

CITY OF STACY
STACY, MINNESOTA

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

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
P.O. BOX 186 • 530 WEST PARK ROAD
REDWOOD FALLS, MN 56283

Telephone: (507) 644-6400
Fax: (507) 644-6401

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, 2011, 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, 2011, 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 12, 2012 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 40 through 42 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 12, 2012

CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

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, 2011.

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,308,672 (net assets). Of this amount \$2,152,394 (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 \$155,608 compared to an increase of \$258,668 in the previous year. The governmental activities net assets decreased during 2011 by \$175,331 and the business-type activities net assets increased during 2011 by \$330,939.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$894,627, a decrease of \$144,396 in comparison with the previous year. Approximately 86.1 percent of this total amount, \$770,291, is available for spending at the City's discretion, but \$119,093 has been assigned for specific purposes.
- At the end of the current fiscal year, the fund balance of the general fund was \$704,892 which is 164.0% 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, 2011

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 39 of this report.

Required Supplementary Information

This Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule (on pages 40 - 42) 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, 2011

USING THIS ANNUAL REPORT (Cont.)

Other Supplementary Information

This part of the annual report (starting on page 43) 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 1,030,723	\$ 1,139,333	\$ 1,575,354	\$ 1,393,358	\$ 2,606,077	\$ 2,532,691
Capital Assets	<u>2,358,090</u>	<u>2,481,274</u>	<u>8,033,374</u>	<u>8,288,972</u>	<u>10,391,464</u>	<u>10,770,246</u>
Total Assets	<u>3,388,813</u>	<u>3,620,607</u>	<u>9,608,728</u>	<u>9,682,330</u>	<u>12,997,541</u>	<u>13,302,937</u>
Current Liabilities	123,219	115,682	642,650	744,689	765,869	860,371
Long-term Liabilities	<u>1,802,000</u>	<u>1,866,000</u>	<u>5,121,000</u>	<u>5,423,502</u>	<u>6,923,000</u>	<u>7,289,502</u>
Total Liabilities	<u>1,925,219</u>	<u>1,981,682</u>	<u>5,763,650</u>	<u>6,168,191</u>	<u>7,688,869</u>	<u>8,149,873</u>
Net Assets						
Invested in Capital Assets, Net of Debt	492,090	551,274	2,539,852	2,512,973	3,031,942	3,064,247
Restricted	124,336	111,936	-	4,073	124,336	116,009
Unrestricted	<u>847,168</u>	<u>975,715</u>	<u>1,305,226</u>	<u>997,093</u>	<u>2,152,394</u>	<u>1,972,808</u>
Total Net Assets	<u>\$ 1,463,594</u>	<u>\$ 1,638,925</u>	<u>\$ 3,845,078</u>	<u>\$ 3,514,139</u>	<u>\$ 5,308,672</u>	<u>\$ 5,153,064</u>

A large portion of the City's net assets (57.1 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 (40.6 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, 2011

THE CITY AS A WHOLE (Cont.)

Changes in Net Assets

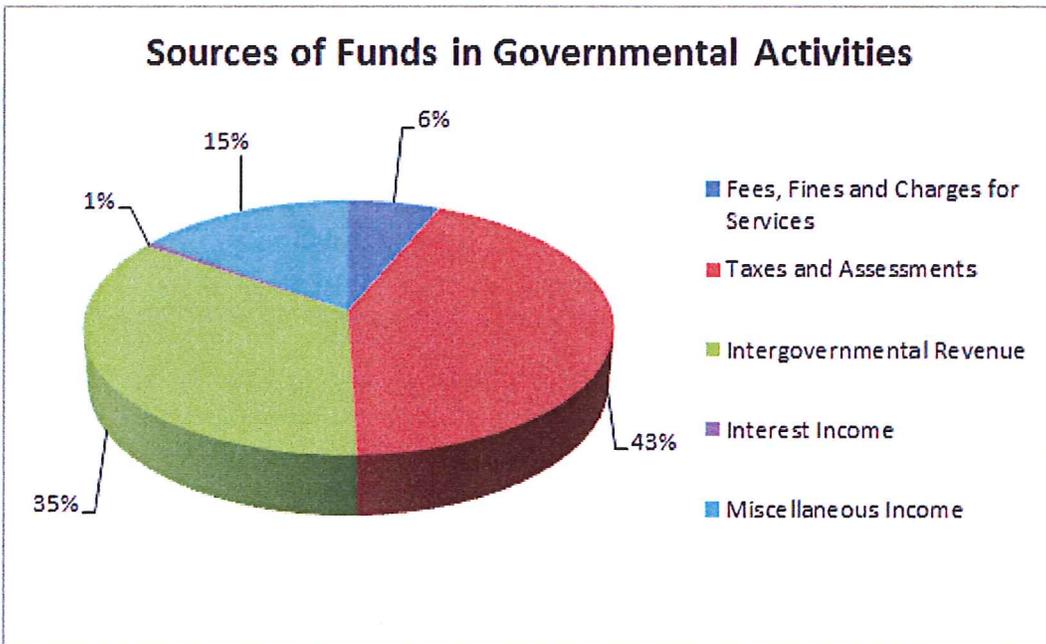
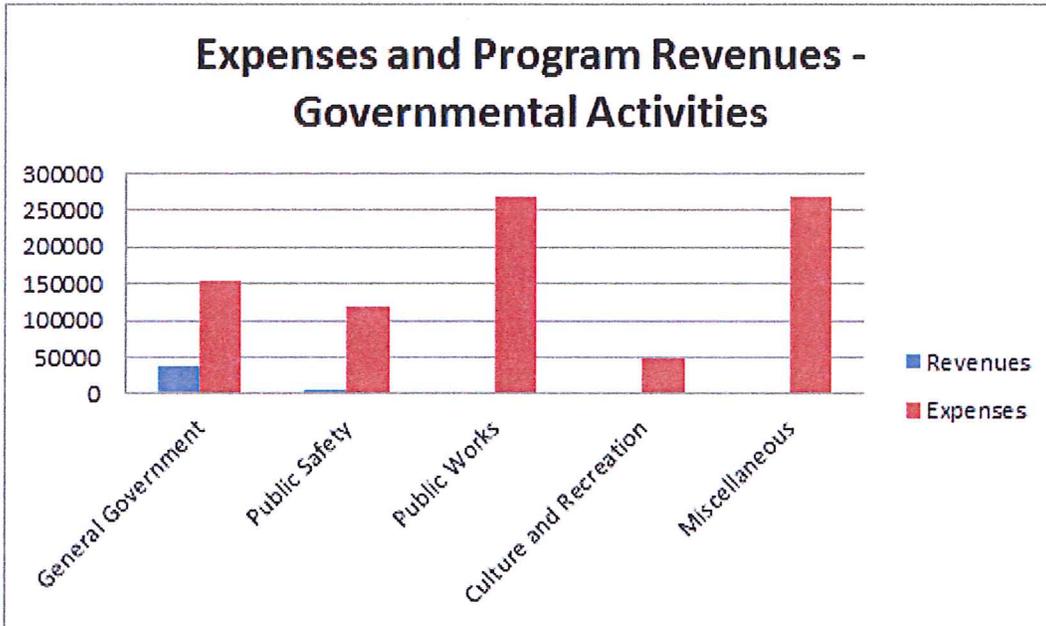
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<u>Revenues</u>						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 41,697	\$ 37,124	\$ 555,587	\$ 422,263	\$ 597,284	\$ 459,387
Sales	-	-	2,524,782	2,581,853	2,524,782	2,581,853
General Revenues:						
Taxes and Assessments	283,885	331,392	211,288	166,852	495,173	498,244
Intergovernmental Revenue	229,643	230,414	-	-	229,643	230,414
Interest Income	4,487	5,535	8,852	10,222	13,339	15,757
Miscellaneous Income	<u>98,008</u>	<u>58,748</u>	<u>33,613</u>	<u>24,810</u>	<u>131,621</u>	<u>83,558</u>
Total Revenues	<u>657,720</u>	<u>663,213</u>	<u>3,334,122</u>	<u>3,206,000</u>	<u>3,991,842</u>	<u>3,869,213</u>
<u>Expenses</u>						
General Government	154,833	153,224	-	-	154,833	153,224
Public Safety	120,221	109,844	-	-	120,221	109,844
Public Works	268,578	266,232	-	-	268,578	266,232
Culture and Recreation	49,722	59,057	-	-	49,722	59,057
Miscellaneous	269,697	111,957	-	-	269,697	111,957
Municipal Liquor Store	-	-	2,417,051	2,478,360	2,417,051	2,478,360
Water	-	-	167,328	188,192	167,328	188,192
Sewer	-	-	377,450	232,583	377,450	232,583
Storm Sewer	-	-	11,354	11,096	11,354	11,096
Total Expenses	<u>863,051</u>	<u>700,314</u>	<u>2,973,183</u>	<u>2,910,231</u>	<u>3,836,234</u>	<u>3,610,545</u>
Transfers	<u>30,000</u>	<u>(81,238)</u>	<u>(30,000)</u>	<u>81,238</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(175,331)	(118,339)	330,939	377,007	155,608	258,668
Net Assets Beginning	<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>
Net Assets Ending	<u>\$ 1,463,594</u>	<u>\$ 1,638,925</u>	<u>\$ 3,845,078</u>	<u>\$ 3,514,139</u>	<u>\$ 5,308,672</u>	<u>\$ 5,153,064</u>

CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

THE CITY AS A WHOLE (Cont.)

