

CITY OF BUFFALO, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2017

**CITY OF BUFFALO, MINNESOTA
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YEAR ENDED DECEMBER 31, 2017**

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INTRODUCTORY SECTION

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**CITY OF BUFFALO, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2017**

Elected Officials

		<u>Term Expires</u>
Mayor	Teri Lachermeier	December 31, 2020
Council Member	Eric Anderson	December 31, 2018
Council Member	Scott Enter	December 31, 2018
Council Member	Steve Downer	December 31, 2020
Council Member	Linda Kittock	December 31, 2020

Appointed Officials

Administrator and Clerk-Treasurer	Merton Auger
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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Buffalo
Buffalo, 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 Buffalo (the City), Minnesota as of and for the year ended December 31, 2017, and the related notes of 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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

Other Matters

Report on Summarized Comparative Information

We have previously audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of as and for the year ended December 31, 2016, and we have expressed unmodified audit opinions on those audited financial statements in our report dated June 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, computation of legal debt margin, tax levies to retire bonded indebtedness, and property valuations, levies and collections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor and
Members of the City Council
City of Buffalo, Minnesota

Other Matters (Continued)

Other Information (Continued)

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

The Computation of Legal Debt Margin, Tax Levies to Retire Bonded Indebtedness, and Property Valuations, Levies and Collections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2018, on our consideration of the City of Buffalo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City of Buffalo's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Buffalo's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Buffalo, Minnesota
May 30, 2018

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

As management of the City of Buffalo (the City), Minnesota, we offer readers of the City of Buffalo's financial statements this narrative overview and analysis of the financial activities of the City of Buffalo for the fiscal year ended December 31, 2017.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$46,834,502 (net position). The unrestricted portion of net position, the portion used to meet the City's ongoing obligations to citizens and creditors, is a deficit of \$5,241,027.
- The City's total net position decreased by \$700,725 from 2016.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$8,943,044, a decrease of \$164,353 in comparison with the prior year. The overall *unassigned fund balance* is a deficit \$99,561.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,461,031, or 57% of total 2017 general fund expenditures.
- The City's total bonded debt decreased by \$3,587,864 or 3.6% during the current fiscal period.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other supplementary 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 private-sector business.

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them 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.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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 and unused compensated absences).

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 cost through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways and streets, sanitation, culture and recreation, and community development. The business-type activities of the City include water and sewer utilities, electric utility, liquor stores, and a municipal golf course (Wild Marsh).

The government-wide financial statements can be found on pages 18-20 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 governments, 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 city'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 of the City'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*.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

Governmental Funds (Continued)

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, Capital Project Fund, and HRA Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 21-26 of this report.

Proprietary Funds

The City maintains five proprietary fund types. *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 water and sewer utilities, electric utilities, liquor store operations, and golf course operations.

The proprietary fund statements provide the same type of information as business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer fund, the electric fund, liquor fund, and golf course fund which are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 27-36 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 financial statements can be found on pages 37-76 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information (RSI)* demonstrating the City's compliance with its adopted budget for the General Fund and information regarding defined benefit pension plans that the City participates in. The RSI and related notes can be found on pages 77-84 of this report.

The combining statements referred to earlier in conjunction with nonmajor governmental funds are presented immediately following the required supplementary information on the General Fund budgetary comparison. Combining and individual fund statements can be found on pages 85-92.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a city's financial position. In the case of the City, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows by \$48,834,502 at the close of the most recent fiscal year compared to \$47,535,227 at the end of 2016.

By far, the largest portion of the City's net position (96%) reflects its net investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that are 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 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 BUFFALO'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
ASSETS						
Current and Other Assets	\$ 14,882,900	\$ 16,067,023	\$ 3,921,750	\$ 2,903,323	\$ 18,804,650	\$ 18,970,346
Capital Assets	51,739,216	56,141,814	85,333,435	84,825,655	137,072,651	140,967,469
Total Assets	<u>66,622,116</u>	<u>72,208,837</u>	<u>89,255,185</u>	<u>87,728,978</u>	<u>155,877,301</u>	<u>159,937,815</u>
DEFERRED OUTFLOW OF RESOURCES	3,211,061	4,759,479	969,545	1,561,792	4,180,606	6,321,271
LIABILITIES						
Noncurrent Liabilities Outstanding	25,800,628	28,056,282	68,538,777	67,677,965	94,339,405	95,734,247
Other Liabilities	7,554,270	13,728,401	7,646,900	7,998,548	15,201,170	21,726,949
Total Liabilities	<u>33,354,898</u>	<u>41,784,683</u>	<u>76,185,677</u>	<u>75,676,513</u>	<u>109,540,575</u>	<u>117,461,196</u>
DEFERRED INFLOW OF RESOURCES	3,185,122	857,007	497,708	405,656	3,682,830	1,262,663
NET POSITION						
Net Investment in Capital Assets	27,743,024	28,396,065	17,179,822	14,764,051	44,922,846	43,160,116
Restricted	7,152,683	9,583,475	-	-	7,152,683	9,583,475
Unrestricted	<u>(1,602,550)</u>	<u>(3,652,914)</u>	<u>(3,638,477)</u>	<u>(1,555,450)</u>	<u>(5,241,027)</u>	<u>(5,208,364)</u>
Total Net Position	<u>\$ 33,293,157</u>	<u>\$ 34,326,626</u>	<u>\$ 13,541,345</u>	<u>\$ 13,208,601</u>	<u>\$ 46,834,502</u>	<u>\$ 47,535,227</u>

The remaining balance of the City's net position are *restricted net position* (15%) that can be used only for debt service or other purposes. The City reports a deficit for *unrestricted net position* that may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities decreased the City's net position by \$1,033,469. The most significant change in governmental net position is due to a decrease in grants and an increase in public safety and community development expenditures.

Business-Type Activities

Business-type activities increased the City's net position by \$332,744. The most significant change in business-type net position is due to an increase in charges for services for electric, water & sewer utilities.

City of Buffalo's Changes in Net Position

Condensed statements of revenues, expenses, and changes in net position highlights are as follows for the year ended December 31, 2017:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program Revenues:						
Fees, Charges, Fines, and Other	\$ 3,935,365	\$ 3,579,062	\$ 24,994,191	\$ 24,105,028	\$ 28,929,556	\$ 27,684,090
Operating Grants and Contributions	645,969	633,031	142,689	149,866	788,658	782,897
Capital Grants and Contributions	57,615	1,019,331	488,511	363,838	546,126	1,383,169
General Revenues:						
Property Taxes	6,752,256	5,907,924	849,075	611,370	7,601,331	6,519,294
Tax Increments	62,216	263,658	-	-	62,216	263,658
Other Taxes	2,372	2,199	-	-	2,372	2,199
Grants and Contributions, Not Restricted	756,383	868,995	-	-	756,383	868,995
Unrestricted Investment Earnings	88,024	12,076	18,721	25,766	106,745	37,842
Gain on Disposal of Capital Assets	8,298	5,770	-	-	8,298	5,770
Miscellaneous	20,606	12,638	958	6,137	21,564	18,775
Total Revenues	<u>12,329,104</u>	<u>12,304,684</u>	<u>26,494,145</u>	<u>25,262,005</u>	<u>38,823,249</u>	<u>37,566,689</u>
EXPENSES						
General Government	1,291,084	1,151,021	-	-	1,291,084	1,151,021
Public Safety	3,698,554	2,961,898	-	-	3,698,554	2,961,898
Highways and Streets	4,142,942	6,514,018	-	-	4,142,942	6,514,018
Culture and Recreation	3,038,166	2,848,075	-	-	3,038,166	2,848,075
Sanitation	882,131	761,236	-	-	882,131	761,236
Community Development	605,787	146,380	-	-	605,787	146,380
Interest on Long-Term Debt	756,520	488,283	-	-	756,520	488,283
Electric	-	-	12,387,553	12,130,203	12,387,553	12,130,203
Water	-	-	2,742,449	2,717,375	2,742,449	2,717,375
Sewer	-	-	4,300,615	3,776,268	4,300,615	3,776,268
Liquor Store	-	-	4,694,375	4,595,069	4,694,375	4,595,069
Golf Course	-	-	983,798	858,249	983,798	858,249
Total Expenses	<u>14,415,184</u>	<u>14,870,911</u>	<u>25,108,790</u>	<u>24,077,164</u>	<u>39,523,974</u>	<u>38,948,075</u>
Change in Net Position Before Transfers	(2,086,080)	(2,566,227)	1,385,355	1,184,841	(700,725)	(1,381,386)
Transfers	<u>1,052,611</u>	<u>(435,746)</u>	<u>(1,052,611)</u>	<u>435,746</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	(1,033,469)	(3,001,973)	332,744	1,620,587	(700,725)	(1,381,386)
Net Position - Beginning of Year	<u>34,326,626</u>	<u>37,328,599</u>	<u>13,208,601</u>	<u>11,588,014</u>	<u>47,535,227</u>	<u>48,916,613</u>
NET POSITION - END OF YEAR	\$ 33,293,157	\$ 34,326,626	\$ 13,541,345	\$ 13,208,601	\$ 46,834,502	\$ 47,535,227

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

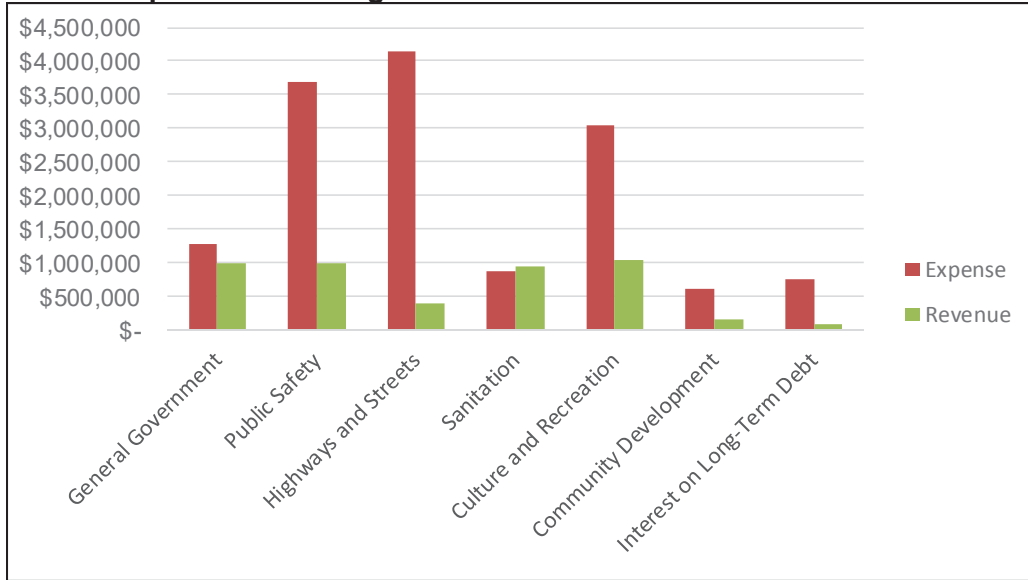
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

City of Buffalo's Changes in Net Position (Continued)

Below are specific graphs that provide comparisons of the governmental activities' direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

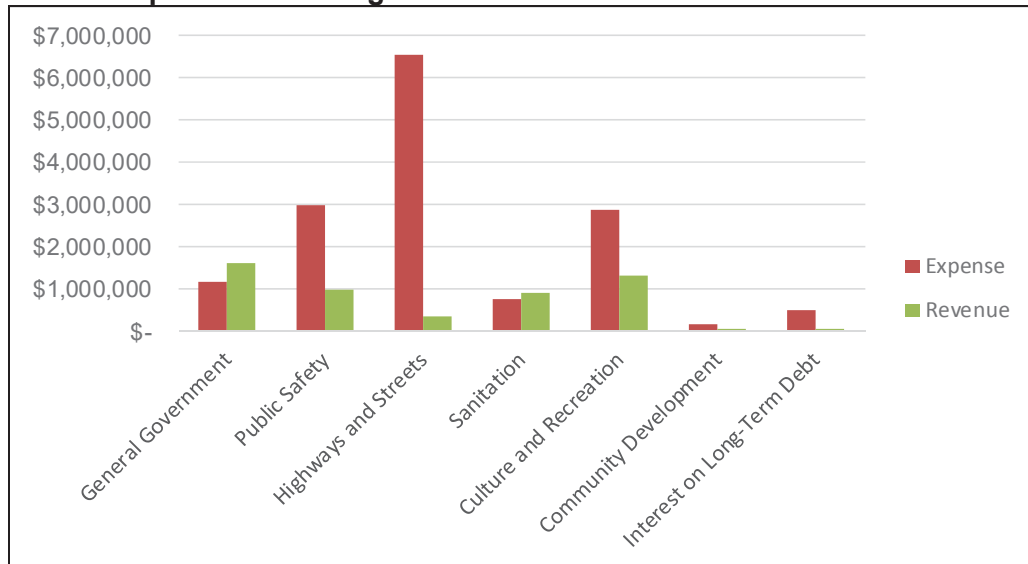
2017

Expenses and Program Revenues-Governmental Activities



2016

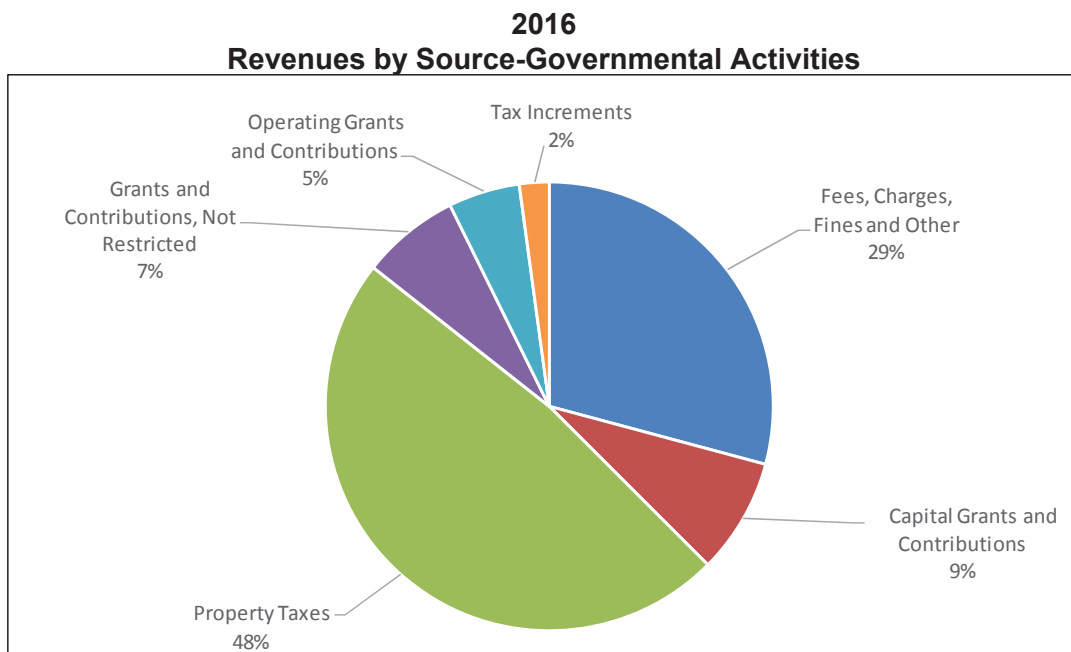
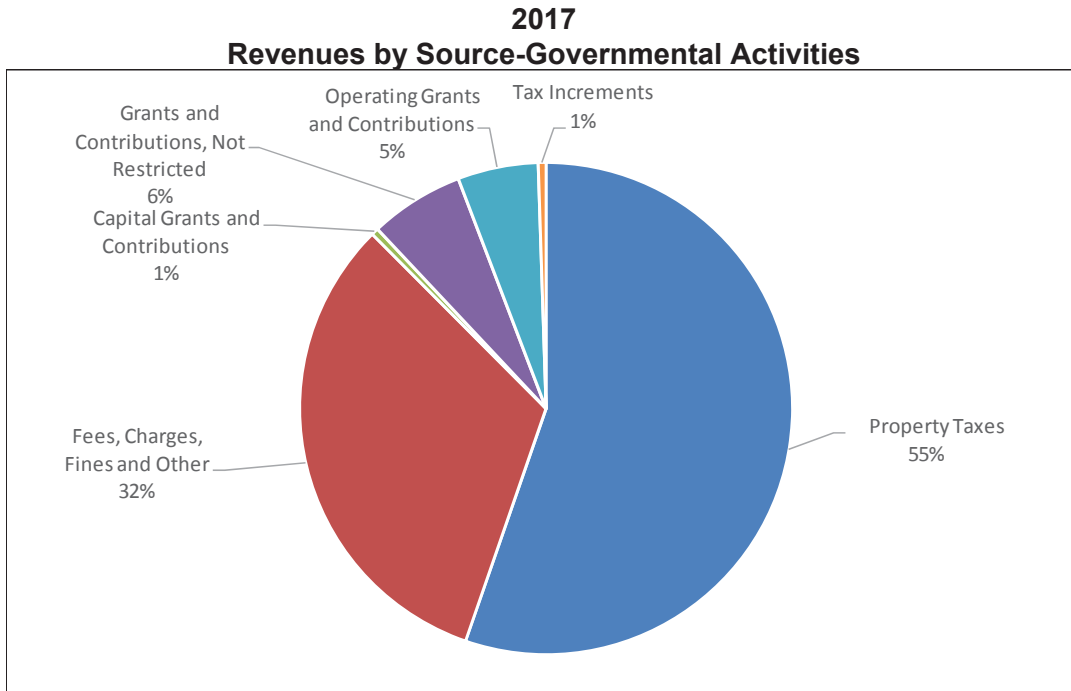
Expenses and Program Revenues-Governmental Activities



**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

City of Buffalo's Changes in Net Position (Continued)



**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

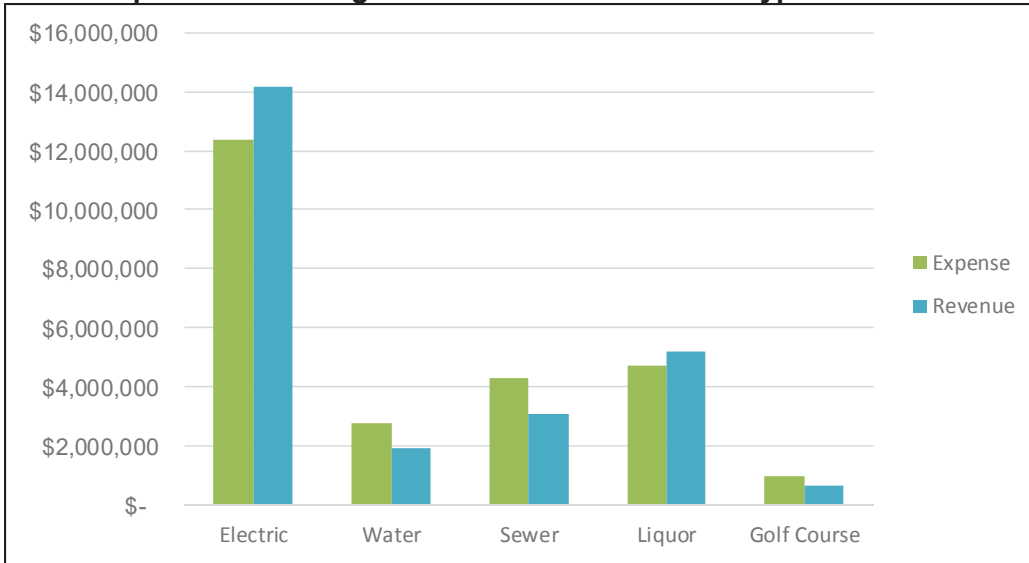
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

City of Buffalo's Changes in Net Position (Continued)

Below are specific graphs that provide comparisons of the business-type activities' direct program revenues with their expenditures. Excess revenues are retained within each fund until such time that capital replacement is needed.

