



Financial Statements
December 31, 2016

City of St. Bonifacius

INTRODUCTORY SECTION

Officials I

FINANCIAL SECTION

Independent Auditor’s Report..... II

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position 1
Statement of Activities..... 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position..... 4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 6
Statement of Net Position – Proprietary Funds 7
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds..... 8
Statement of Cash Flows – Proprietary Funds 9
Notes to Financial Statements 10

Required Supplementary Information

Schedule of Employer’s Share of Net Pension Liability and Schedule of Employer’s Contributions 28
Budgetary Comparison Schedule – General Fund 29
Notes to the Required Supplementary Information..... 30

Supplemental Schedule

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds 31

MINNESOTA COMPLIANCE SECTION

Independent Auditor’s Report on Minnesota Legal Compliance 32

CITY COUNCIL

Shawn Ruotsinoja	Mayor
Terrill Anderson	Councilor
Robert Smestad, Jr.	Councilor
Mary Bishop	Councilor
Carolyn Brooks	Councilor

ADMINISTRATION

Brenda Fisk	City Clerk/Treasurer
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Independent Auditor's Report

Honorable Mayor and City Council
City of St. Bonifacius
St. Bonifacius, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of St. Bonifacius (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinions

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

Other Matters

Required Supplementary Information

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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St. Bonifacius' financial statements. The introductory section and the combined schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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



Mankato, Minnesota
May 9, 2017

City of St. Bonifacius
Statement of Net Position
December 31, 2016

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
Assets			
Cash and investments	\$ 1,316,466	\$ 296,461	\$ 1,612,927
Receivables:			
Property taxes	6,815	-	6,815
Special assessments	186,195	1,980	188,175
Accounts	-	86,422	86,422
Due from other governments	-	13,998	13,998
Prepaid items	7,215	3,829	11,044
Capital assets not being depreciated:			
Land	149,092	204,137	353,229
Capital assets, net of accumulated depreciation:			
Building	873,147	356,915	1,230,062
Equipment	212,132	196,110	408,242
Infrastructure	7,101,036	2,682,055	9,783,091
Vehicles	721,403	10,653	732,056
Total assets	<u>10,573,501</u>	<u>3,852,560</u>	<u>14,426,061</u>
Deferred Outflows of Resources			
Pension plans	129,531	-	129,531
Total deferred outflows of resources	<u>129,531</u>	<u>-</u>	<u>129,531</u>
Liabilities			
Accounts payable	35,985	30,823	66,808
Unearned revenue	125,520	-	125,520
Interest payable	3,499	4,798	8,297
Noncurrent liabilities:			
Due within one year	233,946	143,000	376,946
Due in more than one year	2,192,200	928,000	3,120,200
Net pension liability	349,139	-	349,139
Total liabilities	<u>2,940,289</u>	<u>1,106,621</u>	<u>4,046,910</u>
Deferred Inflows of Resources			
Pension plans	30,711	-	30,711
Net Position			
Net investment in capital assets	6,630,664	2,378,870	9,009,534
Restricted for:			
Debt service	560,276	-	560,276
Trunk fees	-	90,445	90,445
Unrestricted	541,092	276,624	817,716
Total net position	<u>\$ 7,732,032</u>	<u>\$ 2,745,939</u>	<u>\$ 10,477,971</u>

City of St. Bonifacius
Statement of Activities
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental Activities							
General government	\$ 768,344	\$ 6,455	\$ 117,239	\$ -	\$ (644,650)	\$ -	\$ (644,650)
Public safety	515,976	234,931	-	-	(281,045)	-	(281,045)
Streets and highways	292,986	-	-	6,556	(286,430)	-	(286,430)
Sanitation	5,066	-	-	-	(5,066)	-	(5,066)
Culture and recreation	30,631	-	-	-	(30,631)	-	(30,631)
Interest and other charges on long-term debt	66,835	-	-	-	(66,835)	-	(66,835)
Total governmental activities	1,679,838	241,386	117,239	6,556	(1,314,657)	-	(1,314,657)
Business-Type Activities							
Water	309,464	406,209	-	-	-	96,745	96,745
Sewer	260,109	303,058	-	-	-	42,949	42,949
Storm sewer	29,888	62,213	-	-	-	32,325	32,325
Total business-type activities	599,461	771,480	-	-	-	172,019	172,019
Total primary government	\$ 2,279,299	\$ 1,012,866	\$ 117,239	\$ 6,556	(1,314,657)	172,019	(1,142,638)
		General Revenues					
			Property taxes		617,458	-	617,458
			State aid		403,571	-	403,571
			Earnings on investments		6,302	-	6,302
			Miscellaneous		82,943	-	82,943
			Transfers		145,214	(145,214)	-
			Total general revenues and transfers		1,255,488	(145,214)	1,110,274
			Changes in Net Position		(59,169)	26,805	(32,364)
			Net Position - Beginning		7,791,201	2,719,134	10,510,335
			Net Position - Ending		\$ 7,732,032	\$ 2,745,939	\$ 10,477,971