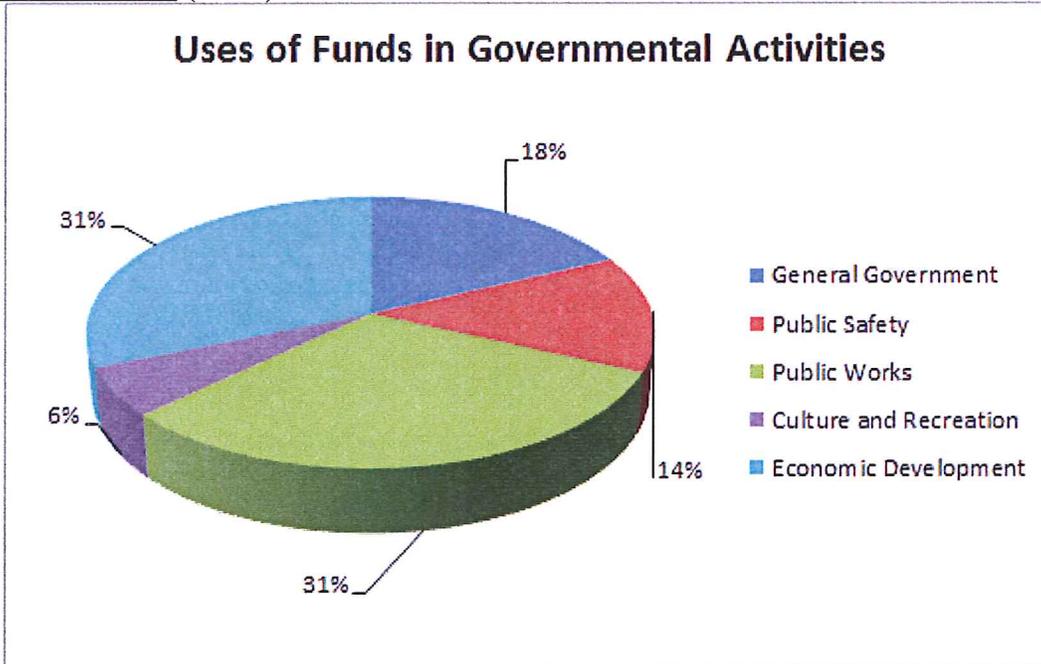
Governmental Activities

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



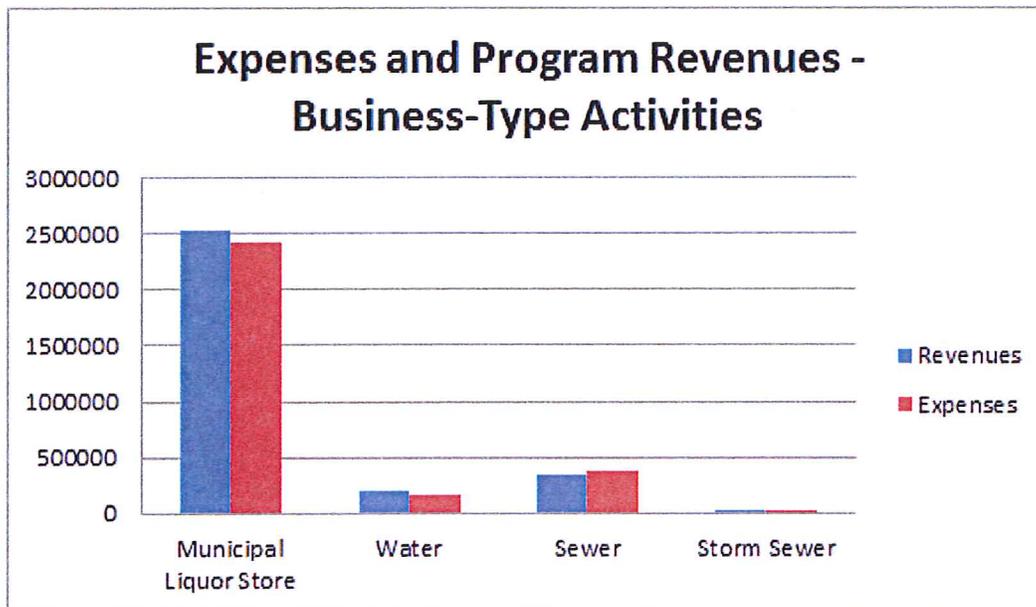
CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

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



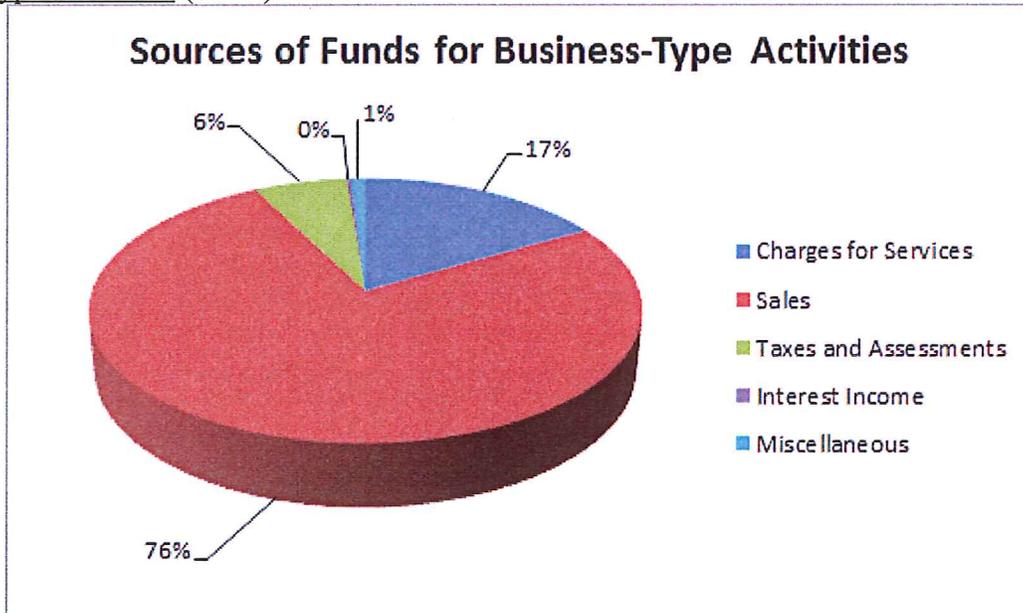
Business-Type Activities

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, 2011

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 \$894,627, a decrease of \$144,396 in comparison with the prior year. Approximately 86.1% of this total amount, \$770,291, constitutes unrestricted fund balance, which is available for spending at the City's discretion, although \$119,093 has been assigned for specific purposes. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been restricted to pay debt service and capital improvements in the amount of \$124,336.

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 \$1,305,226. The total increase in net assets for the funds was \$330,939. 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 amended during the year. The budget called for a break even year in 2011. Revenues exceeded expectations by \$60,148 and expenditures came in under budget by \$16,677 in 2011.

CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

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, 2011, amounts to \$10,391,464 (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 2.6 percent (an 5.0 percent decrease for governmental activities and a 1.9 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land and						
Improvements	\$ 721,977	\$ 721,977	\$ -	\$ -	\$ 721,977	\$ 721,977
Building, Plant and						
Equipment	721,965	685,072	9,464,318	9,496,327	10,186,283	10,181,399
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	4,197,358	4,160,465	9,464,318	9,496,327	13,661,676	13,656,792
Less: Accumulated						
Depreciation	<u>1,839,268</u>	<u>1,679,191</u>	<u>1,430,944</u>	<u>1,207,355</u>	<u>3,270,212</u>	<u>2,886,546</u>
Total	<u>\$ 2,358,090</u>	<u>\$ 2,481,274</u>	<u>\$ 8,033,374</u>	<u>\$ 8,288,972</u>	<u>\$10,391,464</u>	<u>\$10,770,246</u>

Debt

At the end of the current fiscal year, the City had total Long-term debt outstanding of \$7,297,000.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Tax Increment						
Bonds	\$ 495,000	\$ 540,000	\$ -	\$ 35,000	\$ 495,000	\$ 575,000
G.O. Improvement						
Bonds	1,270,000	1,270,000	690,000	720,000	1,960,000	1,990,000
G.O. Revenue						
Bonds	-	-	40,000	50,000	40,000	50,000
Revenue Bonds	-	-	1,685,000	1,755,000	1,685,000	1,755,000
Revenue Notes	-	-	3,016,000	3,216,000	3,016,000	3,216,000
Other Long-Term						
Debt	<u>101,000</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>101,000</u>	<u>120,000</u>
Total	<u>\$1,866,000</u>	<u>\$1,930,000</u>	<u>\$5,431,000</u>	<u>\$5,776,000</u>	<u>\$7,297,000</u>	<u>\$7,706,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

During 2012 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 2011 to meet sewer bond obligations and will continue to look at this as an option in future years.

CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

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.

CITY OF STACY, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Pooled Cash and Equivalents	\$ 546,506	\$ 810,233	\$ 1,356,739
Non Pooled Cash and Equivalents	101,256	374,308	475,564
Receivables:			
Accounts Receivable	48,068	173,143	221,211
Property Taxes Receivable	108,454	36,891	145,345
Prepaid Expense	-	15,144	15,144
Internal Balances	226,439	(226,439)	-
Inventory	-	323,229	323,229
Capital assets not being depreciated:			
Land and Improvements	721,977	-	721,977
Other capital assets:			
Building, Plant and Equipment	721,965	9,464,318	10,186,283
Infrastructure and Improvements	2,753,416	-	2,753,416
Accumulated Depreciation	(1,839,268)	(1,430,944)	(3,270,212)
Bond Issuance Costs, Net	-	47,308	47,308
Bond Discount, Net	-	21,537	21,537
TOTAL ASSETS	<u>3,388,813</u>	<u>9,608,728</u>	<u>12,997,541</u>
LIABILITIES			
Accounts Payable	12,163	51,517	63,680
Accrued Liabilities	15,498	61,169	76,667
Accrued Interest	31,558	59,589	91,147
Due to Other Governmental Units	-	160,375	160,375
Noncurrent liabilities:			
Due within one year	64,000	310,000	374,000
Due in more than one year	<u>1,802,000</u>	<u>5,121,000</u>	<u>6,923,000</u>
TOTAL LIABILITIES	<u>1,925,219</u>	<u>5,763,650</u>	<u>7,688,869</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	492,090	2,539,852	3,031,942
Restricted	124,336	-	124,336
Unrestricted	<u>847,168</u>	<u>1,305,226</u>	<u>2,152,394</u>
TOTAL NET ASSETS	<u>\$ 1,463,594</u>	<u>\$ 3,845,078</u>	<u>\$ 5,308,672</u>

CITY OF STACY, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs Primary Government	Program Revenues		Net Sources (Uses) and Changes in Net Assets	
	Expenses	Fees, Fines and Charges for Services	Sales	Primary Government
				Governmental Activities
				Business-Type Activities
				Total
Governmental Activities:				
General Government	\$ 154,833	\$ 37,428	\$ -	\$ (117,405)
Public Safety	120,221	4,269	-	(115,952)
Public Works	268,578	-	-	(268,578)
Culture and Recreation	49,722	-	-	(49,722)
Miscellaneous	269,697	-	-	(269,697)
Total Governmental Activities	<u>863,051</u>	<u>41,697</u>	<u>-</u>	<u>(821,354)</u>
Business-Type Activities:				
Municipal Liquor Store	2,417,051	-	2,524,782	107,731
Water	167,328	205,859	-	38,531
Sewer	377,450	335,915	-	(41,535)
Storm Sewer	11,354	13,813	-	2,459
Total Business-Type Activities:	<u>2,973,183</u>	<u>555,587</u>	<u>2,524,782</u>	<u>107,186</u>
Total Primary Government	<u>\$ 3,836,234</u>	<u>\$ 597,284</u>	<u>\$ 2,524,782</u>	<u>(821,354)</u>
				<u>107,186</u>
				<u>(714,168)</u>
				495,173
				229,643
				13,339
				131,621
				-
				<u>869,776</u>
				155,608
				<u>5,153,064</u>
				\$ 3,845,078
				<u>\$ 5,308,672</u>
				283,885
				229,643
				4,487
				98,008
				30,000
				<u>646,023</u>
				(175,331)
				<u>1,638,925</u>
				\$ 1,463,594
				<u>\$ 3,845,078</u>
				<u>\$ 5,308,672</u>

General Revenues:

Taxes and Assessments	283,885	211,288	495,173
Intergovernmental Revenue	229,643	-	229,643
Interest Income	4,487	8,852	13,339
Miscellaneous	98,008	33,613	131,621
Transfers	30,000	(30,000)	-
Total General Revenues	<u>646,023</u>	<u>223,753</u>	<u>869,776</u>
Changes in Net Assets	(175,331)	330,939	155,608
Net Assets - January 1	<u>1,638,925</u>	<u>3,514,139</u>	<u>5,153,064</u>
Net Assets - December 31	<u>\$ 1,463,594</u>	<u>\$ 3,845,078</u>	<u>\$ 5,308,672</u>

CITY OF STACY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS:			
Pooled Cash and Equivalents	\$ 379,531	\$ 166,976	\$ 546,507
Non Pooled Cash and Equivalents	32,105	69,151	101,256
Accounts Receivable	40,623	7,445	48,068
Property Taxes Receivable	40,370	68,084	108,454
Due from Other Funds	<u>280,102</u>	<u>-</u>	<u>280,102</u>
Total Assets	<u>\$ 772,731</u>	<u>\$ 311,656</u>	<u>\$ 1,084,387</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Accounts Payable	\$ 12,163	\$ -	\$ 12,163
Accrued Liabilities	15,498	-	15,498
Due to Other Funds	-	53,663	53,663
Deferred Revenue	<u>40,178</u>	<u>68,258</u>	<u>108,436</u>
Total Liabilities	<u>67,839</u>	<u>121,921</u>	<u>189,760</u>
FUND BALANCES:			
Restricted	-	124,336	124,336
Assigned	-	119,093	119,093
Unassigned	<u>704,892</u>	<u>(53,694)</u>	<u>651,198</u>
Total Fund Balances	<u>704,892</u>	<u>189,735</u>	<u>894,627</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 772,731</u>	<u>\$ 311,656</u>	<u>\$ 1,084,387</u>

CITY OF STACY, MINNESOTA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total Governmental Fund Balances	\$ 894,627
<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.	2,358,089
Part of taxes and special assessments receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	108,436
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>(1,897,558)</u>
Net Assets of Governmental Activities	\$ <u>1,463,594</u>

CITY OF STACY, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
REVENUES			
Taxes	\$ 158,400	\$ 98,261	\$ 256,661
Licenses and Permits	14,039	-	14,039
Intergovernmental Revenue	229,643	-	229,643
Charges for Services	25,741	-	25,741
Fines and Forfeits	1,917	-	1,917
Interest Income	2,342	2,146	4,488
Miscellaneous	<u>15,509</u>	<u>82,499</u>	<u>98,008</u>
Total Revenues	<u>447,591</u>	<u>182,906</u>	<u>630,497</u>
EXPENDITURES			
Current Operations:			
General Government	150,936	-	150,936
Public Safety	120,221	-	120,221
Public Works	55,486	-	55,486
Culture and Recreation	24,133	5,854	29,987
Miscellaneous	42,068	227,629	269,697
Debt Service:			
Principal Payments	-	64,000	64,000
Interest Payments	-	77,673	77,673
Capital Outlay	<u>36,893</u>	<u>-</u>	<u>36,893</u>
Total Expenditures	<u>429,737</u>	<u>375,156</u>	<u>804,893</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	17,854	(192,250)	(174,396)
OTHER FINANCING SOURCES (USES)			
Transfer In	58,971	-	58,971
Transfer Out	<u>-</u>	<u>(28,971)</u>	<u>(28,971)</u>
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	76,825	(221,221)	(144,396)
FUND BALANCES - January 1	<u>628,067</u>	<u>410,956</u>	<u>1,039,023</u>
FUND BALANCES - December 31	<u>\$ 704,892</u>	<u>\$ 189,735</u>	<u>\$ 894,627</u>

