

CITY OF BREEZY POINT, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2018

**CITY OF BREEZY POINT, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF BREEZY POINT, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2018**

ELECTED	NAME	TERM EXPIRES
	Mayor – Tom Lillehei	12/31/2018
	<u>Council Members:</u>	
	Michael Moroni	12/31/2018
	Rebecca Ball	12/31/2020
	Gary Bakken	12/31/2018
	Gary Mitchell	12/31/2020

APPOINTED	TITLE / NAME
	City Administrator/Clerk – Patrick Wussow
	Auditor – CliftonLarsonAllen LLP

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Breezy Point
Breezy Point, Minnesota

Report on the Financial Statements

We have audited the statement of balances arising from cash transactions of each fund of the City of Breezy Point (City), Minnesota as of and for the year ended December 31, 2018, and the related statements of cash receipts, disbursements, and changes in cash fund balances and net cash position for the year then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Office of the State Auditor, as described in Note 1, to meet the requirements of the Minnesota Office of the State Auditor. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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. 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

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

Honorable Mayor and
Members of the City Council
City of Breezy Point

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

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the Minnesota Office of the State Auditor, the financial statements are prepared by the City in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2018, or changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to previously present fairly, in all material respects, the balances arising from cash transactions of each fund of the City as of December 31, 2018, and their respective cash receipts, disbursements and changes in cash fund balances and cash net position for the year then ended, in accordance with the financial reporting provisions of the Minnesota Office of the State Auditor described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's regulatory basis financial statements. The budgetary comparison schedules and the other information are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

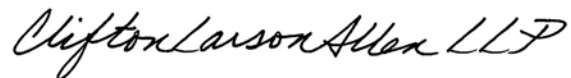
The budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules are fairly stated in all material respects, in relation to the regulatory basis financial statements as a whole.

Honorable Mayor and
Members of the City Council
City of Breezy Point

Other Matters (Continued)

Supplementary and Other Information (Continued)

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Brainerd, Minnesota
March 13, 2019

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FINANCIAL STATEMENTS

**CITY OF BREEZY POINT, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Cemetary Fund</u>	<u>EDA Fund</u>
ASSETS			
Cash and Investments	<u>\$ 1,430,218</u>	<u>\$ 138,573</u>	<u>\$ 2,353</u>
CASH FUND BALANCES			
Restricted	\$ -	\$ 138,573	\$ -
Committed	-	-	-
Assigned	-	-	2,353
Unassigned	<u>1,430,218</u>	<u>-</u>	<u>-</u>
Total Cash Fund Balances	<u>\$ 1,430,218</u>	<u>\$ 138,573</u>	<u>\$ 2,353</u>

See accompanying Notes to Financial Statements.

**CITY OF BREEZY POINT, MINNESOTA
 STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS (CONTINUED)
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

<u>Debt Service Fund</u>	<u>Revolving Capital Fund</u>	<u>Whitebirch TIF Fund</u>	<u>Total Governmental Funds</u>
<u>\$ 251,971</u>	<u>\$ 2,287,066</u>	<u>\$ 122,956</u>	<u>\$ 4,233,137</u>
\$ 251,971	\$ 38,779	\$ 122,956	\$ 552,279
-	2,248,287	-	2,248,287
-	-	-	2,353
-	-	-	1,430,218
<u>\$ 251,971</u>	<u>\$ 2,287,066</u>	<u>\$ 122,956</u>	<u>\$ 4,233,137</u>

See accompanying Notes to Financial Statements.

