

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 29, 2018

In the opinion of Kennedy & Graven, Chartered, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions (which exclude any pending legislation which may have a retroactive effect), and assuming compliance with certain covenants, interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and, to the same extent, from taxable net income of individuals, estates and trusts for Minnesota income tax purposes, and is not a preference item for purposes of computing the federal alternative minimum tax or the Minnesota alternative minimum tax imposed on individuals, trusts, and estates. Such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds. See "Tax Exemption" herein.

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

New Issue

Rating Application Made: S&P Global Ratings

CITY OF LAUDERDALE, MINNESOTA (Ramsey County)

\$1,310,000* GENERAL OBLIGATION TAX INCREMENT REVENUE BONDS, SERIES 2018A

PROPOSAL OPENING: April 10, 2018, 10:00 A.M., C.T.

CONSIDERATION: April 10, 2018, 7:30 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$1,310,000* General Obligation Tax Increment Revenue Bonds, Series 2018A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapters 469 and 475, by the City of Lauderdale, Minnesota (the "City") to provide temporary financing for the acquisition of land for redevelopment within Tax Increment Financing District No. 1-2 ("TID No. 1-2") in the City. The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Kennedy & Graven, Chartered, Minneapolis, Minnesota.

DATE OF BONDS: May 1, 2018

MATURITY: February 1:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2021 | \$1,310,000 |

INTEREST: February 1, 2019 and semiannually thereafter.

OPTIONAL REDEMPTION: The Bonds are subject to call for prior redemption on February 1, 2019 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: \$1,302,140

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$26,200 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Kennedy & Graven, Chartered

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b) (1), but is subject to revision, amendment and completion in a Final Official Statement.



REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. *This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.*

This Preliminary Official Statement is not to be construed as a contract with the Syndicate Manager or Syndicate Members. Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers & Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the City and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers & Associates, Inc., payable entirely by the City, is contingent upon the sale of the issue.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the City for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers & Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over \$1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the Bonds are exempt or required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the City nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the City which indicates that the City does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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CITY COUNCIL

| | | <u>Term Expires</u> |
|---------------|----------------|---------------------|
| Mary Gaasch | Mayor | January 2019 |
| Roxanne Grove | Council Member | January 2019 |
| Andi Moffatt | Council Member | January 2019 |
| Jeff Dains | Council Member | January 2021 |
| Kelly Dolphin | Council Member | January 2021 |

ADMINISTRATION

Heather Butkowski, City Administrator
Jim Bownik, Assistant to the City Administrator
Miles Cline, Deputy City Clerk

PROFESSIONAL SERVICES

Kennedy & Graven, Chartered, Bond Counsel and City Attorney, Minneapolis, Minnesota

Ehlers & Associates, Inc., Municipal Advisors, Roseville, Minnesota
(Other offices located in Waukesha, Wisconsin, Chicago, Illinois and Denver, Colorado)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Lauderdale, Minnesota (the "City") and the issuance of its \$1,310,000* General Obligation Tax Increment Revenue Bonds, Series 2018A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution awarding the sale of the Bonds (the "Award Resolution") to be adopted by the City Council on April 10, 2018.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the City's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will bear interest at a single rate specified in the proposal of the purchaser and will be payable on February 1 and August 1 of each year, commencing February 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The City has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the City, the Bonds shall be subject to optional redemption prior to maturity on February 1, 2019 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 469 and 475, by the City to provide temporary financing for the acquisition of approximately 1.69 acres of property for redevelopment within Tax Increment Financing District No. 1-2 (former Chinese Church building) in the City.

ESTIMATED SOURCES AND USES*

| | | |
|--|--------------------|--------------------|
| Sources | | |
| Par Amount of Bonds | <u>\$1,310,000</u> | |
| Total Sources | | \$1,310,000 |
| Uses | | |
| Total Underwriter's Discount (0.600%) | \$7,860 | |
| Costs of Issuance | 35,000 | |
| Deposit to Capitalized Interest (CIF) Fund | 64,845 | |
| Deposit to Project Construction Fund | 1,200,000 | |
| Rounding Amount | <u>2,295</u> | |
| Total Uses | | \$1,310,000 |

*Preliminary, subject to change

SECURITY

The Bonds are general obligations of the City for which its full faith, credit and taxing powers are pledged without limitation as to rate or amount. The City anticipates that the debt service will be paid from tax increment revenues generated by new development within Tax Increment Financing District No. 1-2 and from the proceeds of definitive or additional temporary bonds required to be issued by the City prior to the maturity of the Bonds. Receipt of tax increment revenues and for proceeds of the definitive or additional temporary bonds will be sufficient to provide not less than 105% of principal and interest on the Bonds as required by Minnesota law.

Should the revenues pledged for payment of the Bonds be insufficient to pay the principal and interest as the same shall become due, the City is required to pay maturing principal and interest from moneys on hand in any other fund of the City not pledged for another purpose and/or to levy additional taxes for this purpose upon all the taxable property in the City, without limitation as to rate or amount.

RATING

The City does not currently have any outstanding debt; however, the City has requested a rating on this issue from S&P Global Ratings ("S&P"), and bidders will be notified as to the assigned rating prior to the sale. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the City nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (hereinafter the "Rule"), the City shall covenant to take certain actions pursuant to the Award Resolution by entering into a Continuing Disclosure Certificate (the "Disclosure Undertaking") for the benefit of holders, including beneficial holders. The Disclosure Undertaking requires the City to provide electronically or in the manner otherwise prescribed certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule. The details and terms of the Disclosure Undertaking for this issue are set forth in Appendix D to be executed and delivered by the City at the time of delivery of the Bonds. Such Disclosure Undertaking will be in substantially the form attached hereto.

In the previous five years, the City believes it has not failed to comply in all material respects with its prior undertakings under the Rule.

A failure by the City to comply with any Disclosure Undertaking will not constitute an event of default on this issue or any issue outstanding. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The City will file its continuing disclosure information using the Electronic Municipal Market Access ("EMMA") system or any system that may be prescribed in the future. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org. Ehlers is currently engaged as disclosure dissemination agent for the City.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Kennedy & Graven, Chartered, Minneapolis, Minnesota, Bond Counsel to the City, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

TAX EXEMPTION

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and decisions, interest on the Bonds is excluded from gross income of the owners thereof for purposes of federal income taxation and is excluded from taxable net income of individuals, estates or trusts for purposes of State of Minnesota income taxation, but is subject to State of Minnesota franchise taxes measured by income that are imposed upon corporations, including financial institutions.

Noncompliance following the issuance of the Bonds with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income (for federal tax purposes) and taxable net income (for State of Minnesota tax purposes) of the owners thereof. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to United States or State of Minnesota income taxation.

The Code imposes an alternative minimum tax with respect to individuals on alternative minimum taxable income. Adjusted current earnings include income received that is otherwise exempt from taxation such as interest on the Bonds.

The Code provides that in the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as "losses incurred" under Section 832(b)(5) shall be reduced by an amount equal to the applicable percentage of the interest on the Bonds that is received or accrued during the taxable year. For purposes hereof, the applicable percentage is 5.25% divided by the highest rate in effect under Section 11(b) of the Code.

Interest on the Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code. Under certain circumstances, interest on the Bonds may be subject to the tax on "excess net passive income" of Subchapter S corporations imposed by Section 1375 of the Code.

The above is not a comprehensive list of all federal tax consequences which may arise from the receipt of interest on the Bonds. The receipt of interest on the Bonds may otherwise affect the federal or State income tax liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items or deductions. Bond Counsel expresses no opinion regarding any such consequences. All prospective purchasers of the Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

Legislative proposals

Bond Counsel's opinion is given as of its date and Bond Counsel assumes no obligation to update, revise, or supplement such opinion to reflect any changes in facts or circumstances or any changes in law that may hereafter occur. Proposals are regularly introduced in both the United States House of Representatives and the United States Senate that, if enacted, could alter or affect the tax-exempt status on municipal bonds. For example, legislation has been proposed that would, among other things, limit the amount of exclusions (including tax-exempt interest) or deductions that certain higher-income taxpayers could use to reduce their tax liability. The likelihood of adoption of this or any other such legislative proposal relating to tax-exempt bonds cannot be reliably predicted. If enacted into law, current or future proposals may have a prospective or retroactive effect and could affect the value or marketability of tax-exempt bonds (including the Bonds). Prospective purchasers of the Bonds should consult their own tax advisors regarding the impact of any such change in law.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations. "Qualified tax-exempt obligations" are treated as acquired by a financial institution before August 8, 1986. Interest allocable to such obligations remains subject to the 20% disallowance under prior law.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a Municipal Advisor.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("BTSC") and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the City, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the City under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the City for the fiscal year ended December 31, 2016 have been audited by Abdo, Eick & Meyers, LLP, Minneapolis, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the City, the ultimate payment of which rests in the City's ability to levy and collect sufficient taxes to pay debt service should other revenue (tax increment revenue) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the City in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the City, the taxable value of property within the City, and the ability of the City to levy and collect property taxes.

Determination of Net Tax Capacity: The State of Minnesota calculates net tax capacity as a ratio of market value for various property classifications which are subject to change. Any reduction in these ratios may generate lower net tax capacities resulting in lower tax increment revenues.

Tax Increment Revenues: Decreased valuations or increases which are smaller than projected could result in tax increment collections insufficient to meet debt service requirements. The City would have to use other City funds and/or levy ad valorem taxes to meet any deficiency.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the City and to the Bonds. The City can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the City or the taxing authority of the City.

Ratings; Interest Rates: In the future, the City's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the City to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the City to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the City, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the City may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

| Type of Property | 2014/15 | 2015/16 | 2016/17 |
|--|--|--|--|
| Residential homestead ¹ | First \$500,000 - 1.00% Over \$500,000 - 1.25% | First \$500,000 - 1.00% Over \$500,000 - 1.25% | First \$500,000 - 1.00% Over \$500,000 - 1.25% |
| Agricultural homestead ¹ | First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% ² Over \$1,900,000 - 1.00% ² | First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,140,000 - 0.50% ² Over \$2,140,000 - 1.00% ² | First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,050,000 - 0.50% ² Over \$2,050,000 - 1.00% ² |
| Agricultural non-homestead | Land - 1.00% ² | Land - 1.00% ² | Land - 1.00% ² |
| Seasonal recreational residential | First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³ | First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³ | First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³ |
| Residential non-homestead: | 1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25% | 1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$106,000 - .75% Over \$106,000 - .25% | 1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$115,000 - .75% Over \$115,000 - .25% |
| Industrial/Commercial/Utility ⁵ | First \$150,000 - 1.50% Over \$150,000 - 2.00% | First \$150,000 - 1.50% Over \$150,000 - 2.00% | First \$150,000 - 1.50% Over \$150,000 - 2.00% |

¹ A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

² Applies to land and buildings. Exempt from referendum market value tax.

³ Exempt from referendum market value tax.

⁴ Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

⁵ The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

| | | |
|--|--|---|
| 2016/17 Economic Market Value | | <u>\$192,898,337¹</u> |
| | 2017/18 Assessor's Estimated Market Value | 2017/18 Net Tax Capacity |
| Real Estate | \$195,502,400 | \$2,286,645 |
| Personal Property | <u>2,053,800</u> | <u>40,891</u> |
| Total Valuation | <u>\$197,556,200</u> | \$2,327,536 |
| Less: Fiscal Disparities Contribution ² | | <u>(208,342)</u> |
| Taxable Net Tax Capacity | | \$2,119,194 |
| Plus: Fiscal Disparities Distribution ³ | | <u>458,436</u> |
| Adjusted Taxable Net Tax Capacity | | <u>\$2,577,630</u> |

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City of Lauderdale is about 96.77% of the actual selling prices of property most recently sold in the City. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the City of \$192,898,337.

² Each community in the seven-county metropolitan area contributes 40% of the growth in its commercial-industrial property tax base since 1972 to an area pool which is then distributed among the municipalities on the basis of population, special needs, etc. Each governmental unit makes a contribution and receives a distribution--sometimes gaining and sometimes contributing net tax capacity for tax purposes.

2017/18 NET TAX CAPACITY BY CLASSIFICATION

| | 2017/18 Net Tax Capacity | Percent of Total Net Tax Capacity |
|-----------------------------|-------------------------------------|--|
| Residential homestead | \$ 927,625 | 39.85% |
| Commercial/industrial | 423,094 | 18.18% |
| Public utility | 258,994 | 11.13% |
| Railroad operating property | 2,220 | 0.10% |
| Non-homestead residential | 674,712 | 28.99% |
| Personal property | 40,891 | 1.76% |
| Total | <u>\$2,327,536</u> | <u>100.00%</u> |

TREND OF VALUATIONS

| Levy Year | Assessor's Estimated Market Value | Assessor's Taxable Market Value | Net Tax Capacity¹ | Adjusted Taxable Net Tax Capacity² | Percent +/- in Estimated Market Value |
|----------------------|--|--|---|--|--|
| 2013/14 | \$160,676,600 | \$148,188,100 | \$1,853,497 | \$2,028,470 | - 1.28% |
| 2014/15 | 166,206,700 | 154,657,600 | 1,913,035 | 2,146,073 | + 3.44% |
| 2015/16 | 183,440,500 | 172,406,700 | 2,111,064 | 2,332,186 | +10.37% |
| 2016/17 | 187,127,700 | 175,977,400 | 2,176,003 | 2,464,255 | + 2.01% |
| 2017/18 | 197,556,200 | 186,714,400 | 2,327,536 | 2,577,630 | + 5.57% |

¹ Net Tax Capacity is before fiscal disparities adjustments.

² Adjusted Taxable Net Tax Capacity is after fiscal disparities adjustments.