CITY OF STACY, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (144,399)

Amounts reported for governmental activities in the statement of activities are different because:

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. (123,182)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 27,224

Interest on long-term liabilities is expensed as paid in the funds, but accrued in the period due in the Statement of Net Assets. 1,026

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 64,000

Change in Net Assets of Governmental Activities \$ (175,331)

CITY OF STACY, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Municipal			Nonmajor	
	Liquor			Storm	
	Store	Water Fund	Sewer Fund	Sewer Fund	Total
ASSETS					
CURRENT ASSETS					
Pooled Cash and Equivalents	\$ -	\$ 627,550	\$ 142,779	\$ 39,904	\$ 810,233
Non Pooled Cash and Equivalents	327,555	45,845	908	-	374,308
Accounts Receivable	30,146	62,986	78,248	1,763	173,143
Property Taxes Receivable	-	16,196	20,695	-	36,891
Prepaid Expense	15,144	-	-	-	15,144
Inventory	323,229	-	-	-	323,229
Total Current Assets	<u>696,074</u>	<u>752,577</u>	<u>242,630</u>	<u>41,667</u>	<u>1,732,948</u>
NONCURRENT ASSETS					
Capital Assets:					
Building, Plant and Equipment	2,365,395	1,439,740	5,141,741	517,442	9,464,318
Less: Accumulated Depreciation	<u>535,045</u>	<u>239,447</u>	<u>601,322</u>	<u>55,130</u>	<u>1,430,944</u>
Net Capital Assets	1,830,350	1,200,293	4,540,419	462,312	8,033,374
Bond Issuance Costs, Net	36,504	-	10,804	-	47,308
Bond Discount, Net	<u>18,257</u>	<u>-</u>	<u>3,280</u>	<u>-</u>	<u>21,537</u>
Total Noncurrent Assets	<u>1,885,111</u>	<u>1,200,293</u>	<u>4,554,503</u>	<u>462,312</u>	<u>8,102,219</u>
TOTAL ASSETS	<u>\$2,581,185</u>	<u>\$1,952,870</u>	<u>\$4,797,133</u>	<u>\$ 503,979</u>	<u>\$ 9,835,167</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable	\$ 31,010	\$ 5,208	\$ 13,827	\$ 1,472	\$ 51,517
Accrued Liabilities	43,562	17,607	-	-	61,169
Accrued Interest	32,933	11,665	14,231	760	59,589
Due to Other Funds	226,439	-	-	-	226,439
Due to Other Governmental Units	-	-	160,375	-	160,375
Current Amount of Long-Term Debt	<u>70,000</u>	<u>30,000</u>	<u>200,000</u>	<u>10,000</u>	<u>310,000</u>
Total Current Liabilities	<u>403,944</u>	<u>64,480</u>	<u>388,433</u>	<u>12,232</u>	<u>869,089</u>
LONG-TERM LIABILITIES					
Bonds and Notes Payable	<u>1,615,000</u>	<u>660,000</u>	<u>2,816,000</u>	<u>30,000</u>	<u>5,121,000</u>
TOTAL LIABILITIES	<u>2,018,944</u>	<u>724,480</u>	<u>3,204,433</u>	<u>42,232</u>	<u>5,990,089</u>
NET ASSETS					
Invested in Capital Assets, Net of					
Related Debt	145,350	510,293	1,461,897	422,312	2,539,852
Unrestricted	<u>416,891</u>	<u>718,097</u>	<u>130,803</u>	<u>39,435</u>	<u>1,305,226</u>
Total Net Assets	<u>562,241</u>	<u>1,228,390</u>	<u>1,592,700</u>	<u>461,747</u>	<u>3,845,078</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$2,581,185</u>	<u>\$1,952,870</u>	<u>\$4,797,133</u>	<u>\$ 503,979</u>	<u>\$ 9,835,167</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, 2011

	Municipal			Nonmajor	
	Liquor			Storm	
	Store	Water Fund	Sewer Fund	Sewer Fund	Total
OPERATING REVENUES					
Sales	\$2,524,782	\$ -	\$ -	\$ -	\$ 2,524,782
Charges for Services	-	205,859	335,915	13,813	555,587
Total Operating Revenues	<u>2,524,782</u>	<u>205,859</u>	<u>335,915</u>	<u>13,813</u>	<u>3,080,369</u>
COST OF SALES	<u>1,653,003</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,653,003</u>
GROSS PROFIT	<u>871,779</u>	<u>205,859</u>	<u>335,915</u>	<u>13,813</u>	<u>1,427,366</u>
OPERATING EXPENSES					
Personnel Services and Benefits	372,286	46,277	110,566	-	529,129
Advertising	10,727	-	-	-	10,727
Depreciation	77,765	24,969	112,895	7,961	223,590
Bank Fees	43,932	-	-	-	43,932
Insurance	28,238	7,448	5,561	-	41,247
Rent	8,179	-	-	-	8,179
Professional Services	18,436	20,982	22,108	1,534	63,060
Repairs and Maintenance	19,049	1,411	1,488	28	21,976
Supplies and Chemicals	17,955	21,293	30,881	-	70,129
Telephone	5,553	1,312	1,312	-	8,177
Training and Travel	1,488	1,172	630	-	3,290
Utilities	43,331	9,802	42,232	-	95,365
Miscellaneous	3,493	3,398	13,555	-	20,446
Entertainment	29,734	-	-	-	29,734
Total Operating Expenses	<u>680,166</u>	<u>138,064</u>	<u>341,228</u>	<u>9,523</u>	<u>1,168,981</u>
NET OPERATING INCOME (LOSS)	<u>191,613</u>	<u>67,795</u>	<u>(5,313)</u>	<u>4,290</u>	<u>258,385</u>
NON OPERATING INCOME AND EXPENSE:					
Interest Income	2,366	5,262	900	324	8,852
Taxes and Special Assessments	-	89,176	122,112	-	211,288
Miscellaneous Income	28,467	5,146	-	-	33,613
Interest Expense	(83,607)	(29,264)	(36,222)	(1,831)	(150,924)
Bad Debt Expense	(275)	-	-	-	(275)
Net Non Operating Income and Expense	<u>(53,049)</u>	<u>70,320</u>	<u>86,790</u>	<u>(1,507)</u>	<u>102,554</u>
NET INCOME BEFORE TRANSFERS	138,564	138,115	81,477	2,783	360,939
Transfer Out	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,000)</u>
CHANGE IN NET ASSETS	108,564	138,115	81,477	2,783	330,939
NET ASSETS - January 1	<u>453,677</u>	<u>1,090,275</u>	<u>1,511,223</u>	<u>458,964</u>	<u>3,514,139</u>
NET ASSETS - December 31	<u>\$ 562,241</u>	<u>\$1,228,390</u>	<u>\$1,592,700</u>	<u>\$ 461,747</u>	<u>\$ 3,845,078</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, 2011

