

CITY OF STACY  
STACY, MINNESOTA

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2010

CITY OF STACY, MINNESOTA  
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SECTION I

INTRODUCTORY SECTION

CITY OF STACY  
STACY, MINNESOTA  
GENERAL INFORMATION

ELECTED AND APPOINTED OFFICIALS

MAYOR	Mark Utecht
COUNCIL MEMBER	Cindy Bruss
COUNCIL MEMBER	Michael Carlson
COUNCIL MEMBER	Charles Lucia
COUNCIL MEMBER	Jim Ness
CITY CLERK	Sharon Payne
CITY ATTORNEY	Peter Grundhoefer

SECTION II

FINANCIAL SECTION

**OBERLOH & ASSOCIATES, LTD.**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Council  
City of Stacy  
Stacy, Minnesota

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, of City of Stacy, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Stacy, Minnesota as of December 31, 2010, and the respective changes in financial position and, cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2011 on our consideration of City of Stacy, Minnesota'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 39 through 41 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stacy, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

*Oberloh & Associates, Ltd.*  
Oberloh & Associates, Ltd.

June 14, 2011

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010

FINANCIAL HIGHLIGHTS

As Management of the City of Stacy (hereinafter referred to as "the City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2010.

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,153,064 (net assets). Of this amount \$1,972,808 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$258,668 compared to an increase of \$330,470 in the previous year. The governmental activities net assets decreased during 2010 by \$118,339 and the business-type activities net assets increased during 2010 by \$377,007.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,039,023, a decrease of \$83,950 in comparison with the previous year. Approximately 89.2 percent of this total amount, \$927,087, is available for spending at the City's discretion, but \$344,289 has been designated for specific purposes.
- At the end of the current fiscal year, the fund balance of the general fund was \$628,067 which is 163.0% of total general fund expenditures.

USING THIS ANNUAL REPORT

This management discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains additional components: (1) required supplementary information, and (2) other supplementary information, in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets (on page 13) provides information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities (on page 14) provides information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, economic development, and miscellaneous. The business-type activities of the City include municipal liquor, water, sewer and storm sewer.

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010

USING THIS ANNUAL REPORT (Cont.)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

*Governmental Funds:* Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet (on page 15) and the governmental fund statement of revenues, expenditures and changes in fund balances (on page 17) provide a reconciliation (on pages 16 and 18) to facilitate this comparison between governmental funds and governmental activities.

The City maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund; which is considered to be a major fund. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the form of combining statements elsewhere in this report.

*Proprietary Funds:* The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its municipal liquor, water, sewer and storm sewer.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Municipal Liquor, Water, and Sewer; all of which are considered to be major funds of the City. The Storm Sewer fund is shown in a separate column as a nonmajor fund. The basic proprietary fund financial statements can be found on pages 19 through 22 of this report.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements. The notes to the financial statements can be found on pages 23 through 38 of this report.

Required Supplementary Information

This Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule (on pages 39 - 41) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes, referred to as the basic financial statements.

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010

USING THIS ANNUAL REPORT (Cont.)

Other Supplementary Information

This part of the annual report (starting on page 42) includes optional financial information such as combining nonmajor governmental fund statements and component unit financial statements (which are added together and shown in the fund financial statements in a single column). This other supplemental financial information is provided to address certain specific needs of various users of the City's annual report.

THE CITY AS A WHOLE

Looking at the net assets and net expenses of the governmental and business-type activities separately, different stories emerge. Our analysis below focuses on the net assets and changes in net assets of the City's governmental and business-type activities.

Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and Other						
Assets	\$ 1,139,333	\$ 1,198,028	\$ 1,393,358	\$ 1,248,171	\$ 2,532,691	\$ 2,446,199
Capital Assets	<u>2,481,274</u>	<u>2,629,928</u>	<u>8,288,972</u>	<u>8,981,769</u>	<u>10,770,246</u>	<u>11,611,697</u>
Total Assets	<u>3,620,607</u>	<u>3,827,956</u>	<u>9,682,330</u>	<u>10,229,940</u>	<u>13,302,937</u>	<u>14,057,896</u>
Current Liabilities	115,682	134,692	744,689	755,125	860,371	889,817
Long-term Liabilities	<u>1,866,000</u>	<u>1,936,000</u>	<u>5,423,502</u>	<u>6,337,683</u>	<u>7,289,502</u>	<u>8,273,683</u>
Total Liabilities	<u>1,981,682</u>	<u>2,070,692</u>	<u>6,168,191</u>	<u>7,092,808</u>	<u>8,149,873</u>	<u>9,163,500</u>
Net Assets						
Invested in Capital						
Assets, Net of						
Debt	551,274	628,095	2,512,973	2,301,086	3,064,247	2,929,181
Restricted	111,936	329,380	4,073	4,073	116,009	333,453
Unrestricted	<u>975,715</u>	<u>799,789</u>	<u>997,093</u>	<u>831,973</u>	<u>1,972,808</u>	<u>1,631,762</u>
Total Net Assets	<u>\$ 1,638,925</u>	<u>\$ 1,757,264</u>	<u>\$ 3,514,139</u>	<u>\$ 3,137,132</u>	<u>\$ 5,153,064</u>	<u>\$ 4,894,396</u>

A large portion of the City's net assets (59.5 percent) reflects its investment in capital assets (e.g., land, buildings and improvements, systems and infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (2.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (38.2 percent) may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets for both governmental and business-type activities.

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010

THE CITY AS A WHOLE (Cont.)

Changes in Net Assets

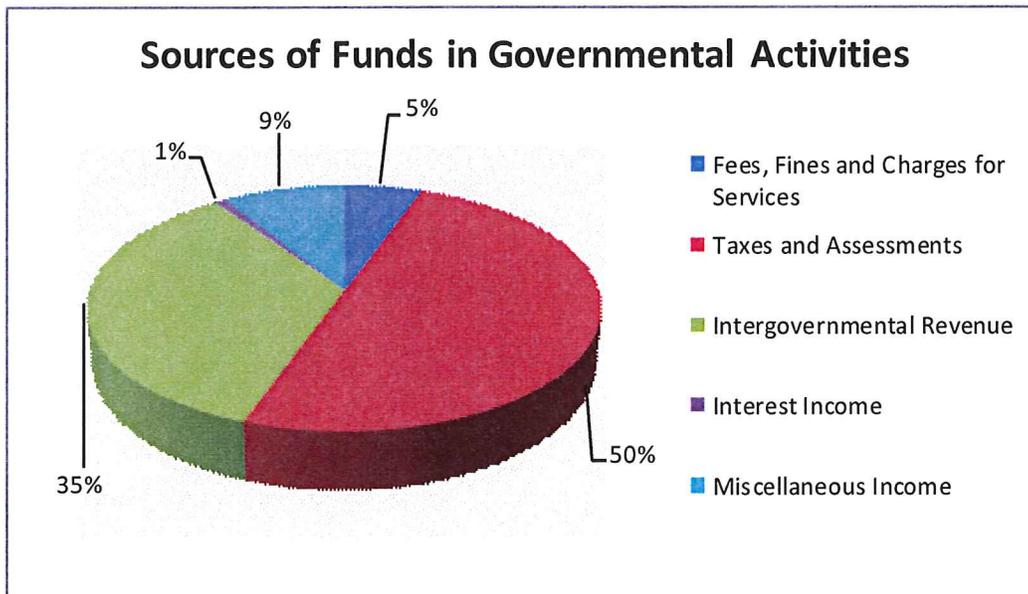
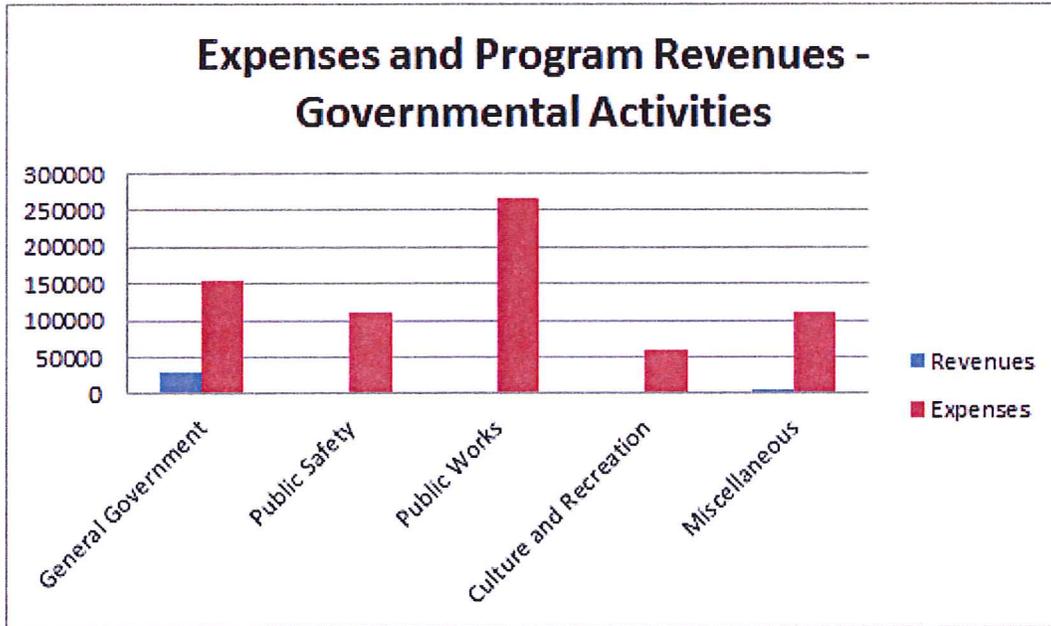
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>Revenues</u>						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 37,124	\$ 23,375	\$ 422,263	\$ 494,439	\$ 459,387	\$ 517,814
Sales	-	-	2,581,853	2,435,610	2,581,853	2,435,610
General Revenues:						
Taxes and Assessments	331,392	295,902	166,852	225,257	498,244	521,159
Intergovernmental Revenue	230,414	279,354	-	-	230,414	279,354
Interest Income	5,535	14,913	10,222	11,098	15,757	26,011
Miscellaneous Income	<u>58,748</u>	<u>56,791</u>	<u>24,810</u>	<u>46,176</u>	<u>83,558</u>	<u>102,967</u>
Total Revenues	<u>663,213</u>	<u>670,335</u>	<u>3,206,000</u>	<u>3,212,580</u>	<u>3,869,213</u>	<u>3,882,915</u>
<u>Expenses</u>						
General Government	153,224	178,192	-	-	153,224	178,192
Public Safety	109,844	98,630	-	-	109,844	98,630
Public Works	266,232	265,446	-	-	266,232	265,446
Culture and Recreation	59,057	56,433	-	-	59,057	56,433
Miscellaneous	111,957	37,436	-	-	111,957	37,436
Municipal Liquor Store	-	-	2,478,360	2,457,979	2,478,360	2,457,979
Water	-	-	188,192	152,544	188,192	152,544
Sewer	-	-	232,583	293,480	232,583	293,480
Storm Sewer	-	-	<u>11,096</u>	<u>12,305</u>	<u>11,096</u>	<u>12,305</u>
Total Expenses	<u>700,314</u>	<u>636,137</u>	<u>2,910,231</u>	<u>2,916,308</u>	<u>3,610,545</u>	<u>3,552,445</u>
Transfers	<u>(81,238)</u>	<u>20,000</u>	<u>81,238</u>	<u>(20,000)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>(118,339)</u>	<u>54,198</u>	<u>377,007</u>	<u>276,272</u>	<u>258,668</u>	<u>330,470</u>
Net Assets Beginning						
Originally Stated	1,757,264	1,760,427	3,137,132	2,860,860	4,894,396	4,621,287
Prior Period Adjustment	<u>-</u>	<u>(57,361)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,361)</u>
As Restated	<u>1,757,264</u>	<u>1,703,066</u>	<u>3,137,132</u>	<u>2,860,860</u>	<u>4,894,396</u>	<u>4,563,926</u>
Net Assets Ending	<u>\$ 1,638,925</u>	<u>\$ 1,757,264</u>	<u>\$ 3,514,139</u>	<u>\$ 3,137,132</u>	<u>\$ 5,153,064</u>	<u>\$ 4,894,396</u>

