

CITY OF BREEZY POINT, MINNESOTA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

CITY OF BREEZY POINT, MINNESOTA

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**INTRODUCTORY
SECTION**

**CITY OF BREEZY POINT, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2016**

CITY COUNCIL

Term Expires

| | | |
|----------------|----------------|-------------------|
| Tim Lillehei | Mayor | December 31, 2016 |
| Otto Schmid | Acting Mayor | December 31, 2016 |
| Gary Bakken | Council Member | December 31, 2018 |
| Michael Moroni | Council Member | December 31, 2018 |
| Diane Williams | Council Member | December 31, 2016 |

CITY OFFICIALS

| | | |
|-------------|--------------------------|-----------|
| Joe Rudberg | City Administrator/Clerk | Appointed |
|-------------|--------------------------|-----------|

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

March 14, 2017

Honorable Mayor and City Council
City of Breezy Point, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the City of Breezy Point, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed by the State of Minnesota's Office of the State Auditor. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

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

As described in Note 1.C. of the financial statements, the financial statements are prepared by City of Breezy Point, Minnesota, on the basis of the financial reporting provisions prescribed by the State of Minnesota's Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Minnesota.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1.C. and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of City of Breezy Point, Minnesota, as of December 31, 2016, and the respective changes in financial position for the year then ended.

Unmodified Opinion on Regulatory Basis

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the City of Breezy Point, Minnesota, as of December 31, 2016, and changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting practices prescribed by the State of Minnesota's Office of the State Auditor described in Note 1.C.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory and supplementary information, as listed in the table on contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section, budgetary comparison information, combining nonmajor funds financial statements, schedules of indebtedness, accounts receivable, and accounts payable and contingent liabilities 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.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated March 14, 2017, on our consideration of the City of Breezy Point's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

BASIC FINANCIAL STATEMENTS

CITY OF BREEZY POINT, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Revolving Capital Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-----------------------------------------|-------------------------|------------------------------|---------------------------------------|--------------------------------------------|-----------------------------------------|
| ASSETS | | | | | |
| Cash, Cash Equivalents, and Investments | \$ 1,052,478 | \$ 233,530 | \$ 1,747,549 | \$ 111,824 | \$ 3,145,381 |
| CASH FUND BALANCES | | | | | |
| Restricted | \$ - | \$ 13,400 | \$ 414,465 | \$ 28,060 | \$ 455,925 |
| Assigned | - | 220,130 | 1,333,084 | 83,764 | 1,636,978 |
| Unassigned | <u>1,052,478</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,052,478</u> |
| TOTAL CASH FUND BALANCES | <u>\$ 1,052,478</u> | <u>\$ 233,530</u> | <u>\$ 1,747,549</u> | <u>\$ 111,824</u> | <u>\$ 3,145,381</u> |

CITY OF BREEZY POINT, MINNESOTA
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | General Fund | Debt Service Fund | Revolving Capital Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------------------------------------------------------|---------------------|----------------------|------------------------------|-----------------------------------|--------------------------------|
| RECEIPTS | | | | | |
| Property Taxes | \$ 1,583,862 | \$ 194,537 | \$ - | \$ 7,931 | \$ 1,786,330 |
| Special Assessments | 148,338 | 78,679 | - | - | 227,017 |
| Licenses, Permits and Fees | 116,436 | - | - | - | 116,436 |
| Intergovernmental | 88,784 | - | 76,990 | - | 165,774 |
| Charges for Services | 59,268 | - | 140 | 16,196 | 75,604 |
| Fines | 9,269 | - | 27,289 | - | 36,558 |
| Investment Income | 8,046 | 3,483 | 23,785 | 1,561 | 36,875 |
| Contributions | 313 | - | - | - | 313 |
| Miscellaneous | 2,825 | - | 32,319 | 3,559 | 38,703 |
| TOTAL RECEIPTS | <u>2,017,141</u> | <u>276,699</u> | <u>160,523</u> | <u>29,247</u> | <u>2,483,610</u> |
| DISBURSEMENTS | | | | | |
| Current: | | | | | |
| General Government: | | | | | |
| City Clerk | 240,606 | - | - | - | 240,606 |
| Council | 21,241 | - | - | - | 21,241 |
| General Government | 188,866 | - | 126,426 | - | 315,292 |
| Total General Government | <u>450,713</u> | <u>-</u> | <u>126,426</u> | <u>-</u> | <u>577,139</u> |
| Public Safety: | | | | | |
| Police | 654,307 | - | 10,109 | - | 664,416 |
| Fire | 83,700 | - | - | - | 83,700 |
| Total Public Safety | <u>738,007</u> | <u>-</u> | <u>10,109</u> | <u>-</u> | <u>748,116</u> |
| Public Works | 285,481 | - | - | - | 285,481 |
| Economic Development Authority | - | - | - | 657 | 657 |
| Cemetery | - | - | - | 15,416 | 15,416 |
| Parks and Recreation | 5,533 | - | - | - | 5,533 |
| Debt Service: | | | | | |
| Principal | - | 225,000 | - | - | 225,000 |
| Interest and Fiscal Charges | - | 40,149 | - | - | 40,149 |
| Total Debt Service | <u>-</u> | <u>265,149</u> | <u>-</u> | <u>-</u> | <u>265,149</u> |
| Capital Outlay | 327,984 | - | 18,650 | - | 346,634 |
| TOTAL DISBURSEMENTS | <u>1,807,718</u> | <u>265,149</u> | <u>155,185</u> | <u>16,073</u> | <u>2,244,125</u> |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | 209,423 | 11,550 | 5,338 | 13,174 | 239,485 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating Transfers In | 11,400 | - | 266,891 | - | 278,291 |
| Operating Transfers Out | <u>(266,891)</u> | <u>-</u> | <u>-</u> | <u>(3,000)</u> | <u>(269,891)</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(255,491)</u> | <u>-</u> | <u>266,891</u> | <u>(3,000)</u> | <u>8,400</u> |
| NET CHANGE IN CASH FUND BALANCES | (46,068) | 11,550 | 272,229 | 10,174 | 247,885 |
| CASH FUND BALANCES - BEGINNING | <u>1,098,546</u> | <u>221,980</u> | <u>1,475,320</u> | <u>101,650</u> | <u>2,897,496</u> |
| CASH FUND BALANCES - ENDING | <u>\$ 1,052,478</u> | <u>\$ 233,530</u> | <u>\$ 1,747,549</u> | <u>\$ 111,824</u> | <u>\$ 3,145,381</u> |

