

CITY OF STACY  
STACY, MINNESOTA

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

- 2 -  
**DENNIS E. OBERLOH, LTD.**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**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

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

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Stacy, Minnesota as of December 31, 2013, and the respective changes in financial position and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Change in Accounting Standards*

As described in Note 15 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 63 "*Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2013. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 13 and 41 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City 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 are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2014 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* in considering City of Stacy, Minnesota's internal control over financial reporting and compliance.

*Dennis E Oberloh, Ltd.*  
Dennis E. Oberloh, Ltd.

May 13, 2014

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

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, 2013.

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,737,714 (net position). Of this amount \$2,605,743 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$338,207 compared to an increase of \$133,579 in the previous year. The governmental activities net position decreased during 2013 by \$84,911 and the business-type activities net position increased during 2013 by \$423,118.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$908,637, an increase of \$178,216 in comparison with the previous year. Approximately 80.3 percent of this total amount, \$730,171, is available for spending at the City's discretion, but \$88,193 has been assigned for specific purposes.
- At the end of the current fiscal year, the fund balance of the general fund was \$711,627 which is 156.2% 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 Position (on page 14) provides information on all the City's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them presented as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities (on page 15) provides information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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, 2013

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 nonspendable and 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 16) and the governmental fund statement of revenues, expenditures and changes in fund balances (on page 18) provide a reconciliation (on pages 17 and 19) 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 and Stacy Ponds Business Park; all of which are considered to be major funds. 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.

The City adopts annual appropriated budgets for its General Fund. Budgetary comparison schedules have been provided for this fund to demonstrate compliance with the budgets.

*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 20 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 beginning on page 24 through 41 of this report.

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

USING THIS ANNUAL REPORT (Cont.)

Required Supplementary Information

This Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule (on pages 42 - 44) 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.

Other Supplementary Information

This part of the annual report (starting on page 45) 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 position and net expenses of the governmental and business-type activities separately, different stories emerge. Our analysis below focuses on the net position and changes in net position of the City's governmental and business-type activities.

Net Position

|                       | <u>Governmental Activities</u> |                     | <u>Business-Type Activities</u> |                     | <u>Total</u>        |                     |
|-----------------------|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
|                       | <u>2013</u>                    | <u>2012</u>         | <u>2013</u>                     | <u>2012</u>         | <u>2013</u>         | <u>2012</u>         |
| Current Assets        | \$ 1,030,741                   | \$ 915,114          | \$ 2,202,042                    | \$ 1,852,876        | \$ 3,232,783        | \$ 2,767,990        |
| Capital Assets        | <u>2,152,307</u>               | <u>2,218,437</u>    | <u>7,663,197</u>                | <u>7,819,507</u>    | <u>9,815,504</u>    | <u>10,037,944</u>   |
| Total Assets          | <u>3,183,048</u>               | <u>3,133,551</u>    | <u>9,865,239</u>                | <u>9,672,383</u>    | <u>13,048,287</u>   | <u>12,805,934</u>   |
| Current Liabilities   | 184,433                        | 246,139             | 719,026                         | 743,288             | 903,459             | 989,427             |
| Long-term Liabilities | <u>1,813,114</u>               | <u>1,617,000</u>    | <u>4,594,000</u>                | <u>4,800,000</u>    | <u>6,407,114</u>    | <u>6,417,000</u>    |
| Total Liabilities     | <u>1,997,547</u>               | <u>1,863,139</u>    | <u>5,313,026</u>                | <u>5,543,288</u>    | <u>7,310,573</u>    | <u>7,406,427</u>    |
| Net Investment in     |                                |                     |                                 |                     |                     |                     |
| Capital Assets        | 205,307                        | 618,911             | 2,748,198                       | 2,700,507           | 2,953,505           | 3,319,418           |
| Restricted            | 178,466                        | 87,797              | -                               | -                   | 178,466             | 87,797              |
| Unrestricted          | <u>801,728</u>                 | <u>563,704</u>      | <u>1,804,015</u>                | <u>1,428,588</u>    | <u>2,605,743</u>    | <u>1,992,292</u>    |
| Total Net Position    | <u>\$ 1,185,501</u>            | <u>\$ 1,270,412</u> | <u>\$ 4,552,213</u>             | <u>\$ 4,129,095</u> | <u>\$ 5,737,714</u> | <u>\$ 5,399,507</u> |

A large portion of the City's net position (51.5 percent) reflects its net 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 position (3.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (45.4 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 position for both governmental and business-type activities.

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

THE CITY AS A WHOLE (Cont.)

Changes in Net Position

|                        | <u>Governmental Activities</u> |                     | <u>Business-Type Activities</u> |                     | <u>Total</u>        |                     |
|------------------------|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
|                        | <u>2013</u>                    | <u>2012</u>         | <u>2013</u>                     | <u>2012</u>         | <u>2013</u>         | <u>2012</u>         |
| <u>Revenues</u>        |                                |                     |                                 |                     |                     |                     |
| Program Revenues:      |                                |                     |                                 |                     |                     |                     |
| Fees, Fines, and       |                                |                     |                                 |                     |                     |                     |
| Charges for            |                                |                     |                                 |                     |                     |                     |
| Services               | \$ 64,420                      | \$ 34,649           | \$ 590,320                      | \$ 558,956          | \$ 654,740          | \$ 593,605          |
| Contributions          | 23,813                         | 15,907              | -                               | -                   | 23,813              | 15,907              |
| Sales                  | -                              | -                   | 2,751,348                       | 2,669,139           | 2,751,348           | 2,669,139           |
| General Revenues:      |                                |                     |                                 |                     |                     |                     |
| Taxes and              |                                |                     |                                 |                     |                     |                     |
| Assessments            | 338,740                        | 371,234             | 186,764                         | 217,980             | 525,504             | 589,214             |
| Intergovernmental      |                                |                     |                                 |                     |                     |                     |
| Revenue                | 236,826                        | 228,687             | -                               | -                   | 236,826             | 228,687             |
| Interest Income        | 2,062                          | 4,385               | 9,008                           | 9,041               | 11,070              | 13,426              |
| Miscellaneous          |                                |                     |                                 |                     |                     |                     |
| Income                 | <u>75,193</u>                  | <u>60,884</u>       | <u>41,072</u>                   | <u>33,412</u>       | <u>116,265</u>      | <u>94,296</u>       |
| Total Revenues         | <u>741,054</u>                 | <u>715,746</u>      | <u>3,578,512</u>                | <u>3,488,528</u>    | <u>4,319,566</u>    | <u>4,204,274</u>    |
| <u>Expenses</u>        |                                |                     |                                 |                     |                     |                     |
| General Government     | 183,099                        | 160,522             | -                               | -                   | 183,099             | 160,522             |
| Public Safety          | 160,354                        | 293,944             | -                               | -                   | 160,354             | 293,944             |
| Public Works           | 318,470                        | 281,914             | -                               | -                   | 318,470             | 281,914             |
| Culture and Recreation | 55,357                         | 76,732              | -                               | -                   | 55,357              | 76,732              |
| Economic Development   | 24,238                         | 30,293              | -                               | -                   | 24,238              | 30,293              |
| Miscellaneous          | 94,447                         | 125,523             | -                               | -                   | 94,447              | 125,523             |
| Municipal Liquor Store | -                              | -                   | 2,616,188                       | 2,528,887           | 2,616,188           | 2,528,887           |
| Water                  | -                              | -                   | 200,206                         | 233,654             | 200,206             | 233,654             |
| Sewer                  | -                              | -                   | 318,547                         | 323,388             | 318,547             | 323,388             |
| Storm Sewer            | -                              | -                   | 10,453                          | 10,374              | 10,453              | 10,374              |
| Total Expenses         | <u>835,965</u>                 | <u>968,928</u>      | <u>3,145,394</u>                | <u>3,096,303</u>    | <u>3,981,359</u>    | <u>4,065,231</u>    |
| Transfers              | <u>10,000</u>                  | <u>60,000</u>       | <u>(10,000)</u>                 | <u>(60,000)</u>     | <u>-</u>            | <u>-</u>            |
| Change in Net Position | (84,911)                       | (193,182)           | 423,118                         | 332,225             | 338,207             | 139,043             |
| Net Position Beginning | <u>1,270,412</u>               | <u>1,463,594</u>    | <u>4,129,095</u>                | <u>3,796,870</u>    | <u>5,399,507</u>    | <u>5,260,464</u>    |
| Net Position Ending    | <u>\$ 1,185,501</u>            | <u>\$ 1,270,412</u> | <u>\$ 4,552,213</u>             | <u>\$ 4,129,095</u> | <u>\$ 5,737,714</u> | <u>\$ 5,399,507</u> |

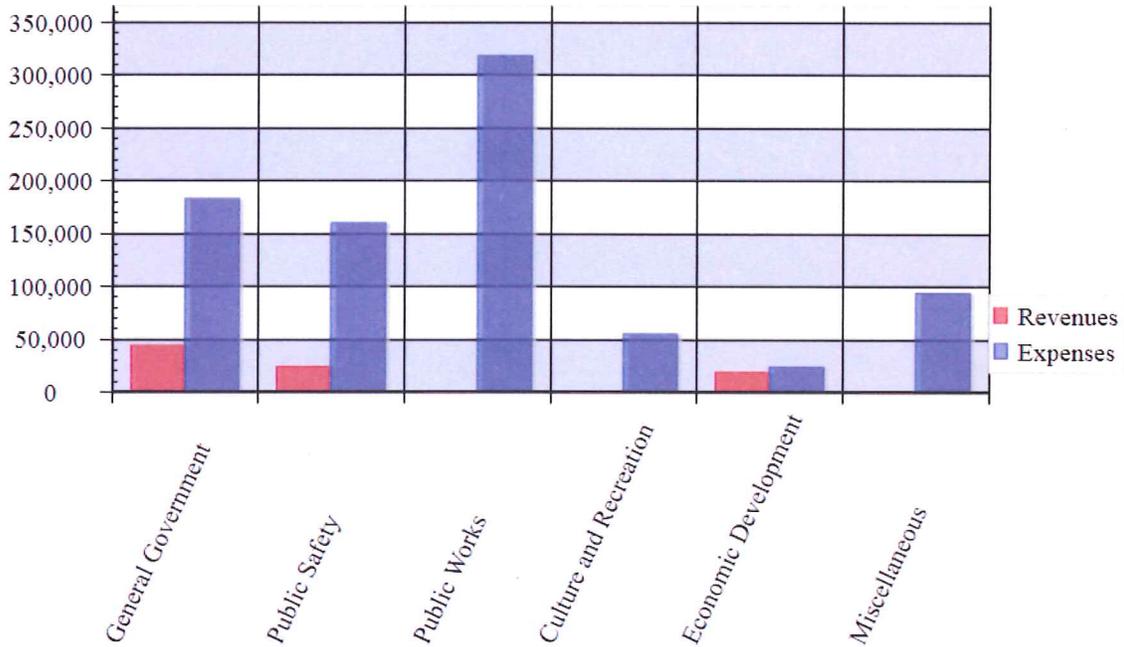
CITY OF STACY, MINNESOTA  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 DECEMBER 31, 2013

THE CITY AS A WHOLE (Cont.)