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010

THE CITY AS A WHOLE (Cont.)

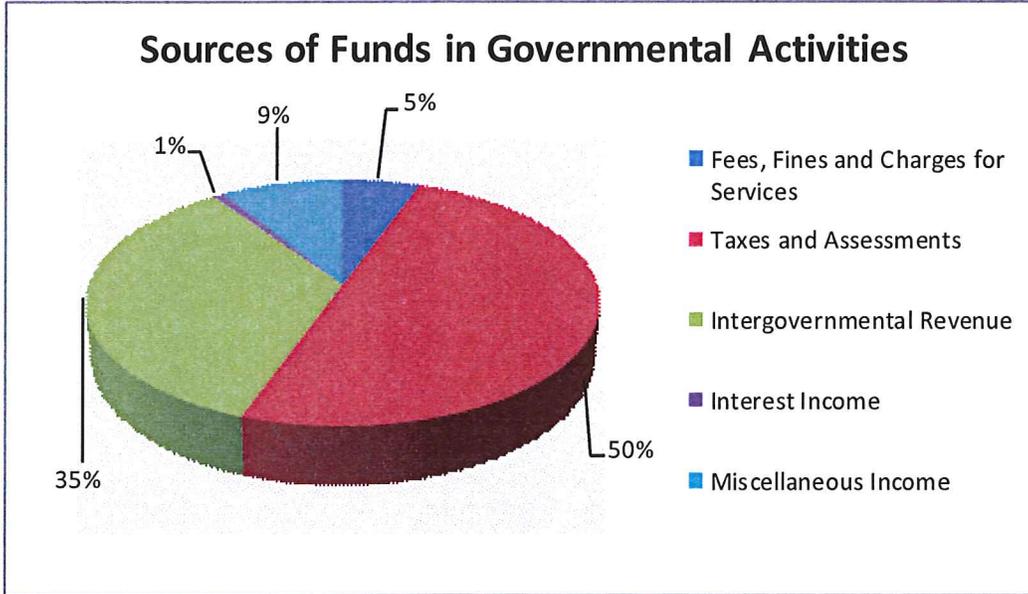
Governmental Activities

The following graphs depict various governmental activities and show the revenue and expenses directly related to those activities.



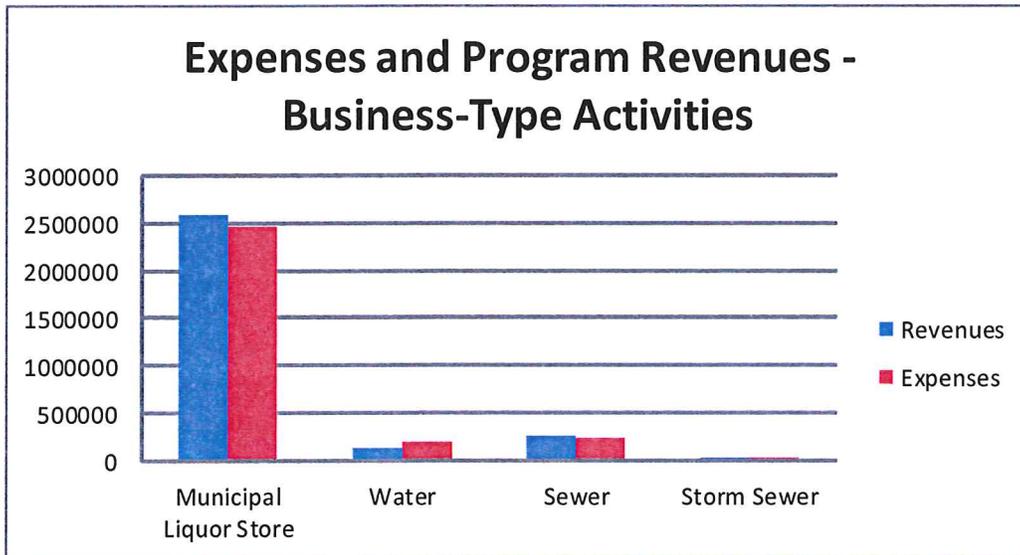
CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010

THE CITY AS A WHOLE (Cont.)  
Governmental Activities (Cont.)



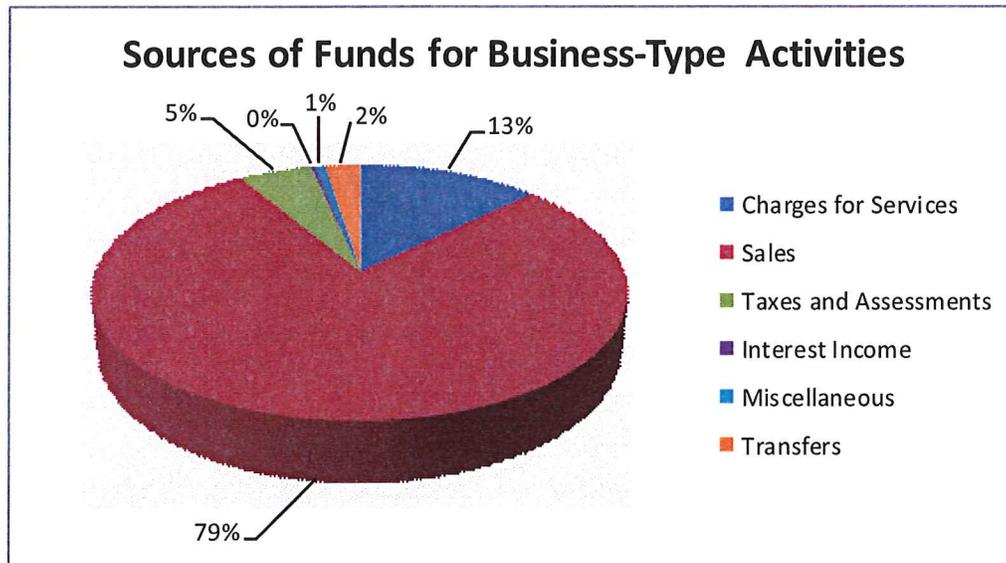
Business-Type Activities

The following graphs depict various business-type activities and show the revenue and expenses directly related to those activities.



CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010

THE CITY AS A WHOLE (Cont.)  
Business-Type Activities (Cont.)



**A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds* - The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,039,023, a decrease of \$83,950 in comparison with the prior year. Approximately 89.2% of this total amount, \$927,087, constitutes unreserved fund balance, which is available for spending at the City's discretion, although \$344,289 has been designated for specific purposes. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service and capital improvements in the amount of \$111,936.

*Proprietary Funds* - The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$997,093. The total increase in net assets for the funds was \$377,007. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The City's General Fund budget was not amended during the year. The budget called for revenues in excess of expenditures of \$550. Revenues exceeded expectations by \$11,707 and expenditures came in under budget by \$79,784 in 2010.

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2010, amounts to \$10,770,246 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total decrease in the City's investment in capital assets for the current fiscal year was 7.2 percent (an 5.7 percent decrease for governmental activities and a 7.7 percent decrease for business-type activities). The decrease was due to depreciation exceeding capital outlay.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land and						
Improvements	\$ 721,977	\$ 721,977	\$ -	\$ -	\$ 721,977	\$ 721,977
Building, Plant and						
Equipment	685,072	676,040	9,496,327	10,048,904	10,181,399	10,724,944
Infrastructure and						
Improvements	<u>2,753,416</u>	<u>2,753,416</u>	<u>-</u>	<u>-</u>	<u>2,753,416</u>	<u>2,753,416</u>
Subtotal	4,160,465	4,151,433	9,496,327	10,048,904	13,656,792	14,200,337
Less: Accumulated						
Depreciation	<u>1,679,191</u>	<u>1,521,505</u>	<u>1,207,355</u>	<u>1,067,135</u>	<u>2,886,546</u>	<u>2,588,640</u>
Total	<u>\$ 2,481,274</u>	<u>\$ 2,629,928</u>	<u>\$ 8,288,972</u>	<u>\$ 8,981,769</u>	<u>\$10,770,246</u>	<u>\$11,611,697</u>

The City's major additions in the governmental activities is due to parks improvements. The major additions in the business-type activities was due to equipment purchases.

