

CITY OF STACY
STACY, MINNESOTA

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017

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 | Jim Ness |
| COUNCIL MEMBER | Charles Lucia |
| COUNCIL MEMBER | Mark Ness |
| COUNCIL MEMBER | Tony Olivolo |
| CITY CLERK | Sharon Payne |
| CITY ATTORNEY | Amy Schutt |

SECTION II
FINANCIAL SECTION

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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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 on the previous page 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, 2017, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension reporting schedules on pages 5 through 13 and 45 through 49 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

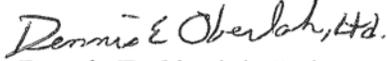
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stacy, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor governmental fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 and the schedule of expenditures of federal awards 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 8, 2018 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.

May 8, 2018

CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

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, 2017.

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$8,403,450 (net position). Of this amount \$3,202,168 (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 \$1,526,461 compared to an increase of \$560,133 in the previous year. The governmental activities net position increased during 2017 by \$33,906 and the business-type activities net position increased during 2017 by \$1,492,555.
- As of the close of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$1,161,636, an increase of \$72,493 in comparison with the previous year. Approximately 73.7 percent of this total amount, \$856,985, is available for spending at the City’s discretion, but \$72,333 has been assigned for specific purposes.

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, 2017

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

The City adopts annual appropriated budgets for its General Fund. Budgetary comparison schedules have been provided for these funds 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 23 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 44 of this report.

CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

USING THIS ANNUAL REPORT (Cont.)

Required Supplementary Information

This Management's Discussion and Analysis, the General Fund Budgetary Comparison, and Pension Schedules (on pages 45 - 49) 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 50) includes optional financial information such as combining nonmajor governmental fund statements (which are added together and shown in the fund financial statements in a single column) and summary financial report. 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>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Current Assets | \$ 1,237,993 | \$ 1,151,877 | \$ 3,181,744 | \$ 2,453,123 | \$ 4,419,737 | \$ 3,605,000 |
| Capital Assets | <u>1,834,223</u> | <u>2,014,093</u> | <u>9,867,408</u> | <u>7,661,252</u> | <u>11,701,631</u> | <u>9,675,345</u> |
| Total Assets | <u>3,072,216</u> | <u>3,165,970</u> | <u>13,049,152</u> | <u>10,114,375</u> | <u>16,121,368</u> | <u>13,280,345</u> |
| Deferred Outflows of | | | | | | |
| Resources | <u>47,260</u> | <u>55,150</u> | <u>154,181</u> | <u>193,440</u> | <u>201,441</u> | <u>248,590</u> |
| Current Liabilities | 195,297 | 171,281 | 2,597,172 | 646,951 | 2,792,469 | 818,232 |
| Long-term Liabilities | <u>1,345,852</u> | <u>1,527,135</u> | <u>3,595,675</u> | <u>4,220,607</u> | <u>4,941,527</u> | <u>5,747,742</u> |
| Total Liabilities | <u>1,541,149</u> | <u>1,698,416</u> | <u>6,192,847</u> | <u>4,867,558</u> | <u>7,733,996</u> | <u>6,565,974</u> |
| Deferred Inflows of | | | | | | |
| Resources | <u>38,859</u> | <u>17,142</u> | <u>146,504</u> | <u>68,830</u> | <u>185,363</u> | <u>85,972</u> |
| Net Position | | | | | | |
| Net Investment in | | | | | | |
| Capital Assets | 487,223 | 494,094 | 4,409,408 | 3,576,234 | 4,896,631 | 4,070,328 |
| Restricted | 304,651 | 311,124 | - | - | 304,651 | 311,124 |
| Unrestricted | <u>747,594</u> | <u>700,344</u> | <u>2,454,574</u> | <u>1,795,193</u> | <u>3,202,168</u> | <u>2,495,537</u> |
| Total Net Position | <u>\$ 1,539,468</u> | <u>\$ 1,505,562</u> | <u>\$ 6,863,982</u> | <u>\$ 5,371,427</u> | <u>\$ 8,403,450</u> | <u>\$ 6,876,989</u> |

A large portion of the City's net position (58.2 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.

CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

THE CITY AS A WHOLE (Cont.)

Net Position (Cont.)

An additional portion of the City's net position (3.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (38.2 percent) may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all categories of net position for both governmental and business-type activities.

Changes in Net Position

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| <u>Revenues</u> | | | | | | |
| Program Revenues: | | | | | | |
| Fees, Fines, and Charges for Services | \$ 46,450 | \$ 35,849 | \$ 780,575 | \$ 623,846 | \$ 827,025 | \$ 659,695 |
| Contributions | 36,963 | 24,527 | - | - | 36,963 | 24,527 |
| Capital Grants and Contributions | - | - | 959,369 | - | 959,369 | - |
| Sales | - | - | 3,211,801 | 3,083,886 | 3,211,801 | 3,083,886 |
| General Revenues: | | | | | | |
| Taxes and Assessments | 442,404 | 409,703 | 110,762 | 162,585 | 553,166 | 572,288 |
| Intergovernmental Revenue | 293,043 | 292,117 | - | - | 293,043 | 292,117 |
| Interest Income | 3,929 | 3,048 | 7,752 | 7,258 | 11,681 | 10,306 |
| Miscellaneous Income | <u>63,908</u> | <u>60,213</u> | <u>45,699</u> | <u>29,193</u> | <u>109,607</u> | <u>89,406</u> |
| Total Revenues | <u>886,697</u> | <u>825,457</u> | <u>5,115,958</u> | <u>3,906,768</u> | <u>6,002,655</u> | <u>4,732,225</u> |
| <u>Expenses</u> | | | | | | |
| General Government | 219,734 | 199,864 | - | - | 219,734 | 199,864 |
| Public Safety | 220,645 | 183,811 | - | - | 220,645 | 183,811 |
| Public Works | 328,884 | 203,393 | - | - | 328,884 | 203,393 |
| Culture and Recreation | 76,543 | 63,055 | - | - | 76,543 | 63,055 |
| Economic Development | 15,083 | 15,097 | - | - | 15,083 | 15,097 |
| Miscellaneous | 61,902 | 63,025 | - | - | 61,902 | 63,025 |
| Municipal Liquor Store | - | - | 3,026,518 | 2,907,219 | 3,026,518 | 2,907,219 |
| Water | - | - | 161,110 | 185,399 | 161,110 | 185,399 |
| Sewer | - | - | 356,643 | 340,078 | 356,643 | 340,078 |
| Storm Sewer | - | - | 9,132 | 11,151 | 9,132 | 11,151 |
| Total Expenses | <u>922,791</u> | <u>728,245</u> | <u>3,553,403</u> | <u>3,443,847</u> | <u>4,476,194</u> | <u>4,172,092</u> |
| Transfers and Contributions | <u>70,000</u> | <u>(85,109)</u> | <u>(70,000)</u> | <u>85,109</u> | <u>-</u> | <u>-</u> |
| Change in Net Position | 33,906 | 12,103 | 1,492,555 | 548,030 | 1,526,461 | 560,133 |
| Net Position Beginning | <u>1,505,562</u> | <u>1,493,459</u> | <u>5,371,427</u> | <u>4,823,397</u> | <u>6,876,989</u> | <u>6,316,856</u> |
| Net Position Ending | <u>\$ 1,539,468</u> | <u>\$ 1,505,562</u> | <u>\$ 6,863,982</u> | <u>\$ 5,371,427</u> | <u>\$ 8,403,450</u> | <u>\$ 6,876,989</u> |

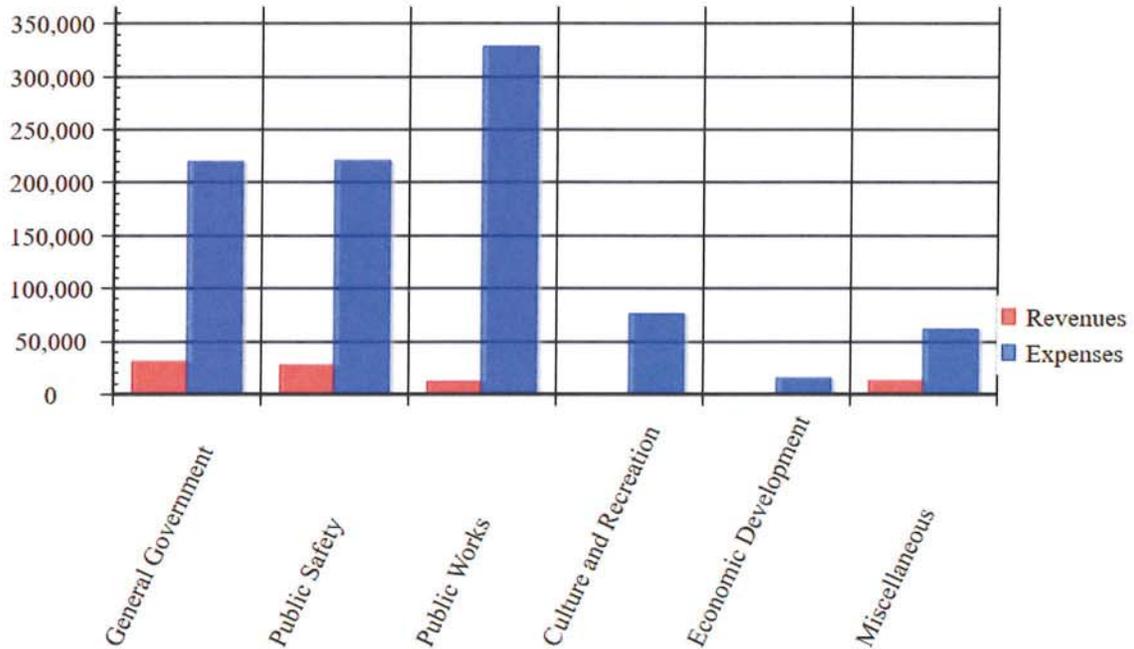
CITY OF STACY, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 DECEMBER 31, 2017

THE CITY AS A WHOLE (Cont.)