City of St. Bonifacius
Balance Sheet – Governmental Funds
December 31, 2016

	General Fund	2012A G.O. Improvement Bonds	2013 Street Project Debt Service	Total Governmental Funds
Assets				
Cash and investments	\$ 944,498	\$ 185,380	\$ 186,588	\$ 1,316,466
Receivables:				
Taxes	4,702	1,363	750	6,815
Special assessments	-	102,199	83,996	186,195
Prepaid items	7,215	-	-	7,215
Total assets	<u>\$ 956,415</u>	<u>\$ 288,942</u>	<u>\$ 271,334</u>	<u>\$ 1,516,691</u>
Liabilities				
Accounts payable	\$ 35,985	\$ -	\$ -	\$ 35,985
Unearned Revenue	125,520	-	-	125,520
Total liabilities	<u>161,505</u>	<u>-</u>	<u>-</u>	<u>161,505</u>
Deferred Inflows of Resources				
Unavailable revenue	-	102,199	83,996	186,195
Fund Balances				
Nonspendable	7,215	-	-	7,215
Restricted	-	186,743	187,338	374,081
Committed	644,559	-	-	644,559
Unassigned	143,136	-	-	143,136
Total fund balances	<u>794,910</u>	<u>186,743</u>	<u>187,338</u>	<u>1,168,991</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 956,415</u>	<u>\$ 288,942</u>	<u>\$ 271,334</u>	<u>\$ 1,516,691</u>

City of St. Bonifacius
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 December 31, 2016

Total Fund Balances for Governmental Funds:		\$ 1,168,991
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		9,056,810
Some of the City's receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as unavailable revenue in the funds.		186,195
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		98,820
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(3,499)
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at year-end are:		
Bonds payable	\$ 2,300,000	
Capital lease payable	126,146	
Net pension liability	349,139	
		(2,775,285)
Total Net Position for Governmental Activities		\$ 7,732,032

City of St. Bonifacius
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended December 31, 2016

	General Fund	2012A G.O. Improvement Bonds	2013 Street Project Debt Service	Total Governmental Funds
Revenues				
Property taxes	\$ 403,397	\$ 107,337	\$ 106,724	\$ 617,458
Special assessments	-	19,607	10,757	30,364
Fees and fines	13,151	-	-	13,151
Licenses and permits	117,239	-	-	117,239
Intergovernmental	403,571	-	-	403,571
Charges for services	241,386	-	-	241,386
Investment earnings	6,302	-	-	6,302
Miscellaneous	69,792	-	-	69,792
Total revenues	<u>1,254,838</u>	<u>126,944</u>	<u>117,481</u>	<u>1,499,263</u>
Expenditures				
Current				
General government	430,062	-	-	430,062
Public safety	468,889	-	-	468,889
Public works	465,028	-	-	465,028
Sanitation	5,066	-	-	5,066
Debt Service				
Principal	38,565	115,000	90,000	243,565
Interest and other charges	6,444	22,890	37,733	67,067
Total expenditures	<u>1,414,054</u>	<u>137,890</u>	<u>127,733</u>	<u>1,679,677</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(159,216)</u>	<u>(10,946)</u>	<u>(10,252)</u>	<u>(180,414)</u>
Other Financing Sources (Uses)				
Transfers from other funds	207,214	-	-	207,214
Transfers to other funds	(62,000)	-	-	(62,000)
Total other financing sources (uses)	<u>145,214</u>	<u>-</u>	<u>-</u>	<u>145,214</u>
Net change in fund balances	(14,002)	(10,946)	(10,252)	(35,200)
Fund Balances - Beginning	<u>808,912</u>	<u>197,689</u>	<u>197,590</u>	<u>1,204,191</u>
Fund Balances - Ending	<u>\$ 794,910</u>	<u>\$ 186,743</u>	<u>\$ 187,338</u>	<u>\$ 1,168,991</u>