Debt

At the end of the current fiscal year, the City had total Long-term debt outstanding of \$7,706,000.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Tax Increment						
Bonds	\$ 540,000	\$ 585,000	\$ 35,000	\$ 65,000	\$ 575,000	\$ 650,000
G.O. Improvement						
Bonds	1,270,000	1,270,000	720,000	750,000	1,990,000	2,020,000
G.O. Revenue						
Bonds	-	-	50,000	60,000	50,000	60,000
Revenue Bonds	-	-	1,755,000	1,820,000	1,755,000	1,820,000
Revenue Notes	-	-	3,216,000	3,985,683	3,216,000	3,985,683
Other Long-Term						
Debt	<u>120,000</u>	<u>146,833</u>	<u>-</u>	<u>-</u>	<u>120,000</u>	<u>146,833</u>
Total	<u>\$1,930,000</u>	<u>\$2,001,833</u>	<u>\$5,776,000</u>	<u>\$6,680,683</u>	<u>\$7,706,000</u>	<u>\$8,682,516</u>

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

During 2010 the City is expected to experience additional cuts in both Local Government Aid (LGA) and Market Value Credit (MVC) payments from the state. The City will continue to reduce the budget and hold spending as a means to offset the cuts from the state.

The City is planning for future street projects that will require bonding. In addition, the City transferred money from the Water Fund to the Sewer Fund during 2010 to meet sewer bond obligations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens and other interested individuals with a general overview of the City's finances and to show the accountability for the monies it receives through property taxes, user fees, and local government aid. If you have any questions about this report or need additional financial information, contact the City Clerk's Office at City of Stacy, 30955 Forest Blvd, Stacy, MN 55079, phone 651-462-4486, email: [cityclerk@stacymn.org](mailto:cityclerk@stacymn.org).

CITY OF STACY, MINNESOTA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Pooled Cash and Equivalents	\$ 450,840	\$ 644,219	\$ 1,095,059
Non Pooled Cash and Equivalents	298,312	328,162	626,474
Receivables:			
Accounts Receivable	81,688	204,703	286,391
Property Taxes Receivable	82,054	30,695	112,749
Prepaid Expense	-	13,909	13,909
Due from Other Funds	226,439	(226,439)	-
Inventory	-	324,835	324,835
Capital assets not being depreciated:			
Land and Improvements	721,977	-	721,977
Other capital assets:			
Building, Plant and Equipment	685,072	9,496,327	10,181,399
Infrastructure and Improvements	2,753,416	-	2,753,416
Accumulated Depreciation	(1,679,191)	(1,207,355)	(2,886,546)
Bond Issuance Costs, Net	-	50,362	50,362
Bond Discount, Net	-	22,912	22,912
<b>TOTAL ASSETS</b>	<u>3,620,607</u>	<u>9,682,330</u>	<u>13,302,937</u>
<b>LIABILITIES</b>			
Accounts Payable	6,837	118,820	125,657
Accrued Liabilities	12,261	44,199	56,460
Accrued Interest	32,584	62,603	95,187
Due to Other Governmental Units	-	166,569	166,569
Noncurrent liabilities:			
Due within one year	64,000	352,498	416,498
Due in more than one year	<u>1,866,000</u>	<u>5,423,502</u>	<u>7,289,502</u>
<b>TOTAL LIABILITIES</b>	<u>1,981,682</u>	<u>6,168,191</u>	<u>8,149,873</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	551,274	2,512,973	3,064,247
Restricted for:			
Special Revenue	3,058	-	3,058
Debt Service	108,878	4,073	112,951
Unrestricted	<u>975,715</u>	<u>997,093</u>	<u>1,972,808</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,638,925</u>	<u>\$ 3,514,139</u>	<u>\$ 5,153,064</u>

CITY OF STACY, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010

Functions/Programs Primary Government	Program Revenues		Net Sources (Uses) and Changes in Net Assets	
Governmental Activities	Fees, Fines and Charges for Services	Sales	Governmental Activities	Business-Type Activities
Business-Type Activities	Expenses	Primary Government		
Total Primary Government	Total Governmental Activities	Total		
General Government	\$ 153,224	\$ 29,401	\$ (123,823)	\$ (123,823)
Public Safety	109,844	1,654	(108,190)	(108,190)
Public Works	266,232	-	(266,232)	(266,232)
Culture and Recreation	59,057	-	(59,057)	(59,057)
Miscellaneous	111,957	6,069	(105,888)	(105,888)
Total Governmental Activities	700,314	37,124	(663,190)	(663,190)
Business-Type Activities:				
Municipal Liquor Store	2,478,360	-	-	103,493
Water	188,192	2,581,853	-	(45,290)
Sewer	232,583	-	-	20,056
Storm Sewer	11,096	26,722	-	15,626
Total Business-Type Activities:	2,910,231	422,263	-	93,885
Total Primary Government	3,610,545	459,387	(663,190)	(569,305)
General Revenues:				
Taxes and Assessments			331,392	166,852
Intergovernmental Revenue			230,414	-
Interest Income			5,535	10,222
Miscellaneous			58,748	24,810
Transfers			(81,238)	81,238
Total General Revenues			544,851	283,122
Changes in Net Assets			(118,339)	377,007
Net Assets - January 1			1,757,264	3,137,132
Net Assets - December 31			1,638,925	3,514,139

The Notes to the Financial Statements are an integral part of this statement.

CITY OF STACY, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Pooled Cash and Equivalents	\$ 267,197	\$ 183,643	\$ 450,840
Non Pooled Cash and Equivalents	31,441	266,871	298,312
Accounts Receivable	62,936	18,752	81,688
Property Taxes Receivable	33,569	48,485	82,054
Due from Other Funds	<u>284,689</u>	<u>-</u>	<u>284,689</u>
Total Assets	<u>\$ 679,832</u>	<u>\$ 517,751</u>	<u>\$ 1,197,583</u>
 <b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 6,376	\$ 461	\$ 6,837
Accrued Liabilities	12,303	(42)	12,261
Due to Other Funds	-	58,250	58,250
Deferred Revenue	<u>33,086</u>	<u>48,126</u>	<u>81,212</u>
Total Liabilities	<u>51,765</u>	<u>106,795</u>	<u>158,560</u>
 <b>FUND BALANCES</b>			
Reserved for:			
Special Revenue	-	3,058	3,058
Debt Service	-	108,878	108,878
Unreserved, reported in:			
General Fund - Undesignated	628,067	-	628,067
Special Revenue - Designated	-	344,289	344,289
Debt Service - Undesignated	<u>-</u>	<u>(45,269)</u>	<u>(45,269)</u>
Total Fund Balances	<u>628,067</u>	<u>410,956</u>	<u>1,039,023</u>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <u>\$ 679,832</u>	 <u>\$ 517,751</u>	 <u>\$ 1,197,583</u>

CITY OF STACY, MINNESOTA  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2010

Total Governmental Fund Balances	\$ 1,039,023
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,481,274
Part of taxes and special assessments receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	81,212
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,962,584)</u>
Net Assets of Governmental Activities	\$ <u>1,638,925</u>

CITY OF STACY, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Nonmajor Governmental Funds	Total
	<u>        </u>	<u>        </u>	<u>        </u>
REVENUES			
Taxes	\$ 174,931	\$ 114,959	\$ 289,890
Licenses and Permits	15,731	-	15,731
Intergovernmental Revenue	230,414	-	230,414
Charges for Services	19,739	-	19,739
Fines and Forfeits	1,654	-	1,654
Interest Income	1,849	3,685	5,534
Miscellaneous	13,027	45,721	58,748
Total Revenues	<u>457,345</u>	<u>164,365</u>	<u>621,710</u>
EXPENDITURES			
Current Operations:			
General Government	148,454	-	148,454
Public Safety	109,844	-	109,844
Public Works	52,805	-	52,805
Culture and Recreation	34,154	15,376	49,530
Miscellaneous	40,047	71,910	111,957
Debt Service:			
Principal Payments	-	63,000	63,000
Interest Payments	-	79,800	79,800
Capital Outlay	-	9,032	9,032
Total Expenditures	<u>385,304</u>	<u>239,118</u>	<u>624,422</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	72,041	(74,753)	(2,712)
OTHER FINANCING SOURCES (USES)			
Transfer In	20,000	161,238	181,238
Transfer Out	<u>-</u>	<u>(262,476)</u>	<u>(262,476)</u>
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	92,041	(175,991)	(83,950)
FUND BALANCES - January 1	<u>536,026</u>	<u>586,947</u>	<u>1,122,973</u>
FUND BALANCES - December 31	<u>\$ 628,067</u>	<u>\$ 410,956</u>	<u>\$ 1,039,023</u>

CITY OF STACY, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
DECEMBER 31, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ (83,950)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(148,653)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	41,502
Interest on long-term liabilities is expensed as paid in the funds, but accrued in the period due in the Statement of Net Assets.	929
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	<u>71,833</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(118,339)</u></u>

CITY OF STACY, MINNESOTA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2010