	<u>Municipal</u>			<u>Nonmajor</u>	
	<u>Liquor Store</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm</u> <u>Sewer</u> <u>Fund</u>	<u>Total</u>
CASH FLOWS FROM					
OPERATING ACTIVITIES:					
Receipts from Customers	\$ 2,519,318	\$ 215,770	\$ 357,769	\$ 19,083	\$ 3,111,940
Payments to Vendors	(1,956,104)	(59,753)	(117,196)	(90)	(2,133,143)
Payments to Employees	(358,370)	(46,277)	(110,566)	-	(515,213)
Other Receipts and Payments	<u>28,467</u>	<u>5,146</u>	<u>-</u>	<u>-</u>	<u>33,613</u>
Net Cash Provided By					
Operating Activities	<u>233,311</u>	<u>114,886</u>	<u>130,007</u>	<u>18,993</u>	<u>497,197</u>
CASH FLOWS FROM					
NONCAPITAL FINANCING					
ACTIVITIES:					
Transfer to Other Funds	(30,000)	-	-	-	(30,000)
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>(30,000)</u>	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
CASH FLOWS FROM CAPITAL					
AND RELATED FINANCING					
ACTIVITIES:					
Purchase of Capital Assets	(4,843)	-	-	-	(4,843)
Property Taxes Collected	-	86,456	118,636	-	205,092
Principal Paid on Capital Debt	(70,000)	(65,000)	(200,000)	(10,000)	(345,000)
Interest Paid on Capital Debt	(84,828)	(30,009)	(36,054)	(2,041)	(152,932)
Due to Other Governments	<u>-</u>	<u>-</u>	<u>(6,194)</u>	<u>-</u>	<u>(6,194)</u>
Net Cash Used By Capital and					
Related Financing Activities	<u>(159,671)</u>	<u>(8,553)</u>	<u>(123,612)</u>	<u>(12,041)</u>	<u>(303,877)</u>
CASH FLOWS FROM INVESTING					
ACTIVITIES:					
Interest Received	<u>2,366</u>	<u>5,256</u>	<u>894</u>	<u>323</u>	<u>8,839</u>
Net Cash Provided By					
Investing Activities	<u>2,366</u>	<u>5,256</u>	<u>894</u>	<u>323</u>	<u>8,839</u>
NET INCREASE IN CASH	46,006	151,589	7,289	7,275	212,159
CASH AND CASH					
EQUIVALENTS - January 1	<u>281,549</u>	<u>521,805</u>	<u>136,398</u>	<u>32,629</u>	<u>972,381</u>
CASH AND CASH					
EQUIVALENTS - December 31	<u>\$ 327,555</u>	<u>\$ 673,394</u>	<u>\$ 143,687</u>	<u>\$ 39,904</u>	<u>\$ 1,184,540</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, 2011

	Municipal		Nonmajor		<u>Total</u>
	<u>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)	\$ 191,613	\$ 67,795	\$ (5,313)	\$ 4,290	\$ 258,385
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities					
Depreciation	77,765	24,969	112,895	7,961	223,590
Changes in Assets and Liabilities					
Accounts Receivable	(5,464)	9,911	21,854	5,270	31,571
Inventory	1,606	-	-	-	1,606
Prepaid Items	(1,235)	-	-	-	(1,235)
Accounts Payable	(73,675)	4,329	571	1,472	(67,303)
Accrued Liabilities	14,234	2,736	-	-	16,970
Other Revenues and Expenses	<u>28,467</u>	<u>5,146</u>	<u>-</u>	<u>-</u>	<u>33,613</u>
Net Cash Provided By Operating Activities	<u>\$ 233,311</u>	<u>\$ 114,886</u>	<u>\$ 130,007</u>	<u>\$ 18,993</u>	<u>\$ 497,197</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 2011. 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 fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - Consists of amounts that are not in spendable form, such as prepaid items.

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

Committed - Consists of internally imposed constraints. These constraints are established by Resolution of the City Council.

Assigned - Consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management.

Unassigned - The residual classification for the general fund and also reflects negative residual amounts in other funds

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

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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, 2011.

<u>Function Area</u>	Budget	Actual	Variance
Miscellaneous	\$ 16,711	\$ 42,068	\$ (25,357)

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2011:

Stacy Ponds Business Park	(7,771)
Tax Abatement Woodsman 2004	(45,923)

The above deficits will be eliminated through transfers from other funds, bonding and future tax and assessment collections.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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 \$1,827,193 and the bank balance was \$1,846,976 including certificates of deposits of \$99,181. Of the bank balance, \$319,053 was covered by federal depository insurance. Of the remaining balance, \$1,321,220 was collateralized with securities held by the pledging financial institution's trust department in the City's name. \$206,703 of City deposits were not covered by proper collateral.

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	\$	1,827,193
Total Cash on Hand		<u>5,113</u>
	\$	<u><u>1,832,306</u></u>
Statement of Net Assets		
Pooled Cash and Equivalents	\$	1,356,742
Non Pooled Cash and Equivalents		<u>475,564</u>
	\$	<u><u>1,832,306</u></u>

4. DUE TO AND FROM OTHER FUNDS

Due to and from other funds at December 31, 2011, follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 280,102	\$ -
Municipal Liquor Fund	-	226,439
Stacy Ponds Business Park	-	7,792
Tax Abatement Woodsman 2004 Fund	-	45,871
	<u>\$ 280,102</u>	<u>\$ 280,102</u>

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

4. DUE TO AND FROM OTHER FUNDS (Cont.)

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	\$ 40,178	\$ -
Nonmajor Governmental Funds		
Delinquent taxes receivable	<u>68,258</u>	<u>-</u>
Total	<u>\$ 108,436</u>	<u>\$ -</u>

6. TRANSFERS

Transfers to and from other funds at December 31, 2011, follows:

	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>
General Fund	\$ -	\$ 58,971
Developer Escrow	28,971	-
Municipal Liquor Store Fund	<u>30,000</u>	<u>-</u>
	<u>\$ 58,971</u>	<u>\$ 58,971</u>

- The Municipal Liquor Store Fund transferred \$30,000 to the General Fund for operating purposes.
- Developer Escrow accounts were closed and transferred to the General Fund of \$28,971.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN CAPITAL ASSETS

Governmental Activities - Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	Balance <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	333,701	36,893	-	370,594
Building, Plant, Equipment Infrastructure and Improvements	351,359	-	-	351,359
Subtotal	<u>2,753,416</u>	<u>-</u>	<u>-</u>	<u>2,753,416</u>
Subtotal	<u>3,740,326</u>	<u>36,893</u>	<u>-</u>	<u>3,777,207</u>
Less: Accumulated Depreciation				
Land Improvements	62,127	14,412	-	76,539
Equipment and Machinery	126,371	9,560	-	135,931
Buildings, Plant, Equipment Infrastructure and Improvements	128,181	6,409	-	134,590
Subtotal	<u>1,362,512</u>	<u>129,696</u>	<u>-</u>	<u>1,492,208</u>
Subtotal	<u>1,679,191</u>	<u>160,077</u>	<u>-</u>	<u>1,839,268</u>
Net Other Capital Assets	<u>2,061,135</u>	<u>(123,184)</u>	<u>-</u>	<u>1,937,939</u>
Net Capital Assets	<u>\$ 2,481,274</u>	<u>\$ (123,184)</u>	<u>\$ -</u>	<u>\$ 2,358,078</u>

Business-Type Activities - The following is a summary of business-type activities capital assets at December 31, 2011

	Balance <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	Balance <u>December 31</u>
Other Capital Assets:				
Plant and Equipment	\$ 9,496,327	\$ 7,991	\$ 40,000	\$ 9,464,318
Subtotal	<u>9,496,327</u>	<u>7,991</u>	<u>40,000</u>	<u>9,464,318</u>
Less: Accumulated Depreciation				
Plant and Equipment	1,207,355	223,590	-	1,430,945
Subtotal	<u>1,207,355</u>	<u>223,590</u>	<u>-</u>	<u>1,430,945</u>
Net Capital Assets	<u>\$ 8,288,972</u>	<u>\$ (215,599)</u>	<u>\$ 40,000</u>	<u>\$ 8,033,373</u>

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN FIXED ASSETS (Cont.)

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

Governmental Activities:

General Government	\$	1,400
Public Works		140,280
Culture and Recreation		<u>18,397</u>
Total Depreciation Expense - Governmental Activities	\$	<u><u>160,077</u></u>

Business-Type Activities:

Municipal Liquor Store	\$	77,765
Water		24,969
Sewer		112,895
Storm Sewer		<u>7,961</u>
Total Depreciation Expense - Business-Type Activities	\$	<u><u>223,590</u></u>

8. FUND BALANCE

A. Classifications

	General Fund	Fire Protection	Non Major Governmental Funds	Total
Restricted for:				
Special Revenue Park	\$ -	\$ -	\$ 3,090	\$ 3,090
Tax Increment funds	-	-	14,571	14,571
Debt Service	<u>-</u>	<u>-</u>	<u>106,675</u>	<u>106,675</u>
Total Restricted	<u>-</u>	<u>-</u>	<u>124,336</u>	<u>124,336</u>
Assigned to:				
Economic Development	-	-	25,915	25,915
Park Projects	-	-	9,137	9,137
Hockey Arena	<u>-</u>	<u>-</u>	<u>84,041</u>	<u>84,041</u>
Total Assigned	<u>-</u>	<u>-</u>	<u>119,093</u>	<u>119,093</u>
Unassigned	<u>704,892</u>	<u>-</u>	<u>(53,694)</u>	<u>651,198</u>
Total	<u><u>\$ 704,892</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 189,735</u></u>	<u><u>\$ 894,627</u></u>

B. Minimum Unassigned Fund Balance Policy

The City Council has formally adopted a policy regarding the minimum unassigned fund balance for the General Fund. The most significant revenue source of the General Fund is property taxes. This revenue source is received in two installments during the year - June and December. As such, it is the City's goal to begin each fiscal year with sufficient working capital to fund operations between each semi-annual receipt of property taxes.

