

CITY OF SILVER LAKE, MINNESOTA  
AUDITED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2017

Conway, Deuth & Schmiesing, PLLP  
Certified Public Accountants & Consultants  
Litchfield, Minnesota

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CITY OF SILVER LAKE, MINNESOTA

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CITY OF SILVER LAKE, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2017

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Bruce Bebo	12/31/2018
Council Member	Nolan Johnson	12/31/2020
Council Member	Brenda Fogarty	12/31/2020
Council Member	Ken Merrill	12/31/2018
Council Member	Joshua Mason	12/31/2018
City Clerk/Treasurer	Jon Jerabek	Appointed

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council  
City of Silver Lake  
Silver Lake, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Silver Lake, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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## ***Auditor's Responsibility (Cont'd)***

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Silver Lake, Minnesota, as of December 31, 2017, and, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Ambulance Special Revenue Fund and Fire Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Report on Partial Comparative Information***

We have previously audited the City's 2016 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated April 17, 2017. Refer to Note 13 of the Notes to the Financial Statements for additional information regarding the prior year partial comparative information. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Employer Contributions, and the Schedule of Changes in the City's Net Pension Liability and Related Ratios as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and 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 statements and schedules listed in the table of contents as supplementary information and the Elected and Appointed Officials section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

**Other Matters (Cont'd)**

*Supplementary and Other Information (Cont'd)*

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

*Conway, Deuth & Schmiesing, PLLP*

CONWAY, DEUTH & SCHMIESING, PLLP  
Certified Public Accountants & Consultants  
Litchfield, Minnesota

April 16, 2018

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SILVER LAKE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

This section of the basic financial statements of the City of Silver Lake (the City) presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2017. Please read it in conjunction with the City's basic financial statements following this section.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources by \$4,744,026. Of this amount, \$1,182,347 may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position decreased by \$12,740.
- The City's governmental funds reported combined ending fund balances of \$1,033,897.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$470,058, or 71% of total General Fund expenditures of \$662,847.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities 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 are presented after the Statement of Activities. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The notes to the basic financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The City as a Whole: Statement of Net Position and Statement of Activities

Our analysis of the City of Silver Lake begins with the Statement of Net Position and the Statement of Activities. 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 both report information about the City as a whole and about its activities in a way that helps answer this question. The Statement of Net Position includes all assets and deferred outflows of resources, and liabilities and deferred inflows of resources using the accrual basis of accounting. In the Statement of Activities, 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 them. You can think of the City's net position—the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources—as one way to measure the City's financial health. Over time, increases or decreases in the City's net position are one indicator of whether the City's financial health is improving or deteriorating.

You will need to consider other nonfinancial factors, however, to assess the overall health of the City of Silver Lake.

CITY OF SILVER LAKE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

The City as a Whole: Statement of Net Position and Statement of Activities (Cont'd)

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

*Governmental Activities* - Most of the City's basic services are reported here, including general government, public safety, public works, sanitation, and culture and recreation. Property taxes, and state and federal grants 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, Sewer, Storm Sewer, and Municipal Liquor Store Funds are reported here.

The City's Most Significant Funds: Fund Financial Statements

Our analysis of the City of Silver Lake's major funds begins with the fund financial statements. These statements 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 establishes 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 two kinds of funds—governmental and proprietary—use different accounting approaches.

*Governmental Funds* - Most of the City's basic services are reported in governmental funds. Governmental funds 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 the reader of the statements 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 a reconciliation after the fund financial statements.

The governmental fund financial statements can be found on pages 15-21 of this report.

*Proprietary Funds* - When the City of Silver Lake charges customers for the services it provides—whether to outside customers or to other units of the City—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.

The proprietary fund financial statements can be found on pages 22-25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-56 of this report.



CITY OF SILVER LAKE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

Statement of Net Position

The City's net position increased from a year ago. Our analysis below focuses on the net position (Tables 1 and 2) and changes in net position (Tables 3 and 4) of the City's governmental and business-type activities.

Table 1 Comparative Condensed Statement of Net Position			
	Governmental Activities		Change
	2017	2016	
Current and Other Assets	\$ 1,271,007	\$ 1,274,167	\$ (3,160)
Net Capital Assets	1,614,297	2,203,404	(589,107)
Total Assets	2,885,304	3,477,571	(592,267)
Deferred Outflows of Resources	256,591	406,775	(150,184)
Total Assets and Deferred Outflows of Resources	\$ 3,141,895	\$ 3,884,346	\$ (742,451)
Current and Other Liabilities	\$ 190,160	\$ 129,978	\$ 60,182
Long-Term Liabilities	1,104,631	1,474,093	(369,462)
Total Liabilities	1,294,791	1,604,071	(309,280)
Deferred Inflows of Resources	295,823	97,124	198,699
Net Position			
Net Investment in Capital Assets	833,297	1,333,404	(500,107)
Restricted for Debt Service	235,125	292,857	(57,732)
Unrestricted	482,859	615,144	(132,285)
Total Net Position	1,551,281	2,241,405	(690,124)
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 3,141,895	\$ 3,942,600	\$ (800,705)

CITY OF SILVER LAKE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

	Business-Type Activities		Change
	2017	2016	
Current and Other Assets	\$ 845,985	\$ 842,947	\$ 3,038
Net Capital Assets	2,528,257	1,972,606	555,651
Total Assets	3,374,242	2,815,553	558,689
Deferred Outflows of Resources	27,396	71,755	(44,359)
Total Assets and Deferred Outflows of Resources	\$ 3,401,638	\$ 2,887,308	\$ 514,330
Current and Other Liabilities	\$ 64,710	\$ 74,502	\$ (9,792)
Long-Term Liabilities	118,811	217,638	(98,827)
Total Liabilities	183,521	292,140	(108,619)
Deferred Inflows of Resources	25,372	21,553	3,819
Net Position			
Net Investment in Capital Assets	2,493,257	1,892,606	600,651
Unrestricted	699,488	681,009	18,479
Total Net Position	3,192,745	2,573,615	619,130
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 3,401,638	\$ 2,887,308	\$ 514,330

Governmental Activities

Net position of the City's governmental activities decreased by \$690,124. Table 3 presents the key elements of the decrease.

The following tables indicate the changes in net position for the City's governmental and business-type activities:

CITY OF SILVER LAKE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

Governmental Activities (Cont'd)

	Governmental Activities		Change
	2017	2016	
<b>REVENUES</b>			
<b>Program Revenues</b>			
Fees, Fines, and Charges for Services	\$ 138,769	\$ 167,111	\$ (28,342)
Operating Grants and Contributions	122,171	130,725	(8,554)
Capital Grants and Contributions	127,105		127,105
<b>General Revenues</b>			
Property Taxes	465,142	475,259	(10,117)
Grants and Contributions not Restricted	227,744	217,486	10,258
Special Assessments	6,960	7,590	(630)
Franchise Fee	6,293	6,795	(502)
Interest Income	1,419	1,383	36
Gain (Loss) on Trade of Asset	59	(245)	304
Other	10,655	16,654	(5,999)
Total Revenues	1,106,317	1,022,758	83,559
<b>EXPENSES</b>			
General Government	150,638	162,585	(11,947)
Public Safety	433,354	454,145	(20,791)
Public Works	259,741	297,464	(37,723)
Sanitation	3,445	995	2,450
Culture and Recreation	174,053	145,678	28,375
Economic Development	107,277		107,277
Interest on Long-Term Debt	25,284	26,503	(1,219)
Total Expenses	1,153,792	1,087,370	66,422
Change in Net Position Before Transfers and Capital Contributions	(47,475)	(64,612)	17,137
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>			
Transfers	50,585	35,000	15,585
Capital Contributions	(634,980)	(55,369)	(579,611)
Total Transfers and Capital Contributions	(584,395)	(20,369)	(564,026)
Change in Net Position	(631,870)	(84,981)	(546,889)
<b>NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED</b>	2,241,405	2,326,386	(84,981)
<b>PRIOR PERIOD ADJUSTMENT</b>	(58,254)		(58,254)
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>	2,183,151	2,326,386	(143,235)
<b>NET POSITION, END OF YEAR</b>	\$ 1,551,281	\$ 2,241,405	\$ (690,124)

CITY OF SILVER LAKE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

Business-Type Activities

The net position of our business-type activities increased by \$619,130. The Water Fund activity includes a -\$35,000 transfer for debt service, while Storm Sewer Fund activity includes a \$634,980 capital contribution. The Municipal Liquor Store's gross profit decreased less than 1% in comparison with the prior year.

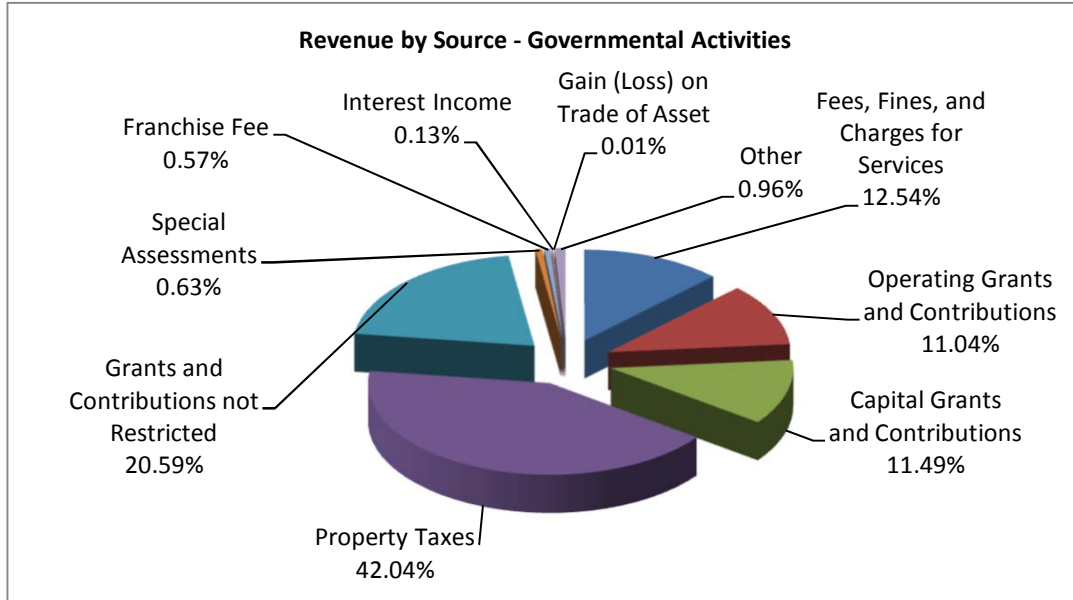
	<u>Business-Type Activities</u>		Change
	<u>2017</u>	<u>2016</u>	
<b>REVENUES</b>			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 529,152	\$ 542,688	\$ (13,536)
General Revenues			
Interest Income	1,830	1,593	237
Miscellaneous	10,029	9,525	504
Total Revenues	<u>541,011</u>	<u>553,806</u>	<u>(13,299)</u>
<b>EXPENSES</b>			
Water	93,947	107,310	(13,363)
Sewer	144,977	157,341	(12,364)
Storm Sewer	20,372		20,372
Municipal Liquor Store	246,980	245,982	998
Total Expenses	<u>506,276</u>	<u>510,633</u>	<u>(4,357)</u>
Change in Net Position Before Transfers and Capital Contributions	34,735	43,173	(8,942)
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>			
Transfers	(50,585)	(35,000)	(15,585)
Capital Contributions	634,980	55,369	579,611
Total Transfers and Capital Contributions	<u>584,395</u>	<u>20,369</u>	<u>564,026</u>
Change in Net Position	619,130	63,542	555,084
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>2,573,615</u>	<u>2,510,073</u>	<u>63,542</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 3,192,745</u>	<u>\$ 2,573,615</u>	<u>\$ 619,130</u>

CITY OF SILVER LAKE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

Governmental Activities

Revenues - The following chart visually illustrates the City's revenue by source for its governmental activities:



Financial Analysis of the City's Funds

General Fund - The change in the City's General Fund Balance was \$4,160 for 2017. The increase in fund balance for 2017 was smaller compared to 2016 due to decreasing licenses and permits and charges for services revenues while expenditures remained consistent in 2017 compared to 2016.

Special Revenue Funds - The change in the City's special revenue fund balances was \$20,839. The Ambulance Special Revenue Fund increased by \$24,668, \$12,689 more than the increase in fund balance for 2016. This was due to decreases in the salaries and bad debt expenditures - less hours worked and decreased collections on billing. The Fire Special Revenue Fund had a change in fund balance of (\$3,829), a decrease in fund balance of (\$13,939) from the change in 2016. This was due to an equipment purchase in the current year paid with donations that were less the amount of the purchase.

Debt Service Funds - The debt service fund balances decreased by \$29,183. The fund decrease is due to increased principal debt payments and a transfer out to the Capital Improvements Fund to cover project costs.

