

CITY OF SAUK CENTRE, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2013

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INTRODUCTORY SECTION

**CITY OF SAUK CENTRE, MINNESOTA
ELECTED OFFICIALS AND ADMINISTRATION
DECEMBER 31, 2013**

Elected Officials	Position	Term Expires
CITY COUNCIL		
Brad Kirckof	Mayor	December 31, 2014
Michael Olson	Council Member	December 31, 2014
David Thomas	Council Member	December 31, 2016
Keith Johnson	Council Member	December 31, 2014
Warren Stone	Council Member	December 31, 2016
CITY OFFICIALS		
Vicki Willer	City Administrator	Indefinite
Carol Inderrieden	Deputy Treasurer	Indefinite
Bryon Friedrichs	Chief of Police	Indefinite
John Egan	Fire Chief	Indefinite
PUBLIC UTILITIES COMMISSION - APPOINTED		
Dennis Rykken	Chairperson	December 31, 2013
Ted Spanier	Vice-Chairperson	December 31, 2014
Roy Walz	Commissioner	December 31, 2015
Rich Bullard	Commissioner	December 31, 2013
Michael Bick	Commissioner	December 31, 2014
HOUSING AND REDEVELOPMENT AUTHORITY BOARD - APPOINTED		
Victor Traut	Chairperson	March 31, 2017
Michael Felling	Board Member	March 31, 2016
Robert Polipnick	Board Member	March 31, 2014
Don Leonard	Board Member	March 31, 2018
David Thomas	Council Representative	Indefinite

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of Sauk Centre
Sauk Centre, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sauk Centre, Minnesota (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing and Redevelopment Authority of Sauk Centre, whose year-end is September 30, 2013, which represents 5 percent, 7 percent, 4 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing and Redevelopment Authority of Sauk Centre, is based solely on the report of the other auditors. 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 auditors' 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, based on our audit, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sauk Centre, Minnesota (the City), as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the fiscal year ended December 31, 2013, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 65, the City reported this implementation as a change in accounting principle (See Note 18). Beginning net position was restated as debt issuance costs, except any portion related to prepaid insurance costs, are now recognized as an expense in the period incurred. Debt issuance costs were previously reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt. The auditors' opinion was not modified with regards to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of funding progress and budgetary comparison schedules information on pages 44 and 45 through 48, respectively 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.

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

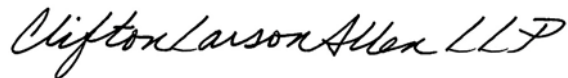
Other Matters (Continued)

Other Information (Continued)

The combining and individual nonmajor fund financial statements 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 nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Alexandria, Minnesota
April 17, 2014

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BASIC FINANCIAL STATEMENTS

**CITY OF SAUK CENTRE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Governmental Activities	Component Units	
		Sauk Centre Public Utilities Commission	Sauk Centre HRA
ASSETS			
Cash and Investments	\$ 9,659,057	\$ 318,696	\$ 143,297
Designated Cash and Investments	-	5,692,388	-
Due from Other Governments	97,262	-	-
Accounts Receivable	461,007	569,265	-
Notes Receivable	6,884,678	-	-
Taxes Receivable - Delinquent	116,864	-	-
Special Assessments Receivable	843,316	-	-
Due from Primary Government	-	28,000	-
Interest Receivable	14,940	18,193	-
Inventories	-	315,089	-
Prepaid Expenses	6,647	51,800	6,814
Land Held for Investment	-	60,000	-
Capital Assets Not Being Depreciated			
Land	3,842,620	129,633	95,745
Construction in Process	2,355,622	-	-
Capital Assets Being Depreciated			
Land Improvements	1,968,779	-	-
Buildings and Improvements	24,697,372	859,386	1,771,604
Vehicles, Machinery and Equipment	7,994,621	1,434,463	46,257
Infrastructure	9,596,513	24,628,505	-
Less: Accumulated Depreciation	(21,072,598)	(11,491,846)	(966,483)
Total Assets	47,466,700	22,613,572	1,097,234
LIABILITIES			
Salaries/Benefits Payable	37,196	137,945	2,622
Accounts and Contracts Payable	40,867	509,433	3,705
Due to Other Governments	-	-	8,259
Tenant Security Deposits	-	-	6,446
Unearned Revenue	189,268	-	-
Accrued Interest	235,083	53,959	3,136
Long-Term Obligations			
Due Within One Year	1,128,837	458,953	-
Due in More than One Year	15,537,543	7,075,052	-
Total Liabilities	17,168,794	8,235,342	24,168
NET POSITION			
Net Investment in Capital Assets	12,982,498	8,479,929	947,123
Restricted	7,551,660	-	-
Unassigned	9,763,748	5,898,301	125,943
Total Net Position	\$ 30,297,906	\$ 14,378,230	\$ 1,073,066

See accompanying Notes to Financial Statements.

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**CITY OF SAUK CENTRE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units	
					Governmental Activities	Sauk Centre Public Utilities Commission	Sauk Centre HRA
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 794,963	\$ 264,940	\$ -	\$ -	\$ (530,023)	\$ -	\$ -
Public Safety	3,103,283	1,318,469	10,385	39,000	(1,735,429)	-	-
Public Works	993,530	192,260	-	402,911	(398,359)	-	-
Culture and Recreation	437,920	155,033	21,428	-	(261,459)	-	-
Economic Development	247,792	28,873	-	-	(218,919)	-	-
Airport	111,802	123,217	-	-	11,415	-	-
Debt Service	662,522	497,678	-	-	(164,844)	-	-
Total Governmental Activities	6,351,812	2,580,470	31,813	441,911	(3,297,618)	-	-
COMPONENT UNITS							
Housing Activity	253,120	125,382	100,505	84,339	-	-	57,106
Public Utilities Commission	6,624,955	6,801,007	-	17,394	-	193,446	-
Total Component Units	\$ 6,878,075	\$ 6,926,389	\$ 100,505	\$ 101,733	-	193,446	57,106
GENERAL REVENUES							
Property Taxes					1,537,060	-	-
Tax Increments Received					888,059	-	-
Intergovernmental Revenues					979,177	-	-
Interest and Investments Earnings					246,408	48,794	596
Miscellaneous Revenues					104,589	33,620	-
Insurance Proceeds					140,073	-	-
Total General Revenues					3,895,366	82,414	596
CHANGES IN NET POSITION							
Net Position - Beginning of Year					30,182,796	14,102,370	1,015,364
Change in Accounting Principle (See Note 18)					(482,638)	-	-
Net Position - Beginning of Year, as Restated					29,700,158	14,102,370	1,015,364
NET POSITION - END OF YEAR					\$ 30,297,906	\$ 14,378,230	\$ 1,073,066

See accompanying Notes to Financial Statements.