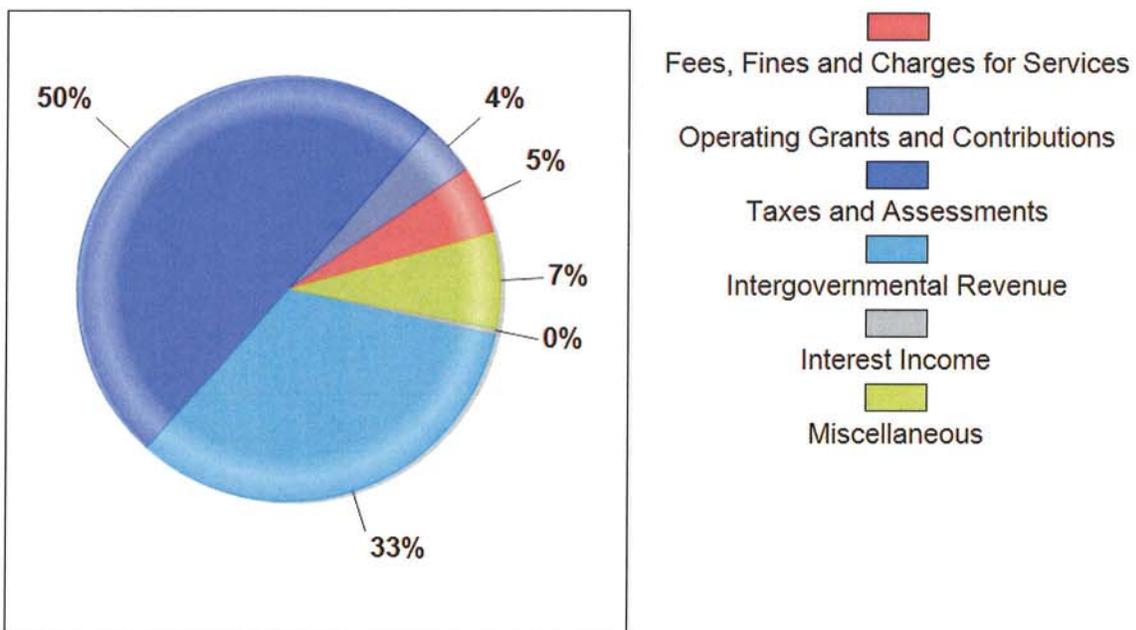
Governmental Activities

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

**Program Revenues and Expenses -
 Governmental Activities**



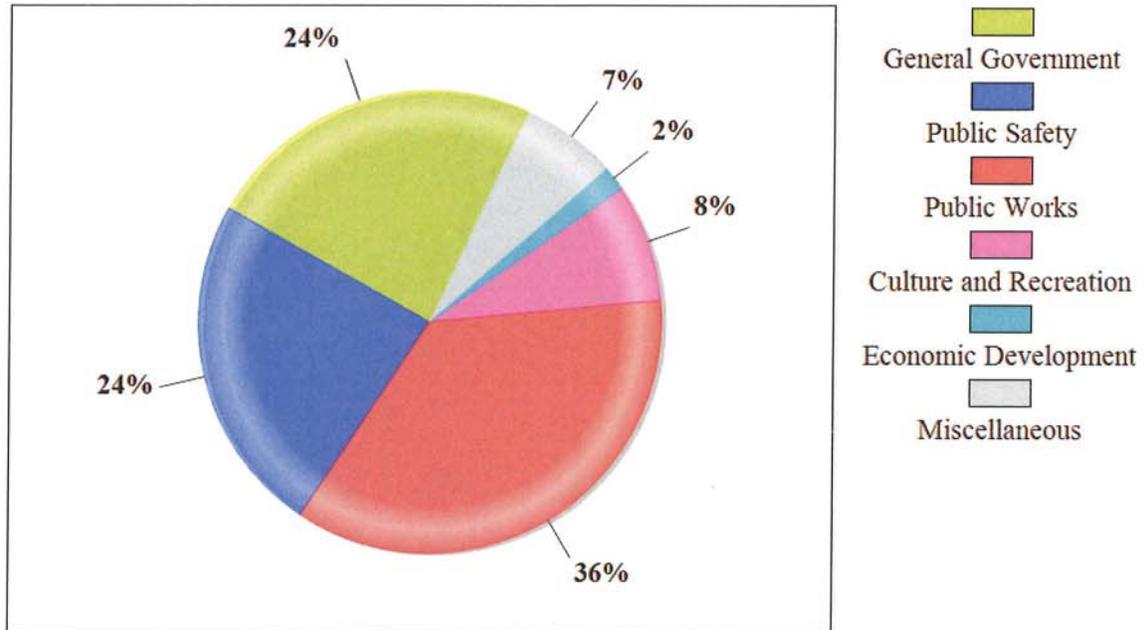
Sources of Funds in Governmental Activities



CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

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

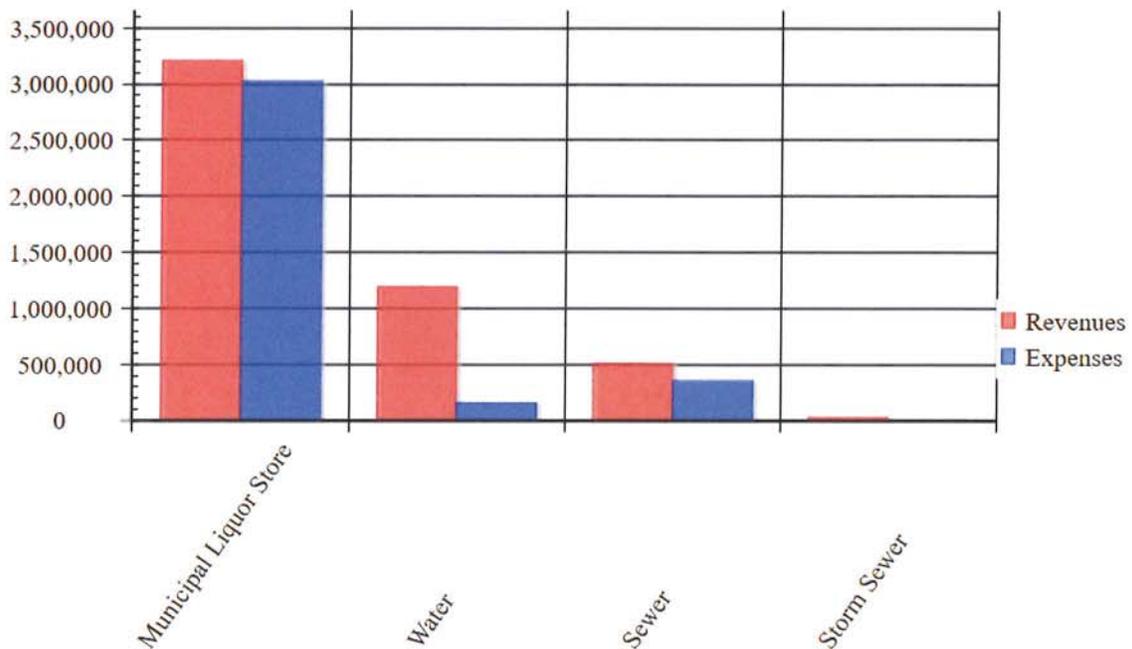
Uses of Funds in Governmental Activities



Business-Type Activities

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

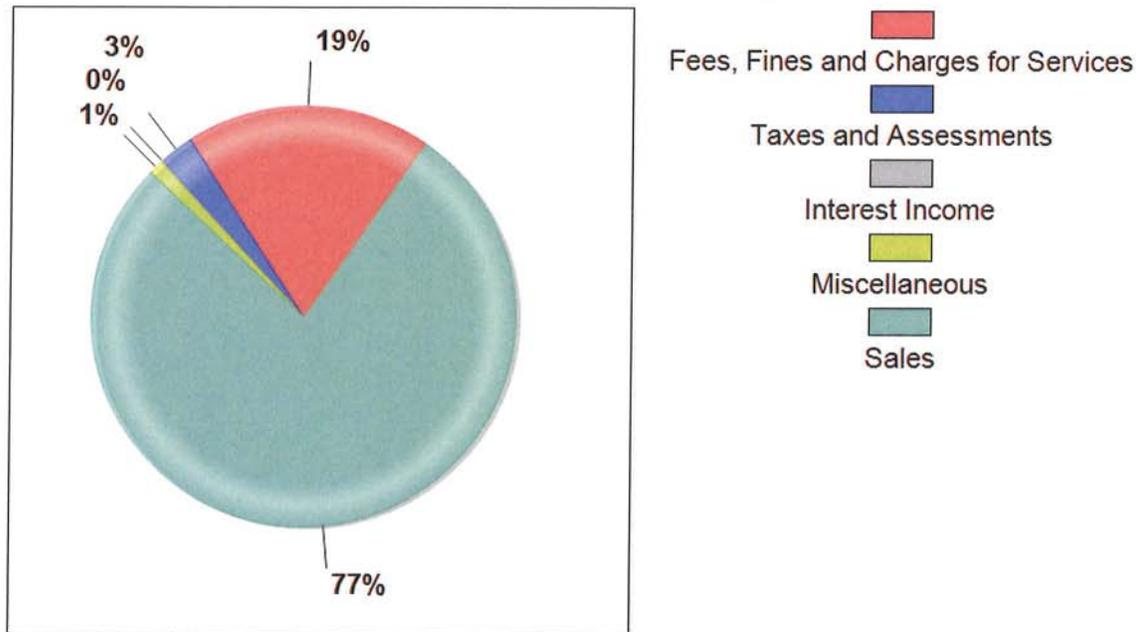
**Program Revenues and Expenses -
Business-Type Activities**



CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

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 \$1,161,636, an increase of \$72,493 in comparison with the prior year. Approximately 73.74% of this total amount, \$856,985, constitutes unrestricted fund balance, which is available for spending at the City's discretion, although \$72,333 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 in the amount of \$304,651.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$784,652, all of which is unassigned. The unassigned fund balance is 126.3% of total General Fund expenditures.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the business-type activities in the government-wide statements, but in more detail. Unrestricted net position of the enterprise funds at the end of the year amounted to \$2,454,574. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's General Fund budget was not amended during the year. The budget called for a expenditures over revenues in the amount of \$100 for the year in 2017. Revenues and other financing sources exceeded expectations by \$120,583 and expenditures came in over budget by \$52,546 in 2017.

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, 2017, amounts to \$11,701,631 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 20.9 percent (an 8.9 percent decrease for governmental activities and a 28.7 percent increase for business-type activities). The increase was due to capital outlay exceeding depreciation.

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Totals</u> | |
|--|--------------------------------|---------------------|---------------------------------|---------------------|----------------------|---------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Land | \$ 420,639 | \$ 420,639 | \$ - | \$ - | \$ 420,639 | \$ 420,639 |
| Construction in Progress | - | - | 2,839,437 | 423,315 | 2,839,437 | 423,315 |
| Improvements Building, Plant and Equipment | 301,838 | 301,838 | - | - | 301,838 | 301,838 |
| Infrastructure and Improvements | 952,666 | 931,121 | 9,762,611 | 9,751,728 | 10,715,277 | 10,682,849 |
| Subtotal | <u>2,925,773</u> | <u>2,925,773</u> | <u>-</u> | <u>-</u> | <u>2,925,773</u> | <u>2,925,773</u> |
| Less: Accumulated Depreciation | <u>4,600,916</u> | <u>4,579,371</u> | <u>12,602,048</u> | <u>10,175,043</u> | <u>17,202,964</u> | <u>14,754,414</u> |
| Total | <u>\$ 1,834,223</u> | <u>\$ 2,014,093</u> | <u>\$ 9,867,408</u> | <u>\$ 7,661,252</u> | <u>\$ 11,701,631</u> | <u>\$ 9,675,345</u> |

Debt

At the end of the current fiscal year, the City had total Long-term debt outstanding of \$6,805,000.

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Totals</u> | |
|------------------------|--------------------------------|--------------------|---------------------------------|--------------------|--------------------|--------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| G.O. Improvement Bonds | \$1,185,000 | \$1,245,000 | \$ 615,000 | \$ 650,000 | \$1,800,000 | \$1,895,000 |
| G.O. Revenue Bonds | - | - | 1,873,000 | 151,518 | 1,873,000 | 151,518 |
| Revenue Bonds | - | - | 1,196,000 | 1,297,500 | 1,196,000 | 1,297,500 |
| Other Long-Term Debt | 17,000 | 25,000 | 1,774,000 | 1,986,000 | 1,791,000 | 2,011,000 |
| Tax Increment Bonds | <u>145,000</u> | <u>250,000</u> | <u>-</u> | <u>-</u> | <u>145,000</u> | <u>250,000</u> |
| Total | <u>\$1,347,000</u> | <u>\$1,520,000</u> | <u>\$5,458,000</u> | <u>\$4,085,018</u> | <u>\$6,805,000</u> | <u>\$5,605,018</u> |

CITY OF STACY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City will continue to monitor the budget and ensure spending is held to a means sustainable through current Local Government Aid (LGA) and property tax amounts. The City had a slight decrease of 0.88% in the 2018 levy from the 2017 levy. The City's goal is for the levy increase in 2019 to be less than 2% from the 2018 levy amount. The City is planning a road project for 2018 at an estimated cost of \$700,000 and is expected to bond for this project.