CITY OF BREEZY POINT, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
PROPRIETARY FUND
DECEMBER 31, 2016

| | <u>Sewer Fund</u> |
|-----------------------------------------|-----------------------|
| ASSETS | |
| Cash, Cash Equivalents, and Investments | \$ <u>3,347,530</u> |
| NET CASH ASSETS | |
| Unrestricted | \$ <u>3,347,530</u> |

CITY OF BREEZY POINT, MINNESOTA
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NET CASH ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

| | <u>Sewer Fund</u> |
|-----------------------------------------------------------------------------------|----------------------------|
| OPERATING RECEIPTS | |
| Charges for Services | \$ 384,671 |
| OPERATING DISBURSEMENTS | |
| Personnel Services | 125,539 |
| Employee Benefits | 34,170 |
| Professional Services | 5,273 |
| Utilities | 31,237 |
| Supplies | 34,331 |
| Insurance | 8,044 |
| Other | <u>9,795</u> |
| TOTAL OPERATING DISBURSEMENTS | <u>248,389</u> |
| EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS | 136,282 |
| NONOPERATING RECEIPTS | |
| Hook Up Fees | 32,800 |
| Miscellaneous | 784 |
| Special Assessments | 56,976 |
| Investment Income | <u>33,064</u> |
| TOTAL NONOPERATING RECEIPTS | <u>123,624</u> |
| NET CHANGE IN NET CASH ASSETS BEFORE OTHER DISBURSEMENTS AND TRANSFERS | 259,906 |
| OTHER DISBURSEMENTS AND TRANSFERS | |
| Capital Outlay | (88,519) |
| Operating Transfers Out | <u>(8,400)</u> |
| TOTAL OTHER DISBURSEMENTS AND TRANSFERS | <u>(96,919)</u> |
| CHANGE IN NET CASH ASSETS | 162,987 |
| NET CASH ASSETS-BEGINNING OF YEAR | <u>3,184,543</u> |
| NET CASH ASSETS-END OF YEAR (See Note 4.E.) | <u><u>\$ 3,347,530</u></u> |

**CITY OF BREEZY POINT, MINNESOTA
STATEMENT OF CASH FLOWS - CASH BASIS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Sewer Fund</u> |
|-----------------------------------------------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash Received from Customers | \$ 384,671 |
| Cash Paid to Suppliers | (88,680) |
| Cash Paid to Employees | <u>(159,709)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 136,282 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Special Assessment Revenue | 56,976 |
| Other Receipts | 33,584 |
| Operating Subsidies and Transfers to Other Funds | <u>(8,400)</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 82,160 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Purchases of Capital Assets | (88,519) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of Investments | (484,846) |
| Investment Income | <u>33,064</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(451,782)</u> |
| Net Change in Cash and Cash Equivalents | (321,859) |
| Cash and Cash Equivalents - Beginning of Year | <u>762,506</u> |
| Cash and Cash Equivalents - End of Year | 440,647 |
| Investments | <u>2,906,883</u> |
| TOTAL CASH, CASH EQUIVALENTS, AND INVESTMENTS | <u><u>\$ 3,347,530</u></u> |

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Breezy Point, Minnesota (the City), complies with accounting practices prescribed or permitted by the *Reporting and Publishing Requirements for City Financial Statements for Cities under 2,500 in Population Reporting on the Cash or Regulatory Basis of Accounting* prescribed by the State of Minnesota's Office of the State Auditor. See Note 1.C. for additional information.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: sanitary sewer, cemetery, parks, public improvements, public safety, planning and zoning, and general administrative services.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity is comprised of the primary governmental unit of the City of Breezy Point.