City of St. Bonifacius

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended December 31, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ (35,200)
Amounts reported for governmental activities in the statement of activities are different because:	
Some revenues will not be collected for several months after the City's fiscal year end, they are considered unavailable revenues in the governmental funds.	(23,808)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	(216,927)
The governmental funds report repayment of long-term liabilities as expenditures. In the statement of net position, however, repayment of principal reduces the liability.	243,565
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	(27,031)
Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due.	232
Change in Net Position of Governmental Activities	<u><u>\$ (59,169)</u></u>

City of St. Bonifacius
Statement of Net Position – Proprietary Funds
December 31, 2016

	Water	Sewer	Storm Sewer	Proprietary Funds Total
Assets				
Current Assets:				
Cash and investments	\$ 75,827	\$ 152,189	\$ 68,445	\$ 296,461
Receivables:				
Accounts	47,256	31,198	7,968	86,422
Due from other governments	-	13,998	-	13,998
Special assessments	1,980	-	-	1,980
Prepaid items	1,914	1,915	-	3,829
Total current assets	<u>126,977</u>	<u>199,300</u>	<u>76,413</u>	<u>402,690</u>
Noncurrent Assets:				
Capital assets not being depreciated:				
Land	89,745	89,669	24,723	204,137
Capital assets, net of accumulated depreciation:				
Building	178,458	178,457	-	356,915
Equipment	137,868	58,242	-	196,110
Infrastructure	1,840,938	423,805	417,312	2,682,055
Vehicles	10,653	-	-	10,653
Total noncurrent assets	<u>2,257,662</u>	<u>750,173</u>	<u>442,035</u>	<u>3,449,870</u>
Total assets	<u>2,384,639</u>	<u>949,473</u>	<u>518,448</u>	<u>3,852,560</u>
Liabilities				
Current Liabilities:				
Accounts payable	30,015	808	-	30,823
Interest payable	4,483	-	315	4,798
Bonds and notes payable - current	118,000	-	25,000	143,000
Total current liabilities	<u>152,498</u>	<u>808</u>	<u>25,315</u>	<u>178,621</u>
Noncurrent Liabilities:				
Bonds and notes payable	798,000	-	130,000	928,000
Total liabilities	<u>950,498</u>	<u>808</u>	<u>155,315</u>	<u>1,106,621</u>
Net Position				
Net investment in capital assets	1,341,662	750,173	287,035	2,378,870
Restricted trunk fees	-	90,445	-	90,445
Unrestricted	92,479	108,047	76,098	276,624
Total net position	<u>\$ 1,434,141</u>	<u>\$ 948,665</u>	<u>\$ 363,133</u>	<u>\$ 2,745,939</u>

City of St. Bonifacius
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
Year Ended December 31, 2016

	Water	Sewer	Storm Sewer	Proprietary Funds Total
Operating Revenues				
Sales and service	\$ 392,815	\$ 291,344	\$ 59,665	\$ 743,824
Special assessments	10,715	9,035	2,548	22,298
Miscellaneous	2,679	2,679	-	5,358
Total operating revenues	<u>406,209</u>	<u>303,058</u>	<u>62,213</u>	<u>771,480</u>
Operating Expenses				
Supplies	52,245	4,322	-	56,567
Other services and charges	67,692	212,093	9,537	289,322
Repairs and maintenance	21,833	-	-	21,833
Depreciation	149,950	43,694	16,178	209,822
Miscellaneous	1,314	-	-	1,314
Total operating expenses	<u>293,034</u>	<u>260,109</u>	<u>25,715</u>	<u>578,858</u>
Operating income	<u>113,175</u>	<u>42,949</u>	<u>36,498</u>	<u>192,622</u>
Nonoperating Expenses				
Interest expense	<u>(16,430)</u>	<u>-</u>	<u>(4,173)</u>	<u>(20,603)</u>
Income before transfers	96,745	42,949	32,325	172,019
Transfers in	32,000	30,000	-	62,000
Transfers out	<u>(126,180)</u>	<u>(81,034)</u>	<u>-</u>	<u>(207,214)</u>
Total transfers	<u>(94,180)</u>	<u>(51,034)</u>	<u>-</u>	<u>(145,214)</u>
Change in net position	2,565	(8,085)	32,325	26,805
Net Position - Beginning	<u>1,431,576</u>	<u>956,750</u>	<u>330,808</u>	<u>2,719,134</u>
Net Position - Ending	<u>\$ 1,434,141</u>	<u>\$ 948,665</u>	<u>\$ 363,133</u>	<u>\$ 2,745,939</u>

City of St. Bonifacius
Statement of Cash Flows – Proprietary Funds
Year Ended December 31, 2016