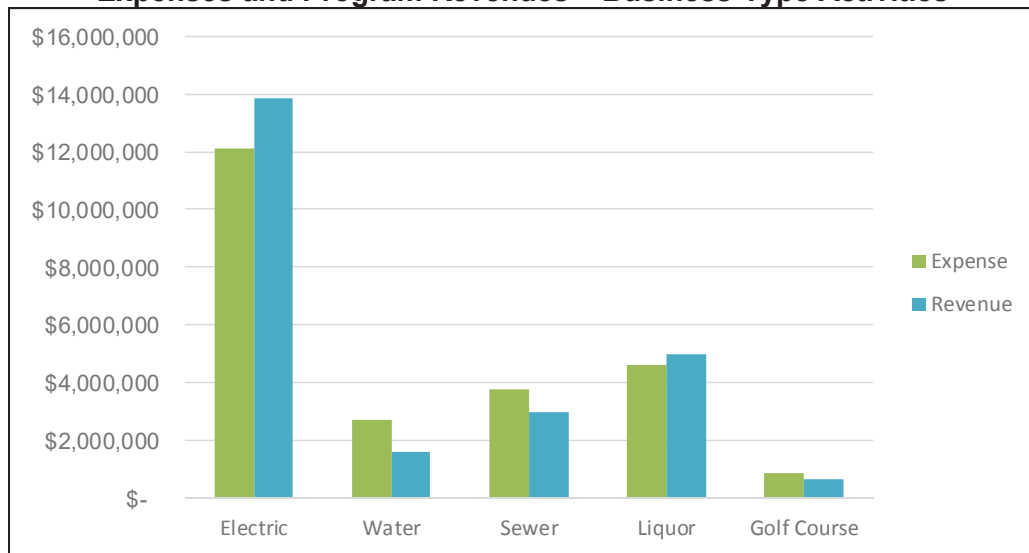
2017

Expenses and Program Revenues – Business-Type Activities



2016

Expenses and Program Revenues – Business-Type Activities

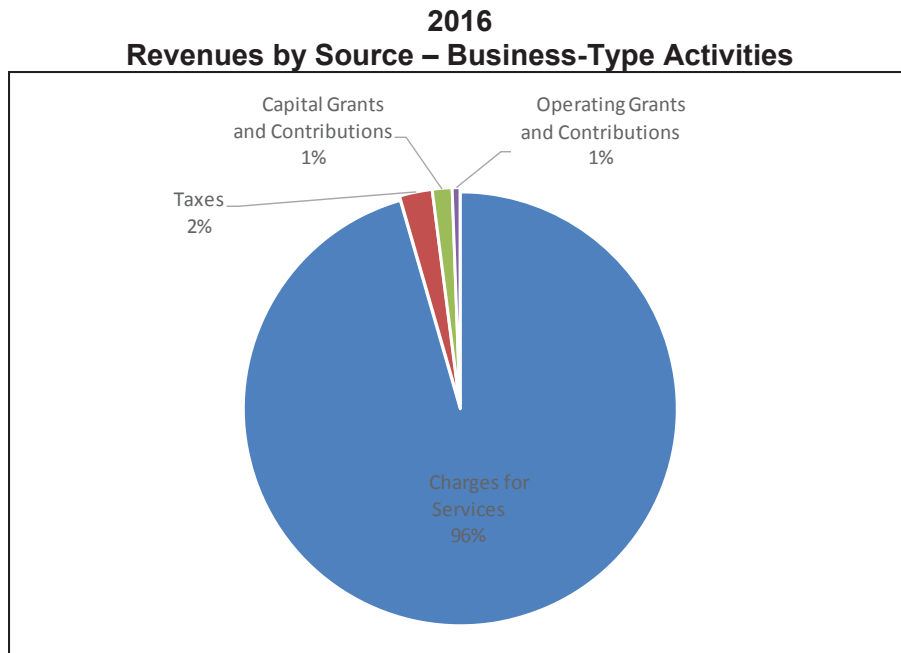
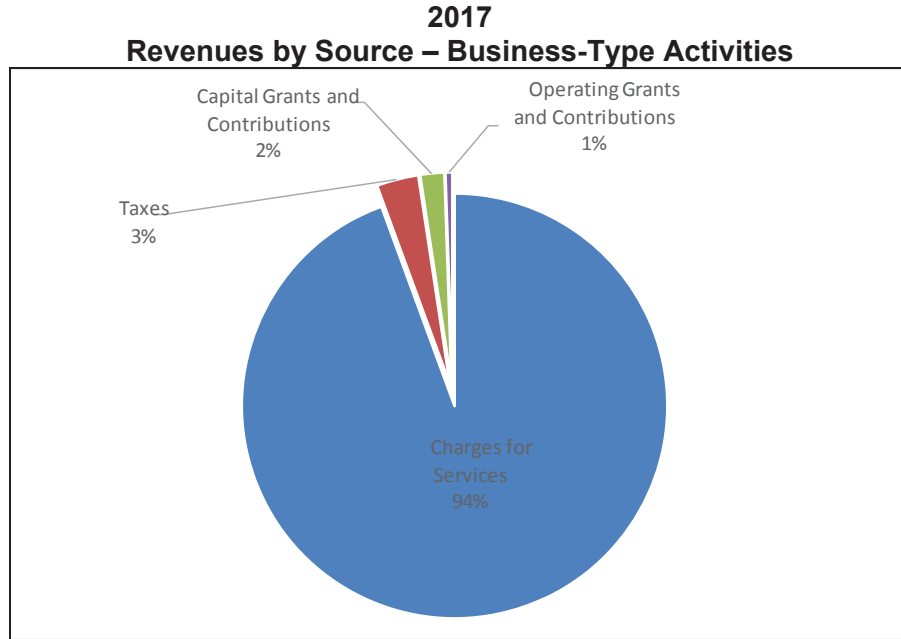


Note: Other income amounts for developer installed utilities and contributed capital from other funds are not included in program revenues in the above graphs.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

City of Buffalo's Changes in Net Position (Continued)



Note: Other income amounts for developer installed utilities and contributed capital from other funds are not included in revenues in the above charts.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE CITY'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 city'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 \$8,943,044, a decrease of \$164,353 in comparison with 2016. The City reported deficit unassigned fund balance in the amount of \$99,561. The remainder of fund balance is nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending. At December 31, 2017 fund balances were as follows:

	Balance	Increase (Decrease) from 2016
General Fund	\$ 4,539,646	\$ (10,093)
Debt Service Fund	4,965,970	(2,111,366)
Capital Project Fund	1,612,413	1,086,898
HRA Debt Service Fund	(1,925,673)	(235,430)
Other Governmental Funds	(249,312)	1,105,638
Total	\$ 8,943,044	\$ (164,353)

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,461,031.

During the current fiscal year, the City's general fund balance decreased by \$10,093. The decrease was a result of expenditures exceeding revenue and transfers in. A decrease in fund balance was budgeted. The actual decrease was less than projected.

Debt Service

The decrease in the Debt Service Fund balance of \$2,111,366 was the result of temporary bond Series 2016D paid in full. This single year bond was issued to cover State of MN portion of TH25 project until State Aid was received.

Capital Project

The Capital Projects Fund balance increased \$1,086,898 as a result of transfers from the General Fund and Water and Sewer Fund.

HRA Debt Service

The HRA Debt Service Fund balance decreased \$235,430 due to Series 2017C bond proceeds transferred to the HRA General Fund for downtown redevelopment.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

Proprietary Funds

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

Total net position in the Electric Fund at the end of 2017 was \$16,437,648 of which \$4,256,212 is unrestricted. Net position increased \$1,688,489 during the current year primarily due to increase in electric sales and capital contributions.

The Water and Sewer Fund has total net position of \$2,453,309. It has a deficit unrestricted net position of \$1,822,401. The decrease in net position of \$1,457,541 from 2016 was due to a transfer out of Water and Sewer to project fund CSAH12.

The Liquor Fund has total net position of \$1,385,946 of which \$39,350 is unrestricted. Net position increased by \$186,667 from 2016. The net position increase is due to sales vs. cost of goods decrease in wages/benefits and lower amount transferred to the General Fund.

The City purchased Wild Marsh Golf Course in May 2004. Wild Marsh has total net position of \$(6,735,558) and unrestricted net position of \$(6,111,638) primarily due to operating losses incurred in the 13½ years of operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were \$100,677 over budget due mainly to an increase in special assessment collections. Expenditures came in under the budgeted amounts by \$118,410 which is mainly due to Expenditures came in under the budgeted amounts by \$118,410 which is mainly due to Public Safety (Building Inspection Services) \$89,941 under budget, Police & Public Works (street maintenance) expenditures slightly lower than expected.

This resulted in a net fund balance increase of \$219,087 compared to budget for the fiscal year. Refer to pages 80-83 of the required supplementary information for additional information.

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, 2017, amounts to \$137,072,651 (net of accumulated depreciation). This investment in capital assets includes land, buildings, office equipment and furniture, vehicles, machinery and equipment, other capital assets, and infrastructure. The total decrease in the City's investment in capital assets (net of accumulated depreciation) was \$3,894,818 when compared to 2016. This decrease is a result of current year depreciation.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

**CITY OF BUFFALO'S CAPITAL ASSETS
(Net of Accumulated Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 4,313,571	\$ 4,313,571	\$ 2,636,955	\$ 2,636,955	\$ 6,950,526	\$ 6,950,526
Land Improvements	9,171,740	9,688,783	1,474,234	1,525,830	10,645,974	11,214,613
Buildings and Building Improvements	9,439,051	9,809,319	30,341,695	31,391,624	39,780,746	41,200,943
Improvements Other than Building	1,731,809	1,858,920	-	-	1,731,809	1,858,920
Vehicle	1,311,906	1,491,226	-	-	1,311,906	1,491,226
Equipment	1,192,230	1,289,363	3,375,986	2,885,076	4,568,216	4,174,439
Infrastructure	23,278,362	23,437,122	-	-	23,278,362	23,437,122
Utility Distribution Systems	-	-	47,211,599	46,386,170	47,211,599	46,386,170
Construction in Progress	1,300,547	4,253,510	292,966	-	1,593,513	4,253,510
Total	<u>\$ 51,739,216</u>	<u>\$ 56,141,814</u>	<u>\$ 85,333,435</u>	<u>\$ 84,825,655</u>	<u>\$ 137,072,651</u>	<u>\$ 140,967,469</u>

Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$95,868,718. Of this amount, \$23,395,000 comprises tax supported debt, \$3,135,000 is tax abatement debt, \$5,265,000 is special assessment debt, and \$61,837,560 is revenue supported debt. The remaining \$2,236,158 is interest accretion on capital appreciation bonds. All outstanding debt carries the general obligation backing for which the City is liable in the event of default by the property owners subject to the specific taxes, special assessments, or revenues pledged to the retirement of the debt.

**CITY OF BUFFALO'S OUTSTANDING DEBT
(General Obligation)**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
G.O. Tax Supported Debt	\$ 19,690,000	\$ 23,785,000	\$ 3,705,000	\$ 4,890,000	\$ 23,395,000	\$ 28,675,000
G.O. Tax Abatement Debt	-	-	3,135,000	3,250,000	3,135,000	3,250,000
G.O. Special Assessment Debt	5,265,000	5,145,000	-	-	5,265,000	5,145,000
G.O. Revenue Debt	2,083,112	2,275,326	59,754,448	58,186,234	61,837,560	60,461,560
Interest Accretion on Capital Appreciation Bonds	-	-	2,236,158	1,925,022	2,236,158	1,925,022
Total	<u>\$ 27,038,112</u>	<u>\$ 31,205,326</u>	<u>\$ 68,830,606</u>	<u>\$ 68,251,256</u>	<u>\$ 95,868,718</u>	<u>\$ 99,456,582</u>

The City's total bonded debt decreased by \$3,587,864 or (3.6%) during the current fiscal year. There were three new bonds issued in the current fiscal year, a \$6,840,000 Wastewater Revenue Refunding Bond, a \$3,160,000 General Obligation Water and Sewer Revenue Bond, and a \$330,000 General Obligation Temporary Tax Abatement Bond.

The City maintained an "A+/Stable" rating from Standard & Poor's for general obligation debt. Refer to Notes 4 and 5 for detailed information on capital assets and long-term debt.

**CITY OF BUFFALO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for Wright County is currently 3.5% based on U.S. Department of Labor: Bureau of Labor statistics.
- The City continues to see increased commercial/industrial construction growth. Residential growth and home values are somewhat higher. 44 permits were issued for new home construction in 2017 compared to 42 in 2016.
- Interest rates have remained low and are reflected in the City's investment earnings. Interest rates on debt are also low and have resulted in bond refunds allowing saving for the City. Rates are beginning to creep up and are expected to be slightly higher in 2018.
- Local Government Aid increased from \$724,949 (2016) to \$734,952 (2017) and is projected to increase an additional \$111,393 in 2018 to \$846,345. An increase is anticipated for 2019, however the amount has not yet been finalized. Although it has increased the past few years, it is still down significantly from a high of \$1,415,301 received in 2001.
- The City finalized two major projects in 2017 (TH25 North & South Reconstruction). There were multiple street reconstruction/maintenance projects in process in 2017 as well as WWTP and Lift Station upgrades which will continue into 2018.
- A Water & Wastewater as well as SAC & WAC study was completed in 2017 which resulted in rate increases for each service with implementation beginning in 2018. The rate increase was necessary to cover a portion of debt service payments.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Buffalo's finances for all of 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, City of Buffalo, 212 Central Ave., Buffalo, Minnesota, 55313.

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BASIC FINANCIAL STATEMENTS

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CITY OF BUFFALO, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2016)

	2017			2016
	Governmental Activities	Business-Type Activities	Total	Total
ASSETS				
Cash and Investments	\$ 9,017,556	\$ 529,521	\$ 9,547,077	\$ 9,878,664
Cash with Fiscal Agent	-	-	-	1,837
Taxes Receivable	402,675	19,455	422,130	85,647
Special Assessments Receivable	799,639	-	799,639	816,494
Accounts Receivable	272,569	1,778,122	2,050,691	1,967,896
Hook-up Fees Receivable - Current	-	3,510	3,510	5,700
Due from Other Governments	308,155	7,025	315,180	523,625
Accrued Interest Receivable	-	-	-	193,896
Internal Balances	170,820	(170,820)	-	-
Lease Receivable	3,140,855	-	3,140,855	3,277,793
Inventory	9,996	1,613,769	1,623,765	1,452,048
Prepaid Items	75,222	63,733	138,955	11,490
Hook-up Fees Receivable - Noncurrent	-	77,435	77,435	87,385
Loans Receivable	94,596	-	94,596	370,211
Land Held for Resale	316,816	-	316,816	23,659
Net Pension Asset	274,001	-	274,001	274,001
Capital Assets:				
Land and Construction in Progress	5,614,118	2,929,921	8,544,039	11,204,036
Other Capital Assets, Net of Depreciation	46,125,098	82,403,514	128,528,612	129,763,433
Total Assets	66,622,116	89,255,185	155,877,301	159,937,815
DEFERRED OUTFLOW OF RESOURCES				
Refunding Loss on Bonds	27,008	309,667	336,675	409,106
Pension Related	3,184,053	659,878	3,843,931	5,912,165
Total Deferred Outflow of Resources	3,211,061	969,545	4,180,606	6,321,271
LIABILITIES				
Accounts and Contracts Payable	939,399	1,048,649	1,988,048	2,483,280
Other Accrued Liabilities	183,786	223,213	406,999	390,692
Accrued Interest Payable	278,372	419,791	698,163	659,405
Due to Other Governmental Units	1,846	14,828	16,674	164,640
Escrow Deposits	75,549	-	75,549	71,284
Unearned Revenue	15,073	42,187	57,260	61,428
Net Pension Liability	3,179,303	2,414,148	5,593,451	9,167,663
Long-Term Liabilities:				
Due within One Year	2,880,942	3,484,084	6,365,026	8,728,557
Due in More than One Year	25,800,628	68,538,777	94,339,405	95,734,247
Total Liabilities	33,354,898	76,185,677	109,540,575	117,461,196
DEFERRED INFLOW OF RESOURCES				
Property Taxes Levied for Subsequent Year	347,868	-	347,868	-
Pension Related	2,837,254	497,708	3,334,962	1,262,663
Total Deferred Inflow of Resources	3,185,122	497,708	3,682,830	1,262,663
NET POSITION				
Net Investment in Capital Assets	27,743,024	17,179,822	44,922,846	43,160,116
Restricted for:				
Debt Service	6,803,376	-	6,803,376	9,259,032
Fire Relief Pension	312,287	-	312,287	274,001
Federal Loan Programs	37,020	-	37,020	50,442
Unrestricted	(1,602,550)	(3,638,477)	(5,241,027)	(5,208,364)
Total Net Position	\$ 33,293,157	\$ 13,541,345	\$ 46,834,502	\$ 47,535,227

See accompanying Notes to Basic Financial Statements.