The City did not increase Water, Sewer, or Storm Sewer rates for 2018. The City is looking at a potential 2.5% increase in Water and Sewer rates for 2019, while the Storm Sewer rate is expected to stay the same. The Water Fund will refinance the temporary bonds related to the water project in 2018 when those bonds become due.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF STACY, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017

| | Primary Government | | |
|---------------------------------------|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Pooled Cash and Equivalents | \$ 1,192,013 | \$ 1,195,707 | \$ 2,387,720 |
| Non Pooled Cash and Equivelants | - | 1,325,286 | 1,325,286 |
| Receivables: | | | |
| Accounts Receivable | 37,801 | 150,966 | 188,767 |
| Property Taxes Receivable | 8,179 | 7,789 | 15,968 |
| Prepaid Expense | - | 18,095 | 18,095 |
| Inventory | - | 477,270 | 477,270 |
| Capital assets not being depreciated: | | | |
| Land | 420,639 | - | 420,639 |
| Construction in Progress | - | 2,839,437 | 2,839,437 |
| Other capital assets: | | | |
| Improvements | 301,838 | - | 301,838 |
| Building, Plant and Equipment | 952,666 | 9,762,611 | 10,715,277 |
| Infrastructure and Improvements | 2,925,773 | - | 2,925,773 |
| Accumulated Depreciation | (2,766,693) | (2,734,640) | (5,501,333) |
| Bond Discount, Net | - | 6,631 | 6,631 |
| TOTAL ASSETS | 3,072,216 | 13,049,152 | 16,121,368 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Related to Pensions | 47,260 | 154,181 | 201,441 |
| LIABILITIES | | | |
| Accounts Payable | 63,124 | 176,642 | 239,766 |
| Accrued Liabilities | 4,445 | 31,893 | 36,338 |
| Accrued Interest | 11,839 | 64,593 | 76,432 |
| Accrued Wages Payable | 7,889 | 26,576 | 34,465 |
| Due to Other Governmental Units | - | 75,968 | 75,968 |
| Noncurrent liabilities: | | | |
| Due within one year | 108,000 | 2,221,500 | 2,329,500 |
| Net Pension Liability | 106,852 | 359,175 | 466,027 |
| Due in more than one year | 1,239,000 | 3,236,500 | 4,475,500 |
| TOTAL LIABILITIES | 1,541,149 | 6,192,847 | 7,733,996 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Related to Pensions | 38,859 | 146,504 | 185,363 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 487,223 | 4,409,408 | 4,896,631 |
| Restricted | 304,651 | - | 304,651 |
| Unrestricted | 747,594 | 2,454,574 | 3,202,168 |
| TOTAL NET POSITION | \$ 1,539,468 | \$ 6,863,982 | \$ 8,403,450 |

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

CITY OF STACY, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

| Functions/Programs Primary Government | Program Revenues | | | | | Net Sources (Uses) and Changes in Net Position | | |
|---|---------------------|--|--|-------------------|---------------------|---|-----------------------------|---------------------|
| | Expenses | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants | Sales | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | | |
| General Government | \$ 219,734 | \$ 30,782 | \$ - | \$ - | \$ - | \$ (188,952) | \$ - | \$ (188,952) |
| Public Safety | 220,645 | 2,940 | 24,598 | - | - | (193,107) | - | (193,107) |
| Public Works | 328,884 | - | 12,365 | - | - | (316,519) | - | (316,519) |
| Culture and Recreation | 76,543 | - | - | - | - | (76,543) | - | (76,543) |
| Economic Development | 15,083 | - | - | - | - | (15,083) | - | (15,083) |
| Miscellaneous | 61,902 | 12,728 | - | - | - | (49,174) | - | (49,174) |
| Total Governmental Activities | 922,791 | 46,450 | 36,963 | - | - | (839,378) | - | (839,378) |
| Business-Type Activities: | | | | | | | | |
| Municipal Liquor Store | 3,026,518 | - | - | - | 3,211,801 | - | 185,283 | 185,283 |
| Water | 161,110 | 238,175 | - | 959,369 | - | - | 1,036,434 | 1,036,434 |
| Sewer | 356,643 | 512,404 | - | - | - | - | 155,761 | 155,761 |
| Storm Sewer | 9,132 | 29,996 | - | - | - | - | 20,864 | 20,864 |
| Total Business-Type Activities | 3,553,403 | 780,575 | - | 959,369 | 3,211,801 | - | 1,398,342 | 1,398,342 |
| Total Primary Government | \$ 4,476,194 | \$ 827,025 | \$ 36,963 | \$ 959,369 | \$ 3,211,801 | (839,378) | 1,398,342 | 558,964 |
| General Revenues: | | | | | | | | |
| Taxes and Assessments | | | | | | 442,404 | 110,762 | 553,166 |
| Intergovernmental Revenue | | | | | | 293,043 | - | 293,043 |
| Interest Income | | | | | | 3,929 | 7,752 | 11,681 |
| Miscellaneous | | | | | | 63,908 | 45,699 | 109,607 |
| Transfers | | | | | | 70,000 | (70,000) | - |
| Total General Revenues | | | | | | 873,284 | 94,213 | 967,497 |
| Changes in Net Position | | | | | | 33,906 | 1,492,555 | 1,526,461 |
| Net Position - January 1 | | | | | | 1,505,562 | 5,371,427 | 6,876,989 |
| Net Position - December 31 | | | | | | \$ 1,539,468 | \$ 6,863,982 | \$ 8,403,450 |

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

CITY OF STACY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

| | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|---|---------------------|--|---------------------|
| ASSETS | | | |
| Pooled Cash and Equivalents | \$ 815,561 | \$ 376,452 | \$ 1,192,013 |
| Accounts Receivable | 37,801 | - | 37,801 |
| Property Taxes Receivable | <u>3,643</u> | <u>4,536</u> | <u>8,179</u> |
| Total Assets | <u>\$ 857,005</u> | <u>\$ 380,988</u> | <u>\$ 1,237,993</u> |
| LIABILITIES | | | |
| Accounts Payable | \$ 63,124 | \$ - | \$ 63,124 |
| Accrued Liabilities | 4,445 | - | 4,445 |
| Accrued Wages Payable | <u>1,835</u> | <u>-</u> | <u>1,835</u> |
| Total Liabilities | <u>69,404</u> | <u>-</u> | <u>69,404</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable Revenue | <u>2,949</u> | <u>4,004</u> | <u>6,953</u> |
| Total Deferred Inflows of Resources | <u>2,949</u> | <u>4,004</u> | <u>6,953</u> |
| FUND BALANCES | | | |
| Restricted | - | 304,651 | 304,651 |
| Assigned | - | 72,333 | 72,333 |
| Unassigned | <u>784,652</u> | <u>-</u> | <u>784,652</u> |
| Total Fund Balances | <u>784,652</u> | <u>376,984</u> | <u>1,161,636</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 857,005</u> | <u>\$ 380,988</u> | <u>\$ 1,237,993</u> |

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

CITY OF STACY, MINNESOTA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017

| | |
|---|---------------------|
| Total Governmental Fund Balances | \$ 1,161,636 |
| <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. | 1,834,223 |
| Part of taxes and special assessments receivable are not available to pay for current period expenditures and therefore are deferred in the funds. | 6,953 |
| 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. | (1,364,893) |
| Net Pension Liability, Deferred Inflows of Resources Related to Pensions and Deferred Outflows of Resources Related to Pensions in governmental activities is not current financial resources and therefore not reported in the governmental funds. | <u>(98,451)</u> |
| Net Position of Governmental Activities | <u>\$ 1,539,468</u> |

CITY OF STACY, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | General Fund | Nonmajor Governmental Funds | Total |
|---|-----------------|-----------------------------------|-------------|
| REVENUES | | | |
| Taxes | \$ 204,996 | \$ 258,973 | \$ 463,969 |
| Licenses and Permits | 25,171 | - | 25,171 |
| Intergovernmental Revenue | 329,969 | - | 329,969 |
| Charges for Services | 19,459 | - | 19,459 |
| Fines and Forfeits | 1,820 | - | 1,820 |
| Interest Income | 3,102 | 827 | 3,929 |
| Miscellaneous | 34,575 | 29,333 | 63,908 |
| Total Revenues | 619,092 | 289,133 | 908,225 |
| EXPENDITURES | | | |
| Current Operations: | | | |
| General Government | 202,526 | - | 202,526 |
| Public Safety | 215,002 | - | 215,002 |
| Public Works | 129,934 | - | 129,934 |
| Culture and Recreation | 33,411 | 19,903 | 53,314 |
| Economic Development | - | 15,083 | 15,083 |
| Miscellaneous | 18,737 | 43,165 | 61,902 |
| Debt Service: | | | |
| Principal Payments | - | 173,000 | 173,000 |
| Interest Payments | - | 32,663 | 32,663 |
| Miscellaneous | - | 763 | 763 |
| Capital Outlay | 21,545 | - | 21,545 |
| Total Expenditures | 621,155 | 284,577 | 905,732 |
| EXCESS REVENUES OVER (UNDER) EXPENDITURES | (2,063) | 4,556 | 2,493 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfer In | 70,000 | - | 70,000 |
| EXCESS REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | 67,937 | 4,556 | 72,493 |
| FUND BALANCES - January 1 | 716,715 | 372,428 | 1,089,143 |
| FUND BALANCES - December 31 | \$ 784,652 | \$ 376,984 | \$1,161,636 |

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, 2017

| | |
|---|------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 72,493 |
| <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 and reported as depreciation expense. | |
| Capital Outlay | 21,544 |
| Depreciation Expense | (201,415) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | (21,565) |
| Interest on long-term liabilities is expensed as paid in the funds, but accrued in the period due in the Statement of Activities. | 2,227 |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are delayed and amortized in the Statement of Activities. | |
| Principal Repayments | 173,000 |
| Pension expense related to the Net Pension Liability reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. | (6,324) |
| Compensated Absences do not require the use of current financial resources and, therefore are not accrued in the fund statements. | <u>(6,054)</u> |
| Change in Net Position of Governmental Activities | <u>\$ 33,906</u> |