	Nonmajor				Total
	Municipal Liquor Store	Water Fund	Sewer Fund	Storm Sewer Fund	
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Pooled Cash and Equivalents	\$ -	\$ 476,097	\$ 135,493	\$ 32,629	\$ 644,219
Non Pooled Cash and Equivalents	281,549	45,708	905	-	328,162
Accounts Receivable	24,682	72,892	100,096	7,033	204,703
Property Taxes Receivable	-	13,476	17,219	-	30,695
Due from Other Funds	-	40,000	-	-	40,000
Prepaid Expense	13,909	-	-	-	13,909
Inventory	324,835	-	-	-	324,835
Total Current Assets	<u>644,975</u>	<u>648,173</u>	<u>253,713</u>	<u>39,662</u>	<u>1,586,523</u>
<b>NONCURRENT ASSETS</b>					
Capital Assets:					
Building, Plant and Equipment	2,397,404	1,439,740	5,141,741	517,442	9,496,327
Less: Accumulated Depreciation	457,280	214,478	488,427	47,170	1,207,355
Net Capital Assets	1,940,124	1,225,262	4,653,314	470,272	8,288,972
Bond Issuance Costs, Net	38,786	-	11,576	-	50,362
Bond Discount, Net	19,398	-	3,514	-	22,912
Total Noncurrent Assets	<u>1,998,308</u>	<u>1,225,262</u>	<u>4,668,404</u>	<u>470,272</u>	<u>8,362,246</u>
<b>TOTAL ASSETS</b>	<u>\$2,643,283</u>	<u>\$1,873,435</u>	<u>\$4,922,117</u>	<u>\$ 509,934</u>	<u>\$ 9,948,769</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts Payable	\$ 104,685	\$ 879	\$ 13,256	\$ -	\$ 118,820
Accrued Liabilities	29,328	14,871	-	-	44,199
Accrued Interest	34,154	12,410	15,069	970	62,603
Due to Other Funds	266,439	-	-	-	266,439
Due to Other Governmental Units	-	-	166,569	-	166,569
Current Amount of Long-Term Debt	70,000	60,000	212,498	10,000	352,498
Total Current Liabilities	<u>504,606</u>	<u>88,160</u>	<u>407,392</u>	<u>10,970</u>	<u>1,011,128</u>
<b>LONG-TERM LIABILITIES</b>					
Bonds and Notes Payable	1,685,000	695,000	3,003,502	40,000	5,423,502
<b>TOTAL LIABILITIES</b>	<u>2,189,606</u>	<u>783,160</u>	<u>3,410,894</u>	<u>50,970</u>	<u>6,434,630</u>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	185,124	470,262	1,437,314	420,273	2,512,973
Restricted for Debt Service	-	-	4,073	-	4,073
Unrestricted	268,553	620,013	69,836	38,691	997,093
Total Net Assets	<u>453,677</u>	<u>1,090,275</u>	<u>1,511,223</u>	<u>458,964</u>	<u>3,514,139</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$2,643,283</u>	<u>\$1,873,435</u>	<u>\$4,922,117</u>	<u>\$ 509,934</u>	<u>\$ 9,948,769</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF STACY, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Municipal			Nonmajor	
	Liquor			Storm	
	Store	Water Fund	Sewer Fund	Sewer Fund	Total
OPERATING REVENUES					
Sales	\$2,581,853	\$ -	\$ -	\$ -	\$ 2,581,853
Charges for Services	<u>-</u>	<u>142,902</u>	<u>252,639</u>	<u>26,722</u>	<u>422,263</u>
Total Operating Revenues	2,581,853	142,902	252,639	26,722	3,004,116
COST OF SALES	<u>1,697,356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,697,356</u>
GROSS PROFIT	<u>884,497</u>	<u>142,902</u>	<u>252,639</u>	<u>26,722</u>	<u>1,306,760</u>
OPERATING EXPENSES					
Personnel Services and Benefits	371,969	42,840	102,347	-	517,156
Advertising	11,650	-	-	-	11,650
Depreciation	91,588	25,630	15,042	7,961	140,221
Bank Fees	41,901	-	-	-	41,901
Insurance	25,045	6,857	6,770	-	38,672
Rent	7,497	-	-	-	7,497
Professional Services	22,470	31,783	26,872	846	81,971
Repairs and Maintenance	17,533	685	685	-	18,903
Supplies and Chemicals	16,051	37,000	23,013	-	76,064
Telephone	5,255	1,463	1,463	-	8,181
Training and Travel	921	724	666	-	2,311
Utilities	41,063	7,452	937	-	49,452
Miscellaneous	2,634	2,636	14,952	-	20,222
Entertainment	<u>36,257</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,257</u>
Total Operating Expenses	<u>691,834</u>	<u>157,070</u>	<u>192,747</u>	<u>8,807</u>	<u>1,050,458</u>
NET OPERATING INCOME (LOSS)	<u>192,663</u>	<u>(14,168)</u>	<u>59,892</u>	<u>17,915</u>	<u>256,302</u>
NON OPERATING INCOME AND EXPENSE:					
Interest Income	4,200	4,895	922	205	10,222
Taxes and Special Assessments	-	74,998	91,854	-	166,852
Miscellaneous Income	23,942	868	-	-	24,810
Interest Expense	(86,670)	(31,122)	(39,836)	(2,289)	(159,917)
Bad Debt Expense	<u>(2,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,500)</u>
Net Non Operating Income and Expense	<u>(61,028)</u>	<u>49,639</u>	<u>52,940</u>	<u>(2,084)</u>	<u>39,467</u>
NET INCOME BEFORE TRANSFERS	131,635	35,471	112,832	15,831	295,769
Transfer In	-	101,238	115,000	-	216,238
Transfer Out	<u>(20,000)</u>	<u>(115,000)</u>	<u>-</u>	<u>-</u>	<u>(135,000)</u>
CHANGE IN NET ASSETS	111,635	21,709	227,832	15,831	377,007
NET ASSETS - January 1	<u>342,042</u>	<u>1,068,566</u>	<u>1,283,391</u>	<u>443,133</u>	<u>3,137,132</u>
NET ASSETS - December 31	<u>\$ 453,677</u>	<u>\$1,090,275</u>	<u>\$1,511,223</u>	<u>\$ 458,964</u>	<u>\$ 3,514,139</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF STACY, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Municipal</u>			<u>Nonmajor</u>	
	<u>Liquor Store</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm</u>	<u>Total</u>
				<u>Sewer</u>	
				<u>Fund</u>	
<b>CASH FLOWS FROM</b>					
<b>OPERATING ACTIVITIES:</b>					
Receipts from Customers	\$ 2,579,295	\$ 148,326	\$ 247,342	\$ 19,860	\$ 2,994,823
Payments to Vendors	(1,962,654)	(97,909)	(65,443)	(1,186)	(2,127,192)
Payments to Employees	(381,067)	(39,458)	(102,347)	-	(522,872)
Other Receipts and Payments	<u>21,442</u>	<u>868</u>	<u>-</u>	<u>-</u>	<u>22,310</u>
Net Cash Provided By					
Operating Activities	<u>257,016</u>	<u>11,827</u>	<u>79,552</u>	<u>18,674</u>	<u>367,069</u>
<b>CASH FLOWS FROM</b>					
<b>NONCAPITAL FINANCING</b>					
<b>ACTIVITIES:</b>					
Transfer to Other Funds	(20,000)	(115,000)	-	-	(135,000)
Transfer from Other Funds	-	101,238	115,000	-	216,238
Advance to Other Funds	<u>-</u>	<u>(40,000)</u>	<u>-</u>	<u>-</u>	<u>(40,000)</u>
Net Cash Provided (Used) By					
Noncapital Financing					
Activities	<u>(20,000)</u>	<u>(53,762)</u>	<u>115,000</u>	<u>-</u>	<u>41,238</u>
<b>CASH FLOWS FROM CAPITAL</b>					
<b>AND RELATED FINANCING</b>					
<b>ACTIVITIES:</b>					
Purchase of Capital Assets	(4,862)	-	-	-	(4,862)
Property Taxes Collected	-	68,939	86,997	-	155,936
Principal Paid on Capital Debt	(65,000)	(60,000)	(211,147)	(10,000)	(346,147)
Interest Paid on Capital Debt	<u>(83,779)</u>	<u>(32,496)</u>	<u>(38,157)</u>	<u>(2,460)</u>	<u>(156,892)</u>
Net Cash Used By Capital and					
Related Financing Activities	<u>(153,641)</u>	<u>(23,557)</u>	<u>(162,307)</u>	<u>(12,460)</u>	<u>(351,965)</u>
<b>CASH FLOWS FROM INVESTING</b>					
<b>ACTIVITIES:</b>					
Interest Received	<u>4,200</u>	<u>4,895</u>	<u>922</u>	<u>205</u>	<u>10,222</u>
Net Cash Provided By					
Investing Activities	<u>4,200</u>	<u>4,895</u>	<u>922</u>	<u>205</u>	<u>10,222</u>
<b>NET INCREASE (DECREASE) IN</b>					
<b>CASH</b>					
	87,575	(60,597)	33,167	6,419	66,564
<b>CASH AND CASH</b>					
<b>EQUIVALENTS - January 1</b>					
	<u>196,335</u>	<u>582,402</u>	<u>103,231</u>	<u>26,209</u>	<u>908,177</u>
<b>CASH AND CASH</b>					
<b>EQUIVALENTS - December 31</b>					
	<u>\$ 283,910</u>	<u>\$ 521,805</u>	<u>\$ 136,398</u>	<u>\$ 32,628</u>	<u>\$ 974,741</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF STACY, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Nonmajor</u>				<u>Total</u>
	<u>Municipal Liquor Store</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm Sewer Fund</u>	
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities					
Operating Income (Loss)	\$ 192,663	\$ (14,168)	\$ 59,892	\$ 17,915	\$ 256,302
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities					
Depreciation	91,588	25,630	15,042	7,961	140,221
Changes in Assets and Liabilities					
Accounts Receivable	(2,558)	5,424	(5,297)	(6,862)	(9,293)
Inventory	(25,639)	-	-	-	(25,639)
Prepaid Items	436	-	-	-	436
Accounts Payable	(14,178)	(9,309)	9,915	(340)	(13,912)
Accrued Liabilities	(9,098)	3,382	-	-	(5,716)
Other Revenues and Expenses	<u>21,442</u>	<u>868</u>	<u>-</u>	<u>-</u>	<u>22,310</u>
Net Cash Provided By Operating Activities	<u>\$ 254,656</u>	<u>\$ 11,827</u>	<u>\$ 79,552</u>	<u>\$ 18,674</u>	<u>\$ 364,709</u>

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Stacy (the City) was established under the laws of the State of Minnesota. The City is governed by an elected Mayor and four-member Council. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City provides the following: public safety, public works, public health and welfare, culture, recreation, waterworks, and sanitary sewer services.

The financial statements of the City of Stacy, Minnesota are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The City has chosen to apply FASB pronouncements issued on or before that date to its business-type activities. The more significant of these accounting policies are described below.

A. Reporting Entity

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Based on this criteria, the City of Stacy has no component units.

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 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) sales. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to identify the relationship between the government-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financial statements.

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 of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year which the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue in the fund financial statements.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The City reports the following major governmental fund:

- General Fund - This fund is the City's primary operating fund. It is used to account for all financial resources not required to be accounted for in another fund.

