

**CITY OF BAYPORT, MINNESOTA**  
**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**SCHLENNER WENNER & CO.**  
**Certified Public Accountants**  
**& Business Consultants**

**CITY OF BAYPORT, MINNESOTA  
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**INTRODUCTORY  
SECTION**

**CITY OF BAYPORT, MINNESOTA  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**CITY COUNCIL**

Term Expires

Susan St. Ores	Mayor	December 31, 2016
Connie Carlson	Council Member	December 31, 2016
Dan Goldston	Council Member	December 31, 2016
Michele Hanson	Council Member	December 31, 2017
Patrick McGann	Council Member	December 31, 2017

**CITY OFFICIALS**

Logan Martin	City Administrator
Wanda Madsen	Finance Officer
Sara Taylor	Assistant City Administrator

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITORS' REPORT

May 27, 2016

Honorable Mayor and City Council  
City of Bayport, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bayport, Minnesota, as of and for the year ended December 31, 2015, 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### St. Cloud

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P.O. Box 1496  
St. Cloud, MN 56302  
320.251.0286

#### Little Falls

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P.O. Box 365  
Little Falls, MN 56345  
320.632.6311

#### Albany

115 6th St.  
P.O. Box 268  
Albany, MN 56307  
320.845.2940

#### Maple Lake

220 Hwy. 55 North, Ste. 4  
P.O. Box 385  
Maple Lake, MN 55358  
320.963.5414

#### Monticello

114 W. 3rd St.  
P.O. Box 755  
Monticello, MN 55362  
763.295.5070

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bayport, Minnesota, as of December 31, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

### *Change in Accounting Principle*

As discussed in Note 1.G. to the financial statements, the City of Bayport, Minnesota has adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison information, Schedules of City's Proportionate Share of Net Pension Liability and City Contributions, and Schedule of Changes in Net Pension Liability (Asset) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, schedules of water and sewer fund activities, and schedule of capital outlay are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section, combining and individual nonmajor fund financial statements, schedules of water and sewer fund activities, and schedule of capital outlay have not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

## Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated May 27, 2016, on our consideration of the City of Bayport's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

*Schlenner Wenner & Co.*

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

Our discussion and analysis of the City of Bayport's financial performance provides an overview of the City's financial activities for the year ended December 31, 2015. Please read it in conjunction with the transmittal letter on page two and the City's financial statements, which begin on page thirteen.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased \$1,691,676 compared to the prior year as a result of this year's operations.
- In the City's business-type activities, revenues increased \$92,724 (or 7.80 percent), while operating expenses decreased \$23,096.
- Total cost of all of the City's programs increased \$528,886 (or 12.84 percent).
- The City received local government aid of \$501,951, and no market value credits were received.
- The City's General Fund generated more revenue than budgeted by \$546,780, excluding transfers. Expenditures were more than budgeted by \$358,988, excluding transfers to other funds that were budgeted for but did not occur.
- The City's net position decreased by \$72,124 due to a change in accounting principle, which recognizes the City's share of the net pension asset and liabilities associated with the Bayport Firemen's Relief Association's pension plan and the pension plans administered by the Public Employees Retirement Association.

**USING THIS ANNUAL REPORT**

This annual report consists of series of financial statements. The Statement of Net Position and the Statement of Activities (on pages thirteen and fourteen) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page fifteen. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

**Reporting the City as a Whole**

Our analysis of the City as a whole begins on page six. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets, liabilities, and deferrals using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in net position. You can think of the City's net position (the net difference between assets, deferred outflows, liabilities, and deferred inflows) as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**USING THIS ANNUAL REPORT (Continued)**

**Reporting the City as a Whole (Continued)**

- **Governmental Activities** – Most of the City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes, special assessments, licenses, permits and fees, and state aids finance most of these activities.
- **Business-type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here.

Our analysis of the City's major funds begins on page eight. The fund financial statements begin on page fifteen and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's three kinds of funds (governmental, proprietary, and fiduciary) use different accounting approaches.

- **Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.
- **Proprietary Funds** – When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.
- **Fiduciary Fund** – This fund is used to account for resources held for the benefit of parties outside of the City. Accounting for fiduciary funds is much like that used for proprietary funds.

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY AS A WHOLE**

The City's combined net position increased \$1,691,676 from a year ago excluding a change in accounting principle of \$72,124. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1  
Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
Current & Other Assets	\$ 12,981,178	\$ 12,046,119	\$ 3,251,352	\$ 3,040,273	\$ 16,232,530	\$ 15,086,392
Net Capital Assets	<u>18,780,733</u>	<u>14,771,605</u>	<u>6,723,615</u>	<u>6,894,274</u>	<u>25,504,348</u>	<u>21,665,879</u>
Total Assets	31,761,911	26,817,724	9,974,967	9,934,547	41,736,878	36,752,271
Deferred Outflows of Resources	308,882	-	31,564	-	340,446	-
Long-Term Debt	2,205,207	290,000	-	-	2,205,207	290,000
Other Liabilities	<u>1,663,856</u>	<u>207,150</u>	<u>283,690</u>	<u>101,073</u>	<u>1,947,546</u>	<u>308,223</u>
Total Liabilities	3,869,063	497,150	283,690	101,073	4,152,753	598,223
Deferred Inflows of Resources	<u>128,630</u>	-	<u>22,341</u>	-	<u>150,971</u>	-
Net Position:						
Net Investment in						
Capital Assets	16,575,526	14,481,605	6,723,615	6,894,274	23,299,141	21,375,879
Restricted	1,930,680	2,232,301	-	-	1,930,680	2,232,301
Unrestricted	<u>9,566,894</u>	<u>9,606,668</u>	<u>2,976,885</u>	<u>2,939,200</u>	<u>12,543,779</u>	<u>12,545,868</u>
Total Net Position	<u>\$ 28,073,100</u>	<u>\$ 26,320,574</u>	<u>\$ 9,700,500</u>	<u>\$ 9,833,474</u>	<u>\$ 37,773,600</u>	<u>\$ 36,154,048</u>

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY AS A WHOLE (Continued)**

Net position of the City's governmental activities increased by 6.14 percent (\$1,615,557). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) decreased by \$39,774 compared to the prior year.

The net position of the City's business-type activities increased by \$76,119. Operations were comparable to the prior year.

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
<b>REVENUE</b>						
Charges for Services	\$ 866,801	\$ 690,345	\$ 1,210,696	\$ 1,048,199	\$ 2,077,497	\$ 1,738,544
Grants and Contributions	2,091,301	1,465,453	8,793	-	2,100,094	1,465,453
Taxes	1,320,664	1,098,432	-	-	1,320,664	1,098,432
Intergovernmental	525,071	500,794	-	-	525,071	500,794
Unrestricted Investment Income (Loss)	233,369	524,765	62,399	140,965	295,768	665,730
Other	20,498	87,850	-	-	20,498	87,850
<b>Total Revenues</b>	<b>5,057,704</b>	<b>4,367,639</b>	<b>1,281,888</b>	<b>1,189,164</b>	<b>6,339,592</b>	<b>5,556,803</b>
<b>PROGRAM EXPENSES</b>						
General Government	634,746	643,795	-	-	634,746	643,795
Public Safety	1,356,664	1,324,030	-	-	1,356,664	1,324,030
Public Works	420,200	440,375	-	-	420,200	440,375
Parks and Recreation	462,211	448,737	-	-	462,211	448,737
Economic Development	543,152	45,568	-	-	543,152	45,568
Debt Service	58,124	20,610	-	-	58,124	20,610
Water	-	-	504,908	517,566	504,908	517,566
Sewer	-	-	667,911	678,349	667,911	678,349
<b>Total Expenses</b>	<b>3,475,097</b>	<b>2,923,115</b>	<b>1,172,819</b>	<b>1,195,915</b>	<b>4,647,916</b>	<b>4,119,030</b>
Gain on Disposal of Assets	-	22,278	-	-	-	22,278
Transfers	32,950	32,950	(32,950)	(32,950)	-	-
<b>Change in Net Position</b>	<b>\$ 1,615,557</b>	<b>\$ 1,499,752</b>	<b>\$ 76,119</b>	<b>\$ (39,701)</b>	<b>\$ 1,691,676</b>	<b>\$ 1,460,051</b>

The City's total revenues increased \$760,511 (13.63 percent) from the prior year, largely due to revenues recorded for the portion of the fire hall construction project that is to be reimbursed by neighboring governments. In addition, a \$500,000 grant was received from the State to finance an economic development project at a local business.

The total cost of all programs and services increased by \$528,886 or 12.84 percent, due primarily to expenses associated with the grant from the State mentioned above. Our analysis on the following page separately considers the operations of governmental and business-type activities.

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY AS A WHOLE (Continued)**

**Governmental Activities**

Revenue for the City's governmental activities increased by 15.21 percent (\$667,787), while total expenses increased \$551,982. Revenues and expenses were generally consistent year to year, with the exception of the items mentioned on the prior page.

Table 3 presents the cost of each of the City's programs (general government, public safety, public works, parks and recreation, economic development, and debt service) as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. Activities, net of capital outlay which is excluded from Table 3, were generally comparable to the prior year as operations remained fairly consistent with the prior year.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
General Government	\$ 634,746	\$ 643,795	\$ (458,783)	\$ (480,471)
Public Safety	1,356,664	1,324,030	526,505	432,534
Public Works	420,200	440,375	(288,035)	(358,270)
Parks and Recreation	462,211	448,737	(195,406)	(294,932)
Economic Development	543,152	45,568	(43,152)	(45,568)
Debt Service	58,124	20,610	(58,124)	(20,610)
<b>Totals</b>	<b>\$ 3,475,097</b>	<b>\$ 2,923,115</b>	<b>\$ (516,995)</b>	<b>\$ (767,317)</b>

**Business-type Activities**

Revenues of the City's business-type activities (see Table 2) increased by 7.80 percent (\$92,724) due to an increase in charges for services, partially offset by a decrease in investment earnings. Expenses decreased by \$23,096.