**CITY OF SAUK CENTRE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	Special Revenue			
	General	Arena	Hospital	Tax Increment Financing
ASSETS				
Cash and Investments	\$ 1,537,425	\$ 102,179	\$ 2,518,888	\$ 1,429,783
Taxes Receivable - Delinquent	73,967	-	-	42,897
Special Assessments Receivable	53,890	-	-	-
Accounts Receivable	45,169	11,715	111,876	-
Loans Receivable	-	-	-	-
Notes Receivable	-	-	6,884,678	-
Interest Receivable	14,940	-	-	-
Prepaid Items	6,647	-	-	-
Due from Other Governments	75,601	636	-	13,126
Due from Other Funds	18,725	-	-	-
Total Assets	<u>\$ 1,826,364</u>	<u>\$ 114,530</u>	<u>\$ 9,515,442</u>	<u>\$ 1,485,806</u>
LIABILITIES				
Salaries/Benefits Payable	\$ 36,426	\$ -	\$ -	\$ -
Accounts and Contracts Payable	21,173	1,057	-	-
Due to Other Funds	-	-	-	2,370
Unearned Revenue	5,850	-	-	-
Total Liabilities	<u>63,449</u>	<u>1,057</u>	<u>-</u>	<u>2,370</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Taxes	73,966	-	-	42,897
Unavailable Notes Receivable	-	-	6,884,678	-
Unavailable Special Assessments	53,891	-	-	-
Total Deferred Inflows of Resources	<u>127,857</u>	<u>-</u>	<u>6,884,678</u>	<u>42,897</u>
FUND BALANCES				
Nonspendable	6,647	-	-	-
Restricted	-	-	2,352,991	1,440,539
Committed	453,894	113,473	-	-
Assigned	-	-	277,773	-
Unassigned	1,174,517	-	-	-
Total Fund Balances	<u>1,635,058</u>	<u>113,473</u>	<u>2,630,764</u>	<u>1,440,539</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,826,364</u>	<u>\$ 114,530</u>	<u>\$ 9,515,442</u>	<u>\$ 1,485,806</u>

See accompanying Notes to Financial Statements.

Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 562,627	\$ 2,153,600	\$ 1,354,555	\$ 9,659,057
-	-	-	116,864
-	789,426	-	843,316
20,913	-	88,636	278,309
117,618	-	65,080	182,698
-	-	-	6,884,678
-	-	-	14,940
-	-	-	6,647
-	6,212	1,687	97,262
-	-	-	18,725
<u>\$ 701,158</u>	<u>\$ 2,949,238</u>	<u>\$ 1,509,958</u>	<u>\$ 18,102,496</u>
\$ -	\$ -	\$ 770	\$ 37,196
2,992	-	15,645	40,867
16,355	-	-	18,725
117,618	-	65,800	189,268
<u>136,965</u>	<u>-</u>	<u>82,215</u>	<u>286,056</u>
-	-	-	116,863
-	-	-	6,884,678
-	789,426	-	843,317
<u>-</u>	<u>789,426</u>	<u>-</u>	<u>7,844,858</u>
-	-	-	6,647
564,193	2,159,812	316,897	6,834,432
-	-	408,193	975,560
-	-	702,653	980,426
-	-	-	1,174,517
<u>564,193</u>	<u>2,159,812</u>	<u>1,427,743</u>	<u>9,971,582</u>
<u>\$ 701,158</u>	<u>\$ 2,949,238</u>	<u>\$ 1,509,958</u>	<u>\$ 18,102,496</u>

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**CITY OF SAUK CENTRE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 9,971,582

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost of Capital Assets	50,455,527
Less: Accumulated Depreciation	(21,072,598)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Long-Term Debt	(16,666,380)
Accrued Interest Payable	(235,083)

Delinquent receivables will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred in the funds.

Delinquent Property Taxes	116,863
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Deferred receivables are not available to pay for current expenditures and, therefore, are deferred in the funds.

Unavailable Special Assessments Receivable	843,317
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Loans receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred in the funds.

6,884,678

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 30,297,906

CITY OF SAUK CENTRE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	Special Revenue			
	General	Arena	Hospital	Tax Increment Financing
REVENUES				
Property Taxes	\$ 1,088,219	\$ 50,224	\$ -	\$ -
Tax Increments Received	-	-	-	888,059
Special Assessments	790	-	-	-
Licenses and Permits	126,700	-	-	-
Intergovernmental Revenues	1,021,002	-	-	-
Charges for Services	231,860	61,798	480,000	-
Fines and Forfeits	45,726	-	-	-
Other Revenues	278,159	370	210,421	6,240
Total Revenues	2,792,456	112,392	690,421	894,299
EXPENDITURES				
General Government	716,629	-	-	-
Public Safety	864,596	-	450,100	-
Public Works	570,176	-	-	-
Culture and Recreation	279,266	60,427	-	-
Economic Development	-	-	-	220,606
Airport	-	-	-	-
Debt Service				
Principal	14,729	-	-	-
Interest	-	-	-	-
Capital Outlay	300,865	-	-	-
Total Expenditures	2,746,261	60,427	450,100	220,606
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	46,195	51,965	240,321	673,693
OTHER FINANCING SOURCES (USES)				
Transfers In	26,480	-	-	-
Transfers Out	-	-	(208)	(301,243)
Proceeds from Capital Lease	25,552	-	-	-
Insurance Proceeds	67,448	-	-	-
Total Other Financing Sources (Uses)	119,480	-	(208)	(301,243)
NET CHANGE IN FUND BALANCES	165,675	51,965	240,113	372,450
Fund Balances - Beginning of Year	1,469,383	61,508	2,390,651	1,068,089
FUND BALANCES - END OF YEAR	\$ 1,635,058	\$ 113,473	\$ 2,630,764	\$ 1,440,539

See accompanying Notes to Financial Statements.

Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 331,731	\$ 128,494	\$ 1,598,668
-	-	-	888,059
-	212,335	-	213,125
-	-	-	126,700
95,431	-	58,412	1,174,845
-	-	840,139	1,613,797
-	-	-	45,726
17,041	505,640	116,964	1,134,835
<u>112,472</u>	<u>1,049,706</u>	<u>1,144,009</u>	<u>6,795,755</u>
-	-	24,278	740,907
-	-	399,984	1,714,680
124,588	-	28,469	723,233
-	-	29,960	369,653
-	-	26,485	247,091
-	-	112,503	112,503
-	999,900	24,727	1,039,356
-	648,234	2,976	651,210
813,856	-	18,841	1,133,562
<u>938,444</u>	<u>1,648,134</u>	<u>668,223</u>	<u>6,732,195</u>
(825,972)	(598,428)	475,786	63,560
15,000	503,375	-	544,855
-	-	(243,404)	(544,855)
-	-	-	25,552
-	-	72,555	140,003
<u>15,000</u>	<u>503,375</u>	<u>(170,849)</u>	<u>165,555</u>
(810,972)	(95,053)	304,937	229,115
<u>1,375,165</u>	<u>2,254,865</u>	<u>1,122,806</u>	<u>9,742,467</u>
<u>\$ 564,193</u>	<u>\$ 2,159,812</u>	<u>\$ 1,427,743</u>	<u>\$ 9,971,582</u>

**CITY OF SAUK CENTRE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 229,115

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

Capital Outlay	1,225,894
Depreciation Expense	(1,875,600)
Loss on Capital Asset Disposals	(3,588)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Also, governmental funds report the effect of premiums, and discounts when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities however, interest expense is recognized as it accrues. The effect of these items is as follows:

Repayment of Debt Principal	1,032,180
Amortization of Bond Discount	(4,627)
Capital Lease Proceeds	(25,552)
Amortization of Bond Premium	5,101
Change in Accrued Interest	(4,610)

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Principal payments on capital leases are reported as expenditures in the governmental funds. In the statement of net position, however, the repayment of principal reduces the liability.

7,176

In the statement of activities, compensated absences and other postemployment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Change in Other Postemployment Benefits	(23,510)
Change in Compensated Absences	3,096

Delinquent property taxes and special assessments will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred in the governmental funds. Property taxes receivable decreased by \$61,682 while special assessments increased by \$94,355.

32,673

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 597,748

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the City of Sauk Centre, Minnesota (the City), have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

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

The City's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the City is considered to be financially accountable.

Component units are legally separate entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the Primary Government misleading. Certain organizations warrant inclusion as part of the City because of the nature and significance of their relationship with the City, including their ongoing financial support of the Primary Government or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of a City if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the City, its component units, or its constituents.
2. The City is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the City, or its component units, is entitled to, or has the ability to otherwise access, are significant to that City.

Discretely presented component units are separate legal entities, but are presented in a separate column on the statement of net position and statement of activities.

The Sauk Centre Public Utilities Commission operates as a commission for the purpose of providing municipal utility services to residents of Sauk Centre. The commission can issue bonds, pledging as security, the full-faith and credit of the City (with the City's approval).

The complete financial statements of the Public Utilities Commission are available at the Sauk Centre City Hall.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

The Housing and Redevelopment Authority of Sauk Centre (HRA) operates as a local government unit for the purpose of providing housing and redevelopment services to the Sauk Centre area. The HRA cannot issue bonds pledging as security the full-faith and credit of the City. The HRA's property tax levy must be approved by the City Council. The HRA's financial information is presented as of and for the fiscal year ended September 30, 2013.

The complete financial statements of the HRA may be obtained from the HRA executive director at the following address:

Housing and Redevelopment Authority of Sauk Centre
407 First Street North
Sauk Centre, MN 56378

C. Basic Financial Statement Presentation

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these 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.

In the government-wide statement of net position, the governmental activities column: (a) is presented on a consolidated basis by column; and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days 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, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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.

State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, and revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Arena Special Revenue Fund – The Arena Special Revenue Fund is used to account for the proceeds of property taxes and charges for services that are committed to expenditures for the functions of the arena.

Hospital Special Revenue Fund – The Hospital Special Revenue Fund is used to account for the collection of state surcharge and payment of related expenditures.

Tax Increment Financing Fund – The Tax Increment Financing Special Revenue Fund is used to account for the collection of tax increment and payment of related expenditures.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for the payment of principal, interest and related costs on long-term debt and special assessment debt.

GASB Statement No. 34 specifies that the accounts and activities of each of the City's most significant governmental funds (termed major funds) be reported in separate columns on the fund financial statements. Other nonmajor funds can be reported in total.

GASB Statement No. 34 also requires that budget vs. actual information be presented for the general fund and all budgeted major special revenue funds. For 2013, the City's adopted budget was consistent with U.S. generally accepted accounting principles.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statement and interpretations).

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.

F. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may differ from these estimates.

G. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

Cash and Cash Equivalents consist of demand deposits and short-term investments with original maturities of three months or less. Interest income or expenditure is allocated to specific funds based on the average cash balance carried in each fund during the year.

2. Accounts Receivable

Sauk Centre Ambulance provides an allowance for uncollectible self-pay and miscellaneous commercial insurance accounts based on the allowance method. Patients are not required to provide collateral for services rendered. Payment for services is required upon receipt of an invoice, after payment by insurance, if any. Self-pay accounts are analyzed for collectability based on the months past due and payment history. An allowance is estimated for these accounts based on the historical experience of the City. Accounts that are determined to be uncollectible are sent to a collection agency and written off at that time. At December 31, 2013, the allowance for uncollectible accounts was \$62,734.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity
(Continued)

3. Investments

State statutes authorize investments which are direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualifies as a "depository" by the City entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. Investments are stated at fair value.

4. Inventories

Inventories are reported at cost using the weighted average method.

5. Fund Balance/Net Position

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance is the portion of fund balance that cannot be spent because it is either in nonspendable form or there is a legal or contractual requirement for the funds to remain intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the governmental body itself or by some person or body delegated to exercise such authority in accordance with the policy established by the Council.

Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. It is the City's policy that at the end of each fiscal year, the City will maintain unassigned portions of fund balance for cash flow in a range equal to 35 – 65 percent of the General Fund operating expenditures.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity
(Continued)

5. Fund Balance/Net Position (Continued)

Committed fund balance is required to be established, modified, or rescinded by resolution of the City Council prior to each year end. Based on resolution of the City Council, the City Administrator/Clerk/Treasurer has the authority to establish or modify assigned fund balance. When restricted and unrestricted fund balance is available for expenditure, it is the City's policy to first use restricted fund balance, and then unrestricted resources as they are needed. When committed, assigned, and unassigned fund balance is available for expenditure, it is the City's policy to use committed, assigned, and then unassigned fund balance.

Net position represents the differences between assets less liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire capital assets. Net position is reported as restricted in government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

6. Property Taxes Calendar

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. Stearns County is the collecting agency for the levy and then remits the collections to the City. All taxes not collected as of December 31 are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain payments paid directly to the City.

The County Auditor provides a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

Property owners are required to pay one-half of their real estate taxes by May 15 and the balances by October 15.

Within 30 days after the May settlement, the County Treasurer is required to pay 70 percent of the estimated collections of taxes and special assessments to the City Treasurer. The County Treasurer must pay the balance to the City Treasurer within 60 days after the settlement, provided that after 45 days interest begins to accrue.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity
(Continued)

6. Property Taxes Calendar (Continued)

Within ten business days after November 15, the County Treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

Taxes are recognized as receivables on January 1 of the current year when they are levied against individual properties by the County. They become a lien against the property against which they are levied on the levy date.