CITY OF BUFFALO, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2016)

Functions/Programs	2017			
	Expenses	Program Revenues		
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,291,084	\$ 987,760	\$ -	\$ 15,995
Public Safety	3,698,554	726,723	271,680	-
Highways and Streets	4,142,942	122,239	270,302	17,719
Sanitation	882,131	939,105	-	-
Culture and Recreation	3,038,166	919,619	103,987	23,901
Community Development	605,787	160,000	-	-
Interest on Long-Term Debt	756,520	79,919	-	-
Total Governmental Activities	14,415,184	3,935,365	645,969	57,615
Business-Type Activities:				
Electric	12,387,553	14,165,721	142,689	11,729
Water	2,742,449	1,910,056	-	118,462
Sewer	4,300,615	3,063,963	-	358,320
Liquor	4,694,375	5,194,104	-	-
Golf Course	983,798	660,347	-	-
Total Business-Type Activities	25,108,790	24,994,191	142,689	488,511
Total	\$ 39,523,974	\$ 28,929,556	\$ 788,658	\$ 546,126

General Revenues:

Taxes:
 Property Taxes, Levied for General Purpose
 Tax Increments
 Other Taxes
Grants and Contributions not Restricted to Specific Programs
Unrestricted Investment Earnings
Gain on Disposal of Capital Assets
Miscellaneous
Transfers
 Total General Revenues and Transfers

CHANGE IN NET POSITION

Net Position - Beginning of Year

NET POSITION - END OF YEAR

2017				2016
Net (Expense) Revenue and Changes in Net Position				
Governmental Activities	Business-Type Activities	Total	Total	
\$ (287,329)	\$ -	\$ (287,329)	\$ 451,537	
(2,700,151)	-	(2,700,151)	(1,997,026)	
(3,732,682)	-	(3,732,682)	(6,165,980)	
56,974	-	56,974	151,752	
(1,990,659)	-	(1,990,659)	(1,532,230)	
(445,787)	-	(445,787)	(119,660)	
(676,601)	-	(676,601)	(427,880)	
(9,776,235)	-	(9,776,235)	(9,639,487)	
-	1,932,586	1,932,586	1,872,854	
-	(713,931)	(713,931)	(1,069,647)	
-	(878,332)	(878,332)	(460,830)	
-	499,729	499,729	389,841	
-	(323,451)	(323,451)	(190,650)	
-	516,601	516,601	541,568	
(9,776,235)	516,601	(9,259,634)	(9,097,919)	
6,752,256	849,075	7,601,331	6,519,294	
62,216	-	62,216	263,658	
2,372	-	2,372	2,199	
756,383	-	756,383	868,995	
88,024	18,721	106,745	37,842	
8,298	-	8,298	5,770	
20,606	958	21,564	18,775	
1,052,611	(1,052,611)	-	-	
8,742,766	(183,857)	8,558,909	7,716,533	
(1,033,469)	332,744	(700,725)	(1,381,386)	
34,326,626	13,208,601	47,535,227	48,916,613	
<u>\$ 33,293,157</u>	<u>\$ 13,541,345</u>	<u>\$ 46,834,502</u>	<u>\$ 47,535,227</u>	

CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2016)

	2017			
	General Fund	Debt Service Fund	Capital Project Fund	HRA Debt Service Fund
ASSETS				
Cash and Investments	\$ 1,792,803	\$ 2,967,482	\$ 2,108,450	\$ 54,342
Taxes Receivable				
Current	183,883	157,991	-	-
Delinquent	31,992	20,078	-	-
Special Assessments Receivable:				
Current	-	1,419	-	-
Delinquent	-	23,165	-	-
Noncurrent	32,380	742,675	-	-
Accounts Receivable	186,484	6,380	6,508	-
Due from Other Governmental Units	56,453	18,471	171,649	-
Accrued Interest Receivable	-	-	-	-
Due from Other Funds	2,838,861	-	-	-
Advances to Other Funds	-	1,980,015	-	-
Lease Receivable	-	3,140,855	-	-
Inventory	-	-	-	-
Prepaid Expenses	70,815	-	-	-
Loans Receivable, Net of Allowance	-	-	-	-
Land Held for Resale	7,800	-	-	-
	<u>\$ 5,201,471</u>	<u>\$ 9,058,531</u>	<u>\$ 2,286,607</u>	<u>\$ 54,342</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts and Contracts Payable	\$ 186,322	\$ 450	\$ 667,686	\$ -
Other Accrued Liabilities	139,550	-	-	-
Due to Other Governmental Units	1,846	-	-	-
Due to Other Funds	-	-	-	-
Advances From Other Funds	-	-	-	1,980,015
Unearned Revenue	13,873	-	-	-
Escrow Deposits	71,978	-	-	-
Total Liabilities	<u>413,569</u>	<u>450</u>	<u>667,686</u>	<u>1,980,015</u>
DEFERRED INFLOW OF RESOURCES				
Unavailable Taxes	31,992	20,078	-	-
Unavailable Special Assessments	32,381	765,840	-	-
Unavailable Revenues	-	7,347	6,508	-
Unavailable Lease Receivables	-	3,140,855	-	-
Unavailable Loans and Interest Receivables	-	-	-	-
Property Taxes Levied for Subsequent Year	183,883	157,991	-	-
Total Deferred Inflow of Resources	<u>248,256</u>	<u>4,092,111</u>	<u>6,508</u>	<u>-</u>
FUND BALANCES (DEFICITS)				
Nonspendable	78,615	-	-	-
Restricted	-	4,965,970	762,701	-
Committed	-	-	849,712	-
Unassigned	4,461,031	-	-	(1,925,673)
Total Fund Balances (Deficits)	<u>4,539,646</u>	<u>4,965,970</u>	<u>1,612,413</u>	<u>(1,925,673)</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	<u>\$ 5,201,471</u>	<u>\$ 9,058,531</u>	<u>\$ 2,286,607</u>	<u>\$ 54,342</u>

See accompanying Notes to Basic Financial Statements.

2017		2016	
Other Governmental Funds	Total Governmental Funds	Total Governmental Funds	Total Governmental Funds
\$ 2,094,479	\$ 9,017,556	\$ 9,835,849	
5,994	347,868	-	
2,737	54,807	78,877	
-	1,419	-	
-	23,165	16,072	
-	775,055	800,422	
73,197	272,569	282,782	
61,582	308,155	519,096	
-	-	193,183	
-	2,838,861	4,777,893	
-	1,980,015	1,745,000	
-	3,140,855	3,277,793	
9,996	9,996	10,479	
4,407	75,222	11,042	
94,596	94,596	370,211	
309,016	316,816	23,659	
<u>\$ 2,656,004</u>	<u>\$ 19,256,955</u>	<u>\$ 21,942,358</u>	
\$ 84,941	\$ 939,399	\$ 1,475,454	
44,236	183,786	178,980	
-	1,846	160,811	
2,668,041	2,668,041	4,404,336	
-	1,980,015	1,745,000	
1,200	15,073	39,646	
3,571	75,549	71,284	
<u>2,801,989</u>	<u>5,863,709</u>	<u>8,075,511</u>	
2,737	54,807	78,877	
-	798,221	816,493	
-	13,855	22,893	
-	3,140,855	3,277,793	
94,596	94,596	563,394	
5,994	347,868	-	
<u>103,327</u>	<u>4,450,202</u>	<u>4,759,450</u>	
323,419	402,034	45,180	
-	5,728,671	7,602,851	
2,062,188	2,911,900	1,781,344	
(2,634,919)	(99,561)	(321,978)	
<u>(249,312)</u>	<u>8,943,044</u>	<u>9,107,397</u>	
<u>\$ 2,656,004</u>	<u>\$ 19,256,955</u>	<u>\$ 21,942,358</u>	

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**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2016)**

	2017	2016
Total Fund Balance for Governmental Funds	\$ 8,943,044	\$ 9,107,397
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	4,313,571	4,313,571
Construction in Progress	1,300,547	4,253,510
Land Improvements	15,884,187	15,734,835
Buildings and Improvements	17,470,863	17,424,272
Improvements Other than Buildings	3,574,903	3,543,126
Vehicles	3,755,330	3,717,470
Equipment	6,414,868	6,260,550
Infrastructure	80,859,730	78,829,456
Less: Accumulated Depreciation	(81,834,783)	(77,934,976)
The City's net pension asset and liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:		
Net Pension Asset	274,001	274,001
Net Pension Liability	(3,179,303)	(6,318,367)
Deferred Inflows of Resources - Pension Related	(2,837,254)	(857,007)
Deferred Outflows of Resources - Pension Related	3,184,053	4,727,801
Some of the City's property taxes, special assessments, and other receivables will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		
	4,102,334	4,759,450
The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds.		
	27,008	31,678
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net position.		
	(278,372)	(336,725)
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(27,038,112)	(31,205,326)
Unamortized Bond Premiums	(389,165)	(443,777)
Note Payable	(20,464)	(60,105)
Obligations Under Capital Leases	(792,305)	(1,082,971)
Compensated Absences Payable	(441,524)	(411,237)
Total Net Position of Governmental Activities	\$ 33,293,157	\$ 34,326,626

See accompanying Notes to Basic Financial Statements.

**CITY OF BUFFALO, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017			
	General Fund	Debt Service Fund	Capital Project Fund	HRA Debt Service Fund
REVENUES				
General Property Taxes	\$ 4,001,795	\$ 2,451,515	\$ -	\$ -
Tax Increments	-	-	-	-
Other Taxes	2,372	-	-	-
Licenses and Permits	357,042	-	-	-
Intergovernmental	1,094,602	-	94,556	-
Special Assessments	43,305	13,979	5,933	-
Charges for Services	1,619,079	223,238	-	-
Fines and Forfeits	38,814	-	-	-
Investment Earnings (Loss)	5,012	1,831	3,905	79,482
Refunds and Reimbursements	86,242	450	118,881	160,000
Grants and Contributions	72,890	-	-	-
Miscellaneous	9,039	-	6,767	-
Total Revenues	<u>7,330,192</u>	<u>2,691,013</u>	<u>230,042</u>	<u>239,482</u>
EXPENDITURES				
Current:				
General Government	1,356,240	-	-	-
Public Safety	2,496,688	-	-	-
Public Works	1,385,884	-	-	-
Sanitation	882,131	-	-	-
Culture and Recreation	1,025,710	-	-	-
Community Development	-	-	-	450
Capital Outlay:				
Public Safety	98,441	-	-	-
Public Works	28,178	-	300,999	-
Culture and Recreation	145,511	-	-	-
Community Development	58,487	-	-	-
Capital Leases:				
Principal	273,621	-	-	-
Interest and Fiscal Charges	13,031	-	-	-
Debt Service:				
Principal	39,641	4,318,214	-	179,000
Interest and Fiscal Charges	2,166	762,292	22	82,797
Total Expenditures	<u>7,805,729</u>	<u>5,080,506</u>	<u>301,021</u>	<u>262,247</u>
Revenue Over (Under) Expenditures	(475,537)	(2,389,493)	(70,979)	(22,765)
OTHER FINANCING SOURCES (USES)				
Transfer In	1,397,107	216,610	1,157,877	137,285
Transfer Out	(1,058,125)	(268,483)	-	(349,950)
Bond Proceeds	-	330,000	-	-
Proceeds from Sale of Capital Assets	8,298	-	-	-
Capital Lease Proceeds	118,164	-	-	-
Bond Premium	-	-	-	-
Total Other Financing Sources	<u>465,444</u>	<u>278,127</u>	<u>1,157,877</u>	<u>(212,665)</u>
NET CHANGE IN FUND BALANCES	(10,093)	(2,111,366)	1,086,898	(235,430)
Fund Balances (Deficit) - Beginning of Year	4,549,739	7,077,336	525,515	(1,690,243)
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 4,539,646</u>	<u>\$ 4,965,970</u>	<u>\$ 1,612,413</u>	<u>\$ (1,925,673)</u>

See accompanying Notes to Basic Financial Statements.

2017		2016
Other Governmental Funds	Total Governmental Funds	Total Governmental Funds
\$ 323,016	\$ 6,776,326	\$ 6,118,726
62,216	62,216	58,002
-	2,372	2,199
-	357,042	361,151
137,534	1,326,692	1,674,098
-	63,217	47,390
1,497,166	3,339,483	3,188,484
-	38,814	37,156
(156)	90,074	141,173
5,606	371,179	3,885,370
51,010	123,900	141,763
4,809	20,615	12,789
<u>2,081,201</u>	<u>12,571,930</u>	<u>15,668,301</u>
-	1,356,240	1,285,726
409,408	2,906,096	2,760,454
-	1,385,884	1,297,438
-	882,131	761,236
1,126,098	2,151,808	2,096,187
107,821	108,271	132,333
-	98,441	266,509
-	329,177	6,189,454
46,591	192,102	461,189
87	58,574	9,981
135,209	408,830	399,108
4,529	17,560	15,962
-	4,536,855	5,729,189
-	847,277	929,133
<u>1,829,743</u>	<u>15,279,246</u>	<u>22,333,899</u>
251,458	(2,707,316)	(6,665,598)
1,070,015	3,978,894	2,353,260
(215,835)	(1,892,393)	(656,554)
-	330,000	4,640,000
-	8,298	194,779
-	118,164	768,958
-	-	80,704
<u>854,180</u>	<u>2,542,963</u>	<u>7,381,147</u>
1,105,638	(164,353)	715,549
<u>(1,354,950)</u>	<u>9,107,397</u>	<u>8,391,848</u>
<u>\$ (249,312)</u>	<u>\$ 8,943,044</u>	<u>\$ 9,107,397</u>

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CITY OF BUFFALO, MINNESOTA
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

	2017	2016
Net Change in Fund Balances-Total Governmental Funds	\$ (164,353)	\$ 715,549
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Outlays	1,785,275	4,458,950
Gain (Loss) on Disposal of Capital Assets	-	(10,764)
Capital Assets Contributed to Business-Type Funds	(2,233,890)	(2,132,452)
Depreciation Expense	(3,953,983)	(4,052,958)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Capital Lease Proceeds	(118,164)	(768,958)
Principal Payments for Capital Leases	408,830	413,529
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of bond premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect on these differences in the treatment of general obligation bonds and related items is as follows:		
General Obligation Bond Proceeds	(330,000)	(4,640,000)
Bond Discount/Premium	-	(80,704)
Repayment of Bond Principal and Note Payable	4,536,855	5,729,189
Change in Accrued Interest Expense for General Obligation Bonds	58,353	(4,009)
Amortization of Refunding Loss on Bonds	(4,670)	(4,670)
Amortization of Bond Premium	54,612	66,754
Change in delinquent and noncurrent property taxes, special assessments receivable, and other receivables will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred in the governmental funds.		
	(657,116)	(2,720,105)
Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflow and outflow of resources.		
	(384,931)	138,867
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
	(30,287)	(37,322)
The net revenue of certain activities of the internal service fund is reported with governmental activities.		
	-	(72,869)
Change in Net Position of Governmental Activities	\$ (1,033,469)	\$ (3,001,973)

See accompanying Notes to the Basic Financial Statements.

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 DECEMBER 31, 2017
 (WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2016)**

ASSETS	2017	
	Electric	Water and Sewer
CURRENT ASSETS		
Cash and Cash Equivalents	\$ -	\$ 465,719
Cash and Investments with Fiscal Agent	-	-
Accounts Receivable, Net of Allowance	1,283,652	485,218
Accrued Interest Receivable	-	-
Taxes Receivable		
Current	-	13,633
Delinquent	-	3,460
Sewer and Water Hook-up Fees Receivable - Current Portion	-	3,510
Due from Other Governments	3	4,428
Due from Other Funds	4,487,112	1,179,947
Inventory	957,570	8,335
Prepaid Expenses	26,924	25,301
Total Current Assets	6,755,261	2,189,551
LONG-TERM ASSETS		
Sewer and Water Hook-up Fees Receivable - Long-Term	-	77,435
Advance to Other Funds	-	50,000
Capital Assets:		
Land, Buildings, Infrastructure, and Improvements	29,477,263	98,174,396
Equipment	6,681,545	1,695,338
Construction in Progress	-	292,966
Total Capital Assets	36,158,808	100,162,700
Less: Allowance for Depreciation	(18,016,606)	(37,189,706)
Total Net Capital Assets	18,142,202	62,972,994
Total Long-Term Assets	18,142,202	63,100,429
 Total Assets	 24,897,463	 65,289,980
DEFERRED OUTFLOW OF RESOURCES		
Refunding Loss on Bonds	-	218,480
Pension Related	262,813	204,790
Total Deferred Outflow of Resources	262,813	423,270
 Total Assets and Deferred Outflow of Resources	 \$ 25,160,276	 \$ 65,713,250

See accompanying Notes to the Basic Financial Statements.

2017			2016
Liquor	Golf Course	Total	Total
\$ 63,802	\$ -	\$ 529,521	\$ 42,815
-	-	-	1,837
4,191	5,061	1,778,122	1,685,114
-	-	-	713
-	-	13,633	-
885	1,477	5,822	6,770
-	-	3,510	5,700
825	1,769	7,025	4,529
-	-	5,667,059	5,319,718
623,752	24,112	1,613,769	1,441,569
8,524	2,984	63,733	448
<u>701,979</u>	<u>35,403</u>	<u>9,682,194</u>	<u>8,509,213</u>
-	-	77,435	87,385
-	-	50,000	100,000
2,036,817	3,345,586	133,034,062	130,225,752
461,501	1,154,198	9,992,582	8,968,609
-	-	292,966	-
<u>2,498,318</u>	<u>4,499,784</u>	<u>143,319,610</u>	<u>139,194,361</u>
<u>(995,390)</u>	<u>(1,784,473)</u>	<u>(57,986,175)</u>	<u>(54,368,706)</u>
<u>1,502,928</u>	<u>2,715,311</u>	<u>85,333,435</u>	<u>84,825,655</u>
<u>1,502,928</u>	<u>2,715,311</u>	<u>85,460,870</u>	<u>85,013,040</u>
2,204,907	2,750,714	95,143,064	93,522,253
-	91,187	309,667	377,428
125,150	67,125	659,878	1,184,364
<u>125,150</u>	<u>158,312</u>	<u>969,545</u>	<u>1,561,792</u>
<u>\$ 2,330,057</u>	<u>\$ 2,909,026</u>	<u>\$ 96,112,609</u>	<u>\$ 95,084,045</u>

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION (CONTINUED)
 DECEMBER 31, 2017
 (WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2016)**

LIABILITIES	2017	
	Electric	Water and Sewer
CURRENT LIABILITIES		
Accounts and Contracts Payable	\$ 863,571	\$ 119,723
Accrued Expenses	108,037	31,211
Due to Other Governments	4,806	-
Due to Other Funds	-	-
Accrued Interest	53,813	351,450
Unearned Revenue	1,097	-
Compensated Absences - Current Portion	77,968	74,834
Capital Lease Obligation - Current Portion	236,298	118,901
Bonds Payable - Current Portion	575,000	1,996,786
Total Current Liabilities	1,920,590	2,692,905
LONG-TERM LIABILITIES		
Compensated Absences - Long-Term	72,636	21,480
Capital Lease Obligation - Long-Term	639,085	170,882
Bonds Payable - Long-Term	4,930,595	59,457,362
Advance from Other Funds	-	-
Net Pension Liability	961,497	749,218
Total Long-Term Liabilities	6,603,813	60,398,942
Total Liabilities	8,524,403	63,091,847
DEFERRED INFLOW OF RESOURCES		
Property Taxes Levied for Subsequent Year	-	13,633
Pension Related	198,225	154,461
Total Deferred Inflow of Resources	198,225	168,094
NET POSITION		
Net Investment in Capital Assets	12,181,436	4,275,710
Unrestricted	4,256,212	(1,822,401)
Total Net Position	16,437,648	2,453,309
Total Liabilities, Deferred Inflow of Resources, and Net Position	\$ 25,160,276	\$ 65,713,250

See accompanying Notes to Basic Financial Statements.