	Water	Sewer	Storm Sewer	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 410,986	\$ 303,640	\$ 62,016	\$ 776,642
Payments to suppliers	(143,084)	(216,415)	(9,537)	(369,036)
Net cash provided by (used for) operating activities	<u>267,902</u>	<u>87,225</u>	<u>52,479</u>	<u>407,606</u>
Cash Flows from Noncapital Financing Activities				
Transfers from other funds	32,000	30,000	-	62,000
Transfers to other funds	(126,180)	(81,034)	-	(207,214)
Net cash provided by (used for) noncapital financing activities	<u>(94,180)</u>	<u>(51,034)</u>	<u>-</u>	<u>(145,214)</u>
Cash Flows from Capital and Related Financing Activities				
Principal paid on bonds	(117,000)	-	(20,000)	(137,000)
Interest paid on bonds	(16,506)	-	(4,161)	(20,667)
Acquisition of capital assets	(24,442)	-	(30,703)	(55,145)
Net cash provided by (used for) capital and related financing activities	<u>(157,948)</u>	<u>-</u>	<u>(54,864)</u>	<u>(212,812)</u>
Net increase (decrease) in cash and investments	15,774	36,191	(2,385)	49,580
Cash and investments - January 1	<u>60,053</u>	<u>115,998</u>	<u>70,830</u>	<u>246,881</u>
Cash and investments - December 31	<u>\$ 75,827</u>	<u>\$ 152,189</u>	<u>\$ 68,445</u>	<u>\$ 296,461</u>
Reconciliation of Operating Income to Net Cash Provided by (used for) Operating Activities:				
Operating income	\$ 113,175	\$ 42,949	\$ 36,498	\$ 192,622
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation expense	149,950	43,694	16,178	209,822
Decrease (increase) in assets:				
Accounts receivable	(1,145)	1,333	1,218	1,406
Due from other governments	-	(1,008)	-	(1,008)
Prepaid expenses	(149)	(149)	-	(298)
Special assessments	1,980	-	-	1,980
Increase (decrease) in liabilities:				
Accounts payable	4,091	406	(1,415)	3,082
Net Cash Provided by (used for) Operating Activities	<u>\$ 267,902</u>	<u>\$ 87,225</u>	<u>\$ 52,479</u>	<u>\$ 407,606</u>

Note 1 - Summary of Significant Accounting Policies

The City of St. Bonifacius (City) is a municipal corporation governed by a mayor and a four member council elected by eligible voters of the City. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City applies all relevant GASB pronouncements. The significant City accounting policies are described below.

A. Financial Reporting Entity

The City is the basic level of government which has oversight responsibility and control over all activities related to the government in the City's area. The City receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since mayor and council members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City reports the following major governmental funds:

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

The *2012A G.O. improvement fund* accounts for the sources of revenue for and the payment for the 2012A General Obligation Improvement Refunding Bonds.

The *2013 street project debt service fund* accounts for the sources of revenue for and the payment for the 2013C Bonds.

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water distribution operations.

The *sewer fund* accounts for the activities of the City's sewage pumping stations and collection systems.

The *storm sewer fund* accounts for the activities of the City's storm sewer systems.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, and storm sewer enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue recycling charges, refunds and reimbursements, and penalties. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance

1. Cash and Investments

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits and certificates of deposit, as well as short term investments with an original maturity date within three months of the date acquired by the City. Investments for the government include bonds and are reported at fair value.

2. Receivables and Payables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, special assessments, and state and federal aids.

Interest and certain receivables are recorded as revenue in the year that it is earned and is available to pay liabilities of the current period.

On or before September 15th of each year, the City Council certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All cities must hold public hearings on their proposed property tax levies.

Beginning on November 29th and through December 20th of each year, the City is required by State Law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the City Council certifies its final adopted property taxes payable the following year to the county auditor. If the City has not certified its final property tax by this time, its property tax shall be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts three times a year, in January, June, and November.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position or governmental balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period and so will *not* be recognized as an outflow (expense/expenditure) until then. The City has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position or the governmental balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The city has two items that qualifies for reporting in this category, *unavailable revenue*, which arises only under the modified accrual basis of accounting. Accordingly, *unavailable revenue* is only reported on the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available. The other item is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. The City does not have a formal policy stating the aforementioned amount. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Capital assets are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Streets	40
Lift Station	40
Sanitary Sewer Mains	40
Water Mains	40
Storm Sewer Mains	40
Sump Pump Lines	40
Buildings	40
Concrete Curb and Gutter	30
Sidewalks	30
Park Restrooms and Shelters	20
Wells and Pump Houses	20
Office Equipment Furniture and Fixtures	10
Vehicles	10
Machinery, Equipment, Radios, Phones	10
Computer Equipment and Software	5
Land	Not Depreciated

6. Compensated Absences

Vacation and sick leave is accrued as a liability and recorded as an expense for those funds as the benefits are earned by the employees. Eighty hours of vacation can be carried over into the new year or it is lost. The City allows employees to accumulate unused sick leave with a maximum of 480 hours accrued. The benefit is paid in accordance with the employee agreement. As of December 31, 2016, \$18,532 has been accrued and is included in accounts payable.