In determining the financial reporting entity, the City complies with the provisions of GASB No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City has one blended component unit: the Breezy Point Economic Development Authority.

The Breezy Point Economic Development Authority was established as a legal entity under Minnesota Statutes. Its purpose is to promote and provide incentives for economic development. The Authority includes City Council representation and the City Council has final authority for EDA transactions including bonding, budgeting, and tax increment issues.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

1.B. BASIS OF PRESENTATION

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued)

The City reports the following major governmental funds:

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

The *Revolving Capital Special Revenue Fund* accounts for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* accounts for the accumulation of financial resources for the payment of interest and principal on a general long-term debt issuance of the City. Ad valorem taxes and special assessments are used for the payment of principal and interest on the City's indebtedness.

The City reports the following major proprietary fund:

The *Sewer Fund* accounts for business-like activities related to the operation of a sanitary sewer collection system provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector.

Additionally, the government reports the following non-major fund types:

The *Special Revenue Funds* account for funds received by the City with a specific purpose.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements have been prepared on the regulatory basis of accounting as described in the Minnesota's Office of the State Auditor's *Reporting and Publishing Requirements for City Audited Financial Statements for Cities under 2,500 in Population Reporting on the Cash or Regulatory Basis of Accounting*. Under this regulatory basis of accounting:

- In the governmental and proprietary fund statements, receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. These statements do not give effect to receivables, payables, accrued expenses and inventories and, accordingly, are not presented in accordance with accounting principles generally accepted in the United States of America.

The basis differs from accounting principles generally accepted in the United States of America primarily because the City has not reported a management discussion and analysis letter, government-wide statement of net assets and government-wide statement of activities and the City does not recognize governmental receipts and disbursements in accordance with the modified accrual basis of accounting or proprietary receipts and disbursements in accordance with accounting principles generally accepted in the United States of America.

1.D. USE OF ESTIMATES

The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, AND EQUITY

Cash, Cash Equivalents, and Investments

For purposes of the Statement Balances Arising from Cash Transactions, “cash and cash equivalents” includes all demand accounts and savings accounts. For the purpose of the proprietary fund Statement of Cash Flows, “net cash assets” include all demand and savings accounts.

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable participation by each of the funds. Temporary cash investments are stated at cost which approximates fair value. Investments in external investment pools are valued at the pool’s share price.

Method Used to Value Investments

Investments are stated at their fair value as determined by quoted market prices. Short-term investments are reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. Certificates of deposit are stated at cost, plus accrued interest, which approximates fair market value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses. Purchases and sales of securities are recorded on a trade-date basis.

See Note 3.A. for additional information related to Cash, Cash Equivalent, and Investments.

Long-Term Debt

Long-term debt is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as disbursements in governmental funds. In proprietary funds, debt proceeds and payment of principal and interest are reported as other receipts and disbursements. Bond premiums and discounts, as well as bond issuance costs, are recognized during the current period.

Equity Classifications

Governmental Fund

In the governmental fund financial statements, governmental funds report cash fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. There are no nonspendable fund balances at December 31, 2016.

Restricted – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the City Council, which is the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, AND EQUITY (Continued)

Equity Classifications (Continued)

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Council shall have the authority to assign fund balances.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

The City has formally adopted a policy under which it strives to maintain a minimum unassigned General Fund balance equal to approximately 40% to 45% of annual budgeted operating and debt service requirements.

See Note 3.D. for additional disclosures.

Proprietary fund

In the proprietary fund financial statements, net position is displayed in two components:

Restricted Cash Assets – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted Cash Assets – All other net position that do not meet the definition of “restricted”.

It is the City’s policy to consider restricted cash assets to its depletion before unrestricted cash assets are applied.

1.F. RECEIPTS AND DISBURSEMENTS

Property Tax

Under state law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt. The City levies its property tax for the subsequent year during the month of September. The County of Crow Wing is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected.