2017			2016
Liquor	Golf Course	Total	Total
\$ 56,711	\$ 8,644	\$ 1,048,649	\$ 1,007,826
75,385	8,580	223,213	211,712
8,460	1,562	14,828	3,829
-	5,837,879	5,837,879	5,693,275
1,494	13,034	419,791	322,680
-	27,457	28,554	21,782
19,076	12,302	184,180	178,039
103,317	124,602	583,118	461,598
-	145,000	2,716,786	2,941,786
<u>264,443</u>	<u>6,179,060</u>	<u>11,056,998</u>	<u>10,842,527</u>
24,404	8,687	127,207	118,826
53,015	146,025	1,009,007	994,035
-	3,014,606	67,402,563	66,565,104
50,000	-	50,000	100,000
<u>457,856</u>	<u>245,577</u>	<u>2,414,148</u>	<u>2,849,296</u>
<u>585,275</u>	<u>3,414,895</u>	<u>71,002,925</u>	<u>70,627,261</u>
849,718	9,593,955	82,059,923	81,469,788
-	-	13,633	-
<u>94,393</u>	<u>50,629</u>	<u>497,708</u>	<u>405,656</u>
94,393	50,629	511,341	405,656
1,346,596	(623,920)	17,179,822	14,764,051
39,350	(6,111,638)	(3,638,477)	(1,555,450)
<u>1,385,946</u>	<u>(6,735,558)</u>	<u>13,541,345</u>	<u>13,208,601</u>
<u>\$ 2,330,057</u>	<u>\$ 2,909,026</u>	<u>\$ 96,112,609</u>	<u>\$ 95,084,045</u>

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 YEAR ENDED DECEMBER 31, 2017
 (WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017	
	Electric	Water and Sewer
GROSS PROFIT AND OPERATING REVENUES		
Sales	\$ -	\$ -
Costs of Goods Sold	-	-
Charges for Services	14,090,744	4,969,739
Total Gross Profit and Operating Revenues	14,090,744	4,969,739
OPERATING EXPENSES		
Cost of Sales and Services	9,454,468	1,461,399
Compensation and Employee Benefits	1,315,330	1,071,464
Depreciation	1,318,576	2,117,074
Total Operating Expenses	12,088,374	4,649,937
OPERATING INCOME (LOSS)	2,002,370	319,802
OTHER INCOME (EXPENSE)		
Interest Income (Loss)	7,034	(232)
Interest Expense	(156,725)	(2,391,464)
Taxes and Special Assessments	6	500,815
Intergovernmental Revenues	-	-
Access Fees	14,500	402,195
Refunds and Reimbursements	55,533	-
Miscellaneous Revenue	5,179	13,230
Gain (Loss) on Sale of Capital Assets	-	-
Total Other Expense	(74,473)	(1,475,456)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,927,897	(1,155,654)
CONTRIBUTIONS AND TRANSFERS		
Transfers In	-	201,027
Transfers Out	(1,004,651)	(857,877)
Capital Contributions	765,243	354,963
Total Contributions and Transfers	(239,408)	(301,887)
CHANGE IN NET POSITION	1,688,489	(1,457,541)
Net Position - Beginning of Year	14,749,159	3,910,850
NET POSITION - END OF YEAR	\$ 16,437,648	\$ 2,453,309

See accompanying Notes to Basic Financial Statements.

2017			2016
Liquor	Golf Course	Total	Total
\$ 5,192,375	\$ 63,124	\$ 5,255,499	\$ 5,039,546
(3,752,676)	(43,297)	(3,795,973)	(3,642,942)
-	637,140	19,697,623	19,012,327
1,439,699	656,967	21,157,149	20,408,931
262,754	282,974	11,461,595	11,225,255
605,863	456,669	3,449,326	3,180,949
60,092	148,173	3,643,915	3,581,808
928,709	887,816	18,554,836	17,988,012
510,990	(230,849)	2,602,313	2,420,919
153	(8,931)	(1,976)	6,718
(12,955)	(85,683)	(2,646,827)	(2,345,856)
111,215	237,039	849,075	611,370
-	-	-	11,095
-	-	416,695	376,338
-	2,716	58,249	75,223
2,264	-	20,673	29,034
-	837	837	-
100,677	145,978	(1,303,274)	(1,236,078)
611,667	(84,871)	1,299,039	1,184,841
-	-	201,027	-
(425,000)	-	(2,287,528)	(1,696,706)
-	-	1,120,206	2,132,452
(425,000)	-	(966,295)	435,746
186,667	(84,871)	332,744	1,620,587
1,199,279	(6,650,687)	13,208,601	11,588,014
\$ 1,385,946	\$ (6,735,558)	\$ 13,541,345	\$ 13,208,601

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2017
 (WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017		
	Electric	Water and Sewer	Liquor
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers and Service Users	\$ 14,025,321	\$ 4,933,678	\$ 5,192,993
Cash Paid to Suppliers	(9,560,236)	(1,465,867)	(4,083,208)
Cash Paid to Employees	(1,237,236)	(974,909)	(600,513)
Net Cash Provided (Used) by Operating Activities	<u>3,227,849</u>	<u>2,492,902</u>	<u>509,272</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund Borrowing	(1,004,651)	(656,850)	(425,000)
Interfund Note Receivable	-	50,000	-
Advance To/From Other Funds	(536,936)	189,595	(50,000)
Property Tax Receipts	3	500,812	112,919
Water and Sewer Hook-up Fee Receipts	-	12,140	-
Miscellaneous Receipts	60,712	13,234	2,263
Intergovernmental Receipts	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,480,872)</u>	<u>108,931</u>	<u>(359,818)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Bonds	-	10,000,000	-
Proceeds from Bond Premium	-	-	-
Interfund Lease Payment	-	-	-
Access Fees	14,500	402,195	-
Acquisition and Construction of Capital Assets	(1,393,508)	(1,558,583)	(15,260)
Interest Paid on Bonds	(148,075)	(1,873,074)	(5,005)
Interest Paid on Capital Lease Obligations	(14,769)	(5,714)	(8,899)
Proceeds from Capital Lease	554,597	54,576	-
Principal Payments on Capital Lease Obligation	(192,469)	(113,496)	(99,456)
Principal Payments on Bonds	(575,000)	(9,041,786)	-
Net Cash Used by Capital and Related Financing Activities	<u>(1,754,724)</u>	<u>(2,135,882)</u>	<u>(128,620)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income (Loss)	<u>7,747</u>	<u>(232)</u>	<u>153</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	465,719	20,987
Cash and Cash Equivalents - Beginning of Year	-	-	42,815
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ -</u>	<u>\$ 465,719</u>	<u>\$ 63,802</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION			
Cash	\$ -	\$ 465,719	\$ 63,802
Cash and Investments with Fiscal Agent	-	-	-
Total Cash and Cash Equivalents	<u>\$ -</u>	<u>\$ 465,719</u>	<u>\$ 63,802</u>
NONCASH TRANSACTIONS			
Capital Contributed to Governmental Activities	\$ 765,243	\$ 354,963	\$ -
Interest Accretion on Capital Appreciation Bonds	-	311,136	-
Refunding of 2005 Public Facility Refunding Bonds	-	-	-
Amortization of Premiums and Refunding Loss	(11,496)	108,473	-
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 753,747</u>	<u>\$ 774,572</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

2017		2016
Golf Course	Total	Total
\$ 714,891	\$ 24,866,883	\$ 23,847,648
(332,251)	(15,441,562)	(14,737,309)
(428,924)	(3,241,582)	(3,006,257)
<u>(46,284)</u>	<u>6,183,739</u>	<u>6,104,082</u>
144,604	(1,941,897)	(1,524,740)
-	50,000	50,000
-	(397,341)	(1,414)
235,562	849,296	609,042
-	12,140	13,495
3,554	79,763	104,253
<u>(1,769)</u>	<u>(1,769)</u>	<u>11,095</u>
<u>381,951</u>	<u>(1,349,808)</u>	<u>(738,269)</u>
-	10,000,000	1,140,000
-	-	9,702
-	-	(280,000)
-	416,695	376,338
(64,140)	(3,031,491)	(2,049,196)
(76,758)	(2,102,912)	(2,175,810)
(5,415)	(34,797)	(27,919)
64,114	673,287	666,334
(131,374)	(536,795)	(362,481)
(115,000)	(9,731,786)	(2,676,785)
<u>(328,573)</u>	<u>(4,347,799)</u>	<u>(5,379,817)</u>
<u>(8,931)</u>	<u>(1,263)</u>	<u>6,652</u>
(1,837)	484,869	(7,352)
1,837	44,652	52,004
<u>\$ -</u>	<u>\$ 529,521</u>	<u>\$ 44,652</u>
\$ -	\$ 529,521	\$ 42,815
-	-	1,837
<u>\$ -</u>	<u>\$ 529,521</u>	<u>\$ 44,652</u>
\$ -	\$ 1,120,206	\$ 2,132,452
-	311,136	297,205
-	-	3,275,973
-	96,977	(80,435)
<u>\$ -</u>	<u>\$ 1,528,319</u>	<u>\$ 5,625,195</u>

**CITY OF BUFFALO, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2017
 (WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017		
	Electric	Water and Sewer	Liquor
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 2,002,370	\$ 319,802	\$ 510,990
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	1,318,576	2,117,074	60,092
Changes in Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources:			
(Increase) Decrease in Accounts Receivable	(65,690)	(36,061)	618
(Increase) Decrease in Prepaid Items	(26,924)	(25,301)	(8,524)
(Increase) Decrease in Inventory	(148,822)	-	(19,324)
(Increase) Decrease in Deferred Outflow of Resources	218,465	142,568	113,397
Increase (Decrease) in Accounts and Contracts Payable	68,111	20,313	(48,211)
Increase (Decrease) in Accrued Expenses	6,823	520	2,386
Increase (Decrease) in Due to Other Governments	1,867	-	8,281
Increase (Decrease) in Unearned Revenue	267	-	-
Increase (Decrease) in Net Pension Liability	(196,344)	(86,441)	(116,031)
Increase (Decrease) in Deferred Inflow of Resources	33,383	35,488	12,688
Increase (Decrease) in Accrued Compensated Absences	15,767	4,940	(7,090)
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,227,849</u>	<u>\$ 2,492,902</u>	<u>\$ 509,272</u>

See accompanying Notes to Basic Financial Statements.

2017		2016
Golf Course	Total	Total
\$ (230,849)	\$ 2,602,313	\$ 2,420,919
148,173	3,643,915	3,581,808
8,122	(93,011)	(194,707)
(2,536)	(63,285)	28,323
(4,054)	(172,200)	(8,627)
50,056	524,486	(922,246)
610	40,823	114,530
1,772	11,501	20,708
851	10,999	(351)
6,505	6,772	(7,485)
(36,332)	(435,148)	889,108
10,493	92,052	138,979
905	14,522	43,123
<u>\$ (46,284)</u>	<u>\$ 6,183,739</u>	<u>\$ 6,104,082</u>

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NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Buffalo (the City), located in Wright County in Minnesota, conforms to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies.

A. Financial Reporting Entity

As required by GAAP, the financial statements of the reporting entity include those of the City and its component unit. A component unit is a legally separate entity for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component include whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

The Housing and Redevelopment Authority (HRA) of Buffalo is an entity legally separate from the City. However, for financial reporting purposes, the HRA is reported as if it were part of the City's operations (blended component unit) because the HRA provides services primarily to the City and the City council appoints the commission board members.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. 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 to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component unit. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds. The City reports all proprietary funds as major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

General Fund

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

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, interest, principal, and related costs on general long-term debt.

Capital Project Fund

The Capital Project Fund accounts for financial resources to be used for acquisition or construction of major capital facilities (other than those financed by proprietary funds).

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

HRA Debt Service Fund

The HRA Debt Service Fund accounts for the accumulation of resources for, and the payment of, interest, principal, and related costs on general long-term debt for the HRA.

The City reports the following major proprietary funds:

Electric Fund

The Electric Fund accounts for customer electric service charges that are used to finance electric operating expenses.

Water and Sewer Fund

The Water and Sewer Fund accounts for customer water and sewer service charges which are used to finance water and sewer operating expenses.

Liquor Fund

The Liquor Fund accounts for customer sales that are used to finance liquor store operating expenses and provide funds for general operations of the City.

Golf Course Fund

The Golf Course Fund accounts for customer sales that are used to finance golf course operating expenses.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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 in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. 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 electric, water and sewer, liquor stores and golf course funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgets

Annual appropriation budgets are adopted for the following funds: General, Fire, Library, Airport, and Civic Center.

The General Fund budget does not include activity related to the community center or parks. Therefore, the budgetary basis for the General Fund differs from GAAP. Budgets for the Fire, Library, Airport, and Civic Center are adopted on a basis consistent with GAAP.

Budgeted amounts are reported as originally adopted, or as amended by the City council. Budgeted expenditure appropriations lapse at year-end.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets (Continued)

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the administrator submits to the City council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments, and the final tax levy and budget are adopted.
3. The City administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City council.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and some enterprise funds. Formal budgetary integration is not employed for the capital projects and debt service funds.
5. Budgets are adopted on a basis consistent with GAAP except for the General Fund, as previously described, and enterprise funds where capital expenditures are budgeted for as an operating expense. Budgeted amounts presented are as originally adopted. The City does not budget for some special revenue funds that have minimal transactions nor is an annual budget prepared for the HRA.

E. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position or Fund Balances

1. Cash and Investments

Cash and investment balances from all funds are combined and invested to the extent available in certificates of deposits and other allowable investments. Earnings from investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Short-term highly liquid debt instruments (including commercial paper, bankers' acceptances and U.S. Treasury and Agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position or Fund Balances (Continued)

2. Property Tax Revenue Recognition

Property tax levies are set by the City council in December of each year, and are certified to the county auditor for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Such taxes become a lien on property on January 1 and are recorded as receivables by the City at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The county provides tax settlements to cities and other taxing entities three times a year.

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. Taxes which remain unpaid at December 31 are classified as delinquent and are not recognized as revenue in the governmental fund financial statements because they are not known to be available to finance current expenditures. The portion of delinquent taxes not collected by the City in January is fully offset by deferred inflows of resources in the governmental funds because it is not available to finance current expenditures. No allowances for uncollectible taxes have been provided because such amounts are not expected to be material. Property tax revenue in governmental activities is susceptible to full accrual on the government-wide statements.

3. Special Assessment Revenue Recognition

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with state statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the county auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year.

Special assessments are collected by the county and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent assessments receivable in governmental funds are completely offset by deferred inflows of resources. Special assessment revenue in governmental activities is susceptible to full accrual on the government-wide statements.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position or Fund Balances (Continued)

3. Special Assessment Revenue Recognition (Continued)

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties, and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by City council or court action. Pursuant to state statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural, or seasonal recreational land in which event the property is subject to such sale after five years.

4. Utility Billing

The City bills customers monthly for the following utility services: electric, sewer and water, sanitation, recycling, storm sewer, and internet. The City bills and recognizes the electric, sewer and water services revenue at mid-month, when the meters are read.

5. Inventories

Materials and supplies, if material, are recorded at original cost and are reported under the consumption method in the Governmental Funds. Inventories in the City's utility funds and liquor store funds are reflected at average cost.

6. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables are classified as "due from other funds", "interfund lease receivable", "interfund note receivable", or "advances to other funds" on the balance sheets of the fund financial statements.

7. Loans Receivable and Allowance for Uncollectible Accounts

The City records loans receivable for a revolving loan program that assists residents in the rehabilitation of homes. Also, the HRA issues loans to local businesses. An allowance for uncollectible accounts is established with City management believes that some portion of the receivable will not be collected. The City estimates the allowance based on the specific identification method. The estimated allowance as of December 31, 2017 for the HRA loans is \$200,000 and the estimated allowance for the revolving loan program is \$175,155.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position or Fund Balances (Continued)

8. Property Held for Resale

These assets are recorded at the lower of original cost or current net realizable value in the governmental fund, which purchased them.

9. Capital Assets

Capital assets are capitalized at historical cost, estimated historical cost, or in the case of contributions, at their estimated fair market value at the time received. In the case of the initial capitalization of infrastructure, the City retroactively implemented the reporting of this item when GASB 34 was implemented. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed as incurred. Capital assets are defined by the City as assets with an original unit cost over \$5,000 and an estimated useful life in excess of two years.

Capital assets related to general governmental activities are recorded in the government-wide statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are normally sold for an immaterial amount when declared as no longer needed for City purposes, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 10 years for office furnishings, office and computer equipment, vehicles and large equipment; 20 to 50 years for infrastructure and 40 to 50 years for buildings and plants. Capital assets not being depreciated include land and construction in progress.

Property, plant, and equipment used by proprietary funds are stated at cost or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the time received.

10. Compensated Absences

Vacation

City employees earn vacation days based upon the number of completed years of service. The City compensates employees for unused vacation upon termination of employment. Accordingly, the expenditure for vacation is recognized as it is used in the governmental funds and is recognized as it is earned in the proprietary funds. Accrued vacation (unused) is recorded in the proprietary fund level statements and in the government-wide statements as compensated absences.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position or Fund Balances (Continued)

10. Compensated Absences (Continued)

Sick Leave

Employees are entitled to paid sick leave at various rates for each month of full-time service. Sick pay is recorded as an expenditure when payment is made.

Severance

Regular employees who retire from active service receive pay for a percentage of their unused sick leave as severance. The percentage of sick leave varies from 25% to 40% based on years of service. The estimated severance liability is recorded in the fund level statements of the proprietary funds as compensated absences payable and in the government-wide financial statements as a component of long-term debt.

11. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bond issue costs are expensed in the year of issuance.

In the governmental fund financial statements, bond premiums, and discounts, as well as bond issue costs are recognized during the current period. The face amount of the debt issue is reported as other financing source. Premiums and discounts received on debt issuances are reported as other financing sources and uses, respectively. Bond issuance costs are reported as debt service expenditures.

12. Pension Asset/Liability

For purposes of measuring the net pension asset, the net pension liability, deferred outflow/inflow of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Buffalo Firefighters Relief Association plans (FRA), and additions to/deductions from PERA's and the FRA's fiduciary net position have been determined on the same basis as they are reported by PERA and the FRA. For this purpose, plan contributions and benefit payments (including refunds of 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.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position or Fund Balances (Continued)

13. Deferred Outflow of Resources

The City's governmental activities and proprietary fund financial statements report a separate section for deferred outflow of resources. This separate financial statement element reflects a decrease in net position or fund balance, that relate to future periods. The City will not recognize the related outflow until a future event occurs. More detailed information about pension related deferred outflow of resources can be found in Note 6 to the financial statements.

14. Deferred Inflow of Resources

The City's financial statements report a separate section for deferred inflow of resources. This separate financial statement element reflects an increase in fund balance/net position that applies to a future period. The City will not recognize the related revenue until a future event occurs. The City has two types of items which are reported as deferred inflow of resources. The first type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. The second type of deferred inflow of resources relate to pension liabilities as described in Note 6 to the financial statements.