The policy establishes a year-end targeted unassigned fund balance amount for cash-flow timing needs in the range of 35-50% of the subsequent year's budgeted expenditures. At December 31, 2011, the unassigned fund balance of the General Fund was 181.8% of the subsequent year's budgeted 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, 2011.

	<u>Balance</u> <u>January 1</u>	<u>Debt Issued</u>	<u>Debt</u> <u>Retired</u>	<u>Balance</u> <u>December 31</u>	<u>Current</u> <u>Amount</u>
G.O. Improvement Bonds	\$ 1,990,000	\$ -	\$ 30,000	\$ 1,960,000	\$ 30,000
G.O. Revenue Notes	3,216,000	-	200,000	3,016,000	200,000
G.O. Equipment Bonds	53,000	-	13,000	40,000	13,000
G.O. Revenue Bonds	50,000	-	10,000	40,000	10,000
Refund Bonds					
Tax Abatement Portion	540,000	-	45,000	495,000	45,000
Refunding Portion	35,000	-	35,000	-	-
EDA Public Project Lease	1,320,000	-	40,000	1,280,000	40,000
Revenue Bonds	435,000	-	30,000	405,000	30,000
Property Financing	<u>67,000</u>	<u>-</u>	<u>6,000</u>	<u>61,000</u>	<u>6,000</u>
Totals	<u>\$ 7,706,000</u>	<u>\$ -</u>	<u>\$ 409,000</u>	<u>\$ 7,297,000</u>	<u>\$ 374,000</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, 2011 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.	315,000
\$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.	180,000
\$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.	40,000
\$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.	<u>61,000</u>
Total Governmental Activities	<u>1,866,000</u>

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.	40,000
\$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.	690,000
\$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.	3,016,000
\$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.	405,000
\$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.	<u>1,280,000</u>
Total Business-Type Activities	<u>5,431,000</u>
Total Long-Term Debt	<u>\$ 7,297,000</u>

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		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	24,264	59,264
2016	170,000	48,183	218,183	35,000	22,890	57,890
2017-2021	925,000	127,938	1,052,938	210,000	90,307	300,307
2022-2026	150,000	3,150	153,150	255,000	42,113	297,113
2027-2031	-	-	-	60,000	2,640	62,640
Total	<u>\$1,765,000</u>	<u>\$ 433,453</u>	<u>\$2,198,453</u>	<u>\$ 730,000</u>	<u>\$ 265,685</u>	<u>\$ 995,685</u>

	G. O. Equipment Bond Governmental Funds			G.O. Revenue Note Business-Type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 13,000	\$ 1,256	\$ 14,256	\$ 217,989	\$ 34,158	\$ 252,147
2013	13,000	769	13,769	220,159	31,622	251,781
2014	14,000	263	14,263	222,329	29,053	251,382
2015	-	-	-	223,173	26,526	249,699
2016	-	-	-	220,930	23,968	244,898
2017-2021	-	-	-	1,129,722	84,311	1,214,033
2022-2026	-	-	-	942,073	24,054	966,127
2027-2031	-	-	-	-	-	-
Total	<u>\$ 40,000</u>	<u>\$ 2,288</u>	<u>\$ 42,288</u>	<u>\$3,176,375</u>	<u>\$ 253,692</u>	<u>\$3,430,067</u>

	Revenue Bonds Business-Type Activities			Other Long-Term Debt Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	80,000	64,446	144,446	8,000	1,232	9,232
2017-2021	470,000	261,164	731,164	25,000	1,635	26,635
2022-2026	390,000	154,350	544,350	-	-	-
2027-2031	450,000	61,864	511,864	-	-	-
Total	<u>\$1,685,000</u>	<u>\$ 833,049</u>	<u>\$2,518,049</u>	<u>\$ 61,000</u>	<u>\$ 10,858</u>	<u>\$ 71,858</u>

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

Governmental Activities:	
General Government	\$ 2,497
Public Works	72,812
Culture and Recreation	1,338
Total Interest Expense - Governmental Activities	<u>\$ 76,647</u>

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

Business-Type Activities:		
Water Fund	\$	29,264
Sewer Fund		36,222
Storm Sewer Fund		1,831
Municipal Liquor Store		<u>83,607</u>
Total Interest Expense - Business-Type Activities	\$	<u><u>150,924</u></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.

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.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

A. Plan Description (Cont.)

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 GERP 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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. In 2011, the City of Stacy, Minnesota was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members.

The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$30,513, \$32,963 and \$30,052, 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 2011.

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.

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.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

13. COMMITMENTS AND CONTINGENCIES (Cont.)

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	TIF 1-2
	Minnesota Statute	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	456
Current	25,762	49458
Captured - retained	23,423	49002

15. SUBSEQUENT EVENTS

Management evaluated all activity of City of Stacy through June 12, 2012 (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, 2011
 With Comparative Amounts for the year ended December 31, 2010

	<u>2011</u>			Variance with Final Budget	<u>2010</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
REVENUES:					
TAXES:					
General Property Taxes	\$ <u>172,313</u>	\$ <u>172,313</u>	\$ <u>158,400</u>	\$ <u>(13,913)</u>	\$ <u>174,931</u>
LICENSES AND PERMITS:					
Licenses and Permits	<u>8,350</u>	<u>5,350</u>	<u>14,039</u>	<u>8,689</u>	<u>15,731</u>
INTERGOVERNMENTAL REVENUE:					
Local Government Aid	284,058	227,714	229,256	1,542	229,641
PERA Rate Increase Aid	<u>387</u>	<u>387</u>	<u>387</u>	<u>-</u>	<u>773</u>
Total Intergovernmental Revenue	<u>284,445</u>	<u>228,101</u>	<u>229,643</u>	<u>1,542</u>	<u>230,414</u>
CHARGES FOR SERVICES:					
General Government	400	400	23,389	22,989	13,670
Other Charges for Services	<u>1,500</u>	<u>1,500</u>	<u>2,352</u>	<u>852</u>	<u>6,069</u>
Total Charges for Services	<u>1,900</u>	<u>1,900</u>	<u>25,741</u>	<u>23,841</u>	<u>19,739</u>
FINES AND FORFEITS	<u>2,000</u>	<u>2,000</u>	<u>1,917</u>	<u>(83)</u>	<u>1,654</u>
INTEREST INCOME	<u>750</u>	<u>750</u>	<u>2,342</u>	<u>1,592</u>	<u>1,849</u>
MISCELLANEOUS:					
Miscellaneous Income	<u>2,400</u>	<u>6,000</u>	<u>15,509</u>	<u>9,509</u>	<u>13,027</u>
Total Miscellaneous	<u>2,400</u>	<u>6,000</u>	<u>15,509</u>	<u>9,509</u>	<u>13,027</u>
TOTAL REVENUES	<u>472,158</u>	<u>416,414</u>	<u>447,591</u>	<u>31,177</u>	<u>457,345</u>
OTHER FINANCING SOURCES					
Transfer In	<u>15,000</u>	<u>30,000</u>	<u>58,971</u>	<u>28,971</u>	<u>20,000</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>487,158</u>	<u>446,414</u>	<u>506,562</u>	<u>60,148</u>	<u>477,345</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, 2011
 With Comparative Amounts for the year ended December 31, 2010