Current year property tax revenues represent the tax levy certified to the County Auditor in December of 2012 which was collected during the year ended December 31, 2013, respectively. Any adjustments or abatements to either the current, or any prior year, levy are adjusted through the current year general property tax revenues. Property taxes not collected by the County and remitted to the City within 60 days of year end are classified as delinquent and not considered measurable and available and are fully offset by deferred inflows of resources in the governmental fund financial statements. Delinquent taxes receivable represent the past years of uncollected tax years. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

7. Special Assessments

Special assessments receivable represents amounts levied on a property owner for improvements.

8. Due from Other Governments

Due from other governments includes amounts due from grantors for grants related to specific financial award programs and also amounts due from the County for the January property tax settlement. Program grants are recorded as receivables and revenues at the time reimbursable project costs are incurred.

9. Short-Term Interfund Receivables / Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The resulting receivables and payables are classified as "due from other funds" or "due to other funds" on the fund financial statements.

10. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of \$5,000 to \$100,000, depending on asset type, for capitalizing capital assets. The City does not elect to record infrastructure assets acquired before December 31, 1980. Costs of Infrastructure assets from 1980 to 2003 have been estimated based on estimated historical costs.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity
(Continued)

10. Capital Assets (Continued)

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are sold for an immaterial amount when declared as no longer needed for public purpose by the City, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 10 to 50 years for land improvements, buildings and infrastructure, and 5 to 20 years for equipment.

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

11. Long-Term Obligations

In the government-wide financial statements, and in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, and statements of net position. Bond premiums and discounts, are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts, 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.

12. Long-Term Interfund Receivables / Payables

The City has elected to internally fund certain deficits. The resulting receivables and payables are classified as "advances to other funds" or "advances from other funds" on the fund financial statements.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity
(Continued)

13. Compensated Absences

The City compensates employees who resign or retire with due notice for unused vacation and compensatory time. Employees may carry over vacation from one vacation year to another vacation year as established by City personnel policy and union contract terms. Compensatory time is accumulated at 1½ times for overtime hours worked by non-exempt employees.

Full-time employees earn sick leave at the rate of 4 hours per bi-weekly payroll period, or 13 days per year, to a maximum of 720 hours (90 days). Employees maintaining the maximum of 720 hours qualify for the City's sick leave incentive program whereby one extra hour of vacation and two hours in a "sick leave bank" are earned per bi-weekly pay period. The accumulated sick leave bank hours are paid out in severance to the employee at termination or retirement according to the City's personnel policy and union contract terms.

Vacation and sick pay are considered expenditures in the year due in the governmental funds. All estimated vacation and compensatory time is recorded when incurred in the government-wide statements.

14. Deferred Inflows of Resources

The City's governmental activities and governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position of fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs.

H. Revenues, Expenditures, and Expenses

1. Revenues

In the fund financial statements, property taxes are recognized to the extent they are collected and received in the current period or within 60 days after year-end. Portions paid by the state in the form of market value credit aid, and other state tax credits are included in intergovernmental revenues. Delinquent property taxes receivable which have not been recognized as revenue are equally offset in the financial statements by deferred inflows of resources.

Licenses and permits, charges for services, fines, forfeits, and miscellaneous revenues are recognized as soon as they are both measurable and available.

Special assessments principal and interest earnings are recorded as revenues in the same manner as property taxes.

**CITY OF SAUK CENTRE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Revenues, Expenditures, and Expenses (Continued)

2. Expenditures

Expenditure recognition for governmental fund types includes only amounts represented by current liabilities. Since noncurrent liabilities do not affect net current assets, they are not recognized as governmental fund expenditures or liabilities. They are reported as liabilities on the statement of net position.

3. Expenses

Government wide financial statements recognize expenses when they are incurred.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget

The budget was prepared for the General, Arena and Tax Increment Financing funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the fund. The budget presented in this report along with the budget to actual is presented in accordance with generally accepted accounting principles. The City has not adopted a budget for the Hospital Fund.

Formal budgetary integration is employed as a management control device during the year for the general fund.

Expenditures in Excess of Appropriations

In the following funds, expenditures exceeded the appropriations during the year ended December 31, 2013:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures Over Appropriations</u>
Arena Fund	\$ 60,427	\$ 59,656	\$ 771
Tax Increment Fund	673,693	603,155	70,538

The above overages were considered by the City's management to be the result of necessary expenditures critical to operations and were approved by the Council.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 3 DEPOSITS AND INVESTMENTS

Deposits

In accordance with *Minnesota Statutes*, the City maintains deposits at those institutions authorized by the Council. All such depositories are members of the Federal Reserve System, state designated investment pools, or the U.S. Treasury.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Minnesota Statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

The City's deposits in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve Pledge account or by an agent for the City and thus no custodial credit risk exists. As of December 31, 2013, all City deposits were covered by insurance or collateral.

Authorized collateral includes: (a) United States government treasury bills, treasury notes, treasury bonds; (b) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity; (c) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers with is rated "AA" or better by a national bond rating service; (d) unrated general obligation securities of a local government with taxing power pledged as collateral against funds deposited by that same local government entity's; (e) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and (f) time deposits that are fully insured by the Federal Deposit Insurance Corporation.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Policies

Generally, the City's investing activities are managed under the custody of the City Administrator. Investing is performed in accordance with the investment policy adopted by the City Council complying with state statutes. The City has adopted an investment policy that is the same as the investments allowed by statute which is described in Note 1.

The City had the following investments at December 31, 2013:

Investment	Credit Risk		Concentration	Interest Rate Risk		Carrying Fair Value
	Rating	Agency	Risk % of Portfolio	Maturity Date	Interest Rate	
Minnesota Municipal Money Market Fund						
4M Plus Fund	N/R	N/A	N/A	N/A	N/A	\$ 471
Smith Barney						
Money Market Fund	N/R	N/A	N/A	N/A	N/A	103,928
Multi-Bank Securities						
Transferable Certificate of Deposit	N/R	N/A	N/A	5/23/2011	4.05%	2,880,486
Total Investments						<u>\$ 2,984,885</u>
Deposits					Bank Value	Carrying Value
Checking Accounts					\$ 839,146	\$ 641,311
Savings Accounts					4,319,683	4,319,683
Certificates of Deposit					1,713,178	1,713,178
Total Deposits						<u>\$ 6,674,172</u>
 Total Deposits and Investments - Governmental Funds						<u>\$ 9,659,057</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and cash equivalents at Sauk Centre Public Utilities Commission component unit are comprised of the following:

	Sauk Centre Public Utility Commission
Cash on Hand	\$ 600
Cash in Checking	318,096
Designated Assets:	
Operations and Maintenance Deposits	400,000
Capital Replacement Deposits	4,488,595
Postemployment Benefits Deposits	453,793
Debt Retirement Deposits	350,000
Total Cash and Investments	6,011,084
Less: Noncurrent Designated Cash and Investments and Assets Under Bond Indenture Agreements	(3,655,259)
Total Cash and Investments	\$ 2,355,825

The noncurrent cash and investments consist of certificates of deposit and cash and cash equivalents.