During the current year, the County collected taxes levied for the subsequent period. These taxes will be recognized as revenue by the City in the year for which they were levied and are reported as property taxes levied for subsequent year.

15. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses made on behalf of another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

All interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the government-wide statements of net position and statements of activities.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position or Fund Balances (Continued)

16. Net Position

In the government-wide financial statements and in the proprietary fund level statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets is separately reported because the City reports all capital assets which make up a significant portion of total net position. Restricted net position accounts for the portion of net position restricted by parties outside the City. Unrestricted net position is the remaining net position not included in the previous two categories.

17. Fund Balance

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable and spendable fund balances. Spendable fund balances include restricted, committed, assigned and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The committed fund balances are self-imposed limitations approved by the City council, which is the highest level of decision-making authority within the City. Only the City council can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City council has authorized the City administrator and the assistant administrator for business and operations to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position or Fund Balances (Continued)

17. Fund Balance (Continued)

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it's the City's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the City's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

NOTE 2 DEPOSITS

The cash balances of substantially all funds are pooled by the City for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2017, based on market prices. Investment earnings on cash and pooled investments are credited to all funds based on their cash balances each month. In addition, some funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2017 were \$6,258.

A. Deposits

In accordance with applicable Minnesota state statutes, the City maintains deposits at financial institutions authorized by the City council. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; securities issued by a U.S. government agency; general obligations of local governments rated "A" or better; revenue obligations of a state or local governments rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral to be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk – Deposits – In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's deposit policy does not provide additional restrictions beyond Minnesota state statutes. At year-end, the carrying amount of the City's deposits was entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 DEPOSITS (CONTINUED)

A. Deposits (Continued)

The deposits are presented in the financial statements as follows:

Cash and Cash Equivalents	<u>\$ 9,547,077</u>
Governmental Activities	\$ 9,017,556
Business-Type Activities	529,521
Total Cash and Cash Equivalents	<u>\$ 9,547,077</u>

NOTE 3 LEASE RECEIVABLE

On April 1, 2015, the City entered into a lease and purchase option agreement with the Trailblazer Joint Powers Board for the purchase and construction of a new transportation facility. The Trailblazer Joint Powers Board will make monthly payments ranging from \$18,378 to \$18,463 to the City in order to meet the annual debt requirements on the 2015C bonds issued by the City. These monthly payments began upon completion of the facility during 2016. The total loan receivable outstanding as of December 31, 2017 is \$3,140,855. It has an interest rate of 2.87% and is set to mature in 2036.

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 4,313,571	\$ -	\$ -	\$ -	\$ 4,313,571
Construction in Progress	4,253,510	1,394,454	(2,113,527)	(2,233,890)	1,300,547
Total Capital Assets, Not Being Depreciated	<u>8,567,081</u>	<u>1,394,454</u>	<u>(2,113,527)</u>	<u>(2,233,890)</u>	<u>5,614,118</u>
Capital Assets, Being Depreciated:					
Land Improvements	15,734,835	149,352	-	-	15,884,187
Buildings and Building Improvements	17,424,272	46,591	-	-	17,470,863
Improvements Other than Buildings	3,543,126	31,777	-	-	3,574,903
Vehicles	3,717,470	46,352	-	(8,492)	3,755,330
Equipment	6,260,550	200,002	(45,684)	-	6,414,868
Infrastructure	78,829,456	2,030,274	-	-	80,859,730
Total Capital Assets, Being Depreciated	<u>125,509,709</u>	<u>2,504,348</u>	<u>(45,684)</u>	<u>(8,492)</u>	<u>127,959,881</u>
Accumulated Depreciation for:					
Land Improvements	(6,046,052)	(666,395)	-	-	(6,712,447)
Buildings and Building Improvements	(7,614,953)	(416,859)	-	-	(8,031,812)
Improvements Other than Buildings	(1,684,206)	(158,888)	-	-	(1,843,094)
Vehicles	(2,226,244)	(225,672)	-	8,492	(2,443,424)
Equipment	(4,971,187)	(297,135)	45,684	-	(5,222,638)
Infrastructure	(55,392,334)	(2,189,034)	-	-	(57,581,368)
Total Accumulated Depreciation	<u>(77,934,976)</u>	<u>(3,953,983)</u>	<u>45,684</u>	<u>8,492</u>	<u>(81,834,783)</u>
Total Capital Assets, Being Depreciated, Net	<u>47,574,733</u>	<u>(1,449,635)</u>	<u>-</u>	<u>-</u>	<u>46,125,098</u>
Governmental Activities Capital Assets, Net	<u>\$ 56,141,814</u>	<u>\$ (55,181)</u>	<u>\$ (2,113,527)</u>	<u>\$ (2,233,890)</u>	<u>\$ 51,739,216</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
General Government	\$ 90,264
Public Safety	301,788
Public Works	2,753,003
Parks, Culture and Recreation	808,928
Total Depreciation Expense, Governmental Activities	<u>\$ 3,953,983</u>

In 2017, \$2,233,890 (net) of infrastructure assets were contributed from governmental activities to business-type activities.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 2,636,955	\$ -	\$ -	\$ -	\$ 2,636,955
Construction in Progress	-	292,966	-	-	292,966
Total Capital Assets, Not Being Depreciated	2,636,955	292,966	-	-	2,929,921
Capital Assets, Being Depreciated:					
Land Improvements	2,667,457	15,260	-	-	2,682,717
Buildings and Building Improvements	50,146,199	6,303	-	-	50,152,502
Utility Distributions Systems	74,774,497	589,097	-	2,197,649	77,561,243
Machinery and Shop Equipment	8,969,253	1,014,179	(34,938)	44,733	9,993,227
Total Capital Assets, Being Depreciated	136,557,406	1,624,839	(34,938)	2,242,382	140,389,689
Accumulated Depreciation for:					
Land Improvements	(1,141,627)	(66,856)	-	-	(1,208,483)
Buildings and Building Improvements	(18,754,575)	(1,056,232)	-	-	(19,810,807)
Utility Distributions Systems	(28,388,327)	(1,961,317)	-	-	(30,349,644)
Machinery and Shop Equipment	(6,084,177)	(559,510)	34,938	(8,492)	(6,617,241)
Total Accumulated Depreciation	(54,368,706)	(3,643,915)	34,938	(8,492)	(57,986,175)
Total Capital Assets, Being Depreciated, Net	82,188,700	(2,019,076)	-	2,233,890	82,403,514
Business-Type Activities Capital Assets, Net	\$ 84,825,655	\$ (1,726,110)	\$ -	\$ 2,233,890	\$ 85,333,435

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

Business-Type Activities:	
Electric Fund	\$ 1,318,576
Water and Sewer Fund	2,117,074
Liquor Fund	60,092
Golf Course Fund	148,173
Total Depreciation Expense, Business-Type Activities	<u>\$ 3,643,915</u>

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 CITY INDEBTEDNESS

City indebtedness at December 31, 2017 is composed of the following:

Description	Initial Amount Issued	Maturity Date	Interest Rate	Outstanding Principal
General Obligation Bonds:				
Governmental Activities:				
2008 G.O. Street Reconstruction Bonds #2008D	\$ 1,715,000	2019	3.50-4.50%	\$ 435,000
2009 G.O. Bonds #2009D	3,685,000	2025	3.00-4.00	3,095,000
2010 G.O. Bonds #2010A	1,070,000	2021	2.00-4.00	190,000
2010 G.O. Refunding Bonds #2010C	2,145,000	2028	2.00-3.80	1,450,000
2010 G.O. Bonds #2010C	425,000	2028	2.00-3.80	295,000
2011 G.O. Capital Improvement Refunding #2011A	5,925,000	2024	0.40-3.15	4,435,000
2012 G.O. Refunding #2012B	1,555,000	2020	2.00	425,000
2013 G.O. Bonds #2013A	3,575,000	2024	2.00	2,530,000
2013 G.O. Bonds #2013B	585,000	2028	3.00-3.40	445,000
2015 G.O. Bonds #2015A	4,045,000	2031	2.00-3.00	3,825,000
2016 G.O. Street Reconstruction Bonds #2016C	2,565,000	2032	2.00-2.75	2,565,000
Total Governmental Activities - G.O. Bonds	27,290,000			19,690,000
Business-Type Activities:				
2010 G.O. Bonds #2010A	2,385,000	2026	2.00-4.00	1,650,000
2010 G.O. Bonds #2010C	1,320,000	2019	2.00-3.80	685,000
2013 G.O. Equipment Certificates #2013A	1,455,000	2022	2.00	1,030,000
2013 G.O. Bonds #2013B	440,000	2028	3.00-3.40	340,000
Total Business-Type Activities - G.O. Bonds	5,600,000			3,705,000
Total General Obligation Bonds	\$ 32,890,000			\$ 23,395,000
Tax Abatement Bonds:				
Governmental Activities:				
2012 G.O. Tax Abatement Bonds #2012C	\$ 1,955,000	2033	0.65-3.20%	\$ 1,675,000
2015 G.O. Tax Abatement Bonds #2015C	3,400,000	2036	1.00-3.05	3,260,000
2017 G.O. Tax Abatement Bonds #2017C	330,000	2020	3.09	330,000
Total Tax Abatement Bonds	5,685,000			5,265,000
Business-Type Activities:				
2016 G.O. Tax Abatement Bonds #2016A	3,250,000	2035	2.00-3.15%	3,135,000
Total Tax Abatement Bonds:	\$ 8,935,000			\$ 8,400,000

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 CITY INDEBTEDNESS (CONTINUED)

Description	Initial Amount Issued	Maturity Date	Net Interest Rate	Outstanding Principal
Capital Lease Obligations:				
Governmental Activities:				
2013 MIS, Police, Garbage Equipment	\$ 178,894	2018	2.19%	\$ 25,159
2014 MIS, Police, Street Equipment	319,565	2019	1.57	87,657
2015 Police, Street, Park, Civic Center Vehicles and Equipment	149,624	2020	0.02	73,888
2016 Police, Parks, Street, Fire, Electric, Golf Course Equipment	560,602	2020	0.02	332,309
2016 Police, Parks, Electric, Water Equipment	208,356	2021	1.97	168,306
2017 Police, Parks Equipment	118,164	2022	1.94	104,986
Total General Obligation Capital Lease Purchase Obligations	<u>\$ 1,535,205</u>			<u>\$ 792,305</u>
Note Payable:				
Governmental Activities:				
Note Payable - ISD 877	<u>\$ 250,000</u>	2018	4.25%	<u>\$ 20,464</u>
General Obligation Revenue Bonds:				
Business-Type Activities:				
2009 G.O. Water and Sewer Refunding Rev. Bonds #2009B	\$ 4,712,560	2025	4.35-4.94	\$ 4,712,561
2009 G.O. Utility Revenue Bonds #2009E	3,004,194	2024	2.00-3.75	1,561,887
2010 Electric Revenue Bonds #2010B	955,000	2021	2.50-3.70	645,000
2011 G.O. Water and Sewer Revenue Bonds, #2011B	3,575,000	2032	0.65-4.30	2,865,000
2012 G.O. Water and Sewer Revenue Bonds #2012A	5,610,000	2033	2.55-3.00	5,610,000
2014 G.O. Water and Sewer Revenue Refunding Bonds #2014A	30,860,000	2028	3.00-4.00	30,580,000
2014 Electric Revenue Bonds #2014B	1,880,000	2025	2.75-3.00	1,850,000
2015 Electric Revenue Refunding Bonds #2015B	1,185,000	2022	2.00-2.15	900,000
2016 Electric Revenue Bonds #2016B	1,140,000	2026	2.00-2.45	1,030,000
2017 G.O. Wastewater Revenue Refunding Bonds #2017A	6,840,000	2033	3.00-3.50	6,840,000
2017 G.O. Water and Sewer Revenue Bonds #2017B	3,160,000	2033	1.35-3.00	3,160,000
Total Business-Type Activities Revenue Bonds	<u>62,921,754</u>			<u>59,754,448</u>
Governmental Activities:				
2009 G.O. Utility Revenue Bonds #2009E	220,806	2024	2.00-3.75	108,112
2009 HRA Revenue Bond	178,000	2020	4.82	60,000
2011 Public Facility Lease Revenue Bonds #2011A	2,865,000	2027	0.65-4.60	1,915,000
Total Governmental Activities Revenue Bonds	<u>3,263,806</u>			<u>2,083,112</u>
Total Revenue Bonds	<u>\$ 66,185,560</u>			<u>\$ 61,837,560</u>
Revenue Lease Purchase Obligations:				
Business-Type Activities:				
2004 Liquor Store Purchase/Remodel	\$ 1,195,000	2019	3.85%	\$ 153,736
2013 Wild Marsh, Electric, Water, Wastewater Equipment	214,238	2018	2.19	30,106
2014 Wild Marsh, Electric, Liquor, Wastewater Equipment	368,815	2019	1.57	101,136
2015 Wild Marsh, Water, and Wastewater Equipment	472,622	2020	1.51	233,355
2016 Electric, Golf Course Equipment	290,897	2020	1.89	172,433
2016 Electric, Water Equipment	375,436	2021	1.97	303,269
2017 Electric, Water, Golf Equipment	673,287	2022	1.94	598,090
Total Revenue Lease Purchase Obligations	<u>\$ 3,590,295</u>			<u>\$ 1,592,125</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2017:

	Beginning of Year	Additions	Retirements	End of Year	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 23,785,000	\$ -	\$ 4,095,000	\$ 19,690,000	\$ 1,900,000
General Obligation Tax Abatement Bonds	5,145,000	330,000	210,000	5,265,000	220,000
General Obligation Revenue Bond	2,275,326	-	192,214	2,083,112	192,214
Bond Subtotal	31,205,326	330,000	4,497,214	27,038,112	2,312,214
Bond Premium	443,777	-	54,612	389,165	-
Net Bond Subtotal	31,649,103	330,000	4,551,826	27,427,277	2,312,214
Capital Lease Obligations	1,082,971	118,164	408,830	792,305	326,214
Note Payable	60,105	-	39,641	20,464	20,464
Compensated Absences	411,237	244,672	214,385	441,524	222,050
Total Governmental Activities	33,203,416	692,836	5,214,682	28,681,570	2,880,942
Business-Type Activities:					
General Obligation Bonds	4,890,000	-	1,185,000	3,705,000	665,000
General Obligation Tax Abatement Bonds	3,250,000	-	115,000	3,135,000	145,000
General Obligation Revenue Bonds	53,331,234	10,000,000	8,001,786	55,329,448	1,476,786
Electric Revenue Bonds	4,855,000	-	430,000	4,425,000	430,000
Bond Subtotal	66,326,234	10,000,000	9,731,786	66,594,448	2,716,786
Interest Accretion on Capital Appreciation Bonds	1,925,022	311,136	-	2,236,158	-
Bond Premium	1,255,634	181,042	147,933	1,288,743	-
Net Bond Subtotal	69,506,890	10,492,178	9,879,719	70,119,349	2,716,786
Revenue Lease Purchase Obligations	1,455,633	673,287	536,795	1,592,125	583,118
Compensated Absences	296,865	196,052	181,530	311,387	184,180
Total Business-Type Activities	71,259,388	11,361,517	10,598,044	72,022,861	3,484,084
Total Debt	<u>\$ 104,462,804</u>	<u>\$ 12,054,353</u>	<u>\$ 15,812,726</u>	<u>\$ 100,704,431</u>	<u>\$ 6,365,026</u>

Assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Asset:		
Land	\$ -	\$ 2,265,045
Buildings and Improvements	-	2,476,044
Vehicles and Equipment	1,831,108	2,679,532
Subtotal	1,831,108	7,420,621
Less: Accumulated Depreciation	(703,121)	(1,700,835)
Total	<u>\$ 1,127,987</u>	<u>\$ 5,719,786</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 CITY INDEBTEDNESS (CONTINUED)

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

Year Ending December 31,	Governmental Activities				
	Long-Term Debt		Notes and Capital Leases		Totals
	Principal	Interest	Principal	Interest	
2018	\$ 2,312,214	\$ 731,596	\$ 346,678	\$ 12,279	\$ 3,402,767
2019	2,364,415	678,380	261,989	6,394	3,311,178
2020	2,700,415	617,410	126,103	2,466	3,446,394
2021	2,435,616	552,278	67,689	919	3,056,502
2022	2,445,616	486,509	10,310	50	2,942,485
2023-2027	9,869,836	1,403,116	-	-	11,272,952
2028-2032	3,955,000	402,134	-	-	4,357,134
2033-2036	955,000	53,194	-	-	1,008,194
Totals	\$ 27,038,112	\$ 4,924,617	\$ 812,769	\$ 22,108	\$ 32,797,606

Year Ending December 31,	Business-Type Activities				
	Long-Term Debt		Capital Leases		Totals
	Principal	Interest	Principal	Interest	
2018	\$ 2,716,786	\$ 1,968,149	\$ 583,118	\$ 27,504	\$ 5,295,557
2019	2,970,585	1,884,316	460,592	15,395	5,330,888
2020	3,838,980	2,497,921	272,896	7,854	6,617,651
2021	3,961,161	2,474,894	216,882	3,432	6,656,369
2022	4,288,126	2,441,440	58,637	284	6,788,487
2023-2027	26,818,810	7,825,463	-	-	34,644,273
2028-2032	18,265,000	2,035,415	-	-	20,300,415
2033-2035	3,735,000	101,034	-	-	3,836,034
Totals	\$ 66,594,448	\$ 21,228,632	\$ 1,592,125	\$ 54,469	\$ 89,469,674

The annual requirements to amortize all long-term debt outstanding as of December 31, 2017, including interest of \$26,229,826 are as follows:

Year Ending December 31,	Amount
2018	\$ 8,698,324
2019	8,642,066
2020	10,064,045
2021	9,712,871
2022	9,730,972
2023-2027	45,917,225
2028-2032	24,657,549
2033-2036	4,844,228
Total	\$ 122,267,280

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 CITY INDEBTEDNESS (CONTINUED)

In 2017, the City issued \$6,840,000 in General Obligation Wastewater Revenue Bonds (Series 2017A) to redeem the 2018 through 2023 maturities of the Series 2007A Bonds. The bonds carry an interest rate between 3.00% and 3.5% and will mature in 2033. The total cash savings attributable to the refunding of these bonds is \$71,945.

The City issued \$3,160,000 General Obligation Water and Sewer Revenue Bonds, (Series 2017B) for the purpose of financing utility projects. The bonds carry an interest rate between 2.00% and 3.0% and will mature in 2033.

The City issued \$330,000 General Obligation Temporary Tax Abatement Bonds (Series 2017C), with an interest rate of 3.09% which will mature in 2020.