LARGER TAXPAYERS

| Taxpayer | Type of Property | 2017/18 Net Tax Capacity | Percent of City's Total Net Tax Capacity |
|---------------------------------|-------------------------|---|---|
| Xcel Energy | Utility | \$327,450 | 14.07% |
| Greenway Village Apartments LLC | Apartments | 108,456 | 4.66% |
| Gasparre Lauderdale Hollow LLC | Apartments | 101,214 | 4.35% |
| City Gables AJZ LLC | Apartments | 96,250 | 4.14% |
| Rose Hill Investments LLP | Apartments | 78,652 | 3.38% |
| Corval Properties LLC | Commercial | 54,322 | 2.33% |
| DLB Investments LLC | Commercial | 54,250 | 2.33% |
| Boyer Ford Trucks, Inc. | Commercial | 45,250 | 1.94% |
| Como Partnership LLLP | Apartments | 41,250 | 1.77% |
| CVC Investments | Apartments | 42,575 | 1.83% |
| Total | | <u><u>\$949,669</u></u> | <u><u>40.80%</u></u> |

City's Total 2016/17 Net Tax Capacity \$2,327,536

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Ramsey County.

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

| | |
|--|--------------------|
| Total g.o. debt being paid from tax increment revenues (includes the Bonds)* | <u>\$1,310,000</u> |
|--|--------------------|

*Preliminary, subject to change.

¹ Outstanding debt is as of the dated date of the Bonds.

CITY OF LAUDERDALE, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Tax Increment Revenues
(As of 5/1/18)

| | | TIF | | | | | | | | |
|-----------------------|------------------------|------------|-----------|----------|--------------------|-------------------|----------------|--------------------------|---------|-----------------------|
| Fiscal Year Ending | Dated Amount | Maturity | Estimated | | Total Principal | Total Interest | Total P & I | Principal Outstanding | % Paid | Fiscal Year Ending |
| | | | Principal | Interest | | | | | | |
| 2019 | 5/1/18 \$1,310,000* | | 0 | 36,025 | 0 | 36,025 | 36,025 | 1,310,000 | 45.45% | 2019 |
| 2020 | | 2/1/21 | 0 | 28,820 | 0 | 28,820 | 28,820 | 1,310,000 | 81.82% | 2020 |
| 2021 | | | 1,310,000 | 14,410 | 1,310,000 | 14,410 | 1,324,410 | 0 | 100.00% | 2021 |
| | | | 1,310,000 | 79,255 | 1,310,000 | 79,255 | 1,389,255 | | | |

*Preliminary, subject to change.

DEBT LIMIT

The statutory limit on debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" (Minnesota Statutes, Section 475.51, subd. 4) is the amount remaining after deducting from gross debt: (1) obligations payable wholly or partly from special assessments levied against benefitted property; (2) warrants or orders having no definite or fixed maturity; (3) obligations issued to finance any public revenue producing convenience; (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) funds held as sinking funds for payment of principal and interest on debt other than those deductible under 1-4 above; and (6) other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance (includes the Bonds).

| | |
|---|----------------------------|
| 2017/18 Assessor's Estimated Market Value | \$197,556,200 |
| Multiply by 3% | <u>0.03</u> |
| Statutory Debt Limit | \$ 5,926,686 |
| Less: Long-Term Debt Outstanding Being Paid Solely from Taxes | <u>0</u> |
| Unused Debt Limit | <u><u>\$ 5,926,686</u></u> |

OVERLAPPING DEBT¹

| Taxing District | 2017/18 Adjusted Taxable Net Tax Capacity | % In City | Total G.O. Debt² | City's Proportionate Share |
|--|--|----------------------|--|---|
| Ramsey County | \$ 586,968,191 | 0.4391% | \$155,545,000 | \$ 682,998 |
| Ramsey County Library | 294,873,019 | 0.8741% | 31,350,000 | 274,030 |
| I.S.D. No. 623 (Roseville) | 70,969,769 | 3.6320% | 173,890,000 ³ | 6,315,685 |
| Metropolitan Council | 3,971,779,581 | 0.0649% | 148,045,000 ⁴ | 96,081 |
| City's Share of Total Overlapping Debt | | | | <u><u>\$7,368,794</u></u> |

¹ Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. Does *not* include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

² Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

³ Based upon the long term facilities maintenance revenue formula and current statistics, the District anticipates a portion of this debt will be paid by the State of Minnesota.

⁴ The above debt includes all outstanding general obligation debt supported by taxes of the Metropolitan Council. The Council also has general obligation sewer revenue, wastewater revenue, and radio revenue bonds and lease obligations outstanding all of which are supported entirely by revenues and have not been included in the Overlapping Debt or Debt Ratios sections.

DEBT RATIOS

| | G.O. Debt | Debt/Economic Market Value (\$192,898,337) | Debt/ Current Population Estimate (2,472) |
|--|--------------------------------|---|--|
| Direct G.O. Debt Being Paid From Tax Increment Revenues* | \$ 1,310,000 | | |
| Less: G.O. Debt Paid Entirely from Revenues ¹ | <u>(1,310,000)</u> | | |
| Tax Supported General Obligation Debt* | \$ 0 | 0.00% | \$0.00 |
| City's Share of Total Overlapping Debt | <u>\$ 7,368,794</u> | <u>3.82%</u> | <u>\$2,980.90</u> |
| Total* | <u><u>\$ 7,368,794</u></u> | <u><u>3.82%</u></u> | <u><u>\$2,980.90</u></u> |

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

The City has no record of default in the payment of principal and interest on its debt.

FUTURE FINANCING

The City plans to issue General Obligation Improvement Bonds for street/utility reconstruction in the next 12 months.

¹ Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

| Tax Year | Net Tax Levy ¹ | Total Collected Following Year | Collected to Date ² | % Collected |
|----------|---------------------------|--------------------------------|--------------------------------|-------------|
| 2013/14 | \$611,185 | \$606,712 | \$610,341 | 99.86% |
| 2014/15 | 619,076 | 613,976 | 618,554 | 99.92% |
| 2015/16 | 676,359 | 673,052 | 675,620 | 99.89% |
| 2016/17 | 708,255 | 703,122 | 703,122 | 99.28% |
| 2017/18 | 764,514 | In process of collection | | |

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.³ Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

TAX CAPACITY RATES⁴

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|----------------------------|---------|---------|---------|---------|---------|
| Ramsey County | 63.735% | 58.922% | 58.885% | 55.850% | 53.962% |
| City of Lauderdale | 30.039% | 28.856% | 29.042% | 28.678% | 29.919% |
| I.S.D. No. 623 (Roseville) | 16.251% | 17.180% | 20.958% | 18.894% | 34.396% |
| Middle Mississippi WMO | 2.430% | 2.191% | 1.963% | 2.015% | 1.636% |
| Rice Creek Watershed | 2.346% | 2.205% | 2.108% | 1.985% | 1.826% |
| Metropolitan Council | 2.729% | 2.524% | 2.379% | 2.243% | 2.153% |
| Metro Mosquito Control | 0.554% | 0.511% | 0.475% | 0.455% | 0.440% |
| Regional Rail | 4.196% | 3.938% | 4.091% | 3.875% | 3.830% |

Referendum Market Value Rates:

| | | | | | |
|----------------------------|----------|----------|----------|----------|----------|
| I.S.D. No. 623 (Roseville) | 0.25826% | 0.25930% | 0.21044% | 0.19350% | 0.21951% |
|----------------------------|----------|----------|----------|----------|----------|

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Ramsey County.

¹ This reflects the Final Levy Certification of the City after all adjustments have been made.

² Collections are through December 31, 2017.

³ Second half tax payments on agricultural property are due on November 15th of each year.

⁴ After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

LEVY LIMITS

The State Legislature has periodically imposed limitations on the ability of municipalities to levy property taxes. For taxes levied in 2013, payable in 2014, only, the Legislature imposed a one year levy limit on all counties with a population greater than 5,000, and all cities with a population greater than 2,500. While these limitations have expired, the potential exists for future legislation to limit the ability of local governments to levy property taxes. All previous limitations have not limited the ability to levy for the payment of debt service on bonded indebtedness. For more detailed information about Minnesota levy limits, contact the Minnesota Department of Revenue or Ehlers & Associates.

THE ISSUER

CITY GOVERNMENT

The City of Lauderdale was organized as a municipality in 1949. The City operates under a statutory form of government consisting of a five-member City Council of which the Mayor is a voting member. The City Administrator, Deputy City Clerk and Assistant to the City Administrator are responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 5 full-time and 2 seasonal employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Units

| Bargaining Unit | Expiration Date of Current Contract |
|------------------------|--|
| AFSCME Council 5 | December 31, 2020 |

POST EMPLOYMENT BENEFITS

The City has not done an actuarial study at this time.

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the City or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

As of the date hereof, Minnesota Statutes, 471.831, authorizes municipalities to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code. A municipality is defined in United States Code, title 11, section 101, as amended through December 31, 1996, but limited to a county, statutory or home rule charter city, or town; or a housing and redevelopment authority, economic development authority, or rural development financing authority established under Chapter 469, a home rule charter or special law.

FUNDS ON HAND (As of January 31, 2018)

| Fund | Total Cash and Investments |
|----------------------------|---------------------------------------|
| General | \$ 697,191 |
| Special Revenue | 115,575 |
| Capital Projects | 1,131,275 |
| Enterprise Funds | 1,371,920 |
| Total Funds on Hand | <u><u>\$3,315,961</u></u> |

ENTERPRISE FUNDS

Revenues available for debt service on the City's enterprise funds have been as follows as of December 31 each year:

| | 2014 | 2015 | 2016 |
|-------------------------------------|------------------|------------------|------------------|
| Sewer | | | |
| Total Operating Revenues | \$254,644 | \$269,504 | \$307,203 |
| Less: Operating Expenses | <u>(227,843)</u> | <u>(275,384)</u> | <u>(276,554)</u> |
| Operating Income | \$ 26,801 | \$ (5,880) | \$ 30,649 |
| Plus: Depreciation | <u>34,748</u> | <u>39,768</u> | <u>39,768</u> |
| Revenues Available for Debt Service | <u>\$ 61,549</u> | <u>\$ 33,888</u> | <u>\$ 70,417</u> |
| | | | |
| Storm Sewer | | | |
| Total Operating Revenues | \$ 86,310 | \$ 94,504 | \$ 98,879 |
| Less: Operating Expenses | <u>(71,416)</u> | <u>(67,454)</u> | <u>(75,410)</u> |
| Operating Income | \$ 14,894 | \$ 27,050 | \$ 23,469 |
| Plus: Depreciation | <u>0</u> | <u>0</u> | <u>0</u> |
| Revenues Available for Debt Service | <u>\$ 14,894</u> | <u>\$ 27,050</u> | <u>\$ 23,469</u> |

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the City's 2016 audited financial statements.

| COMBINED STATEMENT | FISCAL YEAR ENDING DECEMBER 31 | | | | 2018 |
|---|--------------------------------|---------------------|---------------------|---------------------|--------------------------------|
| | 2014 Audited | 2015 Audited | 2016 Audited | 2017 Audited | Adopted Budget ¹ |
| Revenues | | | | | |
| Property taxes | \$ 602,269 | \$ 597,344 | \$ 678,065 | \$ 708,333 | \$ 765,514 |
| Licenses and permits | 38,139 | 48,032 | 47,772 | 29,750 | 30,850 |
| Intergovernmental | 536,291 | 537,934 | 538,700 | 539,016 | 540,760 |
| Charges for services | 9,787 | 8,280 | 15,040 | 11,025 | 12,300 |
| Fines and forfeitures | 38,417 | 49,971 | 35,779 | 45,000 | 30,000 |
| Special assessments | 0 | 843 | 1,807 | 0 | 0 |
| Interest on investments | 2,025 | 3,057 | 8,537 | 2,100 | 5,000 |
| Miscellaneous | 5,363 | 5,078 | 14,426 | 800 | 3,500 |
| Total Revenues | \$ 1,232,291 | \$ 1,250,539 | \$ 1,340,126 | \$ 1,336,024 | \$ 1,387,924 |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | \$ 310,288 | \$ 339,357 | \$ 333,868 | \$ 355,322 | \$ 377,977 |
| Public safety | 667,291 | 679,462 | 734,977 | 753,566 | 771,789 |
| Public works | 90,466 | 82,679 | 98,068 | 88,010 | 95,094 |
| Culture and recreation | 72,246 | 71,235 | 76,109 | 81,126 | 85,064 |
| Economic Development | 0 | 0 | 0 | 20,000 | 20,000 |
| Capital outlay | 2,438 | 1,192 | 0 | 0 | 0 |
| Total Expenditures | \$ 1,142,729 | \$ 1,173,925 | \$ 1,243,022 | \$ 1,298,024 | \$ 1,349,924 |
| Excess of revenues over (under) expenditures | \$ 89,562 | \$ 76,614 | \$ 97,104 | \$ 38,000 | \$ 38,000 |
| Other Financing Sources (Uses) | | | | | |
| Operating transfers in | \$ 0 | \$ 20,461 | \$ 11,198 | \$ 0 | |
| Operating transfers out | (69,315) | (74,659) | (87,655) | (38,000) | |
| Total Other Financing Sources (Uses) | \$ (69,315) | \$ (54,198) | \$ (76,457) | \$ (38,000) | |
| Net Changes in Fund Balances | \$ 20,247 | \$ 22,416 | \$ 20,647 | \$ 0 | |
| General Fund Balance January 1 | 738,304 | 758,551 | 780,967 | 801,614 | |
| Prior Period Adjustment | 0 | 0 | 0 | 0 | |
| Residual Equity Transfer in (out) | 0 | 0 | 0 | 0 | |
| General Fund Balance December 31 | \$ 758,551 | \$ 780,967 | \$ 801,614 | \$ 801,614 | |
| DETAILS OF DECEMBER 31 FUND BALANCE | | | | | |
| Nonspendable | \$ 1,752 | \$ 3,226 | \$ 1,683 | \$ 868 | |
| Unassigned | 756,799 | 777,741 | 799,931 | 773,712 | |
| Total | \$ 758,551 | \$ 780,967 | \$ 801,614 | \$ 774,580 | |

¹ The 2018 budget was adopted on December 12, 2017.