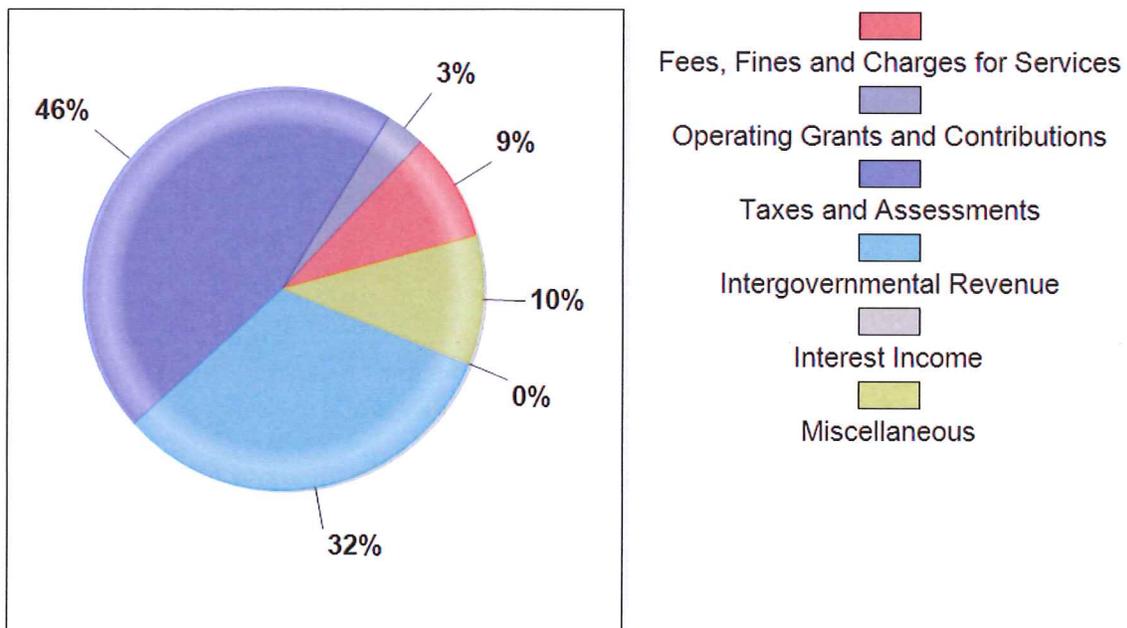
Governmental Activities

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

**Expenses and Program Revenues -  
 Governmental Activities**



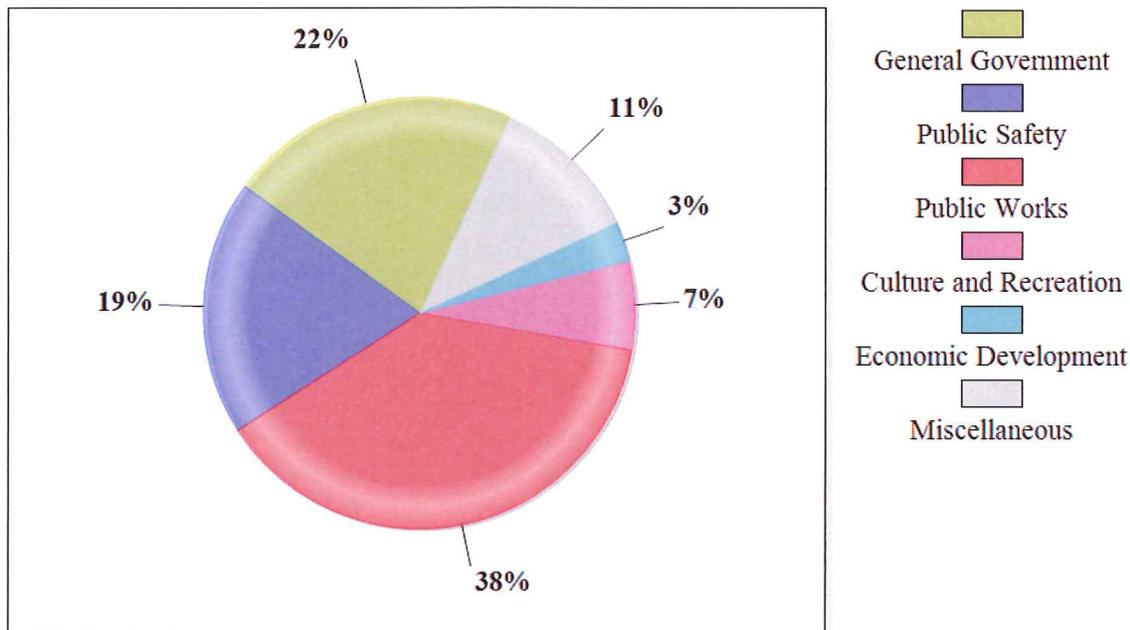
**Sources of Funds in Governmental Activities**



CITY OF STACY, MINNESOTA  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 DECEMBER 31, 2013

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

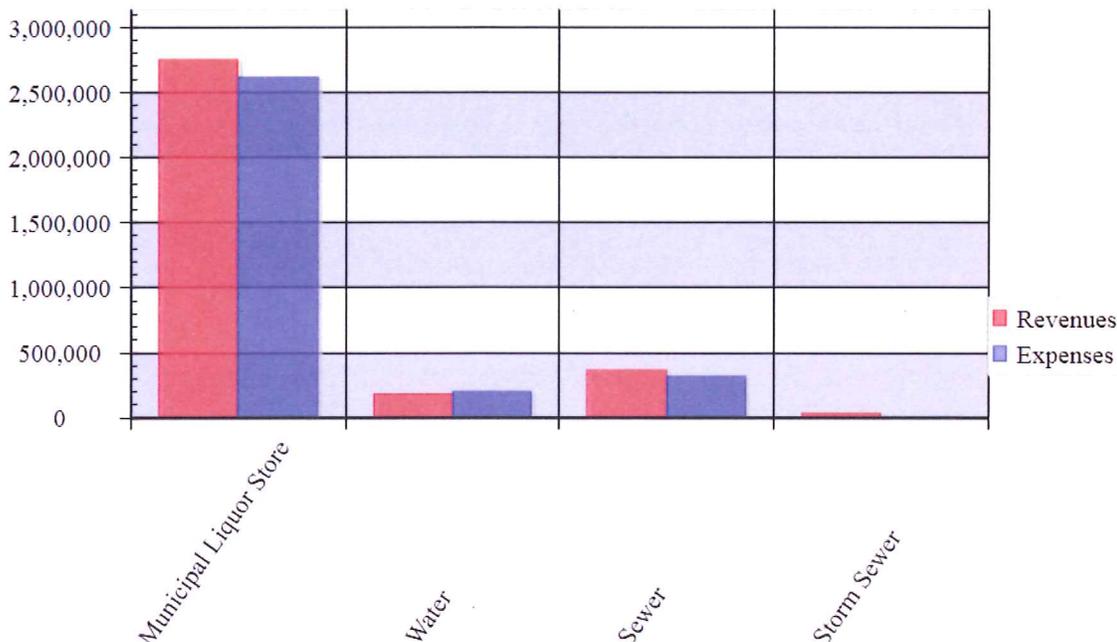
**Uses of Funds in Governmental Activities**



Business-Type Activities

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

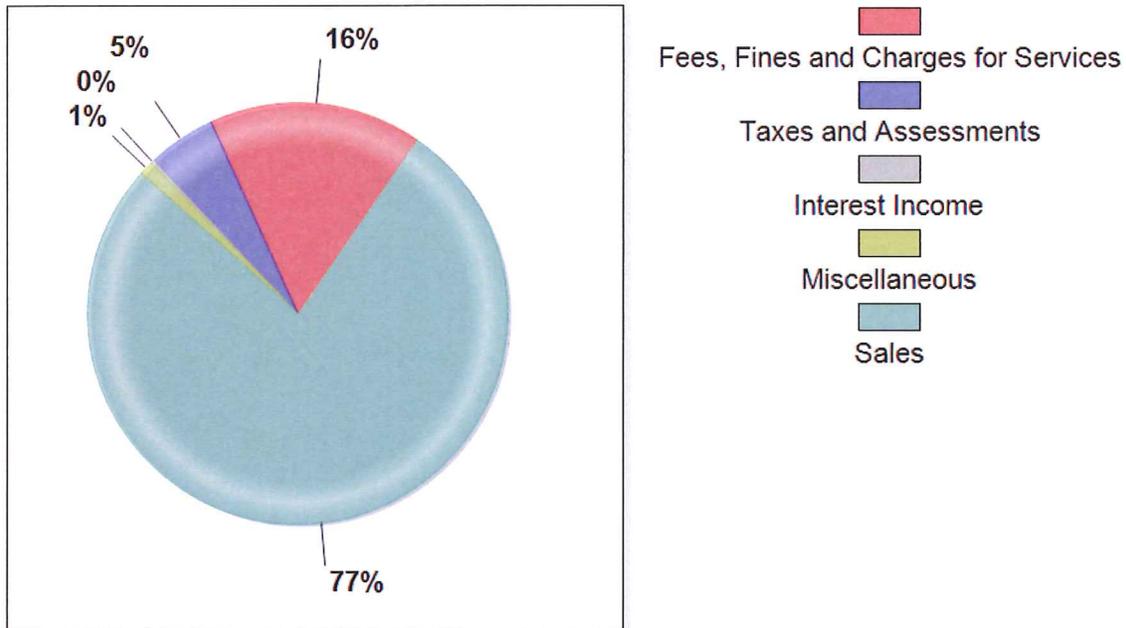
**Expenses and Program Revenues -  
 Business-Type Activities**



CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

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

**Sources of Funds in Business-Type Activities**



**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 \$908,637, an increase of \$178,216 in comparison with the prior year. Approximately 80.4% of this total amount, \$730,171, constitutes unrestricted fund balance, which is available for spending at the City's discretion, although \$88,193 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 \$178,466.

**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, 2013, amounts to \$9,815,504 (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 2.2 percent (an 3.0 percent decrease for governmental activities and a 2.0 percent decrease for business-type activities). The decrease was due to depreciation exceeding capital outlay.

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION (Cont.)

Capital Assets (Cont.)

|                                 | <u>Governmental Activities</u> |                     | <u>Business-Type Activities</u> |                     | <u>Totals</u>       |                     |
|---------------------------------|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
|                                 | <u>2013</u>                    | <u>2012</u>         | <u>2013</u>                     | <u>2012</u>         | <u>2013</u>         | <u>2012</u>         |
| Land and Improvements           | \$ 721,977                     | \$ 721,977          | \$ -                            | \$ -                | \$ 721,977          | \$ 721,977          |
| Construction in Progress        | 8,226                          | 8,226               | -                               | -                   | 8,226               | 8,226               |
| Building, Plant and Equipment   | 777,327                        | 732,163             | 9,528,300                       | 9,471,270           | 10,305,627          | 10,203,433          |
| Infrastructure and Improvements | <u>2,775,777</u>               | <u>2,753,416</u>    | <u>-</u>                        | <u>-</u>            | <u>2,775,777</u>    | <u>2,753,416</u>    |
| Subtotal                        | 4,283,307                      | 4,215,782           | 9,528,300                       | 9,471,270           | 13,811,607          | 13,687,052          |
| Less: Accumulated Depreciation  | <u>2,131,000</u>               | <u>1,997,345</u>    | <u>1,865,103</u>                | <u>1,651,764</u>    | <u>3,996,103</u>    | <u>3,649,109</u>    |
| Total                           | <u>\$ 2,152,307</u>            | <u>\$ 2,218,437</u> | <u>\$ 7,663,197</u>             | <u>\$ 7,819,506</u> | <u>\$ 9,815,504</u> | <u>\$10,037,943</u> |

Debt

At the end of the current fiscal year, the City had total Long-term debt outstanding of \$6,862,000.

|                        | <u>Governmental Activities</u> |                    | <u>Business-Type Activities</u> |                    | <u>Totals</u>      |                    |
|------------------------|--------------------------------|--------------------|---------------------------------|--------------------|--------------------|--------------------|
|                        | <u>2013</u>                    | <u>2012</u>        | <u>2013</u>                     | <u>2012</u>        | <u>2013</u>        | <u>2012</u>        |
| G.O. Improvement Bonds | \$1,430,000                    | \$1,270,000        | \$ 745,000                      | \$ 660,000         | \$2,175,000        | \$1,930,000        |
| G.O. Revenue Bonds     | -                              | -                  | 15,000                          | 30,000             | 15,000             | 30,000             |
| Revenue Bonds          | -                              | -                  | 1,545,000                       | 1,615,000          | 1,545,000          | 1,615,000          |
| Revenue Notes          | -                              | -                  | 2,610,000                       | 2,814,000          | 2,610,000          | 2,814,000          |
| Other Long-Term Debt   | 112,000                        | 54,000             | -                               | -                  | 112,000            | 54,000             |
| Tax Incremental Bonds  | <u>405,000</u>                 | <u>450,000</u>     | <u>-</u>                        | <u>-</u>           | <u>405,000</u>     | <u>450,000</u>     |
| Total                  | <u>\$1,947,000</u>             | <u>\$1,774,000</u> | <u>\$4,915,000</u>              | <u>\$5,119,000</u> | <u>\$6,862,000</u> | <u>\$6,893,000</u> |

The City issued \$2,175,000 General Obligation Improvement Refunding Bonds of 2013 to refinance the General Obligation Improvement Bonds of 2006 in the amount of \$1,930,000. The City also issued \$65,000 of other long-term debt for the purchase of a building.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

During 2014 the City is expected to experience additional cuts in Local Government Aid (LGA) 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 either require bonding or spending of reserve funds. The City is exploring water treatment options for radium removal from the water. Capital expenditures for radium removal are anticipated for 2015. The City will also need to explore options in the near future to bring City Hall ADA compliant.