CITY OF STACY, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017

| | Municipal Liquor Store | Water Fund | Sewer Fund | Nonmajor Storm Sewer Fund | Total |
|--|---------------------------|---------------------|---------------------|---------------------------------|----------------------|
| CURRENT ASSETS | | | | | |
| Pooled Cash and Equivalents | \$ - | \$ 431,108 | \$ 611,740 | \$ 152,861 | \$ 1,195,709 |
| Non Pooled Cash and Equivelants | 691,613 | 632,759 | 912 | - | 1,325,284 |
| Accounts Receivable | 36,943 | 34,270 | 72,300 | 7,453 | 150,966 |
| Property Taxes Receivable | - | 2,883 | 4,906 | - | 7,789 |
| Prepaid Expense | 18,095 | - | - | - | 18,095 |
| Inventory | 477,270 | - | - | - | 477,270 |
| Total Current Assets | <u>1,223,921</u> | <u>1,101,020</u> | <u>689,858</u> | <u>160,314</u> | <u>3,175,113</u> |
| NONCURRENT ASSETS | | | | | |
| Capital Assets: | | | | | |
| Building, Plant and Equipment | 2,473,443 | 1,522,281 | 5,249,445 | 517,442 | 9,762,611 |
| Construction in Progress | - | 2,839,437 | - | - | 2,839,437 |
| Total Capital Assets | 2,473,443 | 4,361,718 | 5,249,445 | 517,442 | 12,602,048 |
| Less: Accumulated Depreciation | 958,202 | 394,684 | 1,278,860 | 102,894 | 2,734,640 |
| Net Capital Assets | 1,515,241 | 3,967,034 | 3,970,585 | 414,548 | 9,867,408 |
| Bond Discount, Net | 4,755 | - | 1,876 | - | 6,631 |
| Total Noncurrent Assets | <u>1,519,996</u> | <u>3,967,034</u> | <u>3,972,461</u> | <u>414,548</u> | <u>9,874,039</u> |
| TOTAL ASSETS | <u>2,743,917</u> | <u>5,068,054</u> | <u>4,662,319</u> | <u>574,862</u> | <u>13,049,152</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Related to Pensions | 125,925 | 15,340 | 12,916 | - | 154,181 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 2,869,842</u> | <u>\$ 5,083,394</u> | <u>\$ 4,675,235</u> | <u>\$ 574,862</u> | <u>\$ 13,203,333</u> |
| CURRENT LIABILITIES | | | | | |
| Accounts Payable | \$ 67,324 | \$ 77,887 | \$ 31,431 | \$ - | \$ 176,642 |
| Accrued Liabilities | 28,139 | 3,754 | - | - | 31,893 |
| Accrued Interest | 14,633 | 40,989 | 8,971 | - | 64,593 |
| Accrued Wages Payable | 19,841 | 3,457 | 3,278 | - | 26,576 |
| Due to Other Governmental Units | - | - | 75,968 | - | 75,968 |
| Current Amount of Long-Term Debt | 99,500 | 1,908,000 | 214,000 | - | 2,221,500 |
| Total Current Liabilities | <u>229,437</u> | <u>2,034,087</u> | <u>333,648</u> | <u>-</u> | <u>2,597,172</u> |
| LONG-TERM LIABILITIES | | | | | |
| Net Pension Liability | 293,661 | 35,565 | 29,949 | - | 359,175 |
| Bonds and Notes Payable | 1,096,500 | 580,000 | 1,560,000 | - | 3,236,500 |
| Total Long-Term Liabilities | <u>1,390,161</u> | <u>615,565</u> | <u>1,589,949</u> | <u>-</u> | <u>3,595,675</u> |
| TOTAL LIABILITIES | <u>1,619,598</u> | <u>2,649,652</u> | <u>1,923,597</u> | <u>-</u> | <u>6,192,847</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Related to Pensions | 121,608 | 13,412 | 11,484 | - | 146,504 |
| NET POSITION | | | | | |
| Net Investment in Capital Assets | 319,241 | 1,479,034 | 2,196,585 | 414,548 | 4,409,408 |
| Unrestricted | 809,395 | 941,296 | 543,569 | 160,314 | 2,454,574 |
| Total Net Position | <u>1,128,636</u> | <u>2,420,330</u> | <u>2,740,154</u> | <u>574,862</u> | <u>6,863,982</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u>\$ 2,869,842</u> | <u>\$ 5,083,394</u> | <u>\$ 4,675,235</u> | <u>\$ 574,862</u> | <u>\$ 13,203,333</u> |

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

CITY OF STACY, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Municipal Liquor Store | Water Fund | Sewer Fund | Nonmajor Storm Sewer Fund | Total |
|--------------------------------------|------------------------------|--------------------|---------------------|------------------------------------|---------------------|
| OPERATING REVENUES | | | | | |
| Sales | \$3,211,801 | \$ - | \$ - | \$ - | \$ 3,211,801 |
| Charges for Services | - | 238,175 | 512,404 | 29,996 | 780,575 |
| Total Operating Revenues | <u>3,211,801</u> | <u>238,175</u> | <u>512,404</u> | <u>29,996</u> | <u>3,992,376</u> |
| COST OF SALES | <u>2,129,048</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,129,048</u> |
| GROSS PROFIT | <u>1,082,753</u> | <u>238,175</u> | <u>512,404</u> | <u>29,996</u> | <u>1,863,328</u> |
| OPERATING EXPENSES | | | | | |
| Personnel Services and Benefits | 473,489 | 56,210 | 51,135 | - | 580,834 |
| Advertising | 13,895 | - | - | - | 13,895 |
| Depreciation | 71,577 | 29,907 | 111,404 | 7,961 | 220,849 |
| Bank Fees | 50,669 | - | - | - | 50,669 |
| Insurance | 34,926 | 4,208 | 4,639 | - | 43,773 |
| Rent | 8,219 | - | - | - | 8,219 |
| Professional Services | 23,301 | 10,536 | 97,503 | 1,171 | 132,511 |
| Repairs and Maintenance | 42,880 | 12,316 | - | - | 55,196 |
| Supplies and Chemicals | 26,909 | 18,376 | 50,821 | - | 96,106 |
| Telephone | 7,642 | 2,069 | 2,292 | - | 12,003 |
| Training and Travel | 9,155 | 359 | 359 | - | 9,873 |
| Utilities | 47,387 | 8,014 | 1,215 | - | 56,616 |
| Miscellaneous | 8,876 | 7,789 | 12,372 | - | 29,037 |
| Entertainment | 40,227 | - | - | - | 40,227 |
| Total Operating Expenses | <u>859,152</u> | <u>149,784</u> | <u>331,740</u> | <u>9,132</u> | <u>1,349,808</u> |
| NET OPERATING INCOME | <u>223,601</u> | <u>88,391</u> | <u>180,664</u> | <u>20,864</u> | <u>513,520</u> |
| NON OPERATING INCOME AND EXPENSE: | | | | | |
| Interest Income | 1,235 | 3,657 | 2,247 | 613 | 7,752 |
| Taxes and Special Assessments | - | 347 | 110,415 | - | 110,762 |
| Grant Income | - | 959,369 | - | - | 959,369 |
| Miscellaneous Income | 38,855 | 6,415 | 429 | - | 45,699 |
| Interest Expense | (38,268) | (11,326) | (24,903) | - | (74,497) |
| Bad Debt Expense | (50) | - | - | - | (50) |
| Net Non Operating Income and Expense | <u>1,772</u> | <u>958,462</u> | <u>88,188</u> | <u>613</u> | <u>1,049,035</u> |
| NET INCOME BEFORE TRANSFERS | <u>225,373</u> | <u>1,046,853</u> | <u>268,852</u> | <u>21,477</u> | <u>1,562,555</u> |
| Transfer In | - | 30,000 | - | - | 30,000 |
| Transfer Out | (100,000) | - | - | - | (100,000) |
| CHANGE IN NET POSITION | <u>125,373</u> | <u>1,076,853</u> | <u>268,852</u> | <u>21,477</u> | <u>1,492,555</u> |
| NET POSITION - January 1 | <u>1,003,263</u> | <u>1,343,477</u> | <u>2,471,302</u> | <u>553,385</u> | <u>5,371,427</u> |
| NET POSITION - December 31 | <u>\$1,128,636</u> | <u>\$2,420,330</u> | <u>\$ 2,740,154</u> | <u>\$ 574,862</u> | <u>\$ 6,863,982</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, 2017

| | <u>Municipal</u> | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Nonmajor Storm Sewer Fund</u> | <u>Total</u> |
|--|---------------------|---------------------|-------------------|--|---------------------|
| | <u>Liquor Store</u> | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Fund</u> | <u>Total</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Receipts from Customers | \$ 3,212,900 | \$ 230,757 | \$ 492,431 | \$ 27,639 | \$ 3,963,727 |
| Payments to Vendors | (2,486,093) | (54,313) | (182,450) | (1,171) | (2,724,027) |
| Payments to Employees | (464,864) | (53,409) | (48,807) | - | (567,080) |
| Other Receipts and Payments | <u>38,805</u> | <u>6,415</u> | <u>429</u> | <u>-</u> | <u>45,649</u> |
| Net Cash Provided By Operating Activities | <u>300,748</u> | <u>129,450</u> | <u>261,603</u> | <u>26,468</u> | <u>718,269</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | | |
| Transfer to Other Funds | (100,000) | - | - | - | (100,000) |
| Transfer from Other Funds | <u>-</u> | <u>30,000</u> | <u>-</u> | <u>-</u> | <u>30,000</u> |
| Net Cash Provided (Used) By Noncapital Financing Activities | <u>(100,000)</u> | <u>30,000</u> | <u>-</u> | <u>-</u> | <u>(70,000)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | |
| Purchase of Capital Assets | (10,883) | (2,337,669) | - | - | (2,348,552) |
| Proceeds from Issuance of Debt | - | 1,721,482 | - | - | 1,721,482 |
| Grant Income | - | 959,369 | - | - | 959,369 |
| Property Taxes Collected | - | 6,033 | 120,468 | - | 126,501 |
| Principal Paid on Capital Debt | (101,500) | (35,000) | (212,000) | - | (348,500) |
| Interest Paid on Capital Debt | <u>(37,385)</u> | <u>(11,515)</u> | <u>(24,105)</u> | <u>-</u> | <u>(73,005)</u> |
| Net Cash Provided (Used) By Capital and Related Financing Activities | <u>(149,768)</u> | <u>302,700</u> | <u>(115,637)</u> | <u>-</u> | <u>37,295</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Interest Received | <u>1,235</u> | <u>3,658</u> | <u>2,246</u> | <u>612</u> | <u>7,751</u> |
| Net Cash Provided By Investing Activities | <u>1,235</u> | <u>3,658</u> | <u>2,246</u> | <u>612</u> | <u>7,751</u> |
| NET INCREASE IN CASH | 52,215 | 465,808 | 148,212 | 27,080 | 693,315 |
| CASH AND CASH EQUIVALENTS - January 1 | <u>639,398</u> | <u>598,059</u> | <u>464,440</u> | <u>125,781</u> | <u>1,827,678</u> |
| CASH AND CASH EQUIVALENTS - December 31 | <u>\$ 691,613</u> | <u>\$ 1,063,867</u> | <u>\$ 612,652</u> | <u>\$ 152,861</u> | <u>\$ 2,520,993</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, 2017

| | <u>Nonmajor</u> | | | | <u>Total</u> |
|--|---------------------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | <u>Municipal Liquor Store</u> | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Storm Sewer Fund</u> | |
| Reconciliation of Operating Income to Net Cash Provided By Operating Activities | | | | | |
| Operating Income | \$ 223,601 | \$ 88,391 | \$ 180,664 | \$ 20,864 | \$ 513,520 |
| Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities | | | | | |
| Depreciation | 71,577 | 29,907 | 111,404 | 7,961 | 220,849 |
| Noncash Cash Pension Related Expenses | 9,582 | 2,125 | 1,812 | - | 13,519 |
| Changes in Assets and Liabilities | | | | | |
| Accounts Receivable | 1,099 | (7,418) | (19,973) | (2,357) | (28,649) |
| Inventory | (33,162) | - | - | - | (33,162) |
| Prepaid Items | 7,803 | - | - | - | 7,803 |
| Accounts Payable | (18,425) | 8,630 | 2,575 | - | (7,220) |
| Accrued Liabilities | 825 | 724 | - | - | 1,549 |
| Accrued Wages Payable | (957) | 676 | 516 | - | 235 |
| Utility Deposits | - | - | (15,824) | - | (15,824) |
| Other Revenues and Expenses | <u>38,805</u> | <u>6,415</u> | <u>429</u> | <u>-</u> | <u>45,649</u> |
| Net Cash Provided By Operating Activities | <u>\$ 300,748</u> | <u>\$ 129,450</u> | <u>\$ 261,603</u> | <u>\$ 26,468</u> | <u>\$ 718,269</u> |

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

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: general government, 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.)

Unearned 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.

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 some 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 2017. 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

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred. The total amount of compensated absences accrued at December 31, 2017 was \$13,115.

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.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Long-term Obligations (Cont.)

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.