CITY OF BREEZY POINT, MINNESOTA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN
CASH FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	General Fund	Cemetery Fund	EDA Fund
RECEIPTS			
Property Taxes	\$ 1,808,873	\$ 6,213	\$ 1,969
Special Assessments	-	-	-
Licenses and Permits	133,905	-	-
Intergovernmental	98,695	-	-
Charges for Services	85,675	11,220	-
Fines and Forfeits	8,648	-	-
Investment Earnings	11,593	863	85
Contributions and Donations	100	-	-
Other	54,457	12,528	-
Total Receipts	2,201,946	30,824	2,054
DISBURSEMENTS			
CURRENT			
General Government	479,997	-	-
Public Safety	829,358	-	-
Streets and Highways	298,335	-	-
Culture and Recreation	7,746	-	-
Economic Development	-	-	2,676
Cemetery	-	21,837	-
DEBT SERVICE			
Principal	-	-	-
Interest and Other Charges	-	-	-
CAPITAL OUTLAY	67,596	-	-
Total Disbursements	1,683,032	21,837	2,676
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	518,914	8,987	(622)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	(184,300)	-	-
Total Other Financing Sources (Uses)	(184,300)	-	-
NET CHANGE IN CASH FUND BALANCE	334,614	8,987	(622)
Cash Fund Balance - Beginning of Year	1,095,604	129,586	2,975
CASH FUND BALANCE - END OF YEAR	\$ 1,430,218	\$ 138,573	\$ 2,353

See accompanying Notes to Financial Statements.

**CITY OF BREEZY POINT, MINNESOTA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN
CASH FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

Debt Service Fund	Revolving Capital Fund	Whitebirch TIF Fund	Total Governmental Funds
193,768	\$ -	\$ -	\$ 2,010,823
66,840	169,576	-	236,416
-	-	-	133,905
-	2,699	-	101,394
-	12,352	136,620	245,867
-	6,658	-	15,306
2,114	18,270	-	32,925
-	-	-	100
-	87,497	-	154,482
<u>262,722</u>	<u>297,052</u>	<u>136,620</u>	<u>2,931,218</u>
-	15,834	-	495,831
-	4,470	-	833,828
-	208,794	-	507,129
-	-	-	7,746
-	-	13,664	16,340
-	-	-	21,837
225,000	-	-	225,000
31,150	-	-	31,150
-	9,451	-	77,047
<u>256,150</u>	<u>238,549</u>	<u>13,664</u>	<u>2,215,908</u>
6,572	58,503	122,956	715,310
-	184,300	-	184,300
-	-	-	(184,300)
<u>-</u>	<u>184,300</u>	<u>-</u>	<u>-</u>
6,572	242,803	122,956	715,310
245,399	2,044,263	-	3,517,827
<u>\$ 251,971</u>	<u>\$ 2,287,066</u>	<u>\$ 122,956</u>	<u>\$ 4,233,137</u>

See accompanying Notes to Financial Statements.

**CITY OF BREEZY POINT, MINNESOTA
 STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
 PROPRIETARY FUND
 DECEMBER 31, 2018**

	Enterprise Fund Sewer
ASSETS	
Current Assets	
Cash and Investments	\$ 3,782,535
Total Assets	\$ 3,782,535
NET POSITION	
Unrestricted	\$ 3,782,535
Total Net Cash Position	\$ 3,782,535

See accompanying Notes to Financial Statements.

**CITY OF BREEZY POINT, MINNESOTA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN NET CASH POSITION
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2018**

	<u>Enterprise Fund</u> <u>Sewer</u>
OPERATING REVENUES	
Charges for Services	\$ 398,107
OPERATING DISBURSEMENTS	
Personal Services	156,045
Employee Benefits	39,160
Professional Services	3,241
Utilities	31,379
Supplies	33,593
Insurance	6,870
Other Services and Charges	7,280
Total Operating Disbursements	<u>277,568</u>
OPERATING INCOME (LOSS)	120,539
NONOPERATING REVENUES (DISBURSEMENTS)	
Investment Earnings	21,672
Special Assessments	87,539
Hook Up Fees	40,245
Total Nonoperating Revenues (Disbursements)	<u>149,456</u>
NET INCOME BEFORE CAPITAL OUTLAY	269,995
CAPITAL OUTLAY	<u>69,452</u>
CHANGE IN NET CASH POSITION	200,543
Total Net Cash Position - Beginning of Year	<u>3,581,992</u>
TOTAL NET CASH POSITION - END OF YEAR	<u><u>\$ 3,782,535</u></u>

See accompanying Notes to Financial Statements.

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**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Breezy Point (City) was formed and operates pursuant to applicable Minnesota laws. The City has a mayor-council form of government that is governed by an elected mayor and four-member council. Council members serve four-year terms and the mayor serves a two-year term.