CITY OF STACY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF STACY, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013

|                                       | Primary Government         |                             |                     |
|---------------------------------------|----------------------------|-----------------------------|---------------------|
|                                       | Governmental<br>Activities | Business-Type<br>Activities | Total               |
| <b>ASSETS</b>                         |                            |                             |                     |
| Pooled Cash and Equivalents           | \$ 631,986                 | \$ 1,143,408                | \$ 1,775,394        |
| Non Pooled Cash and Equivalents       | 18,115                     | 604,696                     | 622,811             |
| Receivables:                          |                            |                             |                     |
| Accounts Receivable                   | 38,898                     | 137,299                     | 176,197             |
| Property Taxes Receivable             | 109,954                    | 45,925                      | 155,879             |
| Prepaid Expense                       | 62,972                     | 51,047                      | 114,019             |
| Internal Balances                     | 168,816                    | (168,816)                   | -                   |
| Inventory                             | -                          | 371,978                     | 371,978             |
| Capital assets not being depreciated: |                            |                             |                     |
| Land and Improvements                 | 721,977                    | -                           | 721,977             |
| Construction in Progress              | 8,226                      | -                           | 8,226               |
| Other capital assets:                 |                            |                             |                     |
| Building, Plant and Equipment         | 777,327                    | 9,528,300                   | 10,305,627          |
| Infrastructure and Improvements       | 2,775,777                  | -                           | 2,775,777           |
| Accumulated Depreciation              | (2,131,000)                | (1,865,103)                 | (3,996,103)         |
| Bond Discount, Net                    | -                          | 16,505                      | 16,505              |
| <b>TOTAL ASSETS</b>                   | <u>3,183,048</u>           | <u>9,865,239</u>            | <u>13,048,287</u>   |
| <b>LIABILITIES</b>                    |                            |                             |                     |
| Accounts Payable                      | 13,447                     | 138,339                     | 151,786             |
| Accrued Liabilities                   | 8,805                      | 71,366                      | 80,171              |
| Accrued Interest                      | 28,295                     | 50,796                      | 79,091              |
| Accrued Wages Payable                 | -                          | 3,312                       | 3,312               |
| Due to Other Governmental Units       | -                          | 134,213                     | 134,213             |
| Noncurrent liabilities:               |                            |                             |                     |
| Due within one year                   | 133,886                    | 321,000                     | 454,886             |
| Due in more than one year             | 1,813,114                  | 4,594,000                   | 6,407,114           |
| <b>TOTAL LIABILITIES</b>              | <u>1,997,547</u>           | <u>5,313,026</u>            | <u>7,310,573</u>    |
| <b>NET POSITION</b>                   |                            |                             |                     |
| Net Investment in Capital Assets      | 205,307                    | 2,748,198                   | 2,953,505           |
| Restricted                            | 178,466                    | -                           | 178,466             |
| Unrestricted                          | 801,728                    | 1,804,015                   | 2,605,743           |
| <b>TOTAL NET POSITION</b>             | <u>\$ 1,185,501</u>        | <u>\$ 4,552,213</u>         | <u>\$ 5,737,714</u> |

CITY OF STACY, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

| Functions/Programs<br>Primary Government | Program Revenues |  |  |                  | Net Sources (Uses) and<br>Changes in Net Position |                             |                     |
|--|------------------|--|--|------------------|---|-----------------------------|---------------------|
|  | Expenses         | Fees, Fines and<br>Charges for<br>Services | Operating<br>Grants and<br>Contributions | Sales            | Governmental<br>Activities                        | Business-Type<br>Activities | Total               |
| <b>Governmental Activities:</b>          |                  |  |  |                  |   |                             |                     |
| General Government                       | \$ 183,099       | \$ 44,038                                  | -  | -                | \$ (139,061)                                      | \$ -                        | \$ (139,061)        |
| Public Safety                            | 160,354          | 794  | 23,813                                   | -                | (135,747)   | -                           | (135,747)           |
| Public Works                             | 318,470          | -  | -  | -                | (318,470)   | -                           | (318,470)           |
| Culture and Recreation                   | 55,357           | -  | -  | -                | (55,357)  | -                           | (55,357)            |
| Economic Development                     | 24,238           | 19,588                                     | -  | -                | (4,650)   | -                           | (4,650)             |
| Miscellaneous                            | 94,447           | -  | -  | -                | (94,447)  | -                           | (94,447)            |
| <b>Total Governmental Activities</b>     | <b>835,965</b>   | <b>64,420</b>                              | <b>23,813</b>                            | <b>-</b>         | <b>(747,732)</b>                                  | <b>-</b>                    | <b>(747,732)</b>    |
| <b>Business-Type Activities:</b>         |                  |  |  |                  |   |                             |                     |
| Municipal Liquor Store                   | 2,616,188        | -  | -  | 2,751,348        | -   | 135,160                     | 135,160             |
| Water                                    | 200,206          | 187,541                                    | -  | -                | -   | (12,665)                    | (12,665)            |
| Sewer                                    | 318,547          | 366,370                                    | -  | -                | -   | 47,823                      | 47,823              |
| Storm Sewer                              | 10,453           | 36,409                                     | -  | -                | -   | 25,956                      | 25,956              |
| <b>Total Business-Type Activities:</b>   | <b>3,145,394</b> | <b>590,320</b>                             | <b>-</b>                                 | <b>2,751,348</b> | <b>-</b>  | <b>196,274</b>              | <b>196,274</b>      |
| <b>Total Primary Government</b>          | <b>3,981,359</b> | <b>654,740</b>                             | <b>23,813</b>                            | <b>2,751,348</b> | <b>(747,732)</b>                                  | <b>196,274</b>              | <b>(551,458)</b>    |
| <b>General Revenues:</b>                 |                  |  |  |                  |   |                             |                     |
| Taxes and Assessments                    |                  |  |  |                  | 338,740   | 186,764                     | 525,504             |
| Intergovernmental Revenue                |                  |  |  |                  | 236,826   | -                           | 236,826             |
| Interest Income                          |                  |  |  |                  | 2,062   | 9,008                       | 11,070              |
| Miscellaneous                            |                  |  |  |                  | 75,193  | 41,072                      | 116,265             |
| Transfers                                |                  |  |  |                  | 10,000  | (10,000)                    | -                   |
| <b>Total General Revenues</b>            |                  |  |  |                  | <b>662,821</b>                                    | <b>226,844</b>              | <b>889,665</b>      |
| Changes in Net Position                  |                  |  |  |                  | (84,911)  | 423,118                     | 338,207             |
| Net Position - January 1 as              |                  |  |  |                  | 1,270,412   | 4,171,839                   | 5,442,251           |
| Originally Stated                        |                  |  |  |                  | -   | (42,744)                    | (42,744)            |
| Change in Accounting                     |                  |  |  |                  | 1,270,412   | 4,129,095                   | 5,399,507           |
| As Restated                              |                  |  |  |                  | 1,185,501   | 4,552,213                   | 5,737,714           |
| <b>Net Position - December 31</b>        |                  |  |  |                  | <b>\$ 1,185,501</b>                               | <b>\$ 4,552,213</b>         | <b>\$ 5,737,714</b> |

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

CITY OF STACY, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

|   | General Fund      | Stacy Ponds<br>Business Park | Nonmajor<br>Governmental<br>Funds | Total               |
|---|-------------------|------------------------------|-----------------------------------|---------------------|
| <b>ASSETS:</b>  |                   |                              |                                   |                     |
| Pooled Cash and Equivalents   | \$ 453,460        | \$ 15,905                    | \$ 162,621                        | \$ 631,986          |
| Non Pooled Cash and Equivalents   | 45                | -                            | 18,070                            | 18,115              |
| Accounts Receivable   | 35,274            | -                            | 3,624                             | 38,898              |
| Property Taxes Receivable   | 30,368            | 11,626                       | 67,960                            | 109,954             |
| Prepaid Expense   | -                 | 62,972                       | -                                 | 62,972              |
| Due from Other Funds  | 238,955           | -                            | -                                 | 238,955             |
| Total Assets  | \$ 758,102        | \$ 90,503                    | \$ 252,275                        | \$ 1,100,880        |
| <b>LIABILITIES:</b>   |                   |                              |                                   |                     |
| Accounts Payable  | \$ 12,986         | \$ -                         | \$ 461                            | \$ 13,447           |
| Accrued Liabilities   | 8,805             | -                            | -                                 | 8,805               |
| Due to Other Funds  | -                 | -                            | 70,139                            | 70,139              |
| Total Liabilities   | 21,791            | -                            | 70,600                            | 92,391              |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>   |                   |                              |                                   |                     |
| Unavailable Revenue   | 24,684            | 9,450                        | 65,718                            | 99,852              |
| Total Deferred Inflows of Resources   | 24,684            | 9,450                        | 65,718                            | 99,852              |
| <b>FUND BALANCES:</b>   |                   |                              |                                   |                     |
| Restricted  | -                 | 81,053                       | 97,413                            | 178,466             |
| Assigned  | -                 | -                            | 88,193                            | 88,193              |
| Unassigned (Deficit)  | 711,627           | -                            | (69,649)                          | 641,978             |
| Total Fund Balances   | 711,627           | 81,053                       | 115,957                           | 908,637             |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND FUND BALANCES</b> | <b>\$ 758,102</b> | <b>\$ 90,503</b>             | <b>\$ 252,275</b>                 | <b>\$ 1,100,880</b> |

CITY OF STACY, MINNESOTA  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2013

|   |                     |
|---|---------------------|
| Total Governmental Fund Balances  | \$ 908,637          |
| <i>Amounts reported for governmental activities in the statement of net position are different because:</i>   |                     |
| Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.   | 2,152,307           |
| Part of taxes and special assessments receivable are not available to pay for current period expenditures and therefore are deferred in the funds.                  | 99,852              |
| 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>(1,975,295)</u>  |
| Net Position of Governmental Activities   | \$ <u>1,185,501</u> |

CITY OF STACY, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

|   | General<br>Fund | Stacy Ponds<br>Business<br>Park | Nonmajor<br>Governmental<br>Funds | Total       |
|---|-----------------|---------------------------------|-----------------------------------|-------------|
| <b>REVENUES</b>   |                 |                                 |                                   |             |
| Taxes   | \$ 133,146      | \$ 70,441                       | \$ 159,746                        | \$ 363,333  |
| Licenses and Permits  | 38,472          | -                               | -                                 | 38,472      |
| Intergovernmental Revenue   | 260,639         | -                               | -                                 | 260,639     |
| Charges for Services  | 25,154          | -                               | -                                 | 25,154      |
| Fines and Forfeits  | 794             | -                               | -                                 | 794         |
| Interest Income   | 1,745           | 5                               | 313                               | 2,063       |
| Miscellaneous   | 19,267          | -                               | 55,926                            | 75,193      |
| Total Revenues  | 479,217         | 70,446                          | 215,985                           | 765,648     |
| <b>EXPENDITURES</b>   |                 |                                 |                                   |             |
| <b>Current Operations:</b>  |                 |                                 |                                   |             |
| General Government  | 179,590         | -                               | -                                 | 179,590     |
| Public Safety   | 160,354         | -                               | -                                 | 160,354     |
| Public Works  | 46,393          | -                               | 2,727                             | 49,120      |
| Culture and Recreation  | 31,396          | -                               | 7,564                             | 38,960      |
| Economic Development  | -               | -                               | 24,238                            | 24,238      |
| Miscellaneous   | 15,630          | -                               | 78,817                            | 94,447      |
| <b>Debt Service:</b>  |                 |                                 |                                   |             |
| Principal Payments  | -               | 1,270,000                       | 52,000                            | 1,322,000   |
| Interest Payments   | -               | 62,184                          | 20,214                            | 82,398      |
| Miscellaneous   | -               | 47,878                          | 1,500                             | 49,378      |
| Capital Outlay  | 22,362          | -                               | 69,585                            | 91,947      |
| Total Expenditures  | 455,725         | 1,380,062                       | 256,645                           | 2,092,432   |
| <b>EXCESS REVENUES OVER (UNDER)<br/>EXPENDITURES</b>                              |                 |                                 |                                   |             |
|   | 23,492          | (1,309,616)                     | (40,660)                          | (1,326,784) |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                 |                                 |                                   |             |
| Transfer In   | 10,000          | -                               | -                                 | 10,000      |
| Issuance of Debt  | -               | 1,430,000                       | 65,000                            | 1,495,000   |
| <b>EXCESS REVENUES AND OTHER<br/>SOURCES OVER EXPENDITURES AND<br/>OTHER USES</b> |                 |                                 |                                   |             |
|   | 33,492          | 120,384                         | 24,340                            | 178,216     |
| <b>FUND BALANCES - January 1</b>  |                 |                                 |                                   |             |
|   | 678,135         | (39,331)                        | 91,617                            | 730,421     |
| <b>FUND BALANCES - December 31</b>  |                 |                                 |                                   |             |
|   | \$ 711,627      | \$ 81,053                       | \$ 115,957                        | \$ 908,637  |

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

CITY OF STACY, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
DECEMBER 31, 2013

|  |                           |
|--|---------------------------|
| Net Change in Fund Balances - Total Governmental Funds   | \$ 178,216                |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i>  |                           |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. | (66,130)                  |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.   | (24,593)                  |
| Interest on long-term liabilities is expensed as paid in the funds, but accrued in the period due in the Statement of Net Position.  | 596                       |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.   | <u>(173,000)</u>          |
| Change in Net Position of Governmental Activities  | \$ <u><u>(84,911)</u></u> |