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Pensions

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

9. Fund balance and Net position

Net position represents the difference between assets, deferred outflows/inflows of resources, and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. It is the City's policy to spend restricted net position before unrestricted net position. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City did not approve a specific amount to maintain as a minimum unassigned general fund balance. If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

E. Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Transfers have been removed from the government-wide financial statements.

Note 2 - Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2016, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the city's administration so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The City Council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the City Council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2016, expenditures exceeded appropriations in the General Fund by \$206,170. These excess expenditures were funded by greater than anticipated revenues and available fund balance.

Note 3 - Detailed Notes on All Funds

A. Cash and Investments

1. Cash

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

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. As of December 31, 2016, none of the City's bank balances were exposed to custodial credit risk. The pledged collateral is held in safekeeping in a financial institution other than that furnishing the collateral.

2. Investments

As of December 31, 2016, the City had the following investments.

	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investment Type:				
Certificates of deposit	\$ 244,298	\$ -	\$ 244,298	\$ -
Municipal bond	<u>212,492</u>	<u>-</u>	<u>212,492</u>	<u>-</u>
Total Fair Value	<u>\$ 456,790</u>	<u>\$ -</u>	<u>\$ 456,790</u>	<u>\$ -</u>

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City may invest funds as authorized by Minnesota Statutes Section 118A.04. The Certificate of Deposit have a Moody rating of AAA and an S & P rating of AA-. The Municipal Bond has an S & P Rating of AA-.

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. More than 5% of the City's investments are in HSBC Bank USA (46.5%) and the City of Kaukauna, WI (53.5%).

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a failure by the counterparty, the City's investments may not be returned to it. The City does not have an investment policy for custodial credit risk. As of December 31, 2016, none of the City's investments were exposed to custodial credit risk.

B. Receivables

Governmental funds report unavailable revenue in connection with receivables for revenues that have been earned but not received. These receivables are not considered to be available to liquidate liabilities of the current period (collected within 60 days of year-end). The City reports \$186,195 of special assessments not yet due in the debt service funds as of December 31, 2016, of which \$164,923 is not expected to be collected within one year.

C. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 149,092	\$ -	\$ -	\$ 149,092
Capital Assets, Being Depreciated:				
Building	1,446,907	-	-	1,446,907
Equipment	778,631	61,560	-	840,191
Infrastructure	27,142,270	224,457	-	27,366,727
Vehicles	1,496,576	-	-	1,496,576
Total Capital Assets, Being Depreciated	<u>30,864,384</u>	<u>286,017</u>	<u>-</u>	<u>31,150,401</u>
Accumulated Depreciation:				
Building	531,027	42,733	-	573,760
Equipment	604,560	23,499	-	628,059
Infrastructure	19,876,817	388,874	-	20,265,691
Vehicles	727,335	47,838	-	775,173
Total Accumulated Depreciation	<u>21,739,739</u>	<u>502,944</u>	<u>-</u>	<u>22,242,683</u>
Total Capital Assets, Being Depreciated, Net	<u>9,124,645</u>	<u>(216,927)</u>	<u>-</u>	<u>8,907,718</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,273,737</u>	<u>\$ (216,927)</u>	<u>\$ -</u>	<u>\$ 9,056,810</u>

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

General government	\$ 319,839
Public safety	72,068
Culture and recreation	10,589
Public works	48,033
Highways and streets, including depreciation of general infrastructure assets	<u>52,415</u>
	<u>\$ 502,944</u>