A. Reporting Entity

The financial reporting entity consists of the Primary Government and the component units for which the Primary Government is financially accountable.

Component Units

Component units are legally separate entities for which the City (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 unit include whether or not the Primary Government appoints a voting majority, or the potential component unit's governing body 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 depended upon by the potential component unit.

Based on these criteria, there is one organization considered to be a component unit of the City. The Breezy Point Economic Development Authority (EDA) 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. The EDA is reported as a blended component unit for financial statement reporting.

B. Fund Accounting

The accounting system of the City is organized on a fund basis, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. Government resources are allocated to and accounted for in individual funds based upon the purposes for which such resources are to be spent, and the means by which spending activities are controlled. The City reports the following major Governmental Funds:

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

GOVERNMENTAL FUNDS

General Fund

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

Cemetery Fund

The Cemetery Fund, a special revenue fund, accounts for charges for services that are restricted for the operations and maintenance of the cemetery.

EDA Fund

The EDA Fund, a special revenue fund, accounts for property tax levy that is assigned for the operations of the EDA.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs of governmental funds.

Revolving Capital Fund

The Revolving Capital Fund, a capital project fund, accounts for the proceeds of specific revenue sources that are restricted and committed to expenditures for specified purposes.

Whitebirch TIF Fund

The Whitebirch TIF Fund, a special revenue fund, is used to account for financial resources to for the Whitebirch TIF District activity. This fund collects tax increments which are used to repay the developer.

PROPRIETARY FUNDS

Enterprise Funds

Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises, in which the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) when the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City reports the following major Proprietary Funds:

Sewer Fund

The Sewer Fund is used to account for the sewer collection of the City.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

The City of Breezy Point, follows the *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* as prescribed by the Minnesota's Office of the State Auditor. For all funds, the statements were prepared on the cash basis and accordingly, revenues and disbursements are recognized only as cash is received or paid out. These statements do not give effect to receivables, payables, accrued expenses and inventories and accordingly, are not presented in accordance with generally accepted accounting principles.

D. Cash and Investments

Cash balances from all funds are pooled and invested to the extent available in various securities as authorized by Minnesota Statutes. Investment earnings are allocated to all funds on the basis of average cash balances.

E. Property Taxes Receipts

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. Crow Wing County is the collecting agency for the levy which then remits the collections to the City. The County Auditor also collects all special assessments, except for certain payments paid directly to the City. The City receives its taxes in three installments in July, December, and the January following the tax year for which the taxes were levied.

The property tax levy in 2018 includes certain state credits which are distributed to the City directly by the state. These credits are classified as intergovernmental receipts.

F. Long-Term Obligations

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.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Fund Balance Classifications

Governmental Fund Financial Statements - In the fund financial statements, governmental funds report components of cash fund balance to provide information about cash fund balance availability for appropriation. Restricted cash fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed cash fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned cash fund balance represents resources intended for spending for a purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board. Unassigned cash fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications.

Committed cash fund balance is required to be established, modified, or rescinded by resolution of the City Council prior to year-end. The City Council has the authority to establish or modify assigned cash fund balance. When restricted and unrestricted cash fund balance is available for an expenditure, it is the City's policy to first use restricted cash fund balance. When committed, assigned, and unassigned cash fund balance is available of an expenditure, it is the City's policy to use committed, assigned and finally unassigned cash fund balance. 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.

Proprietary Fund Statements – Net cash position is reported as restricted in the statements when there are limitations imposed on its use through external restrictions imposed by creditors, grantor, laws, or regulations of other governments. The remaining balance is considered to be unrestricted.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budgets are prepared on the same basis of accounting as the financial statements. Each fall, the City Council adopts an annual budget for the following year for the General and certain Special Revenue Funds. The City Council may authorize transfer of budgeted amounts between departments within any fund. Comparisons of budgeted receipts and disbursements to actual are presented in the supplementary information for the General Fund, Cemetery Fund (special revenue fund) and EDA Fund (special revenue fund). The Whitebirch TIF Fund is not budgeted.