CITY OF STACY, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2013

|   | Municipal<br>Liquor<br>Store | Water Fund         | Sewer Fund         | Nonmajor<br>Storm<br>Sewer Fund | Total               |
|---|------------------------------|--------------------|--------------------|---------------------------------|---------------------|
| <b>ASSETS</b>                             |                              |                    |                    |                                 |                     |
| <b>CURRENT ASSETS</b>                     |                              |                    |                    |                                 |                     |
| Pooled Cash and Equivalents               | \$ -                         | \$ 738,644         | \$ 341,879         | \$ 62,886                       | \$ 1,143,409        |
| Non Pooled Cash and Equivalents           | 557,942                      | 45,845             | 908                | -                               | 604,695             |
| Accounts Receivable                       | 24,473                       | 43,741             | 63,081             | 6,004                           | 137,299             |
| Property Taxes Receivable                 | -                            | 16,761             | 29,164             | -                               | 45,925              |
| Prepaid Expense                           | 17,851                       | 33,196             | -                  | -                               | 51,047              |
| Inventory                                 | <u>371,978</u>               | <u>-</u>           | <u>-</u>           | <u>-</u>                        | <u>371,978</u>      |
| <b>Total Current Assets</b>               | <u>972,244</u>               | <u>878,187</u>     | <u>435,032</u>     | <u>68,890</u>                   | <u>2,354,353</u>    |
| <b>NONCURRENT ASSETS</b>                  |                              |                    |                    |                                 |                     |
| Capital Assets:                           |                              |                    |                    |                                 |                     |
| Building, Plant and Equipment             | 2,409,678                    | 1,449,590          | 5,151,590          | 517,442                         | 9,528,300           |
| Less: Accumulated Depreciation            | <u>677,555</u>               | <u>289,385</u>     | <u>827,111</u>     | <u>71,052</u>                   | <u>1,865,103</u>    |
| <b>Net Capital Assets</b>                 | 1,732,123                    | 1,160,205          | 4,324,479          | 446,390                         | 7,663,197           |
| Bond Discount, Net                        | <u>13,693</u>                | <u>-</u>           | <u>2,812</u>       | <u>-</u>                        | <u>16,505</u>       |
| <b>Total Noncurrent Assets</b>            | <u>1,745,816</u>             | <u>1,160,205</u>   | <u>4,327,291</u>   | <u>446,390</u>                  | <u>7,679,702</u>    |
| <b>TOTAL ASSETS</b>                       | <u>\$2,718,060</u>           | <u>\$2,038,392</u> | <u>\$4,762,323</u> | <u>\$ 515,280</u>               | <u>\$10,034,055</u> |
| <b>LIABILITIES AND NET POSITION</b>       |                              |                    |                    |                                 |                     |
| <b>CURRENT LIABILITIES</b>                |                              |                    |                    |                                 |                     |
| Accounts Payable                          | \$ 135,998                   | \$ 1,637           | \$ 704             | \$ -                            | \$ 138,339          |
| Accrued Liabilities                       | 43,970                       | 24,430             | 2,966              | -                               | 71,366              |
| Accrued Interest                          | 30,392                       | 10,520             | 9,593              | 291                             | 50,796              |
| Accrued Wages Payable                     | -                            | 3,312              | -                  | -                               | 3,312               |
| Due to Other Funds                        | 168,816                      | -                  | -                  | -                               | 168,816             |
| Due to Other Governmental Units           | -                            | -                  | 134,213            | -                               | 134,213             |
| Current Amount of Long-Term Debt          | <u>75,000</u>                | <u>25,000</u>      | <u>206,000</u>     | <u>15,000</u>                   | <u>321,000</u>      |
| <b>Total Current Liabilities</b>          | <u>454,176</u>               | <u>64,899</u>      | <u>353,476</u>     | <u>15,291</u>                   | <u>887,842</u>      |
| <b>LONG-TERM LIABILITIES</b>              |                              |                    |                    |                                 |                     |
| Bonds and Notes Payable                   | <u>1,470,000</u>             | <u>720,000</u>     | <u>2,404,000</u>   | <u>-</u>                        | <u>4,594,000</u>    |
| <b>TOTAL LIABILITIES</b>                  | <u>1,924,176</u>             | <u>784,899</u>     | <u>2,757,476</u>   | <u>15,291</u>                   | <u>5,481,842</u>    |
| <b>NET POSITION</b>                       |                              |                    |                    |                                 |                     |
| Net Investment in Capital Assets          | 187,123                      | 415,205            | 1,714,479          | 431,391                         | 2,748,198           |
| Unrestricted                              | <u>606,761</u>               | <u>838,288</u>     | <u>290,368</u>     | <u>68,598</u>                   | <u>1,804,015</u>    |
| <b>Total Net Position</b>                 | <u>793,884</u>               | <u>1,253,493</u>   | <u>2,004,847</u>   | <u>499,989</u>                  | <u>4,552,213</u>    |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <u>\$2,718,060</u>           | <u>\$2,038,392</u> | <u>\$4,762,323</u> | <u>\$ 515,280</u>               | <u>\$10,034,055</u> |

CITY OF STACY, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

|   | Municipal<br>Liquor<br>Store | Water Fund  | Sewer Fund  | Nonmajor<br>Storm<br>Sewer Fund | Total        |
|---|------------------------------|-------------|-------------|---------------------------------|--------------|
| OPERATING REVENUES                      |                              |             |             |                                 |              |
| Sales                                   | \$2,751,348                  | \$ -        | \$ -        | \$ -                            | \$ 2,751,348 |
| Charges for Services                    | -                            | 187,541     | 366,370     | 36,409                          | 590,320      |
| Total Operating Revenues                | 2,751,348                    | 187,541     | 366,370     | 36,409                          | 3,341,668    |
| COST OF SALES                           | 1,815,385                    | -           | -           | -                               | 1,815,385    |
| GROSS PROFIT                            | 935,963                      | 187,541     | 366,370     | 36,409                          | 1,526,283    |
| OPERATING EXPENSES                      |                              |             |             |                                 |              |
| Personnel Services and Benefits         | 386,732                      | 49,871      | 100,756     | -                               | 537,359      |
| Advertising                             | 14,273                       | -           | -           | -                               | 14,273       |
| Depreciation                            | 67,515                       | 24,969      | 112,895     | 7,961                           | 213,340      |
| Bank Fees                               | 47,818                       | -           | -           | -                               | 47,818       |
| Insurance                               | 29,465                       | 6,240       | 6,176       | -                               | 41,881       |
| Rent                                    | 8,179                        | -           | -           | -                               | 8,179        |
| Professional Services                   | 18,300                       | 17,041      | 22,070      | 1,232                           | 58,643       |
| Repairs and Maintenance                 | 34,347                       | -           | 267         | 363                             | 34,977       |
| Supplies and Chemicals                  | 20,804                       | 28,980      | 30,886      | -                               | 80,670       |
| Telephone                               | 6,665                        | 2,356       | 2,319       | -                               | 11,340       |
| Training and Travel                     | 668                          | 1,336       | 2,314       | -                               | 4,318        |
| Utilities                               | 57,741                       | 6,821       | 1,179       | -                               | 65,741       |
| Miscellaneous                           | 7,363                        | 4,944       | 9,893       | -                               | 22,200       |
| Entertainment                           | 23,512                       | -           | -           | -                               | 23,512       |
| Total Operating Expenses                | 723,382                      | 142,558     | 288,755     | 9,556                           | 1,164,251    |
| NET OPERATING INCOME                    | 212,581                      | 44,983      | 77,615      | 26,853                          | 362,032      |
| NON OPERATING INCOME AND<br>EXPENSE:    |                              |             |             |                                 |              |
| Interest Income                         | 3,843                        | 3,538       | 1,388       | 239                             | 9,008        |
| Taxes and Special Assessments           | -                            | 60,762      | 126,002     | -                               | 186,764      |
| Miscellaneous Income                    | 30,484                       | 10,588      | -           | -                               | 41,072       |
| Interest Expense                        | (76,376)                     | (32,708)    | (29,792)    | (897)                           | (139,773)    |
| Bad Debt Expense                        | (1,045)                      | -           | -           | -                               | (1,045)      |
| Bond Issuance Costs                     | -                            | (24,940)    | -           | -                               | (24,940)     |
| Net Non Operating Income and<br>Expense | (43,094)                     | 17,240      | 97,598      | (658)                           | 71,086       |
| NET INCOME BEFORE TRANSFERS             | 169,487                      | 62,223      | 175,213     | 26,195                          | 433,118      |
| Transfer Out                            | (10,000)                     | -           | -           | -                               | (10,000)     |
| CHANGE IN NET POSITION                  | 159,487                      | 62,223      | 175,213     | 26,195                          | 423,118      |
| NET POSITION - January 1                |                              |             |             |                                 |              |
| Originally Stated                       | 666,337                      | 1,191,270   | 1,840,438   | 473,794                         | 4,171,839    |
| Change in Accounting                    | (31,940)                     | -           | (10,804)    | -                               | (42,744)     |
| As Restated                             | 634,397                      | 1,191,270   | 1,829,634   | 473,794                         | 4,129,095    |
| NET POSITION - December 31              | \$ 793,884                   | \$1,253,493 | \$2,004,847 | \$ 499,989                      | \$ 4,552,213 |

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, 2013

|  | <u>Municipal</u>  | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Nonmajor<br/>Storm<br/>Sewer<br/>Fund</u> | <u>Total</u>        |
|--|-------------------|-------------------|-------------------|--|---------------------|
| <b>CASH FLOWS FROM</b>   |                   |                   |                   |  |                     |
| <b>OPERATING ACTIVITIES:</b>   |                   |                   |                   |  |                     |
| Receipts from Customers  | \$ 2,757,689      | \$ 209,409        | \$ 374,991        | \$ 31,174                                    | \$ 3,373,263        |
| Payments to Vendors  | (2,063,958)       | (123,091)         | (85,583)          | (1,723)                                      | (2,274,355)         |
| Payments to Employees  | (386,732)         | (47,454)          | (100,756)         | -  | (534,942)           |
| Other Receipts and Payments  | <u>29,439</u>     | <u>10,588</u>     | <u>-</u>          | <u>-</u>                                     | <u>40,027</u>       |
| Net Cash Provided By<br>Operating Activities                               | <u>336,438</u>    | <u>49,452</u>     | <u>188,652</u>    | <u>29,451</u>                                | <u>603,993</u>      |
| <b>CASH FLOWS FROM</b>   |                   |                   |                   |  |                     |
| <b>NONCAPITAL FINANCING</b>  |                   |                   |                   |  |                     |
| <b>ACTIVITIES:</b>   |                   |                   |                   |  |                     |
| Transfer to Other Funds  | (10,000)          | -                 | -                 | -  | (10,000)            |
| Repay Due to Other Funds   | <u>(60,000)</u>   | <u>-</u>          | <u>-</u>          | <u>-</u>                                     | <u>(60,000)</u>     |
| Net Cash Used By Noncapital<br>Financing Activities                        | <u>(70,000)</u>   | <u>-</u>          | <u>-</u>          | <u>-</u>                                     | <u>(70,000)</u>     |
| <b>CASH FLOWS FROM CAPITAL</b>   |                   |                   |                   |  |                     |
| <b>AND RELATED FINANCING</b>   |                   |                   |                   |  |                     |
| <b>ACTIVITIES:</b>   |                   |                   |                   |  |                     |
| Purchase of Capital Assets   | (37,331)          | (9,850)           | (9,849)           | -  | (57,030)            |
| Proceeds from Issuance of Debt   | -                 | 720,060           | -                 | -  | 720,060             |
| Property Taxes Collected   | -                 | 59,717            | 116,920           | -  | 176,637             |
| Principal Paid on Capital Debt   | (70,000)          | (660,000)         | (204,000)         | (15,000)                                     | (949,000)           |
| Interest Paid on Capital Debt  | (75,364)          | (33,381)          | (31,194)          | (1,039)                                      | (140,978)           |
| Due to Other Governments   | <u>-</u>          | <u>-</u>          | <u>(13,202)</u>   | <u>-</u>                                     | <u>(13,202)</u>     |
| Net Cash Provided (Used) By<br>Capital and Related<br>Financing Activities | <u>(182,695)</u>  | <u>76,546</u>     | <u>(141,325)</u>  | <u>(16,039)</u>                              | <u>(263,513)</u>    |
| <b>CASH FLOWS FROM INVESTING</b>   |                   |                   |                   |  |                     |
| <b>ACTIVITIES:</b>   |                   |                   |                   |  |                     |
| Interest Received  | <u>3,843</u>      | <u>3,538</u>      | <u>1,388</u>      | <u>239</u>                                   | <u>9,008</u>        |
| Net Cash Provided By<br>Investing Activities                               | <u>3,843</u>      | <u>3,538</u>      | <u>1,388</u>      | <u>239</u>                                   | <u>9,008</u>        |
| <b>NET INCREASE IN CASH</b>  | 87,586            | 129,536           | 48,715            | 13,651                                       | 279,488             |
| <b>CASH AND CASH</b>   |                   |                   |                   |  |                     |
| <b>EQUIVALENTS - January 1</b>   |                   |                   |                   |  |                     |
|  | <u>470,356</u>    | <u>654,953</u>    | <u>294,072</u>    | <u>49,235</u>                                | <u>1,468,616</u>    |
| <b>CASH AND CASH</b>   |                   |                   |                   |  |                     |
| <b>EQUIVALENTS - December 31</b>   |                   |                   |                   |  |                     |
|  | <u>\$ 557,942</u> | <u>\$ 784,489</u> | <u>\$ 342,787</u> | <u>\$ 62,886</u>                             | <u>\$ 1,748,104</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, 2013

|   | <u>Nonmajor</u>                       |                   |                   |                             | <u>Total</u>      |
|---|---------------------------------------|-------------------|-------------------|-----------------------------|-------------------|
|   | <u>Municipal<br/>Liquor<br/>Store</u> | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Storm<br/>Sewer Fund</u> |                   |
| Reconciliation of Operating Income to Net Cash Provided By Operating Activities               |                                       |                   |                   |                             |                   |
| Operating Income  | \$ 212,581                            | \$ 44,983         | \$ 77,615         | \$ 26,853                   | \$ 362,032        |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities |                                       |                   |                   |                             |                   |
| Depreciation  | 67,515                                | 24,969            | 112,895           | 7,961                       | 213,340           |
| Changes in Assets and Liabilities   |                                       |                   |                   |                             |                   |
| Accounts Receivable   | 6,341                                 | 21,868            | 8,621             | (5,235)                     | 31,595            |
| Inventory   | (507)                                 | -                 | -                 | -                           | (507)             |
| Prepaid Items   | (192)                                 | (33,196)          | -                 | -                           | (33,388)          |
| Accounts Payable  | 26,221                                | (25,550)          | (12,550)          | (128)                       | (12,007)          |
| Accrued Liabilities   | (4,960)                               | 3,373             | 2,071             | -                           | 484               |
| Accrued Wages Payable   | -                                     | 2,417             | -                 | -                           | 2,417             |
| Other Revenues and Expenses   | <u>29,439</u>                         | <u>10,588</u>     | <u>-</u>          | <u>-</u>                    | <u>40,027</u>     |
| Net Cash Provided By Operating Activities   | <u>\$ 336,438</u>                     | <u>\$ 49,452</u>  | <u>\$ 188,652</u> | <u>\$ 29,451</u>            | <u>\$ 603,993</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). 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 position 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. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Activities presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. 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.