City of St. Bonifacius
Notes to Financial Statements
December 31, 2016

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 204,137	\$ -	\$ -	\$ 204,137
Capital Assets, Being Depreciated:				
Buildings	446,143	-	-	446,143
Equipment	321,597	6,556	-	328,153
Infrastructure	4,983,202	48,589	-	5,031,791
Vehicles	36,849	-	-	36,849
Total Capital Assets, Being Depreciated	<u>5,787,791</u>	<u>55,145</u>	<u>-</u>	<u>5,842,936</u>
Accumulated Depreciation:				
Buildings	78,076	11,152	-	89,228
Equipment	109,069	22,974	-	132,043
Infrastructure	2,177,204	172,532	-	2,349,736
Vehicles	23,032	3,164	-	26,196
Total Accumulated Depreciation	<u>2,387,381</u>	<u>209,822</u>	<u>-</u>	<u>2,597,203</u>
Total Capital Assets, Being Depreciated, Net	<u>3,400,410</u>	<u>(154,677)</u>	<u>-</u>	<u>3,245,733</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,604,547</u>	<u>\$ (154,677)</u>	<u>\$ -</u>	<u>\$ 3,449,870</u>

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

Water	\$ 149,950
Sewer	43,694
Storm sewer	<u>16,178</u>
	<u>\$ 209,822</u>

D. Capital Lease

The City has an outstanding lease for the financing of a plow truck. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is payable in annual installments of \$36,007 through December 2020 at 3.45% interest rate and payments are made from the general fund.

The asset acquired through the capital lease is as follows:

	Governmental Activites
Asset - Plow truck	\$ 200,400
Less: accumulated depreciation	(11,690)
Total	\$ 188,710

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

2017	\$ 36,007
2018	36,007
2019	36,007
2020	36,007
Less: amount representing interest	(10,036)
Present value of capital lease payments	\$ 133,992

E. Long-Term Liabilities

General Obligation Bonds: The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities and are direct obligations and pledge the full faith and credit of the City. The original principle amount of the General Obligation bonds previously issued by the city was \$3,765,000. General obligation bonds currently outstanding are as follows:

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Outstanding as of December 31, 2016</u>
G.O. Refunding bonds of 2012B of \$775,000, due in annual installments of \$85,000 to \$90,000 through December 1, 2021.	0.40% to 1.85%	\$ 440,000
G.O. Refunding bonds of 2012A of \$1,170,000, due in annual installments of \$115,000 to \$155,000 through December 1, 2023.	2.00% to 2.30%	945,000
G.O. Storm Sewer Refunding bonds of 2013C of \$200,000, due in annual installments of \$25,000 to \$30,000 through December 15, 2022.	2.00% to 2.30%	155,000
G.O. Refunding bonds of 2013C of \$1,620,000, due in annual installments of \$95,000 to \$140,000 through December 15, 2028.	2.00% to 3.25%	1,355,000
General Obligation Bonds Payable		<u>\$ 2,895,000</u>

General Obligation Revenue Notes:

The City issued a \$664,864 general obligation revenue note for the construction of a well that serves all the residents and businesses within the City. The note has a stated interest rate of 1.709% and is payable in annual installments of principal and semiannual installments of interest. The note is financed by the Water Fund. The annual principal installments of \$33,000 to \$40,000 are due on August 20th of each year through August 20, 2029. The amount currently outstanding at December 31, 2016 is \$476,000.

Annual debt service requirements to maturity for long-term bonds payable are as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 210,000	\$ 55,593	\$ 143,000	\$ 18,290
2018	215,000	51,393	144,000	16,291
2019	230,000	47,093	149,000	13,935
2020	235,000	42,493	150,000	11,504
2021	245,000	37,792	150,000	8,741
2022-2026	890,000	108,422	216,000	20,480
2027-2029	275,000	13,487	119,000	4,084
Total	<u>\$ 2,300,000</u>	<u>\$ 356,273</u>	<u>\$ 1,071,000</u>	<u>\$ 93,325</u>

Changes in Long-Term Liabilities. During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Governmental Activities:					
Debt Payable:					
Capital lease	\$ 164,711	\$ -	\$ 38,565	\$ 126,146	\$ 23,946
General obligation bonds	<u>2,505,000</u>	<u>-</u>	<u>205,000</u>	<u>2,300,000</u>	<u>210,000</u>
Total bonds outstanding	<u>\$ 2,669,711</u>	<u>\$ -</u>	<u>\$ 243,565</u>	<u>\$ 2,426,146</u>	<u>\$ 233,946</u>
Business-Type Activities:					
Debt Payable:					
Drinking water revenue notes	\$ 508,000	\$ -	\$ 32,000	\$ 476,000	\$ 33,000
General obligation bonds	<u>700,000</u>	<u>-</u>	<u>105,000</u>	<u>595,000</u>	<u>110,000</u>
Total bonds outstanding	<u>\$ 1,208,000</u>	<u>\$ -</u>	<u>\$ 137,000</u>	<u>\$ 1,071,000</u>	<u>\$ 143,000</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$5,627,008. As of December 31, 2016, none of the above long-term liabilities apply against the legal debt margin.