November 15 is the last day the City can certify a tax levy to the County for collection the following year. The County creates the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County also collects all special assessments, except for certain prepayments paid directly to the City. The County collects all taxes and special assessments to be collected on each parcel of property to the County in January of each year. The County collects all taxes and assessments, except as noted above. The County mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

Receipts and Disbursements

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods and/or services in connection with a proprietary fund’s principal ongoing operations. Operating disbursements for the proprietary fund include the cost of sales and services and administrative expense. All receipts and disbursements not meeting this definition are reported as nonoperating items which include revenue and expenses related to capital and related to financing, noncapital financing, or investing activities.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. RECEIPTS AND DISBURSEMENTS (Continued)

Disbursements

In the fund financial statements, disbursements are classified as follows:

| | |
|---------------------------------|------------------------------------------|
| Governmental Funds-By Character | Current (further classified by Function) |
| | Debt Service |
| | Capital Outlay |

Proprietary Funds-By Operating and Nonoperating

In the fund financial statements, governmental funds report disbursements of financial resources.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. See additional information at Note 3.C.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2.A. FUND ACCOUNTING REQUIREMENTS AND DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The City complies with all state and local laws and regulations requiring the use of separate funds.

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC or FSLIC insurance (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The City complies with such laws.

2.B. BUDGETARY INFORMATION

Annual budgets for the General Fund are adopted on the cash basis, which is a special purpose framework other than accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

Each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. The proposed budget is presented to the Council for review. The Council adopts a preliminary maximum levy. Truth-in-taxation notices are mailed out to residents by Crow Wing County. The Council adopts a final budget and tax levy in December.

The appropriated budget is prepared by fund, function and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. The original and final budget, if amended, for the General Fund is presented in the supplementary information. The City has not prepared a budget for its major special revenue fund.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, receipts, and expenditures.

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City's Council

Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States Government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated "A" or better;
- A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- Time deposits insured by any federal agency.

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

At December 31, 2016, the City's deposits were not exposed to custodial credit risk. The City's deposits were sufficiently covered by federal depository insurance or by collateral held by the City's agent in the City's name.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City has an investment policy which further limits investment choices. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy is to diversify its investments among securities with various maturities.

Investment balances at December 31, 2016 are as follows:

| <u>Type of Investments</u> | <u>Interest Rate</u> | <u>Credit Rating</u> | <u>Segmented Time Distribution</u> | <u>Fair Value</u> | <u>Percent of Total</u> |
|----------------------------|----------------------|----------------------|------------------------------------|---------------------|-------------------------|
| Pooled Investments: | | | | | |
| Money Market | 0.00-0.06 | N/A | Less than 1 year | \$ 18,618 | 0.39 |
| Certificates of Deposit | 0.75 - 1.45 | N/A | Less than 1 year | 868,030 | 18.09 |
| Certificates of Deposit | 0.80 - 2.20 | N/A | 1-5 years | 2,139,337 | 44.58 |
| US Government Bonds | 1.00-1.50 | AAA | 1-5 years | 1,343,145 | 27.99 |
| Municipal Bonds | 4.50 | AA2 | Less than 1 year | 229,883 | 4.79 |
| Municipal Bonds | 4.75-5.30 | AA2 | 1-5 years | <u>199,537</u> | <u>4.16</u> |
| Total Investments | | | | <u>\$ 4,798,550</u> | <u>100.00</u> |

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

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk as indicated in the table above. Minnesota Statutes limit the City’s investments.
- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments. At December 31, 2016, none of the underlying securities held by the City are not subject to custodial credit risk because they are insured by the Securities Investor Protection Corporation (SIPC).

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments (Continued)

- Concentration risk is the risk associated with the magnitude of the City’s investments (considered 5 percent or more) in the investments of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City has no formal policy limiting the amounts that may be invested in any one issuer. At December 31, 2016, the City has significant concentrations of credit risk.

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no formal policy to address interest rate risk.

The City categorizes its fair value measurements within the fair value hierarchy established by the basis of the financial reporting provisions prescribed by the State of Minnesota’s Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of December 31, 2016:

- U.S. Government bonds of \$1,343,145, certificates of deposits of \$3,007,367, municipal bonds of \$429,420, and money market funds of \$18,618 are valued by using quoted market prices (level 1).

Cash, Cash Equivalents, and Investments Summary

A reconciliation of cash, cash equivalents, and investments as shown on the Statement of Balances Arising from Cash Transactions for the Governmental Funds and Proprietary Funds for the City are as follows:

| | | |
|----------------------------------------------|----|-------------------------|
| Carrying Amount of Cash and Cash Equivalents | \$ | 1,694,361 |
| Investments | | <u>4,798,550</u> |
| Total | \$ | <u><u>6,492,911</u></u> |
| | | |
| Government Funds | | |
| Cash and Cash Equivalents | \$ | 1,253,714 |
| Investments | | <u>1,891,667</u> |
| | | 3,145,381 |
| Proprietary Funds | | |
| Cash and Cash Equivalents | | 440,647 |
| Investments | | <u>2,906,883</u> |
| | | <u><u>3,347,530</u></u> |
| Total | \$ | <u><u>6,492,911</u></u> |

**CITY OF BREEZY POINT, MINNESOTA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2016**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. NONCURRENT LIABILITIES

The reporting entity’s long-term debt is segregated between the amounts to be repaid from governmental funds and amounts to be repaid from proprietary funds.