	<u>2011</u>			Variance	<u>2010</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	with Final	<u>Actual</u>
	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>
EXPENDITURES:					
GENERAL GOVERNMENT:					
Mayor and Council:					
Personnel Services	\$ 9,230	\$ 4,576	\$ 4,169	\$ 407	\$ 8,352
Other Current Expenditures	6,675	3,425	2,871	554	1,802
Election:					
Current Expenditures	-	-	293	(293)	2,012
Administrative and Finance:					
Personnel Services	46,943	46,943	47,116	(173)	48,207
Other Current Expenditures	15,725	12,875	10,626	2,249	10,755
Other General Government:					
Personnel Services	27,179	26,579	30,038	(3,459)	25,632
Other Current Expenditures	50,201	45,150	33,775	11,375	33,776
Capital Outlay	23,700	23,700	36,893	(13,193)	-
Planning and Zoning:					
Personnel Services	1,500	750	473	277	453
Other Current Expenditures	5,100	4,701	3,257	1,444	990
Independent Auditing					
Current Expenditures	4,000	3,500	3,000	500	3,279
Legal					
Current Expenditures	<u>22,400</u>	<u>21,200</u>	<u>15,318</u>	<u>5,882</u>	<u>13,196</u>
Total General Government	<u>212,653</u>	<u>193,399</u>	<u>187,829</u>	<u>5,570</u>	<u>148,454</u>
PUBLIC SAFETY:					
Police Protection:					
Services and Charges	-	-	46,435	(46,435)	50,305
Building Inspection:					
Current Expenditures	6,550	6,550	23,308	(16,758)	1,523
Fire Protection:					
Services and Charges	111,805	111,805	50,478	61,327	58,016
Capital Outlay	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
Total Public Safety	<u>128,355</u>	<u>128,355</u>	<u>120,221</u>	<u>8,134</u>	<u>109,844</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, 2011
 With Comparative Amounts for the year ended December 31, 2010

	<u>2011</u>			Variance with Final	<u>2010</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
EXPENDITURES:					
PUBLIC WORKS:					
Highways and Streets:					
Personnel Services	\$ 4,871	\$ 4,871	\$ 8,518	\$ (3,647)	\$ 8,355
Other Current Expenditures	24,751	21,250	14,109	7,141	15,117
Capital Outlay	10,000	8,000	-	8,000	-
Ice and Snow Removal:					
Personnel Services	13,414	13,414	9,632	3,782	15,118
Other Current Expenditures	14,000	11,000	8,164	2,836	1,501
Street Lighting:					
Current Expenditures	<u>19,000</u>	<u>14,000</u>	<u>15,063</u>	<u>(1,063)</u>	<u>12,714</u>
Total Public Works	<u>86,036</u>	<u>72,535</u>	<u>55,486</u>	<u>17,049</u>	<u>52,805</u>
CULTURE AND RECREATION:					
Other Services and Charges:					
Current Expenditures	<u>36,414</u>	<u>35,414</u>	<u>24,133</u>	<u>11,281</u>	<u>34,154</u>
Total Culture and Recreation	<u>36,414</u>	<u>35,414</u>	<u>24,133</u>	<u>11,281</u>	<u>34,154</u>
MISCELLANEOUS:					
Insurance	23,200	16,211	13,097	3,114	12,215
Other Current Expenditures	<u>500</u>	<u>500</u>	<u>28,971</u>	<u>(28,471)</u>	<u>27,832</u>
Total Miscellaneous	<u>23,700</u>	<u>16,711</u>	<u>42,068</u>	<u>(25,357)</u>	<u>40,047</u>
TOTAL EXPENDITURES	<u>487,158</u>	<u>446,414</u>	<u>429,737</u>	<u>16,677</u>	<u>385,304</u>
EXCESS REVENUES AND OTHER SOURCES OVER EXPENDITURES	-	-	76,825	76,825	92,041
FUND BALANCES - January 1	<u>628,067</u>	<u>628,067</u>	<u>628,067</u>	-	<u>628,067</u>
FUND BALANCES - December 31	<u>\$ 628,067</u>	<u>\$ 628,067</u>	<u>\$ 704,892</u>	<u>\$ 76,825</u>	<u>\$ 720,108</u>

SECTION III
SUPPLEMENTAL SECTION

CITY OF STACY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	Special Revenue Funds	Debt Service Funds	Total
ASSETS:			
Pooled Cash and Equivalents	\$ 65,123	\$ 101,853	\$ 166,976
Non Pooled Cash and Equivalents	69,151	-	69,151
Accounts Receivable	2,476	4,969	7,445
Property Taxes Receivable	<u>59,975</u>	<u>8,109</u>	<u>68,084</u>
 TOTAL ASSETS	 <u>\$ 196,725</u>	 <u>\$ 114,931</u>	 <u>\$ 311,656</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Due to Other Funds	\$ -	\$ 53,663	\$ 53,663
Deferred Revenue	<u>59,971</u>	<u>8,287</u>	<u>68,258</u>
 Total Liabilities	 <u>59,971</u>	 <u>61,950</u>	 <u>121,921</u>
 FUND BALANCES:			
Restricted	17,661	106,675	124,336
Assigned	119,093	-	119,093
Unassigned	<u>-</u>	<u>(53,694)</u>	<u>(53,694)</u>
Total Fund Balances	<u>136,754</u>	<u>52,981</u>	<u>189,735</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 196,725</u>	 <u>\$ 114,931</u>	 <u>\$ 311,656</u>

CITY OF STACY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Special Revenue Funds	Debt Service Funds	Total
REVENUES			
Taxes	\$ 9,909	\$ 88,352	\$ 98,261
Interest Income	1,354	792	2,146
Miscellaneous	<u>59,299</u>	<u>23,200</u>	<u>82,499</u>
Total Revenues	<u>70,562</u>	<u>112,344</u>	<u>182,906</u>
EXPENDITURES			
Culture and Recreation	5,854	-	5,854
Miscellaneous	227,629	-	227,629
Principal Payments	-	64,000	64,000
Interest Payments	<u>-</u>	<u>77,673</u>	<u>77,673</u>
Total Expenditures	<u>233,483</u>	<u>141,673</u>	<u>375,156</u>
EXCESS EXPENDITURES UNDER REVENUES	(162,921)	(29,329)	(192,250)
OTHER FINANCING SOURCES (USES)			
Transfer Out	<u>(28,971)</u>	<u>-</u>	<u>(28,971)</u>
EXCESS EXPENDITURES AND OTHER USES UNDER REVENUES AND OTHER SOURCES	(191,892)	(29,329)	(221,221)
FUND BALANCES - January 1	<u>328,646</u>	<u>82,310</u>	<u>410,956</u>
FUND BALANCES - December 31	<u>\$ 136,754</u>	<u>\$ 52,981</u>	<u>\$ 189,735</u>

CITY OF STACY, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 DECEMBER 31, 2011

		Developer Escrow	Economic Development Authority	Special Rev Park	Lions Club Park Fund	Support Our Troops	Hockey Arena Project	Tax Increment 1-1	Tax Increment 1-2	Total
ASSETS										
Pooled Cash and Equivalents	\$ -	\$ 23,435	\$ 3,090	\$ 9,137	\$ -	\$ -	\$ 14,890	\$ 5,075	\$ 9,496	\$ 65,123
Non Pooled Cash and Equivalents	-	-	-	-	-	-	69,151	-	-	69,151
Accounts Receivable	-	2,476	-	-	-	-	-	-	-	2,476
Property Taxes Receivable	-	900	-	-	-	-	-	17,132	41,943	59,975
TOTAL ASSETS	\$ -	\$ 26,811	\$ 3,090	\$ 9,137	\$ -	\$ -	\$ 84,041	\$ 22,207	\$ 51,439	\$ 196,725
LIABILITIES										
Deferred Revenue	\$ -	\$ 896	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,132	\$ 41,943	\$ 59,971
Total Liabilities	-	896	-	-	-	-	-	17,132	41,943	59,971
FUND BALANCES										
Restricted	-	-	3,090	-	-	-	-	5,075	9,496	17,661
Assigned	-	25,915	-	9,137	-	-	84,041	-	-	119,093
Total Fund Balances	-	25,915	3,090	9,137	-	-	84,041	5,075	9,496	136,754
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ 26,811	\$ 3,090	\$ 9,137	\$ -	\$ -	\$ 84,041	\$ 22,207	\$ 51,439	\$ 196,725