**THE CITY'S FUNDS**

**Governmental Funds**

As the City completed the year, its governmental funds (as presented in the balance sheet on page fifteen) reported a combined fund balance of \$10,307,991. This is a decrease of \$889,478 from the prior year. Operations were comparable to the prior year, with the exception various matters discussed in the following pages. The following is a summary of the City's major governmental funds:

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

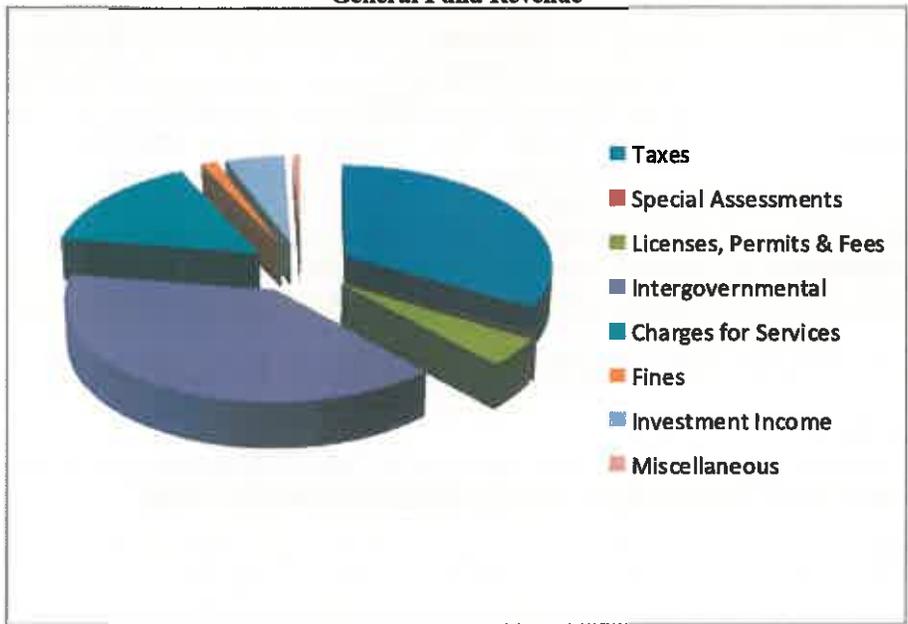
**THE CITY'S FUNDS (Continued)**

**Governmental Funds (Continued)**

<u>Major Funds</u>	<u>Fund Balance December 31,</u>		<u>Increase</u>
	<u>2015</u>	<u>2014</u>	<u>(Decrease)</u>
<b>General</b>	\$ 8,422,483	\$ 7,922,891	\$ 499,592

The fund balance of the General Fund increased by \$499,592 compared to 2014. Overall, operations were generally consistent year-to-year, with the exception of revenues and expenditures recognized for the economic development grant from the State previously discussed.

**General Fund Revenue**

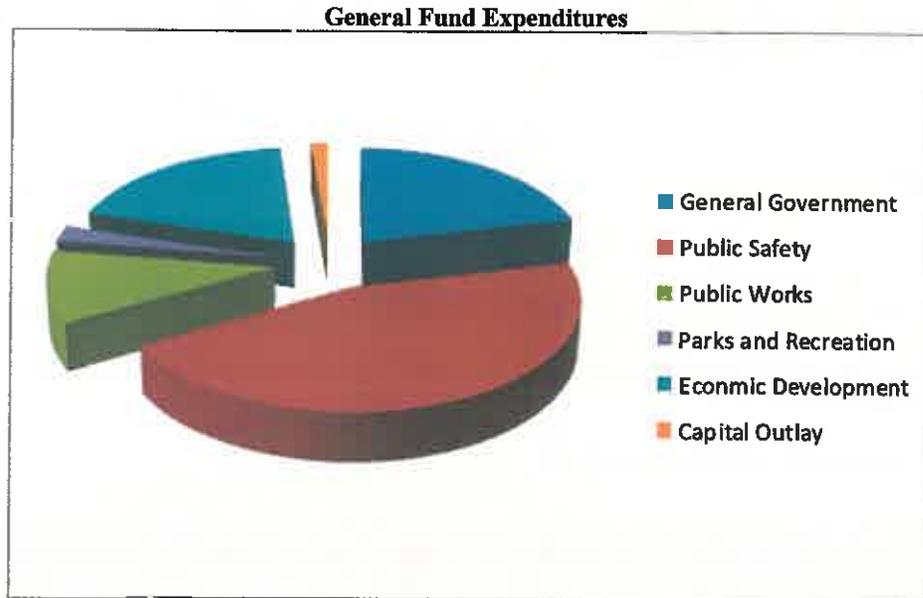


The City receives the majority of its funding in the General Fund in the form grants and funding received from Taxes (34 percent), Other Governmental Agencies (39 percent), Sales and Charges for Services (15 percent) and Investment Income (5 percent).

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY'S FUNDS** (Continued)

**Governmental Funds** (Continued)



A significant portion of the City's General Fund expenditures are used for Public Safety (45 percent). Remaining expenditures are used primarily on General Government (21 percent), Economic Development (19 percent), and Public Works (11 percent).

The City's General Fund generated more revenue than budgeted of \$546,780 excluding transfers in from other funds. Expenditures were more than budgeted by \$358,988, excluding transfers to other funds that were budgeted but did not occur. Excess of revenues over budgeted amounts is primarily due to more contributions and grants received in the current year than anticipated. See additional detail pertaining to differences between budgeted and actual amounts within the General Fund previously discussed and at the Budgetary Comparison Schedule on page fifty-one.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2015	2014	
<b>Fire Hall Capital Project</b>	\$ (1,326,136)	\$ 229,390	\$ (1,555,526)

The Fire Hall Capital Project fund decreased \$1,555,526 during the current year. This fund was created during the prior year for the purpose of constructing a new fire hall. The decrease in fund balance is the result of project expenditures exceeding proceeds from the bonds issued during 2015 and private grant funding.

<b>Water and Sewer Improvement</b>	\$ 1,309,735	\$ 1,198,824	\$ 110,911
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The Water and Sewer Improvement increased by \$110,911 during the current year. This fund is used for the specific purpose of financing water and sewer improvements. No expenditures were incurred to offset the revenues recorded in this fund, resulting in the increase in fund balance noted above.

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**THE CITY'S FUNDS (Continued)**

**Proprietary Funds**

As the City completed the year, its business-type activities (as presented in the Statement of Net Position on page nineteen) reported a combined net position of \$9,700,500. This is an increase of \$76,119 from the prior year, excluding the impact of the new accounting standards adopted during the current year. Operations were comparable to the prior year. The following is a summary of the City's major proprietary funds:

Major Funds	Net Position December 31,		Change in Accounting Principle	Increase (Decrease)
	2015	2014		
Water	\$ 6,563,520	\$ 6,624,437	\$ (102,441)	\$ 41,524
Sewer	\$ 3,136,980	\$ 3,209,037	\$ (106,652)	\$ 34,595

Both the Water Fund and Sewer Fund net positions increased as a result of current year activities. Overall, operations were fairly consistent with the prior year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2015, the City had \$34,350,719 invested in a broad range of capital assets, including machinery and equipment, buildings, improvements, infrastructure, and water and sewer infrastructure. This amount represents a net increase of \$4,503,440 or 15.09 percent, over last year.

**Table 6  
Capital Assets at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 6,394,442	\$ 6,394,442	\$ -	\$ -	\$ 6,394,442	\$ 6,394,442
Buildings & Structures	4,585,050	4,585,050	51,548	51,548	4,636,598	4,636,598
Improvements	1,138,484	898,591	-	-	1,138,484	898,591
Machinery & Equipment	5,080,023	5,042,938	266,094	252,544	5,346,117	5,295,482
Infrastructure	3,213,120	3,213,120	8,820,168	8,761,668	12,033,288	11,974,788
Library Books	273,041	273,041	-	-	273,041	273,041
Construction in Progress	4,528,749	320,204	-	54,133	4,528,749	374,337
<b>Totals</b>	<b>\$ 25,212,909</b>	<b>\$ 20,727,386</b>	<b>\$ 9,137,810</b>	<b>\$ 9,119,893</b>	<b>\$ 34,350,719</b>	<b>\$ 29,847,279</b>

The City's 2016 capital budget is similar to the current year, except for less outlay being expected for the fire hall project due to its anticipated completion in 2016. More detailed information about the City's capital assets is presented in Note 3 to the financial statements.

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**Debt**

At year-end, the City had \$2,165,000 in debt versus \$290,000 last year, as shown in Table 7.

**Table 7  
Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
GO Bonds	<u>\$ 2,165,000</u>	<u>\$ 290,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,165,000</u>	<u>\$ 290,000</u>

The City issued debt in the amount of \$2,025,000 during 2015, for the purpose of financing the fire hall construction project.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the year 2016 budget, such as tax rates and fees that will be charged for the business-type activities. The Council elected to neither increase nor decrease the 2016 tax levy from the 2015 amount. The Council expects operations in 2016 to remain fairly consistent with those of 2015. Overall budget amounts for 2016 are consistent with 2015's budget and operations.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Wanda Madsen, Finance Director at City of Bayport, 294 North 3<sup>rd</sup> Street, Bayport, MN 55003.

