equipment	Repairs & Maint Cont	36
General	Metro West Inspection Services	Repairs & Maint Cont	456
General	Xcel Energy	Utility Services	1,358
General	Xcel Energy	Utility Services	111
General	Cintas Corp #470	Repairs & Maint Cont	42
General	Cintas Corp #470	Repairs & Maint Cont	30
General	Callies Law, PLLC	Legal Fees	914
General	Us Bank Equipment Finance	Repairs & Maint Cont	61
General	Visa	Repairs & Maint Cont	55
Lions Park	Wenk And Associates	Pre Demo HazMat Topo Survey	2,216
Lions Park	Wenk And Associates	Water Plan	4,300
	Accrued wages and compensated absences	Payroll	<u>7,164</u>
	Total		<u><u>\$ 16,793</u></u>



OTHER REQUIRED REPORTS

CITY OF LORETTO  
LORETTO, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Loretto, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Loretto, Minnesota (the City) 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 February 19, 2018. In our report, our opinion was adverse because the City prepares its financial statements on the regulatory basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

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

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

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

ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
February 19, 2018

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

Honorable Mayor and City Council  
City of Loretto, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Loretto, 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, and have issued our report thereon dated February 19, 2018. In our report, our opinion was adverse because the City prepares its financial statements on the regulatory basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

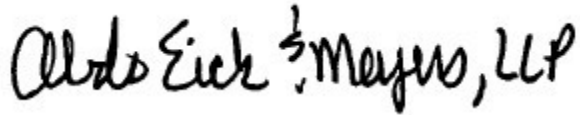
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

## The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

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

A handwritten signature in black ink that reads "Aldo Eick & Meyers, LLP". The signature is written in a cursive, slightly slanted style.

ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
February 19, 2018

City of Loretto, Minnesota  
Schedule of Findings and Responses  
For the Year Ended December 31, 2017

<u>Finding</u>	<u>Description</u>
<b>2017-001</b>	<b>Limited Segregation of Duties</b>
<i>Condition:</i>	During our audit we reviewed procedures over disbursements, cash receipts, payroll and utility billing and found the City to have limited segregation of duties over those transaction cycles.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Cause:</i>	As a result of the limited number of staff, in the disbursements cycle, the City Clerk has control over check stock, enters transactions into the accounting system, receives the bank statement, and also reconciles the bank account on a monthly basis. In the receipts cycle, the Utility Clerk opens mail, posts to the utility billing software and prepares the deposit. In the payroll cycle, the City Clerk has control over the checks, sets up employee records, approves timesheets and the payroll, posts to the general ledger and reconciles bank accounts. In the utility billing cycle, the City Council approves rates but the Utility Clerk, does all other duties, with oversight by the City Clerk.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.
<i>Recommendation:</i>	While we recognize staff is not large enough to eliminate this deficiency, we recommend that the City evaluate the current procedures and segregate duties where possible and implement any compensating controls. Compensating controls could consist of additional monitoring and review, such as approving all adjustments with utility billing, review of payroll records, and review of bank statements prior to the City Clerk receiving them. It is important that the City Council is aware of this condition and monitor all financial information.
<i>Management Response:</i>	Management recognizes that it is not economically feasible to correct this finding, is aware of the deficiency and is relying on oversight by management and the City Council to monitor this deficiency.

City of Loretto, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2017

<u>Finding</u>	<u>Description</u>
<b>2017-002</b>	<b>Preparation of Financial Statements</b>
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	
	For now, the City's management accepts the degree of risk associated with this deficiency and thoroughly reviews a draft of the financial statements.