O. Pensions

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

P. 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.

Q. 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

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. Fund Balance (Cont.)

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.

R. 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”.

S. Comparative Data/Reclassifications

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

In July of each year, all departments of the City submit requests for appropriations to the 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, 2017.

| <u>Function Area</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|----------------------|---------------|---------------|-----------------|
| Public Safety | \$ 169,525 | \$ 215,002 | \$ (45,477) |
| Public Works | \$ 128,060 | \$ 147,729 | \$ (19,669) |

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS

A. Cash and Cash Investments

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

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

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

At year end, the City's carrying amount of deposits was \$3,706,381 and the bank balance was \$3,928,805. Of the bank balance, \$500,000 was covered by federal depository insurance. Of the remaining balance, \$3,428,805 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

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 | \$ | 3,706,381 |
| Total Cash on Hand | | <u>6,625</u> |
| | \$ | <u><u>3,713,006</u></u> |
| Statement of Net Position | | |
| Pooled Cash and Equivalents | \$ | 2,387,720 |
| Non Pooled Cash and Equivalents | | <u>1,325,286</u> |
| | \$ | <u><u>3,713,006</u></u> |

4. 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 | \$ 2,949 | \$ - |
| Nonmajor Governmental Funds | | |
| Delinquent taxes receivable | <u>4,004</u> | <u>-</u> |
| Total | <u><u>\$ 6,953</u></u> | <u><u>\$ -</u></u> |

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

5. TRANSFERS

Transfers to and from other funds at December 31, 2017, follows:

| | Transfers to <u>Other Funds</u> | Transfers from <u>Other Funds</u> |
|-----------------------------|------------------------------------|--------------------------------------|
| General Fund | \$ - | \$ 70,000 |
| Water Fund | - | 30,000 |
| Municipal Liquor Store Fund | <u>100,000</u> | <u>-</u> |
| | <u>\$ 100,000</u> | <u>\$ 100,000</u> |

- The Municipal Liquor Store Fund transferred 70,000 to the General Fund and \$30,000 to the Water Fund for operating purposes.

6. CHANGES IN CAPITAL ASSETS

Governmental Activities - Capital asset activity for the year ended December 31, 2017 was as follows:

| | Balance <u>January 1</u> | <u>Additions</u> | Transfers/ <u>Retirements</u> | Balance <u>December 31</u> |
|---|-----------------------------|---------------------|----------------------------------|-------------------------------|
| Not Being Depreciated: | | | | |
| Land | \$ 420,639 | \$ - | \$ - | \$ 420,639 |
| Subtotal | <u>420,639</u> | <u>-</u> | <u>-</u> | <u>420,639</u> |
| Other Capital Assets: | | | | |
| Land Improvements | 301,838 | - | - | 301,838 |
| Buildings, Plant, equipment Infrastructure and Improvements | 931,121 | 21,545 | - | 952,666 |
| Subtotal | <u>2,925,773</u> | <u>-</u> | <u>-</u> | <u>2,925,773</u> |
| Subtotal | <u>4,158,732</u> | <u>21,545</u> | <u>-</u> | <u>4,180,277</u> |
| Less: Accumulated Depreciation | | | | |
| Land Improvements | 234,359 | 10,362 | - | 244,721 |
| Buildings, Plant, Equipment Infrastructure and Improvements | 366,872 | 50,295 | - | 417,167 |
| Subtotal | <u>1,964,047</u> | <u>140,758</u> | <u>-</u> | <u>2,104,805</u> |
| Subtotal | <u>2,565,278</u> | <u>201,415</u> | <u>-</u> | <u>2,766,693</u> |
| Net Other Capital Assets | <u>1,593,454</u> | <u>(179,870)</u> | <u>-</u> | <u>1,413,584</u> |
| Net Capital Assets | <u>\$ 2,014,093</u> | <u>\$ (179,870)</u> | <u>\$ -</u> | <u>\$ 1,834,223</u> |

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

6. CHANGES IN CAPITAL ASSETS (Cont.)

Business-Type Activities - The following is a summary of business-type activities capital assets at December 31, 2017.

| | <u>Balance</u> <u>January 1</u> | <u>Additions</u> | <u>Transfers/ Retirements</u> | <u>Balance</u> <u>December 31</u> |
|-----------------------------------|------------------------------------|---------------------|-----------------------------------|--------------------------------------|
| Not Being Depreciated: | | | | |
| Construction in Progress | \$ 488,624 | \$ 2,350,813 | \$ - | \$ 2,839,437 |
| Subtotal | <u>488,624</u> | <u>2,350,813</u> | <u>-</u> | <u>2,839,437</u> |
| Other Capital Assets: | | | | |
| Plant and Equipment | 9,751,728 | 10,883 | - | 9,762,611 |
| Subtotal | <u>9,751,728</u> | <u>10,883</u> | <u>-</u> | <u>9,762,611</u> |
| Less: Accumulated Depreciation | | | | |
| Plant and Equipment | 2,513,791 | 220,849 | - | 2,734,640 |
| Subtotal | <u>2,513,791</u> | <u>220,849</u> | <u>-</u> | <u>2,734,640</u> |
| Net Other Capital Assets | <u>7,237,937</u> | <u>(209,966)</u> | <u>-</u> | <u>7,027,971</u> |
| Net Capital Assets | <u>\$ 7,726,561</u> | <u>\$ 2,140,847</u> | <u>\$ -</u> | <u>\$ 9,867,408</u> |

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

| | | |
|---|--|-------------------|
| Governmental Activities: | | |
| General Government | | \$ 9,532 |
| Public Safety | | 5,643 |
| Public Works | | 163,732 |
| Culture and Recreation | | 22,508 |
| Total Depreciation Expense - Governmental Activities | | <u>\$ 201,415</u> |
| Business-Type Activities: | | |
| Municipal Liquor Store | | \$ 71,577 |
| Water | | 29,907 |
| Sewer | | 111,404 |
| Storm Sewer | | 7,961 |
| Total Depreciation Expense - Business-Type Activities | | <u>\$ 220,849</u> |

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

7. FUND BALANCE
A. Classifications

| | General Fund | Non Major Governmental Funds | Total |
|----------------------|-------------------|------------------------------------|---------------------|
| Restricted for: | | | |
| Special Revenue Park | \$ - | \$ 3,196 | \$ 3,196 |
| Tax Increment Funds | - | 120,213 | 120,213 |
| Debt Service | - | 181,242 | 181,242 |
| Total Restricted | <u>-</u> | <u>304,651</u> | <u>304,651</u> |
| Assigned to: | | | |
| Economic Development | - | 32,010 | 32,010 |
| Park Projects | - | 40,323 | 40,323 |
| Total Assigned | <u>-</u> | <u>72,333</u> | <u>72,333</u> |
| Unassigned (Deficit) | <u>784,652</u> | <u>-</u> | <u>784,652</u> |
| Total | <u>\$ 784,652</u> | <u>\$ 376,984</u> | <u>\$ 1,161,636</u> |

B. Minimum Unassigned Fund Balance Policy

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

The policy establishes a year-end targeted unassigned fund balance amount for cash-flow timing needs in the range of 35-50% of the subsequent year's budgeted expenditures. At December 31, 2017, the unassigned fund balance of the General Fund was 137.9% of the subsequent year's budgeted expenditures

8. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2017.

| | Balance <u>January 1</u> | Debt Issued | Debt <u>Retired</u> | Balance <u>December 31</u> | Current <u>Amount</u> |
|--------------------------|-----------------------------|---------------------|------------------------|-------------------------------|--------------------------|
| G.O. Improvement Bonds | \$ 1,895,000 | \$ - | \$ 95,000 | \$ 1,800,000 | \$ 100,000 |
| G.O. Revenue Bonds | 151,518 | 1,721,482 | - | 1,873,000 | 1,873,000 |
| G.O. Refunding Bonds | | | | | |
| Tax Abatement Portion | 250,000 | - | 105,000 | 145,000 | 35,000 |
| EDA Public Project Lease | 1,052,500 | - | 66,500 | 986,000 | 59,500 |
| Revenue Bonds | 245,000 | - | 35,000 | 210,000 | 40,000 |
| Note Payable | 1,986,000 | - | 212,000 | 1,774,000 | 214,000 |
| Property Financing | <u>25,000</u> | <u>-</u> | <u>8,000</u> | <u>17,000</u> | <u>8,000</u> |
| Totals | <u>\$ 5,605,018</u> | <u>\$ 1,721,482</u> | <u>\$ 521,500</u> | <u>\$ 6,805,000</u> | <u>\$ 2,329,500</u> |

General Obligation bonds and refunding bonds issued by the governmental activities are liquidated by the debt service funds. The property financing issued by the governmental activities is expected to be liquidated by the related special revenue fund. The general obligation bonds, revenue bonds, note payable and EDA public project lease issued by the business-type activities are expected to be liquidated by those activities.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

Bonds outstanding at December 31, 2017 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. \$ 1,185,000

\$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. 145,000

\$73,000 Property Lease Financing due in annual installments of \$6,000 to \$9,000 through February 1, 2019, plus interest at 4.25%, due in semi-annual installments. 17,000

Total Governmental Activities 1,347,000

Business-Type Activities

\$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. 615,000

\$4,498,000 Note Payable due to CLJSTC in connection with their 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. 1,774,000

\$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. 210,000

\$1,052,500 Public Project Lease Revenue Refunding Bond of 2016A, due in annual installments of \$59,500 to \$82,500 through February 1, 2031, plus interest at 2.55%, due in semi-annual installments. 986,000

\$1,873,000 General Obligation Bond Anticipation Note of 2016, due in 2018, plus interest due in semi-annual installments at 3.25%. This Note is for Water Infrastructure Improvements and is expected to be refinanced with future bond financing. 1,873,000

Total Business-Type Activities 5,458,000

Total Long-Term Debt \$ 6,805,000

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

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

| | G.O. Improvement Bonds Governmental Activities | | | G.O. Improvement Bonds Business-Type Activities | | |
|-----------|---|-------------------|--------------------|--|-------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2018 | \$ 100,000 | \$ 27,139 | \$ 127,139 | \$ 35,000 | \$ 11,168 | \$ 46,168 |
| 2019 | 100,000 | 25,099 | 125,099 | 35,000 | 10,870 | 45,870 |
| 2020 | 100,000 | 22,919 | 122,919 | 35,000 | 10,520 | 45,520 |
| 2021 | 105,000 | 20,497 | 125,497 | 35,000 | 10,100 | 45,100 |
| 2022 | 70,000 | 18,745 | 88,745 | 35,000 | 9,628 | 44,628 |
| 2023-2027 | 360,000 | 75,963 | 435,963 | 190,000 | 39,105 | 229,105 |
| 2028-2032 | 410,000 | 39,757 | 449,757 | 205,000 | 19,263 | 224,263 |
| 2033-2037 | <u>85,000</u> | <u>1,998</u> | <u>86,998</u> | <u>45,000</u> | <u>1,057</u> | <u>46,057</u> |
| Total | <u>\$1,330,000</u> | <u>\$ 232,117</u> | <u>\$1,562,117</u> | <u>\$ 615,000</u> | <u>\$ 111,711</u> | <u>\$ 726,711</u> |

| | Note Payable Business-Type Activities | | | Revenue Bonds Business-Type Activities | | |
|-----------|--|------------------|--------------------|---|-------------------|--------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2018 | \$ 214,000 | \$ 17,740 | \$ 231,740 | \$ 99,500 | \$ 33,409 | \$ 132,909 |
| 2019 | 216,000 | 15,600 | 231,600 | 101,000 | 29,973 | 130,973 |
| 2020 | 218,000 | 13,440 | 231,440 | 102,500 | 26,498 | 128,998 |
| 2021 | 221,000 | 11,260 | 232,260 | 109,000 | 22,866 | 131,866 |
| 2022 | 223,000 | 9,050 | 232,050 | 111,000 | 19,072 | 130,072 |
| 2023-2027 | 682,000 | 13,690 | 695,690 | 355,000 | 63,634 | 418,634 |
| 2028-2032 | - | - | - | 318,000 | 99,226 | 417,226 |
| 2033-2037 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$1,774,000</u> | <u>\$ 80,780</u> | <u>\$1,854,780</u> | <u>\$1,196,000</u> | <u>\$ 294,678</u> | <u>\$1,490,678</u> |

| | G.O. Revenue Bonds Business-Type Activities | | | Other Long-Term Debt Governmental Activities | | |
|-----------|--|-------------------|--------------------|---|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2018 | \$1,873,000 | \$ 112,380 | \$1,985,380 | \$ 8,000 | \$ 552 | \$ 8,552 |
| 2019 | - | 112,380 | 112,380 | 9,000 | 191 | 9,191 |
| 2020 | - | - | - | - | - | - |
| 2021 | - | - | - | - | - | - |
| 2022 | - | - | - | - | - | - |
| 2023-2027 | - | - | - | - | - | - |
| 2028-2032 | - | - | - | - | - | - |
| 2033-2037 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$1,873,000</u> | <u>\$ 224,760</u> | <u>\$2,097,760</u> | <u>\$ 17,000</u> | <u>\$ 743</u> | <u>\$ 17,743</u> |