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
  - Governmental funds
  - Proprietary (enterprise) funds
  - Fiduciary fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash, Cash Equivalents, and Investments	\$ 10,724,503	\$ 3,006,721	\$ 13,731,224
Property Taxes Receivable	21,481	-	21,481
Assessments Receivable	20,503	73,786	94,289
Accounts Receivable	113,989	167,144	281,133
Prepays	21,135	3,701	24,836
Deposit on Asset	2,000	-	2,000
Noncurrent Assets:			
Notes Receivable	1,148,977	-	1,148,977
Net Pension Asset	928,590	-	928,590
Capital Assets not Being Depreciated	10,923,191	-	10,923,191
Capital Assets Being Depreciated (Net)	7,857,542	6,723,615	14,581,157
<b>TOTAL ASSETS</b>	<b>31,761,911</b>	<b>9,974,967</b>	<b>41,736,878</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	308,882	31,564	340,446
<b>LIABILITIES</b>			
Accounts Payable	467,208	11,279	478,487
Accrued Interest	24,994	-	24,994
Compensated Absences	59,154	21,954	81,108
Retainage	97,398	-	97,398
Noncurrent Liabilities:			
Net Pension Liability	957,010	224,835	1,181,845
Bonds Due Within One Year	140,000	-	140,000
Bonds Due After One Year	2,065,207	-	2,065,207
Accrued Severance	58,092	25,622	83,714
<b>TOTAL LIABILITIES</b>	<b>3,869,063</b>	<b>283,690</b>	<b>4,152,753</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	128,630	22,341	150,971
<b>NET POSITION</b>			
Net Investment in Capital Assets	16,575,526	6,723,615	23,299,141
Restricted	1,930,680	-	1,930,680
Unrestricted	9,566,894	2,976,885	12,543,779
<b>TOTAL NET POSITION</b>	<b>\$ 28,073,100</b>	<b>\$ 9,700,500</b>	<b>\$ 37,773,600</b>

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government	
			Grants and Contributions	Capital Grants and Contributions		Business-Type Activities	Total
<b>Governmental Activities:</b>							
General Government	\$ 634,746	\$ 171,508	\$ 4,455	\$ -	\$ (458,783)	\$ -	\$ (458,783)
Public Safety	1,356,664	466,062	143,130	1,273,977	526,505	-	526,505
Public Works	420,200	71,818	43,708	16,639	(288,035)	-	(288,035)
Parks and Recreation	462,211	157,413	109,392	-	(195,406)	-	(195,406)
Economic Development	543,152	-	500,000	-	(43,152)	-	(43,152)
Debt Service	58,124	-	-	-	(58,124)	-	(58,124)
<b>Total Governmental Activities</b>	<b>3,475,097</b>	<b>866,801</b>	<b>800,685</b>	<b>1,290,616</b>	<b>(516,995)</b>	<b>-</b>	<b>(516,995)</b>
<b>Business-Type Activities:</b>							
Water	504,908	516,916	-	-	-	12,008	12,008
Sewer	667,911	693,780	-	8,793	-	34,662	34,662
<b>Total Business-Type Activities</b>	<b>1,172,819</b>	<b>1,210,696</b>	<b>-</b>	<b>8,793</b>	<b>-</b>	<b>46,670</b>	<b>46,670</b>
<b>TOTALS</b>	<b>\$ 4,647,916</b>	<b>\$ 2,077,497</b>	<b>\$ 800,685</b>	<b>\$ 1,299,409</b>	<b>(516,995)</b>	<b>46,670</b>	<b>(470,325)</b>
<b>General Revenues (Expenses):</b>							
Taxes					1,320,664	-	1,320,664
Intergovernmental					525,071	-	525,071
Net Investments Income					233,369	62,399	295,768
Miscellaneous					20,498	-	20,498
Transfers					32,950	(32,950)	-
<b>Total General Revenues (Expenses) and Transfers</b>					<b>2,132,552</b>	<b>29,449</b>	<b>2,162,001</b>
<b>CHANGE IN NET POSITION</b>					<b>1,615,557</b>	<b>76,119</b>	<b>1,691,676</b>
<b>NET POSITION-BEGINNING OF YEAR</b>					<b>26,320,574</b>	<b>9,833,474</b>	<b>36,154,048</b>
<b>CHANGE IN ACCOUNTING PRINCIPLE</b>					<b>136,969</b>	<b>(209,093)</b>	<b>(72,124)</b>
<b>NET POSITION-END OF YEAR</b>					<b>\$ 28,073,100</b>	<b>\$ 9,700,500</b>	<b>\$ 37,773,600</b>

See accompanying notes.

**CITY OF BAYPORT, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2015**

	General Fund	Fire Hall Capital Project Fund	Water and Sewer Improvement Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash, Cash Equivalents, and Investments	\$ 7,514,181	\$ -	\$ 1,262,570	\$ 1,947,752	\$ 10,724,503
Property Taxes Receivable	21,481	-	-	-	21,481
Assessments Receivable	18,193	-	2,310	-	20,503
Accounts Receivable	66,824	-	47,165	-	113,989
Notes Receivable	-	1,148,977	-	-	1,148,977
Due from Other Funds	827,912	-	-	-	827,912
Prepays	19,075	-	-	2,060	21,135
Deposit on Asset	-	-	-	2,000	2,000
<b>TOTAL ASSETS</b>	<b>\$ 8,467,666</b>	<b>\$ 1,148,977</b>	<b>\$ 1,312,045</b>	<b>\$ 1,951,812</b>	<b>\$ 12,880,500</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 16,479	\$ 441,179	\$ -	\$ 9,550	\$ 467,208
Retainage	-	97,398	-	-	97,398
Due to Other Funds	-	787,559	-	40,353	827,912
<b>Total Liabilities</b>	<b>16,479</b>	<b>1,326,136</b>	<b>-</b>	<b>49,903</b>	<b>1,392,518</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue:					
Notes Receivable	-	1,148,977	-	-	1,148,977
Property Taxes	10,784	-	-	-	10,784
Special Assessments	17,920	-	2,310	-	20,230
<b>Total Deferred Inflows of Resources</b>	<b>28,704</b>	<b>1,148,977</b>	<b>2,310</b>	<b>-</b>	<b>1,179,991</b>
<b>FUND BALANCES</b>					
Nonspendable	19,075	-	-	2,060	21,135
Restricted	-	-	783,019	1,172,655	1,955,674
Committed	-	-	-	260,378	260,378
Assigned	-	-	526,716	507,058	1,033,774
Unassigned	8,403,408	(1,326,136)	-	(40,242)	7,037,030
<b>Total Fund Balances</b>	<b>8,422,483</b>	<b>(1,326,136)</b>	<b>1,309,735</b>	<b>1,901,909</b>	<b>10,307,991</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 8,467,666</b>	<b>\$ 1,148,977</b>	<b>\$ 1,312,045</b>	<b>\$ 1,951,812</b>	<b>\$ 12,880,500</b>

**CITY OF BAYPORT, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

Total Fund Balance for Governmental Funds	\$	10,307,991
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets (net of accumulated depreciation of \$6,432,176) used in governmental activities are not financial resources and, therefore are not reported in the funds.		18,780,733
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Taxes Receivable		10,784
Special Assessments Receivable		20,230
Notes Receivable		1,148,977
Interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the governmental funds Balance Sheet.		(24,994)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds Balance Sheet.		
Compensated Absences		(59,154)
Accrued Severance		(58,092)
Bonds Due Within One Year		(140,000)
Bonds Due In More Than One Year		(2,065,207)
The net pension asset/liability and related deferred outflows/inflows of resources represent the allocation of the pension obligations of the plans to the City.		
Net Pension Asset		928,590
Net Pension Liability		(957,010)
Deferred Outflows - Pensions		308,882
Deferred Inflows - Pensions		(128,630)
<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>28,073,100</u></b>

**CITY OF BAYPORT, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Fire Hall Capital Project Fund	Water and Sewer Improvement Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 1,036,121	\$ -	\$ -	\$ 302,030	\$ 1,338,151
Special Assessments	6,904	-	17,311	-	24,215
Licenses, Permits, and Fees	138,698	-	-	-	138,698
Intergovernmental	1,213,524	-	-	-	1,213,524
Charges for Services	478,880	-	71,818	124,696	675,394
Fines	41,371	-	-	11,338	52,709
Private Grants	-	791,000	-	110,250	901,250
Net Investments Income	156,741	7,781	21,782	47,065	233,369
Miscellaneous	18,086	-	-	3,424	21,510
<b>TOTAL REVENUES</b>	<b>3,090,325</b>	<b>798,781</b>	<b>110,911</b>	<b>598,803</b>	<b>4,598,820</b>
<b>EXPENDITURES</b>					
Current:					
General Government	556,737	-	-	-	556,737
Public Safety	1,191,366	64	-	5,910	1,197,340
Public Works	277,972	-	-	-	277,972
Parks and Recreation	60,523	-	-	280,306	340,829
Economic Development	500,000	-	-	43,152	543,152
Debt Service:					
Principal	-	-	-	150,000	150,000
Interest and Other Charges	-	22,506	-	13,693	36,199
Capital Outlay	37,085	4,398,241	-	50,197	4,485,523
<b>TOTAL EXPENDITURES</b>	<b>2,623,683</b>	<b>4,420,811</b>	<b>-</b>	<b>543,258</b>	<b>7,587,752</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>466,642</b>	<b>(3,622,030)</b>	<b>110,911</b>	<b>55,545</b>	<b>(2,988,932)</b>
<b>OTHER FINANCING SOURCES</b>					
Bond Proceeds	-	2,025,000	-	-	2,025,000
Bond Premium	-	41,504	-	-	41,504
Operating Transfers In	32,950	-	-	-	32,950
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>32,950</b>	<b>2,066,504</b>	<b>-</b>	<b>-</b>	<b>2,099,454</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>499,592</b>	<b>(1,555,526)</b>	<b>110,911</b>	<b>55,545</b>	<b>(889,478)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>7,922,891</b>	<b>229,390</b>	<b>1,198,824</b>	<b>1,846,364</b>	<b>11,197,469</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 8,422,483</b>	<b>\$ (1,326,136)</b>	<b>\$ 1,309,735</b>	<b>\$ 1,901,909</b>	<b>\$ 10,307,991</b>

**CITY OF BAYPORT, MINNESOTA  
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net change in fund balances - total governmental funds	\$	(889,478)
Amounts reported for governmental activities in the Statement of Activities are different due to the following:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital Outlay Capitalized	\$ 4,485,523	
Depreciation Expense	<u>(476,395)</u>	4,009,128
Revenues in Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in Long-term Receivables		457,884
Proceeds from the issuance of long-term debt is an other financing source in the governmental funds, and repayment of debt principal is an expenditure in the governmental funds. However neither transaction has any effect on net position:		
Bond Proceeds	(2,025,000)	
Bond Premium	(41,504)	
Amortization of Bond Premium	1,297	
Bond Payments	<u>150,000</u>	(1,915,207)
Net change in accrued interest on bonds is not reported as expenses in the funds:		
		(23,222)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Change in Accrued Compensated Absences	(12,116)	
Change in Accrued Severance	<u>(26,295)</u>	(38,411)
Net pension asset/liability balances do not represent the impending use or acquisition of current resources. Therefore, the change in the asset/liability and the related deferrals is not reported in the governmental funds:		
		<u>14,863</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>1,615,557</u></b>