The City reports the following major proprietary funds:

- Municipal Liquor Fund - To account for the costs associated with the City's municipal liquor store and insures that sales are sufficient to pay for these costs.
- Water Fund - To account for the costs associated with the City's water system and insures that sales are sufficient to pay for these costs.
- Sewer Fund - To account for the costs associated with the City's sewer system and insures that sales are sufficient to pay for these costs.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer 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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) sales. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Restricted Assets

Certain funds of the City are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

G. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund balances are eliminated on the government-wide financial statements.

H. Property Taxes

The Council annually adopts a tax levy and certifies it to the County in December of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Taxes payable on homestead property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credit is paid to the City by the State of Minnesota (the State) in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

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

I. Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2010. Since the City is generally able to certify delinquent amounts to the County for collection as special assessments, no allowance for uncollectible accounts has been provided on current receivables.

J. Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred revenue liability in the fund financial statements.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Inventories

Inventories of the Municipal Liquor Store are based on an annual physical inventory count and priced at the lower of cost (first-in; first-out basis) or market. The cost of governmental fund type inventories are recorded as expenditures when purchased.

L. Interfund 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 non-current 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."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

M. 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.

N. Capital Assets

Capital Assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

As the City constructs or acquires assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation. 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. The City has elected not to retroactively capitalize the infrastructure of its governmental activities acquired prior to January 1, 2004 as allowed by GASB Statement No. 34.

For financial statement purposes only, capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives: 7 to 20 years for improvements other than building; 7 to 40 years for buildings and improvements; and 3 to 20 years for machinery and equipment.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. Compensated Absences

Compensated Absences are immaterial and not accounted for in these financial statements. The City has no post retirement benefits available to employees.

P. 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized 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.

Q. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

R. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

- (a) Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- (b) Restricted net assets – Consists of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- (c) Unrestricted net assets – All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

S. Comparative Data/Reclassifications

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year’s presentation.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Cont.)

A. Budgetary Information (Cont.)

In July of each year, all departments of the City submit requests for appropriations to the so that a budget may be prepared. Before September 15, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the fund level. Budgeted amounts are as originally adopted, or as amended by the Council. No budget amendments were made during the year.

B. Expenditures Over Appropriations

The following sub-functions of the general fund had expenditures in excess of appropriations for the year ended December 31, 2010.

<u>Function Area</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Culture and Recreation	\$ 29,701	\$ 34,154	\$ (4,453)
Miscellaneous	\$ 27,000	\$ 40,047	\$ (13,047)

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2010:

Tax Abatement Woodsman 2004	45,269
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The above deficits will be eliminated through transfers from other funds, bonding and future tax and assessment collections.

3. DEPOSITS AND INVESTMENTS

A. Cash and Cash Investments

Custodial Credit Risk - Custodial Credit Risk for deposits and investments is the risk that in the event of a bank failure the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes, the City maintains deposits at the depository banks, which are authorized by the City Council and are members of the Federal Reserve System.

Minnesota Statutes require that all City deposits be 110% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (140% in the case of mortgage notes pledged).

Authorized collateral includes the legal investments described by state statutes, as well as certain first mortgage notes, and certain other state and local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the City or in a financial institution other than that furnishing the collateral.

At year end, the City's carrying amount of deposits was \$1,716,420 and the bank balance was \$1,767,208 including certificates of deposits of \$97,006. Of the bank balance, \$468,029 was covered by federal depository insurance. Of the remaining balance, \$1,299,179 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS (Cont.)

B. Investments

The City maintains no investment accounts other than certificates of deposit reported above.

C. Cash on Hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$5,113.

D. Cash and Investments Summary

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Total Deposits	\$	1,716,420
Total Cash on Hand		<u>5,113</u>
	\$	<u><u>1,721,533</u></u>
Statement of Net Assets		
Pooled Cash and Equivalents	\$	1,095,059
Non Pooled Cash and Equivalents		<u>626,474</u>
	\$	<u><u>1,721,533</u></u>

4. DUE TO AND FROM OTHER FUNDS

Due to and from other funds at December 31, 2010, follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 284,689	\$ -
Municipal Liquor Fund	-	266,439
Water Fund	40,000	-
Tax Abatement Woodsman 2004 Fund	-	<u>58,250</u>
	<u>\$ 324,689</u>	<u>\$ 324,689</u>

Interfund receivables and payables are for cash flow purposes and are expected to be liquidated by cash transfers from available future cash balances.

5. DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
Delinquent taxes receivable	\$ 33,086	\$ -
Nonmajor Governmental Funds		
Delinquent taxes receivable	<u>48,126</u>	<u>-</u>
Total	<u>\$ 81,212</u>	<u>\$ -</u>

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

6. TRANSFERS

Transfers to and from other funds at December 31, 2010, follows:

	Transfers to <u>Other Funds</u>	Transfers from <u>Other Funds</u>
General Fund	\$ -	\$ 20,000
GO Water & Improvement Bond Fund	202,476	-
Stacy Ponds Business Park Fund	-	101,238
Water Fund	115,000	101,238
Sewer Fund	-	115,000
Municipal Liquor Store Fund	<u>20,000</u>	<u>-</u>
	<u>\$ 337,476</u>	<u>\$ 337,476</u>

- The Municipal Liquor Store Fund transferred \$20,000 to the General Fund for operating purposes.
- The GO Water & Improvement Bond Fund transferred \$101,238 to the Stacy Ponds Business Park Fund and \$101,238 to the Water Fund to close the fund.
- The Water Fund transferred \$115,000 to the Sewer Fund.

7. CHANGES IN CAPITAL ASSETS

Governmental Activities - Capital asset activity for the year ended December 31, 2010 was as follows:

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>December 31</u>
Not Being Depreciated:				
Land	\$ 420,139	\$ -	\$ -	\$ 420,139
Subtotal	<u>420,139</u>	<u>-</u>	<u>-</u>	<u>420,139</u>
Other Capital Assets:				
Land Improvements	301,838	-	-	301,838
Equipment and Machinery	333,713	-	-	333,713
Building, Plant, Equipment Infrastructure and	342,327	9,032	-	351,359
Improvements	<u>2,753,416</u>	<u>-</u>	<u>-</u>	<u>2,753,416</u>
Subtotal	<u>3,731,294</u>	<u>9,032</u>	<u>-</u>	<u>3,740,326</u>
Less: Accumulated Depreciation				
Land Improvements	55,955	6,172	-	62,127
Equipment and Machinery	111,953	14,418	-	126,371
Buildings, Plant, Equipment Infrastructure and	122,119	6,062	-	128,181
Improvements	<u>1,231,479</u>	<u>131,033</u>	<u>-</u>	<u>1,362,512</u>
Subtotal	<u>1,521,506</u>	<u>157,685</u>	<u>-</u>	<u>1,679,191</u>
Net Other Capital Assets	<u>2,209,788</u>	<u>(148,653)</u>	<u>-</u>	<u>2,061,135</u>
Net Capital Assets	<u>\$ 2,629,927</u>	<u>\$ (148,653)</u>	<u>\$ -</u>	<u>\$ 2,481,274</u>

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN FIXED ASSETS (Cont.)

Business-Type Activities - The following is a summary of business-type activities capital assets at December 31, 2010

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>December 31</u>
Other Capital Assets:				
Plant and Equipment	\$ <u>10,048,904</u>	\$ <u>4,862</u>	\$ <u>557,439</u>	\$ <u>9,496,327</u>
Subtotal	<u>10,048,904</u>	<u>4,862</u>	<u>557,439</u>	<u>9,496,327</u>
Less: Accumulated				
Depreciation				
Plant and Equipment	<u>1,067,134</u>	<u>140,221</u>	<u>-</u>	<u>1,207,355</u>
Subtotal	<u>1,067,134</u>	<u>140,221</u>	<u>-</u>	<u>1,207,355</u>
Net Capital Assets	\$ <u>8,981,770</u>	\$ <u>(135,359)</u>	\$ <u>557,439</u>	\$ <u>8,288,972</u>

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

Governmental Activities:		
General Government	\$	1,837
Public Works		139,513
Culture and Recreation		<u>16,335</u>
Total Depreciation Expense - Governmental Activities	\$	<u>157,685</u>
Business-Type Activities:		
Municipal Liquor Store	\$	91,588
Water		25,630
Sewer		15,042
Storm Sewer		<u>7,961</u>
Total Depreciation Expense - Business-Type Activities	\$	<u>140,221</u>

8. RESERVED/DESIGNATED

Reserved or designated fund balances are as follows:

<u>Fund</u>	<u>Amount</u>	<u>Reserved/Designated Purpose</u>
Reserved:		
Special Rev Park	\$ 3,058	Future Park Improvements
Tax Increment 1-1	\$ 3,914	Future Debt Service
Tax Increment 1-2	\$ 5,217	Future Debt Service
Doyle Lighting Project	\$ 14,704	Future Debt Service
Road Improvement Project	\$ 82,405	Future Debt Service
2008 Lease Purchase	\$ 2,638	Future Debt Service
Designated:		
Hockey Arena Project	\$ 254,058	Future Capital Improvements
Developer Escrow	\$ 28,971	Economic Development
Economic Development Authority	\$ 23,344	Economic Development
Lions Club Park	\$ 4,984	Future Park Expenditures
Support Our Troops	\$ 5,100	Future Expenditures
Stacy Ponds Business Park	\$ 27,832	Future Expenditures

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

9. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2010.

	Balance		<u>Debt</u>	Balance	Current
	<u>January 1</u>	<u>Debt Issued</u>	<u>Retired</u>	<u>December 31</u>	<u>Amount</u>
G.O. Improvement Bonds	\$ 2,020,000	\$ -	\$ 30,000	\$ 1,990,000	\$ 30,000
G.O. Revenue Notes	3,985,683	(558,868)	210,815	3,216,000	212,498
G.O. Equipment Bonds	65,000	-	12,000	53,000	13,000
G.O. Revenue Bonds	60,000	-	10,000	50,000	10,000
Refund Bonds					
Tax Abatement Portion	585,000	-	45,000	540,000	45,000
Refunding Portion	65,000	-	30,000	35,000	35,000
EDA Public Project Lease	1,355,000	-	35,000	1,320,000	40,000
Revenue Bonds	465,000	-	30,000	435,000	30,000
Bank Loan	8,833	-	8,833	-	-
Property Financing	73,000	-	6,000	67,000	6,000
Totals	<u>\$ 8,682,516</u>	<u>\$ (558,868)</u>	<u>\$ 417,648</u>	<u>\$ 7,706,000</u>	<u>\$ 421,498</u>

General Obligation Revenue Bonds of \$50,000, General Obligation Improvement Bonds of \$720,000, General Obligation Revenue Notes of \$3,216,000, General Obligation Refunding Bonds of \$35,000, Revenue Bonds of \$435,000 and Public Project Lease Revenue Bonds of \$1,320,000 are reflected as long-term debt in the related enterprise fund.