GENERAL INFORMATION

LOCATION

The City of Lauderdale, with a 2010 U.S. Census population of 2,379 and a current population estimate of 2,472, comprising an area of 269 acres, is a suburb of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS¹

Larger employers in the City of Lauderdale include the following:

| Firm | Type of Business/Product | Estimated No. of Employees |
|--------------------------|--|-----------------------------------|
| Twin City Die Casting | Fabricating (aluminum & magnesium) | 185 |
| Lutheran Social Services | Non-profit services for communities | 120 |
| Bolger Publication | Marketing and graphic design professionals | 116 |
| Corval Group | Mechanical contractor | 80 |
| Boyer Motor Company | Truck sales and service | 50 |
| Midwest Editions | Professional bookbinding | 26 |
| Beaupre Aerial Lifts | Construction equipment rental | 25 |

Source: *ReferenceUSA, written and telephone survey (March 2018), and the Minnesota Department of Employment and Economic Development.*

¹ This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above. Some employers do not respond to inquiries for employment data.

BUILDING PERMITS

| | 2014 | 2015 | 2016 | 2017 | 2018 ¹ |
|---|-------------|-------------|-------------|-------------|-------------------|
| <u>New Single Family Homes</u> | | | | | |
| No. of building permits | 1 | 1 | 0 | 0 | 0 |
| Valuation | \$225,000 | \$180,000 | \$0 | \$0 | \$0 |
| <u>New Commercial/Industrial</u> | | | | | |
| No. of building permits | 0 | 1 | 0 | 0 | 0 |
| Valuation | \$0 | \$517,000 | \$0 | \$0 | \$0 |
| <u>All Building Permits</u> <i>(including additions and remodelings)</i> | | | | | |
| No. of building permits | 76 | 77 | 127 | 86 | 4 |
| Valuation | \$1,430,955 | \$1,475,188 | \$2,358,074 | \$1,222,435 | \$1,636,692 |

Source: The City.

¹ As of March 2, 2018.

U.S. CENSUS DATA

Population Trend: City of Lauderdale, Minnesota

| | |
|-----------------------------------|---------|
| 2000 U.S. Census population | 2,364 |
| 2010 U.S. Census population | 2,379 |
| 2016 State Demographer's Estimate | 2,472 |
| Percent of Change 2000 - 2010 | + 0.63% |

Income and Age Statistics

| | City of Lauderdale | Ramsey County | State of Minnesota | United States |
|--|--------------------|---------------|--------------------|---------------|
| 2016 per capita income | \$28,490 | \$31,256 | \$33,225 | \$29,826 |
| 2016 median household income | \$44,345 | \$57,717 | \$63,217 | \$55,322 |
| 2016 median family income | \$56,625 | \$75,578 | \$79,595 | \$67,871 |
| 2016 median gross rent | \$838 | \$892 | \$873 | \$928 |
| 2016 median value owner occupied units | \$172,200 | \$199,200 | \$191,500 | \$184,700 |
| 2016 median age | 32.2 yrs. | 34.6 yrs. | 37.8 yrs. | 37.7 yrs. |

| | State of Minnesota | United States |
|-------------------------------------|--------------------|---------------|
| City % of 2016 per capita income | 85.75% | 95.52% |
| City % of 2016 median family income | 71.14% | 83.43% |

Housing Statistics

| | City of Lauderdale | | Percent of Change |
|-------------------|--------------------|-------|-------------------|
| | 2000 | 2016 | |
| All Housing Units | 1,169 | 1,289 | 10.27% |

Source: 2000 and 2010 Census of Population and Housing, and 2016 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

| Year | Average Employment | | Average Unemployment | |
|----------------|--------------------|---------------|----------------------|--------------------|
| | Ramsey County | Ramsey County | Ramsey County | State of Minnesota |
| 2014 | 265,141 | 4.0% | | 4.2% |
| 2015 | 267,618 | 3.6% | | 3.7% |
| 2016 | 270,438 | 3.6% | | 3.8% |
| 2017 | 276,945 | 3.3% | | 3.6% |
| 2018, February | 281,215 | 3.2% | | 3.9% |

Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the City's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The City has not requested the Auditor to perform any additional examination, assessments or evaluation with respect to such financial statements since the date thereof, nor has the City requested that the Auditor consent to the use of such financial statements in this Official Statement. Although the inclusion of the financial statements in this Official Statement is not intended to demonstrate the fiscal condition of the City since the date of the financial statements, in connection with the issuance of the Bonds, the City represents that there have been no material adverse change in the financial position or results of operations of the City, nor has the City incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

Annual Financial Report

City of Lauderdale

Lauderdale, Minnesota

For the Year Ended

December 31, 2016

**ABDO
EICK &
MEYERS**^{LLP}
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

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

Other Matters

Required Supplementary Information

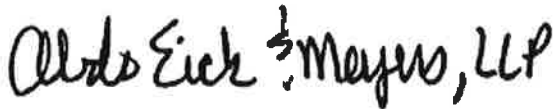
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis Page 13 and the Schedule of Employer's Shares of the Net Pension Liability and the Schedule of Employer's Contributions starting on page 62 be presented to supplement the basic 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 an opinion on the financial statements that collectively comprise the City's basic financial statements as a whole. The introductory section and combining and individual fund financial statements and schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

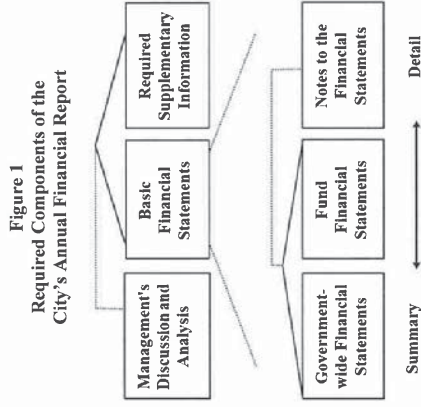
The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied 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 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 combining and individual fund financial statements and schedules are fairly stated in all material respects, in relation to the financial statements as a whole.

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



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 13, 2017

The following chart shows how the various parts of this annual report are arranged and related to one another:



The following chart summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements:

Figure 2
Major Features of the Government-wide and Fund Financial Statements

| | Government-wide Statements | Governmental Funds | Proprietary Funds |
|--|--|--|---|
| Scope | Entire City government (except fiduciary funds) and the City's component units | The activities of the City that are not proprietary or fiduciary, such as police, fire and parks | Activities the City operates similar to private businesses, such as the water and sewer system |
| Required financial statements | <ul style="list-style-type: none"> Statement of Net Position Statement of Activities | <ul style="list-style-type: none"> Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances | <ul style="list-style-type: none"> Statements of Net Position and Changes in Fund Net Position Statements of Cash Flows |
| Accounting Basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term |
| Type of deferred outflows/inflows of resources information | All deferred outflows/inflows of resources, regardless of when cash is received or paid | Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included | All deferred outflows/inflows of resources, regardless of when cash is received or paid |
| Type of in flow/out flow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid |

Management's Discussion and Analysis

As management of the City of Lauderdale, Minnesota (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2016.

Financial Highlights

- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$9,576,175 (*net position*). Of this amount, \$2,868,735 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$72,225.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,938,010 a decrease of \$265,861 in comparison with the prior year. Approximately 36.7 percent of this total amount, \$710,624, is unassigned fund balance.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$799,931, or 61.5 percent of 2016 budgeted expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, sanitation and recycling, culture and recreation, miscellaneous and interest on bonds.

The government-wide financial statements start on page 25 of this report.

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

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

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

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Debt Service fund, Street Improvement fund, Park Improvement fund and the General Capital Improvement fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

The City adopts an annual appropriated budget for its General fund and certain special revenue funds. A budgetary comparison statement has been provided for the General fund and certain special revenue funds to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 30 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements start on page 38 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 41 of this report.

Other information. The combining and individual fund financial statements and schedules are presented following the notes to the financial statements and start on page 64 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,576,175 at the close of the most recent fiscal year.

The largest portion of the City's net position (69.7 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lauderdale's Summary of Net Position

| | Governmental Activities | | Business-type Activities | | Increase (Decrease) |
|---|-------------------------|--------------|--------------------------|--------------|------------------------|
| | 2016 | 2015 | 2016 | 2015 | |
| Assets | | | | | |
| Current and other assets | \$ 1,976,903 | \$ 2,237,901 | \$ (260,998) | \$ 1,352,040 | \$ 15,071 |
| Capital assets | 5,005,958 | 4,875,632 | 130,326 | 1,577,640 | 89,893 |
| Total assets | 6,982,861 | 7,113,533 | (130,672) | 2,929,680 | 104,964 |
| Deferred outflows of resources | | | | | |
| Deferred pension resources | 120,431 | 26,105 | 94,326 | 38,378 | 30,874 |
| Liabilities | | | | | |
| Long-term liabilities outstanding | 379,699 | 262,688 | 117,011 | 71,273 | 45,729 |
| Other liabilities | 25,082 | 22,316 | 2,766 | 21,096 | 20,435 |
| Total liabilities | 404,781 | 285,004 | 119,777 | 138,098 | 66,164 |
| Deferred inflows of resources | | | | | |
| Deferred pension resources | 43,423 | 55,524 | (12,101) | 13,837 | (2,123) |
| Net Position | | | | | |
| Investment in capital assets | 5,005,958 | 4,875,632 | 130,326 | 1,667,533 | 89,893 |
| Restricted | 33,949 | 60,098 | (26,149) | - | - |
| Unrestricted | 1,615,181 | 1,863,380 | (248,199) | 1,253,554 | (18,096) |
| Total net position | \$ 6,655,088 | \$ 6,799,110 | \$ (144,022) | \$ 2,921,087 | \$ 71,797 |
| The remaining balance of <i>unrestricted net position</i> (\$2,868,735) may be used to meet the City's ongoing obligations to citizens and creditors. | | | | | |

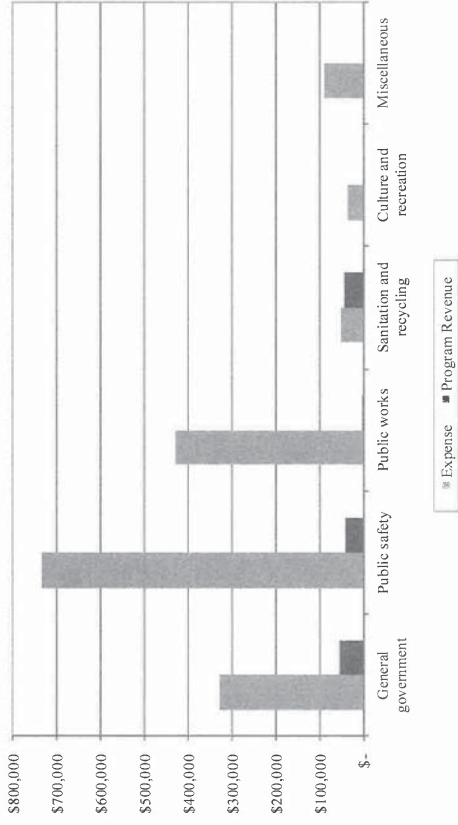
At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental activities decreased the City's net position by \$144,022 and business-type increased the City's net position by \$71,797. Key elements of the increase/decrease are as follows:

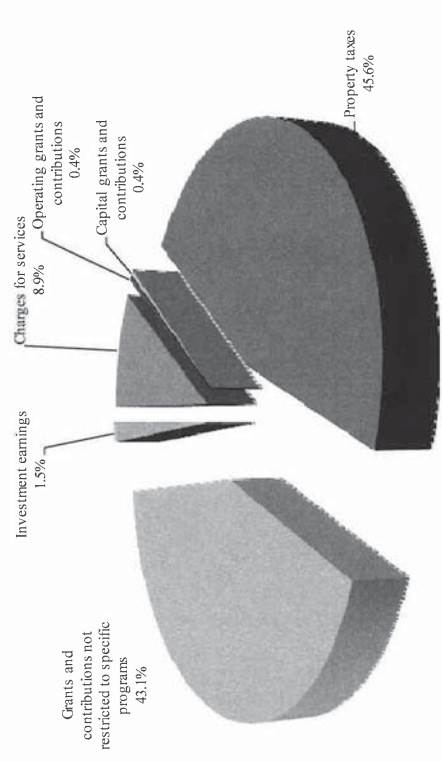
City of Lauderdale's Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Increase (Decrease) |
|--|-------------------------|---------------------|--------------------------|---------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 | |
| Revenues | | | | | |
| Program revenues | \$ 138,458 | \$ 146,621 | \$ (8,163) | \$ 364,008 | \$ 12,816 |
| Charges for services and contributions | 6,046 | 47,160 | (41,114) | 29,258 | 29,258 |
| Capital grants and contributions | 5,475 | 76,719 | (71,244) | - | - |
| General revenues | 698,214 | 602,933 | 95,281 | - | - |
| Property taxes | 659,609 | 537,974 | 121,635 | - | - |
| Grants and contributions not restricted to specific programs | 22,880 | 9,651 | 13,229 | 17,679 | 10,560 |
| Investment earnings | - | - | - | 7,119 | 7,119 |
| Total revenues | 1,530,682 | 1,421,058 | 109,624 | 423,761 | 52,634 |
| Expenses | | | | | |
| General government | 329,938 | 344,109 | (14,171) | - | - |
| Public safety | 734,977 | 679,462 | 55,515 | - | - |
| Public works | 428,150 | 204,529 | 223,621 | - | - |
| Sanitation and recycling | 54,391 | 86,006 | (31,615) | - | - |
| Culture and recreation | 36,757 | 135,163 | (98,406) | - | - |
| Miscellaneous | 90,491 | 1,292 | 89,199 | - | - |
| Debt service | - | 315 | (315) | - | - |
| Sewer | - | - | - | 276,354 | 1,170 |
| Storm Sewer | - | - | - | 75,410 | 7,956 |
| Total expenses | 1,674,704 | 1,450,876 | 223,828 | 342,838 | 9,126 |
| Change in net position | (144,022) | (29,818) | (114,204) | 71,797 | 43,508 |
| Net position, January 1 | 6,799,110 | 6,828,928 | (29,818) | 2,849,290 | 28,289 |
| Net position, December 31 | \$ 6,655,088 | \$ 6,799,110 | \$ (144,022) | \$ 2,921,087 | \$ 71,797 |

Overall, the financial position of governmental activities remained relatively close to the prior year. Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Business-type activities. Business-type activities increased the City's net position by \$71,797.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. **Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,938,010, a decrease of \$265,861 in comparison with the prior year. Approximately 36.7 percent of this total amount (\$710,624) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund is *nonspendable* (\$2,283), *restricted* (\$33,949), *committed* (\$109,377), or *assigned* (\$1,081,777).