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.)

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.

The City reports the following major governmental funds:

- 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.
- Stacy Ponds Business Park - Debt service fund used to account for the accumulation of resources for and record repayment of bonds relating to the Stacy Ponds Business Park.

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.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. 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.

F. 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.

G. 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.

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

H. 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 2013. 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.

I. 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.

J. 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."

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. 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.

L. 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.

M. Compensated Absences

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

N. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond discounts and premiums are recorded as assets and liabilities, respectively and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed in the year incurred.

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.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

P. Fund Balance

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.

Q. Net Position

Net position represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- (a) Net investment in capital assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- (b) Restricted net position – Consists of net position 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 position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

R. 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 City Clerk 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, 2013.

| <u>Function Area</u> | Budget     | Actual     | Variance    |
|----------------------|------------|------------|-------------|
| Public Safety        | \$ 121,619 | \$ 160,354 | \$ (38,735) |
| Miscellaneous        | \$ 13,700  | \$ 15,630  | \$ (1,930)  |

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2013:

|                             |          |
|-----------------------------|----------|
| Tax Abatement Woodsman 2004 | (32,072) |
| 2013A GO Refunding Bond     | (9,400)  |
| Radium Abate/Water Plant    | (28,177) |

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

3. DEPOSITS AND INVESTMENTS

A. Cash and Cash Investments

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

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

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS (Cont.)

A. Cash and Cash Investments (Cont.)

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 \$2,391,580 and the bank balance was \$2,455,003 including certificates of deposits of \$70,182. Of the bank balance, \$267,104 was covered by federal depository insurance. Of the remaining balance, \$2,046,208 was collateralized with securities held by the pledging financial institution's trust department in the City's name. \$141,691 of City deposits were not covered by proper collateral.

B. Investments

The City maintains no investment accounts.

C. Cash on Hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$6,625.

D. Cash and Investments Summary

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

|                                 |    |                  |
|---------------------------------|----|------------------|
| Total Deposits                  | \$ | 2,391,580        |
| Total Cash on Hand              |    | <u>6,625</u>     |
|                                 | \$ | <u>2,398,205</u> |
| Statement of Net Position       |    |                  |
| Pooled Cash and Equivalents     | \$ | 1,775,394        |
| Non Pooled Cash and Equivalents |    | <u>622,811</u>   |
|                                 | \$ | <u>2,398,205</u> |

4. DUE TO AND FROM OTHER FUNDS

Due to and from other funds at December 31, 2013, follows:

|                             | Due from Other<br>Funds | Due to Other<br>Funds |
|-----------------------------|-------------------------|-----------------------|
| General Fund                | \$ 238,955              | \$ -                  |
| Municipal Liquor Fund       | -                       | 168,816               |
| Nonmajor Governmental Funds | -                       | <u>70,139</u>         |
|                             | <u>\$ 238,955</u>       | <u>\$ 238,955</u>     |

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

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

5. UNAVAILABLE/UNEARNED REVENUE

The City reports unavailable and unearned 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 unavailable revenue and unearned revenue reported in the governmental funds were as follows:

|                             | <u>Unavailable</u> | <u>Unearned</u> |
|-----------------------------|--------------------|-----------------|
| General Fund                |                    |                 |
| Delinquent taxes receivable | \$ 24,684          | \$ -            |
| Stacy Ponds Business Park   |                    |                 |
| Delinquent taxes receivable | 9,450              | -               |
| Nonmajor Governmental Funds |                    |                 |
| Delinquent taxes receivable | <u>65,718</u>      | <u>-</u>        |
| <br>                        |                    |                 |
| Total                       | \$ <u>99,852</u>   | \$ <u>-</u>     |

6. TRANSFERS

Transfers to and from other funds at December 31, 2013, follows:

|                             | <u>Transfers to<br/>Other Funds</u> | <u>Transfers from<br/>Other Funds</u> |
|-----------------------------|-------------------------------------|---------------------------------------|
| General Fund                | \$ -                                | \$ 10,000                             |
| Municipal Liquor Store Fund | <u>10,000</u>                       | <u>-</u>                              |
|                             | <u>\$ 10,000</u>                    | <u>\$ 10,000</u>                      |

- The Municipal Liquor Store Fund transferred \$10,000 to the General Fund for operating purposes.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN CAPITAL ASSETS

Governmental Activities - Capital asset activity for the year ended December 31, 2013 was as follows:

|   | <u>Balance</u><br><u>January 1</u> | <u>Additions</u>               | <u>Transfers/<br/>Retirements</u> | <u>Balance</u><br><u>December 31</u> |
|---|------------------------------------|--------------------------------|-----------------------------------|--------------------------------------|
| Not Being Depreciated:  |                                    |                                |                                   |                                      |
| Land  | \$ 420,139                         | \$ -                           | \$ -                              | \$ 420,139                           |
| Construction in Progress  | <u>8,226</u>                       | <u>-</u>                       | <u>-</u>                          | <u>8,226</u>                         |
| Subtotal  | <u>428,365</u>                     | <u>-</u>                       | <u>-</u>                          | <u>428,365</u>                       |
| Other Capital Assets:   |                                    |                                |                                   |                                      |
| Land Improvements   | 301,838                            | -                              | -                                 | 301,838                              |
| Equipment and Machinery   | 370,594                            | 22,374                         | (24,422)                          | 368,546                              |
| Building, Plant, Equipment<br>Infrastructure and<br>Improvements  | <u>361,557</u><br><u>2,753,416</u> | <u>69,585</u><br><u>-</u>      | <u>-</u><br><u>-</u>              | <u>431,142</u><br><u>2,753,416</u>   |
| Subtotal  | <u>3,787,405</u>                   | <u>91,959</u>                  | <u>(24,422)</u>                   | <u>3,854,942</u>                     |
| Less: Accumulated<br>Depreciation                                 |                                    |                                |                                   |                                      |
| Land Improvements   | 90,951                             | 14,412                         | -                                 | 105,363                              |
| Equipment and Machinery   | 143,491                            | 7,560                          | (24,422)                          | 126,629                              |
| Buildings, Plant, Equipment<br>Infrastructure and<br>Improvements | <u>140,999</u><br><u>1,621,904</u> | <u>6,409</u><br><u>129,696</u> | <u>-</u><br><u>-</u>              | <u>147,408</u><br><u>1,751,600</u>   |
| Subtotal  | <u>1,997,345</u>                   | <u>158,077</u>                 | <u>(24,422)</u>                   | <u>2,131,000</u>                     |
| Net Other Capital Assets  | <u>1,790,060</u>                   | <u>(66,118)</u>                | <u>-</u>                          | <u>1,723,942</u>                     |
| Net Capital Assets  | <u>\$ 2,218,425</u>                | <u>\$ (66,118)</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, 2013.

|                                   | <u>Balance</u><br><u>January 1</u> | <u>Additions</u>    | <u>Transfers/<br/>Retirements</u> | <u>Balance</u><br><u>December 31</u> |
|-----------------------------------|------------------------------------|---------------------|-----------------------------------|--------------------------------------|
| Other Capital Assets:             |                                    |                     |                                   |                                      |
| Plant and Equipment               | \$ <u>9,471,270</u>                | \$ <u>57,030</u>    | \$ <u>-</u>                       | \$ <u>9,528,300</u>                  |
| Subtotal                          | <u>9,471,270</u>                   | <u>57,030</u>       | <u>-</u>                          | <u>9,528,300</u>                     |
| Less: Accumulated<br>Depreciation |                                    |                     |                                   |                                      |
| Plant and Equipment               | <u>1,651,763</u>                   | <u>213,340</u>      | <u>-</u>                          | <u>1,865,103</u>                     |
| Subtotal                          | <u>1,651,763</u>                   | <u>213,340</u>      | <u>-</u>                          | <u>1,430,943</u>                     |
| Net Capital Assets                | <u>\$ 7,819,507</u>                | <u>\$ (156,310)</u> | <u>\$ -</u>                       | <u>\$ 8,033,375</u>                  |

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN CAPITAL 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                                |  |    | 16,397         |
| Total Depreciation Expense - Governmental Activities  |  | \$ | <u>158,077</u> |
| Business-Type Activities:                             |  |    |                |
| Municipal Liquor Store                                |  | \$ | 67,515         |
| Water   |  |    | 24,969         |
| Sewer   |  |    | 112,895        |
| Storm Sewer   |  |    | 7,961          |
| Total Depreciation Expense - Business-Type Activities |  | \$ | <u>213,340</u> |

8. FUND BALANCE

A. Classifications

|                      | General Fund | Non Major<br>Governmental<br>Funds | Total      |
|----------------------|--------------|------------------------------------|------------|
| Restricted for:      |              |                                    |            |
| Special Revenue Park | \$ -         | \$ 3,136                           | \$ 3,136   |
| Tax Increment funds  | -            | 25,943                             | 25,943     |
| Debt Service         | -            | 68,334                             | 149,387    |
| Total Restricted     | -            | 97,413                             | 178,466    |
| Assigned to:         |              |                                    |            |
| Economic Development | -            | 30,159                             | 30,159     |
| Park Projects        | -            | 24,447                             | 24,447     |
| Hockey Arena         | -            | 33,587                             | 33,587     |
| Total Assigned       | -            | 88,193                             | 88,193     |
| Unassigned (Deficit) | 711,627      | (69,649)                           | 641,978    |
| Total                | \$ 711,627   | \$ 115,957                         | \$ 908,637 |

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, 2013, the unassigned fund balance of the General Fund was 159.1% 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, 2013.

|                          | Balance            |                    | Debt               | Balance             | Current           |
|--------------------------|--------------------|--------------------|--------------------|---------------------|-------------------|
|                          | <u>January 1</u>   | <u>Debt Issued</u> | <u>Retired</u>     | <u>December 31</u>  | <u>Amount</u>     |
| G.O. Improvement Bonds   | \$1,930,000        | \$2,175,000        | \$1,930,000        | \$ 2,175,000        | \$ 90,000         |
| G.O. Revenue Notes       | 2,814,000          | -                  | 204,000            | 2,610,000           | 206,000           |
| G.O. Revenue Bonds       | 30,000             | -                  | 15,000             | 15,000              | 15,000            |
| Refund Bonds             |                    |                    |                    |                     |                   |
| Tax Abatement Portion    | 450,000            | -                  | 45,000             | 405,000             | 50,000            |
| EDA Public Project Lease | 1,240,000          | -                  | 40,000             | 1,200,000           | 45,000            |
| Revenue Bonds            | 375,000            | -                  | 30,000             | 345,000             | 30,000            |
| Property Financing       | <u>54,000</u>      | <u>65,000</u>      | <u>7,000</u>       | <u>112,000</u>      | <u>18,886</u>     |
| Totals                   | <u>\$6,893,000</u> | <u>\$2,240,000</u> | <u>\$2,271,000</u> | <u>\$ 6,862,000</u> | <u>\$ 454,886</u> |

General Obligation Revenue Bonds of \$15,000, General Obligation Improvement Bonds of \$745,000, General Obligation Revenue Notes of \$2,610,000, Revenue Bonds of \$345,000 and Public Project Lease Revenue Bonds of \$1,200,000 are reflected as long-term debt in the related enterprise fund.