B. Excess of Cash Disbursements Over Budget

	Disbursements	Budget	Excess
Special Revenue Funds			
Cemetery Fund	\$ 21,837	\$ 17,050	\$ 4,787
EDA Fund	2,676	2,675	1

The above overages were considered by the City's management to be the result of necessary disbursements critical to operations and were approved by the Council.

NOTE 3 INTERFUND PAYABLES AND TRANSFERS

Interfund transfers for the year ended December 31, 2018 were as follows:

	Transfer In Revolving Capital Fund
Transfer Out General Fund	\$ 184,300

The transfer from the General Fund to the Revolving Capital Fund was to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 COMPONENTS OF CASH FUND BALANCES

Governmental Cash Fund Balances

At December 31, 2018, portions of the City’s cash fund balances were not available for appropriation due to legal restrictions (Restricted), Council intent (Committed) policy and/or intent (Assigned).

The following is a summary of the components of cash fund balance:

	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
Governmental Funds				
General Fund	\$ -	\$ -	\$ -	\$ 1,430,218
Cemetery Fund				
Cemetery Operations	138,573	-	-	-
EDA Fund				
EDA Operations	-	-	2,353	-
Debt Service	251,971	-	-	-
Revolving Capital Fund	-	-	-	-
Alcohol Forfeiture	33,595	-	-	-
Drug Forfeiture	5,184	-	-	-
Capital Projects	-	2,248,287	-	-
Whitebirch TIF Fund				
Developer Payments	122,956	-	-	-
Total Governmental Funds	<u>552,279</u>	<u>2,248,287</u>	<u>2,353</u>	<u>1,430,218</u>
Cash Fund Balance at December 31, 2018	<u>\$ 552,279</u>	<u>\$ 2,248,287</u>	<u>\$ 2,353</u>	<u>\$ 1,430,218</u>

NOTE 5 DEPOSITS AND INVESTMENTS

A. Deposits

The City maintains a cash and investment pool that is available for use by all funds. Each fund type’s portion of this pool is displayed on the combined balance sheet as “Cash and Investments.” In accordance with Minnesota Statutes the City maintains deposits at financial institutions which are authorized by the City Council.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The City's deposits in the banks at December 31, 2018 were entirely covered by federal depository insurance or by surety bonds and collateral.

B. Investments

The City follows the investment policy and also invests its idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and 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 thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements 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.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

At December 31, 2018, the City had the following investments:

Investment Type	
Certificate of Deposit	\$ 4,702,368
Money Market	23,198
US Government Bonds	913,501
Total	\$ 5,639,067

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Type	Credit Quality Rating	Amount
Certificates of Deposit	N/R	\$ 4,702,368
Money Market	N/R	23,198
US Government Bonds	AA+	913,501
Total		\$ 5,639,067

Concentration of Credit Risk – The City follows the investment policy addressing the concentration of credit risk. Investment in any one issuer that represents 5% or more of total investments as of December 31, 2018 was Federal NATL MTG ASSN Medium Term NTS at 10.06%.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Investment Type	Total	12 Months or Less	25 to 60 Months
Certificate of Deposit	\$ 4,702,368	\$ 1,381,370	\$ 2,396,295
Money Market	23,198	23,198	-
US Government Bonds	913,501	-	346,781
Total	\$ 5,639,067	\$ 1,404,568	\$ 2,743,076

The deposits and investments are presented in these financial statements:

Deposits	\$ 2,376,605
Investments	5,639,067
Total Cash and Deposits	\$ 8,015,672
Cash - Governmental Funds	\$ 4,233,137
Cash - Proprietary Funds	3,782,535
Total Cash	\$ 8,015,672

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The City uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- *Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- *Level 2* – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- *Level 3* – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

Assets measured at fair value on a recurring basis:

Type	Level 1	Level 2	Total
Municipal Obligations	\$ -	\$ 913,501	\$ 913,501
CD's	-	4,702,368	4,702,368
Total	\$ -	\$ 5,615,869	\$ 5,615,869

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 LONG-TERM DEBT

City Indebtedness

The City issues general obligation bonds to provide funds for economic development and for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds are direct obligations and pledge the full-faith and credit of the City.