The *General fund* is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the General fund was \$799,931. As a measure of the General fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 64.4 percent of total General fund expenditures and 61.5 percent of the 2017 budget.

The fund balance of the City's General fund increased by \$20,647 during the current fiscal year.

The *Street Improvement* fund has a total fund balance of \$431,091, a decrease of \$173,740 from the previous year.

The *Park Improvement* fund has a total fund balance of \$280,145, a decrease of \$3,794 from the previous year.

The *General Capital Improvement* fund has a total fund balance of \$104,205, a decrease of \$140,218 from the previous year.

Proprietary funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

The *Sewer* fund unrestricted net position of the Sewer operation amounted to \$946,911. The total increase in net position for the fund was \$43,889.

The *Storm Sewer* fund unrestricted net position amounted to \$306,643. The total increase in net position for the fund was \$27,908.

The factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The original budget was not amended during the 2016 fiscal year. Revenues were more than budgetary estimates by \$38,515 and expenditures were less than budgetary estimates by \$20,589. As a result the City experienced an overall favorable budget variance.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$6,673,491, (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 3.4 percent (a 2.7 percent increase for governmental activities and a 5.7 percent increase for business-type activities).

Major capital asset events during the year included the purchase of 1821 Euclid Street and the purchase of a 2016 Ford F350 truck.

**City of Lauderdale's Capital Assets
(net of depreciation)**

Additional information on the City's capital assets can be found in Note 3B starting on page 51 of this report.

| | Governmental Activities | | Business-type Activities | |
|-----------------------------------|-------------------------|--------------|--------------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Land | \$ 415,849 | \$ 208,740 | \$ 207,109 | \$ - |
| Buildings | 35,920 | 8,602 | 27,318 | - |
| Improvements other than buildings | 118,442 | 135,573 | (17,131) | - |
| Machinery and equipment | 140,957 | 113,716 | 27,241 | 7,333 |
| Construction in progress | - | - | - | 129,661 |
| Infrastructure | 4,294,790 | 4,409,001 | (114,211) | 1,569,307 |
| Total | \$ 5,005,958 | \$ 4,875,632 | \$ 130,326 | \$ 1,577,640 |

Long-term debt. At the end of the current fiscal year, the City had no bonded debt outstanding.

City of Lauderdale's Outstanding Debt

| | Governmental Activities | | Business Activities | |
|-----------------------|-------------------------|------------|---------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Compensated absences | \$ 47,202 | \$ 45,317 | \$ 1,885 | \$ 11,044 |
| Net pension liability | 332,497 | 217,371 | 115,126 | 105,958 |
| Total | \$ 379,699 | \$ 262,688 | \$ 117,011 | \$ 71,273 |

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$4,986,201 (3 percent of the market value of \$166,206,700). The City currently has no outstanding general obligation debt. Long-term debt issued and financed partially or entirely by special assessments, tax increments or the net revenues of enterprise fund operations is excluded from the debt limit computation. The City has no debt which is applied against the statutory debt limit.

Economic Factors and Next Year's Budgets and Rates

- The City plans to clear the 1821 Eustis Street property and prep for redevelopment.
- The City plans to pave the unimproved, dead-end alleys.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, Heather Butkowski, City of Lauderdale, 1891 Walnut Street, Lauderdale, MN 55113.

CITY OF LAUDERDALE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| ASSETS | | | |
| Cash and temporary investments | \$ 1,930,780 | \$ 1,313,478 | \$ 3,244,258 |
| Receivables | | | |
| Accounts | 5,695 | 53,633 | 59,328 |
| Delinquent taxes | 16,111 | - | 16,111 |
| Interest | 13,917 | - | 13,917 |
| Special assessments | 6,690 | - | 6,690 |
| Due from other governments | 1,427 | - | 1,427 |
| Prepaid items | 2,283 | - | 2,283 |
| Capital assets | | | |
| Land and construction in progress | 415,849 | 129,661 | 545,510 |
| Depreciable buildings, property and equipment, net | 4,590,109 | 1,537,872 | 6,127,981 |
| TOTAL ASSETS | 6,982,861 | 3,034,644 | 10,017,505 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred pension resources | 120,431 | 38,378 | 158,809 |
| LIABILITIES | | | |
| Accounts payable | 15,551 | 21,063 | 36,614 |
| Due to other governments | 9,531 | 33 | 9,564 |
| Current liabilities - due within one year | | - | |
| Compensated absences payable | 22,666 | 11,044 | 33,710 |
| Noncurrent liabilities - due in more than one year | | | |
| Compensated absences payable | 24,536 | - | 24,536 |
| Net pension liability | 332,497 | 105,958 | 438,455 |
| TOTAL LIABILITIES | 404,781 | 138,098 | 542,879 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred pension resources | 43,423 | 13,837 | 57,260 |
| NET POSITION | | | |
| Investment in capital assets | 5,005,958 | 1,667,533 | 6,673,491 |
| Restricted for tax increment financing | 33,949 | - | 33,949 |
| Unrestricted | 1,615,181 | 1,253,554 | 2,868,735 |
| TOTAL NET POSITION | \$ 6,655,088 | \$ 2,921,087 | \$ 9,576,175 |

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

CITY OF LAUDERDALE, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------|---------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental activities | | | | |
| Current | | | | |
| General government | \$ 329,938 | \$ 56,363 | \$ - | \$ - |
| Public safety | 734,977 | 42,828 | - | - |
| Public works | 428,150 | - | - | 5,475 |
| Sanitation and recycling | 54,391 | 38,558 | 6,046 | - |
| Culture and recreation | 36,757 | 709 | - | - |
| Economic development | 90,491 | - | - | - |
| Total governmental activities | <u>1,674,704</u> | <u>138,458</u> | <u>6,046</u> | <u>5,475</u> |
| Business-type activities | | | | |
| Sewer | 276,554 | 278,140 | 29,063 | - |
| Storm sewer | 75,410 | 98,684 | 195 | - |
| Total business-type activities | <u>351,964</u> | <u>376,824</u> | <u>29,258</u> | <u>-</u> |
| Total | <u>\$ 2,026,668</u> | <u>\$ 515,282</u> | <u>\$ 35,304</u> | <u>\$ 5,475</u> |

General revenues

 Taxes

 Property taxes, levied for general purposes

 Franchise tax

 Grants and contributions not restricted to specific programs

 Investment earnings

 Total general revenues

Change in net position

Net position, January 1

Net position, December 31

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

Net (Expense) Revenue and Changes in Net Position

| <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|---------------------|
| \$ (273,575) | \$ - | \$ (273,575) |
| (692,149) | - | (692,149) |
| (422,675) | - | (422,675) |
| (9,787) | - | (9,787) |
| (36,048) | - | (36,048) |
| (90,491) | - | (90,491) |
| <u>(1,524,725)</u> | <u>-</u> | <u>(1,524,725)</u> |
| - | 30,649 | 30,649 |
| - | 23,469 | 23,469 |
| - | 54,118 | 54,118 |
| <u>(1,524,725)</u> | <u>54,118</u> | <u>(1,470,607)</u> |
| 676,494 | - | 676,494 |
| 21,720 | - | 21,720 |
| 659,609 | - | 659,609 |
| 22,880 | 17,679 | 40,559 |
| <u>1,380,703</u> | <u>17,679</u> | <u>1,398,382</u> |
| (144,022) | 71,797 | (72,225) |
| <u>6,799,110</u> | <u>2,849,290</u> | <u>9,648,400</u> |
| <u>\$ 6,655,088</u> | <u>\$ 2,921,087</u> | <u>\$ 9,576,175</u> |

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

CITY OF LAUDERDALE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

| | Capital Projects | | | |
|---|--------------------------|--------------------------|--------------------------|-----------------------------------|
| | General | Street Improvement | Park Improvement | General Capital Improvement |
| ASSETS | | | | |
| Cash and temporary investments | \$ 793,319 | \$ 431,091 | \$ 280,145 | \$ 108,707 |
| Receivables | | | | |
| Accounts | - | - | - | - |
| Delinquent taxes | 16,111 | - | - | - |
| Interest | 13,917 | - | - | - |
| Special assessments | 6,690 | - | - | - |
| Due from other funds | - | - | - | - |
| Due from other governments | 1,427 | - | - | - |
| Prepaid items | 1,683 | - | - | - |
| TOTAL ASSETS | <u>\$ 833,147</u> | <u>\$ 431,091</u> | <u>\$ 280,145</u> | <u>\$ 108,707</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 8,191 | \$ - | \$ - | \$ 4,502 |
| Due to other funds | - | - | - | - |
| Due to other governments | 9,531 | - | - | - |
| TOTAL LIABILITIES | <u>17,722</u> | <u>-</u> | <u>-</u> | <u>4,502</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | 7,121 | - | - | - |
| Unavailable revenue - special assessments | 6,690 | - | - | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>13,811</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES | | | | |
| Nonspendable | 1,683 | - | - | - |
| Restricted | - | - | - | - |
| Committed | - | - | - | - |
| Assigned | - | 431,091 | 280,145 | 104,205 |
| Unassigned | 799,931 | - | - | - |
| TOTAL FUND BALANCES | <u>801,614</u> | <u>431,091</u> | <u>280,145</u> | <u>104,205</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 833,147</u> | <u>\$ 431,091</u> | <u>\$ 280,145</u> | <u>\$ 108,707</u> |

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

| <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---|
| \$ 317,518 | \$ 1,930,780 |
| 5,695 | 5,695 |
| - | 16,111 |
| - | 13,917 |
| - | 6,690 |
| 89,307 | 89,307 |
| - | 1,427 |
| <u>600</u> | <u>2,283</u> |
| <u>\$ 413,120</u> | <u>\$ 2,066,210</u> |
| \$ 2,858 | \$ 15,551 |
| 89,307 | 89,307 |
| <u>-</u> | <u>9,531</u> |
| <u>92,165</u> | <u>114,389</u> |
| - | 7,121 |
| <u>-</u> | <u>6,690</u> |
| <u>-</u> | <u>13,811</u> |
| 600 | 2,283 |
| 33,949 | 33,949 |
| 109,377 | 109,377 |
| 266,336 | 1,081,777 |
| <u>(89,307)</u> | <u>710,624</u> |
| <u>320,955</u> | <u>1,938,010</u> |
| <u>\$ 413,120</u> | <u>\$ 2,066,210</u> |

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

CITY OF LAUDERDALE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

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

| | |
|---|--------------|
| Total fund balances - governmental funds | \$ 1,938,010 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental fund. | |
| Cost of capital assets | 6,945,789 |
| Less: accumulated depreciation | (1,939,831) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. | |
| Long-term liabilities at year-end consist of | |
| Compensated absences payable | (47,202) |
| Pension liability | (332,497) |
| Delinquent property taxes receivable are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflow of resources in the funds. | |
| | 7,121 |
| Special assessments receivable are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflow of resources in the funds. | |
| | 6,690 |
| Governmental funds do not report long-term amounts related to pensions. | |
| Deferred outflows of pension resources | 120,431 |
| Deferred inflows of pension resources | (43,423) |
| | (43,423) |
| Total net position - governmental activities | \$ 6,655,088 |

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

CITY OF LAUDERDALE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Capital Projects | | | |
|--|-------------------|-----------------------|---------------------|-----------------------------------|
| | General | Street Improvement | Park Improvement | General Capital Improvement |
| REVENUES | | | | |
| Taxes | \$ 678,065 | \$ - | \$ - | \$ - |
| Licenses and permits | 47,772 | - | - | - |
| Intergovernmental | 538,700 | - | - | - |
| Charges for services | 15,040 | - | - | - |
| Fines and forfeitures | 35,779 | - | - | - |
| Special assessments | 1,807 | - | - | - |
| Interest on investments | 8,537 | 6,417 | 3,794 | 771 |
| Miscellaneous | 14,426 | 135 | - | 5 |
| TOTAL REVENUES | 1,340,126 | 6,552 | 3,794 | 776 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 333,868 | - | - | 31,828 |
| Public safety | 734,977 | - | - | - |
| Public works | 98,068 | - | - | 158,821 |
| Sanitation and recycling | - | - | - | - |
| Culture and recreation | 76,109 | - | - | - |
| Capital outlay | - | 180,292 | - | - |
| TOTAL EXPENDITURES | 1,243,022 | 180,292 | - | 190,649 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 97,104 | (173,740) | 3,794 | (189,873) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 11,198 | - | - | 49,655 |
| Transfers out | (87,655) | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (76,457) | - | - | 49,655 |
| NET CHANGE IN FUND BALANCES | 20,647 | (173,740) | 3,794 | (140,218) |
| FUND BALANCES, JANUARY 1 | 780,967 | 604,831 | 276,351 | 244,423 |
| FUND BALANCES, DECEMBER 31 | \$ 801,614 | \$ 431,091 | \$ 280,145 | \$ 104,205 |

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

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 21,720 | \$ 699,785 |
| - | 47,772 |
| 6,046 | 544,746 |
| 38,558 | 53,598 |
| - | 35,779 |
| - | 1,807 |
| 3,361 | 22,880 |
| <u>106,350</u> | <u>120,916</u> |
| <u>176,035</u> | <u>1,527,283</u> |
| - | 365,696 |
| - | 734,977 |
| - | 256,889 |
| 50,800 | 50,800 |
| 17,023 | 93,132 |
| <u>111,358</u> | <u>291,650</u> |
| <u>179,181</u> | <u>1,793,144</u> |
| <u>(3,146)</u> | <u>(265,861)</u> |
| 38,000 | 98,853 |
| <u>(11,198)</u> | <u>(98,853)</u> |
| <u>26,802</u> | <u>-</u> |
| 23,656 | (265,861) |
| <u>297,299</u> | <u>2,203,871</u> |
| <u>\$ 320,955</u> | <u>\$ 1,938,010</u> |