CITY OF STACY, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Developer Escrow	Economic Development Authority	Special Rev Park	Lions Club Park Fund	Support Our Troops	Hockey Arena Project	Tax Increment 1-1	Tax Increment 1-2	Total
REVENUES									
Taxes	\$ -	\$ 2,866	\$ -	\$ -	\$ -	\$ -	\$ 1,963	\$ 5,080	\$ 9,909
Interest Income	-	30	32	107	5	1,181	-	-	1,354
Miscellaneous	-	599	-	9,900	-	48,800	-	-	59,299
Total Revenues	<u>-</u>	<u>3,495</u>	<u>32</u>	<u>10,007</u>	<u>5</u>	<u>49,981</u>	<u>1,963</u>	<u>5,080</u>	<u>70,562</u>
EXPENDITURES									
Culture and Recreation	-	-	-	5,854	-	-	-	-	5,854
Miscellaneous	-	924	-	-	5,105	219,998	801	801	227,629
Total Expenditures	<u>-</u>	<u>924</u>	<u>-</u>	<u>5,854</u>	<u>5,105</u>	<u>219,998</u>	<u>801</u>	<u>801</u>	<u>233,483</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	-	2,571	32	4,153	(5,100)	(170,017)	1,162	4,279	(162,921)
OTHER FINANCING SOURCES (USES)									
Transfer Out	<u>(28,971)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,971)</u>
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(28,971)	2,571	32	4,153	(5,100)	(170,017)	1,162	4,279	(191,892)
FUND BALANCES (DEFICIT) - January 1	<u>28,971</u>	<u>23,344</u>	<u>3,058</u>	<u>4,984</u>	<u>5,100</u>	<u>254,058</u>	<u>3,914</u>	<u>5,217</u>	<u>328,646</u>
FUND BALANCES - December 31	<u>\$ -</u>	<u>\$ 25,915</u>	<u>\$ 3,090</u>	<u>\$ 9,137</u>	<u>\$ -</u>	<u>\$ 84,041</u>	<u>\$ 5,076</u>	<u>\$ 9,496</u>	<u>\$ 136,754</u>

CITY OF STACY, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 DECEMBER 31, 2011

	Tax	Abatement	Stacy Ponds	Doyle	Road	2008 Lease	
	Woodsman	Stacy Ponds	Lighting	Improvement	Purchase		Total
	2004	Business Park	Project Bond	Project			
ASSETS							
Pooled Cash and Equivalents	\$ -	\$ -	\$ 18,262	\$ 81,585	\$ 2,005	\$ -	\$ 101,852
Accounts Receivable	(65)	-	5,000	34	-	-	4,969
Property Taxes Receivable	120	3,599	-	2,590	1,800	-	8,109
	<u>55</u>	<u>3,600</u>	<u>23,263</u>	<u>84,208</u>	<u>3,805</u>	<u>3,805</u>	<u>114,931</u>
TOTAL ASSETS	\$ 55	\$ 3,600	\$ 23,263	\$ 84,208	\$ 3,805	\$ 3,805	\$ 114,931
LIABILITIES AND NET ASSETS							
LIABILITIES							
Due to Other Funds	\$ 45,871	\$ 7,792	\$ -	\$ -	\$ -	\$ -	\$ 53,663
Deferred Revenue	107	3,579	-	2,812	1,789	-	8,287
	<u>45,978</u>	<u>11,371</u>	<u>-</u>	<u>2,812</u>	<u>1,789</u>	<u>1,789</u>	<u>61,950</u>
Total Liabilities	45,978	11,371	-	2,812	1,789	1,789	61,950
FUND BALANCES							
Restricted	-	-	23,263	81,396	2,016	-	106,675
Unassigned	(45,923)	(7,771)	-	-	-	-	(53,694)
Total Fund Balances (Deficit)	<u>(45,923)</u>	<u>(7,771)</u>	<u>23,263</u>	<u>81,396</u>	<u>2,016</u>	<u>2,016</u>	<u>52,981</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 55	\$ 3,600	\$ 23,263	\$ 84,208	\$ 3,805	\$ 3,805	\$ 114,931

CITY OF STACY, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Tax					
REVENUES	Abatement	Stacy Ponds	Doyle	Road	2008 Lease	Total
Taxes	Woodsmen	Business Park	Lighting	Improvement	Purchase	
Interest Income	2004	Project Bond	Project	Purchase		
	\$ 38,087	\$ 15,819	\$ -	\$ 26,313	\$ 8,133	\$ 88,352
	-	(2)	103	691	-	792
	-	-	23,200	-	-	23,200
Total Revenues	<u>38,087</u>	<u>15,817</u>	<u>23,303</u>	<u>27,004</u>	<u>8,133</u>	<u>112,344</u>
EXPENDITURES						
Principal Payments	25,000	-	13,000	20,000	6,000	64,000
Interest Payments	13,741	51,420	1,744	8,013	2,755	77,673
Total Expenditures	<u>38,741</u>	<u>51,420</u>	<u>14,744</u>	<u>28,013</u>	<u>8,755</u>	<u>141,673</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(654)	(35,603)	8,559	(1,009)	(622)	(29,329)
FUND BALANCES (DEFICIT) - January 1	<u>(45,269)</u>	<u>27,832</u>	<u>14,704</u>	<u>82,405</u>	<u>2,638</u>	<u>82,310</u>
FUND BALANCES (DEFICIT) - December 31	<u><u>\$ (45,923)</u></u>	<u><u>\$ (7,771)</u></u>	<u><u>\$ 23,263</u></u>	<u><u>\$ 81,396</u></u>	<u><u>\$ 2,016</u></u>	<u><u>\$ 52,981</u></u>

CITY OF STACY, MINNESOTA
SUMMARY FINANCIAL REPORT

REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

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> <u>2011</u>	<u>Total</u> <u>2010</u>	Percent Increase <u>(Decrease)</u>
REVENUES:			
Taxes and Assessments	\$ 256,661	\$ 289,890	(11.46)%
Licenses and Permits	14,039	15,731	(10.76)%
Intergovernmental	229,643	230,414	(0.33)%
Charges for Services	25,741	19,739	30.41 %
Fines	1,917	1,654	15.90 %
Investment Earnings	4,485	5,534	(18.96)%
Miscellaneous	98,008	58,748	66.83 %
Transfer In	<u>58,971</u>	<u>121,238</u>	<u>(51.36)%</u>
Total Revenues	<u>\$ 689,465</u>	<u>\$ 742,948</u>	<u>(7.20)%</u>
Per Capita	<u>499</u>	<u>537</u>	
EXPENDITURES:			
Current			
General Government	\$ 150,936	\$ 148,454	1.67 %
Public Safety	120,221	109,844	9.45 %
Public Works	55,486	52,805	5.08 %
Culture and Recreation	29,987	49,530	(39.46)%
Miscellaneous	269,697	111,957	140.89 %
Debt Service:			
Principal Payments	64,000	63,000	1.59 %
Interest Payments	77,673	79,800	(2.67)%
Capital Outlay	36,893	22,449	64.34 %
Transfer Out	<u>28,971</u>	<u>202,476</u>	<u>(85.69)%</u>
Total Expenditures	<u>\$ 833,864</u>	<u>\$ 826,898</u>	<u>0.84 %</u>
Per Capita	<u>603</u>	<u>598</u>	
Long-term Indebtedness	<u>\$ 1,866,000</u>	<u>\$ 1,930,000</u>	<u>(3.32)%</u>
Per Capita	<u>1,349</u>	<u>1,396</u>	
General Fund Unreserved Fund Balance - December 31	<u>\$ 772,731</u>	<u>\$ 639,738</u>	<u>20.79 %</u>
Per Capita	<u>559</u>	<u>463</u>	

SECTION IV
ADDITIONAL INFORMATION

OBERLOH & ASSOCIATES, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 186 • 530 WEST PARK ROAD

REDWOOD FALLS, MN 56283

Telephone: (507) 644-6400

Fax: (507) 644-6401

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, 2011, which collectively comprise City of Stacy, Minnesota's basic financial statements and have issued our report thereon dated June 12, 2012. 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 11-01 and 11-02. 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 12, 2012

CITY OF STACY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

INTERNAL CONTROL FINDINGS

Audit Finding 11-01

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 11-02

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.

CITY OF STACY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

MINNESOTA LEGAL COMPLIANCE FINDINGS

Audit Finding 11-03

Criteria: Minnesota Statute 118A.03 requires that all City deposits be secured by collateral of valued at market value or par, whichever is lower, less the amount of FDIC or SPIC insurance coverage. The collateral pledged must be at least ten percent more than the uninsured and unbonded amount on deposit at the close of the banking day.

Condition: During our audit, we noted that the City had insufficient collateral to cover the deposits plus the ten percent at December 31, 2011.

Cause: The City was not aware pledged collateral was insufficient.

Effect: The City is not in compliance with State Statutes.

Recommendations: The City should ensure procedures are implemented to timely monitor compliance with pledged security requirements.

Managements Response: The City concurs with the auditors recommendations and will monitor pledges monthly and prior to any large deposits.

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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, 2011 and have issued our report thereon dated June 12, 2012.

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 except as described in Findings 11-03 on pages 53, Schedule of Findings and Responses.

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 12, 2012