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

| | |
|--|------------------|
| Governmental Activities: | |
| General Government | \$ 4,899 |
| Public Works | 54,503 |
| Culture and Recreation | 365 |
| Total Interest Expense - Governmental Activities | <u>\$ 59,767</u> |

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

| | |
|---|------------------|
| Business-Type Activities: | |
| Water Fund | \$ 11,326 |
| Sewer Fund | 24,903 |
| Municipal Liquor Store | <u>38,268</u> |
| Total Interest Expense - Business-Type Activities | <u>\$ 74,497</u> |

The Water Fund had capitalized interest in the amount of \$35,762.

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

The City of Stacy, Minnesota participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City of Stacy, Minnesota are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

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

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

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

B. Benefits Provided (Cont.)

1. General Employees Plan Benefits

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

C. Contributions

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

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City of Stacy, Minnesota was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City of Stacy, Minnesota contributions to the General Employees Fund for the year ended December 31, 2017, were \$36,101. The City of Stacy, Minnesota contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the City of Stacy, Minnesota reported a liability of \$466,027 for its proportionate share of the General Employees Fund's net pension liability. The City of Stacy, Minnesota's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Stacy, Minnesota totaled \$5,848. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Stacy, Minnesota proportion of the net pension liability was based on the City of Stacy, Minnesota contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City of Stacy, Minnesota proportionate share was 0.0073% which was the same as its proportion measured as of June 30, 2016.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

D. Pension Costs (Cont.)

For the year ended December 31, 2017, the City of Stacy, Minnesota recognized pension expense of \$19,116 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Stacy, Minnesota recognized an additional \$168 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, the City of Stacy, Minnesota reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual economic experience | \$ 15,359 | \$ 30,589 |
| Changes in actuarial assumptions | 77,371 | 46,720 |
| Difference between projected and actual investment earnings | 83,854 | 79,127 |
| Changes in proportion | 6,090 | 28,927 |
| Contributions paid to PERA subsequent to the measurement date | <u>18,767</u> | <u>-</u> |
| Total | <u>\$ 201,441</u> | <u>\$ 185,363</u> |

\$18,767 reported as deferred outflows of resources related to pensions resulting from City of Stacy, Minnesota contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30:</u> | <u>Pension Expense Amount</u> |
|----------------------------|-------------------------------|
| 2018 | \$ 5,847 |
| 2019 | \$ 17,514 |
| 2020 | \$ (10,108) |
| 2021 | \$ (15,942) |
| 2022 | \$ - |
| Thereafter | \$ - |

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

| | |
|------------------------------|----------------|
| Inflation | 2.50% per year |
| Active Member Payroll Growth | 3.25% per year |
| Investment Rate of Return | 7.50% |

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

E. Actuarial Assumptions (Cont.)

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

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for the Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Domestic Stocks | 45% | 5.50% |
| International Stocks | 15% | 6.00% |
| Bonds | 18% | 1.45% |
| Alternative Assets | 20% | 6.40% |
| Cash | <u>2%</u> | 0.50% |
| Total | 100% | |

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumption, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

G. Pension Liability Sensitivity

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

| | 1% Decrease in Discount Rate (6.5%) | Discount Rate (7.5%) | 1% Increase in Discount Rate (8.5%) |
|-------------------------|---|-------------------------|---|
| General Employees Fund: | \$ 722,843 | \$ 466,027 | \$ 255,777 |

H. Pension Plan Fiduciary Net Position

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

10. DEFINED CONTRIBUTION PLAN

Members of the City Council are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer.

Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Stacy, Minnesota during fiscal year 2015 were:

| <u>Contribution Amount</u> | | <u>Required Percentage of Covered Payroll</u> | |
|----------------------------|-----------------|---|-----------------|
| <u>Employee</u> | <u>Employer</u> | <u>Employee</u> | <u>Employer</u> |
| \$ 196 | \$ 196 | 5.0 % | 5.0 % |

11. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2017.

12. OTHER POST EMPLOYMENT BENEFITS

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

CITY OF STACY, MINNESOTA
NOTES TO 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.

C. Construction Contracts

The City has entered into construction contracts with Magney Construction Inc for the construction of a Water Treatment Plant. The total contract including approved change orders is for \$2,705,322. As of December 31, 2017 the City had \$147,548 remaining on the contract.

14. JOINT POWERS AGREEMENT

The City is a member of the Chisago Lake Joint Sewage Treatment Commission (CLJSTC) along with five other communities. The purpose of the CLJSTC is to provide administration and operation of the disposal system serving all six communities. Each community owns a percentage of the assets of the CLJSTC and is responsible for a proportionate share of expenses and debt. The City costs are reflected in the Sewer enterprise fund and totaled \$81,910 for the year ended December 31, 2017. Totals from the most recently issued condensed combined financial statements of the CLJSTC are as follows:

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

14. JOINT POWERS AGREEMENT (Cont.)

Statement of Net Position
December 31, 2017

| | |
|----------------------------------|---------------------|
| Assets | |
| Current and Other Assets | \$ 3,583,140 |
| Capital Assets | <u>13,066,247</u> |
| Total Assets | <u>16,649,387</u> |
| | |
| Deferred Outflows of Resources | |
| Related to Pensions | <u>72,687</u> |
| | |
| Liabilities | |
| Long-Term Liabilities | 6,773,744 |
| Other Liabilities | <u>990,600</u> |
| Total Liabilities | <u>7,764,344</u> |
| | |
| Deferred Inflows of Resources | |
| Related to Pensions | <u>85,451</u> |
| | |
| Net Position | |
| Net Investment in Capital Assets | 5,734,968 |
| Restricted | 3,146,709 |
| Unrestricted | <u>(9,398)</u> |
| Total Net Position | <u>\$ 8,872,279</u> |

Statement of Activities
December 31, 2017

| | |
|--------------------------------|---------------------|
| Operating Revenue | \$ 2,049,426 |
| Operating Expenses | <u>1,905,365</u> |
| Operating Income | 144,061 |
| | |
| Nonoperating Revenue (Expense) | <u>(141,336)</u> |
| | |
| Change in Net Position | 2,725 |
| | |
| Net Position - January 1 | <u>8,869,554</u> |
| | |
| Net Position - December 31 | <u>\$ 8,872,279</u> |

Separately issued financial statements can be obtained by contacting Chisago Lakes Joint Sewage Treatment Commission.

CITY OF STACY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

15. TAX INCREMENT FINANCING DISTRICT

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

| | TIF 1-1 Minnesota Statute | TIF 1-2 Minnesota Statute |
|----------------------|------------------------------|------------------------------|
| Authorizing Law | 469.174 | 469.174 |
| Type of District | Redevelopment | Economic Development |
| Year Established | 2005 | 2007 |
| Duration of District | 25 | 25 |
| Tax Capacity | | |
| Original | 2,339 | 456 |
| Current | 16,372 | 44,706 |
| Captured - retained | 14,033 | 44,250 |

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, 2017
 With Comparative Amounts for the year ended 2016

| | <u>2017</u> | | | Variance | <u>2016</u> |
|---|-------------------|-------------------|-------------------|------------------|-------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | with Final | <u>Actual</u> |
| | <u>Budget</u> | <u>Budget</u> | <u>Actual</u> | <u>Budget</u> | <u>Actual</u> |
| REVENUES: | | | | | |
| TAXES: | | | | | |
| General Property Taxes | \$ <u>178,012</u> | \$ <u>178,012</u> | \$ <u>204,996</u> | \$ <u>26,984</u> | \$ <u>144,543</u> |
| LICENSES AND PERMITS: | | | | | |
| Licenses and Permits | <u>11,300</u> | <u>11,300</u> | <u>25,171</u> | <u>13,871</u> | <u>18,680</u> |
| INTERGOVERNMENTAL | | | | | |
| REVENUE: | | | | | |
| Local Government Aid | 292,010 | 292,010 | 292,010 | - | 290,878 |
| Market Value Credit | - | - | 223 | 223 | 466 |
| PERA Rate Increase Aid | 387 | 387 | 773 | 386 | 773 |
| State Fire Aid | - | - | 24,598 | 24,598 | 24,527 |
| Small Cities Street Aid | - | - | 12,365 | 12,365 | - |
| Total Intergovernmental Revenue | <u>292,397</u> | <u>292,397</u> | <u>329,969</u> | <u>37,572</u> | <u>316,644</u> |
| CHARGES FOR SERVICES: | | | | | |
| General Government | 2,900 | 2,900 | 5,611 | 2,711 | 7,483 |
| Public Safety | 2,000 | 2,000 | 1,120 | (880) | 1,225 |
| Other Charges for Services | <u>4,050</u> | <u>4,050</u> | <u>12,728</u> | <u>8,678</u> | <u>6,576</u> |
| Total Charges for Services | <u>8,950</u> | <u>8,950</u> | <u>19,459</u> | <u>10,509</u> | <u>15,284</u> |
| FINES AND FORFEITS | <u>750</u> | <u>750</u> | <u>1,820</u> | <u>1,070</u> | <u>1,885</u> |
| INTEREST INCOME | <u>1,600</u> | <u>1,600</u> | <u>3,102</u> | <u>1,502</u> | <u>2,399</u> |
| MISCELLANEOUS: | | | | | |
| Miscellaneous Income | <u>5,500</u> | <u>5,500</u> | <u>34,575</u> | <u>29,075</u> | <u>24,313</u> |
| Total Miscellaneous | <u>5,500</u> | <u>5,500</u> | <u>34,575</u> | <u>29,075</u> | <u>24,313</u> |
| TOTAL REVENUES | <u>498,509</u> | <u>498,509</u> | <u>619,092</u> | <u>120,583</u> | <u>523,748</u> |
| OTHER FINANCING SOURCES | | | | | |
| Transfer In | <u>70,000</u> | <u>70,000</u> | <u>70,000</u> | <u>-</u> | <u>117,222</u> |
| TOTAL REVENUES AND OTHER FINANCING SOURCES | <u>568,509</u> | <u>568,509</u> | <u>689,092</u> | <u>120,583</u> | <u>640,970</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, 2017
 With Comparative Amounts for the year ended 2016