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

CITY OF LAUDERDALE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

| | |
|--|--------------|
| Total net change in fund balances - governmental funds | \$ (265,861) |
| <p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p> | |
| Capital outlays | 285,995 |
| Depreciation expense | (155,669) |
| <p>Long-term pension activity is not reported in governmental funds.</p> | |
| Pension expense | (6,426) |
| Pension revenue from state contributions | 1,302 |
| <p>Delinquent taxes and special assessment receivables are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflow of resources in the funds.</p> | |
| Special assessments | 3,668 |
| Property taxes | (1,571) |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | |
| Compensated absences | (5,460) |
| Change in net position - governmental activities | \$ (144,022) |

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

CITY OF LAUDERDALE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 676,561 | \$ 676,561 | \$ 678,065 | \$ 1,504 |
| Licenses and permits | 26,100 | 26,100 | 47,772 | 21,672 |
| Intergovernmental | 538,700 | 538,700 | 538,700 | - |
| Charges for services | 12,750 | 12,750 | 15,040 | 2,290 |
| Fines and forfeitures | 45,000 | 45,000 | 35,779 | (9,221) |
| Special assessments | - | - | 1,807 | 1,807 |
| Interest on investments | 1,850 | 1,850 | 8,537 | 6,687 |
| Miscellaneous | 650 | 650 | 14,426 | 13,776 |
| TOTAL REVENUES | 1,301,611 | 1,301,611 | 1,340,126 | 38,515 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 343,562 | 343,562 | 333,868 | 9,694 |
| Public safety | 740,582 | 740,582 | 734,977 | 5,605 |
| Public works | 88,614 | 88,614 | 98,068 | (9,454) |
| Culture and recreation | 70,853 | 70,853 | 76,109 | (5,256) |
| Economic development | 20,000 | 20,000 | - | 20,000 |
| TOTAL EXPENDITURES | 1,263,611 | 1,263,611 | 1,243,022 | 20,589 |
| EXCESS OF REVENUES OVER EXPENDITURES | 38,000 | 38,000 | 97,104 | 59,104 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | 11,198 | 11,198 |
| Transfers out | (38,000) | (38,000) | (87,655) | (49,655) |
| TOTAL OTHER FINANCING SOURCES (USES) | (38,000) | (38,000) | (76,457) | (38,457) |
| NET CHANGE IN FUND BALANCES | - | - | 20,647 | 20,647 |
| FUND BALANCES, JANUARY 1 | 780,967 | 780,967 | 780,967 | - |
| FUND BALANCES, DECEMBER 31 | \$ 780,967 | \$ 780,967 | \$ 801,614 | \$ 20,647 |

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

CITY OF LAUDERDALE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

| | Business-type Activities | | |
|---------------------------------------|--------------------------|-------------------|---------------------|
| | Sewer | Storm Sewer | Total |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and temporary investments | \$ 979,498 | \$ 333,980 | \$ 1,313,478 |
| Accounts receivable | 36,767 | 16,866 | 53,633 |
| TOTAL CURRENT ASSETS | 1,016,265 | 350,846 | 1,367,111 |
| NONCURRENT ASSETS | | | |
| Capital assets | | | |
| Construction in progress | 129,661 | - | 129,661 |
| Machinery and equipment | 15,000 | - | 15,000 |
| Infrastructure | 1,938,391 | - | 1,938,391 |
| Less accumulated depreciation | (415,519) | - | (415,519) |
| TOTAL NONCURRENT ASSETS | 1,667,533 | - | 1,667,533 |
| TOTAL ASSETS | 2,683,798 | 350,846 | 3,034,644 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred pensions resources | 20,360 | 18,018 | 38,378 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | 20,602 | 461 | 21,063 |
| Due to other governments | 33 | - | 33 |
| Compensated absences payable | 5,527 | 5,517 | 11,044 |
| TOTAL CURRENT LIABILITIES | 26,162 | 5,978 | 32,140 |
| NONCURRENT LIABILITIES | | | |
| Pension liability | 56,211 | 49,747 | 105,958 |
| TOTAL LIABILITIES | 82,373 | 55,725 | 138,098 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred pension resources | 7,341 | 6,496 | 13,837 |
| NET POSITION | | | |
| Investment in capital assets | 1,667,533 | - | 1,667,533 |
| Unrestricted | 946,911 | 306,643 | 1,253,554 |
| TOTAL NET POSITION | \$ 2,614,444 | \$ 306,643 | \$ 2,921,087 |

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

CITY OF LAUDERDALE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Business-type Activities | | |
|----------------------------|--------------------------|-------------------|---------------------|
| | Sewer | Storm Sewer | Total |
| OPERATING REVENUES | | | |
| Charges for services | \$ 278,140 | \$ 98,684 | \$ 376,824 |
| Other | 29,063 | 195 | 29,258 |
| TOTAL OPERATING REVENUES | <u>307,203</u> | <u>98,879</u> | <u>406,082</u> |
| OPERATING EXPENSES | | | |
| Personal services | 63,640 | 59,585 | 123,225 |
| Supplies | 6,991 | 409 | 7,400 |
| Other services and charges | 160,831 | 15,416 | 176,247 |
| Repair and maintenance | 5,324 | - | 5,324 |
| Depreciation | 39,768 | - | 39,768 |
| TOTAL OPERATING EXPENSES | <u>276,554</u> | <u>75,410</u> | <u>351,964</u> |
| OPERATING INCOME | 30,649 | 23,469 | 54,118 |
| NONOPERATING REVENUES | | | |
| Interest income | 13,240 | 4,439 | 17,679 |
| CHANGE IN NET POSITION | 43,889 | 27,908 | 71,797 |
| NET POSITION, JANUARY 1 | <u>2,570,555</u> | <u>278,735</u> | <u>2,849,290</u> |
| NET POSITION, DECEMBER 31 | <u>\$ 2,614,444</u> | <u>\$ 306,643</u> | <u>\$ 2,921,087</u> |

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

CITY OF LAUDERDALE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Business-type Activities | | |
|---|--------------------------|-------------------|---------------------|
| | Sewer | Storm Sewer | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from tenants and users | \$ 310,987 | \$ 98,068 | \$ 409,055 |
| Payments to suppliers | (161,316) | (15,674) | (176,990) |
| Payments to employees | (55,628) | (54,865) | (110,493) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>94,043</u> | <u>27,529</u> | <u>121,572</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition of capital assets | (109,605) | - | (109,605) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest on investments | 13,240 | 4,439 | 17,679 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (2,322) | 31,968 | 29,646 |
| CASH AND CASH EQUIVALENTS, JANUARY 1 | <u>981,820</u> | <u>302,012</u> | <u>1,283,832</u> |
| CASH AND CASH EQUIVALENTS, DECEMBER 31 | <u>\$ 979,498</u> | <u>\$ 333,980</u> | <u>\$ 1,313,478</u> |
| RECONCILIATION OF OPERATING INCOME | | | |
| TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| Operating income | \$ 30,649 | \$ 23,469 | \$ 54,118 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | | |
| Depreciation | 39,768 | - | 39,768 |
| Increase (decrease) in assets/deferred outflows | | | |
| Accounts receivable | 3,784 | (811) | 2,973 |
| Prepaid items | 11,602 | - | 11,602 |
| Deferred pension resources | (16,464) | (14,410) | (30,874) |
| Increase (decrease) in liabilities/deferred inflows | | | |
| Accounts payable | 195 | 151 | 346 |
| Salaries payable | - | - | - |
| Due to other governments payable | 33 | - | 33 |
| Compensated absences payable | 1,650 | 606 | 2,256 |
| Net pension liability | 23,771 | 19,702 | 43,473 |
| Deferred pension resources | (945) | (1,178) | (2,123) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 94,043</u> | <u>\$ 27,529</u> | <u>\$ 121,572</u> |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Capital assets purchased on account | <u>\$ 20,056</u> | <u>\$ -</u> | <u>\$ -</u> |

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Lauderdale, Minnesota (the City), operates under the "Optional Plan A" form of government as defined in the State of Minnesota statutes. Under this plan, the government of the City is directed by a City Council composed of an elected Mayor and four elected City Council members. 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 City 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. 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 nonfundary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. Measurement focus, basis of accounting, and financial statement presentation

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

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. 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. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports 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 *Street Improvement fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *Park Improvement fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *General Capital Improvement fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The City reports the following major proprietary funds:

The *Sewer fund* accounts for the costs associated with the City's sanitary sewer system and to ensure that user charges are sufficient to pay for those costs.

The *Storm Sewer fund* accounts for the costs of the City's storm sewer system, which are financed by the storm sewer surcharge, and to ensure that the user charges are sufficient to pay of those costs.

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

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 City's enterprise fund are charges to customers for sales and services. 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.

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, deferred outflows of resources, liabilities, deferred outflows/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 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 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 "A" 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 same regulatory rules of the SEC under rule 2a7. The City's investment in this trust is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property taxes

The City Council annually adopts a tax levy in December and certifies it to the County for collection 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 each year.

In the fund financial statements, taxes that remain unpaid at December 31 are classified as delinquent taxes receivable and are fully offset by deferred inflow of resources, because they are not known to be available to finance current expenditures. Delinquent taxes receivable include the past six years' uncollected taxes. The billings are considered past due 60 days after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed.

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2016. The City annually certifies delinquent sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. In the fund financial statements, special assessments that remain unpaid at December 31 are classified as delinquent special assessments receivable. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtracking (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these capital assets at the estimated fair value of the item at the date of its donation.

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

| Assets | Useful Lives in Years |
|-----------------------------------|--------------------------|
| Buildings and improvements | 7 - 40 |
| Improvements other than buildings | 15 - 40 |
| Machinery and equipment | 3 - 20 |
| Infrastructure | 25 - 50 |

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 statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Pensions

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

Compensated absences

The City's policy allows the carryover of unused vacation leave to the next calendar year. Unused vacation and sick leave is accrued in the fund from which it is expected to be liquidated. Half of the sick leave balance is paid. Unused sick leave earned is not payable upon separation from the City unless the employee has been employed by the City for ten or more years. Three employees meet the ten year requirement at year end. The General fund is typically used to liquidate governmental compensated absences payable.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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 fund types recognized 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 expenditures.

Deferred inflows of resources

In addition to liabilities, the statement of financial position 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 government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

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 Administrator.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 expenditures 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 an amount not less than 45 percent of budgeted expenditures of the General fund for cash-flow timing needs.

Net position

In the government-wide financial statements, net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. 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 balances 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 balances that do not meet the definition of "restricted" or "net investment in capital assets".

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund and special revenue funds. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In early summer of each year, the City Administrator works with staff to prepare a draft budget that identifies spending priorities. The City Administrator presents to the Council in August for review and discussion. The preliminary levy is established by the Council in September. The City Council holds a public hearing and the final budget and levy is 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 Administrator. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the City Council. There were no budget amendments in 2016.

B. Excess of expenditures over appropriations

For the year ended December 31, 2016 expenditures exceeded appropriations in the following fund:

| Fund | Budget | Actual | Excess of Expenditures Over Appropriations |
|----------------|-----------|-----------|--|
| Communications | \$ 16,197 | \$ 17,023 | \$ 826 |

The excess expenditures were funded by revenues in excess of expectations.

Note 3: DETAILED NOTES ON ALL FUNDS

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 \$261,370 and the bank balance was \$278,046. The bank balance was covered by federal depository insurance and collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF LAUDERDALE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

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

| Type of Investment | Credit Quality/ Ratings (1) | Segmented Time Distribution (2) | Amount | Fair Value Measurement Using | | |
|--|--------------------------------|---------------------------------|--------------------|------------------------------|--------------------|-------------|
| | | | | Level 1 | Level 2 | Level 3 |
| Pooled Investments at amortized costs | | | | | | |
| Broker Money Market | N/A | less than 6 months | \$ 13,422 | \$ - | \$ - | \$ - |
| 4M Fund | P1 | less than 6 months | 466,924 | - | - | - |
| 4M Plus Fund | P1 | less than 6 months | 454,141 | - | - | - |
| Non Pooled Investments at fair value | | | | | | |
| Negotiable Certificates of Deposits | N/A | less than 6 months | 400,000 | - | 400,000 | - |
| Negotiable Certificates of Deposits | N/A | 6 months to 1 year | 100,000 | - | 100,000 | - |
| Negotiable Certificates of Deposits | N/A | 1 to 3 years | 1,200,000 | - | 1,200,000 | - |
| Negotiable Certificates of Deposits | N/A | over 3 years | 348,000 | - | 348,000 | - |
| Total investments | | | \$2,982,488 | \$ - | \$2,048,000 | \$ - |

- (1) Ratings provided by Moody's credit rating agency.
- (2) Interest rate risk is disclosed using the segmented time distribution method.
 N/A Indicated not applicable or available.

Investment policy

It is the policy of the City to invest public funds in a manner, which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City in accordance with all Minnesota and local statutes governing the investment of public funds.

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 and the City's investment policy limit the City's investments.
- **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. The City's investment policy specifically addresses custodial credit risk by limiting the amount that the City may invest in any one financial institution.
- **Concentration of Credit Risk.** The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy limits investments in any one investment company to a maximum of 60 percent of the investment portfolio or \$2,000,000 (whichever is less).
- **Interest Rate Risk.** The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of its investment portfolio to less than ten years.