Capital Projects Fund - The capital project fund balances decreased by \$52,570. The Capital Improvement Capital Project Fund decreased by \$52,561, as compared to the decrease in fund balance for 2016 of \$23,611. This was due to increased economic development expenditures for the main street demolition and public safety capital outlay expenditures. The Grove Avenue Reconstruction Fund Balance was \$0 as of December 31, 2017. The decrease in Grove Avenue Reconstruction Fund Balance of \$9 was to close the fund.

CITY OF SILVER LAKE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

General Fund Budgetary Highlights

Over the course of the year, the City of Silver Lake City Council did not revise the budget. The General Fund budget included sufficient revenues to cover expenditures with almost no change in fund balance. Actual revenues were \$6,206 lower than were budgeted, which is due to higher than expected income from intergovernmental and miscellaneous revenues and lower than expected income from charges for services and sales (net of merchandise purchases) revenues. The variance from the budgeted increase in fund balance to actual increase in fund balance was \$1,162. Actual expenditures were lower than budget by \$3,783.

Capital Assets

At the end of 2017, the City of Silver Lake had \$8,923,927 invested in a broad range of capital assets. Refer to Note 5 of the Notes to the Financial Statements for a schedule showing the City's capital asset activity.

The City of Silver Lake's fiscal year 2018 capital budget calls for seal coat repairs in the City, capital repairs to the City storm sewer system, transfers from the General Fund to the Capital Improvement Fund for future equipment replacement, possible replacement of a public works vehicle, and possible repairs or construction of City Hall.

Long-Term Liabilities

At year-end, the City of Silver Lake had \$1,314,442 in bonds outstanding, net pension liability, and compensated absences. Refer to Note 7 of the Notes to the Financial Statements for a schedule showing the City's long-term liability activity.

Economic Factors and Next Year's Budget

The City of Silver Lake's appointed and elected officials considered many factors when setting the fiscal year 2018 budget, rates, and fees that will be charged by the funds of the City. The major factors accounted for when adopting the General Fund Budget was to hold all items as much as possible to the 2017 final budget.

Contacting the City's Financial Management

This financial report is designed to provide our residents, customers, 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 any questions about this report or need additional information, contact the City of Silver Lake, 308 Main Street West, Silver Lake, Minnesota 55381, (320)327-2412, or silver.lake.mn@mchsi.com.

## BASIC FINANCIAL STATEMENTS

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CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF NET POSITION  
 DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	Governmental Activities	Business-Type Activities	Totals	
			2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>Assets</b>				
Cash	\$ 1,157,059	\$ 629,089	\$ 1,786,148	\$ 1,792,541
Receivables				
Accounts	50,729	39,833	90,562	79,568
Interest	209	146	355	355
Property Taxes	10,105		10,105	24,485
Special Assessments	101,794		101,794	127,621
Internal Balances	(100,000)	100,000		
Due from Other Governments	4,794		4,794	6,225
Inventories	582	75,099	75,681	72,029
Prepaid Items	6,235	1,818	8,053	14,290
Land Held for Resale	39,500		39,500	
Capital Assets				
Assets Not Being Depreciated		181,323	181,323	252,808
Other Capital Assets, Net of Depreciation	1,614,297	2,346,934	3,961,231	3,923,202
Total Assets	<u>2,885,304</u>	<u>3,374,242</u>	<u>6,259,546</u>	<u>6,293,124</u>
<b>Deferred Outflows of Resources</b>				
Related to Pensions	<u>256,591</u>	<u>27,396</u>	<u>283,987</u>	<u>455,849</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,141,895</u>	<u>\$ 3,401,638</u>	<u>\$ 6,543,533</u>	<u>\$ 6,748,973</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts and Contracts Payable	\$ 111,537	\$ 14,747	\$ 126,284	\$ 32,886
Accrued Wages Payable	13,266	5,053	18,319	17,591
Sales Tax Payable	8	3,858	3,866	4,396
Deposits Payable	400		400	300
Accrued Interest Payable	8,949	1,700	10,649	9,568
Due to Other Governments		4,352	4,352	5,739
<b>Long-Term Liabilities</b>				
Due Within One Year	56,000	35,000	91,000	134,000
Due in More Than One Year	1,104,631	118,811	1,223,442	1,626,638
Total Liabilities	<u>1,294,791</u>	<u>183,521</u>	<u>1,478,312</u>	<u>1,831,118</u>
<b>Deferred Inflows of Resources</b>				
Related to Pensions	295,823	25,372	321,195	102,835
<b>Net Position</b>				
Net Investment in Capital Assets	833,297	2,493,257	3,326,554	3,226,010
Restricted for Debt Service	235,125		235,125	292,857
Unrestricted	482,859	699,488	1,182,347	1,296,153
Total Net Position	<u>1,551,281</u>	<u>3,192,745</u>	<u>4,744,026</u>	<u>4,815,020</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 3,141,895</u>	<u>\$ 3,401,638</u>	<u>\$ 6,543,533</u>	<u>\$ 6,748,973</u>

See Accompanying Notes to the Financial Statements

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF ACTIVITIES  
 YEAR ENDED DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
							2017	2016
<b>GOVERNMENTAL ACTIVITIES</b>								
General Government	\$ 150,638	\$ 3,783	\$ 7,150	\$	\$ (139,705)	\$	\$ (139,705)	\$ (131,220)
Public Safety	433,354	94,360	108,753	127,105	(103,136)		(103,136)	(254,094)
Public Works	259,741	6,473			(253,268)		(253,268)	(292,179)
Sanitation	3,445				(3,445)		(3,445)	(995)
Culture and Recreation	174,053	34,153	6,268		(133,632)		(133,632)	(84,543)
Economic Development	107,277				(107,277)		(107,277)	
Interest on Long-Term Debt	25,284				(25,284)		(25,284)	(26,503)
Total Governmental Activities	1,153,792	138,769	122,171	127,105	(765,747)	0	(765,747)	(789,534)
<b>BUSINESS-TYPE ACTIVITIES</b>								
Water	93,947	110,112				16,165	16,165	7,710
Sewer	144,977	150,771				5,794	5,794	(60)
Storm Sewer	20,372	6,531				(13,841)	(13,841)	
Municipal Liquor Store	246,980	261,738				14,758	14,758	24,405
Total Business-Type Activities	506,276	529,152	0	0	0	22,876	22,876	32,055
Total	\$ 1,660,068	\$ 667,921	\$ 122,171	\$ 127,105	(765,747)	22,876	(742,871)	(757,479)
<b>GENERAL REVENUES</b>								
Taxes								
Property Taxes					465,142		465,142	475,259
Franchise Fee					6,293		6,293	6,795
Special Assessments					6,960		6,960	7,590
Grants and Contributions not Restricted to Specific Programs					227,744		227,744	217,486
Interest Income					1,419	1,830	3,249	2,976
Gain (Loss) on Trade of Asset					59		59	(245)
Miscellaneous					10,655	10,029	20,684	26,179
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>								
Transfers					50,585	(50,585)		
Capital Contributions					(634,980)	634,980		
Total General Revenues, Transfers, and Capital Contributions					133,877	596,254	730,131	736,040
Change in Net Position					(631,870)	619,130	(12,740)	(21,439)
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED					2,241,405	2,573,615	4,815,020	4,836,459
PRIOR PERIOD ADJUSTMENT					(58,254)		(58,254)	
NET POSITION, BEGINNING OF YEAR, AS RESTATED					2,183,151	2,573,615	4,756,766	4,836,459
NET POSITION, END OF YEAR					\$ 1,551,281	\$ 3,192,745	\$ 4,744,026	\$ 4,815,020

See Accompanying Notes to the Financial Statements

CITY OF SILVER LAKE, MINNESOTA

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	General	Ambulance	Fire	G.O. Refunding Bonds of 2007A	G.O. Improvement Bonds of 2013	Capital Improvement	Totals	
							2017	2016
<b>ASSETS</b>								
Cash	\$ 532,495	\$ 90,114	\$ 134,162	\$ 4,818	\$ 135,769	\$ 259,701	\$ 1,157,059	\$ 1,073,047
Receivables								
Accounts	10,404	40,325					50,729	35,318
Interest	2	6	142			59	209	209
Property Taxes	9,051			541	513		10,105	24,485
Special Assessments					101,794		101,794	127,621
Due from Other Governments	4,155			230	409		4,794	6,225
Inventories	582						582	764
Prepaid Items	4,675	460	1,100				6,235	6,498
Land Held for Resale						39,500	39,500	
<b>Total Assets</b>	<b>\$ 561,364</b>	<b>\$ 130,905</b>	<b>\$ 135,404</b>	<b>\$ 5,589</b>	<b>\$ 238,485</b>	<b>\$ 299,260</b>	<b>\$ 1,371,007</b>	<b>\$ 1,274,167</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>								
<b>Liabilities</b>								
Accounts and Contracts Payable	\$ 23,490	\$ 503	\$ 3,086	\$	\$	\$ 84,458	\$ 111,537	\$ 19,779
Accrued Wages Payable	12,977	87	202				13,266	11,325
Sales Tax Payable	8						8	6
Deposits Payable	400						400	300
Due to Other Funds						100,000	100,000	
<b>Total Liabilities</b>	<b>36,875</b>	<b>590</b>	<b>3,288</b>	<b>0</b>	<b>0</b>	<b>184,458</b>	<b>225,211</b>	<b>31,410</b>
<b>Deferred Inflows of Resources</b>								
Unavailable Revenue								
Delinquent Property Taxes	9,051			541	513		10,105	24,485
Special Assessments					101,794		101,794	127,621
<b>Total Deferred Inflows of Resources</b>	<b>9,051</b>	<b>0</b>	<b>0</b>	<b>541</b>	<b>102,307</b>	<b>0</b>	<b>111,899</b>	<b>152,106</b>
<b>Fund Balance</b>								
Nonspendable	5,257	460	1,100			39,500	46,317	7,262
Restricted				5,048	136,178		141,226	170,409
Committed	40,123	125,242	131,016			43,644	340,025	302,800
Assigned		4,613				124,365	128,978	134,670
Unassigned	470,058					(92,707)	377,351	475,510
<b>Total Fund Balance</b>	<b>515,438</b>	<b>130,315</b>	<b>132,116</b>	<b>5,048</b>	<b>136,178</b>	<b>114,802</b>	<b>1,033,897</b>	<b>1,090,651</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 561,364</b>	<b>\$ 130,905</b>	<b>\$ 135,404</b>	<b>\$ 5,589</b>	<b>\$ 238,485</b>	<b>\$ 299,260</b>	<b>\$ 1,371,007</b>	<b>\$ 1,274,167</b>

See Accompanying Notes to the Financial Statements

CITY OF SILVER LAKE, MINNESOTA

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2017

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
Total Fund Balances - Governmental Funds	\$ 1,033,897	\$ 1,090,651
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Governmental Capital Assets	3,980,031	4,647,860
Less: Accumulated Depreciation	(2,365,734)	(2,444,456)
Certain receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		
Delinquent Property Taxes	10,105	24,485
Special Assessments	101,794	127,621
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	256,591	384,094
Deferred Inflows of Resources Related to Pensions	(295,823)	(81,282)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds Payable	(781,000)	(870,000)
Accrued Interest Payable	(8,949)	(9,568)
Net Pension Liability	(358,752)	(609,565)
Compensated Absences	(20,879)	(18,435)
	<u>                    </u>	<u>                    </u>
Total Net Position - Governmental Activities	<u>\$ 1,551,281</u>	<u>\$ 2,241,405</u>