Long-term obligations currently outstanding for the City are as follows:

Bonded Indebtedness	Interest Rate	Issue Date	Maturity Date	Outstanding December 31, 2018
General Government				
\$2,350,000 General Obligation Crossover Bonds of 2012	2.00-2.25%	03/15/12	12/15/24	<u>\$ 1,245,000</u>

Annual debt service requirements to maturity are as follows:

	Governmental Activities		
	Principal	Interest	Total
2019	\$ 225,000	\$ 25,405	\$ 250,405
2020	225,000	20,905	245,905
2021	225,000	16,405	241,405
2022	230,000	11,905	241,905
2023	230,000	7,305	237,305
2024	110,000	2,475	112,475
Total	<u>\$ 1,245,000</u>	<u>\$ 84,400</u>	<u>\$ 1,329,400</u>

A summary of long-term debt transactions for the year ended December 31, 2018, is as follows:

Bonded Indebtedness	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One year
Governmental Activities					
\$2,350,000 General Obligation Crossover Bonds of 2012	<u>\$ 1,470,000</u>	<u>\$ -</u>	<u>\$ 225,000</u>	<u>\$ 1,245,000</u>	<u>\$ 225,000</u>

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS

A. Plan Description

All full-time and certain part-time employees of the City of Breezy Point are covered by defined benefit pension 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 Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters, and peace officers who qualify for membership by statute are covered by Public Employees Police and Fire Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any 5 years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. 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.

For all General Employee 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. Method 2 provides for unreduced retirement benefits at age 65 for members first hired prior to July 1, 1989 or age 66 (the age for unreduced Social Security benefits), for those first hired on or after that date. Early retirement may begin at age 55 with an actuarial reduction (about six percent per year) for members retiring prior to full retirement age.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

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 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 General Employees and Police and Fire plans. That report may be obtained via internet at www.mnpera.org.

B. 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 9.10% and 6.50%, respectively, of their annual covered salary in 2018. Police and Fire Fund members were required to contribute 10.80% of their annual covered salary in 2018. The City is required to contribute the following percentages of annual covered payroll: 11.78% for the General Employees Fund members, 7.50% for Coordinated Plan members, and 16.20% for Police and Fire Fund members. The City's contributions to the General Employees Retirement Fund for the years ended December 31, 2018, 2017, and 2016 were \$33,045, \$31,182, and \$29,013, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ended December 31, 2018, 2017, and 2016 were \$70,636, \$66,578, and \$63,337, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 8 DEFINED CONTRIBUTION PENSION PLAN

A. Plan Description

Two council members of the City are covered by 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.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353.03, 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 five 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 six accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of one percent (0.25%) of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2018 were:

	<u>Employee</u>	<u>Employer</u>
Contribution Amount	\$ 300	\$ 300
Percentage of Covered Payroll	5.00%	5.00%
Required Rate	5.00%	5.00%

**CITY OF BREEZY POINT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota Cities. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining.

The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

**CITY OF BREEZY POINT,
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted</u> <u>Original and</u> <u>Final</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Beginning Budgetary Fund Balance - Beginning of Year	\$ 1,095,604	\$ 1,095,604	\$ -
RECEIPTS			
TAXES			
General Property Tax	1,773,482	1,808,873	35,391
LICENSES AND PERMITS			
Business	74,120	133,905	59,785
INTERGOVERNMENTAL			
State Grants			
Local Government Aid	-	39,860	39,860
PERA Rate Increase Aid	50,500	53,093	2,593
Other	3,400	5,742	2,342
Total Intergovernmental	<u>53,900</u>	<u>98,695</u>	<u>44,795</u>
CHARGES FOR SERVICES			
General Government	70,200	85,675	15,475
FINES AND FORFEITS			
County Court	9,100	8,648	(452)
MISCELLANEOUS			
Investment Earnings	10,700	11,593	893
Contributions and Donations	100	100	-
Other	1,200	54,457	53,257
Total Miscellaneous	<u>12,000</u>	<u>66,150</u>	<u>54,150</u>
Total Receipts	<u>1,992,802</u>	<u>2,201,946</u>	<u>209,144</u>
 Amount Available for Appropriation	 3,088,406	 3,297,550	 209,144