Bonds outstanding at December 31, 2010 are comprised of the following issues:

Governmental Activities

\$1,270,000 General Obligation Improvement Bonds of 2006. Due in annual installments of \$105,000 to \$150,000 through February 1, 2022, plus interest at 3.8 - 4.2% due in semi-annual installments. \$ 1,270,000

\$440,000 General Obligation Tax Abatement Revenue Bonds of 2006, due in annual installments of \$25,000 to \$35,000 through February 1, 2011, plus interest at 3.5 - 4.375%, due in semi-annual installments. 340,000

\$220,000 General Obligation Tax Abatement Bonds of 2008, due in annual installments of \$20,000 to \$25,000 through February 1, 2019, plus interest at 3.75 - 4.5%, due in semi-annual installments. 200,000

\$65,000 General Obligation Equipment Bond, due in annual installments at \$12,000 to \$14,000 through February 1, 2014, plus interest at 3.75%, due in semi-annual installments. 53,000

\$73,000 Property Lease Financing due in annual installments of \$6,000 to \$9,000 through February 1, 2019, plus interest at 4.25%, due in semi-annual installments. 67,000

Total Governmental Activities 1,930,000

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

9. CHANGES IN LONG-TERM DEBT (Cont.)

Business-Type Activities

\$110,000 General Obligation Storm Sewer Revenue Bonds of 2003. Due in annual installments of \$10,000 to \$15,000 through February 1, 2014, plus interest at 2.65 - 4.65%, due in semi-annual installments. 50,000

\$805,000 General Obligation Improvement Bonds of 2006, due in annual installments of \$25,000 to \$195,000 through February 1, 2022, plus interest at 3.75 - 4.4%, due in semi-annual installments. 720,000

\$4,498,000 General Obligation Wastewater Revenue Notes, Series 2006A, due in annual installments of \$100,317 to \$243,000 through January 20, 2027, plus interest at 1%, due in semi-annual installments. 3,216,000

\$175,000 General Obligation Water Revenue Refunding Bonds of 2006, due in annual installments of \$25,000 to \$35,000 through February 1, 2011, plus interest at 3.5%, due in semi-annual installments. 35,000

\$515,000 Liquor Store Revenue Bonds, Series 2006A, due in annual installments of \$25,000 to \$45,000 through February 1, 2022, plus interest at 4.1 - 4.75%, due in semi-annual installments. 435,000

\$1,460,000 Public Project Lease Revenue Bonds, due in annual installments of \$35,000 to \$100,000 through February 1, 2031, plus interest at 4.25 - 4.9%, due in semi-annual installments. 1,320,000

Total Business-Type Activities 5,776,000

Total Long-Term Debt \$ 7,706,000

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

9. CHANGES IN LONG-TERM DEBT (Cont.)

The annual requirements to maturity for long-term liabilities are as follows:

	G.O. Improvement Bonds Governmental Activities			G.O. Improvement Bonds Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 45,000	\$ 72,449	\$ 117,449	\$ 75,000	\$ 31,774	\$ 106,774
2012	45,000	70,824	115,824	40,000	29,599	69,599
2013	150,000	67,192	217,192	45,000	27,903	72,903
2014	160,000	61,275	221,275	50,000	25,969	75,969
2015	165,000	54,891	219,891	35,000	25,620	60,620
2016-2020	910,000	165,937	1,075,937	200,000	99,942	299,942
2021-2025	335,000	13,334	348,334	245,000	52,612	297,612
2026-2030	-	-	-	115,000	5,170	120,170
2031-2035	-	-	-	-	-	-
Total	<u>\$1,810,000</u>	<u>\$ 505,902</u>	<u>\$2,315,902</u>	<u>\$ 805,000</u>	<u>\$ 298,589</u>	<u>\$1,103,589</u>

	G. O. Equipment Bond Governmental Funds			G.O. Revenue Note Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 13,000	\$ 1,744	\$ 14,744	\$ 212,498	\$ 36,168	\$ 248,666
2012	13,000	1,256	14,256	214,714	33,826	248,540
2013	13,000	769	13,769	216,930	31,448	248,378
2014	14,000	263	14,263	219,147	29,042	248,189
2015	-	-	-	218,411	26,608	245,019
2016-2020	-	-	-	1,125,612	97,851	1,223,463
2021-2025	-	-	-	1,175,257	36,769	1,212,026
2026-2030	-	-	-	-	-	-
2031-2035	-	-	-	-	-	-
Total	<u>\$ 53,000</u>	<u>\$ 4,032</u>	<u>\$ 57,032</u>	<u>\$3,382,569</u>	<u>\$ 291,712</u>	<u>\$3,674,281</u>

	Revenue Bonds Business-Type Activities			Other Long-Term Debt Governmental Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 70,000	\$ 80,506	\$ 150,506	\$ 6,000	\$ 2,720	\$ 8,720
2012	70,000	77,516	147,516	7,000	2,444	9,444
2013	70,000	74,466	144,466	7,000	2,147	9,147
2014	75,000	71,309	146,309	7,000	1,849	8,849
2015	80,000	67,934	147,934	7,000	1,551	8,551
2016-2020	445,000	282,324	727,324	33,000	2,867	35,867
2021-2025	420,000	173,748	593,748	-	-	-
2026-2030	425,000	83,302	508,302	-	-	-
2031-2035	100,000	2,450	102,450	-	-	-
Total	<u>\$1,755,000</u>	<u>\$ 913,555</u>	<u>\$2,668,555</u>	<u>\$ 67,000</u>	<u>\$ 13,578</u>	<u>\$ 80,578</u>

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

9. CHANGES IN LONG-TERM DEBT (Cont.)

Interest expense was charged to functions/programs of the City as follows:

Governmental Activities:	
General Government	\$ 2,932
Public Works	73,914
Culture and Recreation	<u>(6,808)</u>
Total Interest Expense - Governmental Activities	\$ <u>70,038</u>
Business-Type Activities:	
Water Fund	\$ 31,122
Sewer Fund	39,836
Storm Sewer Fund	2,289
Municipal Liquor Store	<u>86,670</u>
Total Interest Expense - Business-Type Activities	\$ <u>159,917</u>

10. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rates for a Coordinated Plan Member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

10. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

A. Plan Description (Cont.)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, MN, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by the state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2010. In 2010, the City of Stacy, Minnesota was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.00% for Coordinated Plan members.

The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were \$32,963, \$30,052 and \$27,765, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

11. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2010.

12. OTHER POST EMPLOYMENT BENEFITS

Any contingent liability for other post employment benefits is considered immaterial and not recognized in the financial statements.

13. COMMITMENTS AND CONTINGENCIES

A. Risk Management

The city is exposed to various risk of loss related to torts, thefts of, damage to or destruction of assets, business interruption, errors and omissions, employee injuries and illness, and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

CITY OF STACY, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS

13. COMMITMENTS AND CONTINGENCIES (Cont.)

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

B. Claims and Judgments

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable funds. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

14. TAX INCREMENT FINANCING DISTRICT

The City of Stacy is the administrating authority for the following tax increment financing district:

	TIF 1-1 Minnesota Statute	TIF 1-2 Minnesota Statute
Authorizing Law	469.174	469.174
Type of District	Redevelopment	Economic Development
Year Established	2005	2007
Duration of District		
Tax Capacity		
Original	2,339	500
Current	25,762	40,982
Captured - retained	23,423	40,482

15. SUBSEQUENT EVENTS

Management evaluated all activity of City of Stacy through June 14, 2011 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STACY, MINNESOTA  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2010  
 With Comparative Amounts for the year ended December 31, 2009

	<u>2010</u>			Variance	<u>2009</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>with Final</u>	<u>Actual</u>
	<u>Budget</u>	<u>Budget</u>		<u>Budget</u>	
REVENUES:					
TAXES:					
General Property Taxes	\$ <u>196,602</u>	\$ <u>196,602</u>	\$ <u>174,931</u>	\$ <u>(21,671)</u>	\$ <u>182,126</u>
LICENSES AND PERMITS:					
Licenses and Permits	<u>7,750</u>	<u>7,750</u>	<u>15,731</u>	<u>7,981</u>	<u>10,605</u>
INTERGOVERNMENTAL					
REVENUE:					
Local Government Aid	231,099	231,099	229,641	(1,458)	257,165
Market Value Credit	-	-	-	-	21,416
PERA Rate Increase Aid	<u>387</u>	<u>387</u>	<u>773</u>	<u>386</u>	<u>773</u>
Total Intergovernmental Revenue	<u>231,486</u>	<u>231,486</u>	<u>230,414</u>	<u>(1,072)</u>	<u>279,354</u>
CHARGES FOR SERVICES:					
General Government	3,900	3,900	13,670	9,770	8,039
Other Charges for Services	<u>1,000</u>	<u>1,000</u>	<u>6,069</u>	<u>5,069</u>	<u>2,444</u>
Total Charges for Services	<u>4,900</u>	<u>4,900</u>	<u>19,739</u>	<u>14,839</u>	<u>10,483</u>
FINES AND FORFEITS	<u>2,000</u>	<u>2,000</u>	<u>1,654</u>	<u>(346)</u>	<u>2,287</u>
INTEREST INCOME	<u>500</u>	<u>500</u>	<u>1,849</u>	<u>1,349</u>	<u>1,524</u>
MISCELLANEOUS:					
Miscellaneous Income	<u>2,400</u>	<u>2,400</u>	<u>13,027</u>	<u>10,627</u>	<u>17,321</u>
Total Miscellaneous	<u>2,400</u>	<u>2,400</u>	<u>13,027</u>	<u>10,627</u>	<u>17,321</u>
TOTAL REVENUES	<u>445,638</u>	<u>445,638</u>	<u>457,345</u>	<u>11,707</u>	<u>503,700</u>
OTHER FINANCING SOURCES					
Transfer In	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>465,638</u>	<u>465,638</u>	<u>477,345</u>	<u>11,707</u>	<u>523,700</u>