NOTE 4 NOTES RECIEVABLE

The City has \$6,884,978 of notes receivable. The notes receivable is a working capital loan to CentraCare Health System from the operations of St. Michael's Hospital and Nursing Home. This loan was needed in order for CentraCare Health System to take over full operation of the hospital. The loan is expected to be repaid if and when CentraCare Health System pays off the revenue bonds related to the hospital and takes over the assets of the hospital that are currently part of the City. CentraCare Health System is required to make semi-annual interest payments on this loan amount until it is repaid. This amount is considered unavailable revenue on the fund level.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 is as follows:

GOVERNMENTAL ACTIVITIES	January 1, 2013 Balance	Additions	Disposals	December 31, 2013 Balance
Capital Assets, Not Being Depreciated				
Land	\$ 3,842,120	\$ 500	\$ -	\$ 3,842,620
Construction in Progress	1,509,615	846,007	-	2,355,622
Total Capital Assets, Not Being Depreciated	5,351,735	846,507	-	6,198,242
Capital Assets, Being Depreciated				
Land Improvements	1,968,779	-	-	1,968,779
Buildings and Improvements	24,697,372	-	-	24,697,372
Vehicles, Machinery and Equipment	7,787,051	271,926	64,356	7,994,621
Infrastructure	9,489,052	107,461	-	9,596,513
Total Capital Assets, Being Depreciated	43,942,254	379,387	64,356	44,257,285
Total Capital Assets	49,293,989	1,225,894	64,356	50,455,527
Less: Accumulated Depreciation	(19,257,766)	(1,875,600)	(60,768)	(21,072,598)
Capital Assets, Net	\$ 30,036,223	\$ (649,706)	\$ 3,588	\$ 29,382,929

Depreciation expense was charged to functions/programs as follows:

	<u>2013</u>
Governmental Activities	
General Government	\$ 111,548
Public Safety	1,377,400
Public Works	321,074
Culture and Recreation	65,578
Total Depreciation Expense, Governmental Activities	<u>\$ 1,875,600</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 5 CAPITAL ASSETS (CONTINUED)

COMPONENT UNIT

SAUK CENTRE PUBLIC UTILITIES

COMMISSION

	January 1, 2013 Balance	Additions	Disposals	December 31, 2013 Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 129,633	\$ -	\$ -	\$ 129,633
Construction in Progress	314,168	252,118	566,286	-
Total Capital Assets, Not Being Depreciated	<u>443,801</u>	<u>252,118</u>	<u>566,286</u>	<u>129,633</u>
Capital Assets, Being Depreciated:				
Station Equipment	536,732	-	-	536,732
Distribution System	21,666,365	1,829,682	207,024	23,289,023
General Plant	1,370,896	8,335	519,845	859,386
Load Management	896,861	870	-	897,731
Treatment Facility	1,354,251	-	14,769	1,339,482
Total Capital Assets, Being Depreciated	<u>25,825,105</u>	<u>1,838,887</u>	<u>741,638</u>	<u>26,922,354</u>
Total Capital Assets	26,268,906	2,091,005	1,307,924	27,051,987
Less: Accumulated Depreciation	<u>(10,998,406)</u>	<u>(761,790)</u>	<u>(268,350)</u>	<u>(11,491,846)</u>
Capital Assets, Net	<u>\$ 15,270,500</u>	<u>\$ 1,329,215</u>	<u>\$ 1,039,574</u>	<u>\$ 15,560,141</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 6 LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended December 31, 2013:

	Balance January 1, 2013	New Issues	Retired	Transferred Debt	Balance December 31, 2013	Amounts Due in One Year
General Obligation Tax Increment Bonds	\$ 939,900	\$ -	\$ 279,900	\$ -	\$ 660,000	\$ 350,000
General Obligation Improvement Bonds	5,200,000	-	615,000	-	4,585,000	410,000
Premium on Bonds	76,512	-	5,101	-	71,411	-
Discount on Bonds	(32,390)	-	(4,627)	-	(27,763)	-
Other Long-Term Debt	138,619	-	32,280	-	106,339	28,727
Revenue Bonds	11,090,000	-	105,000	-	10,985,000	335,000
Other Postemployment Benefits Payable	91,739	39,704	16,194	-	115,249	-
Compensated Absences	153,798	80,056	83,152	-	150,702	-
Capital Leases	2,066	25,552	7,176	-	20,442	5,110
Total Long-Term Debt	<u>\$ 17,660,244</u>	<u>\$ 145,312</u>	<u>\$ 1,139,176</u>	<u>\$ -</u>	<u>\$ 16,666,380</u>	<u>\$ 1,128,837</u>

General Obligation Bonds

These bonds are backed by the full-faith and credit of the City.

	Balance Outstanding
General Obligation Tax Increment Bonds	
\$585,000 General Obligation Tax Increment Refunding Bonds, Series 2004B, interest from 2.00% to 4.00%, matures February 1, 2015.	\$ 135,000
\$1,720,000 of General Obligation Tax Refunding Bonds, Series 2006A, interest from 3.45% to 4.00%, matures February 1, 2015.	<u>525,000</u>
Total General Obligation Tax Increment Bonds	660,000
General Obligation Improvement Bonds	
\$2,430,000 General Obligation Capital Improvement Plan Refunding Bonds, Series 2007A, interest from 3.75% to 4.20%, matures February 1, 2025.	1,790,000
\$415,000 General Obligation Improvement Bonds, Series 2007B, interest from 3.65% to 4.10%, matures February 1, 2017.	190,000
\$1,265,000 of General Obligation Improvement Bonds, Series 2008A, interest from 3.50% to 4.75%, matures February 1, 2024. Includes a discount of \$12,987.	990,000
\$2,560,000 of General Obligation Refunding Bonds, Series 2009A, interest from 3.50% to 4.75%, matures February 1, 2024. Includes a discount of \$33,280.	370,000
\$1,245,000 of General Obligation Improvement Bonds, Series 2012A, interest from 2.00% to 2.20%, matures February 1, 2029. Includes a premium of \$34,430.	<u>1,245,000</u>
Total General Obligation Improvement Bonds	4,585,000