CITY OF LAUDERDALE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Cash and investments summary

A reconciliation of cash and temporary investments as shown on the statement of net position for the City follows:

| | | |
|---|---------------------|------------------------|
| Carrying amount of deposits | \$ 261,370 | Total Reporting Entity |
| Investments | 2,982,488 | |
| Cash on hand | 400 | |
| Total cash and temporary investments | \$ 3,244,258 | |

CITY OF LAUDERDALE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

B. Capital assets

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|-------------------|------------|-----------|----------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 208,740 | \$ 202,607 | \$ - | \$ 411,347 |
| Construction in progress | - | 4,502 | - | 4,502 |
| Total capital assets not being depreciated | 208,740 | 207,109 | - | 415,849 |
| Capital assets, being depreciated | | | | |
| Buildings | 199,850 | 30,500 | - | 230,350 |
| Improvements other than buildings | 282,535 | - | - | 282,535 |
| Machinery and equipment | 285,142 | 48,386 | (27,038) | 306,490 |
| Infrastructure | 5,710,565 | - | - | 5,710,565 |
| Total capital assets being depreciated | 6,478,092 | 78,886 | (27,038) | 6,529,940 |
| Less accumulated depreciation for | | | | |
| Buildings | (191,248) | (3,182) | - | (194,430) |
| Improvements other than buildings | (146,962) | (17,131) | - | (164,093) |
| Machinery and equipment | (171,426) | (21,145) | 27,038 | (165,533) |
| Infrastructure | (1,301,564) | (114,211) | - | (1,415,775) |
| Total accumulated depreciation | (1,811,200) | (155,669) | 27,038 | (1,939,831) |
| Total capital assets being depreciated, net | 4,666,892 | (76,783) | - | 4,590,109 |
| Governmental activities capital assets, net | \$ 4,875,632 | \$ 130,326 | \$ - | \$ 5,005,958 |

CITY OF LAUDERDALE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Business-type activities

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-------------------|------------|---------------|----------------------|
| Capital assets not being depreciated | | | | |
| Construction in progress | \$ - | \$ 129,661 | \$ - | \$ 129,661 |
| Capital assets being depreciated | | | | |
| Infrastructure | 1,938,391 | - | - | 1,938,391 |
| Machinery and equipment | 15,000 | - | - | 15,000 |
| Total capital assets being depreciated | 1,953,391 | - | - | 1,953,391 |
| Less accumulated depreciation for | | | | |
| Infrastructure | (369,084) | (38,768) | - | (407,852) |
| Machinery and equipment | (6,667) | (1,000) | - | (7,667) |
| Total accumulated depreciation | (375,751) | (39,768) | - | (415,519) |
| Total capital assets being depreciated, net | 1,577,640 | (39,768) | - | 1,537,872 |
| Business-type activities capital assets, net | \$ 1,577,640 | \$ 89,893 | \$ - | \$ 1,667,533 |
| Depreciation expense was charged to functions/programs of the City as follows: | | | | |
| Governmental activities | | | | |
| General government | | | | \$ 3,751 |
| Public works | | | | 126,589 |
| Culture and recreation | | | | 24,145 |
| Miscellaneous | | | | 1,184 |
| Total depreciation expense - governmental activities | | | | \$ 155,669 |
| Business-type activities | | | | |
| Sewer | | | | \$ 39,768 |
| Construction commitments | | | | |
| Project name | | | Spent to date | Remaining Commitment |
| 2016 Sewer Lining Project | | | \$ 112,698 | \$ 3,187 |

The City has active construction projects as of December 31, 2016. At year end the City's commitments with contractors are as follows:

| Project name | Spent to date | Remaining Commitment |
|---------------------------|---------------|----------------------|
| 2016 Sewer Lining Project | \$ 112,698 | \$ 3,187 |

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Interfund receivables, payables and transfers

The composition of interfund balances as of December 31, 2016 is a \$89,307 interfund balance between other governmental funds to cover project costs.

The composition of interfund transfers as of December 31, 2016, is as follows:

| Fund | Transfer in | | | Total |
|--------------------------|-------------|---------------------|--------------------------|-----------|
| | General | Capital Improvement | Other Governmental Funds | |
| Transfer out | | | | |
| General | \$ - | \$ 49,655 | \$ 38,000 | \$ 87,655 |
| Other governmental funds | 11,198 | - | - | 11,198 |
| Total transfers out | \$ 11,198 | \$ 49,655 | \$ 38,000 | \$ 98,853 |

During the year, transfers are used to 1) move funds from the General fund per the city's fund balance policy and 2) move General fund resources to provide funding for capital activity. Further, during the year ended December 31, 2016, the City made the following one-time transfers:

- 1) A transfer of \$11,198 occurred from the other governmental funds to the General fund to close the Community Events funds.

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|--|-------------------|------------|-------------|----------------|---------------------|
| Governmental activities | | | | | |
| Net pension liability | \$ 217,371 | \$ 142,725 | \$ (27,599) | \$ 332,497 | \$ - |
| GERF | 45,317 | 24,551 | (22,666) | 47,202 | 22,666 |
| Compensated absences payable | | | | | |
| Governmental activity long-term liabilities | \$ 262,688 | \$ 167,276 | \$ (50,265) | \$ 379,699 | \$ 22,666 |
| Business-type activities | | | | | |
| Net pension liability | \$ 62,485 | \$ 49,090 | \$ (5,617) | \$ 105,958 | \$ - |
| GERF | 8,788 | 13,300 | (11,044) | 11,044 | 11,044 |
| Compensated absences payable | | | | | |
| Business-type activity long-term liabilities | \$ 71,273 | \$ 62,390 | \$ (16,661) | \$ 117,002 | \$ 11,044 |

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Components of fund balance

At December 31, 2016, portions of the City's fund balance are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted), City Council action (Committed), policy and/or inent (Assigned). The following is a summary of the components of fund balance:

| Fund | Purpose | Amount |
|------------------------------------|-------------------|--------------|
| Fund balance - Unassigned | | |
| General | | \$ 799,931 |
| Housing Redevelopment | | (89,307) |
| Total fund balance - unassigned | | 710,624 |
| Fund balance - Nonspendable | | |
| General | Prepaid items | 1,683 |
| Communications | Prepaid items | 600 |
| Total fund balance - Nonspendable | | 2,283 |
| Fund balance - Restricted | | |
| Rosehill tax increments | Tax increments | 33,949 |
| Fund balance - Committed | | |
| Communications | Cable access | 8,651 |
| Recycling | Recycling | 100,726 |
| Total fund balance - Committed | | 109,377 |
| Fund balance - Assigned | | |
| Capital improvement - streets | Street capital | 431,091 |
| General capital improvement | Capital purchases | 104,205 |
| Development | Development | 266,336 |
| Park improvement | Park capital | 280,145 |
| Total fund balance - Assigned | | 1,081,777 |
| Total fund balance | | \$ 1,938,010 |

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 6.50 percent, respectively, of their annual covered salary in calendar year 2016. 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 2016. The City's contributions to the GERF for the years ending December 31, 2016, 2015 and 2014 were \$25,156, \$23,836 and \$24,372, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

D. Pension costs

GERF pension costs

At December 31, 2016, the City reported a liability of \$438,455 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 \$5,757. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0054 percent which was the same as its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$44,742 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$1,717 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, 2016, 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:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 1,490 | \$ 35,617 |
| Changes in actuarial assumptions | - | - |
| Net difference between projected and actual earnings on plan investments | 48,951 | 21,643 |
| Changes in proportion | 94,372 | - |
| Contributions to GERF subsequent to the measurement date | 13,996 | - |
| Total | \$ 158,809 | \$ 57,260 |

Deferred outflows of resources totaling \$13,996 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

| | |
|------|-----------|
| 2017 | \$ 19,694 |
| 2018 | 9,682 |
| 2019 | 42,341 |
| 2020 | 15,836 |

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

E. Actuarial assumptions

The total pension liability in the June 30, 2016 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 disability rates were based on RP-2014 tables for the GERF for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the GERF.

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

The following changes in actuarial assumptions occurred in 2016:

GERF

- 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.

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 | 45.00 % | 5.50 % |
| International stocks | 15.00 | 6.00 |
| Bonds | 18.00 | 1.45 |
| Alternative assets | 20.00 | 6.40 |
| Cash | 2.00 | 0.50 |
| Total | 100.00 % | |

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

F. Discount rate

The discount rate used to measure the total pension liability was 7.5 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF 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%) |
| GERF | \$ 688,374 | \$ 438,455 | \$ 232,381 |

H. Pension plan fiduciary net position

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

CITY OF LAUDERDALE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 6: 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 commercial 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 the 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. An excess coverage insurance policy covers individual claims in excess of \$1,000,000. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Legal debt margin

The City's statutory debt limit is computed as 3.0 percent of the taxable market value of property within the City. Long-term debt issued and financed partially or entirely by special assessments, tax increments or the net revenues of enterprise fund operations is excluded from the debt limit computation. The City has no debt which is applied against the statutory debt limit.

C. Concentrations

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2016 was \$337,502 for LGA. This accounted for 40 percent of General fund revenue.

D. Tax increment financing 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.

Note 7: CONDUIT DEBT OBLIGATIONS

Conduit debt obligations are certain limited-obligation revenue bonds or similar instruments issued for express purpose of providing capital financing for a specific third party. The City has issued revenue bonds to provide funding to private-sector entities for projects deemed to be in public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

As of December 31, 2016 the following issues were outstanding:

| Name | Date of Issue | Original Amount | |
|---------------------------|---------------|-----------------|---------------------|
| | | of Issue | Balance Outstanding |
| Catholic Eldercare | 12/1/2014 | \$ 9,300,000 | \$ 9,066,000 |
| Benedictine Health System | 7/14/2016 | 10,000,000 | 10,000,000 |

CITY OF LAUDERDALE, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2016

Schedule of employer's share of PERA net pension liability - General Employees Retirement Fund

| Fiscal Year Ending | Required Supplementary Information | | | | | | |
|--------------------|---|--|----------------------------|--|--|---------|--------|
| | City's Proportionate Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability (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 | | |
| 06/30/16 | 0.0054 % | \$ 438,455 | \$ 5,757 | \$ 444,212 | \$ 335,413 | 130.7 % | 68.9 % |
| 06/30/15 | 0.0054 | 279,856 | - | 279,856 | 318,761 | 87.8 | 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

| Year Ending | Required Supplementary Information | | | | | |
|-------------|---------------------------------------|---------------------------------------|--|----------------------------|--|--|
| | Statutorily Required Contribution (a) | Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | City's Covered Payroll (c) | Contributions as a Percentage of Covered Payroll (b/c) | |
| 12/31/16 | \$ 25,156 | \$ 25,156 | \$ - | \$ 335,413 | 7.5 % | |
| 12/31/15 | 23,836 | 23,836 | - | 317,813 | 7.5 | |

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

CITY OF LAUDERDALE, MINNESOTA
 NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2016

| | Special Revenue | Capital Projects | Total |
|--|-------------------|-------------------|-------------------|
| ASSETS | | | |
| Cash and temporary investments | \$ 106,540 | \$ 210,978 | \$ 317,518 |
| Receivables | | | |
| Accounts | 5,695 | - | 5,695 |
| Due from other funds | - | 89,307 | 89,307 |
| Prepaid items | 600 | - | 600 |
| TOTAL ASSETS | \$ 112,835 | \$ 300,285 | \$ 413,120 |
| LIABILITIES | | | |
| Accounts payable | \$ 2,858 | \$ - | \$ 2,858 |
| Due to other funds | - | 89,307 | 89,307 |
| TOTAL LIABILITIES | 2,858 | 89,307 | 92,165 |
| FUND BALANCES | | | |
| Nonspendable | 600 | - | 600 |
| Restricted | - | 33,949 | 33,949 |
| Committed | 109,377 | - | 109,377 |
| Assigned | - | 266,336 | 266,336 |
| Unassigned | - | (89,307) | (89,307) |
| TOTAL FUND BALANCES | 109,977 | 210,978 | 320,955 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 112,835 | \$ 300,285 | \$ 413,120 |

CITY OF LAUDERDALE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Special Revenue | Capital Projects | Total Nonmajor Governmental Funds |
|--|-------------------|-------------------|-----------------------------------|
| REVENUES | | | |
| Taxes | | | |
| Franchise fees | \$ 21,720 | \$ - | \$ 21,720 |
| Intergovernmental | 6,046 | - | 6,046 |
| Charges for services | 38,558 | - | 38,558 |
| Interest on investments | 1,369 | 1,992 | 3,361 |
| Miscellaneous | - | 106,350 | 106,350 |
| TOTAL REVENUES | 67,693 | 108,342 | 176,035 |
| EXPENDITURES | | | |
| Current | | | |
| Sanitation and recycling | 50,800 | - | 50,800 |
| Culture and recreation | 17,023 | - | 17,023 |
| Capital outlay | - | 21,060 | 21,060 |
| General government | - | 991 | 991 |
| Public works | - | 89,307 | 89,307 |
| Economic development | - | - | - |
| TOTAL EXPENDITURES | 67,823 | 111,358 | 179,181 |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | (130) | (3,016) | (3,146) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | - | 38,000 | 38,000 |
| Transfers out | (11,198) | - | (11,198) |
| TOTAL OTHER FINANCING SOURCES (USES) | (11,198) | 38,000 | 26,802 |
| NET CHANGE IN FUND BALANCES | (11,328) | 34,984 | 23,656 |
| FUND BALANCES, JANUARY 1 | 121,305 | 175,994 | 297,299 |
| FUND BALANCES, DECEMBER 31 | \$ 109,977 | \$ 210,978 | \$ 320,955 |

CITY OF LAUDERDALE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

| | 201 Community Events | 226 Communications | 227 Recycling | Total |
|--|----------------------|--------------------|-------------------|-------------------|
| ASSETS | | | | |
| Cash and temporary investments | \$ - | \$ 3,715 | \$ 102,825 | \$ 106,540 |
| Receivables | - | 5,695 | - | 5,695 |
| Accounts | - | 600 | - | 600 |
| Prepaid items | - | - | - | - |
| TOTAL ASSETS | \$ - | \$ 10,010 | \$ 102,825 | \$ 112,835 |
| LIABILITIES | | | | |
| Accounts payable | \$ - | \$ 759 | \$ 2,099 | \$ 2,858 |
| FUND BALANCES | | | | |
| Nonspendable | - | 600 | - | 600 |
| Committed | - | 8,651 | 100,726 | 109,377 |
| TOTAL FUND BALANCES | - | 9,251 | 100,726 | 109,977 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ - | \$ 10,010 | \$ 102,825 | \$ 112,835 |