NOTE 6 PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Fund (General Employees Plan (accounted for in the General Employees Fund))

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

2. Public Employees Police and Fire Plan (Police and Fire Plan Accounted for in the Police and Fire Fund))

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

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 PENSION PLANS (CONTINUED)

B. Benefits Provided

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

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

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

3. General Employees Plan Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (method 1) or a level accrual formula (method 2). Under method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

1. Police and Fire Plan Benefits

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

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 PENSION PLANS (CONTINUED)

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. Governmental Activities and Business-type Activities recognized pension expense of \$1,124,851 and \$167,660, respectively, for all plans for the year ended December 31, 2017.

1. General Employees Plan Contributions

Basic plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City contributions to the General Employees Fund for the year ended December 31, 2017 were \$320,722. The City contributions were equal to the required contributions as set by state statute.

2. Police and Fire Plan Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The City was required to contribute 16.20% of pay for Police and Fire Fund members in calendar year 2017. The City contributions to the Police and Fire Fund for the year ended December 31, 2017 were \$181,013. The City contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$4,162,325 for its proportionate share of the General Employees Fund'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 2017. The State of Minnesota is considered a nonemployer 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 \$52,338. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0652%, an increase of 0.0032% from the prior year.

For the year ended December 31, 2017, the City recognized pension expense of \$535,662 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$10,432 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$6 million to the General Employees Fund.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERS Pension Costs (Continued)

At December 31, 2017, the City reported its proportionate share of the General Employees Plan's deferred outflow of resources and deferred inflow of resources related to pensions from the following sources:

Description	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 137,179	\$ 267,773
Changes in Actuarial Assumptions	691,035	417,273
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	26,883	-
Changes in Proportion and Differences Between		
City Contributions and Proportionate		
Share of Contributions	135,556	173,073
City Contributions Subsequent to the		
Measurement Date	147,071	-
Total	<u>\$ 1,137,724</u>	<u>\$ 858,119</u>

\$147,071 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflow and inflow of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expenses</u>
2018	\$ 94,884
2019	247,969
2020	(33,637)
2021	(176,682)
Total	<u>\$ 132,534</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2017, the City reported a liability of \$1,431,126 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.106%, an increase of 0.003% from the prior year.

For the year ended December 31, 2017, the City recognized pension expense of \$547,571 for its proportionate share of the Police and Fire Plan's pension expense. The City also recognized \$9,540 for the year ended December 31, 2017, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the state of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2017, the City reported its proportionate share of the Police and Fire Fund's deferred outflow of resources and deferred inflow of resources related to pensions from the following sources:

Description	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 32,941	\$ 382,596
Changes in Actuarial Assumptions	1,872,914	2,031,844
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	19,655	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	624,535	37,417
City Contributions Subsequent to the Measurement Date	92,890	-
Total	<u>\$ 2,642,935</u>	<u>\$ 2,451,857</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

\$92,890 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflow and inflow of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2018	\$ 218,231
2019	218,231
2020	165,769
2021	(112,525)
2022	(391,518)
Total	<u>\$ 98,188</u>

Governmental activities recognized pension expense of \$1,083,233 for the year ended December 31, 2017.

E. Actuarial Assumptions

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

<u>Assumptions</u>	
Inflation	2.75% per Year
Salary Increases	3.25% per Year
Investment Rate of Return	7.50%

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

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

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

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

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39 %	5.10 %
International Stocks	19	5.30
Bonds	20	0.75
Alternative Assets	20	5.90
Cash	2	-
Total	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. 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 positions of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 one percentage point lower or one percentage point higher than the current discount rate:

	Proportionate Share of the			
	General Employees Retirement Plan		Public Employees Police and Fire Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 6,456,075	6.50%	\$ 2,695,228
Current	7.50%	4,162,325	7.50%	1,431,126
1% Increase	8.50%	2,284,474	8.50%	387,540

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 PENSION PLANS (CONTINUED)

H. Pension Plan Fiduciary Net Position

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

NOTE 7 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN

A. Plan Description

Firefighters of the City are members of the Buffalo Firefighters Relief Association (the Association). The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes, Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2017, membership includes 29 active participants and 7 terminated employees entitled to benefits, but not yet receiving them.

B. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the fire department, has served at least 20 years of active service with such department before retirement, shall be entitled to a lump sum service pension in the amount of \$4,000 for each year of active fire department service, but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with 10 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$4,000 for each year the member was an active member of the Buffalo Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10% of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**NOTE 7 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

C. Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from state aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The association is comprised of volunteers; therefore, there are no payroll expenditures (i.e., there are no covered payroll percentage calculations).

The minimum contribution from the City and state aid is determined as follows:

Normal Cost	\$	127,369
Amortization Payment on Unfunded Accrued Liability Prior to Any Change		1,017
Administrative Expenses		3,463
Anticipated State Aid		(113,407)
Projected Investment Earnings		(18,442)
Total Contribution Required	<u>\$</u>	<u>-</u>

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$120,197 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2017 was \$-0-.

D. Pension Costs

At December 31, 2017, the City reported an asset of \$274,001 for the Association's net pension asset. The net pension asset was measured as of December 31, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$98,743 for the year ended December 31, 2017. At December 31, 2017, the City reported deferred outflow of resources and deferred inflow of resources from the following sources:

Description	Deferred Outflow of Resources	Deferred Inflow of Resources
Changes in Actuarial Assumptions	\$ -	\$ 24,986
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	53,388	-
City Contributions Subsequent to the Measurement Date	9,884	-
Total	<u>\$ 63,272</u>	<u>\$ 24,986</u>

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**NOTE 7 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

D. Pension Costs (Continued)

Amounts reported as deferred outflow and inflow of resources related to the Association's pension will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expenses Amount</u>
2018	\$ 17,228
2019	17,228
2020	17,230
2021	(12,825)
2022	(3,632)
Thereafter	<u>(6,827)</u>
Total	<u>\$ 28,402</u>

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2016. The City elected a change accounting principle for the year ended December 31, 2017 to convert from a measurement period as of year end to a one year lookback. The measurement period for year ended December 31, 2017 is December 31, 2016. The following actuarial assumptions were used to calculate the total pension liability, applied to all periods included in the measurement:

Valuation Date:	December 31, 2016
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Dollar
Actuarial Assumptions:	
Discount Rate	6.00%
Investment Rate of Return	6.00%
20-Year Municipal Bond Yield	3.78%
Age of Service Retirement	50

The best-estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best-estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**NOTE 7 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

E. Actuarial Assumptions (Continued)

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Portfolio Weight	Expected Nominal Rate of Return
Cash	5.0 %	3.59 %
Domestic Equity	60.0	8.33
Fixed Income	35.0	5.02
Total	<u>100.0 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 6.00%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

G. Pension Asset Sensitivity

The following presents the City of Buffalo's proportionate share of the net pension asset of the Association, calculated using the discount rate of 6.00%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current rate:

	1% Decrease	Selected Discount Rate	1% Increase
Net Pension Liability (Asset)	\$ (235,759)	\$ (274,001)	\$ (311,457)
Discount Rate	5.00%	6.00%	7.00%

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**NOTE 7 FIREFIGHTERS RELIEF ASSOCIATION DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

H. Plan's Fiduciary Net Position (Continued)

Information about the Plan's fiduciary net position is as follows:

Assets

Cash	\$ 172,365
Cash Position of Mutual Funds	33,397
Investments	1,369,522
Contributions Receivable	5,000
Total Assets	<u>\$ 1,580,284</u>

Net Position

Unrestricted	<u>\$ 1,580,284</u>
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Information about changes in the Plan's net pension asset is as follows:

	<u>Measurement Date</u> December 31, 2017
<u>Total Pension Liability</u>	
Service Cost	\$ 82,609
Interest	71,998
Changes in Assumptions	(28,618)
Benefit Payments, Including Member Refunds	<u>(216,977)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	(90,988)
Total Pension Liability - Beginning of Year	<u>1,397,271</u>
TOTAL PENSION LIABILITY - END OF YEAR (a)	1,306,283
<u>Plan Fiduciary Net Position</u>	
Municipal Contributions	2,500
State Contributions	119,295
Net Investment Income	121,906
Benefit Payments	(216,977)
Administrative Expenses	(11,374)
Other Changes	<u>8,534</u>
NET CHANGE IN FIDUCIARY NET POSITION	23,884
Fiduciary Net Position - Beginning of Year	<u>1,556,400</u>
FIDUCIARY NET POSITION - END OF YEAR (b)	<u>1,580,284</u>
ASSOCIATION'S NET PENSION LIABILITY/ (ASSET) - END OF YEAR (a) - (b)	<u>\$ (274,001)</u>

CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 8 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Balances/Net Position

The City has deficit fund balances/net position at December 31, 2017 as follows:

Governmental Funds:	
HRA Debt Service	\$ (1,925,673)
Other Governmental Funds:	
Civic Center Fund	(2,630,535)
Proprietary Funds:	
Golf Course Fund	(6,735,558)

The City intends to fund these deficits through future tax levies, special assessment levies, tax increments, transfers from other funds, and various other sources.

B. Expenditures in Excess of Budget

For the year ended December 31, 2017, expenditures exceeded budget in the Civic Center Special Revenue fund by \$11,593. These expenditures were funded by current year transfers from the General Fund.

NOTE 9 DEFERRED AD VALOREM TAX LEVIES – BONDED DEBT

General obligation bond issues sold by the City are partially financed by ad valorem tax levies in addition to special assessments levied against the benefiting properties. When a bond issue to be financed partially or completely by ad valorem tax levies is sold, specific annual amounts of such tax levies are stated in the bond resolution and the county auditor is notified and instructed to levy these taxes over the appropriate years. The future tax levies are subject to cancellation when and if the City has provided alternative sources of financing. The City council is required to levy any additional taxes found necessary for full payment of principal and interest.

These future scheduled tax levies are not shown as assets in the accompanying financial statements at December 31, 2017 because they have not yet been levied against the properties by the county.

Future scheduled tax levies for all bonds outstanding at December 31, 2017 totaled \$25,489,573.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 10 INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

A. Due To/From Other Funds

Individual fund receivable and payable balances at December 31, 2017 are as follows:

Fund	Interfund Receivables Due from Other Funds	Interfund Payables Due to Other Funds	Description
General Fund	\$ 2,838,861	\$ -	Eliminate Deficit Cash
Other Governmental Funds	-	2,668,041	Eliminate Deficit Cash
Proprietary Funds:			
Electric Fund	4,487,112	-	Eliminate Deficit Cash
Water and Sewer Fund	1,179,947	-	Eliminate Deficit Cash
Golf Course Fund	-	5,837,879	Eliminate Deficit Cash
Total Due To/From	<u>\$ 8,505,920</u>	<u>\$ 8,505,920</u>	

All of the Due from/Due to Other Funds balances are expected to be repaid in the following year.

B. Advances To/From Other Funds

Fund	Advances to Other Funds	Advances from Other Funds
Debt Service Fund	\$ 1,980,015	\$ -
HRA Debt Service Fund	-	1,980,015
Proprietary Funds:		
Water and Sewer Fund	50,000	-
Liquor Fund	-	50,000
Total Advances	<u>\$ 2,030,015</u>	<u>\$ 2,030,015</u>

The advance in the amount of \$50,000 represents remodeling expense incurred by the Liquor Fund payable to the Water and Sewer Fund. The Debt Service Fund advanced \$1,980,015 to the HRA Debt Service Fund as the City issued debt for the downtown enhancement project for which the HRA spent the proceeds.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**NOTE 10 INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS
(CONTINUED)**

C. Transfers

Transfers between funds during 2017 are as follows:

	Amount	Description
<u>Major Governmental Funds</u>		
Transfers to General Fund from:		
Debt Service Fund	\$ 67,456	Close-Out Bond
Electric Fund	904,651	Annual Contribution and Sale Proceeds
Liquor Fund	425,000	Annual Park Contribution
Total Transfers to General Fund	1,397,107	
Transfers to Debt Service Fund from:		
General Fund	93,125	Transfer of Debt Payment
HRA Fund	78,550	Transfer of Debt Payment
HRA Debt Service Fund	44,935	Transfer of Debt Payment
Total Transfers to Debt Service Fund	216,610	
Transfers to Capital Projects Fund from:		
General Fund	300,000	Street Improvements
Water and Sewer Fund	857,877	Water and Sewer Share of Project
Total Transfers to Capital Projects Fund	1,157,877	
Transfers to HRA Debt Service Fund from:		
HRA Fund	137,285	Transfer of Debt Payment
Total Transfers to Major Governmental Funds	2,908,879	
<u>Nonmajor Governmental Funds</u>		
Transfers to Library Fund from:		
General Fund	15,000	Annual Contribution
Transfers to Civic Center Fund from:		
General Fund	600,000	Annual Contribution
Electric Fund	100,000	Annual Contribution
Total Transfers to Civic Center Fund	700,000	
Transfers to Airport Fund from:		
General Fund	50,000	Annual Contribution
Transfers to HRA of Buffalo Fund from:		
HRA Debt Service Fund	305,015	Building Purchase
Total Transfers to Nonmajor Governmental Funds	1,070,015	
<u>Enterprise Funds</u>		
Transfers to Water and Sewer Fund from:		
Debt Service Fund	201,027	Annual Contribution
Total Interfund Transfers	\$ 4,179,921	

Also reported on the government-wide statement of activities are capital asset transfers of \$2,233,890 from the governmental activities to the business-type activities. These are transfers of capital assets between the two opinion units.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 FUND BALANCE CLASSIFICATIONS

The fund balance classifications of the governmental funds as of December 31, 2017 were as follows:

	General Fund	Debt Service Fund	Capital Project Fund	HRA Debt Service Fund	Other Governmental Funds	Governmental Funds Total
Nonspendable:						
Inventory	\$ -	\$ -	\$ -	\$ -	\$ 9,996	\$ 9,996
Prepaid Expenses	70,815	-	-	-	4,407	75,222
Land Held for Resale	7,800	-	-	-	309,016	316,816
Total Nonspendable	<u>78,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>323,419</u>	<u>402,034</u>
Restricted:						
Debt Service	-	4,965,970	-	-	-	4,965,970
Capital Projects	-	-	762,701	-	-	762,701
Total Restricted	<u>-</u>	<u>4,965,970</u>	<u>762,701</u>	<u>-</u>	<u>-</u>	<u>5,728,671</u>
Committed:						
Library	-	-	-	-	145,685	145,685
Mill/Overlay Projects	-	-	849,712	-	-	849,712
Fire Operations	-	-	-	-	1,520,523	1,520,523
The Buffalo HRA	-	-	-	-	232,356	232,356
Airport	-	-	-	-	163,624	163,624
Total Committed	<u>-</u>	<u>-</u>	<u>849,712</u>	<u>-</u>	<u>2,062,188</u>	<u>2,911,900</u>
Unassigned:	<u>4,461,031</u>	<u>-</u>	<u>-</u>	<u>(1,925,673)</u>	<u>(2,634,919)</u>	<u>(99,561)</u>
Total Fund Balance	<u>\$ 4,539,646</u>	<u>\$ 4,965,970</u>	<u>\$ 1,612,413</u>	<u>\$ (1,925,673)</u>	<u>\$ (249,312)</u>	<u>\$ 8,943,044</u>

NOTE 12 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.

Workers' compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers' Compensation Reinsurance Association (WCRA) as required by law. For workers' compensation, the City is not subject to a deductible. The City's workers' compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experience is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 12 RISK MANAGEMENT (CONTINUED)

Property and casualty insurance is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the deductible portion of the insurance policies and for any exclusion from the insurance policies. These amounts are considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

NOTE 13 TAX ABATEMENTS

The City has five pay-as-you-go tax increment financing districts with local businesses to promote economic development within the City as authorized under Minnesota Statutes §469.17. The City is currently collecting tax increments that are paid through the property tax collection process. The requirement for businesses to receive the excess tax increments from the City is to perform improvements on the owned property. The increment taxes are based on the increase of the property value after the improvements are made. The agreements call for 90% of the property tax increments collected to be returned to the developers less administrative fees.

The first district is a qualified housing tax increment financing district to facilitate construction of senior rental housing development within the City. The district will stop collections as of the earlier of December 31, 2027 or when the plan is satisfied. For the year ended December 31, 2017, the City paid excess tax increment in the amount of \$42,179.

The second district is to facilitate the reconstruction of a local business which was destroyed by a fire within the City. The district will stop collections as of the earlier of December 31, 2028 or when the plan is satisfied. For the year ended December 31, 2017, the City paid excess tax increment in the amount of \$589.

The third district is created to facilitate development of 24 affordable rental town home units within the City. The district will stop collections as of the earlier of December 31, 2037 or when the plan is satisfied. For the year ended December 31, 2017, the City paid excess tax increment in the amount of \$15,330.

The fourth district is a redevelopment tax increment financing district that was created to facilitate the renovation of one substandard structure and the construction of two new commercial buildings within the City. The district will stop collections as of the earlier of December 31, 2041 or when the plan is satisfied. For the year ended December 31, 2016, the City paid excess tax increment in the amount of \$5,246.

The fifth district is an economic development district to facilitate the construction of a 20,000 square foot expansion to a manufacturing facility in the City. The district will stop collections as of the earlier of December 31, 2015 or when the plan is satisfied. For the year ended December 31, 2017, the City paid excess tax increment in the amount of \$22,356.

No other commitments were made by the City as part of these agreements.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 14 COMMITMENTS AND CONTINGENCIES

A. Federal and State Funds

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. Management is not aware of any disallowed claims at this time.

During 2010, the City received federal funding for an airport project. As part of that grant agreement the City is required to operate the airport as a licensed, municipally-owned public airport at all times of the year for a period of 20 years.

B. Electric Power Purchase Agreement

The City has entered into a contract with Minnesota Municipal Power Agency (MMPA) for the purchase of electric power and energy. The rates vary depending on numerous factors as outlined in the contract. The contract became effective January 1, 2006 and remains in effect through October 31, 2040. If not then terminated by five years written notice by either party, the contract continues in full force until so terminated.

C. Construction Commitments

The City entered into construction contracts for various construction projects started during the year. The following contracts had been entered into and were at various stages of completion at December 31, 2017:

Project	Contract Cost	Estimated Project Costs Incurred to Date*	Remaining Committed
Street Maintenance 2017	\$ 820,050	\$ 766,546	\$ 53,504
DT Enhancement Project	427,916	334,966	92,950
SE Area Reconstruction Phase II	1,689,082	1,625,314	63,768
Total	<u>\$ 2,937,048</u>	<u>\$ 2,726,826</u>	<u>\$ 210,222</u>

* Includes Contracts Payable Amount

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 15 CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued industrial revenue bonds and other similar type revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the state, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2017, the City had the following revenue bonds outstanding:

Description of Issue	Original Issue Date	Maturity	Outstanding December 31, 2017
Health Care Refunding Revenue Bonds Series 2006 (Central Minnesota Senior Housing LLC Project)	9/12/2006	9/1/2033	\$ 15,235,000
Educational Facilities Revenue Note, Series 2005A (St. Francis Xavier Education Center Project)	12/20/2005	11/3/2025	1,750,216

NOTE 16 JOINT POWERS AGREEMENT

The Wright County Area Transportation (WCAT) Joint Powers Board was established in 2014 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes § 471.59, and includes the cities of Albertville, Annandale, Buffalo, Cokato, Delano, Hanover, Howard Lake, Maple Lake, Montrose, Rockford, St. Michael, and Waverly. WCAT’s objectives are to provide affordable public transportation to their local communities which would assist people with mobility and access to employment, community resources, medical care, and recreational opportunities while reducing the impact of road congestion, travel times, air pollution, and cost of road maintenance and repair in the communities.