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2015**

	Water Fund	Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets			
Cash, Cash Equivalents, and Investments	\$ 1,918,108	\$ 1,088,613	\$ 3,006,721
Accounts Receivable	80,033	87,111	167,144
Assessments Receivable	65,170	8,616	73,786
Prepays	2,211	1,490	3,701
Total Current Assets	2,065,522	1,185,830	3,251,352
Noncurrent Assets			
Capital Assets Being Depreciated (Net)	4,638,064	2,085,551	6,723,615
<b>TOTAL ASSETS</b>	6,703,586	3,271,381	9,974,967
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	15,489	16,075	31,564
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	10,549	730	11,279
Compensated Absences	10,977	10,977	21,954
Total Current Liabilities	21,526	11,707	33,233
Noncurrent Liabilities			
Accrued Severance	12,811	12,811	25,622
Net Pension Liability	110,262	114,573	224,835
Total Noncurrent Liabilities	123,073	127,384	250,457
<b>TOTAL LIABILITIES</b>	144,599	139,091	283,690
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	10,956	11,385	22,341
<b>NET POSITION</b>			
Investment in Capital Assets	4,638,064	2,085,551	6,723,615
Unrestricted	1,925,456	1,051,429	2,976,885
<b>TOTAL NET POSITION</b>	\$ 6,563,520	\$ 3,136,980	\$ 9,700,500

**CITY OF BAYPORT, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water Fund	Sewer Fund	Totals
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 488,400	\$ 695,373	\$ 1,183,773
<b>OPERATING EXPENSES</b>			
Personnel Services	190,196	191,294	381,490
Materials, Supplies, Services and Charges	190,625	35,064	225,689
Metropolitan Council Environmental Services Charges	-	377,064	377,064
Depreciation	124,087	64,489	188,576
<b>TOTAL OPERATING EXPENSES</b>	<u>504,908</u>	<u>667,911</u>	<u>1,172,819</u>
<b>NET OPERATING INCOME (LOSS)</b>	(16,508)	27,462	10,954
<b>NONOPERATING INCOME</b>			
Connection Fees	28,516	7,200	35,716
Net Investments Income	35,991	26,408	62,399
<b>TOTAL NONOPERATING INCOME</b>	<u>64,507</u>	<u>33,608</u>	<u>98,115</u>
<b>CHANGE IN NET POSITION PRIOR TO TRANSFERS</b>	47,999	61,070	109,069
<b>NET TRANSFERS</b>	<u>(6,475)</u>	<u>(26,475)</u>	<u>(32,950)</u>
<b>CHANGE IN NET POSITION</b>	41,524	34,595	76,119
<b>NET POSITION-BEGINNING OF YEAR</b>	6,624,437	3,209,037	9,833,474
<b>CHANGE IN ACCOUNTING PRINCIPLE</b>	<u>(102,441)</u>	<u>(106,652)</u>	<u>(209,093)</u>
<b>NET POSITION-END OF YEAR</b>	<u>\$ 6,563,520</u>	<u>\$ 3,136,980</u>	<u>\$ 9,700,500</u>

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water Fund	Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 461,397	\$ 701,605	\$ 1,163,002
Cash Paid to Suppliers	(235,630)	(413,978)	(649,608)
Cash Paid to Employees	(183,185)	(184,340)	(367,525)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	42,582	103,287	145,869
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Net Operating Subsidies and Transfers to Other Funds	(6,475)	(26,475)	(32,950)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of Capital Assets	(17,917)	-	(17,917)
Net Increase in Cash and Cash Equivalents	18,190	76,812	95,002
Cash and Cash Equivalents-Beginning of Year	319,717	(147,637)	172,080
Cash and Cash Equivalents-End of Year	337,907	(70,825)	267,082
Investments	1,580,201	1,159,438	2,739,639
Total Cash, Cash Equivalents, and Investments	<u>\$ 1,918,108</u>	<u>\$ 1,088,613</u>	<u>\$ 3,006,721</u>
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Net Operating Income (Loss)	\$ (16,508)	\$ 27,462	\$ 10,954
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation Expense	124,087	64,489	188,576
Nonoperating Revenue from Customers	28,516	7,200	35,716
Change in Assets, Liabilities, and Deferrals:			
Receivables	(52,507)	(969)	(53,476)
Prepays	(97)	(105)	(202)
Accounts Payable	(47,920)	(1,744)	(49,664)
Deferred Outflows of Resources - Pension	(10,790)	(11,398)	(22,188)
Net Pension Liability	3,122	3,244	6,366
Deferred Inflows of Resources - Pension	10,956	11,385	22,341
Compensated Absences	2,212	2,212	4,424
Accrued Severance	1,511	1,511	3,022
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 42,582</u>	<u>\$ 103,287</u>	<u>\$ 145,869</u>

See accompanying notes.

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
DECEMBER 31, 2015**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ (7,565)
Due from Developer	<u>7,565</u>
<b>TOTAL ASSETS</b>	<u><u>\$ -</u></u>

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Bayport (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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

**1.A. FINANCIAL REPORTING ENTITY**

The City's financial reporting entity is comprised of the primary governmental unit of the City of Bayport, Minnesota.

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

**Blended Component Units**

Blended component units are separate legal entities that meet the component unit criteria describe above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City's does not have any blended component units.

**Discretely Presented Component Units**

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

**1.B. BASIS OF PRESENTATION**

**Government-wide Financial Statements**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The Fiduciary Funds are only reported in the Statement of Fiduciary Net Position at the fund financial statement level. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

**Fund Financial Statements**

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

- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.B. BASIS OF PRESENTATION (Continued)**

**Fund Financial Statements (Continued)**

- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following major governmental funds:

The *General Fund* is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

The *Fire Hall Capital Project Fund* accounts for financial resources to be used for the construction of a fire hall.

The *Water and Sewer Improvement Fund* is a special revenue fund used to account for funds received by the City to be used for the specific purpose of financing water and sewer improvements.

The City reports the following major proprietary funds:

The *Water and Sewer Funds* account for business-like activities related to the operation of water and sewer systems provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on the net income measure similar to the private sector.

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

An *Agency Fund* is used to account for cash and other assets held by the City as the agent for outside organizations.

The *Debt Service Fund* accounts for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by enterprise funds. Ad valorem taxes are used for the payment of principal and interest on the City's judgment.

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

The *Capital Projects Funds* are used to account for financial resources to be used for the acquisition or construction of capital projects (other than funds financed by proprietary funds).

The *Permanent Fund* accounts for resources that are legally restricted by the City to the extent that only earnings, and not principal, may be used to support the government's programs without citizen approval.

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the "economic resources" measurement focus as defined in the second bullet point below.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)**

**Measurement Focus (Continued)**

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- The proprietary and fiduciary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

**Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the “accrual basis” of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, liabilities, and deferred outflows/inflows resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the “modified accrual” basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary and fiduciary funds utilize the accrual basis of accounting.

**1.D. USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows and disclosure of contingencies related to these balances at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY**

**Cash and Cash Equivalents**

For purposes of the Statement of Net Position, “cash and cash equivalents” includes all demand, savings, and money market accounts for the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand, savings, and money market accounts with an original maturity of three months or less.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Investments**

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

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

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

**Interfund Receivables and Payables**

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to good and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "due to/from other fund." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities, as well as interfund receivables and payables between funds within business-type activities, are eliminated in the Statement of Net Position. See Note 3.D. for details of interfund transactions, including receivables and payables at year-end.

**Prepays**

Prepays represent expenses paid during the current year to be recognized in future periods.

**Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and are not deemed necessary at year end. Major receivable balances for the governmental activities include police fines, fire services, franchise fees, taxes, special assessments and charges for water and sewer improvements. Business-type activities report utility charges as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, franchise fees, fines and charges for service since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Capital Assets**

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and must have an estimated useful life in excess of one year.

The range of estimated useful lives by type of asset is as follows:

Buildings and Structures	10-50 years
Machinery and Equipment	3-20 years
Distribution and Collection Systems	30-50 years
Library Books	5 years

**Government-wide Statements**

In the government-wide financial statements, capital outlay expenditures are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

**Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**Accounts Payable**

Payables in the governmental and enterprise funds are composed almost entirely of payables to vendors.

**Long-Term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable.

Long-term debt for governmental funds 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 expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Net Pension Asset/Liability**

The net pension asset represents the Bayport Firemen's Relief Association's net pension asset as of the most recent actuarial valuation date. The net pension liability represents the City's allocation of its pro-rata share of the net pension liabilities of the Statewide pension plans administered by the Public Employees Retirement Administration.

**Deferred Outflow/Inflow of Resources**

In addition to assets, the Statements of Net Position report a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statements of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports property taxes, special assessments, and notes receivable as deferred inflows of resources in the governmental fund financial statements, in accordance with the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of pension funds in which City employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

See Note 4 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

**Compensated Absences / Severance**

**Vacation Pay** – The City compensates all employees upon termination for unused vacation. Employees may not carry forward to the subsequent calendar year any more vacation than they earn in one calendar year. Such pay is not accrued as an expense in the governmental fund financial statements since it does not require current available resources. Such pay has been accrued in the government-wide and proprietary fund financial statements as compensated absences.

**Sick Pay** – The City compensates employees with 10 consecutive years of uninterrupted service upon termination for unused sick leave. Such employees are compensated for 50 percent of up to 800 hours of accrued sick leave. Such pay is not accrued as an expense in the governmental fund financial statements since it does not require current available resources. Such pay has been accrued in the government-wide and proprietary fund financial statements as accrued severance.

**Equity Classifications**

**Government-wide Statements**

Equity is classified as net position and displayed in three components:

**Net Investment in Capital Assets** – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Equity Classifications (Continued)**

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the City’s policy to consider restricted net position to its depletion before unrestricted net position is applied.

**Fund Statements**

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

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2015 consist of prepaid expenditures.