CITY OF STACY, MINNESOTA  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BLANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2010  
 With Comparative Amounts for the year ended December 31, 2009

	<u>2010</u>		<u>Actual</u>	Variance with Final Budget	<u>2009</u>
	<u>Original Budget</u>	<u>Final Budget</u>			<u>Actual</u>
EXPENDITURES:					
GENERAL GOVERNMENT:					
Mayor and Council:					
Personnel Services	\$ 9,230	\$ 9,230	\$ 8,352	\$ 878	\$ 9,105
Other Current Expenditures	5,525	5,525	1,802	3,723	1,749
Election:					
Current Expenditures	2,500	2,500	2,012	488	-
Administrative and Finance:					
Personnel Services	48,215	48,215	48,207	8	39,951
Other Current Expenditures	17,825	17,825	10,755	7,070	12,068
Other General Government:					
Personnel Services	26,396	26,396	25,632	764	22,584
Other Current Expenditures	46,400	46,400	33,776	12,624	46,753
Capital Outlay	8,700	8,700	-	8,700	-
Planning and Zoning:					
Personnel Services	1,615	1,615	453	1,162	1,358
Other Current Expenditures	13,100	13,100	990	12,110	8,263
Independent Auditing					
Current Expenditures	4,000	4,000	3,279	721	3,362
Legal					
Current Expenditures	<u>22,400</u>	<u>22,400</u>	<u>13,196</u>	<u>9,204</u>	<u>27,284</u>
Total General Government	<u>205,906</u>	<u>205,906</u>	<u>148,454</u>	<u>57,452</u>	<u>172,477</u>
PUBLIC SAFETY:					
Police Protection:					
Services and Charges	50,305	50,305	50,305	-	47,996
Building Inspection:					
Current Expenditures	6,300	6,300	1,523	4,777	7,520
Fire Protection:					
Services and Charges	60,850	60,850	58,016	2,834	43,114
Capital Outlay	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
Total Public Safety	<u>127,455</u>	<u>127,455</u>	<u>109,844</u>	<u>17,611</u>	<u>98,630</u>

CITY OF STACY, MINNESOTA  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BLANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2010  
 With Comparative Amounts for the year ended December 31, 2009

	<u>2010</u>			<u>2009</u>	
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
EXPENDITURES:					
PUBLIC WORKS:					
Highways and Streets:					
Personnel Services	\$ 4,445	\$ 4,445	\$ 8,355	\$ (3,910)	\$ 11,934
Other Current Expenditures	27,400	27,400	15,117	12,283	9,471
Capital Outlay	10,000	10,000	-	10,000	-
Ice and Snow Removal:					
Personnel Services	11,981	11,981	15,118	(3,137)	3,030
Other Current Expenditures	7,200	7,200	1,501	5,699	6,406
Street Lighting:					
Current Expenditures	<u>14,000</u>	<u>14,000</u>	<u>12,714</u>	<u>1,286</u>	<u>11,537</u>
Total Public Works	<u>75,026</u>	<u>75,026</u>	<u>52,805</u>	<u>22,221</u>	<u>42,378</u>
CULTURE AND RECREATION:					
Other Services and Charges:					
Current Expenditures	<u>29,701</u>	<u>29,701</u>	<u>34,154</u>	<u>(4,453)</u>	<u>34,828</u>
Total Culture and Recreation	<u>29,701</u>	<u>29,701</u>	<u>34,154</u>	<u>(4,453)</u>	<u>34,828</u>
MISCELLANEOUS:					
Insurance	26,500	26,500	12,215	14,285	19,649
Other Current Expenditures	<u>500</u>	<u>500</u>	<u>27,832</u>	<u>(27,332)</u>	<u>4,500</u>
Total Miscellaneous	<u>27,000</u>	<u>27,000</u>	<u>40,047</u>	<u>(13,047)</u>	<u>24,149</u>
TOTAL EXPENDITURES	<u>465,088</u>	<u>465,088</u>	<u>385,304</u>	<u>79,784</u>	<u>372,462</u>
EXCESS REVENUES AND OTHER SOURCES OVER EXPENDITURES	550	550	92,041	91,491	151,238
FUND BALANCES - January 1	<u>536,026</u>	<u>536,026</u>	<u>536,026</u>	<u>-</u>	<u>384,788</u>
FUND BALANCES - December 31	<u>\$ 536,576</u>	<u>\$ 536,576</u>	<u>\$ 628,067</u>	<u>\$ 91,491</u>	<u>\$ 536,026</u>

SECTION III

SUPPLEMENTAL SECTION

CITY OF STACY, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

	Special Revenue Funds	Debt Service Funds	Total
<b>ASSETS</b>			
Pooled Cash and Equivalents	\$ 76,199	\$ 107,444	\$ 183,643
Non Pooled Cash and Equivalents	266,871	-	266,871
Accounts Receivable	4,644	14,108	18,752
Property Taxes Receivable	<u>3,744</u>	<u>44,741</u>	<u>48,485</u>
 TOTAL ASSETS	 <u>\$ 351,458</u>	 <u>\$ 166,293</u>	 <u>\$ 517,751</u>
 <b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 461	\$ -	\$ 461
Accrued Liabilities	(42)	-	(42)
Due to Other Funds	-	58,250	58,250
Deferred Revenue	<u>3,692</u>	<u>44,434</u>	<u>48,126</u>
 Total Liabilities	 <u>4,111</u>	 <u>102,684</u>	 <u>106,795</u>
 <b>FUND BALANCES</b>			
Reserved for:			
Special Revenue	3,058	-	3,058
Debt Service	-	108,878	108,878
Unreserved, reported in:			
Special Revenue - Designated	344,289	-	344,289
Debt Service - Undesignated	<u>-</u>	<u>(45,269)</u>	<u>(45,269)</u>
Total Fund Balances	<u>347,347</u>	<u>63,609</u>	<u>410,956</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 351,458</u>	 <u>\$ 166,293</u>	 <u>\$ 517,751</u>

CITY OF STACY, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Special Revenue Funds	Debt Service Funds	Total
REVENUES			
Taxes	\$ 17,547	\$ 97,412	\$ 114,959
Interest Income	2,981	704	3,685
Miscellaneous	<u>34,221</u>	<u>11,500</u>	<u>45,721</u>
Total Revenues	<u>54,749</u>	<u>109,616</u>	<u>164,365</u>
EXPENDITURES			
Culture and Recreation	15,376	-	15,376
Miscellaneous	69,792	2,118	71,910
Principal Payments	-	63,000	63,000
Interest Payments	51,420	28,380	79,800
Capital Outlay	<u>9,032</u>	<u>-</u>	<u>9,032</u>
Total Expenditures	<u>145,620</u>	<u>93,498</u>	<u>239,118</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(90,871)	16,118	(74,753)
OTHER FINANCING SOURCES (USES)			
Transfer In	161,238	-	161,238
Transfer Out	<u>(60,000)</u>	<u>(202,476)</u>	<u>(262,476)</u>
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	10,367	(186,358)	(175,991)
FUND BALANCES - January 1	<u>336,980</u>	<u>249,967</u>	<u>586,947</u>
FUND BALANCES - December 31	<u>\$ 347,347</u>	<u>\$ 63,609</u>	<u>\$ 410,956</u>

CITY OF STACY, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 DECEMBER 31, 2010

	Economic		Special		Lions Club		Support		Stacy		Hockey		
Developer Escrow	Development Authority	Rev Park	Park Fund	Our Troops	Business Park	Arena Project	Total						
Pooled Cash and Equivalents	\$ 27,211	\$ 21,456	\$ 3,058	\$ 4,484	\$ 5,100	\$ 14,890	\$ 76,199						
Non Pooled Cash and Equivalents	-	-	-	-	-	239,168	266,871						
Accounts Receivable	1,760	2,341	-	500	-	-	4,644						
Property Taxes Receivable	-	749	-	-	-	-	3,744						
	<u>\$ 28,971</u>	<u>\$ 24,546</u>	<u>\$ 3,058</u>	<u>\$ 4,984</u>	<u>\$ 5,100</u>	<u>\$ 254,058</u>	<u>\$ 351,458</u>						
<b>TOTAL ASSETS</b>													
<b>LIABILITIES</b>													
Accounts Payable	\$ -	\$ 461	\$ -	\$ -	\$ -	\$ -	\$ 461						
Accrued Liabilities	-	-	-	-	-	-	(42)						
Deferred Revenue	-	741	-	-	-	-	2,951						
	<u>\$ -</u>	<u>\$ 1,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,111</u>						
<b>TOTAL LIABILITIES</b>													
<b>FUND BALANCES</b>													
Reserved for:													
Special Revenue	-	-	3,058	-	-	-	-						
Unreserved, reported in:													
Special Revenue - Designated	28,971	23,344	-	4,984	5,100	27,832	254,058						
Total Fund Balances	<u>28,971</u>	<u>23,344</u>	<u>3,058</u>	<u>4,984</u>	<u>5,100</u>	<u>27,832</u>	<u>254,058</u>						
	<u>\$ 28,971</u>	<u>\$ 24,546</u>	<u>\$ 3,058</u>	<u>\$ 4,984</u>	<u>\$ 5,100</u>	<u>\$ 30,741</u>	<u>\$ 254,058</u>						
<b>TOTAL LIABILITIES AND FUND BALANCES</b>													