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 6 LONG-TERM DEBT (CONTINUED)

General Obligation Bonds (Continued)

	<u>Balance Outstanding</u>
Other Long-Term Debt	
\$80,000 City purchase of Public Utilities Property of 2000, Interest at 0.00% matures September 20, 2020.	\$ 28,000
\$130,000 Certificate of Indebtedness for Fire Tanker Pumper Purchase of 2011, interest at 2.84%, matures January 15, 2016.	<u>78,339</u>
Total Other Long-Term Debt	106,339
Revenue Bonds - Expected to be repaid from airport related activities.	
\$330,000 of Taxable Airport Revenue Bonds, Series 2000A, interest at 6.65%, due February 1, 2016.	110,000
\$1,495,000 of General Obligation Revenue Bonds, Series 2012A, interest from 2.00% to 2.20%, matures February 1, 2029. Includes a premium of \$42,082.	1,495,000
\$9,505,000 of General Obligation Crossover Refunding Hospital Revenue Bonds, Series 2005C, interest from 3.90% to 5.00%, due September 1, 2033.	<u>9,380,000</u>
Total Revenue Bonds	10,985,000
Capital Leases	
\$25,552 of Capital lease for a copier machine, interest at 4.8% and due May 2017.	20,442
Plus Premium/(Discount) on Bonds	43,648
Other Postemployment Benefits	115,249
Compensated Absences	<u>150,702</u>
Total Long-Term Debt	<u><u>\$ 16,666,380</u></u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 6 LONG-TERM DEBT (CONTINUED)

General Obligation Bonds (Continued)

Long-term debt maturities are as follows:

<u>Year Ended December 31,</u>	<u>Total Principal Maturities</u>	<u>Total Interest Maturities</u>
2014	\$ 1,123,727	\$ 629,902
2015	1,195,900	583,568
2016	890,711	542,537
2017	833,999	511,697
2018	798,999	492,877
2019-2023	4,203,003	1,967,837
2024-2028	3,955,000	1,155,439
2029-2033	3,335,000	445,675
Total	16,336,339	6,329,532
Plus: Premium/(Discount)	43,648	-
Total	<u>\$ 16,379,987</u>	<u>\$ 6,329,532</u>

The following is a summary of bond information for the component units for the year ended December 31, 2013.

<u>Long-Term Debt - Sauk Centre Public Utilities Commission - Component Unit</u>	<u>Balance Outstanding</u>
Wastewater Treatment General Obligation Bonds - \$1,407,000, 1995 Issue, Interest at 3.20%, due August 2016.	\$ 271,943
Drinking Water General Obligation Revenue Bonds - \$2,121,231, 1998 Issue, Interest at 3.54%, due August 2018.	699,000
Wastewater Treatment General Obligation Bonds - \$410,000, 2005 Issue, Interest at 3.82% , due December 2015.	100,000
General Obligation Drinking Water Revenue Note - \$7,058,050, 2010 Issue, Interest 1.911%, due August 2030.	6,009,269
Total	<u>7,080,212</u>
Less: Current Maturities	<u>(458,953)</u>
Total Long-Term Debt	<u>\$ 6,621,259</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Long-Term Debt –Sauk Centre Public Utilities Commission (Continued)

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 458,953	\$ 151,727	\$ 610,680
2015	469,721	138,401	608,122
2016	431,538	125,089	556,627
2017	487,000	114,098	601,098
2018	497,000	102,430	599,430
2019-2023	1,844,000	383,385	2,227,385
2024-2028	2,026,000	200,387	2,226,387
2029-2030	866,000	24,900	890,900
Total	<u>* \$ 7,080,212</u>	<u>\$ 1,240,417</u>	<u>\$ 8,320,629</u>

* This amount includes the \$7,058,050 of debt funding authorized by PFA agreement for the current wastewater treatment project. An amount of \$3,058,439, \$3,364,485, \$150,212 and \$23,101 have been drawn by the Utility during 2010, 2011, 2012 and 2013. This leaves a balance of \$202,917 yet to be drawn.

The general obligation revenue bonds are backed by the full-faith and credit of the City of Sauk Centre, Minnesota. The bonds financed the construction of a new water treatment facility.

The bonds transferred from the St. Michael's Hospital and Nursing Home are revenue bonds. The proceeds of rental payments from CentraCare are restricted for the purpose of paying this debt off.

The City issued \$1,245,000 in general obligation improvement bonds and \$1,495,000 in general obligation revenue bonds during 2012 for the 4th Street Storm Water Construction project.

The general obligation bonds are backed by the full-faith and credit of the City of Sauk Centre, Minnesota and financed construction of improvements to the wastewater treatment system of the City.

Long-term debt at December 31, 2013 consists of the following:

	Balance January 1, 2013	Additions	Payments	Balance December 31, 2013
Changes in Long-Term Liabilities				
G.O. Bonds	\$ 7,516,066	\$ 23,101	\$ 458,955	\$ 7,080,212
Other Postemployment				
Benefits Payable	444,087	9,706	-	453,793
Total Long-Term Liabilities	<u>\$ 7,960,153</u>	<u>\$ 32,807</u>	<u>\$ 458,955</u>	<u>\$ 7,534,005</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

GASB 45 requires that local governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions.

Plan Description

The City makes available to eligible retirees and their spouses a single-employer defined healthcare plan. The plan offers medical coverage.

Funding Policy

The City does not provide healthcare coverage for retired employees. Rather, they allow employees who separate from City employment due to retirement or disability, access to the coverage; however, that coverage is paid for at the former employees' expense. Sauk Centre Public Utilities Commission provides healthcare coverage for eligible retired employees. Eligible employees who retire between the ages of 55 – 59 shall receive Employer paid single medical insurance at the rate of \$652 per month until the age of 60. When those retirees reach the age of 60 or when eligible employees retire at the age of 60 years or older they shall receive employer paid single medical insurance at the rate of \$805 per month until the age of 65 or when eligible for Medicare. The employee shall be responsible for any premiums over the \$652 or \$805.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan, and changes in City's net OPEB obligation to the plan:

	Governmental Funds	Sauk Centre Public Utilities Commission	Total
Annual Required Contribution	\$ 35,576	\$ 8,500	\$ 44,076
Interest on Net OPEB Obligation	4,128	19,984	24,112
Amortization of Net OPEB Obligation	(5,650)	-	(5,650)
Adjustment to Annual Required Contribution	-	-	-
Annual OPEB Cost (Expense)	34,054	28,484	62,538
Contributions Made	(10,544)	(18,778)	(29,322)
Increase in Net OPEB Obligation	23,510	9,706	33,216
Net OPEB Obligation - Beginning of Year	91,739	444,087	535,826
Net OPEB Obligation - End of Year	<u>\$ 115,249</u>	<u>\$ 453,793</u>	<u>\$ 569,042</u>
Net OPEB Designated Assets	<u>\$ -</u>	<u>\$ 453,793</u>	<u>\$ 453,793</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending 12/31/13 were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Governmental Funds	12/31/2013	\$ 34,054	\$ 10,544	31.0 %	\$ 115,249
Sauk Centre Public Utilities Commission	12/31/2013	28,484	18,778	65.9	453,793
Governmental Funds	12/31/2012	34,503	9,380	27.2	91,739
Sauk Centre Public Utilities Commission	12/31/2012	33,860	16,426	48.5	444,087
Governmental Funds	12/31/2011	37,798	13,885	36.7	66,616
Sauk Centre Public Utilities Commission	12/31/2011	33,860	15,649	46.2	432,548

Funded Status and Funding Progress

As of January 1, 2012 the most recent actuarial valuation date, the City had no assets deposited to fund the plan.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Governmental Activities 1/1/2012	\$ -	\$ 294,682	\$ 294,682	- %	\$ 916,999	32.1 %
Sauk Centre Public Utilities Commission 1/1/2012	-	359,394	359,394	-	759,242	47.3

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return (net of administrative expenses), which is a rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 8 percent, reduced by decrements to an ultimate rate of 5 percent over six years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis over a remaining 27 year period. The Sauk Centre Public Utilities Commission did not choose to amortize, but instead recorded the entire liability as of December 31, 2009.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 8 COMPONENTS OF FUND BALANCE

The following is a summary of the components of fund balance:

	General Fund	Arena Fund	Hospital Fund	TIF Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds
Fund Balances:							
Nonspendable:							
Prepaid items	\$ 6,647	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:							
Economic Development	-	-	-	1,442,909	-	-	-
Debt Service	-	-	-	-	-	2,159,812	-
EDA Improvement Projects	-	-	-	-	182,478	-	-
Economic Development Loan Payments	-	-	-	-	-	-	231,174
Park Capital Outlay	-	-	-	-	-	-	44,417
Siren Capital Outlay	-	-	-	-	-	-	11,469
Police Forfeiture Operations	-	-	-	-	-	-	29,037
Hospital Operations	-	-	2,352,991	-	-	-	-
Capital Improvement Projects	-	-	-	-	381,715	-	-
Senior Center Capital Outlay	-	-	-	-	-	-	800
Committed For:							
Library Operations	-	-	-	-	-	-	40,353
Fire Department Equipment Purchases	-	-	-	-	-	-	50,422
Fire Protection Capital Outlay	-	-	-	-	-	-	50,327
Ambulance Capital Outlay	-	-	-	-	-	-	34,793
Ambulance Operations	-	-	-	-	-	-	131,466
Airport Capital Outlay	-	-	-	-	-	-	35,215
Storm Water Utility	-	-	-	-	-	-	65,617
Arena Operations	-	113,473	-	-	-	-	-
Park Land	19,000	-	-	-	-	-	-
Future Projects	182,830	-	-	-	-	-	-
Police Department Severance	17,375	-	-	-	-	-	-
Street Improvements	60,780	-	-	-	-	-	-
Campground	90,273	-	-	-	-	-	-
MnDOT Signs	5,339	-	-	-	-	-	-
Build A Forest	7,064	-	-	-	-	-	-
Park Mower	60,538	-	-	-	-	-	-
Compensation Plan	10,695	-	-	-	-	-	-
Assigned:							
Hospital Operations	-	-	277,773	-	-	-	-
Library Operations	-	-	-	-	-	-	15,142
Senior Center Operations	-	-	-	-	-	-	34,417
Fire Department Equipment Purchases	-	-	-	-	-	-	57,134
Ambulance Services	-	-	-	-	-	-	203,124
Economic Development	-	-	-	-	-	-	22,493
Fire Protection Services	-	-	-	-	-	-	265,043
Airport Operations	-	-	-	-	-	-	105,300
Unassigned:	1,174,517	-	-	(2,370)	-	-	-
Airport Revenue Bonds of 2000A	-	-	-	-	-	-	-
Total Fund Balance	<u>\$1,635,058</u>	<u>\$ 113,473</u>	<u>\$2,630,764</u>	<u>\$1,440,539</u>	<u>\$ 564,193</u>	<u>\$2,159,812</u>	<u>\$1,427,743</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 9 DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Description

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

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

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6 percent of their annual covered salary in 2013.

In 2013, the City of Sauk Centre, Minnesota was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERF members, 7.25 percent for Coordinated Plan GERF members, and 14.4 percent for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 were \$53,606, \$49,521, and \$46,875, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ended December 31, 2013, 2012, and 2011 were \$53,258, \$49,823, and \$48,471, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. The Sauk Centre Public Utilities Commission's contributions to the General Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 were \$51,012, \$50,141, and \$50,388, respectively.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 10 RELATED ORGANIZATION

Sauk Centre Volunteer Fire Relief Association (the “Association”)

Plan Description

The Public Employee Retirement System (PERS) Plan is a single-employer defined benefit pension plan administered by the Sauk Centre Fire Department Relief Association. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Benefits are established by state statute. The Sauk Centre Fire Department issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting the City’s Fire Department.

Funding Policy

Minnesota Statutes specify minimum contributions that may be required from the City on an annual basis. These minimum contributions are determined based on the amount required to meet the normal cost plus amortizing any prior year’s service cost over a ten year period. The Sauk Centre Fire Department Relief Association also receives funding from the State of Minnesota as a two percent fire premium tax. The City receives the contributions and is required by statute to pass this through as payment to the Fire Relief Association. Investment earnings also add to the resources available for benefits.

Annual Pension Cost and Net Pension Obligation

The City’s annual pension cost and net pension obligation to PERS for the current year were as follows:

Annual Required Contribution	\$	-
Interest on Net Pension Obligation		-
Adjustment to Annual Required Contribution		-
Annual Pension Cost		-
Less Contribution Made		-
Increase (Decrease) in Net Pension Obligation		-
Net Pension Obligation Beginning of Year		-
Net Pension Obligation End of Year	\$	-

The annual required contribution for the current year was determined as part of December 31, 2012, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 5 percent investment rate of return and (b) age and service retirement was assumed to occur at age 50. Pension benefit obligations on an actuarial basis are not calculated for individual volunteer fire relief associations since state statutes permit alternate calculation of required reserves based on overall actuarial assumptions.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 10 RELATED ORGANIZATION (CONTINUED)

Sauk Centre Volunteer Fire Relief Association (Association) (Continued)

The City's net pension obligation for the Fire Relief Association for the years ended December 31, 2013, 2012, and 2011 are as follows:

December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	\$ -	100.0 %	N/A
2012	2,953	100.0	N/A
2011	17,071	100.0	N/A

Contributions Required and Made

The City makes contributions to the Association annually in an amount equal to the fire aid received from the State of Minnesota as required by state statutes. The City is required to make additional contributions to the Association in the following year if the following years anticipated administrative expenses plus the anticipated increase in the required reserves plus amortization of the original unfunded accrued liability exceeds the anticipated revenues. The City was not required to make a contribution in excess of fire aid for 2013.