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

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The City has formally adopted a policy under which it strives to maintain a minimum unassigned general fund balance equal to approximately 40% of annual budgeted operating expenses.

See Note 3.E. for additional disclosures.

Proprietary Fund Financial Statements – Proprietary fund equity is classified the same as in the government-wide statements, as described above.

**1.F. REVENUES, EXPENDITURES, AND EXPENSES**

**Property Tax**

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of October. County of Washington is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable after the 60-day period, no additional accrual is made in the government-wide financial statements.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.F. REVENUES, EXPENDITURES, AND EXPENSES (Continued)**

**Property Tax (Continued)**

December 31 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The County Auditor makes up the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City. The County Auditor remits a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year. The County Treasurer collects all taxes and assessments, except as noted above. The County Treasurer mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow for taxes not received within 60 days after year end in the fund financial statements.

**Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and noncapital financing or investing activities.

**Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

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

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

Proprietary Fund - By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

**Interfund Transfers**

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 3.D.

**1.G. RECENTLY ISSUED ACCOUNTING STANDARDS**

Effective December 31, 2015, the City adopted governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements incorporated the Bayport Firemen's Relief Association's net pension asset and the City's share of the Public Employees Retirement Association unfunded pension liabilities into the Statement of Net Position.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.H. RECLASSIFICATIONS**

Certain amounts from 2014 have been reclassified to conform to the 2015 presentation for Management's Discussion and Analysis.

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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

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

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

**2.B. BUDGETARY INFORMATION**

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

In August of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 15<sup>th</sup>, the proposed budget is presented to the Council for review. The Council adopts a preliminary maximum budget. Truth-in-taxation notices are mailed out to residents by Washington County. The Council holds public hearings and adopts a budget and tax levy in December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. See original and final General Fund budget presented as Required Supplementary Information.

The City did not adopt a formal budget for the Water and Sewer Improvement Fund for 2015.

**2.C. EXPENDITURES IN EXCESS OF BUDGET**

Actual expenditures exceeded total budgeted expenditures for the current year end as follows:

Fund	Budgeted Expenditures	Actual Expenditures	Transfers Included in Actual
General Fund	\$ 2,389,995	\$ 2,623,683	\$ -

The expenditures in excess of budget were due primarily to City expenditures for economic development. The City recognized \$500,000 of unbudgeted revenues and expenditures from a State grant received for the purpose of financing an economic development project at a local business.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

**2.D. DEFICIT FUND EQUITY**

A fund balance deficit of \$40,242 and \$1,326,136 exists in the Park Improvement Fund and Fire Hall Capital Project Fund, respectively. It is expected that park dedication fees will provide a positive Park Improvement Fund balance in the future. The deficit in the Fire Hall Capital Project Fund is a temporary deficit because of the capital outlay in the current year for the new fire hall and will be funded through contributions from local governments and transfers from other funds.

**NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, deferred outflows/inflows, equity, revenues, and expenditures/expenses.

**3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Deposits**

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank).

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At December 31, 2015, the City's deposits, including certificates of deposit, were not exposed to custodial credit risk. The City's deposits were sufficiently covered by federal depository insurance or by collateral held by the government's agent in the government's name.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

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

**Deposits (Continued)**

As of December 31, 2015, the City had the following deposits:

Cash in Checking	\$	1,337,887
Certificates of Deposit		<u>1,269,480</u>
 Total Deposits	 \$	 <u>2,607,367</u>

**Investments**

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City does not have any investment policies that would further limit investment choices.

Investment balances at December 31, 2015 are as follows:

Deposit/Investment	Interest Rate	Maturity	Fair Value	Credit Rating	Percent of Total
Money Market Funds	0.00-0.16	N/A	\$ 425,135	N/A	3.82
Brokered Certificates of Deposit	0.45	<1 year	334,685	N/A	3.01
	1.05-2.10	1-5 years	1,446,017	N/A	13.01
	1.75-2.00	6-10 years	580,327	N/A	5.22
US Government Bonds and Securities	2.00-2.88	6-10 years	4,953,960	AAA, AA+	44.56
Municipal Bonds	1.64-4.15	<1 year	661,368	AA to AAA	5.95
	2.10-4.75	1-5 years	1,745,982	AA- to AAA	15.71
	2.5-4.46	6-10 years	<u>968,818</u>	A1 to AA3	8.72
 Totals			 <u>\$ 11,116,292</u>		 <u>100.00</u>

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

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

**Investments (Continued)**

Investment activity for the current year contains the following:

	2015
Beginning Fair Market Value	\$ 11,423,657
Interest and Dividends	1,225,780
Unrealized Gain (Loss)	(933,145)
Net Transfers	(600,000)
Ending Fair Market Value	\$ 11,116,292

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

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk as indicated in the table above. Minnesota Statutes limit the City's investments.
- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments. At December 31, 2015, none of the underlying securities held by the City are subject to custodial credit risk because they are insured by the Securities Investor Protection Corporation (SIPC).
- Concentration risk is the risk associated with investing a significant portion of the City's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City has no formal policy limiting the amounts that may be invested in any one issuer.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment and is disclosed above by presenting maturity information. The City has no formal policy to address interest rate risk.

**Deposits and Investments Summary**

The following is a summary of total deposits and investments:

Deposits	\$ 2,607,367
Investments (see Investments section)	11,116,292
Total Cash, Cash Equivalents, and Investments	\$ 13,723,659

Cash, cash equivalents, and investments are included on the basic financial statements as follows:

Cash, Cash Equivalents, and Investments - Statement of Net Position	\$ 13,731,224
Cash, Cash Equivalents, and Investments - Statement of Fiduciary Net Position	(7,565)
Total Cash, Cash Equivalents, and Investments	\$ 13,723,659

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

**3.B.    CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015 is as follows:

	Balance at 01/01/15	Additions	Disposals	Balance at 12/31/15
<b>Governmental Activities:</b>				
Capital Assets not Being Depreciated				
Land	\$ 6,394,442	\$ -	\$ -	\$ 6,394,442
Construction In Progress	320,204	4,448,438	(239,893)	4,528,749
<b>Total Capital Assets not Being Depreciated</b>	<b>6,714,646</b>	<b>4,448,438</b>	<b>(239,893)</b>	<b>10,923,191</b>
Capital Assets Being Depreciated				
Buildings	4,585,050	-	-	4,585,050
Improvements	898,591	239,893	-	1,138,484
Machinery and Equipment	5,042,938	37,085	-	5,080,023
Infrastructure	3,213,120	-	-	3,213,120
Library	273,041	-	-	273,041
<b>Total Capital Assets Being Depreciated</b>	<b>14,012,740</b>	<b>276,978</b>	<b>-</b>	<b>14,289,718</b>
Less: Accumulated Depreciation				
Buildings	2,141,791	95,060	-	2,236,851
Improvements	93,884	32,598	-	126,482
Machinery and Equipment	2,746,364	237,509	-	2,983,873
Infrastructure	700,701	111,228	-	811,929
Library	273,041	-	-	273,041
<b>Total Accumulated Depreciation</b>	<b>5,955,781</b>	<b>476,395</b>	<b>-</b>	<b>6,432,176</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>8,056,959</b>	<b>(199,417)</b>	<b>-</b>	<b>7,857,542</b>
<b>Capital Assets, Net</b>	<b>\$ 14,771,605</b>	<b>\$ 4,249,021</b>	<b>\$ (239,893)</b>	<b>\$ 18,780,733</b>

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

**3.B.    CAPITAL ASSETS (Continued)**

	<u>Balance at</u> 01/01/15	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> 12/31/15
<b>Business-Type Activities:</b>				
<b>Capital Assets not Being Depreciated</b>				
Construction In Progress	\$ 54,133	\$ 4,367	\$ (58,500)	\$ -
<b>Capital Assets Being Depreciated</b>				
Water Mains and Lines	5,909,253	58,500	-	5,967,753
Sewer Mains and Lines	2,852,415	-	-	2,852,415
Structures	51,548	-	-	51,548
Machinery and Equipment	252,544	13,550	-	266,094
<b>Total Capital Assets Being Depreciated</b>	<b>9,065,760</b>	<b>72,050</b>	<b>-</b>	<b>9,137,810</b>
<b>Less: Accumulated Depreciation</b>				
Water Mains and Lines	1,234,639	120,932	-	1,355,571
Sewer Mains and Lines	727,314	60,830	-	788,144
Structures	50,463	310	-	50,773
Machinery and Equipment	213,203	6,504	-	219,707
<b>Total Accumulated Depreciation</b>	<b>2,225,619</b>	<b>188,576</b>	<b>-</b>	<b>2,414,195</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>6,840,141</b>	<b>(116,526)</b>	<b>-</b>	<b>6,723,615</b>
<b>Capital Assets, Net</b>	<b>\$ 6,894,274</b>	<b>\$ (112,159)</b>	<b>\$ (58,500)</b>	<b>\$ 6,723,615</b>

Depreciation is charged to governmental activities as follows:

General Government	\$ 54,251
Public Safety	167,223
Public Works	133,525
Culture and Recreation	121,396
<b>Total Depreciation Expense</b>	<b>\$ 476,395</b>

**3.C.    LONG-TERM DEBT**

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities (none). All bonds set forth below are direct obligations of the City and pledge the full faith and credit of the City.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

**3.C.    LONG-TERM DEBT (Continued)**

As of December 31, 2015, the long-term debt of the financial reporting entity consists of the following:

General Obligation Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
10/01	\$ 1,535,000	\$60,000 - 150,000	2.10% - 4.60%	12/16	\$ 140,000
07/15	2,025,000	\$75,000 - 165,000	2.00% - 3.00%	02/31	2,025,000
Total Governmental Activities Bonds Payable					2,165,000
Bonds Due Within One Year					140,000
Bonds Due After One Year					\$ 2,025,000

**Changes in Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

Type of Debt	Balance 01/01/15	Additions	Deductions	Balance 12/31/15	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Bonds	\$ 290,000	\$ 2,025,000	\$ (150,000)	\$ 2,165,000	\$ 140,000
Bond Premium	-	41,504	(1,297)	40,207	-
Severance Pay	31,797	26,295	-	58,092	-
<b>Total</b>	<b>\$ 321,797</b>	<b>\$ 2,092,799</b>	<b>\$ (151,297)</b>	<b>\$ 2,263,299</b>	<b>\$ 140,000</b>
<b>Business-Type Activities:</b>					
Severance Pay	\$ 22,600	\$ 3,022	\$ -	\$ 25,622	\$ -

Interest and other fiscal charges total \$58,124 in the Statement of Activities (included in Debt Service line). Interest and other fiscal charges total \$36,199 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

**3.C.    LONG-TERM DEBT (Continued)**

**Annual Debt Service Requirements**

At December 31, 2015, the estimated annual debt service requirements to maturity, including principal and interest, and excluding severance are as follows:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2016	\$ 140,000	\$ 60,945	\$ 200,945
2017	75,000	49,563	124,563
2018	120,000	47,613	167,613
2019	125,000	45,163	170,163
2020	125,000	42,663	167,663
2021-2025	665,000	173,150	838,150
2026-2030	750,000	81,781	831,781
2031	165,000	2,475	167,475
<b>Totals</b>	<b>\$ 2,165,000</b>	<b>\$ 503,353</b>	<b>\$ 2,668,353</b>

Governmental Activity debt is typically funded through Debt Service Funds.