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 YEAR ENDED DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Ambulance	Fire	G.O.	G.O.	Capital Improvement	Grove Avenue Reconstruction	Totals	
				Refunding Bonds of 2007A	Improvement Bonds of 2013			2017	2016
<b>REVENUES</b>									
Taxes	\$ 416,952	\$	\$	\$ 44,861	\$ 24,001	\$	\$	\$ 485,814	\$ 484,819
Special Assessments	2,006				30,781			32,787	27,471
Licenses and Permits	2,840							2,840	14,576
Intergovernmental	241,783	2,750	20,497					265,030	253,999
Charges for Services	34,090	95,391	41,831					171,312	187,645
Fines and Forfeits	11,052							11,052	6,766
Interest Income	481	118	322	58	76	364		1,419	1,383
Sales (Net of Merchandise Purchases)	7,574							7,574	13,916
Donations	9,458	200	134,105			10,893		154,656	37,198
Miscellaneous	10,686		2,591			112		13,389	18,657
Total Revenues	736,922	98,459	199,346	44,919	54,858	11,369	0	1,145,873	1,046,430
<b>EXPENDITURES</b>									
<b>Current</b>									
General Government	136,536							136,536	151,315
Public Safety	200,312	83,791	74,626			392		359,121	366,030
Public Works	147,100							147,100	169,320
Sanitation	3,445							3,445	994
Culture and Recreation	156,452							156,452	135,648
Economic Development						107,277		107,277	
<b>Capital Outlay</b>									
General Government	1,680							1,680	
Public Safety	132		164,549			43,987		208,668	12,162
Public Works	12,837							12,837	71,075
Culture and Recreation	4,353					840		5,193	10,159
<b>Debt Service</b>									
Principal				35,000	54,000			89,000	88,000
Interest and Other Charges				3,683	22,220			25,903	27,110
Total Expenditures	662,847	83,791	239,175	38,683	76,220	152,496	0	1,253,212	1,031,813
Excess (Deficiency) of Revenues Over (Under) Expenditures	74,075	14,668	(39,829)	6,236	(21,362)	(141,127)	0	(107,339)	14,617
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers In	10,585	10,000	36,000		40,009	88,566		185,160	103,500
Transfers Out	(80,500)			(54,066)			(9)	(134,575)	(68,500)
Total Other Financing Sources (Uses)	(69,915)	10,000	36,000	(54,066)	40,009	88,566	(9)	50,585	35,000
Net Change in Fund Balances	4,160	24,668	(3,829)	(47,830)	18,647	(52,561)	(9)	(56,754)	49,617
FUND BALANCE, BEGINNING OF YEAR	511,278	105,647	135,945	52,878	117,531	167,363	9	1,090,651	1,041,034
FUND BALANCE, END OF YEAR	\$ 515,438	\$ 130,315	\$ 132,116	\$ 5,048	\$ 136,178	\$ 114,802	\$ 0	\$ 1,033,897	\$ 1,090,651

See Accompanying Notes to the Financial Statements

CITY OF SILVER LAKE, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017  
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
Total Net Change in Fund Balances - Governmental Funds	\$ (56,754)	\$ 49,617
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capital Outlay	355,348	35,950
Depreciation Expense	(152,035)	(157,530)
Capital Assets Disposals	(1,023,177)	(12,646)
Accumulated Depreciation Related to Capital Assets Disposals	230,757	1,355
<p>Certain receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>		
Delinquent Property Taxes	(14,380)	(3,546)
Special Assessments	(25,827)	(19,881)
<p>Some expenses reported in the Statement of Activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.</p>		
Compensated Absences	(2,444)	(3,009)
<p>In the Statement of Activities, pension expenses are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).</p>		
	(32,977)	(63,898)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net position. In the current period these amounts are:</p>		
Bond Principal Retirement	89,000	88,000
Change in Accrued Interest Payable	<u>619</u>	<u>607</u>
Change in Net Position - Governmental Activities	<u>\$ (631,870)</u>	<u>\$ (84,981)</u>

See Accompanying Notes to the Financial Statements

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 YEAR ENDED DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017				
	Budgeted Amounts		Actual	Over (Under) Final Budget	2016 Actual
	Original	Final			
<b>REVENUES</b>					
Taxes	\$ 419,494	\$ 419,494	\$ 416,952	\$ (2,542)	\$ 414,836
Special Assessments			2,006	2,006	386
Licenses and Permits	8,300	8,300	2,840	(5,460)	14,426
Intergovernmental	234,134	234,134	241,783	7,649	231,267
Charges for Services	44,700	44,700	34,090	(10,610)	47,887
Fines and Forfeits	5,500	5,500	11,052	5,552	6,766
Interest Income	400	400	481	81	638
Sales (Net of Merchandise Purchases)	16,600	16,600	7,574	(9,026)	13,916
Donations	10,000	10,000	9,458	(542)	16,454
Miscellaneous	4,000	4,000	10,686	6,686	18,607
Total Revenues	<u>743,128</u>	<u>743,128</u>	<u>736,922</u>	<u>(6,206)</u>	<u>765,183</u>
<b>EXPENDITURES</b>					
<b>Current</b>					
General Government	150,579	150,579	136,536	(14,043)	151,315
Public Safety	185,351	185,351	200,312	14,961	171,911
Public Works	187,953	187,953	147,100	(40,853)	169,320
Sanitation	3,425	3,425	3,445	20	994
Culture and Recreation	134,722	134,722	156,452	21,730	135,648
<b>Capital Outlay</b>					
General Government	3,000	3,000	1,680	(1,320)	
Public Safety			132	132	4,320
Public Works			12,837	12,837	14,431
Culture and Recreation	1,600	1,600	4,353	2,753	5,269
Total Expenditures	<u>666,630</u>	<u>666,630</u>	<u>662,847</u>	<u>(3,783)</u>	<u>653,208</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	76,498	76,498	74,075	(2,423)	111,975
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	10,000	10,000	10,585	585	
Transfers Out	(85,500)	(85,500)	(80,500)	5,000	(68,500)
Sales of Fixed Assets	2,000	2,000		(2,000)	
Total Other Financing Sources (Uses)	<u>(73,500)</u>	<u>(73,500)</u>	<u>(69,915)</u>	<u>3,585</u>	<u>(68,500)</u>
Net Change in Fund Balances	<u>\$ 2,998</u>	<u>\$ 2,998</u>	4,160	<u>\$ 1,162</u>	43,475
FUND BALANCE, BEGINNING OF YEAR			511,278		467,803
FUND BALANCE, END OF YEAR			<u>\$ 515,438</u>		<u>\$ 511,278</u>

See Accompanying Notes to the Financial Statements

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 AMBULANCE SPECIAL REVENUE FUND  
 YEAR ENDED DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017				
	Budgeted Amounts		Actual	Over (Under) Final Budget	2016 Actual
	Original	Final			
<b>REVENUES</b>					
Charges for Services					
Township Contracts	\$ 14,000	\$ 14,000	\$ 14,799	\$ 799	\$ 15,183
Ambulance Charges	73,000	73,000	80,592	7,592	82,744
Total Charges for Services	87,000	87,000	95,391	8,391	97,927
Intergovernmental			2,750	2,750	
Interest Income	50	50	118	68	87
Donations	1,000	1,000	200	(800)	1,000
Total Revenues	88,050	88,050	98,459	10,409	99,014
<b>EXPENDITURES</b>					
Current					
Public Safety					
Salaries	45,000	45,000	41,719	(3,281)	47,036
Benefits	5,150	5,150	4,958	(192)	5,169
Ambulance	15,850	15,850	11,517	(4,333)	13,097
Insurance	3,600	3,600	2,860	(740)	2,997
Bad Debt	28,000	28,000	22,737	(5,263)	28,736
Total Expenditures	97,600	97,600	83,791	(13,809)	97,035
Excess (Deficiency) of Revenues Over (Under) Expenditures	(9,550)	(9,550)	14,668	24,218	1,979
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	10,000	10,000	10,000		10,000
Net Change in Fund Balances	\$ 450	\$ 450	24,668	\$ 24,218	11,979
FUND BALANCE, BEGINNING OF YEAR			105,647		93,668
FUND BALANCE, END OF YEAR			\$ 130,315		\$ 105,647

See Accompanying Notes to the Financial Statements



CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FIRE SPECIAL REVENUE FUND  
 YEAR ENDED DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017				2016 Actual
	Budgeted Amounts		Actual	Over (Under) Final Budget	
	Original	Final			
REVENUES					
Licenses and Permits	\$	\$	\$	\$	\$ 150
Intergovernmental					
Firefighters Relief Association			15,250	15,250	15,842
State Grant	6,000	6,000	5,247	(753)	6,890
Total Intergovernmental	6,000	6,000	20,497	14,497	22,732
Charges for Services					
Fire Protection Contracts	38,700	38,700	41,831	3,131	41,831
Interest Income	100	100	322	222	245
Donations	3,000	3,000	134,105	131,105	8,690
Miscellaneous			2,591	2,591	50
Total Revenues	47,800	47,800	199,346	151,546	73,698
EXPENDITURES					
Current					
Public Safety					
Salaries	14,000	14,000	11,596	(2,404)	11,951
Benefits	960	960	1,402	442	1,459
Payment to Fire Relief Association	4,000	4,000	18,443	14,443	22,681
Utilities	3,590	3,590	2,810	(780)	2,813
Fuel, Supplies and Maintenance	20,100	20,100	22,054	1,954	24,226
Insurance	9,500	9,500	6,817	(2,683)	6,910
Miscellaneous	15,300	15,300	11,504	(3,796)	11,706
Capital Outlay					
Public Safety	10,000	10,000	164,549	154,549	7,842
Total Expenditures	77,450	77,450	239,175	161,725	89,588
Excess (Deficiency) of Revenues Over (Under) Expenditures	(29,650)	(29,650)	(39,829)	(10,179)	(15,890)
OTHER FINANCING SOURCES (USES)					
Transfers In	31,000	31,000	36,000	5,000	26,000
Net Change in Fund Balances	\$ 1,350	\$ 1,350	(3,829)	\$ (5,179)	10,110
FUND BALANCE, BEGINNING OF YEAR			135,945		125,835
FUND BALANCE, END OF YEAR			\$ 132,116		\$ 135,945

See Accompanying Notes to the Financial Statements

## CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	Business-Type Activities - Enterprise Funds					
	Water	Sewer	Storm Sewer	Municipal Liquor Store	Totals	
					2017	2016
<b>ASSETS AND DEFERRED</b>						
<b>OUTFLOWS OF RESOURCES</b>						
Assets						
Current Assets						
Cash	\$ 295,208	\$ 145,127	\$	\$ 188,754	\$ 629,089	\$ 719,494
Receivables						
Accounts	13,941	19,606	1,557	4,729	39,833	44,250
Interest	85	28		33	146	146
Inventories				75,099	75,099	71,265
Prepaid Items	262	444		1,112	1,818	7,792
Due from Other Funds	100,000	667			100,667	
Total Current Assets	<u>409,496</u>	<u>165,872</u>	<u>1,557</u>	<u>269,727</u>	<u>846,652</u>	<u>842,947</u>
Noncurrent Assets						
Capital Assets						
Assets Not Being Depreciated		175,523		5,800	181,323	250,947
Other Capital Assets,						
Net of Depreciation	523,464	1,132,424	620,250	70,796	2,346,934	1,721,659
Total Noncurrent Assets	<u>523,464</u>	<u>1,307,947</u>	<u>620,250</u>	<u>76,596</u>	<u>2,528,257</u>	<u>1,972,606</u>
Total Assets	<u>932,960</u>	<u>1,473,819</u>	<u>621,807</u>	<u>346,323</u>	<u>3,374,909</u>	<u>2,815,553</u>
Deferred Outflows of Resources						
Related to Pensions	2,436	2,533		22,427	27,396	71,755
Total Assets and Deferred Outflows of Resources	<u>\$ 935,396</u>	<u>\$ 1,476,352</u>	<u>\$ 621,807</u>	<u>\$ 368,750</u>	<u>\$ 3,402,305</u>	<u>\$ 2,887,308</u>
<b>LIABILITIES, DEFERRED INFLOWS</b>						
<b>OF RESOURCES AND NET POSITION</b>						
Liabilities						
Current Liabilities						
Accounts Payable	\$ 1,236	\$ 1,191	\$	\$ 12,320	\$ 14,747	\$ 13,107
Accrued Wages Payable	245	252		4,556	5,053	6,266
Sales Tax Payable	63			3,795	3,858	4,390
Due to Other Funds			667		667	
Due to Other Governments				4,352	4,352	5,739
Accrued Interest Payable		1,700			1,700	
Current Portion of Long-Term Debt		35,000			35,000	45,000
Total Current Liabilities	<u>1,544</u>	<u>38,143</u>	<u>667</u>	<u>25,023</u>	<u>65,377</u>	<u>74,502</u>
Long-Term Liabilities						
Long-Term Portion of Long-Term Liabilities	10,993	11,447		96,371	118,811	217,638
Total Liabilities	<u>12,537</u>	<u>49,590</u>	<u>667</u>	<u>121,394</u>	<u>184,188</u>	<u>292,140</u>
Deferred Inflows of Resources						
Related to Pensions	2,256	2,346		20,770	25,372	21,553
Net Position						
Net Investment in Capital Assets	523,464	1,272,947	620,250	76,596	2,493,257	1,892,606
Unrestricted	397,139	151,469	890	149,990	699,488	681,009
Total Net Position	<u>920,603</u>	<u>1,424,416</u>	<u>621,140</u>	<u>226,586</u>	<u>3,192,745</u>	<u>2,573,615</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 935,396</u>	<u>\$ 1,476,352</u>	<u>\$ 621,807</u>	<u>\$ 368,750</u>	<u>\$ 3,402,305</u>	<u>\$ 2,887,308</u>