There are a number of limitations and restrictions contained in the general obligation bond indentures.

Debt Detail

As of December 31, 2016, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

| General Obligation Bonds | | | | | |
|--------------------------|--------------------|--------------------------|---------------------|------------------|---------------------|
| Issue Date | Original Amount | Annual Payment | Interest Rate(s) | Maturity Date | Remaining Amount |
| 03/12 | \$ 2,350,000 | \$110,000 - 230,000 | 2.00-2.25% | 12/24 | \$ 1,695,000 |
| | | Debt Due Within One Year | | | 225,000 |
| | | Debt Due After One Year | | | \$ 1,470,000 |

All bonds are direct obligations of the City and pledge the full faith and credit of the City.

Changes in Noncurrent Liabilities

The following is a summary of changes in long-term debt for the year ended December 31, 2016:

| | Balance 01/01/16 | Additions | Reductions | Balance 12/31/16 | Amount Due Within One Year |
|--------------------------|---------------------|-----------|--------------|---------------------|----------------------------------|
| Governmental Activities: | | | | | |
| General Obligation Bonds | \$ 1,920,000 | \$ - | \$ (225,000) | \$ 1,695,000 | \$ 225,000 |

Governmental fund debt is funded through the Debt Service Fund.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. NONCURRENT LIABILITIES (Continued)

Annual Debt Service Requirements

At December 31, 2016, the estimated annual debt service requirements to maturity including principal and interest are as follows:

| Years Ending December 31, | Governmental Funds | | |
|------------------------------|---------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2017 | \$ 225,000 | \$ 34,405 | \$ 259,405 |
| 2018 | 225,000 | 29,905 | 254,905 |
| 2019 | 225,000 | 25,405 | 250,405 |
| 2020 | 225,000 | 20,905 | 245,905 |
| 2021 | 225,000 | 16,405 | 241,405 |
| 2022-2024 | <u>570,000</u> | <u>21,685</u> | <u>591,685</u> |
| Total | <u>\$ 1,695,000</u> | <u>\$ 148,710</u> | <u>\$ 1,843,710</u> |

Interest and fiscal charges expense totals \$40,149 in the Statement of Receipts, Disbursements and Changes in Cash Fund Balances.

3.C. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2016:

| Funds | Transfers Out | Transfers In | | |
|---------------|-------------------|------------------|--------------|----------------------|
| | | General | Debt Service | Revolving Capital |
| General | \$ 266,891 | \$ - | \$ - | \$ 266,891 |
| Sewer Fund | 8,400 | 8,400 | - | - |
| Cemetery Fund | <u>3,000</u> | <u>3,000</u> | - | - |
| | <u>\$ 278,291</u> | <u>\$ 11,400</u> | <u>\$ -</u> | <u>\$ 266,891</u> |

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.D. CASH FUND BALANCES

At December 31, 2016, governmental cash fund balances consists of the following:

| | General Fund | Debt Service | Special Revenue Funds | Total Governmental Funds |
|---------------------|-----------------|-----------------|-----------------------------|--------------------------------|
| Restricted for: | | | | |
| Reserves | \$ - | \$ 13,400 | \$ 414,465 | \$ 427,865 |
| Special Revenue | - | - | 28,060 | 28,060 |
| Total Restricted | - | 13,400 | 442,525 | 455,925 |
| Assigned for: | | | | |
| Debt Service | - | 220,130 | - | 220,130 |
| Reserves | - | - | 1,333,084 | 1,333,084 |
| Special Revenue | - | - | 83,764 | 83,764 |
| Total Assigned | - | 220,130 | 1,416,848 | 1,636,978 |
| Unassigned | 1,052,478 | - | - | 1,052,478 |
| Total Fund Balances | \$ 1,052,478 | \$ 233,530 | \$ 1,859,373 | \$ 3,145,381 |

NOTE 4 OTHER NOTES

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS – STATEWIDE

Plan Description

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

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. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership by Statute are covered by the Police and Fire Plan.