Control is vested in the WCAT Board, which consists of a designee from each of the member cities. There are no term specifications on the board members.

Financing is provided by state and federal funding as available toward the costs of providing public transportation services for the cities. Each City has agreed to pay a proportionate share of WCAT’s remaining unfunded operating expenses and capital expenditures based upon the number of rides originating in the City during the prior year as compared to the total number of rides in all cities during the prior year. Each City is also required to pay an annual fee to provide for the proper operations of the WCAT Board. The City of Buffalo was not requested to contribute any funds to WCAT during 2015, as enough federal and state funding was received to cover operations.

Financial information can be obtained from the WCAT treasurer at the City of Annandale.

**CITY OF BUFFALO, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 17 SUBSEQUENT EVENT

On March 29, 2018, the City Council authorized issuance of \$1,765,000 in Electric Revenue Bonds, Series 2018A. The Electrical Revenue Bonds were issued to finance improvements and extensions to the City's electric utility. The interest rate on this bond is 3.0% and it is set to mature in 2028.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BUFFALO
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET
FIREFIGHTERS RELIEF ASSOCIATION PLAN
LAST TEN YEARS

	Measurement Date	
	December 31,	
	2016	2015
<u>Total Pension Liability</u>		
Service Cost	\$ 82,609	\$ 76,388
Interest	71,998	70,260
Changes in Assumptions	(28,618)	-
Benefit Payments, Including Member Refunds	(216,977)	(22,551)
NET CHANGE IN TOTAL PENSION LIABILITY	(90,988)	124,097
Total Pension Liability - Beginning of Year	1,397,271	1,273,174
TOTAL PENSION LIABILITY - END OF YEAR (a)	1,306,283	1,397,271
<u>Plan Fiduciary Net Position</u>		
Municipal Contributions	2,500	2,500
State Contributions	119,295	114,407
Net Investment Income	121,906	(69,541)
Benefit Payments	(216,977)	(22,551)
Administrative Expenses	(11,374)	(4,990)
Other Changes	8,534	2,232
NET CHANGE IN FIDUCIARY NET POSITION	23,884	22,057
Fiduciary Net Position - Beginning of Year	1,556,400	1,534,343
FIDUCIARY NET POSITION - END OF YEAR (b)	1,580,284	1,556,400
ASSOCIATION'S NET PENSION LIABILITY/ (ASSET) - END OF YEAR (a) - (b)	\$ (274,001)	\$ (159,129)
Fiduciary Net Position as a Percentage of the Total Net Pension Asset	120.98%	111.39%
Covered-Employee Payroll	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	N/A	N/A

*Additional information will be added as it becomes available

**CITY OF BUFFALO, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
LAST TEN YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
GENERAL EMPLOYEES RETIREMENT PLAN				
Contractually Required Contribution	\$ 320,722	\$ 300,006	\$ 284,732	\$ 265,184
Contributions in Relation to the Contractually Required Contribution	<u>(320,722)</u>	<u>(300,006)</u>	<u>(284,732)</u>	<u>(265,184)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 City's Covered Payroll	 \$ 4,276,293	 \$ 4,000,083	 \$ 3,794,647	 \$ 3,870,990
 Contributions as a Percentage of Covered Payroll	 7.50%	 7.50%	 7.50%	 6.85%
PUBLIC EMPLOYEES POLICE AND FIRE PLAN				
Contractually Required Contribution	\$ 181,013	\$ 168,059	\$ 162,358	\$ 158,513
Contributions in Relation to the Contractually Required Contribution	<u>(181,013)</u>	<u>(168,059)</u>	<u>(162,358)</u>	<u>(158,513)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 City's Covered Payroll	 \$ 1,117,364	 \$ 1,037,404	 \$ 1,002,211	 \$ 975,188
 Contributions as a Percentage of Covered Payroll	 16.20%	 16.20%	 16.20%	 16.25%
FIRE RELIEF ASSOCIATION PLAN				
Statutorily Required Contribution	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Statutorily Required Contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution Deficiency/(Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Additional information will be added as it becomes available

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017				2016
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
Taxes:					
General Property Taxes	\$ 3,839,041	\$ 3,899,570	\$ 3,915,773	\$ 16,203	\$ 3,182,022
Other Taxes	2,200	2,200	2,372	172	2,199
Total Taxes	<u>3,841,241</u>	<u>3,901,770</u>	<u>3,918,145</u>	<u>16,375</u>	<u>3,184,221</u>
Licenses and Permits	282,799	353,777	357,042	3,265	361,151
Intergovernmental:					
Federal Grants	-	2,829	3,253	424	29,478
State:					
Local Government Aid	734,952	734,952	734,952	-	724,949
PERA Aid	9,188	9,187	9,187	-	9,187
Market Value Credit	-	99	204	105	175
State Police Aid	135,000	138,758	138,758	-	139,461
State Highway Aid	200,000	192,675	192,675	-	197,290
Other	5,000	5,087	14,627	9,540	25,193
Total Intergovernmental	<u>1,084,140</u>	<u>1,083,587</u>	<u>1,093,656</u>	<u>10,069</u>	<u>1,125,733</u>
Special Assessments	5,000	5,000	43,305	38,305	6,666
Charges for Services:					
General Government	170,500	162,904	165,429	2,525	165,104
Public Safety	63,471	72,859	73,364	505	62,455
Streets	-	803	803	-	7,750
Sanitation	913,000	916,850	939,105	22,255	912,988
Storm Sewer	410,000	403,650	404,108	458	402,097
Total Charges for Services	<u>1,556,971</u>	<u>1,557,066</u>	<u>1,582,809</u>	<u>25,743</u>	<u>1,550,394</u>
Fines and Forfeits	30,500	34,475	38,814	4,339	37,156
Investment Earnings	4,500	6,000	6,382	382	5,349
Refunds/Reimbursements	-	62,271	63,736	1,465	123,171
Grants and Contributions	9,500	10,860	10,860	-	8,859
Miscellaneous	1,000	6,980	7,714	734	841
Total Revenues	<u>6,815,651</u>	<u>7,021,786</u>	<u>7,122,463</u>	<u>100,677</u>	<u>6,403,541</u>

The Notes to Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017				2016
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
EXPENDITURES					
General Government:					
Mayor and Council:					
Current:					
Personal Services	\$ 46,086	\$ 42,055	\$ 43,069	\$ (1,014)	\$ 27,164
Capital Outlay	22,000	-	-	-	-
Capital Lease Payments:					
Principal	1,211	1,211	1,212	(1)	1,193
Interest	36	36	37	(1)	56
Total Mayor and Council	<u>69,333</u>	<u>43,302</u>	<u>44,318</u>	<u>(1,016)</u>	<u>28,413</u>
Financial Administration:					
Current:					
Salaries	294,461	288,089	288,693	(604)	282,640
Employee Benefits	73,480	68,729	66,365	2,364	66,842
Other Expenses:					
Audit / Accounting	10,000	9,261	9,261	-	10,000
Building Permits, Surcharges	12,000	16,100	13,558	2,542	14,871
Insurance	11,000	12,081	10,831	1,250	5,522
Planning and Zoning	157,952	158,371	155,254	3,117	137,034
Assessor	65,000	64,061	64,061	-	64,130
City Attorney	20,500	17,800	16,386	1,414	23,664
Professional Services	1,500	7,500	7,538	(38)	1,489
Elections	-	3,300	2,396	904	14,017
Other Expense	185,395	195,807	197,596	(1,789)	216,874
Capital Outlay	25,200	-	-	-	-
Total Financial Administration	<u>856,488</u>	<u>841,099</u>	<u>831,939</u>	<u>9,160</u>	<u>837,083</u>
MIS:					
Current:					
Salaries	65,538	86,332	86,433	(101)	65,438
Employee Benefits	22,838	33,810	33,015	795	21,057
Other Services and Charges	51,150	87,948	83,469	4,479	57,573
Capital Outlay	275,000	-	-	-	-
Capital Lease Payments:					
Principal	36,340	36,340	36,359	(19)	35,651
Interest	1,019	1,019	1,038	(19)	1,746
Total MIS	<u>451,885</u>	<u>245,449</u>	<u>240,314</u>	<u>5,135</u>	<u>181,465</u>
Community Development					
Current:					
Other	15,000	50,000	58,487	(8,487)	-
Engineering:					
Current:					
Salaries	66,918	62,184	62,177	7	63,085
Employee Benefits	10,573	9,886	9,826	60	12,378
Other Services and Charges	15,400	16,475	16,081	394	10,784
Total Engineering	<u>92,891</u>	<u>88,545</u>	<u>88,084</u>	<u>461</u>	<u>86,247</u>
Transportation:					
Current:					
Salaries	7,069	14,536	14,483	53	14,166
Employee Benefits	1,071	1,763	1,760	3	1,691
Other Services and Charges	11,666	44,508	43,929	579	20,456
Total Transportation	<u>19,806</u>	<u>60,807</u>	<u>60,172</u>	<u>635</u>	<u>36,313</u>
Total General Government	<u>1,505,403</u>	<u>1,329,202</u>	<u>1,323,314</u>	<u>5,888</u>	<u>1,169,521</u>

The Notes to Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF BUFFALO, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016)**

	2017			2016	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
EXPENDITURES (CONTINUED)					
Public Safety:					
Police Protection:					
Current:					
Office Wages and Benefits	\$ 214,264	\$ 216,753	\$ 225,520	\$ (8,767)	\$ 224,262
Officer Wages and Benefits	1,532,955	1,540,281	1,543,094	(2,813)	1,448,990
Training	10,350	10,400	10,321	79	7,613
Legal Fees	70,000	64,250	64,182	68	64,126
Other Services and Charges	252,600	255,206	256,201	(995)	232,003
Capital Outlay	97,271	94,000	98,441	(4,441)	68,279
Capital Lease Payments:					
Principal	53,173	64,307	63,321	986	48,382
Interest	1,783	1,783	1,965	(182)	2,661
Total Police	<u>2,232,396</u>	<u>2,246,980</u>	<u>2,263,045</u>	<u>(16,065)</u>	<u>2,096,316</u>
Fire Protection	400,000	397,095	397,095	-	387,698
Civil Defense	350	316	275	41	153
Building Inspections	160,000	220,000	130,059	89,941	154,851
Total Public Safety	<u>2,792,746</u>	<u>2,864,391</u>	<u>2,790,474</u>	<u>73,917</u>	<u>2,639,018</u>
Public Works:					
Street Department:					
Current:					
Employee Benefits	107,494	120,276	120,098	178	97,695
Street Maintenance	923,581	658,325	639,002	19,323	617,863
Storm Sewer Maintenance	111,554	77,125	79,013	(1,888)	57,075
Snow and Ice Removal	74,848	51,818	40,100	11,718	41,712
Other	548,106	515,553	507,671	7,882	483,093
Capital Outlay - Equipment	-	-	-	-	26,779
Capital Outlay - Streets	358,500	28,178	28,178	-	468,138
Capital Lease Payments:					
Principal	107,203	130,270	131,741	(1,471)	125,156
Interest	3,525	8,112	6,201	1,911	5,093
Total Public Works	<u>2,234,811</u>	<u>1,589,657</u>	<u>1,552,004</u>	<u>37,653</u>	<u>1,922,604</u>
Sanitation:					
Current	837,250	883,030	882,131	899	761,236
Capital Lease Payments:					
Principal	1,335	1,335	1,283	52	1,255
Interest	36	36	35	1	62
Total Sanitation	<u>838,621</u>	<u>884,401</u>	<u>883,449</u>	<u>952</u>	<u>762,553</u>
Total Public Works	<u>3,073,432</u>	<u>2,474,058</u>	<u>2,435,453</u>	<u>38,605</u>	<u>2,685,157</u>
Total Expenditures	<u>7,371,581</u>	<u>6,667,651</u>	<u>6,549,241</u>	<u>118,410</u>	<u>6,493,696</u>
REVENUES OVER (UNDER) EXPENDITURES	(555,930)	354,135	573,222	219,087	(90,155)
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	-	12,949	8,298	(4,651)	183,257
Capital Lease Proceeds	627,000	44,712	44,712	-	363,570
Transfer In	900,000	967,456	972,107	4,651	900,000
Transfer Out	(1,257,175)	(1,633,118)	(1,633,125)	(7)	(966,521)
Total Other Financing Sources (Uses)	<u>269,825</u>	<u>(608,001)</u>	<u>(608,008)</u>	<u>(7)</u>	<u>480,306</u>
NET CHANGE IN FUND BALANCE	<u>\$ (286,105)</u>	<u>\$ (253,866)</u>	<u>(34,786)</u>	<u>\$ 219,080</u>	<u>390,151</u>
Fund Balance - Beginning of Year			5,021,779		4,631,628
FUND BALANCE - END OF YEAR			<u>\$ 4,986,993</u>		<u>\$ 5,021,779</u>

The Notes to Required Supplementary Information are an Integral Part of this Schedule.

CITY OF BUFFALO, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2017

NOTE 1 BASIS OF ACCOUNTING

The General Fund budgetary comparison schedule is prepared on a budgetary basis of accounting. See Note 3 of the Notes to Required Supplementary Information for a reconciliation of the General Fund Budgetary Comparison Schedule to the Statement of Revenues, Expenditures, and Changes in Fund Balances.

NOTE 2 BUDGETARY INFORMATION

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City administrator submits to the City council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted in the council chambers at City Hall to obtain taxpayer comments, and the final budget is adopted and the tax levy certified.
3. The City administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City council. Reported budget amounts are final, as amended by the City council in 2017.
4. The City has legally adopted budgets for the general fund, certain special revenue funds, and some enterprise funds. Formal budgetary integration is not employed for the capital projects and debt service funds. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services, supplies, capital outlay, etc.) within each program. All amounts over budget have been approved by the City council through the disbursement process. The City is not legally required to adopt an annual budget for the capital projects or debt service funds.
5. Budgeted amounts are as originally adopted, or as amended by the City council. All annual appropriations lapse at fiscal year-end.
6. The City did not have any departments that were over budget in the current year.

CITY OF BUFFALO, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2017

NOTE 3 BUDGETARY COMPARISON SCHEDULE RECONCILIATION

For external reporting purposes, the general fund includes revenues, expenditures, other financing sources and uses, and fund balances of other internally maintained funds. The General Fund, however, is budgeted based on the internally maintained General Fund. Therefore, the following reconciliation is necessary to reconcile the General Fund Budgetary Comparison Schedule to the Statement of Revenues, Expenditures, and Changes in Fund Balances.

	General Fund				
	Total Revenues	Total Expenditures	Other Financing Sources/Uses	Beginning Fund Balance	Ending Fund Balance
Statement of Revenues, Expenditures, and Changes in Fund Balance	\$ 7,330,192	\$ 7,805,729	\$ 465,444	\$ 4,549,739	\$ 4,539,646
Funds Included in General Fund for GASB Statement No. 54 Purposes:					
Park Fund	(146,126)	(1,032,373)	(898,452)	496,706	484,501
Community Center Fund	(61,603)	(224,115)	(175,000)	(24,666)	(37,154)
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	<u>\$ 7,122,463</u>	<u>\$ 6,549,241</u>	<u>\$ (608,008)</u>	<u>\$ 5,021,779</u>	<u>\$ 4,986,993</u>

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SUPPLEMENTARY INFORMATION

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**COMBINING AND INDIVIDUAL NONMAJOR GOVERNMENTAL
FUND FINANCIAL STATEMENTS**

**CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2016)**

	2017			
	Revolving Grant Fund	Fire Fund	Library Fund	Civic Center Fund
ASSETS				
Cash and Investments	\$ -	\$ 1,570,276	\$ 149,390	\$ -
Taxes Receivable				
Current	-	-	3,665	-
Delinquent	-	-	743	-
Accounts Receivable	-	-	-	70,255
Due from Other Governmental Units	-	-	617	15,650
Accrued Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Inventory	-	-	-	-
Prepaid Items	-	23	-	4,384
Loans Receivable, Net of Allowance	37,020	-	-	-
Land Held for Resale	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 37,020</u>	<u>\$ 1,570,299</u>	<u>\$ 154,415</u>	<u>\$ 90,289</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE (DEFICIT)				
LIABILITIES				
Accounts and Contracts Payable	\$ -	\$ 14,508	\$ 4,322	\$ 43,581
Other Accrued Liabilities	-	35,245	-	8,002
Due to Other Funds	-	-	-	2,668,041
Unearned Revenue	-	-	-	1,200
Deposits - Escrow	-	-	-	-
Total Liabilities	<u>-</u>	<u>49,753</u>	<u>4,322</u>	<u>2,720,824</u>
DEFERRED INFLOW OF RESOURCES				
Unavailable Taxes	-	-	743	-
Property Taxes Levied for Subsequent Year	-	-	3,665	-
Unavailable Loans Receivables	37,020	-	-	-
Total Deferred Inflow of Resources	<u>37,020</u>	<u>-</u>	<u>4,408</u>	<u>-</u>
FUND BALANCES (DEFICIT)				
Nonspendable	-	23	-	4,384
Committed	-	1,520,523	145,685	-
Unassigned	-	-	-	(2,634,919)
Total Fund Balances (Deficit)	<u>-</u>	<u>1,520,546</u>	<u>145,685</u>	<u>(2,630,535)</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balances (Deficit)	<u>\$ 37,020</u>	<u>\$ 1,570,299</u>	<u>\$ 154,415</u>	<u>\$ 90,289</u>

The HRA of Buffalo Fund	Airport Fund	2017 Total	2016 Total
\$ 251,110	\$ 123,703	\$ 2,094,479	\$ 1,838,358
2,329	-	5,994	-
1,789	205	2,737	4,288
-	2,942	73,197	68,245
1,618	43,697	61,582	312,573
-	-	-	193,183
-	-	-	3,851
-	9,996	9,996	10,479
-	-	4,407	479
57,576	-	94,596	370,211
309,016	-	309,016	15,859
<u>\$ 623,438</u>	<u>\$ 180,543</u>	<u>\$ 2,656,004</u>	<u>\$ 2,817,526</u>

\$ 16,801	\$ 5,729	\$ 84,941	\$ 348,513
-	989	44,236	45,888
-	-	2,668,041	3,200,485
-	-	1,200	3,310
3,571	-	3,571	6,598
<u>20,372</u>	<u>6,718</u>	<u>2,801,989</u>	<u>3,604,794</u>