See Accompanying Notes to the Financial Statements

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS  
 YEAR ENDED DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities - Enterprise Funds					
	Water	Sewer	Storm Sewer	Municipal Liquor Store	Totals	
					2017	2016
<b>OPERATING REVENUES</b>						
Water, Sewer and Storm Sewer Charges	\$ 110,112	\$ 150,771	\$ 6,531	\$	\$ 267,414	\$ 272,301
Gross Profit on Liquor Sales				242,029	242,029	243,506
Other Operating Income				19,709	19,709	26,881
Total Operating Revenues	110,112	150,771	6,531	261,738	529,152	542,688
<b>OPERATING EXPENSES</b>						
Salaries	8,882	8,403		111,960	129,245	149,091
Benefits	100	(9,753)		44,648	34,995	69,350
Utilities	5,660	6,642		16,752	29,054	33,620
Insurance	1,621	2,781		13,136	17,538	16,699
Repairs and Maintenance	3,135	36,723	2,056	15,304	57,218	47,292
Chemicals		350			350	6,440
Licenses and Permits	666	2,584		705	3,955	7,372
Contracted Services	25,604	27,954		1,457	55,015	16,646
Professional Fees	3,200	3,200		14,332	20,732	19,537
Depreciation	42,223	58,392	18,316	7,695	126,626	106,139
Miscellaneous	2,856	4,301		20,991	28,148	33,202
Total Operating Expenses	93,947	141,577	20,372	246,980	502,876	505,388
Operating Income (Loss)	16,165	9,194	(13,841)	14,758	26,276	37,300
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest Income	1,129	353	1	347	1,830	1,593
Gain (Loss) on Sale of Fixed Assets				(41)	(41)	
Rental Income		10,070			10,070	9,525
Bond Interest and Fiscal Charges		(3,400)			(3,400)	(5,245)
Total Nonoperating Revenues (Expenses)	1,129	7,023	1	306	8,459	5,873
Income (Loss) Before Transfers and Capital Contributions	17,294	16,217	(13,840)	15,064	34,735	43,173
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS</b>						
Transfers Out	(35,000)	(5,000)		(10,585)	(50,585)	(35,000)
Capital Contributions			634,980		634,980	55,369
Total Transfers and Capital Contributions	(35,000)	(5,000)	634,980	(10,585)	584,395	20,369
Change in Net Position	(17,706)	11,217	621,140	4,479	619,130	63,542
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>938,309</u>	<u>1,413,199</u>		<u>222,107</u>	<u>2,573,615</u>	<u>2,510,073</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 920,603</u>	<u>\$ 1,424,416</u>	<u>\$ 621,140</u>	<u>\$ 226,586</u>	<u>\$ 3,192,745</u>	<u>\$ 2,573,615</u>

## CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2017

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities - Enterprise Funds					
	Water	Sewer	Storm Sewer	Municipal Liquor Store	Totals	
					2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from Customers	\$ 101,963	\$ 163,168	\$ 4,974	\$ 567,821	\$ 837,926	\$ 836,284
Payments to Suppliers	(42,142)	(80,557)	(2,056)	(300,327)	(425,082)	(389,551)
Payments to Other Sources	(4,786)	(5,943)		(78,695)	(89,424)	(90,579)
Payments to Employees	(13,964)	(14,366)		(152,772)	(181,102)	(204,286)
Net Cash Provided (Used) By Operating Activities	41,071	62,302	2,918	36,027	142,318	151,868
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Rental Income		10,070			10,070	9,525
Cash Transfer Out	(35,000)	(5,000)		(10,585)	(50,585)	(35,000)
Interfund Loans	(100,000)	(667)	667		(100,000)	
Net Cash Provided (Used) By Noncapital Financing Activities	(135,000)	4,403	667	(10,585)	(140,515)	(25,475)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Acquisition of Capital Assets	(10,359)		(3,586)	(33,352)	(47,297)	(50,132)
Proceeds from Sale of Capital Assets				(41)	(41)	
Interest Paid on Long Term Debt		(1,700)			(1,700)	(5,245)
Principal Paid on Long Term Debt		(45,000)			(45,000)	(45,000)
Net Cash Provided (Used) By Capital and Related Financing Activities	(10,359)	(46,700)	(3,586)	(33,393)	(94,038)	(100,377)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest Received	1,129	353	1	347	1,830	1,593
Net Increase (Decrease) in Cash and Cash Equivalents	(103,159)	20,358	0	(7,604)	(90,405)	27,609
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>						
	398,367	124,769		196,358	719,494	691,885
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>						
	\$ 295,208	\$ 145,127	\$ 0	\$ 188,754	\$ 629,089	\$ 719,494

See Accompanying Notes to the Financial Statements

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 YEAR ENDED DECEMBER 31, 2017

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities - Enterprise Funds					
	Water	Sewer	Storm Sewer	Municipal Liquor Store	Totals	
					2017	2016
<b>RECONCILIATION OF OPERATING INCOME</b>						
<b>(LOSS) TO CASH FLOWS FROM</b>						
<b>OPERATING ACTIVITIES</b>						
Operating Income (Loss)	\$ 16,165	\$ 9,194	\$ (13,841)	\$ 14,758	\$ 26,276	\$ 37,300
Adjustments to Reconcile Operating Income						
(Loss) to Net Cash Provided (Used) By						
Operating Activities						
Depreciation	42,223	58,392	18,316	7,695	126,626	106,139
Pension Related Adjustments	(3,381)	(13,288)		4,896	(11,773)	13,142
(Increase) Decrease In						
Receivables	(8,149)	12,397	(1,557)	1,726	4,417	(10,840)
Inventories				(3,834)	(3,834)	(140)
Prepaid Items	4	38		5,932	5,974	308
Increase (Decrease) In						
Accounts Payable	(4,221)	(2,003)		7,864	1,640	4,145
Accrued Wages Payable	(673)	(669)		129	(1,213)	1,005
Compensated Absences	(928)	(1,759)		(1,189)	(3,876)	8
Sales Tax Payable	31			(563)	(532)	20
Due to Other Governments				(1,387)	(1,387)	781
Net Cash Provided (Used) By						
Operating Activities	<u>\$ 41,071</u>	<u>\$ 62,302</u>	<u>\$ 2,918</u>	<u>\$ 36,027</u>	<u>\$ 142,318</u>	<u>\$ 151,868</u>
<b>NONCASH INVESTING, CAPITAL AND</b>						
<b>FINANCING ACTIVITIES</b>						
Capital Contribution	\$	\$	\$ 634,980	\$	\$ 634,980	\$ 55,369

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CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Silver Lake, Minnesota is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate entities for which the City is financially accountable, or for which the exclusion of the component unit would render the financial statements of the City misleading.

The criteria used to determine if the City is financially accountable for a component unit includes whether or not 1) the City appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is a potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, it has been determined the City has no component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

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

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

Property taxes, special assessments, intergovernmental revenue, charges for services, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The Ambulance Special Revenue Fund is used to account for the operations of the ambulance service; financing is provided by ambulance charges, township contracts for service and interest income.

The Fire Special Revenue Fund is used to account for the operations of the fire department; financing is provided by fire contract revenue, interest income and state fire aid.

The G.O. Refunding Bonds of 2007A Debt Service Fund is used to account for the accumulation of resources for, and the payment of the debt principal, interest, and related costs.

The G.O. Improvement Bonds of 2013 Debt Service Fund is used to account for the accumulation of resources for, and the payment of the debt principal, interest, and related costs.

The Capital Improvement Capital Projects Fund is used to account for the financial resources used for various capital improvements projects of the City.

The Grove Avenue Reconstruction Capital Projects Fund is used to account for the financial resources used for the reconstruction of Grove Avenue.



CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Cont'd)

The City reports the following major enterprise funds:

The Water Fund accounts for the operations of the City owned water utility system.

The Sewer Fund accounts for the operations of the City owned sewer utility system.

The Storm Sewer Fund accounts for the operations of the City owned storm sewer utility system.

The Municipal Liquor Store Fund accounts for the operations of the City owned liquor store.

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

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

It is generally the City's policy to use restricted resources first, then unrestricted resources as they are needed when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

D. DEPOSITS AND INVESTMENTS

The City's cash and cash equivalents are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition.

The City may invest in the following types of investments as authorized by Minn. Stat. §§118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. §118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. DEPOSITS AND INVESTMENTS (Cont'd)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States bank;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Cash was comprised of deposits and non-negotiable certificates of deposit.

The City does not have an investment policy in place that further limits its investment choices.

**Custodial Credit Risk - Deposits:** For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned to it. Minnesota Statutes requires that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent.

Authorized collateral includes the obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, futures contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City treasurer or in a financial institution other than that furnishing the collateral.

The City does not have a policy that further limits its collateral choices.

**Interest Rate Risk:** This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations.

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risk inherent in over investing in specific instruments, individual financial institutions or maturities.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. DEPOSITS AND INVESTMENTS (Cont'd)

Custodial Credit Risk - Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

E. RECEIVABLES AND PAYABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of property.

The City levies its property tax for the subsequent year during the month of December. December 30th is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. McLeod County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due on October 15. Tax levies from prior years that remain unpaid are classified as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying 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 submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

F. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

G. INVENTORIES

Inventory consists of liquor, beer and miscellaneous items held for resale and is valued at the lower of cost or market using the first in, first out method.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

H. CAPITAL ASSETS

Capital assets, both tangible and intangible, which includes property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of two years and an initial, individual cost of more than \$1,500.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Based on the age of the majority of the City's infrastructure and an exception for small governments in GASB Statement No. 34, the City has determined it is not practical to capitalize infrastructure retroactively.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the City did not have any capitalized interest.

Tangible and intangible assets of the City are depreciated using the straight-line, full month convention method over the following estimated useful lives:

<u>Capital Assets</u>	<u>Years</u>
Buildings and Building Improvements	15-40
Improvements Other than Buildings	15-40
Equipment	5-10

Capital assets not being depreciated include land and construction in progress.

The City does not possess any material amounts of intangible capital assets.

I. DEFERRED OUTFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future reporting period. During that future period, it will be recognized as an outflow of resources (expense/expenditure). The City has one item that qualifies for reporting in this category on the government-wide Statement of Net Position and the proprietary fund financial statements which is related to pensions.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

J. UNEARNED REVENUE

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and certain other payments received before eligibility requirements are met are also recorded as unearned revenue.

K. COMPENSATED ABSENCES

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and compensatory time balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. The government-wide and proprietary fund Statement of Net Position reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of an amount based on expected or known retirements coming in the next fiscal year. The noncurrent portion consists of the remaining amount of vacation and compensatory time.

Full-time, permanent City employees earn vacation days based upon the number of completed years of service. The City compensates employees for unused vacation upon termination of employment. Employees are entitled to paid sick leave at the rate of one day per month up to a total of 480 hours. Employees are not compensated for unused sick leave upon termination of employment. Sick pay is recorded as an expenditure when payment is made.

L. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Employees of the City pay health care premiums based on their age and level of coverage. Since the insurance rate is based on age, the City does not have an implicit rate subsidy factor in postemployment health care expenses. Additionally, Minnesota Statutes require the City to allow retired employees to stay on the health care plan with the retiree responsible to pay the entire premium for continuation coverage (except as otherwise provided in a personnel policy). The City's personnel policy does not provide for any contributions upon employee retirement.

M. PENSIONS

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

The City participates in various pension plans; total pension expense for the fiscal year ended was \$4,360. The components of pension expense are noted in the plan summaries.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

N. LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position.

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

O. DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period. During that future period, it will be recognized as an inflow of resources (revenue). The City has items that qualify for reporting in this category on the government-wide Statement of Net Position and the governmental and proprietary fund financial statements related to property taxes, special assessments and pensions.

P. FUND BALANCE

In the governmental fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

*Nonspendable* - consists of amounts that cannot be spent because it is not in spendable form or are legally or contractually required to be maintained intact, such as inventories and prepaid items.

*Restricted* - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. These constraints are established by Resolution of the City Council.

*Assigned* - consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to City Council Resolution, the City Clerk/Treasurer is authorized to establish assignments of fund balance.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

P. FUND BALANCE (Cont'd)

*Unassigned* - is the residual classification for the General Fund and also reflects negative residual amounts in the remaining governmental funds.

The City requires restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City Council has formally adopted a fund balance policy for the General Fund. The Council's policy is to maintain a minimum unassigned fund balance of three months of budgeted General Fund operating expenditures.

Q. NET POSITION

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the governmental-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide and proprietary fund financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

R. 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 and deferred outflows of resources, and liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

S. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2016, from which the partial information was derived.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City Council adopts an annual budget. The amounts shown in the financial statements as "budget" represent the original budgeted amounts and all revisions made during the year. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Clerk/Treasurer submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments. The budget resolution adopted by the City Council sets forth the budgets at the function level for the General and Special Revenue Funds.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
7. The City Clerk/Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgeted expenditure appropriations lapse at year-end.

Encumbrance accounting is not used.

B. EXPENDITURES EXCEEDING APPROPRIATIONS

For the year ended December 31, 2017, the following fund had expenditures that exceeded appropriations:

	<u>Expenditures</u>	<u>Appropriations</u>
Fire Special Revenue Fund	\$ 239,175	\$ 77,450



CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 3. DEPOSITS

In accordance with applicable Minnesota Statutes, the City maintains deposits at a depository bank authorized by the City Council.