PERA provides retirement benefits as well as disability benefits to members, and survivor benefits upon death of eligible members. Benefits are established by State Statute and vest after five years of credited service. The defined benefit retirement plan benefits are based on a member's highest average salary for any 60 successive months of allowable service, age, and years of credit at termination of service.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 OTHER NOTES (Continued)

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Plan Description (Continued)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Police and Fire Plan members, the annuity accrual rate is 3.0 percent for each year of service. For all General Employee, Police and Fire, and Correctional plan members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Police and Fire and Correctional plan members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees and Police and Fire plans. That report may be obtained on the PERA's website at www.mnpera.org.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.5 percent, respectively, of their annual covered salary in 2016. Police and Fire Plan members were required to contribute 10.8 percent of their annual covered salary in 2016. In 2016, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.5 percent for Coordinated Plan members, and 16.2 percent for Police and Fire Plan members. The City's contributions to the General Employees Fund for the years ending December 31, 2016, 2015, and 2014 were \$29,013, \$27,196, and \$27,683, respectively. The City's contributions to the Police and Fire Fund for the years ending December 31, 2016, 2015, and 2014 total \$63,337, \$61,220, and \$50,110, respectively.

Defined Contribution Plan

The City of Breezy Point provides pension benefits for its elected local government officials through the Public Employees Defined Contribution Plan (Defined Contribution Plan accounted for in the Defined Contribution Fund), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 OTHER NOTES (Continued)

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

| | Contribution Amount | | Percentage of Covered Payroll | | Required Rates |
|------|---------------------|----------|-------------------------------|----------|----------------|
| | Employee | Employer | Employee | Employer | |
| 2016 | \$ 300 | \$ 300 | 5.00% | 5.00% | 5.00% |
| 2015 | \$ 300 | \$ 300 | 5.00% | 5.00% | 5.00% |
| 2014 | \$ 180 | \$ 180 | 5.00% | 5.00% | 5.00% |

4.B. 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. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

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

4.C. COMMITMENTS

Contracts

The City has executed an agreement with the City of Pequot Lakes Fire Department to provide fire services through April 2017 at a cost of \$65,820 per year plus an additional \$17,880 annually to the Fireman's Relief Association so long as the contract remains in effect. Total expenses for the year ended December 31, 2016 are \$83,700.

The City has approved union contracts for Law Enforcement employees through 2017. These contracts define the terms of benefits and pay for law enforcement employees.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 OTHER NOTES (Continued)

4.C. COMMITMENTS (Continued)

Accrued Employee Liabilities

An employee who separates from the City in good standing shall be compensated for un-used, accrued benefits such as comp time earned, vacation, and sick time. One hundred percent of earned comp and vacation is paid out at separation while sick time pay outs are subject to limitations of no more than 720 hours or 240 hours depending on hire date and/or collective bargaining agreements. At December 31, 2016, approximately \$200,000 is owed in accrued employee liabilities. A revolving reserve account is set up to assist with the funding and payment of these potential liabilities.

4.D. REVOLVING CAPITAL FUND RESERVES

The Revolving Capital Fund reserves consist of the following:

| Description | Amounts |
|-------------------------------------------|--------------|
| Land Acquisitions | \$ 33,239 |
| Recycling | 3,095 |
| Police | 14,424 |
| Public Works | 158,037 |
| Administration | 113,766 |
| Civil Defense | 1,424 |
| Road Improvements | 454,755 |
| Future Improvements | 679,307 |
| Insurance | 66,412 |
| Alcohol Forfeiture (629) | 25,155 |
| Drug Forfeiture (630) | 5,814 |
| Well Maintenance | 3,005 |
| Parkland Dedication | 14,246 |
| Accrued Employee Liabilities | 94,410 |
| Signs | 12,682 |
| Parks and Recreation | 42,588 |
| Franchise Fees | 25,190 |
| Total Revolving Capital Cash Fund Balance | \$ 1,747,549 |

4.E. SEWER CAPITAL RESERVES

At December 31, 2016, \$3,185,695 of cash is designated for future capital improvements in the Sewer Fund.

4.F. SUBSEQUENT EVENTS

Subsequent to year end but prior to the issuance of these financial statements, the City approved the purchase of a new Police SUV at a cost of \$43,720 and sold a pick-up truck for \$5,020. The City also accepted the bid for the road paving at a cost of \$199,699. However, the contract for such project has not yet been executed at the release of these financial statements.