CITY OF STACY, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

		Economic Development Authority	Special Rev Park	Lions Club Park Fund	Support Our Troops	Stacy Ponds Business Park	Hockey Arena Project	Total
<b>REVENUES</b>								
Taxes	\$ -	\$ 2,154	\$ -	\$ -	\$ -	\$ 15,393	\$ -	\$ 17,547
Interest Income	-	40	25	92	24	329	2,471	2,981
Miscellaneous	-	-	-	23,000	6,421	-	4,800	34,221
Total Revenues	<u>-</u>	<u>2,194</u>	<u>25</u>	<u>23,092</u>	<u>6,445</u>	<u>15,722</u>	<u>7,271</u>	<u>54,749</u>
<b>EXPENDITURES</b>								
Culture and Recreation	-	-	-	15,376	-	-	-	15,376
Miscellaneous	-	1,341	-	-	3,910	-	64,541	69,792
Interest Payments	-	-	-	-	-	51,420	-	51,420
Capital Outlay	-	-	-	9,032	-	-	-	9,032
Total Expenditures	<u>-</u>	<u>1,341</u>	<u>-</u>	<u>24,408</u>	<u>3,910</u>	<u>51,420</u>	<u>64,541</u>	<u>145,620</u>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	-	853	25	(1,316)	2,535	(35,698)	(57,270)	(90,871)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfer In	-	-	-	-	-	101,238	-	101,238
<b>EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	-	853	25	(1,316)	2,535	65,540	(57,270)	10,367
<b>FUND BALANCES (DEFICIT) - January 1</b>	<u>28,971</u>	<u>22,491</u>	<u>3,033</u>	<u>6,300</u>	<u>2,565</u>	<u>(37,708)</u>	<u>311,328</u>	<u>336,980</u>
<b>FUND BALANCES - December 31</b>	<u>\$ 28,971</u>	<u>\$ 23,344</u>	<u>\$ 3,058</u>	<u>\$ 4,984</u>	<u>\$ 5,100</u>	<u>\$ 27,832</u>	<u>\$ 254,058</u>	<u>\$ 347,347</u>

CITY OF STACY, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR DEBT SERVICE FUNDS  
 DECEMBER 31, 2010

	Abatement Woodsman 2004	Tax Increment 1-1	Tax Increment 1-2	Doyle Lighting Project Bond	Road Improvement Project	2008 Lease Purchase	Total
<b>ASSETS</b>							
Pooled Cash and Equivalents	\$ -	\$ 3,913	\$ 5,217	\$ 13,204	\$ 82,514	\$ 2,594	\$ 107,442
Accounts Receivable	12,769	-	-	1,500	(183)	22	14,108
Property Taxes Receivable	<u>120</u>	<u>10,276</u>	<u>27,608</u>	<u>-</u>	<u>5,240</u>	<u>1,497</u>	<u>44,741</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,889</u>	<u>\$ 14,190</u>	<u>\$ 32,825</u>	<u>\$ 14,704</u>	<u>\$ 87,572</u>	<u>\$ 4,113</u>	<u>\$ 166,293</u>
<b>LIABILITIES AND NET ASSETS</b>							
<b>LIABILITIES</b>							
Due to Other Funds	\$ 58,250	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,250
Deferred Revenue	<u>(92)</u>	<u>10,276</u>	<u>27,608</u>	<u>-</u>	<u>5,167</u>	<u>1,475</u>	<u>44,434</u>
Total Liabilities	<u>58,158</u>	<u>10,276</u>	<u>27,608</u>	<u>-</u>	<u>5,167</u>	<u>1,475</u>	<u>102,684</u>
<b>FUND BALANCES</b>							
Reserved for:							
Debt Service	-	3,914	5,217	14,704	82,405	2,638	108,878
Unreserved, reported in:							
Debt Service - Undesignated	<u>(45,269)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45,269)</u>
Total Fund Balances (Deficit)	<u>(45,269)</u>	<u>3,914</u>	<u>5,217</u>	<u>14,704</u>	<u>82,405</u>	<u>2,638</u>	<u>63,609</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<u>\$ 12,889</u>	<u>\$ 14,190</u>	<u>\$ 32,825</u>	<u>\$ 14,704</u>	<u>\$ 87,572</u>	<u>\$ 4,113</u>	<u>\$ 166,293</u>

CITY OF STACY, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR DEBT SERVICE FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Tax Abatement Woodsman 2004	Tax Increment 1-1	Tax Increment 1-2	Doyle Lighting Project Bond	Road Improvement Project	2008 Lease Purchase	Total
<b>REVENUES</b>							
Taxes	\$ 53,988	\$ 2,082	\$ 7,574	-	\$ 21,877	\$ 11,891	\$ 97,412
Interest Income	-	-	(1)	83	620	1	703
Miscellaneous	-	-	-	11,500	-	-	11,500
Total Revenues	<u>53,988</u>	<u>2,082</u>	<u>7,573</u>	<u>11,583</u>	<u>22,497</u>	<u>11,892</u>	<u>109,615</u>
<b>EXPENDITURES</b>							
Miscellaneous	-	1,035	1,083	-	-	-	2,118
Principal Payments	25,000	-	-	12,000	20,000	6,000	63,000
Interest Payments	14,391	-	-	2,213	8,763	3,013	28,380
Total Expenditures	<u>39,391</u>	<u>1,035</u>	<u>1,083</u>	<u>14,213</u>	<u>28,763</u>	<u>9,013</u>	<u>93,498</u>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	14,597	1,047	6,490	(2,630)	(6,266)	2,879	16,117
<b>FUND BALANCES (DEFICIT) - January 1</b>	<u>(59,866)</u>	<u>2,867</u>	<u>(1,273)</u>	<u>17,334</u>	<u>88,671</u>	<u>(241)</u>	<u>47,492</u>
<b>FUND BALANCES (DEFICIT) - December 31</b>	<u><u>(45,269)</u></u>	<u><u>3,914</u></u>	<u><u>5,217</u></u>	<u><u>14,704</u></u>	<u><u>82,405</u></u>	<u><u>2,638</u></u>	<u><u>63,609</u></u>

CITY OF STACY, MINNESOTA  
SUMMARY FINANCIAL REPORT

REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

The purpose of this report is to provide a summary of financial information concerning the City of Stacy to interested citizens. The complete financial statements may be examined at the City Hall, 30955 Forest Blvd Stacy, MN Questions about this report should be directed to Sharon Payne, City Clerk, at 651-462-4486

	<u>Total</u> 2010	<u>Total</u> 2009	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
<b>REVENUES:</b>			
Taxes and Assessments	\$ 289,890	\$ 279,888	3.57 %
Licenses and Permits	15,731	10,605	48.34 %
Intergovernmental	230,414	279,354	(17.52)%
Charges for Services	19,739	10,483	88.30 %
Fines	1,654	2,287	(27.68)%
Investment Earnings	5,534	14,914	(62.89)%
Miscellaneous	58,748	56,791	3.45 %
Transfer In	<u>121,238</u>	<u>35,000</u>	<u>246.39 %</u>
Total Revenues	<u>\$ 742,948</u>	<u>\$ 689,322</u>	<u>7.78 %</u>
Per Capita	<u>537</u>	<u>498</u>	
<b>EXPENDITURES:</b>			
Current			
General Government	\$ 148,454	\$ 172,477	(13.93)%
Public Safety	109,844	98,630	11.37 %
Public Works	52,805	48,951	7.87 %
Culture and Recreation	49,530	41,029	20.72 %
Miscellaneous	111,957	37,436	199.06 %
Debt Service:			
Principal Payments	63,000	25,000	152.00 %
Interest Payments	79,800	79,643	0.20 %
Capital Outlay	9,032	22,449	(59.77)%
Transfer Out	<u>202,476</u>	<u>15,000</u>	<u>1,249.84 %</u>
Total Expenditures	<u>\$ 826,898</u>	<u>\$ 540,615</u>	<u>52.96 %</u>
Per Capita	<u>598</u>	<u>391</u>	
Long-term Indebtedness	<u>\$ 1,930,000</u>	<u>\$ 1,993,000</u>	<u>(3.16)%</u>
Per Capita	<u>1,396</u>	<u>1,441</u>	
General Fund Unreserved Fund Balance - December 31	<u>\$ 639,738</u>	<u>\$ 536,026</u>	<u>19.35 %</u>
Per Capita	<u>463</u>	<u>388</u>	

SECTION IV

ADDITIONAL INFORMATION

**OBERLOH & ASSOCIATES, LTD.**

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. BOX 186 • 530 WEST PARK ROAD  
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REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Members of the Council  
City of Stacy  
Stacy, Minnesota

We have audited the financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Stacy, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise City of Stacy, Minnesota's basic financial statements and have issued our report thereon dated June 14, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Stacy, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for expressing an opinion on the effectiveness of the City of Stacy, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Stacy, Minnesota's internal control over financial reporting.

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 in a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. Items 10-01 and 10-02. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Stacy, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

City of Stacy, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Stacy, Minnesota's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing body and management of City of Stacy, Minnesota, and for filing with the Office of the State Auditor, State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

*Oberloh & Associates, Ltd*  
Oberloh & Associates, Ltd.

June 14, 2011

CITY OF STACY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2010

INTERNAL CONTROL FINDINGS

Audit Finding 10-01

*Criteria:* The City does not have the internal resources to identify all journal entries required to maintain a general ledger and to prepare the full-disclosure financial statements in conformity with generally accepted accounting principles.

*Condition:* The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City Council. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by generally accepted accounting principles for external reporting. The City is aware of this significant deficiency, and obtains our assistance in the preparation of the City's annual financial statements.

*Cause:* The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

*Effect:* The City's management is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and completed statements prior to distribution to the end users.

*Recommendations:* For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

*Managements Response:* Management agrees with the recommendation that it is not cost effective for the City to prepare the financial statements and maintain a working knowledge of the required disclosures.

Audit Finding 10-02

*Criteria:* Internal control that supports the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

*Condition:* The City does not have adequate segregation of accounting duties.

*Cause:* There are a limited number of office employees.

*Effect:* The lack of adequate segregation of accounting 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.

*Recommendations:* For entities of the City's size, it generally is not practical to obtain the internal control that supports the adequate segregation of duties.

*Managements Response:* Management agrees with the recommendation that it is not cost effective for the City to maintain proper segregation of duties.

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AUDITOR'S REPORT ON LEGAL COMPLIANCE

Honorable Mayor and Members of the Council  
City of Stacy  
Stacy, Minnesota

We have audited the basic financial statements of City of Stacy, Minnesota, as of and for the year ended December 31, 2010 and have issued our report thereon dated June 14, 2011.

We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, City miscellaneous provisions, and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, City of Stacy, Minnesota complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the governing body and management of City of Stacy, Minnesota, and for filing with the Office of the State Auditor, State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

*Oberloh & Associates, Ltd.*  
Oberloh & Associates, Ltd.

June 14, 2011