Custodial Credit Risk - Deposits: The City's bank balances were not exposed to custodial credit risk because they were fully insured through the FDIC as well as collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Pooled Cash in Checking Accounts	\$ 1,014,928
Pooled Cash in Savings Account	400,070
Non-Negotiable Certificates of Deposit	363,590
Petty Cash	300
Pull Tab Cash	4,000
Minnesota Lottery Change	500
Change Fund	<u>2,760</u>
Total Deposits	<u>\$ 1,786,148</u>

NOTE 4. RECEIVABLES

Receivables are as follows:

	<u>Total Receivables</u>	<u>Amounts not Scheduled for Collection During the Subsequent Year</u>
<u>Governmental Activities</u>		
Accounts	\$ 50,729	\$
Interest	209	
Property Taxes	10,105	
Special Assessments	<u>101,794</u>	<u>91,708</u>
Total Governmental Activities	<u>\$ 162,837</u>	<u>\$ 91,708</u>
<u>Business-Type Activities</u>		
Accounts	\$ 39,833	\$
Interest	<u>146</u>	
Total Business-Type Activities	<u>\$ 39,979</u>	<u>\$ 0</u>

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ 1,861	\$ 144,739	\$ (146,600)	\$
Capital Assets, Being Depreciated				
Land Improvements	25,482			25,482
Buildings	494,586			494,586
Improvements *	2,760,664		(729,858)	2,030,806
Machinery and Equipment	1,365,267	210,609	(146,719)	1,429,157
Total Capital Assets, Being Depreciated	4,645,999	210,609	(876,577)	3,980,031
Less Accumulated Depreciation for				
Land Improvements	16,986	849		17,835
Buildings	403,936	9,365		413,301
Improvements *	891,195	80,943	(94,878)	877,260
Machinery and Equipment	1,132,339	60,878	(135,879)	1,057,338
Total Accumulated Depreciation	2,444,456	152,035	(230,757)	2,365,734
Total Capital Assets Being Depreciated, Net	2,201,543	58,574	(645,820)	1,614,297
Governmental Activities Net Capital Assets	<u>\$ 2,203,404</u>	<u>\$ 203,313</u>	<u>\$ (792,420)</u>	<u>\$ 1,614,297</u>

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 5. CAPITAL ASSETS (Cont'd)

Capital asset activity for the year was as follows:

Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 181,323	\$	\$	\$ 181,323
Construction in Progress	69,624		(69,624)	
Total Capital Assets, Not Being Depreciated	250,947	0	(69,624)	181,323
Capital Assets, Being Depreciated				
Land Improvements	42,678			42,678
Buildings	160,601	33,393	(1,835)	192,159
Improvements *	3,122,732	813,427		3,936,159
Machinery and Equipment	595,934		(4,357)	591,577
Total Capital Assets, Being Depreciated	3,921,945	846,820	(6,192)	4,762,573
Less Accumulated Depreciation for				
Land Improvements	27,387	1,423		28,810
Buildings	157,877	1,272	(1,794)	157,355
Improvements *	1,617,244	192,865		1,810,109
Machinery and Equipment	397,778	25,944	(4,357)	419,365
Total Accumulated Depreciation	2,200,286	221,504	(6,151)	2,415,639
Total Capital Assets Being Depreciated, Net	1,721,659	625,316	(41)	2,346,934
Business-Type Activities Net Capital Assets	<u>\$ 1,972,606</u>	<u>\$ 625,316</u>	<u>\$ (69,665)</u>	<u>\$ 2,528,257</u>

\* - Governmental decreases and Business-Type increases include transfer of Storm Sewer assets and related accumulated depreciation.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 5. CAPITAL ASSETS (Cont'd)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities		
General Government	\$	6,048
Public Safety		43,681
Public Works		90,507
Culture and Recreation		11,799
		<hr/>
Total Depreciation Expense - Governmental Activities	\$	<u>152,035</u>
Business-Type Activities		
Water	\$	42,223
Sewer		58,392
Storm Sewer		18,316
Municipal Liquor Store		7,695
		<hr/>
Total Depreciation Expense - Business-Type Activities	\$	<u>126,626</u>

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water	Capital Improvements	\$ 100,000
Sewer	Storm Sewer	667
		<hr/>
Total Interfund Receivables and Payables		<u>\$ 100,667</u>

The purpose of the above interfund loans was to cover project costs and deficit cash.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Cont'd)

B. INTERFUND TRANSFERS

The composition of interfund transfers for the year is as follows:

	Transfer In		
	General	Ambulance	Fire
Transfer Out			
General	\$	\$ 10,000	\$ 36,000
Municipal			
Liquor Store	10,585		
Total Interfund Transfers	<u>\$ 10,585</u>	<u>\$ 10,000</u>	<u>\$ 36,000</u>

	Transfer In		
	G.O. Improvement Bonds of 2013	Capital Improvements	Total
Transfer Out			
General	\$	\$ 34,500	\$ 80,500
G.O. Refunding Bonds of 2007A		54,066	54,066
Capital Improvements	9		9
Water	35,000		35,000
Sewer	5,000		5,000
Municipal Liquor Store			10,585
Total Interfund Transfers	<u>\$ 40,009</u>	<u>\$ 88,566</u>	<u>\$ 185,160</u>

The purpose of the above transfers was to assist with various financing activities in the recipient funds and to close a fund.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 7. LONG-TERM LIABILITIES

A. GENERAL OBLIGATION BONDS

The City issues General Obligation (G.O.) Bonds to provide financing for street improvements and facility construction. Debt service is covered respectively by special assessments and property taxes.

G.O. Bonds are direct obligations and pledge the full faith and credit of the City. These G.O. Bonds generally are issued as 15 year Serial Bonds with debt service payments each year.

B. COMPONENTS OF LONG-TERM LIABILITIES

	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Balance Outstanding</u>
<u>Governmental Activities</u>			
G.O. Bonds			
G.O. Improvement Bonds of 2013	2.75%	02/01/2029	\$ 781,000
Net Pension Liability			358,752
Compensated Absences			<u>20,879</u>
Total Governmental Activities			<u>\$ 1,160,631</u>
<u>Business-Type Activities</u>			
G.O. Refunding Bonds, Series 2007A	3.75-4.25%	01/01/2019	\$ 35,000
Net Pension Liability			113,417
Compensated Absences			<u>5,394</u>
Total Business-Type Activities			<u>\$ 153,811</u>

Debt service funds are used to liquidate the governmental activities outstanding bonded indebtedness. The General Fund has historically been used to liquidate the outstanding governmental activities compensated absences and pension liability.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 7. LONG-TERM LIABILITIES (Cont'd)

C. MINIMUM DEBT PAYMENTS

Annual debt service requirements to maturity for all bonded debt outstanding are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	General Obligation Bonds		G.O. Refunding Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 56,000	\$ 20,708	\$ 35,000	\$ 1,488
2019	57,000	19,154		
2020	59,000	17,559		
2021	61,000	15,909		
2022	62,000	14,218		
2023-2027	338,000	44,056		
2028-2029	148,000	4,097		
	<u>\$ 781,000</u>	<u>\$ 135,701</u>	<u>\$ 35,000</u>	<u>\$ 1,488</u>

D. CHANGES IN LONG-TERM LIABILITIES

<u>Governmental Activities</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Bonds					
Series 2007A	\$ 35,000	\$	\$ (35,000)	\$	\$
Series 2013	835,000		(54,000)	781,000	56,000
Net Pension Liability *	609,565	267,363	(518,176)	358,752	
Compensated Absences	18,435	13,745	(11,301)	20,879	
Total Governmental Activities	<u>\$ 1,498,000</u>	<u>\$ 281,108</u>	<u>\$ (618,477)</u>	<u>\$ 1,160,631</u>	<u>\$ 56,000</u>

\* Additions include a change in accounting principal of \$65,093. See Note 13 for additional information.

<u>Business-Type Activities</u>	Ending Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Refunding Bonds,					
Series 2007A	\$ 80,000	\$	\$ (45,000)	\$ 35,000	\$ 35,000
Net Pension Liability	173,368	47,709	(107,660)	113,417	
Compensated Absences	9,270	5,307	(9,183)	5,394	
Total Business- Type Activities	<u>\$ 262,638</u>	<u>\$ 53,016</u>	<u>\$ (161,843)</u>	<u>\$ 153,811</u>	<u>\$ 35,000</u>

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 7. LONG-TERM LIABILITIES (Cont'd)

E. PLEDGED REVENUES

Future revenue pledged for the payment of long-term debt is as follows:

<u>Bond Issue/ Use of Proceeds/ Type</u>	<u>Percent of Total Debt Service</u>	<u>Term of Pledge</u>	<u>Remaining Principal and Interest</u>	<u>Principal and Interest Paid</u>	<u>Pledged Revenue Received</u>
G.O. Refunding Bonds, Series 2007A Site Improvements Utility Charges	60%	2008-2018	\$ 36,488	\$ 48,400	\$ 150,771

NOTE 8. RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool currently operating as a common risk management and insurance program, with other cities in the state. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2017 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2017, there are no other claims liabilities reported in the financial statements based on the requirements of accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9. CITY OF SILVER LAKE FIRE RELIEF ASSOCIATION

A. PLAN DESCRIPTION

The Fire Department of the City participates in the Statewide Volunteer Firefighting Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. The plan covered 27 active firefighters and 4 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353G.



CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 9. CITY OF SILVER LAKE FIRE RELIEF ASSOCIATION (Cont'd)

B. BENEFITS PROVIDED

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

C. CONTRIBUTIONS

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*. The State of Minnesota contributed \$15,842 in fire state aid to the fund. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the Volunteer Firefighter Fund were \$6,839. The City's contributions were equal to the required contributions as set by state statute.

D. PENSION COSTS

The City reported a net pension liability (asset) of \$49,880 for the Volunteer Firefighter Fund. The net pension liability (asset) was measured as of December 31, 2017. The total pension liability used to calculate the net pension liability (asset) in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at 1/1/2016	\$ 368,496	\$ 303,403	\$ 65,093
Changes for the Year:			
Service Cost	10,032		10,032
Interest	22,712		22,712
Differences Between Expected and Actual Experience	(4,531)		(4,531)
Contributions - Employer		6,839	(6,839)
Contributions - State		15,842	(15,842)
Net Investment Income		21,696	(21,696)
Administrative Expense		(951)	951
Net Change	<u>28,213</u>	<u>43,426</u>	<u>(15,213)</u>
Balances at 12/31/2016	<u>\$ 396,709</u>	<u>\$ 346,829</u>	<u>\$ 49,880</u>

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2017, the City recognized pension expense of \$13,887.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 9. CITY OF SILVER LAKE FIRE RELIEF ASSOCIATION (Cont'd)

D. PENSION COSTS (Cont'd)

The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 3,625
Net differences between projected and actual investment earnings		2,794
Contributions paid to plan subsequent to measurement date	18,443	
State aid received for the plan subsequent to measurement date		15,250
	<u>18,443</u>	<u>15,250</u>
Totals	<u>\$ 18,443</u>	<u>\$ 21,669</u>

\$18,443 reported as deferred outflows of resources related to pensions resulting from City contributions to the pension plan subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2018. \$15,250 reported as deferred inflows of resources related to pensions resulting from state aid received for the plan subsequent to the measurement date will be recognized as an increase of the net pension liability (asset) in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pension plans will be recognized in pension expense as follows:

<u>December 31,</u>	<u>Pension Expense Amount</u>
2018	\$ (1,604)
2019	(1,604)
2020	(1,604)
2021	(1,607)

E. ACTUARIAL ASSUMPTIONS

The total pension liability was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6%
- Inflation rate of 3%

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 9. CITY OF SILVER LAKE FIRE RELIEF ASSOCIATION (Cont'd)

F. DISCOUNT RATE

The discount rate used to measure the total pension liability was 6.00%. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. PENSION LIABILITY (ASSET) SENSITIVITY

The following presents the net pension liability (asset) for the Volunteer Firefighter Fund, calculated using the discount rate as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (5.00%)	Discount Rate (6.00%)	1% Increase in Discount Rate (7.00%)
City's Net Pension Liability (Asset)	\$ 57,191	\$ 49,880	\$ 42,625

H. PLAN INVESTMENTS/INVESTMENT POLICY:

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 9. CITY OF SILVER LAKE FIRE RELIEF ASSOCIATION (Cont'd)

I. ASSET ALLOCATION

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Cash	5%	0.00%
Total	<u>100%</u>	

The 6% long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The SBI made no significant changes to their investment policy during 2017 for the Volunteer Firefighter Fund.

J. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2017, 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).

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

The City participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association (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 SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. PLAN DESCRIPTION (Cont'd)

General Employees Retirement Plan (GERP):

All full-time and certain part-time employees of the City, are covered by GERP. GERP 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 Plan (PEPFP):

The PEPFP, 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 PEPFP also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. BENEFITS PROVIDED

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

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

The benefit provisions stated in the following paragraphs 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.