SUPPLEMENTARY INFORMATION

**CITY OF BREEZY POINT, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Budget Amounts- Original and Final</u> | <u>Actual Amounts Budgetary Basis</u> | <u>Variance with Budget Over (Under)</u> |
|----------------------------------------------|-------------------------------------------------------|---------------------------------------------------|------------------------------------------------------|
| RESOURCES (INFLOWS): | | | |
| Property Taxes | \$ 1,599,063 | \$ 1,583,862 | \$ (15,201) |
| Special Assessments | 114,600 | 148,338 | 33,738 |
| Licenses, Permits and Fees | 59,820 | 116,436 | 56,616 |
| Intergovernmental | 76,000 | 88,784 | 12,784 |
| Charges for Services | 58,150 | 59,268 | 1,118 |
| Fines | 13,600 | 9,269 | (4,331) |
| Investment Income | 11,600 | 8,046 | (3,554) |
| Contributions | 300 | 313 | 13 |
| Miscellaneous | 1,230 | 2,825 | 1,595 |
| Operating Transfers In | 80,400 | 11,400 | (69,000) |
| AMOUNTS AVAILABLE | <u>2,014,763</u> | <u>2,028,541</u> | <u>13,778</u> |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | |
| Current: | | | |
| General Government: | | | |
| City Clerk | 249,466 | 240,606 | (8,860) |
| Council | 21,800 | 21,241 | (559) |
| General Government | 515,242 | 188,866 | (326,376) |
| Public Safety: | | | |
| Police | 656,174 | 654,307 | (1,867) |
| Fire | 84,000 | 83,700 | (300) |
| Public Works | 303,881 | 285,481 | (18,400) |
| Parks and Recreation | 7,000 | 5,533 | (1,467) |
| Capital Outlay | 120,800 | 327,984 | 207,184 |
| Operating Transfers Out | 56,400 | 266,891 | 210,491 |
| TOTAL CHARGES | <u>2,014,763</u> | <u>2,074,609</u> | <u>59,846</u> |
| NET CHANGE IN CASH FUND BALANCE | <u>\$ -</u> | <u>(46,068)</u> | <u>\$ (46,068)</u> |
| CASH FUND BALANCE - BEGINNING | | <u>1,098,546</u> | |
| CASH FUND BALANCE - ENDING | | <u>\$ 1,052,478</u> | |

**CITY OF BREEZY POINT, MINNESOTA
 COMBINING STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS -
 NONMAJOR OTHER GOVERNMENTAL FUNDS
 DECEMBER 31, 2016**

| | Cemetery Fund | EDA Fund | Total Nonmajor Governmental Funds |
|-----------------------------------------|------------------|-------------|--------------------------------------------|
| ASSETS | | | |
| Cash, Cash Equivalents, and Investments | \$ 106,704 | \$ 5,120 | \$ 111,824 |
| CASH FUND BALANCES | | | |
| Restricted | \$ 28,060 | \$ - | \$ 28,060 |
| Assigned | 78,644 | 5,120 | 83,764 |
| TOTAL CASH FUND BALANCES | \$ 106,704 | \$ 5,120 | \$ 111,824 |

CITY OF BREEZY POINT, MINNESOTA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES -
NONMAJOR OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | <u>Cemetery Fund</u> | <u>EDA Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|-----------------------------------------------------------------------|--------------------------|---------------------|------------------------------------------------------|
| RECEIPTS | | | |
| Property Taxes | \$ 7,931 | \$ - | \$ 7,931 |
| Charges for Services | 16,196 | - | 16,196 |
| Investment Income | 1,514 | 47 | 1,561 |
| Miscellaneous | 3,559 | - | 3,559 |
| TOTAL RECEIPTS | <u>29,200</u> | <u>47</u> | <u>29,247</u> |
| DISBURSEMENTS | | | |
| Current: | | | |
| Economic Development Authority | - | 657 | 657 |
| Cemetery | 15,416 | - | 15,416 |
| TOTAL DISBURSEMENTS | <u>15,416</u> | <u>657</u> | <u>16,073</u> |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | 13,784 | (610) | 13,174 |
| OTHER FINANCING USES | | | |
| Operating Transfers Out | <u>(3,000)</u> | <u>-</u> | <u>(3,000)</u> |
| NET CHANGE IN CASH FUND BALANCES | 10,784 | (610) | 10,174 |
| CASH FUND BALANCES - BEGINNING | <u>95,920</u> | <u>5,730</u> | <u>101,650</u> |
| CASH FUND BALANCES - ENDING | <u>\$ 106,704</u> | <u>\$ 5,120</u> | <u>\$ 111,824</u> |

**CITY OF BREEZY POINT, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

| | <u>Issue Date</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Initial Authorized Issue</u> | <u>Outstanding Balance 01/01/16</u> | <u>Paid</u> | <u>Outstanding Balance 12/31/16</u> | <u>Principal Due in 2017</u> |
|------------------------------------|-----------------------|--------------------------|--------------------------|-----------------------------------------|---------------------------------------------|-------------|---------------------------------------------|--------------------------------------|
| GENERAL OBLIGATION BONDS | | | | | | | | |
| 2012A GO Crossover Refunding Bonds | 03/13/12 | 2.00-2.25% | 12/15/2024 | \$ 2,350,000 | \$ 1,920,000 | \$ 225,000 | \$ 1,695,000 | \$ 225,000 |