CITY OF LAUDERDALE, MINNESOTA
 NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2016

| | 201 | 226 | 227 | Total |
|---|------------------|----------------|------------|------------|
| | Community Events | Communications | Recycling | |
| REVENUES | | | | |
| Taxes | | | | |
| Franchise fees | \$ - | \$ 21,720 | \$ - | \$ 21,720 |
| Intergovernmental | - | - | 6,046 | 6,046 |
| Charges for services | - | - | 38,558 | 38,558 |
| Interest on investments | - | 36 | 1,333 | 1,369 |
| TOTAL REVENUES | - | 21,756 | 45,937 | 67,693 |
| EXPENDITURES | | | | |
| Current | | | | |
| Sanitation and recycling | - | - | 20,952 | 20,952 |
| Personal services | - | - | 29,848 | 29,848 |
| Other services and charges | - | - | - | - |
| Culture and recreation | - | 8,157 | - | 8,157 |
| Personal services | - | 8,866 | - | 8,866 |
| Other services and charges | - | - | - | - |
| TOTAL EXPENDITURES | - | 17,023 | 50,800 | 67,823 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | - | 4,733 | (4,863) | (130) |
| OTHER FINANCING USES | | | | |
| Transfers out | (11,198) | - | - | (11,198) |
| NET CHANGE IN FUND BALANCES | (11,198) | 4,733 | (4,863) | (11,328) |
| FUND BALANCES, JANUARY 1 | 11,198 | 4,518 | 105,589 | 121,305 |
| FUND BALANCES, DECEMBER 31 | \$ - | \$ 9,251 | \$ 100,726 | \$ 109,977 |

CITY OF LAUDERDALE, MINNESOTA
 COMMUNITY EVENTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2016
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

| | Final Budget | 2016 Actual Amounts | Variance with Final Budget | 2015 Actual Amounts |
|--------------------------------------|--------------|---------------------|----------------------------|---------------------|
| REVENUES | | | | |
| Charges for services | \$ - | \$ - | \$ - | \$ 3,553 |
| Culture and recreation | - | - | - | 61 |
| Interest on investments | - | - | - | 58 |
| Miscellaneous | - | - | - | - |
| TOTAL REVENUES | - | - | - | 3,672 |
| EXPENDITURES | | | | |
| Current | | | | |
| Culture and recreation | - | - | - | 2,746 |
| Other services and charges | - | - | - | - |
| EXCESS OF REVENUES OVER EXPENDITURES | - | - | - | 926 |
| OTHER FINANCING USES | | | | |
| Operating transfer out | - | (11,198) | 11,198 | - |
| NET CHANGE IN FUND BALANCES | - | (11,198) | (11,198) | 926 |
| FUND BALANCES, JANUARY 1 | 11,198 | 11,198 | - | 10,272 |
| FUND BALANCES, DECEMBER 31 | \$ 11,198 | \$ - | \$ (11,198) | \$ 11,198 |

CITY OF LAUDERDALE, MINNESOTA
COMMUNICATIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

| | 2016 | | 2015 | |
|-----------------------------|--------------|----------------|----------------------------|----------------|
| | Final Budget | Actual Amounts | Variance with Final Budget | Actual Amounts |
| REVENUES | | | | |
| Taxes | \$ 20,000 | \$ 21,720 | \$ 1,720 | \$ 20,029 |
| Franchise fees | 25 | 36 | 11 | 4 |
| Interest on investments | - | - | - | 40 |
| Miscellaneous | - | - | - | - |
| TOTAL REVENUES | 20,025 | 21,756 | 1,731 | 20,073 |
| EXPENDITURES | | | | |
| Current | | | | |
| Culture and recreation | 8,197 | 8,157 | 40 | 15,822 |
| Personal services | 8,000 | 8,866 | (866) | 7,510 |
| Other services and charges | 16,197 | 17,023 | (826) | 23,332 |
| TOTAL EXPENDITURES | 3,828 | 4,733 | 905 | (3,259) |
| NET CHANGE IN FUND BALANCES | 4,518 | 4,518 | - | 7,777 |
| FUND BALANCES, JANUARY 1 | \$ 8,346 | \$ 9,251 | \$ 905 | \$ 4,518 |
| FUND BALANCES, DECEMBER 31 | | | | |

CITY OF LAUDERDALE, MINNESOTA
RECYCLING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

| | 2016 | | 2015 | |
|-----------------------------|--------------|----------------|----------------------------|----------------|
| | Final Budget | Actual Amounts | Variance with Final Budget | Actual Amounts |
| REVENUES | | | | |
| Intergovernmental | \$ 5,977 | \$ 6,046 | \$ 69 | \$ 41,909 |
| County | | | | |
| Charges for services | 35,000 | 38,558 | 3,558 | 35,400 |
| Sanitation | 400 | 1,333 | 933 | 527 |
| Interest on investments | | | | |
| TOTAL REVENUES | 41,377 | 45,937 | 4,560 | 77,836 |
| EXPENDITURES | | | | |
| Current | | | | |
| Sanitation and recycling | 20,991 | 20,952 | 39 | 17,612 |
| Personal services | | | | 34,556 |
| Supplies | | | | 33,740 |
| Other services and charges | 30,000 | 29,848 | 152 | |
| TOTAL EXPENDITURES | 50,991 | 50,800 | 191 | 85,908 |
| NET CHANGE IN FUND BALANCES | (9,614) | (4,863) | 4,751 | (8,072) |
| FUND BALANCES, JANUARY 1 | 105,589 | 105,589 | - | 113,661 |
| FUND BALANCES, DECEMBER 31 | \$ 95,975 | \$ 100,726 | \$ 4,751 | \$ 105,589 |

CITY OF LAUDERDALE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

| | 405 | 414 | 415 | |
|--|------------------|-------------------|-----------------|-------------------|
| | Rosehill | | Housing | |
| | Tax | Development | Redevelopment | Total |
| | Increments | | | |
| ASSETS | | | | |
| Cash and temporary investments | \$ 33,949 | \$ 177,029 | \$ - | \$ 210,978 |
| Due from other funds | - | 89,307 | - | 89,307 |
| TOTAL ASSETS | \$ 33,949 | \$ 266,336 | \$ - | \$ 300,285 |
| LIABILITIES | | | | |
| Due to other funds | \$ - | \$ - | \$ 89,307 | \$ 89,307 |
| FUND BALANCES | | | | |
| Restricted | 33,949 | - | - | 33,949 |
| Assigned | - | 266,336 | - | 266,336 |
| Unassigned | - | - | (89,307) | (89,307) |
| TOTAL FUND BALANCES | 33,949 | 266,336 | (89,307) | 210,978 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 33,949 | \$ 266,336 | \$ - | \$ 300,285 |

CITY OF LAUDERDALE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | 405 | 414 | 415 | |
|---|------------------|-------------------|--------------------|-------------------|
| | Rosehill | | Housing | |
| | Tax | Development | Redevelopment | Total |
| | Increments | | | |
| REVENUES | | | | |
| Interest on investments | \$ 482 | \$ 1,510 | \$ - | \$ 1,992 |
| Miscellaneous | - | 106,350 | - | 106,350 |
| TOTAL REVENUES | 482 | 107,860 | - | 108,342 |
| EXPENDITURES | | | | |
| Capital outlay | | | | |
| General government | - | 21,060 | - | 21,060 |
| Public works | 991 | - | - | 991 |
| Economic development | - | - | 89,307 | 89,307 |
| TOTAL EXPENDITURES | 991 | 21,060 | 89,307 | 111,358 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (509) | 86,800 | (89,307) | (3,016) |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | - | 38,000 | - | 38,000 |
| NET CHANGE IN FUND BALANCES | (509) | 124,800 | (89,307) | 34,984 |
| FUND BALANCES, JANUARY 1 | 34,458 | 141,536 | - | 175,994 |
| FUND BALANCES, DECEMBER 31 | \$ 33,949 | \$ 266,336 | \$ (89,307) | \$ 210,978 |

CITY OF LAUDERDALE, MINNESOTA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES

FOR THE YEAR ENDED DECEMBER 31, 2016

(With Comparative Actual Amounts for the Year Ended December 31, 2015)

| | 2016 | | | 2015 | |
|-----------------------------|------------------|----------------|----------------------------|------------------|----------------|
| | Budgeted Amounts | Actual Amounts | Variance with Final Budget | Budgeted Amounts | Actual Amounts |
| | Original | Final | | Original | Final |
| REVENUES | | | | | |
| Taxes | | | | | |
| Property taxes | \$ 676,561 | \$ 678,065 | \$ 1,504 | \$ - | \$ 597,344 |
| Licenses and permits | | | | | |
| Business | 2,950 | 3,655 | 705 | | 10,474 |
| Nonbusiness | 23,150 | 44,117 | 20,967 | | 37,558 |
| Total | 26,100 | 26,100 | 47,772 | | 48,032 |
| Intergovernmental | | | | | |
| State | | | | | |
| Local government aid | 537,502 | 537,502 | - | | 536,736 |
| Other state grants | 1,198 | 1,198 | - | | 1,198 |
| Total | 538,700 | 538,700 | - | | 537,934 |
| Charges for services | | | | | |
| General government | 9,550 | 14,226 | 4,676 | | 7,055 |
| Public safety | 600 | 105 | (495) | | 1,225 |
| Culture and recreation | 2,600 | 709 | (1,891) | | - |
| Total | 12,750 | 15,040 | 2,290 | | 8,280 |
| Fines and forfeitures | | | | | |
| | 45,000 | 35,779 | (9,221) | | 49,971 |
| Special assessments | | | | | |
| | - | 1,807 | 1,807 | | 843 |
| Interest on investments | | | | | |
| | 1,850 | 8,537 | 6,687 | | 3,057 |
| Miscellaneous | | | | | |
| Contributions and donations | 150 | 2,982 | 2,832 | | - |
| Refunds and reimbursements | - | - | - | | 3,693 |
| Other | 500 | 11,444 | 10,944 | | 1,385 |
| Total | 650 | 14,426 | 13,776 | | 5,078 |
| TOTAL REVENUES | 1,301,611 | 1,340,126 | 38,515 | | 1,250,539 |

CITY OF LAUDERDALE, MINNESOTA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL - CONTINUED

FOR THE YEAR ENDED DECEMBER 31, 2016

(With Comparative Actual Amounts for the Year Ended December 31, 2015)

| | 2016 | | | 2015 | |
|--------------------------------|------------------|----------------|----------------------------|------------------|----------------|
| | Budgeted Amounts | Actual Amounts | Variance with Final Budget | Budgeted Amounts | Actual Amounts |
| | Original | Final | | Original | Final |
| EXPENDITURES | | | | | |
| Current | | | | | |
| General government | | | | | |
| Legislative and executive | | | | | |
| Personal services | \$ 17,803 | \$ 17,803 | \$ - | \$ 17,814 | \$ (11) |
| Supplies | - | - | - | 92 | (92) |
| Other services and charges | 13,550 | 13,550 | - | 6,981 | 6,569 |
| Total | 31,353 | 31,353 | - | 24,887 | 6,466 |
| Administration | | | | | |
| Personal services | 158,568 | 158,568 | - | 160,645 | (2,077) |
| Supplies | 5,900 | 5,900 | - | 6,833 | (933) |
| Other services and charges | 31,670 | 31,670 | - | 31,017 | 653 |
| Total | 196,138 | 196,138 | - | 198,495 | (2,357) |
| Election, audit and legal fees | | | | | |
| Personal services | 16,962 | 16,962 | - | 18,038 | (1,076) |
| Supplies | 2,250 | 2,250 | - | 2,908 | (658) |
| Other services and charges | 37,468 | 37,468 | - | 42,824 | (5,356) |
| Total | 56,680 | 56,680 | - | 63,770 | (7,090) |
| Planning and zoning | | | | | |
| Personal services | 20,641 | 20,641 | - | 26,796 | (6,155) |
| Supplies | 200 | 200 | - | 1,799 | (1,599) |
| Other services and charges | 28,550 | 28,550 | - | 18,121 | 10,429 |
| Total | 49,391 | 49,391 | - | 46,716 | 2,675 |
| Contingency | | | | | |
| Other services and charges | 10,000 | 10,000 | - | - | 10,000 |
| Total general government | 343,562 | 343,562 | - | 333,868 | 9,694 |
| Public safety | | | | | |
| Police | 670,235 | 670,235 | - | 670,362 | (127) |
| Other services and charges | | | | | |
| Fire | 34,675 | 34,675 | - | 30,423 | 4,252 |
| Other services and charges | | | | | |
| Building inspections | 33,122 | 33,122 | - | 28,772 | 4,350 |
| Personal services | 50 | 50 | - | - | 50 |
| Supplies | 2,500 | 2,500 | - | 5,420 | (2,920) |
| Other services and charges | | | | | |
| Total | 35,672 | 35,672 | - | 34,192 | 1,480 |
| Total public safety | 740,582 | 740,582 | - | 734,977 | 5,605 |

CITY OF LAUDERDALE, MINNESOTA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

| | 2016 | | Variance with Final Budget | 2015 | |
|---|------------------------------|-------------------|-------------------------------|-------------------|-------------------|
| | Budgeted Amounts Original | Actual Amounts | | Actual Amounts | Actual Amounts |
| EXPENDITURES - CONTINUED | | | | | |
| Current - continued | | | | | |
| Public works | | | | | |
| Streets and highways | | | | | |
| Personal services | \$ 45,714 | \$ 47,235 | \$ (1,521) | \$ 45,889 | |
| Supplies | 5,900 | 2,946 | 2,954 | 5,963 | |
| Other services and charges | 30,000 | 40,050 | (10,050) | 14,085 | |
| Total | 81,614 | 90,231 | (8,617) | 65,937 | |
| Snow and ice removal | - | - | - | - | |
| Other services and charges | - | - | - | 10,737 | |
| Street lighting | 7,000 | 7,837 | (837) | 6,005 | |
| Other services and charges | - | - | - | - | |
| Total public works | 88,614 | 98,068 | (9,454) | 82,679 | |
| Culture and recreation | | | | | |
| Parks and recreation | 62,903 | 66,018 | (3,115) | 64,423 | |
| Personal services | 2,650 | 2,623 | 27 | 972 | |
| Supplies | 5,300 | 7,468 | (2,168) | 5,840 | |
| Other services and charges | - | - | - | - | |
| Total culture and recreation | 70,853 | 76,109 | (5,256) | 71,235 | |
| Economic development | 20,000 | 20,000 | 20,000 | - | |
| Other services and charges | - | - | - | - | |
| Total current expenditures | 1,263,611 | 1,243,022 | 20,589 | 1,172,733 | |
| Capital outlay | | | | | |
| General government | - | - | - | 1,192 | |
| TOTAL EXPENDITURES | 1,263,611 | 1,243,022 | 20,589 | 1,173,925 | |
| EXCESS OF REVENUES OVER EXPENDITURES | 38,000 | 38,000 | 97,104 | 76,614 | |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | 11,198 | 11,198 | 20,461 | |
| Transfers out | (38,000) | (87,655) | (49,655) | (74,659) | |
| TOTAL OTHER FINANCING SOURCES (USES) | (38,000) | (76,457) | (38,457) | (54,198) | |
| NET CHANGE IN FUND BALANCES | - | 20,647 | 20,647 | 22,416 | |
| FUND BALANCES, JANUARY 1 | 780,967 | 780,967 | - | 758,551 | |
| FUND BALANCES, DECEMBER 31 | \$ 780,967 | \$ 801,614 | \$ 20,647 | \$ 780,967 | |