GERP Benefits:

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

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

PEPFP Benefits:

Benefits for the PEPFP 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 PEPFP 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 PEPFP who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

C. CONTRIBUTIONS

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

General Employees Retirement Fund (GERF) Contributions:

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members in calendar year 2017. The City's contributions to the GERF for the year ended December 31, 2017, were \$21,339. The City's contributions were equal to the required contributions for each year as set by state statute.

Police and Fire Fund (PEPFF) Contributions:

Plan members were required to contribute 10.80% of their annual covered salary in calendar year 2017. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2017. The City's contributions to the PEPFF for the year ended December 31, 2017, were \$17,736. The City's contributions were equal to the required contributions for each year as set by state statute.

D. PENSION COSTS

GERF Pension Costs:

At December 31, 2017, the City reported a liability of \$287,277 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$3,632. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportionate share was 0.0045% at the end of the measurement period and 0.0047% at the beginning of the period.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

GERF Pension Costs: (Cont'd)

For the year ended December 31, 2017, the City recognized pension expense of \$7,724 for its proportionate share of GERP's pension expense. In addition, the City recognized an additional \$105 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, the City reported its proportionate share of GERP's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 9,468	\$ 18,481
Changes in actuarial assumptions	47,694	28,800
Differences between projected and actual investment earnings	1,855	
Changes in proportion		16,984
Contributions paid to PERA subsequent to measurement date	10,372	
	<u>10,372</u>	<u>16,984</u>
Totals	<u>\$ 69,389</u>	<u>\$ 64,265</u>

\$10,372 reported as deferred outflows of resources related to pensions resulting from City contributions to subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Pension Expense Amount
2018	\$ 1,584
2019	13,724
2020	(8,361)
2021	(12,195)

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

PEPFF Pension Costs:

At December 31, 2017, the City reported a liability of \$135,012 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportionate share was 0.0100% at the end of the measurement period and 0.0100% at the beginning of the period. The City also recognized \$900 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

For the year ended December 31, 2017, the City recognized pension expense of (\$17,356) for its proportionate share of PEPFF's pension expense.

At December 31, 2017, the City reported its proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 3,107	\$ 36,094
Changes in actuarial assumptions	176,690	191,683
Differences between projected and actual investment earnings	1,854	
Changes in proportion	5,401	7,484
Contributions paid to PERA subsequent to measurement date	<u>9,103</u>	
Totals	<u>\$ 196,155</u>	<u>\$ 235,261</u>

\$9,103 reported as deferred outflows of resources related to pensions resulting from City contributions to subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31</u>	<u>Pension Expense Amount</u>
2018	\$ 2,280
2019	2,280
2020	(2,669)
2021	(12,385)
2022	(37,715)



CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2017 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

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

Actuarial assumptions used in the June 30, 2017 valuations were based on the results of actuarial experience studies. The most recent four-year experience study in the GERP was completed in 2015. The most recent five-year experience study for the PEPFP was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

GERF:

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.

The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

PEPFF:

Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.

Assumed rates of retirement were changed, resulting in fewer retirements.

The Combined Service Annuity (CSA) load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.

The based mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The based mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS (Cont'd)

PEPFF: (Cont'd)

Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

Assumed percentage of married female members was decreased from 65% to 60%.

Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

The assumed percentage of female members electing Joint and Survivor annuities was increased.

The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	<u>100%</u>	

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF and PEPFF was projected to be available to make all projected future benefit payments of current plan participants. 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.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

G. PENSION LIABILITY SENSITIVITY

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

	<u>GERF</u>		<u>PEPFF</u>	
1% Lower	6.50%	\$ 445,588	15.20%	\$ 254,267
Current Discount Rate	7.50%	287,277	16.20%	135,012
1% Higher	8.50%	157,671	17.20%	36,560

H. PENSION PLAN FIDUCIARY NET POSITION

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

NOTE 11. FUND BALANCE

The following is a summary of fund balance components at December 31, 2017:

	<u>General</u>	<u>Ambulance</u>	<u>Fire</u>
Nonspendable			
Inventories	\$ 582	\$	\$
Prepaid Items	4,675	460	1,100
Total Nonspendable	5,257	460	1,100
Committed			
Ambulance Service		125,242	
Economic Development	40,123		
Fire Protection			78,363
Fire Equipment			52,653
Total Committed	40,123	125,242	131,016
Assigned			
Ambulance Unit		4,613	
Unassigned			
	470,058		
	<u>\$ 515,438</u>	<u>\$ 130,315</u>	<u>\$ 132,116</u>

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 11. FUND BALANCE (Cont'd)

The following is a summary of fund balance components at December 31, 2017:

	G.O. Refunding Bonds of 2007A	G.O. Refunding Bonds of 2013	Capital Improvement	Total
Nonspendable				
Inventories	\$	\$	\$	\$ 582
Prepaid Items				6,235
Land Held for Resale			39,500	39,500
Total Nonspendable	<u>0</u>	<u>0</u>	<u>39,500</u>	<u>46,317</u>
Restricted for				
Debt Service	5,048	136,178		141,226
Committed				
Ambulance Service				125,242
Ambulance Equipment			43,644	43,644
Economic Development				40,123
Fire Protection				78,363
Fire Equipment				52,653
Total Committed	<u>0</u>	<u>0</u>	<u>43,644</u>	<u>340,025</u>
Assigned				
Parks and Pool Improvements			6,381	6,381
Police Squad			11,252	11,252
Ambulance Unit				4,613
Street Improvements			58,263	58,263
Public Works Equipment			28,462	28,462
Auditorium Repair			20,007	20,007
Total Assigned	<u>0</u>	<u>0</u>	<u>124,365</u>	<u>128,978</u>
Unassigned			(92,707)	377,351
	<u>\$ 5,048</u>	<u>\$ 136,178</u>	<u>\$ 114,802</u>	<u>\$ 1,033,897</u>

NOTE 12. RECLASSIFICATIONS

Certain immaterial prior year financial statement amounts have been reclassified to conform to the current year's presentation. There was no effect on total net position or fund balance.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 13. PRIOR PERIOD ADJUSTMENT

The beginning net position of the governmental activities have been decreased to reflect a change in accounting principle. The City implemented GASB 68 and GASB 71 for the City's Fire Relief Association which records the City's proportionate share of collective net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense on the City's government-wide financial statements. Beginning governmental activities net position has been restated from \$2,241,405 to \$2,183,151 (a decrease of \$58,254). Due to the timing of when the City's Fire Relief Association joined the statewide plan, information from prior years is not available.

The prior period ending position of the governmental activities has been adjusted to reflect a correction of an error. The adjustment reflects a reclassification of \$88,000 to net investment in capital assets and \$50,734 to restricted for debt service from unrestricted net position. There was no effect on total net position.

Other prior period adjustments should be read in conjunction with the City's 2016 financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SILVER LAKE, MINNESOTA

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
DECEMBER 31, 2017

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) and the State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pension</u>							
<u>PERA - GERF</u>							
6/30/2017	0.0045%	\$ 287,277	\$ 3,632	\$ 290,909	\$ 291,475	99.81%	75.90%
6/30/2016	0.0047%	381,617	4,920	386,537	289,536	133.50%	68.91%
6/30/2015	0.0047%	243,578		243,578	283,610	85.88%	78.20%
<u>PERA - PEPFF</u>							
6/30/2017	0.0100%	135,012		135,012	106,342	126.96%	85.43%
6/30/2016	0.0100%	401,317		401,317	98,086	409.15%	63.88%
6/30/2015	0.0110%	124,986		124,986	97,210	128.57%	86.60%

The City implemented GASB Statement No. 68 for fiscal year ended December 31, 2015. Information for prior years is not available.

CITY OF SILVER LAKE, MINNESOTA

SCHEDULE OF EMPLOYER CONTRIBUTIONS  
DECEMBER 31, 2017

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
<u>Pension</u>					
<u>PERA - GERF</u>					
2017	\$ 21,339	\$ 21,339	\$	\$ 284,520	7.50%
2016	21,668	21,668		288,908	7.50%
2015	21,237	21,237		283,160	7.50%
 <u>PERA - PEPFF</u>					
2017	17,736	17,736		109,479	16.20%
2016	16,249	16,249		100,300	16.20%
2015	15,552	15,552		96,000	16.20%

The City implemented GASB Statement No. 68 for fiscal year ended December 31, 2015. Information for prior years is not available.

CITY OF SILVER LAKE, MINNESOTA

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS  
DECEMBER 31, 2017

Service Cost	\$ 10,032
Interest	22,712
Differences Between Expected and Actual Experience	<u>(4,531)</u>
Net Change in Total Pension Liability	28,213
Total Pension Liability - Beginning of Year	<u>368,496</u>
 Total Pension Liability - End of Year	 <u><u>\$ 396,709</u></u>
 Contributions - Employer	 \$ 6,839
Contributions - State	15,842
Net Investment Income	21,696
Administrative Expense	<u>(951)</u>
Net Change in Plan Fiduciary Net Position	43,426
Total Plan Fiduciary Net Position - Beginning of Year	<u>303,403</u>
 Total Plan Fiduciary Net Position - End of Year	 <u><u>\$ 346,829</u></u>
 City's Net Pension Liability (Asset) - End of Year	 <u><u>\$ 49,880</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 87.43%

The City implemented GASB Statement No. 68 for fiscal year ended December 31, 2017. Information for prior years is not available.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1. CHANGES IN PLAN PROVISIONS

A. GERF

2017 Changes:

No changes.

2016 Changes:

No changes.

2015 Changes:

On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

B. PEPFF:

2017 Changes:

No changes.

2016 Changes:

No changes.

2015 Changes:

The post-retirement benefit increase to be paid after attainment of the 90% funding threshold was changed, from inflation up to 2.5%, to a fixed rate of 2.5%.

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS

A. GERF:

2017 Changes:

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.

The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

A. GERF: (Cont'd)

2016 Changes:

The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all years.

The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes:

The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

B. PEPFF:

2017 Changes:

Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.

Assumed rates of retirement were changed, resulting in fewer retirements.

The Combined Service Annuity (CSA) load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.

The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.

Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

Assumed percentage of married female members was decreased from 65% to 60%.

Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

CITY OF SILVER LAKE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

B. PEPFF: (Cont'd)

2017 Changes: (Cont'd)

The assumed percentage of female members electing Joint and Survivor annuities was increased.

The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.

2016 Changes:

The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.

The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.

The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes:

The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2037 and 2.5% per year thereafter.

SUPPLEMENTARY INFORMATION

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CITY OF SILVER LAKE, MINNESOTA

BALANCE SHEET  
GENERAL FUND  
DECEMBER 31, 2017

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash	\$ 532,495	\$ 518,798
Receivables		
Accounts	10,404	7,949
Interest	2	2
Property Taxes	9,051	20,090
Due from Other Governments	4,155	5,487
Inventories	582	764
Prepaid Items	4,675	4,918
	<u>4,675</u>	<u>4,918</u>
Total Assets	<u>\$ 561,364</u>	<u>\$ 558,008</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts Payable	\$ 23,490	\$ 15,307
Accrued Wages Payable	12,977	11,027
Sales Tax Payable	8	6
Deposits Payable	400	300
Total Liabilities	<u>36,875</u>	<u>26,640</u>
<b>Deferred Inflows of Resources</b>		
Unavailable Revenue		
Delinquent Property Taxes	9,051	20,090
<b>Fund Balance</b>		
Nonspendable	5,257	5,682
Committed	40,123	30,086
Unassigned	470,058	475,510
Total Fund Balance	<u>515,438</u>	<u>511,278</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 561,364</u>	<u>\$ 558,008</u>

## CITY OF SILVER LAKE, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 YEAR ENDED DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017		Over (Under) Final Budget	2016 Actual
	Final Budget	Actual		
<b>REVENUES</b>				
Taxes				
Property Taxes	\$ 411,994	\$ 410,659	\$ (1,335)	\$ 408,041
Franchise Fees	7,500	6,293	(1,207)	6,795
Total Taxes	<u>419,494</u>	<u>416,952</u>	<u>(2,542)</u>	<u>414,836</u>
Special Assessments		2,006	2,006	386
Licenses and Permits	8,300	2,840	(5,460)	14,426
Intergovernmental				
Local Government Aid	215,784	215,782	(2)	215,082
Police State Aid	15,000	14,631	(369)	13,781
PERA Aid	850	846	(4)	846
Other State Grants	2,500	10,524	8,024	1,558
Total Intergovernmental	<u>234,134</u>	<u>241,783</u>	<u>7,649</u>	<u>231,267</u>
Charges for Services	44,700	34,090	(10,610)	47,887
Fines and Forfeits	5,500	11,052	5,552	6,766
Interest Income	400	481	81	638
Sales (Net of Merchandise Purchases)	16,600	7,574	(9,026)	13,916
Donations	10,000	9,458	(542)	16,454
Miscellaneous				
Insurance Dividend	4,000	3,942	(58)	16,362
Other		6,744	6,744	2,245
Total Miscellaneous	<u>4,000</u>	<u>10,686</u>	<u>6,686</u>	<u>18,607</u>
Total Revenues	<u>743,128</u>	<u>736,922</u>	<u>(6,206)</u>	<u>765,183</u>