| | <u>2017</u> | | | Variance with Final | <u>2016</u> |
|-----------------------------|----------------------------|-------------------------|----------------|------------------------|----------------|
| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Budget</u> | <u>Actual</u> |
| EXPENDITURES: | | | | | |
| GENERAL GOVERNMENT: | | | | | |
| Mayor and Council: | | | | | |
| Personnel Services | \$ 9,377 | \$ 9,377 | \$ 8,804 | \$ 573 | \$ 8,668 |
| Other Current Expenditures | 6,130 | 6,130 | 3,064 | 3,066 | 3,889 |
| Election: | | | | | |
| Current Expenditures | - | - | 624 | (624) | 2,540 |
| Administrative and Finance: | | | | | |
| Personnel Services | 57,532 | 57,532 | 57,246 | 286 | 56,762 |
| Other Current Expenditures | 16,256 | 16,256 | 9,249 | 7,007 | 11,711 |
| Other General Government: | | | | | |
| Personnel Services | 48,793 | 48,793 | 42,085 | 6,708 | 43,194 |
| Other Current Expenditures | 42,980 | 42,980 | 47,197 | (4,217) | 42,470 |
| Capital Outlay | 2,500 | 2,500 | 3,750 | (1,250) | 102,222 |
| Planning and Zoning: | | | | | |
| Personnel Services | 1,130 | 1,130 | 963 | 167 | 866 |
| Other Current Expenditures | 4,200 | 4,200 | 7,397 | (3,197) | 10,049 |
| Independent Auditing | | | | | |
| Current Expenditures | 3,500 | 3,500 | 2,877 | 623 | 2,825 |
| Legal | | | | | |
| Current Expenditures | <u>21,650</u> | <u>21,650</u> | <u>23,020</u> | <u>(1,370)</u> | <u>7,703</u> |
| Total General Government | <u>214,048</u> | <u>214,048</u> | <u>206,276</u> | <u>7,772</u> | <u>292,899</u> |
| PUBLIC SAFETY: | | | | | |
| Police Protection: | | | | | |
| Services and Charges | 56,025 | 56,025 | 56,025 | - | 56,025 |
| Building Inspection: | | | | | |
| Current Expenditures | 13,500 | 13,500 | 31,190 | (17,690) | 14,417 |
| Fire Protection: | | | | | |
| Services and Charges | <u>100,000</u> | <u>100,000</u> | <u>127,787</u> | <u>(27,787)</u> | <u>113,369</u> |
| Total Public Safety | <u>169,525</u> | <u>169,525</u> | <u>215,002</u> | <u>(45,477)</u> | <u>183,811</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, 2017
 With Comparative Amounts for the year ended 2016

| | <u>2017</u> | | | Variance | <u>2016</u> |
|---|-------------------|-------------------|-------------------|------------------|-------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | with Final | <u>Actual</u> |
| | <u>Budget</u> | <u>Budget</u> | | <u>Budget</u> | |
| EXPENDITURES: | | | | | |
| PUBLIC WORKS: | | | | | |
| Highways and Streets: | | | | | |
| Personnel Services | \$ 15,738 | \$ 15,738 | \$ 11,249 | \$ 4,489 | \$ 12,405 |
| Other Current Expenditures | 47,700 | 47,700 | 91,885 | (44,185) | 20,836 |
| Capital Outlay | 30,850 | 30,850 | 17,795 | 13,055 | 37,001 |
| Ice and Snow Removal: | | | | | |
| Personnel Services | 9,772 | 9,772 | 8,152 | 1,620 | 8,095 |
| Other Current Expenditures | 11,000 | 11,000 | 6,507 | 4,493 | 9,522 |
| Street Lighting: | | | | | |
| Current Expenditures | <u>13,000</u> | <u>13,000</u> | <u>12,141</u> | <u>859</u> | <u>11,561</u> |
| Total Public Works | <u>128,060</u> | <u>128,060</u> | <u>147,729</u> | <u>(19,669)</u> | <u>99,420</u> |
| CULTURE AND RECREATION: | | | | | |
| Other Services and Charges: | | | | | |
| Personnel Services | 15,389 | 15,389 | 13,471 | 1,918 | 14,596 |
| Current Expenditures | 20,670 | 20,670 | 19,940 | 730 | 23,237 |
| Capital Outlay | <u>1,250</u> | <u>1,250</u> | <u>-</u> | <u>1,250</u> | <u>-</u> |
| Total Culture and Recreation | <u>37,309</u> | <u>37,309</u> | <u>33,411</u> | <u>3,898</u> | <u>37,833</u> |
| MISCELLANEOUS: | | | | | |
| Insurance | 19,167 | 19,167 | 17,269 | 1,898 | 20,238 |
| Other Current Expenditures | <u>500</u> | <u>500</u> | <u>1,468</u> | <u>(968)</u> | <u>450</u> |
| Total Miscellaneous | <u>19,667</u> | <u>19,667</u> | <u>18,737</u> | <u>930</u> | <u>20,688</u> |
| TOTAL EXPENDITURES | <u>568,609</u> | <u>568,609</u> | <u>621,155</u> | <u>(52,546)</u> | <u>634,651</u> |
| EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES | (100) | (100) | 67,937 | 68,037 | 6,319 |
| FUND BALANCES - January 1 | <u>716,715</u> | <u>716,715</u> | <u>716,715</u> | <u>-</u> | <u>710,396</u> |
| FUND BALANCES - December 31 | <u>\$ 716,615</u> | <u>\$ 716,615</u> | <u>\$ 784,652</u> | <u>\$ 68,037</u> | <u>\$ 716,715</u> |

CITY OF STACY, MINNESOTA

SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2017

| Fiscal Year Ending | Proportion (Percentage) of the Net Pension Liability (Asset) | Proportionate Share (Amount) of the Net Pension Liability (Asset) | Covered- Employee Payroll | Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-----------------------|---|---|---------------------------------|--|---|
| June 30, 2017 | 0.0073 % | 466,027 | 469,320 | 99.30 % | 75.90 % |
| June 30, 2016 | 0.0073 % | 592,724 | 452,613 | 130.96 % | 68.90 % |
| June 30, 2015 | 0.0080 % | 414,602 | 495,000 | 83.76 % | 78.19 % |

CITY OF STACY, MINNESOTA

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2017

| Fiscal Year Ended | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contributions Deficiency (Excess) | Covered- Employee Payroll | Contributions as a Percentage of Covered- Employee Payroll |
|-------------------|---|---|---|---------------------------------|--|
| December 31, 2017 | \$ 36,101 | \$ 36,101 | - | \$ 481,347 | 7.50 % |
| December 31, 2016 | \$ 34,514 | \$ 34,514 | - | \$ 460,187 | 7.50 % |
| December 31, 2015 | \$ 34,075 | \$ 34,075 | - | \$ 454,333 | 7.50 % |

SECTION III

SUPPLEMENTAL SECTION

CITY OF STACY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017

| | <u>Special Revenue Funds</u> | <u>Debt Service Funds</u> | <u>Total</u> |
|---|--------------------------------------|-------------------------------|-------------------|
| ASSETS | | | |
| Pooled Cash and Equivalents | \$ 195,742 | \$ 180,710 | \$ 376,452 |
| Property Taxes Receivable | <u>1,695</u> | <u>2,841</u> | <u>4,536</u> |
| TOTAL ASSETS | <u>\$ 197,437</u> | <u>\$ 183,551</u> | <u>\$ 380,988</u> |
| LIABILITIES | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable Revenue | <u>1,695</u> | <u>2,309</u> | <u>4,004</u> |
| Total Deferred Inflows of Resources | <u>1,695</u> | <u>2,309</u> | <u>4,004</u> |
| FUND BALANCES | | | |
| Restricted | 123,409 | 181,242 | 304,651 |
| Assigned | <u>72,333</u> | <u>-</u> | <u>72,333</u> |
| Total Fund Balances | <u>195,742</u> | <u>181,242</u> | <u>376,984</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 197,437</u> | <u>\$ 183,551</u> | <u>\$ 380,988</u> |

CITY OF STACY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Special Revenue Funds | Debt Service Funds | Total |
|---|-----------------------------|-----------------------|-------------------|
| REVENUES | | | |
| Taxes | \$ 73,170 | \$ 185,803 | \$ 258,973 |
| Interest Income | 208 | 619 | 827 |
| Miscellaneous | <u>29,333</u> | <u>-</u> | <u>29,333</u> |
| Total Revenues | <u>102,711</u> | <u>186,422</u> | <u>289,133</u> |
| EXPENDITURES | | | |
| Culture and Recreation | 19,903 | - | 19,903 |
| Economic Development | 15,083 | - | 15,083 |
| Miscellaneous | 43,165 | - | 43,165 |
| Principal Payments | - | 173,000 | 173,000 |
| Interest Payments | - | 32,663 | 32,663 |
| Miscellaneous | <u>-</u> | <u>763</u> | <u>763</u> |
| Total Expenditures | <u>78,151</u> | <u>206,426</u> | <u>284,577</u> |
| EXCESS REVENUES OVER (UNDER) EXPENDITURES | 24,560 | (20,004) | 4,556 |
| FUND BALANCES - January 1 | <u>171,182</u> | <u>201,246</u> | <u>372,428</u> |
| FUND BALANCES - December 31 | <u>\$ 195,742</u> | <u>\$ 181,242</u> | <u>\$ 376,984</u> |

CITY OF STACY, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 DECEMBER 31, 2017

| | Special Rev Park | Economic Development Authority | Lions Club Park Fund | Tax Increment 1-1 | Tax Increment 1-2 | Total |
|---|---------------------|--------------------------------------|----------------------------|-------------------------|-------------------------|---------------------|
| ASSETS | | | | | | |
| Pooled Cash and Equivalents | \$ 3,196 | \$ 32,010 | \$ 40,323 | \$ 9,445 | \$ 110,768 | \$ 195,742 |
| Property Taxes Receivable | <u> -</u> | <u> 31</u> | <u> -</u> | <u> -</u> | <u> 1,664</u> | <u> 1,695</u> |
| TOTAL ASSETS | <u>\$ 3,196</u> | <u>\$ 32,041</u> | <u>\$ 40,323</u> | <u>\$ 9,445</u> | <u>\$ 112,432</u> | <u>\$ 197,437</u> |
| <input checked="" type="checkbox"/> LIABILITIES | | | | | | |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unavailable Revenue | <u> -</u> | <u> 31</u> | <u> -</u> | <u> -</u> | <u> 1,664</u> | <u> 1,695</u> |
| Total Deferred Inflows of Resources | <u> -</u> | <u> 31</u> | <u> -</u> | <u> -</u> | <u> 1,664</u> | <u> 1,695</u> |
| FUND BALANCES | | | | | | |
| Restricted | 3,196 | - | - | 9,445 | 110,768 | 123,409 |
| Assigned | <u> -</u> | <u> 32,010</u> | <u> 40,323</u> | <u> -</u> | <u> -</u> | <u> 72,333</u> |
| Total Fund Balances | <u>3,196</u> | <u>32,010</u> | <u>40,323</u> | <u>9,445</u> | <u>110,768</u> | <u>195,742</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 3,196</u> | <u>\$ 32,041</u> | <u>\$ 40,323</u> | <u>\$ 9,445</u> | <u>\$ 112,432</u> | <u>\$ 197,437</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, 2017

| | Special Rev Park | Economic Development Authority | Lions Club Park Fund | Tax Increment 1-1 | Tax Increment 1-2 | Total |
|-----------------------------------|---------------------|--------------------------------------|----------------------------|-------------------------|-------------------------|-------------------|
| REVENUES | | | | | | |
| Taxes | \$ - | \$ 2,043 | \$ - | \$ 16,065 | \$ 55,062 | \$ 73,170 |
| Interest Income | 15 | 23 | 172 | (2) | - | 208 |
| Miscellaneous | - | - | 29,333 | - | - | 29,333 |
| Total Revenues | <u>15</u> | <u>2,066</u> | <u>29,505</u> | <u>16,063</u> | <u>55,062</u> | <u>102,711</u> |
| EXPENDITURES | | | | | | |
| Culture and Recreation | - | - | 19,903 | - | - | 19,903 |
| Economic Development | - | - | - | 15,083 | - | 15,083 |
| Miscellaneous | - | 639 | - | - | 42,526 | 43,165 |
| Total Expenditures | <u>-</u> | <u>639</u> | <u>19,903</u> | <u>15,083</u> | <u>42,526</u> | <u>78,151</u> |
| EXCESS REVENUES OVER EXPENDITURES | 15 | 1,427 | 9,602 | 980 | 12,536 | 24,560 |
| FUND BALANCES - January 1 | <u>3,181</u> | <u>30,583</u> | <u>30,721</u> | <u>8,465</u> | <u>98,232</u> | <u>171,182</u> |
| FUND BALANCES - December 31 | <u>\$ 3,196</u> | <u>\$ 32,010</u> | <u>\$ 40,323</u> | <u>\$ 9,445</u> | <u>\$ 110,768</u> | <u>\$ 195,742</u> |