**CITY OF BREEZY POINT,
BUDGETARY COMPARISON SCHEDULE – CASH BASIS (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Original and Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
DISBURSEMENTS			
GENERAL GOVERNMENT			
Mayor and Council			
Current	\$ 22,450	\$ 20,333	\$ 2,117
Clerk/Treasurer			
Current	285,222	269,433	15,789
Capital Outlay	3,000	-	3,000
General Government			
Current	173,819	83,497	90,322
Planning and Zoning			
Current	98,433	106,734	(8,301)
Total General Government	<u>582,924</u>	<u>479,997</u>	<u>102,927</u>
PUBLIC SAFETY			
Police Protection			
Current	733,601	739,523	(5,922)
Capital Outlay	51,950	43,178	8,772
Fire Protection			
Current	93,000	89,835	3,165
Total Public Safety	<u>878,551</u>	<u>872,536</u>	<u>6,015</u>
STREETS AND HIGHWAYS			
Street Department			
Current	312,327	298,335	13,992
Capital Outlay - Equipment, Buildings, Etc.	20,000	17,483	2,517
Total Streets and Highways	<u>332,327</u>	<u>315,818</u>	<u>16,509</u>
CULTURE AND RECREATION			
Culture and Recreation	6,500	7,746	(1,246)
Capital Outlay	16,000	6,935	9,065
Total Culture and Recreation	<u>22,500</u>	<u>14,681</u>	<u>7,819</u>
Total Disbursements	1,816,302	1,683,032	133,270
OTHER FINANCING USES			
Transfers Out	176,500	184,300	(7,800)
Total Disbursements and Other Financing Uses	<u>1,992,802</u>	<u>1,867,332</u>	<u>125,470</u>
BUDGETARY FUND BALANCE - END OF YEAR	<u><u>\$ 1,095,604</u></u>	<u><u>\$ 1,430,218</u></u>	<u><u>\$ 334,614</u></u>

**CITY OF BREEZY POINT,
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
CEMETERY FUND
YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts Original and Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Beginning Budgetary Fund Deficit - Beginning of Year	129,586	129,586	\$ -
RECEIPTS			
TAXES			
General Property Taxes	6,000	6,213	213
CHARGES FOR SERVICES			
Other	9,100	11,220	2,120
MISCELLANEOUS			
Investment Earnings	1,300	863	(437)
Other	2,650	12,528	9,878
Total Miscellaneous	<u>3,950</u>	<u>13,391</u>	<u>9,441</u>
Total Receipts	<u>19,050</u>	<u>30,824</u>	<u>11,774</u>
Amount Available for Appropriation	148,636	160,410	11,774
DISBURSEMENTS			
CEMETERY			
Current	17,050	21,837	(4,787)
Total Disbursements	<u>17,050</u>	<u>21,837</u>	<u>(4,787)</u>
OTHER FINANCING USES			
Transfers Out	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total Disbursements and Other Financing Uses	<u>19,050</u>	<u>21,837</u>	<u>(2,787)</u>
BUDGETARY FUND BALANCE - END OF YEAR	<u>\$ 129,586</u>	<u>\$ 138,573</u>	<u>\$ 8,987</u>

**CITY OF BREEZY POINT,
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
EDA FUND
YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts Original and Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Beginning Budgetary Fund Balance - Beginning of Year	2,975	2,975	\$ -
RECEIPTS			
TAXES			
General Property Taxes	2,000	1,969	(31)
MISCELLANEOUS			
Investment Earnings	50	85	35
Total Receipts	<u>2,050</u>	<u>2,054</u>	<u>4</u>
Amount Available for Appropriation	5,025	5,029	4
DISBURSEMENTS			
ECONOMIC DEVELOPMENT			
Current	2,675	2,676	(1)
Total Disbursements	<u>2,675</u>	<u>2,676</u>	<u>(1)</u>
BUDGETARY FUND BALANCE - END OF YEAR	<u>\$ 2,350</u>	<u>\$ 2,353</u>	<u>\$ 3</u>

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**OTHER INFORMATION
(UNAUDITED)**