Bonds outstanding at December 31, 2013 are comprised of the following issues:

Governmental Activities

\$1,430,000 General Obligation Improvements Bonds of 2013A, due in annual installments of \$60,000 to \$85,000 through February 1, 2033, plus interest at 0.4-2.35%, due in semi-annual installments. \$ 1,430,000

\$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. 265,000

\$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. 140,000

\$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. 47,000

\$65,000 Building Lease Purchase, due in semi-annual installments of \$7,260, including interest at 4.0%. 65,000

Total Governmental Activities 1,947,000

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

Business-Type Activities

|  |                     |
|--|---------------------|
| \$110,000 General Obligation Storm Sewer Revenue Bonds of 2003. Due in annual installments of \$10,000 to \$15,000 through February 1, 2014, plus interest at 2.65 - 4.65%, due in semi-annual installments. | 15,000              |
| \$745,000 General Obligation Improvement Bonds of 2013A, due in annual installments of \$25,000 to \$45,000 through February 1, 2033, plus interest at 0.4-2.35%, due in semi-annual installments.           | 745,000             |
| \$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.  | 2,610,000           |
| \$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.              | 345,000             |
| \$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>1,200,000</u>    |
| Total Business-Type Activities   | <u>4,915,000</u>    |
| Total Long-Term Debt   | <u>\$ 6,862,000</u> |

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

|           | G.O. Improvement Bonds<br>Governmental Activities |                   |                    | G.O. Improvement Bonds<br>Business-Type Activities |                   |                   |
|-----------|---|-------------------|--------------------|--|-------------------|-------------------|
|           | Principal   | Interest          | Total              | Principal  | Interest          | Total             |
| 2014      | \$ 115,000  | \$ 40,584         | \$ 155,584         | \$ 40,000  | \$ 12,974         | \$ 52,974         |
| 2015      | 110,000   | 36,898            | 146,898            | 35,000   | 11,797            | 46,797            |
| 2016      | 115,000   | 34,404            | 149,404            | 35,000   | 11,623            | 46,623            |
| 2017      | 115,000   | 31,713            | 146,713            | 35,000   | 11,412            | 46,412            |
| 2018      | 125,000   | 28,827            | 153,827            | 35,000   | 11,168            | 46,168            |
| 2019-2023 | 470,000   | 105,518           | 575,518            | 175,000  | 50,220            | 225,220           |
| 2024-2028 | 365,000   | 69,298            | 434,298            | 195,000  | 35,575            | 230,575           |
| 2029-2033 | <u>420,000</u>                                    | <u>29,005</u>     | <u>449,005</u>     | <u>210,000</u>                                     | <u>14,748</u>     | <u>224,748</u>    |
| Total     | <u>\$1,835,000</u>                                | <u>\$ 376,247</u> | <u>\$2,211,247</u> | <u>\$ 760,000</u>                                  | <u>\$ 159,517</u> | <u>\$ 919,517</u> |

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

|           | G.O. Revenue Note               |                   |                    | Revenue Bonds                   |                   |                    |
|-----------|---------------------------------|-------------------|--------------------|---------------------------------|-------------------|--------------------|
|           | <u>Business-Type Activities</u> |                   |                    | <u>Business-Type Activities</u> |                   |                    |
|           | <u>Principal</u>                | <u>Interest</u>   | <u>Total</u>       | <u>Principal</u>                | <u>Interest</u>   | <u>Total</u>       |
| 2014      | \$ 206,000                      | \$ 26,100         | \$ 232,100         | \$ 75,000                       | \$ 71,309         | \$ 146,309         |
| 2015      | 208,000                         | 24,040            | 232,040            | 80,000                          | 67,934            | 147,934            |
| 2016      | 210,000                         | 21,960            | 231,960            | 80,000                          | 64,446            | 144,446            |
| 2017      | 212,000                         | 19,860            | 231,860            | 85,000                          | 60,746            | 145,746            |
| 2018      | 214,000                         | 17,740            | 231,740            | 90,000                          | 56,715            | 146,715            |
| 2019-2023 | 1,103,000                       | 56,170            | 1,159,170          | 470,000                         | 215,910           | 685,910            |
| 2024-2028 | 457,000                         | 6,870             | 463,870            | 380,000                         | 118,284           | 498,284            |
| 2029-2033 | -                               | -                 | -                  | 285,000                         | 21,438            | 306,438            |
| Total     | <u>\$2,610,000</u>              | <u>\$ 172,740</u> | <u>\$2,782,740</u> | <u>\$1,545,000</u>              | <u>\$ 676,782</u> | <u>\$2,221,782</u> |

|           | Other Long-Term Debt           |                  |                   |
|-----------|--------------------------------|------------------|-------------------|
|           | <u>Governmental Activities</u> |                  |                   |
|           | <u>Principal</u>               | <u>Interest</u>  | <u>Total</u>      |
| 2014      | \$ 18,886                      | \$ 4,484         | \$ 23,370         |
| 2015      | 19,491                         | 3,581            | 23,072            |
| 2016      | 20,999                         | 2,754            | 23,753            |
| 2017      | 21,535                         | 1,878            | 23,413            |
| 2018      | 22,089                         | 983              | 23,072            |
| 2019-2023 | 9,000                          | 191              | 9,191             |
| 2024-2028 | -                              | -                | -                 |
| 2029-2033 | -                              | -                | -                 |
| Total     | <u>\$ 112,000</u>              | <u>\$ 13,871</u> | <u>\$ 125,871</u> |

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

|   |                   |
|---|-------------------|
| Governmental Activities:                          |                   |
| General Government                                | \$ 2,110          |
| Public Works                                      | 129,070           |
| Total Interest Expense - Governmental Activities  | <u>\$ 131,180</u> |
| Business-Type Activities:                         |                   |
| Water Fund  | \$ 32,708         |
| Sewer Fund  | 29,792            |
| Storm Sewer Fund                                  | 897               |
| Municipal Liquor Store                            | 76,376            |
| Total Interest Expense - Business-Type Activities | <u>\$ 139,773</u> |

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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 plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), the Public Employees Police and Fire Fund (PEPFF), the Local Government Correction Service Retirement Fund, called the Public Employees Correctional Fund (PECF), and the Minneapolis Employees Retirement Fund (MERF). All four are cost-sharing, multiple-employer tax-qualified retirement plans under Section 401(a) of the Internal Revenue Code. 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. The Basic Plan was closed in 1967. All new members must participate in the Coordinated Plan. Police officers, fire fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); 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. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. 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. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

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.

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.

CITY OF STACY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

C. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by the state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. In 2013, 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, 2013, 2012 and 2011 were \$28,914, \$30,899 and \$30,513, 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 2013.

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.

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.

CITY OF STACY, MINNESOTA  
NOTES TO 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<br>Minnesota Statute | TIF 1-2<br>Minnesota Statute |
|----------------------|------------------------------|------------------------------|
| Authorizing Law      | 469.174                      | 469.174                      |
| Type of District     | Redevelopment                | Economic<br>Development      |
| Year Established     | 2005                         | 2007                         |
| Duration of District |                              |                              |
| Tax Capacity         |                              |                              |
| Original             | 2,339                        | 456                          |
| Current              | 23,613                       | 45,796                       |
| Captured - retained  | 21,274                       | 45,340                       |

15. ACCOUNTING CHANGE

Governmental Accounting Standard Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" will improve financial reporting by, the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the City's net position. GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities" will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The City implemented these standards for the fiscal year end December 31, 2013.

The implementation of GASB Statement No. 63 and 65 resulted in the reclassification of certain funds and restatement of the City's financial statements. This statement had the following effect on fund equity of the major and nonmajor funds as they were previously reported:

| <u>Fund</u>              | Fund Equity<br>12/31/2012 as<br>Previously<br>Reported | Prior Period<br>Restatement (1) | Fund Equity<br>1/1/2013 as<br>Restated |
|--------------------------|--|---------------------------------|--|
| Municipal Liquor Store   | \$ 666,337   | \$ (31,940)                     | \$ 634,397                             |
| Water Fund               | 1,191,270  | -                               | 1,191,270                              |
| Sewer Fund               | 1,840,438  | (10,804)                        | 1,829,634                              |
| Storm Sewer Fund         | 473,794  | -                               | 473,794                                |
| Business-Type Activities | <u>\$ 4,171,839</u>                                    | <u>\$ (42,744)</u>              | <u>\$ 4,129,095</u>                    |

(1) Write off of unamortized bond issuance cost balances at December 31, 2012.

16. SUBSEQUENT EVENTS

Management evaluated all activity of City of Stacy through May 13, 2014 (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, 2013  
 With Comparative Amounts for the year ended December 30, 2012

|   | <u>2013</u>       |                   |                   | Variance         | <u>2012</u>       |
|---|-------------------|-------------------|-------------------|------------------|-------------------|
|   | <u>Original</u>   | <u>Final</u>      | <u>Actual</u>     | with Final       | <u>Actual</u>     |
|   | <u>Budget</u>     | <u>Budget</u>     |                   | <u>Budget</u>    |                   |
| REVENUES:                                     |                   |                   |                   |                  |                   |
| TAXES:  |                   |                   |                   |                  |                   |
| General Property Taxes                        | \$ <u>118,829</u> | \$ <u>118,829</u> | \$ <u>133,146</u> | \$ <u>14,317</u> | \$ <u>174,543</u> |
| LICENSES AND PERMITS:                         |                   |                   |                   |                  |                   |
| Licenses and Permits                          | <u>9,775</u>      | <u>9,775</u>      | <u>38,472</u>     | <u>28,697</u>    | <u>19,697</u>     |
| INTERGOVERNMENTAL                             |                   |                   |                   |                  |                   |
| REVENUE:                                      |                   |                   |                   |                  |                   |
| Local Government Aid                          | 235,912           | 235,912           | 235,912           | -                | 227,643           |
| Market Value Credit                           | -                 | -                 | 141               | 141              | 271               |
| PERA Rate Increase Aid                        | 387               | 387               | 773               | 386              | 773               |
| State Fire Aid                                | <u>-</u>          | <u>-</u>          | <u>23,813</u>     | <u>23,813</u>    | <u>15,907</u>     |
| Total Intergovernmental Revenue               | <u>236,299</u>    | <u>236,299</u>    | <u>260,639</u>    | <u>24,340</u>    | <u>244,594</u>    |
| CHARGES FOR SERVICES:                         |                   |                   |                   |                  |                   |
| General Government                            | 3,000             | 3,000             | 5,566             | 2,566            | 5,245             |
| Public Works                                  | -                 | -                 | -                 | -                | 225               |
| Other Charges for Services                    | <u>2,000</u>      | <u>2,000</u>      | <u>19,588</u>     | <u>17,588</u>    | <u>7,501</u>      |
| Total Charges for Services                    | <u>5,000</u>      | <u>5,000</u>      | <u>25,154</u>     | <u>20,154</u>    | <u>12,971</u>     |
| FINES AND FORFEITS                            | <u>1,300</u>      | <u>1,300</u>      | <u>794</u>        | <u>(506)</u>     | <u>1,981</u>      |
| INTEREST INCOME                               | <u>1,250</u>      | <u>1,250</u>      | <u>1,745</u>      | <u>495</u>       | <u>3,555</u>      |
| MISCELLANEOUS:                                |                   |                   |                   |                  |                   |
| Sale of Property                              | -                 | -                 | 1,320             | 1,320            | -                 |
| Miscellaneous Income                          | <u>4,700</u>      | <u>4,700</u>      | <u>17,947</u>     | <u>13,247</u>    | <u>42,934</u>     |
| Total Miscellaneous                           | <u>4,700</u>      | <u>4,700</u>      | <u>19,267</u>     | <u>14,567</u>    | <u>42,934</u>     |
| TOTAL REVENUES                                | <u>377,153</u>    | <u>377,153</u>    | <u>479,217</u>    | <u>102,064</u>   | <u>500,275</u>    |
| OTHER FINANCING SOURCES                       |                   |                   |                   |                  |                   |
| Transfer In                                   | <u>10,000</u>     | <u>10,000</u>     | <u>10,000</u>     | <u>-</u>         | <u>60,000</u>     |
| TOTAL REVENUES AND OTHER<br>FINANCING SOURCES | <u>387,153</u>    | <u>387,153</u>    | <u>489,217</u>    | <u>102,064</u>   | <u>560,275</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, 2013  
 With Comparative Amounts for the year ended December 30, 2012

|                             | <u>2013</u>                |                         |                | Variance<br>with Final | <u>2012</u>    |
|-----------------------------|----------------------------|-------------------------|----------------|------------------------|----------------|
|                             | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>  | <u>Budget</u>          | <u>Actual</u>  |
| EXPENDITURES:               |                            |                         |                |                        |                |
| GENERAL GOVERNMENT:         |                            |                         |                |                        |                |
| Mayor and Council:          |                            |                         |                |                        |                |
| Personnel Services          | \$ 9,119                   | \$ 9,119                | \$ 5,464       | \$ 3,655               | \$ 5,014       |
| Other Current Expenditures  | 4,200                      | 4,200                   | 2,319          | 1,881                  | 4,999          |
| Election:                   |                            |                         |                |                        |                |
| Current Expenditures        | -                          | -                       | 70             | (70)                   | 2,881          |
| Administrative and Finance: |                            |                         |                |                        |                |
| Personnel Services          | 49,767                     | 49,767                  | 49,637         | 130                    | 49,011         |
| Other Current Expenditures  | 12,586                     | 12,586                  | 15,683         | (3,097)                | 9,622          |
| Other General Government:   |                            |                         |                |                        |                |
| Personnel Services          | 31,215                     | 31,215                  | 41,030         | (9,815)                | 22,479         |
| Other Current Expenditures  | 66,439                     | 66,439                  | 32,700         | 33,739                 | 30,026         |
| Capital Outlay              | 5,000                      | 5,000                   | -              | 5,000                  | 10,332         |
| Planning and Zoning:        |                            |                         |                |                        |                |
| Personnel Services          | 750                        | 750                     | 918            | (168)                  | 1,031          |
| Other Current Expenditures  | 4,640                      | 4,640                   | 1,297          | 3,343                  | 7,134          |
| Independent Auditing        |                            |                         |                |                        |                |
| Current Expenditures        | 3,500                      | 3,500                   | 3,000          | 500                    | 3,000          |
| Legal                       |                            |                         |                |                        |                |
| Current Expenditures        | <u>5,350</u>               | <u>5,350</u>            | <u>27,472</u>  | <u>(22,122)</u>        | <u>21,499</u>  |
| Total General Government    | <u>192,566</u>             | <u>192,566</u>          | <u>179,590</u> | <u>12,976</u>          | <u>167,028</u> |
| PUBLIC SAFETY:              |                            |                         |                |                        |                |
| Police Protection:          |                            |                         |                |                        |                |
| Services and Charges        | 51,969                     | 51,969                  | 51,969         | -                      | 51,969         |
| Building Inspection:        |                            |                         |                |                        |                |
| Current Expenditures        | 6,700                      | 6,700                   | 40,991         | (34,291)               | 17,313         |
| Fire Protection:            |                            |                         |                |                        |                |
| Services and Charges        | <u>62,950</u>              | <u>62,950</u>           | <u>67,394</u>  | <u>(4,444)</u>         | <u>224,662</u> |
| Total Public Safety         | <u>121,619</u>             | <u>121,619</u>          | <u>160,354</u> | <u>(38,735)</u>        | <u>293,944</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, 2013  
 With Comparative Amounts for the year ended December 30, 2012