**3.D.    INTERFUND TRANSACTIONS AND BALANCES**

Operating transfers consist of the following for the year ended December 31, 2015:

Major Funds	Transfers Out	Transfers In
		Major Fund General
Water	\$ 6,475	\$ 6,475
Sewer	26,475	26,475
	<u>\$ 32,950</u>	<u>\$ 32,950</u>

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

The interfund balances are as follows:

Short-Term Balances		
Due To Fund	Due From Fund	
Fire Hall Capital Project Fund	General Fund	\$ 827,912    Eliminate negative cash

The General Fund monies owed to the Fire Hall Capital Project Fund will be repaid as future contributions from other local governments and interfund transfers are collected and the cash flows become available.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

**3.E.    FUND EQUITY**

At December 31, 2015, governmental fund equity consists of the following:

General Fund	
Nonspendable - Prepaids	\$        19,075
Unassigned	<u>8,403,408</u>
Total General Fund Balance	<u>\$    8,422,483</u>
Fire Hall Capital Project Fund	
Unassigned	<u>\$    (1,326,136)</u>
Water and Sewer Improvement Fund	
Restricted for Water and Sewer Improvement	\$        783,019
Assigned for Water and Sewer Improvement	<u>526,716</u>
Total Water and Sewer Improvement Balance	<u>\$    1,309,735</u>
Other Governmental Funds	
Nonspendable - Prepaids	\$            2,060
Restricted for Debt Service	105,836
Restricted for Permanent Fund	659,953
Restricted for TIF District 1	296,928
Restricted for TIF District 2-1	31,366
Restricted for Developer Reimbursed Projects	78,572
Committed for Library	251,471
Committed for Library Building Maintenance	8,907
Assigned for Library	91,840
Assigned for Drug Forfeiture	47,018
Assigned for Tax Stabilization	367,334
Assigned for K-9 Unit	866
Unassigned	<u>(40,242)</u>
Total Other Governmental Funds Balance	<u>\$    1,901,909</u>

**NOTE 4    OTHER NOTES**

**4.A.    EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**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.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Plan Description (Continued)**

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City of Bayport 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.

Public Employees Police and Fire Fund (PEPFF)

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

**Benefits Provided**

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.50% 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.

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.20% of average salary for each of the first ten years of service and 2.70% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.20% of average salary for each of the first ten years and 1.70% for each remaining year. Under Method 2, the annuity accrual rate is 2.70% of average salary for Basic Plan members and 1.70% 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.

PEPFF Benefits

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

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Contributions**

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$55,846. The City's contributions were equal to the required contributions as set by state statute.

PEPPF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2015, were \$73,974. The City's contributions were equal to the required contributions as set by state statute.

**Pension Costs**

GERF Pension Costs

At December 31, 2015, the City reported a liability of \$647,815 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion share was 0.0125%, compared to the City's proportionate share of 0.0134% measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$75,783 for its proportionate share of the GERF's pension expense.

At December 31, 2015, 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	\$ -	\$ 32,661
Difference between projected and actual investment earnings	61,326	-
Changes in proportion	-	31,708
Contributions paid to PERA subsequent to the measurement date	29,139	-
Total City Deferred Outflows/Inflows	\$ 90,465	\$ 64,369

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Pension Costs (Continued)**

A total of \$29,139 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2016	\$ (6,125)
2017	\$ (6,125)
2018	\$ (6,125)
2019	\$ 15,332

**PEPPF Pension Costs**

At December 31, 2015, the City reported a liability of \$534,030 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0470%, which was the same proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$92,026 for its proportionate share of the PEPFF's pension expense.

At December 31, 2015, the City reported its proportionate share of the PEPFF'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	\$ -	\$ 86,602
Difference between projected and actual investment earnings	93,046	
Contributions paid to PERA subsequent to the measurement date	41,410	
Total City Deferred Outflows/Inflows	\$ 134,456	\$ 86,602

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Pension Costs (Continued)**

A total of \$41,410 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2016	\$ 5,941
2017	\$ 5,941
2018	\$ 5,941
2019	\$ 5,941
2020	\$ (17,320)

**Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	Rates
Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

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. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2034, then 2.5% for GERF and PEPFF, and 2.5% for all years (PECF).

Actuarial assumptions used in the June 30, 2015, 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 2014. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. 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 on the next page:

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

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

**Actuarial Assumptions (Continued)**

<u>Asset Class</u>	<u>Target Allocation</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%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.90%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

**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 (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
Proportionate share of the GERF			
Net Pension Liability	\$ 1,018,595	\$ 647,815	\$ 341,607
Proportionate share of the PEPFF			
Net Pension Liability	\$ 1,040,830	\$ 534,030	\$ 115,325

**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](http://www.mnpera.org).

**4.B. EMPLOYEE DEFINED CONTRIBUTION PENSION PLANS - STATEWIDE**

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

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

**4.B. EMPLOYEE DEFINED CONTRIBUTION PENSION PLANS – STATEWIDE (Continued)**

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

Total contributions for the past three years are as follows:

	Contribution Amount		Percentage of Covered Payroll		Required Rates
	Employee	Employer	Employee	Employer	
2015	\$ 247	\$ 247	5.00%	5.00%	5.00%
2014	\$ 240	\$ 240	5.00%	5.00%	5.00%
2013	\$ 230	\$ 230	5.00%	5.00%	5.00%

**4.C. DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION**

**Plan Description**

Firefighters of the City of Bayport are members of the Bayport Firemen's Relief Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters. The plan operates under the provisions of Minnesota laws 1965 Ch. 446 as amended, and the applicable provisions of Minnesota Statute Chs. 69 and 424 and 424A. It is governed by a Board of Trustees consisting of six members elected by the members of the Association, and the Mayor, Finance Director, and Fire Chief, who serve as the ex-officio members of the Board.

**Benefits Provided**

At the age of 50 and upon retirement, each member who has served as an active firefighter in the Association is eligible for varying levels of pension benefits, dependent upon the individual's years of service. In addition, members or their beneficiaries may qualify for death or disability benefits.

**Contributions**

The Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (Chapter 261 as amended by Chapter 509 of Minnesota Statute 1980) specifies minimum contributions required on an annual basis. The minimum support rates from the municipality and state aid are determined in the amount required to meet the normal cost plus amortizing any existing prior year service costs over a 10 year period. The City's contributions to the Association for the year ended December 31, 2015 were \$0.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

**4.C. DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (Continued)**

**Pension Costs**

At December 31, 2015, the City of Bayport reported a net pension asset of \$928,590 for the Fire Relief Association’s plan. The net pension asset was measured as of December 31, 2015, as determined by an actuarial valuation as of that date.

For the year ended December 31, 2015, the City recognized pension expense of \$57,488 for the Association. The City also recognized \$99,409 for the year ended December 31, 2015, as pension expense (and grant revenue) for State of Minnesota’s contributions to the Association.

The following table presents the changes in net pension asset during the year.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Beginning Balance 12/31/14	\$ 879,058	\$ 1,881,253	\$ (1,002,195)
Service Cost	58,792	-	58,792
Interest on Pension Liability	45,392	-	45,392
Net Investment Income (Loss)	-	(47,439)	47,439
Contributions (State)	-	99,409	(99,409)
Benefit Payouts	(146,483)	(146,483)	-
Administrative Fees	-	(21,391)	21,391
Net Changes	<u>(42,299)</u>	<u>(115,904)</u>	<u>73,605</u>
Balance End of Year 12/31/15	<u>\$ 836,759</u>	<u>\$ 1,765,349</u>	<u>\$ (928,590)</u>

At December 31, 2015, the City of Bayport reported deferred outflows of resources related to the pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual investment earnings	<u>\$ 115,526</u>	<u>\$ -</u>

The City did not report any deferred inflows of resources related to pensions. Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense</u>
2016	\$ 28,882
2017	\$ 28,882
2018	\$ 28,882
2019	\$ 28,880

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

**4.C. DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (Continued)**

**Actuarial Assumptions**

The total pension asset at December 31, 2015 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

<u>Assumptions</u>	<u>Rates</u>
Investment Rate of Return (Discount)	5.25%
Expected Long-Term Rate of Return	5.25%
20-Year Municipal Bond Yield	3.57%
Inflation Rate	2.75%

There were no changes in actuarial assumptions in 2015.

**Pension Liability Sensitivity**

The following presents the City's net pension asset for the Association's plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension asset would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	<u>1% Decrease in Discount Rate (4.25%)</u>	<u>Discount Rate (5.25%)</u>	<u>1% Increase in Discount Rate (6.25%)</u>
Net Pension Asset	\$ (877,375)	\$ (928,590)	\$ (977,267)

**Plan Investments**

Asset Allocation

The long-term expected rate of return on pension plan investments is 5.25%. The asset allocation at the measurement date and best estimates of arithmetic real rates of return for each major asset class of the Association's pension fund investments are summarized in the following table:

<u>Asset Class</u>	<u>Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	60.60%	5.25%
International Equity	1.60%	5.25%
Fixed Income	23.78%	1.75%
Real Estate and alternatives	0.11%	3.75
Cash and equivalents	13.91%	0.25%

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

**4.C. DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (Continued)**

**Plan Investments (Continued)**

Description of significant investment policy changes during the year

The Association made no significant changes to their investment policy during 2015.