CITY OF SILVER LAKE, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 YEAR ENDED DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017		Over (Under) Final Budget	2016 Actual
	Final Budget	Actual		
<b>EXPENDITURES</b>				
<b>Current</b>				
<b>General Government</b>				
<b>City Council</b>				
Salaries	\$ 8,200	\$ 8,675	\$ 475	\$ 8,300
Benefits	620	664	44	635
Miscellaneous	1,390	2,414	1,024	1,884
Total City Council	10,210	11,753	1,543	10,819
<b>Mayor</b>				
Salaries	2,500	2,500		2,475
Benefits	190	191	1	189
Miscellaneous	590	545	(45)	534
Total Mayor	3,280	3,236	(44)	3,198
<b>Administration</b>				
Salaries	38,500	43,343	4,843	36,540
Benefits	15,836	12,679	(3,157)	11,887
Supplies	1,235	1,122	(113)	1,292
Contract Services	3,000	787	(2,213)	6,330
Insurance	1,125	1,035	(90)	959
Assessor Fees	3,350	3,178	(172)	3,157
Legal Services	200		(200)	
Audit and Accounting Services	8,000	7,425	(575)	8,250
Miscellaneous	3,850	4,444	594	1,613
Total Administration	75,096	74,013	(1,083)	70,028
<b>Elections</b>				
Salaries and Benefits	560	55	(505)	2,687
Miscellaneous	200		(200)	668
Total Elections	760	55	(705)	3,355
<b>Community Development</b>				
Salaries	19,300	19,240	(60)	17,627
Benefits	8,926	7,927	(999)	7,667
Contract Services	3,000		(3,000)	7,552
Miscellaneous	3,800	3,310	(490)	3,081
Building Inspection Fees	11,000	2,914	(8,086)	17,104
Total Community Development	46,026	33,391	(12,635)	53,031

CITY OF SILVER LAKE, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
GENERAL FUND

YEAR ENDED DECEMBER 31, 2017

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017		Over (Under) Final Budget	2016 Actual
	Final Budget	Actual		
EXPENDITURES (Cont'd)				
Current (Cont'd)				
General Government (Cont'd)				
General Government Buildings				
Salaries	\$ 750	\$ 455	\$ (295)	\$ 728
Benefits	417	267	(150)	174
Repairs and Maintenance	550	130	(420)	266
Utilities	7,450	8,578	1,128	5,334
Insurance	3,040	2,511	(529)	2,653
Miscellaneous	3,000	2,147	(853)	1,729
Total General Government Buildings	<u>15,207</u>	<u>14,088</u>	<u>(1,119)</u>	<u>10,884</u>
Total General Government	150,579	136,536	(14,043)	151,315
Sanitation				
Solid Waste	3,425	3,445	20	994
Public Safety				
Police Protection				
Salaries	104,000	110,532	6,532	103,775
Benefits	39,631	42,476	2,845	28,501
Legal Fees	5,500	15,556	10,056	7,017
Uniforms	2,000	1,900	(100)	3,705
Vehicle Expense	7,840	7,297	(543)	6,345
Contract Services	5,000	4,287	(713)	4,658
Insurance	9,700	7,902	(1,798)	7,628
Miscellaneous	11,680	10,362	(1,318)	10,282
Total Public Safety	<u>185,351</u>	<u>200,312</u>	<u>14,961</u>	<u>171,911</u>
Public Works				
Highways and Streets				
Salaries	54,000	65,779	11,779	58,628
Benefits	19,146	24,908	5,762	27,810
Repairs and Maintenance	25,700	7,310	(18,390)	8,925
Street Lighting	17,500	16,568	(932)	19,389
Engineering Fees				12,514
Contract Services	6,500	1,634	(4,866)	4,441
Vehicle Expense	4,500	2,596	(1,904)	2,464
Insurance	13,100	8,981	(4,119)	9,544
Miscellaneous	8,775	4,962	(3,813)	3,408
Total Highways and Streets	<u>149,221</u>	<u>132,738</u>	<u>(16,483)</u>	<u>147,123</u>

CITY OF SILVER LAKE, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
GENERAL FUND

YEAR ENDED DECEMBER 31, 2017

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017		Over (Under) Final Budget	2016 Actual
	Final Budget	Actual		
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Public Works (Cont'd)				
Snow and Ice Control				
Salaries	\$ 13,500	\$ 4,609	\$ (8,891)	\$ 4,931
Benefits	4,032	2,219	(1,813)	3,430
Repairs and Maintenance	6,500	2,558	(3,942)	4,655
Contract Services	6,500	1,810	(4,690)	6,483
Vehicle Expense	4,000	1,156	(2,844)	873
Miscellaneous	4,200	2,010	(2,190)	1,825
Total Snow and Ice Control	<u>38,732</u>	<u>14,362</u>	<u>(24,370)</u>	<u>22,197</u>
Total Public Works	187,953	147,100	(40,853)	169,320
Culture and Recreation				
Swimming Pool				
Salaries	23,000	31,222	8,222	27,736
Benefits	2,920	4,626	1,706	3,518
Repairs and Maintenance	8,000	12,593	4,593	4,024
Utilities	7,850	19,242	11,392	6,295
Insurance	6,400	5,294	(1,106)	5,453
Supplies	2,600	903	(1,697)	1,425
Chemicals	6,500	9,183	2,683	9,155
License and Permits	700	695	(5)	595
Miscellaneous	1,610	2,129	519	2,607
Total Swimming Pool	<u>59,580</u>	<u>85,887</u>	<u>26,307</u>	<u>60,808</u>
Summer Recreation	7,180	3,890	(3,290)	5,275
Community Events	8,504	8,892	388	10,698
Auditorium				
Salaries	10,000	9,845	(155)	9,072
Benefits	2,195	2,863	668	2,903
Repairs and Maintenance	2,000	2,305	305	3,909
Contract Services	3,000	1,581	(1,419)	2,949
Utilities	10,150	8,207	(1,943)	9,028
Insurance	3,600	3,054	(546)	3,133
Miscellaneous	9,005	3,622	(5,383)	4,557
Total Auditorium	<u>39,950</u>	<u>31,477</u>	<u>(8,473)</u>	<u>35,551</u>

CITY OF SILVER LAKE, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
GENERAL FUND

YEAR ENDED DECEMBER 31, 2017

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017		Over (Under) Final Budget	2016 Actual
	Final Budget	Actual		
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Culture and Recreation (Cont'd)				
Parks				
Salaries	\$ 7,500	\$ 9,356	\$ 1,856	\$ 7,353
Benefits	3,633	4,051	418	3,366
Repairs and Maintenance	300	3,067	2,767	812
Contract Services	3,500	4,725	1,225	4,351
Miscellaneous	1,625	2,918	1,293	3,447
Utilities	500	151	(349)	1,879
Insurance	2,450	2,038	(412)	2,108
Total Parks	<u>19,508</u>	<u>26,306</u>	<u>6,798</u>	<u>23,316</u>
Total Culture and Recreation	<u>134,722</u>	<u>156,452</u>	<u>21,730</u>	<u>135,648</u>
Total Current	<u>662,030</u>	<u>643,845</u>	<u>(18,185)</u>	<u>629,188</u>
Capital Outlay				
General Government	3,000	1,680	(1,320)	
Public Safety		132	132	4,320
Public Works		12,837	12,837	14,431
Culture and Recreation	1,600	4,353	2,753	5,269
Total Capital Outlay	<u>4,600</u>	<u>19,002</u>	<u>14,402</u>	<u>24,020</u>
Total Expenditures	<u>666,630</u>	<u>662,847</u>	<u>(3,783)</u>	<u>653,208</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	76,498	74,075	(2,423)	111,975
OTHER FINANCING SOURCES (USES)				
Transfers In	10,000	10,585	585	
Transfers Out	(85,500)	(80,500)	5,000	(68,500)
Sales of Fixed Assets	2,000		(2,000)	
Total Other Financing Sources (Uses)	<u>(73,500)</u>	<u>(69,915)</u>	<u>3,585</u>	<u>(68,500)</u>
Net Change in Fund Balances	<u>\$ 2,998</u>	4,160	<u>\$ 1,162</u>	43,475
FUND BALANCE, BEGINNING OF YEAR		<u>511,278</u>		<u>467,803</u>
FUND BALANCE, END OF YEAR		<u>\$ 515,438</u>		<u>\$ 511,278</u>

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF NET POSITION  
 WATER ENTERPRISE FUND  
 DECEMBER 31, 2017

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Assets		
Current Assets		
Cash	\$ 295,208	\$ 398,367
Receivables		
Accounts	13,941	5,792
Interest	85	85
Prepaid Items	262	266
Due from Other Funds	100,000	
Total Current Assets	<u>409,496</u>	<u>404,510</u>
Noncurrent Assets		
Capital Assets		
Other Capital Assets, Net of Depreciation	523,464	555,328
Total Assets	<u>932,960</u>	<u>959,838</u>
Deferred Outflows of Resources		
Related to Pensions	<u>2,436</u>	<u>7,740</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 935,396</u>	<u>\$ 967,578</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 1,236	\$ 5,457
Accrued Wages Payable	245	918
Sales Tax Payable	63	32
Total Current Liabilities	<u>1,544</u>	<u>6,407</u>
Long-Term Liabilities		
Long-Term Portion of Long-Term Liabilities	<u>10,993</u>	<u>20,537</u>
Total Liabilities	<u>12,537</u>	<u>26,944</u>
Deferred Inflows of Resources		
Related to Pensions	2,256	2,325
Net Position		
Net Investment in Capital Assets	523,464	555,328
Unrestricted	<u>397,139</u>	<u>382,981</u>
Total Net Position	<u>920,603</u>	<u>938,309</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 935,396</u>	<u>\$ 967,578</u>

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 WATER ENTERPRISE FUND  
 YEAR ENDED DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Water Charges	\$ 110,112	\$ 115,020
OPERATING EXPENSES		
Salaries	8,882	14,290
Benefits	100	6,408
Utilities	5,660	5,505
Insurance	1,621	1,611
Repairs and Maintenance	3,135	20,829
Chemicals		4,463
Licenses and Permits	666	
Contracted Services	25,604	6,257
Professional Fees	3,200	2,750
Depreciation	42,223	41,963
Miscellaneous	2,856	3,234
Total Operating Expenses	<u>93,947</u>	<u>107,310</u>
Operating Income (Loss)	16,165	7,710
NONOPERATING REVENUES (EXPENSES)		
Interest Income	1,129	1,002
Income (Loss) Before Transfers	<u>17,294</u>	<u>8,712</u>
TRANSFERS		
Transfers Out	<u>(35,000)</u>	<u>(35,000)</u>
Change in Net Position	(17,706)	(26,288)
NET POSITION, BEGINNING OF YEAR	<u>938,309</u>	<u>964,597</u>
NET POSITION, END OF YEAR	<u><u>\$ 920,603</u></u>	<u><u>\$ 938,309</u></u>



CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF NET POSITION  
SEWER ENTERPRISE FUND  
DECEMBER 31, 2017

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Assets		
Current Assets		
Cash	\$ 145,127	\$ 124,769
Receivables		
Accounts	19,606	32,003
Interest	28	28
Prepaid Items	444	482
Due from Other Funds	667	
Total Current Assets	<u>165,872</u>	<u>157,282</u>
Noncurrent Assets		
Capital Assets		
Assets Not Being Depreciated	175,523	245,147
Other Capital Assets, Net of Depreciation	1,132,424	1,121,192
Total Noncurrent Assets	<u>1,307,947</u>	<u>1,366,339</u>
Total Assets	<u>1,473,819</u>	<u>1,523,621</u>
Deferred Outflows of Resources		
Related to Pensions	<u>2,533</u>	<u>13,741</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,476,352</u>	<u>\$ 1,537,362</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 1,191	\$ 3,194
Accrued Wages Payable	252	921
Accrued Interest Payable	1,700	
Current Portion of Long-Term Debt	35,000	45,000
Total Current Liabilities	<u>38,143</u>	<u>49,115</u>
Long-Term Liabilities		
Long-Term Portion of Long-Term Liabilities	<u>11,447</u>	<u>70,921</u>
Total Liabilities	<u>49,590</u>	<u>120,036</u>
Deferred Inflows of Resources		
Related to Pensions	2,346	4,127
Net Position		
Net Investment in Capital Assets	1,272,947	1,286,339
Unrestricted	151,469	126,860
Total Net Position	<u>1,424,416</u>	<u>1,413,199</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 1,476,352</u>	<u>\$ 1,537,362</u>