CITY OF STACY, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 DECEMBER 31, 2017

| | Abatement Woodsman 2004 | Tax 2008 Lease Purchase | Road Improvement Project | Stacy Ponds Business Park | Total |
|--|-------------------------------|-------------------------------|--------------------------------|---------------------------------|-------------------|
| ASSETS | | | | | |
| Pooled Cash and Equivalents | \$ 23,959 | \$ 5,224 | \$ 8,732 | \$ 142,795 | \$ 180,710 |
| Property Taxes Receivable | <u>502</u> | <u>173</u> | <u>515</u> | <u>1,651</u> | <u>2,841</u> |
| TOTAL ASSETS | <u>\$ 24,461</u> | <u>\$ 5,397</u> | <u>\$ 9,247</u> | <u>\$ 144,446</u> | <u>\$ 183,551</u> |
| LIABILITIES | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - |
| DEFERRED INFLOWS OF RESOURCES: | | | | | |
| Unavailable Revenue | 406 | 150 | 417 | 1,336 | 2,309 |
| Total Deferred Inflows of Resources | <u>406</u> | <u>150</u> | <u>417</u> | <u>1,336</u> | <u>2,309</u> |
| FUND BALANCES | | | | | |
| Restricted | 24,055 | 5,247 | 8,830 | 143,110 | 181,242 |
| Total Fund Balances | <u>24,055</u> | <u>5,247</u> | <u>8,830</u> | <u>143,110</u> | <u>181,242</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 24,461</u> | <u>\$ 5,397</u> | <u>\$ 9,247</u> | <u>\$ 144,446</u> | <u>\$ 183,551</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, 2017

| | Tax | | | | | |
|---|-------------------------------|------------------------|--------------------------------|---------------------------------|--------------------------|--|
| | Abatement Woodsman 2004 | 2008 Lease Purchase | Road Improvement Project | Stacy Ponds Business Park | Total | |
| REVENUES | | | | | | |
| Taxes | \$ 57,235 | \$ 10,206 | \$ 28,361 | \$ 90,001 | \$ 185,803 | |
| Interest Income | <u>1</u> | <u>1</u> | <u>149</u> | <u>468</u> | <u>619</u> | |
| Total Revenues | <u>57,236</u> | <u>10,207</u> | <u>28,510</u> | <u>90,469</u> | <u>186,422</u> | |
| EXPENDITURES | | | | | | |
| Principal Payments | 30,000 | 8,000 | 75,000 | 60,000 | 173,000 | |
| Interest Payments | 6,875 | 905 | 3,081 | 21,802 | 32,663 | |
| Miscellaneous | <u>550</u> | <u>-</u> | <u>-</u> | <u>213</u> | <u>763</u> | |
| Total Expenditures | <u>37,425</u> | <u>8,905</u> | <u>78,081</u> | <u>82,015</u> | <u>206,426</u> | |
| EXCESS REVENUES OVER (UNDER) EXPENDITURES | <u>19,811</u> | <u>1,302</u> | <u>(49,571)</u> | <u>8,454</u> | <u>(20,004)</u> | |
| FUND BALANCES - January 1 | <u>4,244</u> | <u>3,945</u> | <u>58,401</u> | <u>134,656</u> | <u>201,246</u> | |
| FUND BALANCES - December 31 | <u><u>\$ 24,055</u></u> | <u><u>\$ 5,247</u></u> | <u><u>\$ 8,830</u></u> | <u><u>\$ 143,110</u></u> | <u><u>\$ 181,242</u></u> | |

CITY OF STACY, MINNESOTA
SUMMARY FINANCIAL REPORT

REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

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

| | <u>Total</u> <u>2017</u> | <u>Total</u> <u>2016</u> | Percent Increase <u>(Decrease)</u> |
|--|-----------------------------|-----------------------------|--|
| REVENUES: | | | |
| Taxes and Assessments | \$ 463,969 | \$ 413,300 | 12.26 % |
| Licenses and Permits | 25,171 | 18,680 | 34.75 % |
| Intergovernmental | 329,969 | 316,644 | 4.21 % |
| Charges for Services | 19,459 | 15,284 | 27.32 % |
| Fines | 1,820 | 1,885 | (3.45)% |
| Investment Earnings | 3,929 | 3,048 | 28.90 % |
| Miscellaneous | 63,908 | 60,213 | 6.14 % |
| Transfer In | <u>70,000</u> | <u>362,754</u> | <u>(80.70)%</u> |
| Total Revenues | <u>\$ 978,225</u> | <u>\$ 1,191,808</u> | <u>(17.92)%</u> |
| Per Capita | <u>665</u> | <u>810</u> | |
| EXPENDITURES: | | | |
| Current | | | |
| General Government | \$ 202,526 | \$ 190,677 | 6.21 % |
| Public Safety | 215,002 | 183,811 | 16.97 % |
| Public Works | 129,934 | 62,419 | 108.16 % |
| Culture and Recreation | 53,314 | 41,977 | 27.01 % |
| Economic Development | 15,083 | 15,097 | (0.09)% |
| Miscellaneous | 61,902 | 63,025 | (1.78)% |
| Debt Service: | | | |
| Principal Payments | 173,000 | 123,000 | 40.65 % |
| Interest Payments | 32,663 | 35,478 | (7.93)% |
| Other Charges | 763 | 763 | - % |
| Capital Outlay | 21,545 | 22,449 | (4.03)% |
| Transfer Out | <u>-</u> | <u>17,222</u> | <u>(100.00)%</u> |
| Total Expenditures | <u>\$ 905,732</u> | <u>\$ 879,092</u> | <u>3.03 %</u> |
| Per Capita | <u>615</u> | <u>597</u> | |
| Long-term Indebtedness | <u>\$ 1,347,000</u> | <u>\$ 1,520,000</u> | <u>(11.38)%</u> |
| Per Capita | <u>915</u> | <u>1,033</u> | |
| General Fund Unassigned Fund Balance - December 31 | <u>\$ 784,652</u> | <u>\$ 716,755</u> | <u>9.47 %</u> |
| Per Capita | <u>533</u> | <u>487</u> | |

SECTION IV

ADDITIONAL INFORMATION

CITY OF STACY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

| <u>Federal Grantor/Pass-through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Agency or Pass-through Number</u> | <u>Federal Disbursements/ Expenditures</u> |
|---|------------------------------------|--|--|
| U.S. Department of Agriculture | | | |
| Water Treatment Facility Grant | 10.760 | N/A | \$ 956,347 |
| Water Treatment Facility Loan | 10.760 | N/A | <u>1,582,688</u> |
| | | | <u>\$ 2,539,035</u> |

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Stacy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

Honorable Mayor and Members of the 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, 2017, 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 8, 2018.

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 statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. Items 2017-001 and 2017-002.

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 questioned costs. City of Stacy, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements 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.

May 8, 2018

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited City of Stacy, Minnesota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of City of Stacy, Minnesota's major federal programs for the year ended December 31, 2017. City of Stacy, Minnesota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of City of Stacy, Minnesota's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Stacy, Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Stacy, Minnesota's compliance.

Opinion on Each of the Major Federal Programs

In our opinion City of Stacy, Minnesota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

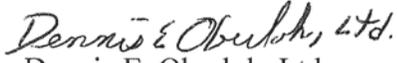
Management of City of Stacy, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to in the first page of this letter. In planning and performing our audit of compliance, we considered City of Stacy, Minnesota's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstance for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Stacy, Minnesota's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 to be significant deficiencies.

City of Stacy, Minnesota's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Stacy, Minnesota's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Dennis E. Oberloh, Ltd.

May 8, 2018

CITY OF STACY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the basic financial statements of City of Stacy.
2. Two significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements of City of Stacy, Minnesota, as required to be reported in accordance with *Government Auditing Standards*.
3. There were no matters of noncompliance which is material to the financial statements of the City of Stacy, Minnesota required to be reported in accordance with *Government Auditing Standards*.
4. The auditor's report on compliance for the major federal award programs for City of Stacy, Minnesota expresses an unmodified opinion.
5. Two significant deficiencies in internal control over major federal award programs were noted by the audit and are reported in Part C. of this schedule.
6. The programs tested as major programs included: USDA Water Treatment Facility Grant and USDA Water Treatment Facility Loan.
7. The threshold for distinguishing Types A and B programs was \$750,000.
8. City of Stacy, Minnesota was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT
INTERNAL CONTROL OVER FINANCIAL REPORTING

INTERNAL CONTROL FINDINGS

Audit Finding 2017-001

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.

CITY OF STACY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

B. FINDINGS - FINANCIAL STATEMENT AUDIT
INTERNAL CONTROL OVER FINANCIAL REPORTING

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.

Views of Responsible Officials and Planned Corrective Actions: 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 2017-002

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.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the recommendation that it is not cost effective for the City to maintain proper segregation of duties.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT
INTERNAL CONTROL OVER COMPLIANCE
Significant Deficiencies 2017-001 and 2017-002.

CITY OF STACY, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2016

2016-001 Auditor Prepared Financial Statements - This finding is unresolved and appears as finding 2017-001.

2016-002 Lack of Segregation of Duties - This finding is unresolved and appears as finding 2017-002.

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AUDITOR'S REPORT ON LEGAL COMPLIANCE

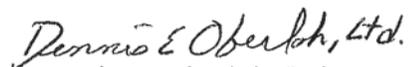
Honorable Mayor and Members of the Council
City of Stacy
Stacy, Minnesota

We have audited, 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, 2017, and the related notes to the financial statements, and have issued our report thereon dated May 8, 2018.

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*. 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 8, 2018

City of Stacy
Corrective Action Plan
Year Ended December 31, 2017

SIGNIFICANT DEFICIENCIES

2017-001 Auditor Prepared Financial Statements

Name of Contact Person: Sharon Payne, City Clerk

Correction Action: The City Clerk will continue to review GASB pronouncements and GASB disclosure checklists to ensure she is aware of financial statement requirements and new pronouncements.

Proposed Completion Date: The City Council will implement the above procedures immediately.

2017-002 Segregation of Duties

Name of Contact Person: Sharon Payne, City Clerk

Correction Action: The finance related tasks will be separated as much as possible and alternative controls will be used to compensate for the lack of separation. The City Council will become more involved in providing some of these controls.

Proposed Completion Date: The City Council will implement the above procedures immediately.