**Pension Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position is available in a separately-issued financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the City at 294 North 3<sup>rd</sup> Street, Bayport, MN 55003.

**4.D. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The City's management is not aware of any incurred but no reported claims.

**4.E. COMMITMENTS**

**Fire Hall Project**

During the current year, the City entered into various contracts for the construction of a new fire hall, which cumulatively totaled \$5,353,022. As of December 31, 2015, the total remaining commitment to the City under these contracts amounts to \$1,637,216.

**Pay-as-You-Go-Debt**

The City issues Pay-as-You-Go Revenue Notes to finance various tax increment projects. Such projects are financed with loans from participating banks. The notes through these participating banks are not general obligations of the City as they are payable only to the extent of future tax increments received. As such, these obligations do not appear on the City's financial statements. At December 31, 2015, outstanding Pay-As-You-Go debt approximates \$525,143. Current Pay-as-You-Go Revenue Notes are non-interest bearing. All payments are contingent upon collection of tax increment and are not due if such collections are not made by the City.

**4.F. CONDUIT DEBT OBLIGATIONS**

In December 2003, the City issued a Qualified Tax Exempt Obligation to provide financial assistance to a private-sector entity for the acquisition and construction of rental housing deemed to be in the public interest. The note is secured by the property financed and is payable solely from payments received on the underlying mortgage loan. Upon repayment of the note, ownership of the acquired facility transfers to the private-sector entity served by the note issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability in the accompanying financial statements. As of December 31, 2015, the conduit debt issued outstanding principal payable is \$6,896,378 for the Senior Housing Revenue Note, Series 2003.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

**4.G. CONCENTRATION**

For the year ended December 31, 2015, significant sources of water and sewer revenues for the City are as follows:

	Customer			
	Local Business		State of Minnesota Correctional Facility	
	Percent of Revenues	Receivable Balance	Percent of Revenues	Receivable Balance
Sewer Fund	59.17%	\$ 34,377	33.81%	\$ -
Water and Sewer Improvement Fund	62.21%	\$ 4,125	0.00%	\$ -

**4.H. TAX INCREMENT DISTRICTS**

The City is the administering authority for the following tax increment financing districts:

Name of District:	Redevelopment District #1
Type of District:	Redevelopment
Authorizing Law:	MN Statutes Sections 469.174
Year Established:	1990
Duration of District:	25 Years
Original Base Net Tax Capacity:	<u>\$ 28,768</u>
Current Net Tax Capacity:	<u>\$ 127,029</u>
Captured Net Tax Capacity:	
Retained by City	<u>\$ 98,261</u>
Shared with Other Taxing Districts	<u>\$ -</u>
Name of District:	Redevelopment District #2-1
Type of District:	Redevelopment
Authorizing Law:	MN Statutes Sections 469.174
Year Established:	2003
Duration of District:	29 Years
Original Base Net Tax Capacity:	<u>\$ 76,117</u>
Current Net Tax Capacity:	<u>\$ 126,719</u>
Captured Net Tax Capacity:	
Retained by City	<u>\$ 50,602</u>
Shared with Other Taxing Districts	<u>\$ -</u>

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 OTHER NOTES (Continued)**

**4.I. CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended December 31, 2015 the City determined adjustments to beginning proprietary and government-wide net position were necessary to conform to the financial statement presentation prescribed under newly adopted standards previously discussed in Note 1.G. Adjustments were made to record the City's proportionate share of the net pension asset/liability at the beginning of the year for the fire relief association pension plan and statewide pension plans in which the City's employees participate and to record deferred outflows for the City's contributions to the plans during the period subsequent to the measurement date used in the actuarial study for each plan, but prior to December 31, 2015.

The following table depicts the impact of the change in accounting principle on proprietary funds beginning net position.

	<u>Water Fund</u>	<u>Sewer Fund</u>
Beginning Net Position	\$ 6,624,437	\$ 3,209,037
Net Pension Liability at 1/1/15	(107,140)	(111,329)
Deferred Outflows for Pension Contributions	<u>4,699</u>	<u>4,677</u>
Beginning Net Position - Restated	<u>\$ 6,521,996</u>	<u>\$ 3,102,385</u>

The following table depicts the impact of the change in accounting principle on government-wide beginning net position.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Beginning Net Position	\$ 26,320,574	\$ 9,833,474
Net Pension Asset at 1/1/15	1,002,195	-
Net Pension Liability at 1/1/15	(918,615)	(218,469)
Deferred Outflows for Pension Contributions	<u>53,389</u>	<u>9,376</u>
Beginning Net Position - Restated	<u>\$ 26,457,543</u>	<u>\$ 9,624,381</u>

**4.J. SUBSEQUENT EVENT**

Subsequent to year end and prior to issuance of these financial statements, the City purchased land at 169 3<sup>rd</sup> St. North for a cost of \$220,000.

### **REQUIRED SUPPLEMENTARY INFORMATION**

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund**
- Schedule of City's Proportionate Share of Net Pension Liability**
- Schedule of City Contributions**
- Schedule of Changes in Net Pension Liability (Asset)**

**CITY OF BAYPORT, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
<b>RESOURCES (INFLOWS):</b>			
Taxes and Special Assessments	\$ 1,020,353	\$ 1,043,025	\$ 22,672
Licenses, Permits, and Fees	114,000	138,698	24,698
Intergovernmental	629,311	1,213,524	584,213
Charges for Services	409,281	478,880	69,599
Fines	35,000	41,371	6,371
Investment Income (Loss)	255,500	156,741	(98,759)
Miscellaneous	80,100	18,086	(62,014)
Transfers In	-	32,950	32,950
<b>AMOUNTS AVAILABLE</b>	<b>2,543,545</b>	<b>3,123,275</b>	<b>579,730</b>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>			
Current:			
General Government:			
Administration	154,587	151,862	(2,725)
Mayor and Council	194,165	109,436	(84,729)
Boards and Commissions	239,197	241,285	2,088
Elections	1,000	957	(43)
General Government	51,440	53,197	1,757
Public Safety:			
Police	771,668	747,740	(23,928)
Fire	418,932	443,626	24,694
Public Works	309,278	277,972	(31,306)
Parks and Recreation	64,428	60,523	(3,905)
Economic Development	-	500,000	500,000
Capital Outlay	60,000	37,085	(22,915)
Transfers Out	125,300	-	(125,300)
<b>TOTAL CHARGES</b>	<b>2,389,995</b>	<b>2,623,683</b>	<b>233,688</b>
<b>BUDGETARY CHANGE IN FUND BALANCE</b>	<b>\$ 153,550</b>	<b>\$ 499,592</b>	<b>\$ 346,042</b>

**CITY OF BAYPORT, MINNESOTA  
 SCHEDULE OF CITY'S PROPORTIONATE  
 SHARE OF NET PENSION LIABILITY  
 LAST TEN YEARS (Presented Prospectively)**

For the Fiscal Year Ended June 30	City's		City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)			
2015 GERF	0.0125%	\$ 647,815	\$ 743,651	87.11%	78.20%
2015 PEPFF	0.0470%	\$ 534,030	\$ 430,253	124.12%	86.60%

**SCHEDULE OF CITY CONTRIBUTIONS  
 LAST TEN YEARS (Presented Prospectively)**

For the Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution		City's Covered-Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
		Statutorily Required Contribution	Contribution Deficiency (Excess)		
2015 GERF	\$ 55,846	\$ 55,846	\$ -	746,718	7.48%
2015 PEPFF	\$ 73,974	\$ 73,974	\$ -	458,058	16.15%
2015 Fire Relief	\$ -	\$ -	\$ -	N/A	N/A

**CITY OF BAYPORT, MINNESOTA**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)**  
**FIRE DEPARTMENT RELIEF ASSOCIATION**  
**LAST TEN YEARS (Presented Prospectively)**

	2015
<b>Changes in Total Pension Liability (TPL)</b>	
Balance at January 1st	\$ 879,058
Service Cost	58,792
Interest on the TPL	45,392
Benefit Payments	(146,483)
Balance at December 31st	\$ 836,759
<b>Plan Fiduciary Net Position (PFNP)</b>	
Balance at January 1st	\$ 1,881,253
Fire State Aid	99,409
Net Investment Income (Loss)	(47,439)
Total Additions	51,970
Benefit Payments	(146,483)
Administrative Expenses	(21,391)
Total Reductions	(167,874)
Balance at December 31st	\$ 1,765,349
Net Pension Liability (Asset) - December 31st	\$ (928,590)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Asset)	111%

### **OTHER SUPPLEMENTARY INFORMATION**

Other supplementary information includes financial statements and schedules not required by GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Combining Statements – All Nonmajor Governmental Funds
- Combining Statements – Nonmajor Governmental Funds – Special Revenue Funds
- Combining Statements – Nonmajor Governmental Funds – Capital Project Funds
- Schedules of Revenues and Expenses – Proprietary Funds
- Schedule of Capital Outlay

**CITY OF BAYPORT, MINNESOTA  
COMBINING BALANCE SHEET  
ALL NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2015**

	Debt Service Fund	Permanent Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
<b>ASSETS</b>					
Cash, Cash Equivalents, and Investments	\$ 111,192	\$ 659,953	\$ 769,741	\$ 406,866	\$ 1,947,752
Prepays	-	-	2,060	-	2,060
Deposit on Asset	2,000	-	-	-	2,000
<b>TOTAL ASSETS</b>	<b>\$ 113,192</b>	<b>\$ 659,953</b>	<b>\$ 771,801</b>	<b>\$ 406,866</b>	<b>\$ 1,951,812</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 7,356	\$ -	\$ 2,194	\$ -	\$ 9,550
Due to Other Funds	-	-	40,353	-	40,353
<b>Total Liabilities</b>	<b>7,356</b>	<b>-</b>	<b>42,547</b>	<b>-</b>	<b>49,903</b>
<b>FUND BALANCES</b>					
Nonspendable	-	-	2,060	-	2,060
Restricted	105,836	659,953	-	406,866	1,172,655
Committed	-	-	260,378	-	260,378
Assigned	-	-	507,058	-	507,058
Unassigned	-	-	(40,242)	-	(40,242)
<b>Total Fund Balances</b>	<b>105,836</b>	<b>659,953</b>	<b>729,254</b>	<b>406,866</b>	<b>1,901,909</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 113,192</b>	<b>\$ 659,953</b>	<b>\$ 771,801</b>	<b>\$ 406,866</b>	<b>\$ 1,951,812</b>