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 SEWER ENTERPRISE FUND  
 YEAR ENDED DECEMBER 31, 2017  
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Sewer Charges	\$ 150,771	\$ 157,281
OPERATING EXPENSES		
Salaries	8,403	25,434
Benefits	(9,753)	16,408
Utilities	6,642	9,221
Insurance	2,781	2,825
Repairs and Maintenance	36,723	14,199
Chemicals	350	1,977
Licenses and Permits	2,584	6,772
Contracted Services	27,954	8,754
Professional Fees	3,200	2,750
Depreciation	58,392	55,847
Miscellaneous	4,301	7,909
Total Operating Expenses	<u>141,577</u>	<u>152,096</u>
Operating Income (Loss)	9,194	5,185
NONOPERATING REVENUES (EXPENSES)		
Interest Income	353	340
Rental Income	10,070	9,525
Bond Interest and Fiscal Charges	<u>(3,400)</u>	<u>(5,245)</u>
Total Nonoperating Revenues (Expenses)	<u>7,023</u>	<u>4,620</u>
Income (Loss) Before Transfers and Capital Contributions	16,217	9,805
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Transfers Out	(5,000)	
Capital Contributions		55,369
Total Transfers and Capital Contributions	<u>(5,000)</u>	<u>55,369</u>
Change in Net Position	11,217	65,174
NET POSITION, BEGINNING OF YEAR	<u>1,413,199</u>	<u>1,348,025</u>
NET POSITION, END OF YEAR	<u>\$ 1,424,416</u>	<u>\$ 1,413,199</u>

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF NET POSITION  
 STORM SEWER ENTERPRISE FUND  
 DECEMBER 31, 2017

	<u>2017</u>
<b>ASSETS</b>	
Assets	
Current Assets	
Receivables	
Accounts	\$ 1,557
Noncurrent Assets	
Capital Assets	
Other Capital Assets, Net of Depreciation	<u>620,250</u>
Total Assets	<u>\$ 621,807</u>
<b>LIABILITIES AND NET POSITION</b>	
Liabilities	
Current Liabilities	
Due to Other Funds	\$ 667
Net Position	
Net Investment in Capital Assets	620,250
Unrestricted	<u>890</u>
Total Net Position	<u>621,140</u>
Total Liabilities and Net Position	<u>\$ 621,807</u>

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 STORM SEWER ENTERPRISE FUND  
 YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>
OPERATING REVENUES	
Storm Sewer Charges	\$ 6,531
OPERATING EXPENSES	
Repairs and Maintenance	2,056
Depreciation	18,316
Total Operating Expenses	<u>20,372</u>
Operating Income (Loss)	(13,841)
NONOPERATING REVENUES (EXPENSES)	
Interest Income	<u>1</u>
Income (Loss) Before Capital Contributions	(13,840)
CAPITAL CONTRIBUTIONS	
Change in Net Position	<u>634,980</u>
NET POSITION, BEGINNING OF YEAR	<u>                    </u>
NET POSITION, END OF YEAR	<u><u>\$ 621,140</u></u>

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF NET POSITION  
MUNICIPAL LIQUOR STORE ENTERPRISE FUND  
DECEMBER 31, 2017

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Assets		
Current Assets		
Cash	\$ 188,754	\$ 196,358
Receivables		
Accounts	4,729	6,455
Interest	33	33
Inventories	75,099	71,265
Prepaid Items	1,112	7,044
Total Current Assets	<u>269,727</u>	<u>281,155</u>
Noncurrent Assets		
Capital Assets		
Assets Not Being Depreciated	5,800	5,800
Other Capital Assets, Net of Depreciation	70,796	45,139
Total Noncurrent Assets	<u>76,596</u>	<u>50,939</u>
Total Assets	<u>346,323</u>	<u>332,094</u>
Deferred Outflows of Resources		
Related to Pensions	22,427	50,274
Total Assets and Deferred Outflows of Resources	<u>\$ 368,750</u>	<u>\$ 382,368</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 12,320	\$ 4,456
Accrued Wages Payable	4,556	4,427
Sales Tax Payable	3,795	4,358
Due to Other Governments	4,352	5,739
Total Current Liabilities	<u>25,023</u>	<u>18,980</u>
Long-Term Liabilities		
Long-Term Portion of Long-Term Liabilities	96,371	126,180
Total Liabilities	<u>121,394</u>	<u>145,160</u>
Deferred Inflows of Resources		
Related to Pensions	20,770	15,101
Net Position		
Net Investment in Capital Assets	76,596	50,939
Unrestricted	149,990	171,168
Total Net Position	<u>226,586</u>	<u>222,107</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 368,750</u>	<u>\$ 382,368</u>

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
MUNICIPAL LIQUOR STORE ENTERPRISE FUND  
YEAR ENDED DECEMBER 31, 2017  
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Sales	\$ 546,386	\$ 547,942
<b>Cost of Sales</b>		
Inventory at Beginning of Year	71,265	71,125
Purchases - Net of Purchase Discounts	306,263	302,521
Freight	1,928	2,055
Total Merchandise Available for Sale	<u>379,456</u>	<u>375,701</u>
Less Ending Inventory	<u>(75,099)</u>	<u>(71,265)</u>
Total Cost of Sales	<u>304,357</u>	<u>304,436</u>
Gross Profit on Sales	242,029	243,506
Percentage of Gross Profit to Sales	44.30%	44.44%
<b>Other Operating Income</b>		
Vending Income	3,587	1,765
Lotto Income	351	2,140
Rental Income	14,151	13,577
Donations	10	5,000
Miscellaneous	1,610	4,399
Total Other Operating Income	<u>19,709</u>	<u>26,881</u>
Total Operating Revenues	<u>261,738</u>	<u>270,387</u>
<b>OPERATING EXPENSES</b>		
Salaries	111,960	109,367
Benefits	44,648	46,534
Utilities	16,752	18,894
Insurance	13,136	12,263
Repairs and Maintenance	15,304	12,264
Licenses and Permits	705	600
Contracted Services	1,457	1,635
Professional Fees	14,332	14,037
Depreciation	7,695	8,329
Miscellaneous	20,991	22,059
Total Operating Expenses	<u>246,980</u>	<u>245,982</u>
Operating Income (Loss)	<u>14,758</u>	<u>24,405</u>

CITY OF SILVER LAKE, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
MUNICIPAL LIQUOR STORE ENTERPRISE FUND  
YEAR ENDED DECEMBER 31, 2017  
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Income	\$ 347	\$ 251
Gain (Loss) on Sale of Fixed Assets	<u>(41)</u>	
Total Nonoperating Revenues (Expenses)	<u>306</u>	<u>251</u>
Income (Loss) Before Transfers	15,064	24,656
TRANSFERS		
Transfers Out	<u>(10,585)</u>	
Net Change in Net Position	4,479	24,656
NET POSITION, BEGINNING OF YEAR	<u>222,107</u>	<u>197,451</u>
NET POSITION, END OF YEAR	<u><u>\$ 226,586</u></u>	<u><u>\$ 222,107</u></u>

CITY OF SILVER LAKE, MINNESOTA

G.O. IMPROVEMENT BONDS, SERIES 2013  
DECEMBER 31, 2017

\$939,000 General Obligation Improvement Bonds, Series 2013

Payable At: Minnesota Rural Water Association

Due Date	Interest Rate	Principal	Interest	Total
02/01/2018	2.75%	\$ 56,000	\$ 10,739	\$ 66,739
08/01/2018			9,969	9,969
02/01/2019	2.75%	57,000	9,969	66,969
08/01/2019			9,185	9,185
02/01/2020	2.75%	59,000	9,185	68,185
08/01/2020			8,374	8,374
02/01/2021	2.75%	61,000	8,374	69,374
08/01/2021			7,535	7,535
02/01/2022	2.75%	62,000	7,535	69,535
08/01/2022			6,683	6,683
02/01/2023	2.75%	64,000	6,683	70,683
08/01/2023			5,803	5,803
02/01/2024	2.75%	66,000	5,803	71,803
08/01/2024			4,895	4,895
02/01/2025	2.75%	68,000	4,895	72,895
08/01/2025			3,960	3,960
02/01/2026	2.75%	69,000	3,960	72,960
08/01/2026			3,011	3,011
02/01/2027	2.75%	71,000	3,011	74,011
08/01/2027			2,035	2,035
02/01/2028	2.75%	73,000	2,035	75,035
08/01/2028			1,031	1,031
02/01/2029	2.75%	75,000	1,031	76,031
TOTAL		\$ 781,000	\$ 135,701	\$ 916,701



CITY OF SILVER LAKE, MINNESOTA

G.O. REFUNDING BONDS, SERIES 2007A - SEWER FUND PORTION  
 DECEMBER 31, 2017

\$425,000 General Obligation Refunding Bonds, Series 2007A

Payable At: Northland Trust Services, Inc.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
07/01/2018		\$	\$ 744	\$ 744
01/01/2019	4.25%	35,000	744	35,744
TOTAL		\$ 35,000	\$ 1,488	\$ 36,488

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COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Members of the City Council  
City of Silver Lake  
Silver Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities, business-type activities, and each major fund, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Silver Lake, Minnesota's basic financial statements, and have issued our report thereon dated April 16, 2018.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance in tax increment financing because the City does not have any tax increment financing.

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*Conway, Deuth & Schmiesing, PLLP*

CONWAY, DEUTH & SCHMIESING, PLLP  
Certified Public Accountants & Consultants  
Litchfield, Minnesota

April 16, 2018

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331 Third St SW, Ste 2  
PO Box 570  
Willmar, MN 56201  
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T (888) 388-1040

**Benson Office**  
1209 Pacific Ave, Ste 3  
Benson, MN 56215  
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**Morris Office**  
401 Atlantic Ave  
Morris, MN 56267  
P (320) 589-2602

**Litchfield Office**  
820 Sibley Ave N  
Litchfield, MN 55355  
P (320) 693-7975

**St. Cloud-Sartell Office**  
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Sartell, MN 56377  
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T (800) 862-1337

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Members of the City Council  
City of Silver Lake  
Silver Lake, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Silver Lake, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 16, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described in the accompanying schedule of findings that we consider to be material weaknesses: Findings 2017-001 and 2017-002.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Conway, Deuth & Schmiesing, PLLP*

CONWAY, DEUTH & SCHMIESING, PLLP  
Certified Public Accountants & Consultants  
Litchfield, Minnesota

April 16, 2018



CITY OF SILVER LAKE, MINNESOTA

SCHEDULE OF FINDINGS  
DECEMBER 31, 2017

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

FINDING 2017-001 AUDITOR PREPARED FINANCIAL STATEMENTS

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements and the related notes being audited. However, based on the degree of complexity and level of detail needed to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the City has requested the auditors to prepare them.

Criteria: The preparation of the financial statements and the related notes are the responsibility of management.

Cause: There are a limited number of office employees and resources available to allow for the adequate preparation of the financial statements and the related notes by the City.

Effect: This could result in a material misstatement to the financial statements and related notes that would not be prevented, or detected and corrected as a result of the City's current internal control.

Recommendation: The City should continue to request the assistance to draft the financial statements and related notes and thoroughly review these financial statements after they have been prepared so the City can take responsibility for them.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:  
None

Actions Planned in Response to Findings:

The City is aware of this; however, due to significant cost and a limited number of employees, it is in the City's best financial interest to contract for the preparation of the financial statements.

Official Responsible for Ensuring CAP:

Jon Jerabek, City Clerk/Treasurer

Planned Completion Date for CAP:

December 31, 2018

Plan to Monitor Completion of CAP:

City Council

CITY OF SILVER LAKE, MINNESOTA

SCHEDULE OF FINDINGS  
DECEMBER 31, 2017

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS (Cont'd)

FINDING 2017-002 LIMITED SEGREGATION OF DUTIES

Condition: There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of employees.

Criteria: The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. The lack of such controls could result in the occurrence of a material error or fraud in relation to the financial statements not being detected by management.

Cause: The City has assigned duties to staff based on a cost-benefit relationship to the City and the practicality of the level of staffing the City maintains.

Effect: The lack of adequate segregation of duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The City should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

None

Actions Planned in Response to Findings:

The City is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

Official Responsible for Ensuring CAP:

Jon Jerabek, City Clerk/Treasurer

Planned Completion Date for CAP:

December 31, 2018

Plan to Monitor Completion of CAP:

City Council

CITY OF SILVER LAKE, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2017

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>Year Finding Initially Occurred</u>	<u>If Not Corrected, Provide Planned Corrective Action or Other Explanation</u>
Financial Statement Findings:				
2016-001	Auditor Prepared Financial Statements	Not Corrected	2006	See current year finding 2017-001
2016-002	Limited Segregation of Duties	Not Corrected	2006	See current year finding 2017-002
Minnesota Legal Compliance Findings:				
None				