|   | <u>2013</u>        |                   |                   | Variance             | <u>2012</u>       |
|---|--------------------|-------------------|-------------------|----------------------|-------------------|
|   | Original<br>Budget | Final<br>Budget   | Actual            | with Final<br>Budget | Actual            |
| EXPENDITURES:   |                    |                   |                   |                      |                   |
| PUBLIC WORKS:   |                    |                   |                   |                      |                   |
| Highways and Streets:   |                    |                   |                   |                      |                   |
| Personnel Services  | \$ 4,722           | \$ 4,722          | \$ 10,125         | \$ (5,403)           | \$ 17,854         |
| Other Current Expenditures  | 18,900             | 18,900            | 8,564             | 10,336               | 19,377            |
| Capital Outlay  | 2,000              | 2,000             | 11,809            | (9,809)              | -                 |
| Ice and Snow Removal:   |                    |                   |                   |                      |                   |
| Personnel Services  | 14,163             | 14,163            | 4,426             | 9,737                | 3,516             |
| Other Current Expenditures  | 11,000             | 11,000            | 10,900            | 100                  | 2,414             |
| Street Lighting:  |                    |                   |                   |                      |                   |
| Current Expenditures  | <u>20,070</u>      | <u>20,070</u>     | <u>12,378</u>     | <u>7,692</u>         | <u>12,362</u>     |
| Total Public Works  | <u>70,855</u>      | <u>70,855</u>     | <u>58,202</u>     | <u>12,653</u>        | <u>55,523</u>     |
| CULTURE AND RECREATION:   |                    |                   |                   |                      |                   |
| Other Services and Charges:                                       |                    |                   |                   |                      |                   |
| Current Expenditures  | 38,413             | 38,413            | 31,396            | 7,017                | 57,559            |
| Capital Outlay  | <u>10,000</u>      | <u>10,000</u>     | <u>10,553</u>     | <u>(553)</u>         | <u>-</u>          |
| Total Culture and Recreation                                      | <u>48,413</u>      | <u>48,413</u>     | <u>41,949</u>     | <u>6,464</u>         | <u>57,559</u>     |
| MISCELLANEOUS:  |                    |                   |                   |                      |                   |
| Insurance   | 13,200             | 13,200            | 17,502            | (4,302)              | 12,978            |
| Other Current Expenditures  | <u>500</u>         | <u>500</u>        | <u>(1,872)</u>    | <u>2,372</u>         | <u>-</u>          |
| Total Miscellaneous   | <u>13,700</u>      | <u>13,700</u>     | <u>15,630</u>     | <u>(1,930)</u>       | <u>12,978</u>     |
| TOTAL EXPENDITURES  | <u>447,153</u>     | <u>447,153</u>    | <u>455,725</u>    | <u>(8,572)</u>       | <u>587,032</u>    |
| EXCESS REVENUES AND OTHER<br>SOURCES OVER (UNDER)<br>EXPENDITURES | (60,000)           | (60,000)          | 33,492            | 93,492               | (26,757)          |
| FUND BALANCES - January 1   | <u>678,135</u>     | <u>678,135</u>    | <u>678,135</u>    | <u>-</u>             | <u>704,892</u>    |
| FUND BALANCES - December 31                                       | <u>\$ 618,135</u>  | <u>\$ 618,135</u> | <u>\$ 711,627</u> | <u>\$ 93,492</u>     | <u>\$ 678,135</u> |

SECTION III

SUPPLEMENTAL SECTION

CITY OF STACY, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

|   | Special<br>Revenue<br>Funds | Debt Service<br>Funds | Capital<br>Project<br>Funds | Total             |
|---|-----------------------------|-----------------------|-----------------------------|-------------------|
| ASSETS:   |                             |                       |                             |                   |
| Pooled Cash and Equivalents   | \$ 95,906                   | \$ 66,715             | \$ -                        | \$ 162,621        |
| Non Pooled Cash and Equivalents                                       | 18,070                      | -                     | -                           | 18,070            |
| Accounts Receivable   | 3,624                       | -                     | -                           | 3,624             |
| Property Taxes Receivable   | <u>56,746</u>               | <u>11,214</u>         | <u>-</u>                    | <u>67,960</u>     |
| TOTAL ASSETS  | <u>\$ 174,346</u>           | <u>\$ 77,929</u>      | <u>\$ -</u>                 | <u>\$ 252,275</u> |
| LIABILITIES:  |                             |                       |                             |                   |
| Accounts Payable  | \$ 461                      | \$ -                  | \$ -                        | \$ 461            |
| Due to Other Funds  | <u>-</u>                    | <u>41,962</u>         | <u>28,177</u>               | <u>70,139</u>     |
| Total Liabilities   | <u>461</u>                  | <u>41,962</u>         | <u>28,177</u>               | <u>70,600</u>     |
| DEFERRED INFLOWS OF RESOURCES:  |                             |                       |                             |                   |
| UNAVAILABLE REVENUE   | <u>56,613</u>               | <u>9,105</u>          | <u>-</u>                    | <u>65,718</u>     |
| Total Deferred Inflows of Resources                                   | <u>56,613</u>               | <u>9,105</u>          | <u>-</u>                    | <u>65,718</u>     |
| FUND BALANCES:  |                             |                       |                             |                   |
| Restricted  | 29,079                      | 68,334                | -                           | 97,413            |
| Assigned  | 88,193                      | -                     | -                           | 88,193            |
| Unassigned (Deficit)  | <u>-</u>                    | <u>(41,472)</u>       | <u>(28,177)</u>             | <u>(69,649)</u>   |
| Total Fund Balances (Deficit)   | <u>117,272</u>              | <u>26,862</u>         | <u>(28,177)</u>             | <u>115,957</u>    |
| TOTAL LIABILITIES, DEFERRED INFLOWS<br>OF RESOURCES AND FUND BALANCES | <u>\$ 174,346</u>           | <u>\$ 77,929</u>      | <u>\$ -</u>                 | <u>\$ 252,275</u> |

CITY OF STACY, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

|   | Special<br>Revenue<br>Funds | Debt Service<br>Funds | Capital<br>Project<br>Funds | Total      |
|---|-----------------------------|-----------------------|-----------------------------|------------|
| <b>REVENUES</b>   |                             |                       |                             |            |
| Taxes   | \$ 76,153                   | \$ 83,593             | \$ -                        | \$ 159,746 |
| Interest Income   | 132                         | 181                   | -                           | 313        |
| Miscellaneous   | 53,926                      | 2,000                 | -                           | 55,926     |
| Total Revenues  | 130,211                     | 85,774                | -                           | 215,985    |
| <b>EXPENDITURES</b>   |                             |                       |                             |            |
| Public Works  | -                           | 2,727                 | -                           | 2,727      |
| Culture and Recreation  | 4,064                       | 3,500                 | -                           | 7,564      |
| Economic Development  | 24,238                      | -                     | -                           | 24,238     |
| Miscellaneous   | 50,640                      | -                     | 28,177                      | 78,817     |
| Principal Payments  | -                           | 52,000                | -                           | 52,000     |
| Interest Payments   | -                           | 20,214                | -                           | 20,214     |
| Miscellaneous   | -                           | 1,500                 | -                           | 1,500      |
| Capital Outlay  | 12,056                      | 57,529                | -                           | 69,585     |
| Total Expenditures  | 90,998                      | 137,470               | 28,177                      | 256,645    |
| <b>EXCESS REVENUES OVER (UNDER)<br/>EXPENDITURES</b>                                      | 39,213                      | (51,696)              | (28,177)                    | (40,660)   |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                             |                       |                             |            |
| Issuance of Debt  | -                           | 65,000                | -                           | 65,000     |
| <b>EXCESS REVENUES AND OTHER SOURCES<br/>OVER (UNDER) EXPENDITURES AND<br/>OTHER USES</b> | 39,213                      | 13,304                | (28,177)                    | 24,340     |
| <b>FUND BALANCES - January 1</b>  | 78,059                      | 13,558                | -                           | 91,617     |
| <b>FUND BALANCES (DEFICIT) - December 31</b>  | \$ 117,272                  | \$ 26,862             | \$ (28,177)                 | \$ 115,957 |

CITY OF STACY, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 DECEMBER 31, 2013

|   | Special<br>Rev Park | Economic<br>Development<br>Authority | Hockey<br>Arena<br>Project | Lions<br>Club Park<br>Fund | Tax<br>Increment<br>1-1 | Tax<br>Increment<br>1-2 | Total             |
|---|---------------------|--------------------------------------|----------------------------|----------------------------|-------------------------|-------------------------|-------------------|
| <b>ASSETS</b>   |                     |                                      |                            |                            |                         |                         |                   |
| Pooled Cash and Equivalents   | \$ 3,136            | \$ 28,015                            | \$ 14,365                  | \$ 24,447                  | \$ 5,947                | \$ 19,996               | \$ 95,906         |
| Non Pooled Cash and Equivalents   | -                   | -                                    | 18,070                     | -                          | -                       | -                       | 18,070            |
| Accounts Receivable   | -                   | 2,472                                | 1,152                      | -                          | -                       | -                       | 3,624             |
| Property Taxes Receivable   | -                   | 711                                  | -                          | -                          | 17,371                  | 38,664                  | 56,746            |
| <b>TOTAL ASSETS</b>   | <u>\$ 3,136</u>     | <u>\$ 31,198</u>                     | <u>\$ 33,587</u>           | <u>\$ 24,447</u>           | <u>\$ 23,318</u>        | <u>\$ 58,660</u>        | <u>\$ 174,346</u> |
| <b>LIABILITIES</b>  |                     |                                      |                            |                            |                         |                         |                   |
| Accounts Payable  | \$ -                | \$ 461                               | \$ -                       | \$ -                       | \$ -                    | \$ -                    | \$ 461            |
| Total Liabilities   | -                   | 461                                  | -                          | -                          | -                       | -                       | 461               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                     |                                      |                            |                            |                         |                         |                   |
| Unavailable Revenue   | -                   | 578                                  | -                          | -                          | 17,371                  | 38,664                  | 56,613            |
| Total Deferred Inflows of Resources   | -                   | 578                                  | -                          | -                          | 17,371                  | 38,664                  | 56,613            |
| <b>FUND BALANCES</b>  |                     |                                      |                            |                            |                         |                         |                   |
| Restricted  | 3,136               | -                                    | -                          | -                          | 5,947                   | 19,996                  | 29,079            |
| Assigned  | -                   | 30,159                               | 33,587                     | 24,447                     | -                       | -                       | 88,193            |
| Total Fund Balances   | <u>3,136</u>        | <u>30,159</u>                        | <u>33,587</u>              | <u>24,447</u>              | <u>5,947</u>            | <u>19,996</u>           | <u>117,272</u>    |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND<br/>FUND BALANCES</b> | <u>\$ 3,136</u>     | <u>\$ 31,198</u>                     | <u>\$ 33,587</u>           | <u>\$ 24,447</u>           | <u>\$ 23,318</u>        | <u>\$ 58,660</u>        | <u>\$ 174,346</u> |