F. Inter-Fund Balances and Transfers

Inter-fund transfers for the year ended December 31, 2016, consisted of the following:

<u>Transferred From</u>	<u>Transferred To</u>			
	<u>General</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
General Fund	\$ -	\$ 30,000	\$ 32,000	\$ 62,000
Enterprise Fund - Sewer	81,034	-	-	81,034
Enterprise Fund - Water	<u>126,180</u>	<u>-</u>	<u>-</u>	<u>126,180</u>
Total	<u>\$ 207,214</u>	<u>\$ 30,000</u>	<u>\$ 32,000</u>	<u>\$ 269,214</u>

Purpose for Inter-fund Transfers:

The enterprise sewer and water funds transferred to the general fund for public works labor, public safety, city hall utilities, and staff wages.

The general fund transferred to the water and sewer enterprise funds to avoid or reduce the need to raise utility rates.

G. Committed Fund Balances

Balances in Committed Fund Balances as of December 31, 2016:

Committed for Fire Service	\$ 47,199
Committed for Parks and Public Works	27,375
Committed for Veterans Memorial	1,600
Committed for Fire Capital Outlay	327,803
Committed for Fire Contract Reserve	17,119
Committed for FD Thermal Equipment	6,414
Committed for Public Safety	28,892
Committed for Park Capital Outlay	20,539
Committed for Capital Outlay	8,939
Committed for Hyland Road Bonni-View	97,611
Committed for WAFTA	<u>61,068</u>
 Total	 <u><u>\$ 644,559</u></u>

Note 4 - Defined Benefit Pension Plans

A. Plan Description

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

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

B. Benefits Provided

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

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

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

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

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the GERS for the year ended December 31, 2016, were \$20,318. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

At December 31, 2016, the City reported a liability of \$349,139 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contributions meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$4,501. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0043%, which was an increase of 0.0001% from the prior year.

For the year ended December 31, 2016, the City recognized pension expense of \$49,687 for its proportionate share of the GERF's pension expense.

At December 31, 2016, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,033	\$ 28,362
Changes in actuarial assumptions	75,301	-
Difference between projected and actual investment earnings	38,979	-
Change in proportion and differences between contributions made and City's proportionate share of contributions	3,887	2,349
City's contributions to GERF subsequent to the measurement date	10,331	-
Total	\$ 129,531	\$ 30,711

\$10,331 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended December 31,	Pension Expense Amount
2017	\$ 24,419
2018	16,447
2019	35,011
2020	12,612
2021	-

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

<u>Assumptions</u>	<u>GERF</u>
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2015.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

<u>Asset Class</u>	<u>Target Allocations</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.50%	7.50%	8.50%
City's proportionate share of the GERF net pension liability	\$ 495,880	\$ 349,139	\$ 228,263

H. Pension Plan Fiduciary Net Position

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

Note 5 - Other Information

Contingencies

The City participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant.



Required Supplementary Information
December 31, 2016

City of St. Bonifacius

City of St. Bonifacius
 Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions
 Year Ended December 31, 2016

**Schedule of Employer's Share of Net Pension Liability
 Last 10 Fiscal Years ***

Pension Plan	Measurement Date	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With City (b)	Total (d) (a+b)	City's Covered - Employee Payroll (e)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered - Employee Payroll (d/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	06/30/16	0.0043%	\$ 349,139	N/A	\$ 349,139	\$ 264,237	132.1%	68.9%
	06/30/15	0.0042%	217,666	N/A	217,666	255,209	85.3%	78.2%
	06/30/14	0.0044%	206,690	N/A	206,690	248,885	83.0%	78.9%

**Schedule of Employer's Contributions
 Last 10 Fiscal Years ***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered - Employee Payroll (d)	Contributions as a Percentage of Covered - Employee Payroll (b/d)
GERF	12/31/16	\$ 20,318	\$ 20,318	\$ -	\$ 270,902	7.5%
	12/31/15	18,696	18,696	\$ -	249,276	7.5%
	12/31/14	17,329	17,329	\$ -	240,681	7.2%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