1,789	205	2,737	4,288
2,329	-	5,994	-
57,576	-	94,596	563,394
<u>61,694</u>	<u>205</u>	<u>103,327</u>	<u>567,682</u>

309,016	9,996	323,419	26,817
232,356	163,624	2,062,188	1,781,344
-	-	(2,634,919)	(3,163,111)
<u>541,372</u>	<u>173,620</u>	<u>(249,312)</u>	<u>(1,354,950)</u>

<u>\$ 623,438</u>	<u>\$ 180,543</u>	<u>\$ 2,656,004</u>	<u>\$ 2,817,526</u>
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**CITY OF BUFFALO, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017			
	Revolving Grant Fund	Fire Fund	Library Fund	Civic Center Fund
REVENUE				
General Property Taxes	\$ -	\$ -	\$ 81,068	\$ -
Tax Increments	-	-	-	-
Intergovernmental	-	126,072	-	-
Charges for Services	-	610,836	-	555,365
Investment Earnings (Loss)	-	2,087	247	(5,075)
Refunds and Reimbursements	-	3,709	184	1,544
Grants and Contributions	-	1,010	-	50,000
Miscellaneous	-	349	-	1,433
Total Revenue	-	744,063	81,499	603,267
EXPENDITURES				
Current:				
Public Safety:				
Public Safety	-	409,408	-	-
Culture and Recreation	-	-	80,346	764,749
Community Development	-	-	-	-
Capital Outlay:				
Public Safety	-	-	-	-
Culture and Recreation	-	-	46,591	-
Community Development	-	-	-	-
Capital Leases:				
Principal	-	129,064	-	6,145
Interest and Fiscal Charges	-	4,253	-	276
Total Expenditures	-	542,725	126,937	771,170
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	-	201,338	(45,438)	(167,903)
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	15,000	700,000
Transfer Out	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	-	-
Capital Lease Proceeds	-	-	-	-
Total Other Financing Sources (Uses)	-	-	15,000	700,000
NET CHANGE IN FUND BALANCE	-	201,338	(30,438)	532,097
Fund Balance (Deficit) - Beginning of Year	-	1,319,208	176,123	(3,162,632)
FUND BALANCE (DEFICIT) - END OF YEAR	\$ -	\$ 1,520,546	\$ 145,685	\$ (2,630,535)

The HRA of Buffalo Fund	Airport Fund	2017 Total	2016 Total
\$ 241,948	\$ -	\$ 323,016	\$ 289,456
62,216	-	62,216	58,002
-	11,462	137,534	426,733
27,393	303,572	1,497,166	1,440,082
2,543	42	(156)	5,515
-	169	5,606	11,652
-	-	51,010	59,218
3,027	-	4,809	1,701
<u>337,127</u>	<u>315,245</u>	<u>2,081,201</u>	<u>2,292,359</u>
-	-	409,408	395,609
-	281,003	1,126,098	1,110,287
107,821	-	107,821	131,883
-	-	-	198,230
-	-	46,591	297,065
87	-	87	9,981
-	-	135,209	177,765
-	-	4,529	6,300
<u>107,908</u>	<u>281,003</u>	<u>1,829,743</u>	<u>2,327,120</u>
229,219	34,242	251,458	(34,761)
305,015	50,000	1,070,015	115,000
(215,835)	-	(215,835)	(219,402)
-	-	-	5,000
-	-	-	284,980
<u>89,180</u>	<u>50,000</u>	<u>854,180</u>	<u>185,578</u>
318,399	84,242	1,105,638	150,817
<u>222,973</u>	<u>89,378</u>	<u>(1,354,950)</u>	<u>(1,505,767)</u>
<u>\$ 541,372</u>	<u>\$ 173,620</u>	<u>\$ (249,312)</u>	<u>\$ (1,354,950)</u>

**CITY OF BUFFALO, MINNESOTA
FIRE SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017			2016	
	Original Budget	Final Budget	Actual	Variance with Budget	Actual
REVENUES					
Fire Contracts and Charges	\$ 600,000	\$ 610,836	\$ 610,836	\$ -	\$ 594,408
Intergovernmental:					
State Aid and Grants	115,000	126,072	126,072	-	117,290
Grants and Contributions	-	1,010	1,010	-	718
Investment Earnings	1,250	2,174	2,087	(87)	1,481
Refunds and Reimbursements	-	3,668	3,709	41	2,220
Miscellaneous	-	-	349	349	5
Total Revenues	<u>716,250</u>	<u>743,760</u>	<u>744,063</u>	<u>303</u>	<u>716,122</u>
EXPENDITURES					
Public Safety:					
Fire Relief	115,000	121,197	121,196	1	116,295
Wages and Benefits	124,977	124,965	115,297	9,668	118,646
Truck Expense	12,000	4,000	2,831	1,169	7,478
Supplies	32,725	36,825	36,211	614	14,819
Repairs and Maintenance	43,990	38,700	36,164	2,536	20,412
Radio and Telephone	20,000	17,500	16,239	1,261	11,532
Utilities	15,000	15,000	15,009	(9)	15,360
Insurance	44,000	41,984	40,457	1,527	32,703
Training	7,500	7,500	7,093	407	6,501
Other	21,000	19,770	18,911	859	51,863
Capital Outlay	-	-	-	-	198,230
Capital Lease Payments:					
Principal	138,776	129,362	129,064	298	171,712
Interest	4,369	4,369	4,253	116	5,933
Total Expenditures	<u>579,337</u>	<u>561,172</u>	<u>542,725</u>	<u>18,447</u>	<u>771,484</u>
EXCESS (DEFICIENCY) OF REVENUE AND OVER (UNDER) EXPENDITURES	136,913	182,588	201,338	18,750	(55,362)
OTHER FINANCING SOURCES					
Capital Lease Proceeds	-	-	-	-	284,980
Proceeds on Sale of Assets	-	-	-	-	5,000
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>289,980</u>
NET CHANGE IN FUND BALANCE	<u>\$ 136,913</u>	<u>\$ 182,588</u>	201,338	<u>\$ 18,750</u>	234,618
Fund Balance - Beginning of Year			<u>1,319,208</u>		<u>1,084,590</u>
FUND BALANCE - END OF YEAR			<u>\$ 1,520,546</u>		<u>\$ 1,319,208</u>

**CITY OF BUFFALO, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017			Variance from Final Budget	2016
	Original Budget	Final Budget	Actual		Actual
REVENUES					
General Property Taxes	\$ 80,628	\$ 80,451	\$ 81,068	\$ 617	\$ 80,742
Investment Earnings	200	225	247	22	208
Refunds and Reimbursements	-	-	184	184	-
Total Revenues	<u>80,828</u>	<u>80,676</u>	<u>81,499</u>	<u>823</u>	<u>80,950</u>
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	2,490	2,349	2,179	170	1,591
Supplies and Maintenance	36,250	44,135	43,750	385	46,157
Insurance	1,200	1,117	979	138	557
Telephone	504	600	593	7	1,034
Utilities	28,500	28,500	28,687	(187)	32,625
Other	3,905	4,241	4,158	83	6,452
Capital Outlay - Equipment	-	46,591	46,591	-	-
Total Expenditures	<u>72,849</u>	<u>127,533</u>	<u>126,937</u>	<u>596</u>	<u>88,416</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	7,979	(46,857)	(45,438)	1,419	(7,466)
OTHER FINANCING SOURCES					
Transfers in from General Fund	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ 22,979</u>	<u>\$ (31,857)</u>	<u>(30,438)</u>	<u>\$ 1,419</u>	<u>7,534</u>
Fund Balance - Beginning of Year			<u>176,123</u>		<u>168,589</u>
FUND BALANCE - END OF YEAR			<u>\$ 145,685</u>		<u>\$ 176,123</u>

**CITY OF BUFFALO, MINNESOTA
CIVIC CENTER SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017			Variance from Final Budget	2016
	Original Budget	Final Budget	Actual		Actual
REVENUES					
Charges for Services:					
Ice Time	\$ 480,000	\$ 450,000	\$ 467,036	\$ 17,036	\$ 426,044
Building Rent	25,000	26,031	26,941	910	16,130
Lease Payment	55,000	40,000	40,000	-	25,000
Gate Receipts and Concessions	17,000	17,521	11,911	(5,610)	44,570
Other	13,000	12,090	9,477	(2,613)	12,325
Grants and Contributions	50,000	50,000	50,000	-	58,500
Investment Earnings (Loss)	(4,000)	(5,050)	(5,075)	(25)	-
Refunds and Reimbursements	-	1,454	1,544	90	2,976
Miscellaneous	1,000	1,000	1,433	433	1,696
Total Revenues	<u>637,000</u>	<u>593,046</u>	<u>603,267</u>	<u>10,221</u>	<u>587,241</u>
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	247,026	222,780	224,185	(1,405)	229,685
Maintenance and Repair	35,000	61,250	66,281	(5,031)	40,798
Utilities	170,000	181,500	189,357	(7,857)	160,638
Other	36,162	36,429	34,659	1,770	57,211
Insurance	13,000	11,900	10,819	1,081	7,609
Interest Expense	-	-	-	-	4,313
Lease Rent Payments	239,448	239,448	239,448	-	238,391
Capital Outlay	25,663	-	-	-	10,688
Capital Lease Payments:					
Principal	5,981	5,981	6,145	(164)	6,053
Interest	289	289	276	13	367
Total Expenditures	<u>772,569</u>	<u>759,577</u>	<u>771,170</u>	<u>(11,593)</u>	<u>755,753</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(135,569)	(166,531)	(167,903)	(1,372)	(168,512)
OTHER FINANCING SOURCES					
Transfer In	<u>50,000</u>	<u>650,000</u>	<u>700,000</u>	<u>50,000</u>	<u>50,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ (85,569)</u>	<u>\$ 483,469</u>	532,097	<u>\$ 48,628</u>	(118,512)
Fund Deficit - Beginning of Year			<u>(3,162,632)</u>		<u>(3,044,120)</u>
FUND DEFICIT - END OF YEAR			<u>\$ (2,630,535)</u>		<u>\$ (3,162,632)</u>

**CITY OF BUFFALO, MINNESOTA
 AIRPORT SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED DECEMBER 31, 2017
 (WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED DECEMBER 31, 2016)**

	2017			2016	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
REVENUES					
Intergovernmental:					
Federal Grants	\$ -	\$ -	\$ 51	\$ 51	\$ 217,536
State Aid and Grants	21,382	6,202	11,411	5,209	91,907
Total Intergovernmental	<u>21,382</u>	<u>6,202</u>	<u>11,462</u>	<u>5,260</u>	<u>309,443</u>
Charges for Services	295,509	296,610	303,572	6,962	293,268
Investment Earnings (Loss)	75	34	42	8	139
Refunds and Reimbursement	-	157	169	12	634
Total Revenues	<u>316,966</u>	<u>303,003</u>	<u>315,245</u>	<u>12,242</u>	<u>603,484</u>
EXPENDITURES					
Culture and Recreation:					
Wages and Benefits	33,351	30,420	29,804	616	36,001
Other	237,850	256,391	251,199	5,192	247,225
Capital Outlay	21,000	-	-	-	286,377
Total Expenditures	<u>292,201</u>	<u>286,811</u>	<u>281,003</u>	<u>5,808</u>	<u>569,603</u>
EXCESS OF REVENUES OVER EXPENDITURES	24,765	16,192	34,242	18,050	33,881
OTHER FINANCING SOURCES					
Transfer In	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ 74,765</u>	<u>\$ 66,192</u>	84,242	<u>\$ 18,050</u>	83,881
Fund Balance - Beginning of Year			<u>89,378</u>		<u>5,497</u>
FUND BALANCE - END OF YEAR			<u>\$ 173,620</u>		<u>\$ 89,378</u>

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**OTHER SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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CITY OF BUFFALO, MINNESOTA
COMPUTATION OF LEGAL DEBT MARGIN
DECEMBER 31, 2017
(UNAUDITED)

Market Valuation		<u>\$ 1,150,973,300</u>
Debt Limit - 3% of Market Valuation		\$ 34,529,199
Total Indebtedness	<u>\$ 93,632,560</u>	
Less:		
Other Deductions Allowed by Law:		
(1) Obligations Payable Wholly or Partly from Special Assessments	8,400,000	
(2) Obligations Issued for Acquisition and Improvement of Public Utilities and Conveniences from Which Revenue may be Derived	59,754,448	
(3) Obligations Payable Wholly from the Income from Revenue Producing Conveniences	<u>2,083,112</u>	
Total Deductions	<u>70,237,560</u>	
Total Amount of Debt Applied Against Debt Limit		<u>23,395,000</u>
Legal Debt Margin		<u>\$ 11,134,199</u>

CITY OF BUFFALO, MINNESOTA
TAX LEVIES TO RETIRE BONDED INDEBTEDNESS
DECEMBER 31, 2017
(UNAUDITED)

Year of Levy for Collection in the Following Year	General Obligation Refunding Bonds of 2009 Series 2009D	General Obligation Improvement Bonds of 2010 Series 2010A	General Obligation Improvement Bonds of 2010 Series 2010C	General Obligation Capital Improvement Refunding Bonds of 2011 Series 2011A	General Obligation Refunding Bonds of 2012 Series 2012B
2018	\$ 387,476	\$ 55,781	\$ 191,127	\$ 735,601	\$ 117,810
2019	510,024	54,206	187,168	741,229	-
2020	507,058	-	188,322	745,030	-
2021	513,726	-	178,679	747,261	-
2022	519,120	-	179,492	741,906	-
2023	1,288,560	-	190,423	-	-
2024	-	-	263,660	-	-
2025	-	-	265,655	-	-
2026	-	-	267,026	-	-
2027	-	-	-	-	-
2028	-	-	-	-	-
2029	-	-	-	-	-
2030	-	-	-	-	-
2031	-	-	-	-	-
2032	-	-	-	-	-
2033	-	-	-	-	-
2034	-	-	-	-	-
Total	<u>\$ 3,725,964</u>	<u>\$ 109,987</u>	<u>\$ 1,911,552</u>	<u>\$ 3,711,027</u>	<u>\$ 117,810</u>

General Obligation Bonds of 2013 Series 2013A	General Obligation Bonds of 2015 Series 2015A	General Obligation Bonds of 2015 Series 2015C	General Obligation Tax Abatement Bonds Series 2016A	General Obligation Street Reconstruction Bonds Series 2016C	Total
\$ 416,325	\$ 284,230	\$ 231,919	\$ 233,525	\$ 217,022	\$ 2,870,816
408,765	283,180	235,266	235,625	213,766	2,869,229
406,455	281,972	232,903	232,371	215,762	2,809,873
398,790	280,607	235,791	234,365	212,402	2,801,621
401,625	279,085	232,536	231,005	214,292	2,799,061
-	284,965	234,531	232,895	216,077	2,447,451
-	285,385	235,581	234,594	217,756	1,236,976
-	280,450	231,249	235,827	214,082	1,227,263
-	285,521	232,168	231,417	215,473	1,231,605
-	279,090	232,956	231,982	215,998	960,026
-	277,909	232,693	232,129	216,392	959,123
-	281,190	232,273	231,940	216,156	961,559
-	-	231,696	231,404	215,776	678,876
-	-	230,961	235,762	-	466,723
-	-	235,318	234,447	-	469,765
-	-	234,110	232,861	-	466,971
-	-	232,635	-	-	232,635
<u>\$ 2,031,960</u>	<u>\$ 3,383,584</u>	<u>\$ 3,964,586</u>	<u>\$ 3,732,149</u>	<u>\$ 2,800,954</u>	<u>\$ 25,489,573</u>

CITY OF BUFFALO, MINNESOTA
PROPERTY TAX VALUATIONS, LEVIES, AND COLLECTIONS
DECEMBER 31, 2017
(UNAUDITED)

Fiscal Year	Rates*	Valuations*	Total Certified Tax Levy	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
1979	10.79	\$ 11,576,236	\$ 124,965	\$ 127,813	102.28 %
1980	12.37	13,819,727	170,964	171,623	100.39
1981	13.75	16,142,519	222,028	216,132	97.34
1982	13.48	18,498,138	249,384	237,056	95.06
1983	21.40	20,013,461	428,288	426,538	99.59
1984	30.28	19,549,847	592,002	574,495	97.04
1985	30.29	19,875,866	601,578	626,693	104.17
1986	28.36	21,284,079	603,732	616,448	102.11
1987	28.46	21,224,993	604,000	607,569	100.59
1988	29.86	22,242,558	664,241	651,950	98.15
1989	21.25	2,153,956	619,264	619,661	100.06
1990	18.48	2,233,832	706,246	695,092	98.42
1991	19.05	2,497,205	757,899	763,959	100.80
1992	21.04	2,565,265	838,848	849,162	101.23
1993	22.96	2,648,066	924,195	935,044	101.17
1994	22.08	2,735,764	924,125	929,228	100.55
1995	19.25	3,220,130	940,099	937,697	99.74
1996	18.95	3,680,238	1,007,952	1,009,108	100.11
1997	19.34	4,252,834	1,136,543	1,151,823	101.34
1998	28.60	4,246,436	1,214,359	1,240,000	102.11
1999	30.11	4,423,493	1,331,844	1,424,922	106.99
2000	26.91	5,019,161	1,350,600	1,395,899	103.35
2001	22.39	5,672,315	1,269,863	1,342,795	105.74
2002	24.62	5,287,909	1,302,028	1,351,822	103.82
2003	24.18	6,244,335	1,510,102	1,570,238	103.98
2004	28.22	7,344,065	2,072,633	2,121,480	102.36
2005	24.46	8,585,484	2,100,000	2,123,057	101.10
2006	23.68	11,518,870	2,727,940	2,704,890	99.16
2007	23.61	13,380,144	3,159,243	3,289,327	104.12
2008	25.40	14,500,710	3,648,829	3,785,027	103.73
2009	28.77	14,520,075	4,412,674	4,370,571	99.05
2010	35.99	13,522,253	5,303,837	4,978,294	93.86
2011	38.45	12,379,321	5,283,937	5,025,618	95.11
2012	47.08	11,075,696	5,731,862	5,670,074	98.92
2013	51.81	10,280,667	5,811,712	5,621,583	96.73
2014	49.89	10,624,202	5,812,783	5,878,026	101.12
2015	51.77	11,280,273	6,034,293	6,078,840	100.74
2016	54.84	11,881,132	6,720,639	6,730,096	100.14
2017	59.61	12,307,915	7,548,874	7,388,362	97.87

* Amounts from Wright County's Auditors office.

Note: Total tax collections is total levy collected by the City minus the tax increment dollars collected.

OTHER REPORT SECTION

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and
Members of the City Council
City of Buffalo
Buffalo, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Buffalo (the City), Minnesota, as of December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated May 30, 2018.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the state auditor pursuant to Minnesota Statutes §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous provisions.

In connection with our audit, nothing came to our attention that caused us to believe the City of Buffalo, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the state auditor pursuant to Minnesota Statutes §6.65. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Buffalo, Minnesota's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Buffalo, Minnesota
May 30, 2018

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