CITY OF STACY, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

|  | Special<br>Rev Park | Economic<br>Development<br>Authority | Hockey<br>Arena<br>Project | Lions<br>Club Park<br>Fund | Tax<br>Increment<br>1-1 | Tax<br>Increment<br>1-2 | Total             |
|--|---------------------|--------------------------------------|----------------------------|----------------------------|-------------------------|-------------------------|-------------------|
| <b>REVENUES</b>                                  |                     |                                      |                            |                            |                         |                         |                   |
| Taxes  | \$ -                | \$ 3,193                             | \$ -                       | \$ -                       | \$ 22,876               | \$ 50,084               | \$ 76,153         |
| Interest Income                                  | 15                  | 29                                   | 7                          | 81                         | 1                       | (1)                     | 132               |
| Miscellaneous                                    | -                   | 74                                   | 20,152                     | 33,700                     | -                       | -                       | 53,926            |
| Total Revenues                                   | <u>15</u>           | <u>3,296</u>                         | <u>20,159</u>              | <u>33,781</u>              | <u>22,877</u>           | <u>50,083</u>           | <u>130,211</u>    |
| <b>EXPENDITURES</b>                              |                     |                                      |                            |                            |                         |                         |                   |
| Culture and Recreation                           | -                   | -                                    | -                          | 4,064                      | -                       | -                       | 4,064             |
| Economic Development                             | -                   | -                                    | -                          | -                          | 24,238                  | -                       | 24,238            |
| Miscellaneous                                    | -                   | 993                                  | 4,231                      | -                          | 29                      | 45,387                  | 50,640            |
| Capital Outlay                                   | -                   | -                                    | -                          | 12,056                     | -                       | -                       | 12,056            |
| Total Expenditures                               | <u>-</u>            | <u>993</u>                           | <u>4,231</u>               | <u>16,120</u>              | <u>24,267</u>           | <u>45,387</u>           | <u>90,998</u>     |
| <b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b> | 15                  | 2,303                                | 15,928                     | 17,661                     | (1,390)                 | 4,696                   | 39,213            |
| <b>FUND BALANCES - January 1</b>                 | <u>3,121</u>        | <u>27,856</u>                        | <u>17,659</u>              | <u>6,786</u>               | <u>7,337</u>            | <u>15,300</u>           | <u>78,059</u>     |
| <b>FUND BALANCES - December 31</b>               | <u>\$ 3,136</u>     | <u>\$ 30,159</u>                     | <u>\$ 33,587</u>           | <u>\$ 24,447</u>           | <u>\$ 5,947</u>         | <u>\$ 19,996</u>        | <u>\$ 117,272</u> |

CITY OF STACY, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR DEBT SERVICE FUNDS  
 DECEMBER 31, 2013

|   | Tax<br>Abatement<br>Woodsman<br>2004 | Doyle<br>Building<br>Improvements | 2013A GO<br>Refunding<br>Bonds | 2008 Lease<br>Purchase | Road<br>Improvement<br>Project | Total            |
|---|--------------------------------------|-----------------------------------|--------------------------------|------------------------|--------------------------------|------------------|
| <b>ASSETS</b>   |                                      |                                   |                                |                        |                                |                  |
| Pooled Cash and Equivalents   | \$ -                                 | \$ 5,971                          | \$ -                           | \$ 2,086               | \$ 58,658                      | \$ 66,715        |
| Property Taxes Receivable   | <u>2,561</u>                         | -                                 | -                              | <u>2,135</u>           | <u>6,518</u>                   | <u>11,214</u>    |
| <b>TOTAL ASSETS</b>   | <u>\$ 2,562</u>                      | <u>\$ 5,971</u>                   | <u>\$ -</u>                    | <u>\$ 4,221</u>        | <u>\$ 65,175</u>               | <u>\$ 77,929</u> |
| <b>LIABILITIES</b>  |                                      |                                   |                                |                        |                                |                  |
| Due to Other Funds  | \$ 32,552                            | -                                 | \$ 9,410                       | \$ -                   | \$ -                           | \$ 41,962        |
| Total Liabilities   | <u>32,552</u>                        | -                                 | <u>9,410</u>                   | -                      | -                              | <u>41,962</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>   |                                      |                                   |                                |                        |                                |                  |
| Unavailable Revenue   | 2,082                                | -                                 | (10)                           | 1,735                  | 5,298                          | 9,105            |
| Total Deferred Inflows of Resources   | <u>2,082</u>                         | -                                 | <u>(10)</u>                    | <u>1,735</u>           | <u>5,298</u>                   | <u>9,105</u>     |
| <b>FUND BALANCES</b>  |                                      |                                   |                                |                        |                                |                  |
| Restricted  | -                                    | 5,971                             | -                              | 2,486                  | 59,877                         | 68,334           |
| Unassigned (Deficit)  | <u>(32,072)</u>                      | -                                 | <u>(9,400)</u>                 | -                      | -                              | <u>(41,472)</u>  |
| Total Fund Balances (Deficit)   | <u>(32,072)</u>                      | <u>5,971</u>                      | <u>(9,400)</u>                 | <u>2,486</u>           | <u>59,877</u>                  | <u>26,862</u>    |
| <b>TOTAL LIABILITIES, DEFERRED<br/>INFLOWS OF RESOURCES AND FUND<br/>BALANCES</b> | <u>\$ 2,562</u>                      | <u>\$ 5,971</u>                   | <u>\$ -</u>                    | <u>\$ 4,221</u>        | <u>\$ 65,175</u>               | <u>\$ 77,929</u> |

CITY OF STACY, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR DEBT SERVICE FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

|   | Tax                          |                                   |                                |                        |                                |           |
|---|------------------------------|-----------------------------------|--------------------------------|------------------------|--------------------------------|-----------|
|   | Abatement<br>Woodman<br>2004 | Doyle<br>Building<br>Improvements | 2013A GO<br>Refunding<br>Bonds | 2008 Lease<br>Purchase | Road<br>Improvement<br>Project | Total     |
| REVENUES  |                              |                                   |                                |                        |                                |           |
| Taxes   | \$ 45,037                    | \$ -                              | \$ -                           | \$ 9,499               | \$ 29,057                      | \$ 83,593 |
| Interest Income   | 1                            | -                                 | -                              | 1                      | 179                            | 181       |
| Miscellaneous   | -                            | 2,000                             | -                              | -                      | -                              | 2,000     |
| Total Revenues  | 45,038                       | 2,000                             | -                              | 9,500                  | 29,236                         | 85,774    |
| EXPENDITURES  |                              |                                   |                                |                        |                                |           |
| Public Works  |                              |                                   |                                |                        |                                |           |
| Culture and Recreation  | -                            | -                                 | -                              | -                      | 2,727                          | 2,727     |
| Principal Payments  | -                            | 3,500                             | -                              | -                      | -                              | 3,500     |
| Interest Payments   | 25,000                       | -                                 | -                              | 7,000                  | 20,000                         | 52,000    |
| Miscellaneous   | 11,529                       | -                                 | -                              | 2,172                  | 6,513                          | 20,214    |
| Capital Outlay  | -                            | -                                 | 1,500                          | -                      | -                              | 1,500     |
| Total Expenditures  | 36,529                       | 61,029                            | 1,500                          | 9,172                  | 29,240                         | 137,470   |
| EXCESS REVENUES OVER (UNDER) EXPENDITURES                                     | 8,509                        | (59,029)                          | (1,500)                        | 328                    | (4)                            | (51,696)  |
| OTHER FINANCING SOURCES (USES)  |                              |                                   |                                |                        |                                |           |
| Issuance of Debt  | -                            | 65,000                            | -                              | -                      | -                              | 65,000    |
| EXCESS REVENUES AND OTHER SOURCES OVER<br>(UNDER) EXPENDITURES AND OTHER USES | 8,509                        | 5,971                             | (1,500)                        | 328                    | (4)                            | 13,304    |
| FUND BALANCES (DEFICIT) - January 1   | (40,581)                     | -                                 | (7,900)                        | 2,158                  | 59,881                         | 13,558    |
| FUND BALANCES (DEFICIT) - December 31   | (32,072)                     | 5,971                             | (9,400)                        | 2,486                  | 59,877                         | 26,862    |

CITY OF STACY, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECT FUNDS  
DECEMBER 31, 2013

|                                    | Radium<br>Abate/Water<br>Plant | Total                    |
|------------------------------------|--------------------------------|--------------------------|
| ASSETS                             | \$ <u>          -</u>          | \$ <u>          -</u>    |
| LIABILITIES:                       |                                |                          |
| Due to Other Funds                 | \$ <u>  28,177</u>             | \$ <u>  28,177</u>       |
| Total Liabilities                  | <u>          28,177</u>        | <u>          28,177</u>  |
| FUND BALANCES:                     |                                |                          |
| Unassigned                         | <u>         (28,177)</u>       | <u>         (28,177)</u> |
| Restricted                         |                                |                          |
| Total Fund Balances                | <u>         (28,177)</u>       | <u>         (28,177)</u> |
| TOTAL LIABILITIES AND FUND BALANCE | \$ <u>          0</u>          | \$ <u>          0</u>    |

CITY OF STACY, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECT FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

|                                    | Radium<br>Abate/Water<br>Plant | Total                     |
|------------------------------------|--------------------------------|---------------------------|
| REVENUES                           | \$ <u>-</u>                    | \$ <u>-</u>               |
| EXPENDITURES                       |                                |                           |
| Miscellaneous                      | <u>28,177</u>                  | <u>28,177</u>             |
| Total Expenditures                 | <u>28,177</u>                  | <u>28,177</u>             |
| EXCESS EXPENDITURES UNDER REVENUES | (28,177)                       | (28,177)                  |
| FUND BALANCE - January 1           | <u>-</u>                       | <u>-</u>                  |
| FUND BALANCE - December 31         | \$ <u><u>(28,177)</u></u>      | \$ <u><u>(28,177)</u></u> |

CITY OF STACY, MINNESOTA  
SUMMARY FINANCIAL REPORT

REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

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><br>2013 | <u>Total</u><br>2012 | <u>Percent</u><br><u>Increase</u><br><u>(Decrease)</u> |
|--|----------------------|----------------------|--|
| <b>REVENUES:</b>                                   |                      |                      |  |
| Taxes and Assessments                              | \$ 363,333           | \$ 355,225           | 2.28 %   |
| Licenses and Permits                               | 38,472               | 19,697               | 95.32 %  |
| Intergovernmental                                  | 260,639              | 244,594              | 6.56 %   |
| Charges for Services                               | 25,154               | 12,971               | 93.92 %  |
| Fines  | 794                  | 1,981                | (59.92)%   |
| Investment Earnings                                | 2,063                | 4,388                | (52.99)%   |
| Miscellaneous                                      | 75,193               | 60,884               | 23.50 %  |
| Transfer In  | 10,000               | 70,125               | (85.74)%   |
| Issuance of Debt                                   | <u>1,495,000</u>     | <u>-</u>             | <u>100.00 %</u>  |
| Total Revenues                                     | <u>\$ 2,270,648</u>  | <u>\$ 769,865</u>    | <u>194.94 %</u>  |
| Per Capita   | <u>1,642</u>         | <u>557</u>           |  |
| <b>EXPENDITURES:</b>                               |                      |                      |  |
| Current  |                      |                      |  |
| General Government                                 | \$ 179,590           | \$ 156,696           | 14.61 %  |
| Public Safety                                      | 160,354              | 293,944              | (45.45)%   |
| Public Works                                       | 49,120               | 71,988               | (31.77)%   |
| Culture and Recreation                             | 38,960               | 60,059               | (35.13)%   |
| Economic Development                               | 24,238               | 30,293               | (19.99)%   |
| Miscellaneous                                      | 94,447               | 125,523              | (24.76)%   |
| Debt Service:                                      |                      |                      |  |
| Principal Payments                                 | 1,322,000            | 92,000               | 1,336.96 %   |
| Interest Payments                                  | 82,398               | 74,879               | 10.04 %  |
| Other Charges                                      | 49,378               | -                    | 100.00 %   |
| Capital Outlay                                     | 91,947               | 22,449               | 309.58 %   |
| Transfer Out                                       | <u>-</u>             | <u>10,125</u>        | <u>(100.00)%</u>                                       |
| Total Expenditures                                 | <u>\$ 2,092,432</u>  | <u>\$ 934,065</u>    | <u>124.01 %</u>  |
| Per Capita   | <u>1,513</u>         | <u>675</u>           |  |
| Long-term Indebtedness                             | <u>\$ 1,947,000</u>  | <u>\$ 1,774,000</u>  | <u>9.75 %</u>  |
| Per Capita   | <u>1,408</u>         | <u>1,283</u>         |  |
| General Fund Unreserved Fund Balance - December 31 | <u>\$ 711,627</u>    | <u>\$ 678,135</u>    | <u>4.94 %</u>  |
| Per Capita   | <u>515</u>           | <u>490</u>           |  |

SECTION IV

ADDITIONAL INFORMATION

**DENNIS E. OBERLOH, LTD.**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**P.O. BOX 186 • 530 WEST PARK ROAD**  
**REDWOOD FALLS, MN 56283**

**Telephone: (507) 644-6400**

**Fax: (507) 644-6401**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of City of Stacy, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise City of Stacy, Minnesota's basic financial statements, and have issued our report thereon dated May 13, 2014.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Items 13-01 and 13-02.

### **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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **City of Stacy, Minnesota's Response to Findings**

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.

### **Purpose of this Report**

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

*Dennis E Oberloh, Ltd*  
Dennis E. Oberloh, Ltd.

May 13, 2014

CITY OF STACY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2013

INTERNAL CONTROL FINDINGS

Audit Finding 13-01

*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 13-02

*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, 2013

MINNESOTA LEGAL COMPLIANCE FINDINGS

Audit Finding 13-03

*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, 2013.

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

Telephone: (507) 644-6400

Fax: (507) 644-6401

AUDITOR'S REPORT ON LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the basic 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, 2013, and the related notes to the financial statements, and have issued our report thereon dated May 13, 2014.

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

In connection with our audit, nothing came to our attention that caused us to believe that City of Stacy, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in Findings 13-03 on pages 56, Schedule of Findings and Responses. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Stacy, Minnesota's noncompliance with the above reference provisions.

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

  
Dennis E. Oberloh, Ltd.

May 13, 2014