**CITY OF BAYPORT, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**ALL NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Debt Service Fund	Permanent Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 90,278	\$ -	\$ 165,000	\$ 46,752	\$ 302,030
Charges for Services	-	-	124,696	-	124,696
Fines	-	-	11,338	-	11,338
Private Grants	-	-	110,250	-	110,250
Net Investment Income	9,218	13,782	16,459	7,606	47,065
Miscellaneous	-	-	3,424	-	3,424
<b>TOTAL REVENUES</b>	<b>99,496</b>	<b>13,782</b>	<b>431,167</b>	<b>54,358</b>	<b>598,803</b>
<b>EXPENDITURES</b>					
Current:					
Public Safety	-	-	5,910	-	5,910
Parks and Recreation	-	-	280,306	-	280,306
Economic Development	-	-	-	43,152	43,152
Debt Service:					
Principal	150,000	-	-	-	150,000
Interest and Other Charges	13,693	-	-	-	13,693
Capital Outlay	27,111	-	23,086	-	50,197
<b>TOTAL EXPENDITURES</b>	<b>190,804</b>	<b>-</b>	<b>309,302</b>	<b>43,152</b>	<b>543,258</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(91,308)</b>	<b>13,782</b>	<b>121,865</b>	<b>11,206</b>	<b>55,545</b>
<b>FUND BALANCES - BEGINNING</b>	<b>197,144</b>	<b>646,171</b>	<b>607,389</b>	<b>395,660</b>	<b>1,846,364</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 105,836</b>	<b>\$ 659,953</b>	<b>\$ 729,254</b>	<b>\$ 406,866</b>	<b>\$ 1,901,909</b>

**CITY OF BAYPORT, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
DECEMBER 31, 2015**

	Library Fund	Drug Forfeiture Fund	Tax Stabilization Fund	K-9 Unit Fund	Park Improvement Fund	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>						
Cash, Cash Equivalents, and Investments	\$ 354,412	\$ 47,018	\$ 367,334	\$ 866	\$ 111	\$ 769,741
Prepays	2,060	-	-	-	-	2,060
<b>TOTAL ASSETS</b>	<b>\$ 356,472</b>	<b>\$ 47,018</b>	<b>\$ 367,334</b>	<b>\$ 866</b>	<b>\$ 111</b>	<b>\$ 771,801</b>
<b>LIABILITIES</b>						
Accounts Payable	\$ 2,194	\$ -	\$ -	\$ -	\$ -	\$ 2,194
Due to Other Funds	-	-	-	-	40,353	40,353
Total Liabilities	2,194	-	-	-	40,353	42,547
<b>FUND BALANCES</b>						
Nonspendable	2,060	-	-	-	-	2,060
Committed	260,378	-	-	-	-	260,378
Assigned	91,840	47,018	367,334	866	-	507,058
Unassigned	-	-	-	-	(40,242)	(40,242)
Total Fund Balances	354,278	47,018	367,334	866	(40,242)	729,254
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 356,472</b>	<b>\$ 47,018</b>	<b>\$ 367,334</b>	<b>\$ 866</b>	<b>\$ 111</b>	<b>\$ 771,801</b>

**CITY OF BAYPORT, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Library Fund	Drug Forfeiture Fund	Tax Stabilization Fund	K-9 Unit Fund	Park Improvement Fund	Total Nonmajor Special Revenue Funds
<b>REVENUES</b>						
Taxes	\$ 165,000	\$ -	\$ -	\$ -	\$ -	\$ 165,000
Charges for Services	3,620	-	-	-	121,076	124,696
Fines	-	11,338	-	-	-	11,338
Private Grants	110,250	-	-	-	-	110,250
Net Investments Income	7,241	274	7,667	30	1,247	16,459
Miscellaneous	3,424	-	-	-	-	3,424
<b>TOTAL REVENUES</b>	<b>289,535</b>	<b>11,612</b>	<b>7,667</b>	<b>30</b>	<b>122,323</b>	<b>431,167</b>
<b>EXPENDITURES</b>						
Current:						
Public Safety	-	5,910	-	-	-	5,910
Parks and Recreation	280,306	-	-	-	-	280,306
Capital Outlay	-	-	-	-	23,086	23,086
<b>TOTAL EXPENDITURES</b>	<b>280,306</b>	<b>5,910</b>	<b>-</b>	<b>-</b>	<b>23,086</b>	<b>309,302</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>9,229</b>	<b>5,702</b>	<b>7,667</b>	<b>30</b>	<b>99,237</b>	<b>121,865</b>
<b>FUND BALANCES - BEGINNING</b>	<b>345,049</b>	<b>41,316</b>	<b>359,667</b>	<b>836</b>	<b>(139,479)</b>	<b>607,389</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 354,278</b>	<b>\$ 47,018</b>	<b>\$ 367,334</b>	<b>\$ 866</b>	<b>\$ (40,242)</b>	<b>\$ 729,254</b>

**CITY OF BAYPORT, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS  
 DECEMBER 31, 2015**

	TIF District 1 Fund	TIF District 2-1 Fund	Developer Reimbursed Projects Fund	Total Nonmajor Capital Project Funds
<b>ASSETS</b>				
Cash, Cash Equivalents, and Investments	\$ 296,928	\$ 31,366	\$ 78,572	\$ 406,866
<b>FUND BALANCES</b>				
Restricted	\$ 296,928	\$ 31,366	\$ 78,572	\$ 406,866

**CITY OF BAYPORT, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	TIF District 1 Fund	TIF District 2-1 Fund	Developer Reimbursed Project Fund	Total Nonmajor Capital Project Funds
<b>REVENUES</b>				
Taxes	\$ -	\$ 46,752	\$ -	\$ 46,752
Net Investments Income	6,237	304	1,065	7,606
<b>TOTAL REVENUES</b>	<u>6,237</u>	<u>47,056</u>	<u>1,065</u>	<u>54,358</u>
<b>EXPENDITURES</b>				
Current:				
Economic Development	480	42,672	-	43,152
<b>NET CHANGE IN FUND BALANCES</b>	5,757	4,384	1,065	11,206
<b>FUND BALANCES - BEGINNING</b>	<u>291,171</u>	<u>26,982</u>	<u>77,507</u>	<u>395,660</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 296,928</u>	<u>\$ 31,366</u>	<u>\$ 78,572</u>	<u>\$ 406,866</u>

**CITY OF BAYPORT, MINNESOTA  
WATER FUND  
SCHEDULE OF WATER FUND REVENUES AND EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>CHARGES</b>	\$ 488,400	\$ 389,771
<b>OPERATING EXPENSES</b>		
Personnel Services	190,196	174,572
Supplies	30,105	39,090
Insurance	7,235	4,808
Utilities	57,267	57,981
Repairs and Maintenance	45,614	87,571
Other Service and Charges	50,404	31,321
Depreciation	<u>124,087</u>	<u>122,223</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>504,908</u>	<u>517,566</u>
<b>NET OPERATING LOSS</b>	(16,508)	(127,795)
<b>NONOPERATING INCOME</b>		
Connection Fees	28,516	39,350
Investment Income	<u>35,991</u>	<u>81,368</u>
<b>TOTAL NONOPERATING INCOME</b>	<u>64,507</u>	<u>120,718</u>
<b>CHANGE IN NET POSITION PRIOR TO TRANSFERS</b>	47,999	(7,077)
<b>NET TRANSFERS</b>	<u>(6,475)</u>	<u>(6,475)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 41,524</u>	<u>\$ (13,552)</u>

**CITY OF BAYPORT, MINNESOTA  
SEWER FUND  
SCHEDULE OF SEWER FUND REVENUES AND EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>CHARGES</b>	\$ 695,373	\$ 613,478
<b>OPERATING EXPENSES</b>		
Personnel Services	191,294	171,757
Supplies	2,754	6,709
Insurance	1,842	1,789
Repairs and Maintenance	16,227	9,523
Other Service and Charges	14,241	26,560
MCES Charges	377,064	397,113
Depreciation	<u>64,489</u>	<u>64,898</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>667,911</u>	<u>678,349</u>
<b>NET OPERATING INCOME (LOSS)</b>	27,462	(64,871)
<b>NONOPERATING INCOME</b>		
Connection Fees	7,200	5,600
Investment Income	<u>26,408</u>	<u>59,597</u>
<b>TOTAL NONOPERATING INCOME</b>	<u>33,608</u>	<u>65,197</u>
<b>CHANGE IN NET POSITION PRIOR TO TRANSFERS</b>	61,070	326
<b>NET TRANSFERS</b>	<u>(26,475)</u>	<u>(26,475)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 34,595</u>	<u>\$ (26,149)</u>

**CITY OF BAYPORT, MINNESOTA  
SCHEDULE OF CAPITAL OUTLAY  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**CAPITAL OUTLAY**

Police	\$ 37,085
169 Third Street Parking Lot	27,111
Park Improvements	23,086
Fire Hall Capital Project	<u>4,398,241</u>

**TOTAL CAPITAL OUTLAY**

**\$ 4,485,523**

**OTHER REPORT**

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

May 27, 2016

Honorable Mayor and City Council  
City of Bayport, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bayport, Minnesota (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated May 27, 2016.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as noted below:

- The Report of Outstanding Indebtedness submitted to the County in accordance with Minnesota Statute § 471.70 did not include all outstanding debt obligations of the City as of December 31, 2015.

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 for the information and use of the City Council and management of the City of Bayport, and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Schlenner Wenner & Co.*

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

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