CITY OF LAUDERDALE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | Total | | Percent Increase (Decrease) |
|------------------------------------|--------------|--------------|-----------------------------------|
| | 2016 | 2015 | |
| REVENUES | | | |
| Taxes | \$ 699,785 | \$ 617,373 | 13.35 % |
| Licenses and permits | 47,772 | 48,032 | (0.54) |
| Intergovernmental | 544,746 | 655,225 | (16.86) |
| Charges for services | 53,598 | 47,233 | 13.48 |
| Fines and forfeitures | 35,779 | 49,971 | (28.40) |
| Special assessments | 1,807 | 843 | 114.35 |
| Interest on investments | 22,880 | 9,651 | 137.07 |
| Miscellaneous | 120,916 | 6,676 | 1,711.20 |
| TOTAL REVENUES | \$ 1,527,283 | \$ 1,435,004 | 6.43 % |
| Per Capita | \$ 610 | \$ 583 | 4.64 % |
| EXPENDITURES | | | |
| Current | | | |
| General government | \$ 365,696 | \$ 339,357 | 7.76 % |
| Public safety | 734,977 | 679,462 | 8.17 |
| Public works | 256,889 | 82,679 | 210.71 |
| Sanitation and recycling | 50,800 | 85,908 | (40.87) |
| Economic development | - | - | 100.00 |
| Culture and recreation | 93,132 | 97,313 | (4.30) |
| Capital outlay | 291,650 | 82,105 | 255.22 |
| Debt service | - | - | N/A |
| Principal | - | 105,000 | N/A |
| Interest and other | - | 1,890 | N/A |
| TOTAL EXPENDITURES | \$ 1,793,144 | \$ 1,473,714 | 21.68 % |
| Per Capita | \$ 716 | \$ 599 | 19.63 % |
| General Fund Balance - December 31 | \$ 801,614 | \$ 780,967 | 2.64 % |
| Per Capita | 320 | 317 | 0.92 |

The purpose of this report is to provide a summary of financial information concerning the City of Lauderdale to interested citizens. The complete financial statements may be examined at City Hall, 1891 Walnut Street, Lauderdale, MN 55113. Questions about this report should be directed to Heather Butkowski, City Administrator at (651)792-7650.



INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Lauderdale, 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 City of Lauderdale, Minnesota (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2017.

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 procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 13, 2017

FORM OF LEGAL OPINION

(See following page)



Offices in 470 U.S. Bank Plaza
200 South Sixth Street
Minneapolis Minneapolis MN 55402-1458
Saint Paul (612) 337-9300 telephone
(612) 337-9310 fax
St. Cloud www.kennedy-graven.com
Affirmative Action, Equal Opportunity Employer

\$ _____
City of Lauderdale, Minnesota
General Obligation Tax Increment Revenue Bonds
Series 2018A

We have acted as bond counsel to the City of Lauderdale, Minnesota (the “Issuer”) in connection with the issuance by the Issuer of its General Obligation Tax Increment Revenue Bonds, Series 2018A (the “Bond”), originally dated May 1, 2018, and issued in the original aggregate principal amount of \$ _____. In such capacity and for the purpose of rendering this opinion we have examined certified copies of certain proceedings, certifications and other documents, and applicable laws as we have deemed necessary. Regarding questions of fact material to this opinion, we have relied on certified proceedings and other certifications of public officials and other documents furnished to us without undertaking to verify the same by independent investigation. Under existing laws, regulations, rulings and decisions in effect on the date hereof, and based on the foregoing we are of the opinion that:

1. The Bond has been duly authorized and executed, and is a valid and binding general obligation of the Issuer, enforceable in accordance with its terms.

2. The principal of and interest on the Bond are payable from tax increments resulting from increases in the taxable value of real property in a tax increment financing district of the Issuer and from the proceeds of definitive or additional temporary bonds required to be issued by the Issuer prior to or at maturity of the Bond, but if necessary for the payment thereof ad valorem taxes are required by law to be levied on all taxable property of the Issuer, which taxes are not subject to any limitation as to rate or amount.

3. Interest on the Bond is excludable from gross income of the recipient for federal income tax purposes and, to the same extent, is excludable from taxable net income of individuals, trusts, and estates for Minnesota income tax purposes, and is not a preference item for purposes of the computation of the federal alternative minimum tax (although interest on the Bond is included in adjusted current earnings in calculating corporate alternative minimum taxable income for taxable years that began prior to January 1, 2018), or the computation of the Minnesota alternative minimum tax imposed on individuals, trusts and estates. However, such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. The opinion set forth in this paragraph is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bond in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes and from taxable net income for Minnesota income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bond to be included in gross income for federal income tax purposes and taxable net income for Minnesota income tax purposes retroactively to the date of issuance of the Bond. We express no opinion regarding tax consequences arising with respect to the Bond other than as expressly set forth herein.

4. The rights of the owners of the Bond and the enforceability of the Bond may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditor's rights generally and by equitable principles, whether considered at law or in equity.

We have not been asked and have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bond, and accordingly we express no opinion with respect thereto.

This opinion is given as of the date hereof and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Dated May ___, 2018 at Minneapolis, Minnesota.

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following page)

§ _____
City of Lauderdale, Minnesota
General Obligation Tax Increment Revenue Bonds
Series 2018A

CONTINUING DISCLOSURE CERTIFICATE

May ___, 2018

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Lauderdale, Minnesota (the “Issuer”) in connection with the issuance of its General Obligation Tax Increment Revenue Bonds, Series 2018A (the “Bond”), in the original aggregate principal amount of \$ _____. The Bond is being issued pursuant to resolutions adopted by the City Council of the Issuer (the “Resolutions”). The Bond is being delivered to _____ (the “Purchaser”) on the date hereof. Pursuant to the Resolutions, the Issuer has covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. The Issuer hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Holders (as defined herein) of the Bond in order to assist the Participating Underwriters (as defined herein) in complying with SEC Rule 15c2-12(b)(5) (the “Rule”). This Disclosure Certificate, together with the Resolutions, constitutes the written agreement or contract for the benefit of the Holders of the Bond that is required by the Rule.

Section 2. Definitions. In addition to the defined terms set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means the Issuer’s Audited Financial Statements.

“Audited Financial Statements” means the financial statements of the Issuer, audited annually by an independent certified public accounting firm, and prepared in accordance with GAAP as prescribed by GASB or as otherwise required by Minnesota law for the preceding Fiscal Year, including a balance sheet and statement of revenues, expenditures and changes in fund balances.

“Bond” means the General Obligation Tax Increment Revenue Bonds, Series 2018A, issued by the Issuer in the original aggregate principal amount of \$ _____.

“EMMA” means the Electronic Municipal Market Access system operated by the MSRB and designated as a nationally recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule.

“Fiscal Year” means the fiscal year of the Issuer.

“GAAP” means generally accepted accounting principles for governmental units as prescribed by GASB.

“GASB” means the Governmental Accounting Standards Board.

“Holder” means the person in whose name the Bond is registered or a beneficial owner of such Bond.

“Issuer” means the City of Lauderdale, Minnesota, which is the obligated person with respect to the Bond.

“Material Event” means any of the events listed in Section 4(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board located at 1300 I Street NW, Suite 1000, Washington, DC 20005.

“Participating Underwriter” means any of the original underwriter(s) of the Bond (including the Purchaser) required to comply with the Rule in connection with the offering of the Bond.

“Purchaser” means _____.

“Repository” means EMMA, or any successor thereto designated by the SEC.

“Rule” means SEC Rule 15c2-12(b)(5) promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the SEC.

“SEC” means Securities and Exchange Commission, and any successor thereto.

Section 3. Provision of Annual Report. To the extent such information is customarily prepared by the Issuer and is publicly available, the Issuer shall provide the Annual Report to the Repository not later than twelve (12) months after the end of the Fiscal Year commencing with the year that ends December 31, 2017. The Annual Report may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the Repository or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

The Annual Report may be submitted as a single document or as separate documents comprising a package.

Section 4. Reporting of Material Events.

(a) This Section 4 shall govern the giving of notice of the occurrence of any of the following events (“Material Events”) with respect to the Bond:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Issuer shall file a notice of such occurrence with the Repository or with the MSRB within ten (10) business days of the occurrence of the Material Event.

(c) Unless otherwise required by law and subject to technical and economic feasibility, the Issuer shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Issuer's information.

Section 5. EMMA. The SEC has designated EMMA as a nationally recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule. Until the EMMA system is amended or altered by the MSRB and the SEC, the Issuer shall make all filings required under this Disclosure Certificate solely with EMMA.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under the Resolutions and this Disclosure Certificate shall terminate upon the redemption in full of the Bond or payment in full of the Bond.

Section 7. Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Resolutions and this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of the Resolutions and this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause a violation of the Rule. This Disclosure Certificate, or any provision hereof, shall be null and void in the event

that the Issuer delivers to the Repository, an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the Resolutions and this Disclosure Certificate are invalid, have been repealed retroactively or otherwise do not apply to the Bond. The provisions of the Resolutions and this Disclosure Certificate may be amended without the consent of the Holders of the Bond, but only upon the delivery by the Issuer to the Repository, of the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance of the Resolutions and this Disclosure Certificate and by the Issuer with the Rule.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Holder of the Bond may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under the Resolutions and this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default with respect to the Bond and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Participating Underwriters, and the Holders from time to time of the Bond, and shall create no rights in any other person or entity.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, we have executed this Disclosure Certificate in our official capacities effective as of the date and year first written above.

CITY OF LAUDERDALE, MINNESOTA

(SEAL)

Mayor

City Administrator

APPENDIX E

TERMS OF PROPOSAL

\$1,310,000* GENERAL OBLIGATION TAX INCREMENT REVENUE BONDS, SERIES 2018A CITY OF LAUDERDALE, MINNESOTA

Proposals for the purchase of \$1,310,000* General Obligation Tax Increment Revenue Bonds, Series 2018A (the "Bonds") of the City of Lauderdale, Minnesota (the "City") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the City, until 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:00 A.M. Central Time, on April 10, 2018, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 7:30 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 469 and 475, by the City to provide temporary financing for the acquisition of land for public improvements within Tax Increment Financing District No. 1-2 ("TID No. 1-2") in the City. The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITY

The Bonds will be dated May 1, 2018, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2021 | \$1,310,000 |

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. The Bonds will bear interest from date of issue until paid at a single, uniform rate. The rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

*Preliminary, subject to change.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The City has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the City, the Bonds shall be subject to optional redemption prior to maturity on February 1, 2019 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about May 1, 2018, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Kennedy & Graven, Chartered, Minneapolis, Minnesota, Bond Counsel to the City, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$1,302,140 plus accrued interest on the principal sum of \$1,310,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to bondsale@ehlers-inc.com; or
- 2) Facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or
- 3) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:00 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the City nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of \$26,200 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The City and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to \$250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The City reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the City requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any rating agency fees not requested by the City are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The City will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the City will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the City under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) The City shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;
- (2) all bidders shall have an equal opportunity to bid;

- (3) the City may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the City shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the Underwriter. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the City agrees to use the rule selected by the Underwriter on its proposal form to determine the issue price for the Bonds. On its proposal form, each Underwriter must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the City when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

The City acknowledges that in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the 10% test, the Underwriter agrees to promptly report to the City, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until the 10% test has been satisfied as to each maturity of the Bonds or until all of the Bonds of a certain maturity have been sold.

(f) By submitting a proposal, each bidder confirms that (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if an for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

(g) Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

- (i) "public" means any person other than an underwriter or a related party,
- (ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "sale date" means the date that the Bonds are awarded by the City to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Syndicate Manager will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of \$10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the City Council

City of Lauderdale, Minnesota

PROPOSAL FORM

The City Council
City of Lauderdale, Minnesota

April 10, 2018

RE: **\$1,310,000 General Obligation Tax Increment Revenue Bonds, Series 2018A**
DATED: **May 1, 2018**

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$_____ (not less than \$1,302,140) plus accrued interest to date of delivery for fully registered Bonds bearing an interest rate and maturing in the stated year as follows:

_____ % due 2021

The Bonds will bear interest from date of issue until paid at a single, uniform rate. The rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

We enclose our Deposit in the amount of \$26,200, to be held by you pending delivery and payment. Alternatively, if we are the winning bidder, we will wire our Deposit to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers & Associates no later than two hours after the proposal opening time. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. If our proposal is not accepted, said deposit shall be promptly returned to us. If the Deposit is wired to such escrow account, we agree to the conditions and duties of Ehlers & Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about May 1, 2018.

This proposal is subject to the City's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for this Issue.

We have received and reviewed the Official Statement and have submitted our requests for additional information or corrections to the Final Official Statement. As Syndicate Manager, we agree to provide the City with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an Underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ___ NO: ___.

If the competitive sale requirements are not met, we elect to use the (circle one): 10% test / hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: _____ By: _____
Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from May 1, 2018 of the above proposal is \$_____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Lauderdale, Minnesota, on April 10, 2018.

By: _____ By: _____
Title: _____ Title: _____