**CITY OF BREEZY POINT,
SCHEDULE OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2018
(UNAUDITED)**

Fund	Source of Revenue and Purpose		Amount
GOVERNMENTAL FUNDS			
General Fund	Open Door Community Church	December rent	\$ 300
General Fund	Court Administrator	Sign damage restitution	25
General Fund	Breezy Point Airport	December snow plowing	900
General Fund	State of MN Department of Finance	Late penalty fines	515
Revolving Capital Fund	Casey Mathias Hormann	ICR forfeiture returned check	145
Revolving Capital Fund	Forfeiture: 18001658 Alcohol Towing	ICR forfeiture towing alcohol	152
Revolving Capital Fund	State of MN Department of Finance	DWI assessment	144
Total Governmental Funds			<u>\$ 2,181</u>

**CITY OF BREEZY POINT,
SCHEDULE OF ACCOUNTS PAYABLE
DECEMBER 31, 2018
(UNAUDITED)**

Fund	Vendor Name	Item and Purpose	Amount
Governmental Funds			
General Fund	MN Department of Labor & Industry	4th quarter 2018- surcharge	\$ 497
General Fund	Crow Wing County Attorney	4th quarter fines & costs	1,012
General Fund	Crow Wing Power	Electric bill	1,007
General Fund	Sourcewell	IT support	194
General Fund	AAA Rental Inc.	Blower repair	184
General Fund	AT&T Mobility	Police Department phone bill	527
General Fund	Crow Wing County Highway Department	Edgewater circle sings	50
General Fund	Culligan	Police Department water	30
General Fund	Kari Jacobson- mileage	4th quarter mileage	44
General Fund	Neopost	4th quarter postage	73
General Fund	Oasis Oil	Fuel	681
General Fund	Petty Cash	Postage and trash can	50
General Fund	Sparrow Cleaning Service	December cleaning fees	640
General Fund	US Bank	Drug tests, postage, license	1,858
General Fund	Wex Bank	Fuel	1,078
General Fund	Xcel Energy	Natural gas	978
General Fund	Verizon Wireless	December cell phone charges	97
Cemetery Fund	Crow Wing Power	Electric bill	40
Cemetery Fund	Neopost	Postage	1
Cemetery Fund	US Bank	Wreath stands	21
Revolving Capital Fund	Casey Mathias Hormann	ICR forfeiture refund	145
Revolving Capital Fund	Pequot Lakes Sanitation	4th quarter recycling	2,090
Revolving Capital Fund	Waste Partners	4th quarter recycling	1,035
			<u>12,332</u>
Proprietary Funds			
Sewer Fund	Crow Wing Power	Electric bill	1,630
Sewer Fund	Verizon Wireless	December cell phone charges	153
Sewer Fund	Sourcewell	IT support	46
Sewer Fund	Gopher State One Call	Locates	1
Sewer Fund	Kari Jacobson	4th quarter mileage	44
Sewer Fund	Neopost	Postage	38
Sewer Fund	Petty Cash	Lifts mileage	46
Sewer Fund	US Bank	MN rural water training	480
Sewer Fund	Wex Bank	Fuel	87
	Subtotal		<u>2,525</u>
			<u>14,857</u>
	Total		<u>\$ 14,857</u>

OTHER REPORT SECTION



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and
Members of the City Council
City of Breezy Point
Breezy Point, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America, the statements of balances arising from cash transactions of each fund of the City of Breezy Point (the City), as of and for the year ended December 31, 2018, and the related statements of cash receipts, disbursements, and changes in cash fund balances and net cash position, and the related notes to the financial statements and have issued our report thereon dated March 13, 2019. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statements are prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Office of the State Auditor, which differs from accounting principles generally accepted in the United States of America. However, our opinion was unmodified on the financial statements presented under this regulatory basis.

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

In connection with our audit, no matters came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as noted in the paragraph below. 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, insofar as they relate to accounting matters.

Minnesota Statutes 471.38, Subd. 3 requires that cities make an annual delegation of authority to make electronic funds transfers to a chief financial officer. It was noted that the City does not approve an annual delegation of authority to make electronic fund transfers. The City should approve an annual delegation of authority to make electronic fund transfers.

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 not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
March 13, 2019