City of St. Bonifacius
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2016

	Budget Amount		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 402,423	\$ 402,423	\$ 403,397	\$ 974
Special assessments	1,000	1,000	-	(1,000)
Licenses and permits	101,852	101,852	117,239	15,387
Intergovernmental				
Local government aid	347,106	347,106	347,106	-
Residential market value credit	-	-	36	36
State fire aid	39,000	39,000	41,321	2,321
PERA aid	-	-	519	519
Other state grants and aids	41,401	41,401	14,589	(26,812)
Charges for Services				
General government	2,375	2,375	6,455	4,080
Police and fire contracts	235,246	235,246	234,931	(315)
Fees and fines	21,000	21,000	13,151	(7,849)
Interest earnings	16,500	16,500	6,302	(10,198)
Miscellaneous				
Donations	-	-	13,000	13,000
Miscellaneous	4,000	4,000	25,169	21,169
Refunds and reimbursements	7,500	7,500	31,623	24,123
Total revenues	<u>1,219,403</u>	<u>1,219,403</u>	<u>1,254,838</u>	<u>35,435</u>
Expenditures				
General Government				
Mayor and council	14,400	14,400	14,614	(214)
Administration and finance	211,365	211,365	212,620	(1,255)
Other general government	153,548	153,548	155,564	(2,016)
Capital outlay	-	-	47,264	(47,264)
Public Safety				
Police - current expenditures	230,050	230,050	225,466	4,584
Fire - current expenditures	235,921	235,921	229,474	6,447
Other public safety	11,790	11,790	13,949	(2,159)
Streets and Highways				
Street maintenance	246,810	246,810	238,542	8,268
Snow and ice removal	8,000	8,000	4,851	3,149
Street lighting	33,000	33,000	31,600	1,400
Street - other capital outlay	58,000	58,000	190,035	(132,035)
Sanitation - current expenditures	5,000	5,000	5,066	(66)
Debt Service				
Principal retirement	-	-	38,565	(38,565)
Interest and fiscal charges	-	-	6,444	(6,444)
Total expenditures	<u>1,207,884</u>	<u>1,207,884</u>	<u>1,414,054</u>	<u>(206,170)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>11,519</u>	<u>11,519</u>	<u>(159,216)</u>	<u>(170,735)</u>
Other Financing Sources (Uses)				
Transfers from other funds	207,214	207,214	207,214	-
Transfers to other funds	<u>(62,000)</u>	<u>(62,000)</u>	<u>(62,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>145,214</u>	<u>145,214</u>	<u>145,214</u>	<u>-</u>
Net Change in Fund Balance	156,733	156,733	(14,002)	(170,735)
Fund Balance - Beginning	<u>808,912</u>	<u>808,912</u>	<u>808,912</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 965,645</u>	<u>\$ 965,645</u>	<u>\$ 794,910</u>	<u>\$ (170,735)</u>

1. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2016, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the city administrator so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The City Council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the City Council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

2. Excess of Expenditures over Appropriations

For the year ended December 31, 2016, expenditures exceeded appropriations in the General Fund by \$206,170. These excess expenditures were funded by greater than anticipated revenues and available fund balance.



Supplemental Schedule
December 31, 2016
City of St. Bonifacius

City of St. Bonifacius
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
 Year Ended December 31, 2016

	Total Governmental Funds
Revenues:	
Property taxes	\$ 617,458
Special assessments	30,364
Intergovernmental	
Local government aid	347,106
Residential market value credit	36
PERA aid	519
Local government grant	55,910
Charges for Services:	
General government	6,455
Fire contracts	234,931
Fees and fines	13,151
Licenses and permits	117,239
Investment earnings	6,302
Miscellaneous	
Donations	13,000
Miscellaneous	25,169
Refunds and reimbursements	31,623
Total revenues	1,499,263
Expenditures:	
General Government	
Mayor and council	14,614
Administration and finance	212,620
Other general government	155,564
Capital outlay	47,264
Public Safety	
Police - current expenditures	225,466
Fire - current expenditures	229,474
Other public safety	13,949
Public Works	
Street maintenance	238,542
Snow and ice removal	4,851
Street lighting	31,600
Street - other capital outlay	190,035
Sanitation	5,066
Debt Service	
Principal	243,565
Interest and other charges	67,067
Total expenditures	1,679,677
Excess (deficiency) of revenues over (under) expenditures	(180,414)
Other Financing Sources (Uses):	
Transfers from other funds	207,214
Transfers to other funds	(62,000)
Total other financing sources (uses)	145,214
Net Change in Fund Balances	(35,200)
Fund Balance - Beginning	1,204,191
Fund Balance - Ending	\$ 1,168,991



Independent Auditor's Report on Minnesota Legal Compliance

Honorable Mayor and City Council
City of St. Bonifacius
St. Bonifacius, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of St. Bonifacius, 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 May 9, 2017.

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. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the city does not employ tax increment financing.

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

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

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota
May 9, 2017