**CITY OF BREEZY POINT, MINNESOTA
SCHEDULE OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2016
(UNAUDITED)**

| <u>Fund</u> | <u>Item and Purpose</u> | <u>Amount</u> |
|--------------|-------------------------|---------------------|
| General | Assessment Search | \$ 5.00 |
| General | Retail Software Credit | 43.33 |
| General | Tax Settlement | 44,885.68 |
| Cemetery | Donation | 10,000.00 |
| Cemetery | Tax Settlement | 162.79 |
| Cemetery | Utilities | 12.98 |
| Debt Service | Tax Settlement | 12,000.92 |
| Sewer | Retail Software Credit | 21.67 |
| Sewer | Tax Settlement | 923.33 |
| | | <u>\$ 68,055.70</u> |

CITY OF BREEZY POINT, MINNESOTA
SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES
DECEMBER 31, 2016
(UNAUDITED)

| <u>Fund</u> | <u>Vendor</u> | <u>Item and Purpose</u> | <u>Amount</u> |
|-------------------|--------------------------------|-------------------------------|---------------------|
| General | Crow Wing Auto Body | Repair 2014 Taurus Squad #3 | \$ 3,577.69 |
| | Crow Wing Power | Utilities | 1,094.66 |
| | Culligan | PD Water service | 28.00 |
| | Emergency medical Products | Gloves & Sanizide Pro | 99.05 |
| | Essentia Health | Drug Test 12/20/2016 | 25.00 |
| | Josef Garcia | Expense Reimbursement | 207.53 |
| | Heartland Animal Rescue Team | Dec. Administration Fee | 235.33 |
| | Heartland Animal Rescue Team | HTO 12/4/2016 | 17.26 |
| | Keepers, Inc. | Uniforms PD | 111.52 |
| | Napa of Crosslake | Power Steering Fluid/MTC. | 10.80 |
| | Pelican Square Inc. | Fuel-Public Works | 154.73 |
| | Pequot Lakes Sanitation | 4th Qtr. 2016 Recycling | 1,544.20 |
| | Sparrow Cleaning Service | December 2016 Office Cleaning | 200.00 |
| | Sparrow Cleaning Service | December 2016 PD Cleaning | 280.00 |
| | Kelly Trana | Refund Room Deposit | 50.00 |
| | Verizon Wireless | Cell Phone PD | 515.14 |
| | Waste Partners | 4th Qtr. 2016 Recycling | 1,226.98 |
| | Widseth Smith Nolting & Assoc. | 2017 Rd Imp. Engineering | 12,119.00 |
| | Widseth Smith Nolting & Assoc. | General Engineering Services | 405.50 |
| | Xcel Energy | Utilities | <u>893.15</u> |
| | | | 22,795.54 |
| Sewer | Crow Wing Power | Utilities | 220.92 |
| | Gopher State One Call | Locates | <u>2.70</u> |
| | | | 223.62 |
| Revolving Capital | Crow Wing County Highway Dept. | Material Testing & Inspection | <u>1,122.51</u> |
| | | | <u>1,122.51</u> |
| | | | <u>\$ 24,141.67</u> |

OTHER REPORT

**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

March 14, 2017

Honorable Mayor and City Council
City of Breezy Point, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of each major fund and the aggregate remaining fund information of the City of Breezy Point, Minnesota (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Stat. § 6.65, contains seven categories of compliance to be tested: deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, contracting and bidding, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except tax increment financing, since the City has none.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provision of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the *Schedule of Findings and Responses* as item 2016-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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



SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**CITY OF BREEZY POINT, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

LEGAL COMPLIANCE FINDING

Finding 2016-001 Failure to Obtain Confirmation that a Contractor's Form IC134 was Submitted

Condition: The City failed to obtain confirmation that a Contractor's Form IC134 or Withholding Affidavit was submitted to the State before making final settlement with a contractor.

Criteria: Under Minnesota Stat. § 270.66, the City is required to obtain a certificate by the Commissioner of Revenue that a Contractor's Form IC134 or Withholding Affidavit was filed with the State before making final settlement, to ensure that the contractor has complied with the withholding requirements of Minnesota Stat. § 290.92.

Cause: In the current year, before making final settlement to a contractor, the City did not obtain confirmation that a Contractor's Form IC134 was submitted to the State for review.

Effect: The failure to obtain confirmation that a contractor complied with withholding requirements resulted in the failure of the City to comply with the *Minnesota Legal Compliance Audit Guide for Cities*.

Recommendation: We recommend that management review all contractor projects before final settlement to ensure confirmation of Form IC134 or Withholding Affidavit have been submitted to the State.

Management's Response: Management agrees with the recommendation. In addition, subsequent to the final payment to the contractor, the form IC134 has been received by the City.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
The City will review all current and future contractor projects and obtain confirmation before making final payments that Form IC134 or Withholding Affidavits have been submitted to the State.

3. Official Responsible
Joe Rudberg, City Administrator/Clerk, is the official responsible for ensuring corrective action.

4. Planned Completion Date
March 14, 2017

5. Plan to Monitor Completion
Ongoing.