Funding Progress

As of December 31, 2012 (the most recent available information), the plan was underfunded by \$38,945. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2013 and for the year then ended, the Association held no securities issued by the City or other related-parties.

NOTE 11 JOINT VENTURES

Great River Regional Library

The Great River Regional Library operates under authority granted to it by *Minnesota Statutes*. The Great River Regional Library operates under a joint powers type arrangement. The specific operating framework is set forth in a service agreement, which has been entered into by each of the ten members. The membership consists of Benton, Morrison, Sherburne, Stearns, Todd and Wright counties and the cities of St. Cloud, Sauk Centre and Paynesville. The Board of Trustees consists of 15 people.

The City did not have any contributions to the Great River Regional Library for 2013.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 12 RISK MANAGEMENT

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

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2013 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

NOTE 13 OPERATING LEASES

Lessee

The City of Sauk Centre, Minnesota entered into a contract for the lease of two squad cars. Both squad car operating leases are for a period of two years. The payments on operating leases in 2013 totaled \$23,581.

	Squad 1	Squad 2	Total
2014	\$ 6,683	\$ 13,226	\$ 19,909
2015	-	3,306	3,306
Total	<u>\$ 6,683</u>	<u>\$ 16,532</u>	<u>\$ 23,215</u>

Lessor

The City of Sauk Centre entered into a contract for the lease of the St. Michael's Hospital and Nursing Home and equipment with CentraCare Health System, a Minnesota non-profit corporation, for a period of 23 years. The payments for the lease began in 2013 and are restricted for payments related to principal and interest payments on the 2005C General Obligation Crossover Refunding Hospital Revenue Bonds. The amount of assets leased is \$23,910,987 with accumulated depreciation of \$11,461,847. Minimum lease payments and a summary of the capital assets being leased at December 31, 2013 are as follows:

	CentraCare Health System Lease		Capital Assets
2014	\$ 723,433	Land	\$ 529,585
2015	723,182	Land Improvements	262,441
2016	727,183	Buildings	18,199,518
2017	723,922	Moveable and Fixed Equipment	4,919,433
2018	719,923	Total Capital Assets	<u>23,910,977</u>
2019-2023	3,611,060	Less: Accumulated Depreciation	(11,461,847)
2024-2028	3,588,500	Capital Assets, Net	<u>\$ 12,449,130</u>
2029-2033	3,579,475		
Total	<u>\$ 14,396,678</u>		

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 14 CAPITAL LEASES

The City of Sauk Centre, Minnesota has entered a contract for the lease of three Konica Bizhub copiers. This lease agreement is for a period of 60 months. The related assets are carried at a cost of \$25,552 with accumulated depreciation of \$5,110. Future minimum lease payments are as follows:

	Principal	Interest	Total
2014	\$ 5,110	\$ 710	\$ 5,820
2015	5,110	710	5,820
2016	5,110	710	5,820
2017	5,112	708	5,820
Total	<u>\$ 20,442</u>	<u>\$ 2,838</u>	<u>\$ 23,280</u>

NOTE 15 INTERFUND TRANSACTIONS

At December 31, 2013, due from/to other funds were as follows:

Due To	Due From		
	Capital Projects	TIF	Total
General Fund	<u>\$ 16,355</u>	<u>\$ 2,370</u>	<u>\$ 18,725</u>

These balances have resulted from negative cash balances in the respective funds.

The composition of interfund transfers as of December 31, 2013 is as follows:

Transfers Out	Transfers In			
	Debt Service Fund	Capital Projects Fund	General Fund	Total
Other Governmental Funds	\$ 228,612	\$ 15,000	\$ -	\$ 243,612
TIF	274,763	-	26,480	301,243
Total	<u>\$ 503,375</u>	<u>\$ 15,000</u>	<u>\$ 26,480</u>	<u>\$ 544,855</u>

Transfers are used to 1) fund capital projects, 2) allocate administrative fees, and 3) to fund debt service requirements.

NOTE 16 DISCRETELY PRESENTED COMPONENT UNIT

Housing and Redevelopment Authority of Sauk Centre (Organization)

Deposits

Minnesota Statutes require all Organization deposits be protected by insurance, surety bonds or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. *Minnesota Statutes* also require securities pledged as collateral be held in safekeeping by the Organization or in a financial institution other than that furnishing the collateral.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

NOTE 16 DISCRETELY PRESENTED COMPONENT UNIT (CONTINUED)

Housing and Redevelopment Authority of Sauk Centre (Organization) (Continued)

Deposits (Continued)

At September 30, 2013, the bank carrying amount of the Organization's deposits was \$143,297. The entire amount of the bank carrying value was covered by Federal Depository Insurance Corporation (FDIC) insurance or by collateral held by the Organization's agent in the Organization's name.

Investments

Minnesota Statutes authorize the Organization to invest in obligations of the U.S. Government and its agencies and of the State of Minnesota and its agencies, bankers' acceptances, commercial paper and certain other types of securities. All of the investments are insured or registered in the Organization's name.

Capital Assets

Capital asset activity for the year ended September 30, 2013 is as follows:

COMPONENT UNIT HOUSING AND REDEVELOPMENT AUTHORITY OF SAUK CENTRE	September 30, 2012 Balance	Additions	Adjustments/ Disposals	September 30, 2013 Balance
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land and Improvements	\$ 95,745	\$ -	\$ -	\$ 95,745
Construction in Progress	35,873	-	(35,873)	-
Total Capital Assets not being Depreciated	131,618	-	(35,873)	95,745
Capital Assets, Being Depreciated				
Buildings	1,586,034	185,570	-	1,771,604
Equipment and Other	40,690	5,567	-	46,257
Total Capital Assets being Depreciated	1,626,724	191,137	-	1,817,861
Less: Accumulated Depreciation	(878,918)	(87,565)	-	(966,483)
Total Capital Assets being Depreciated, Net	747,806	103,572	-	851,378
Capital Assets, Net	<u>\$ 879,424</u>	<u>\$ 103,572</u>	<u>\$ (35,873)</u>	<u>\$ 947,123</u>

NOTE 17 COMMITMENTS AND CONTINGENCIES

Tax Increment Districts

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

NOTE 18 CHANGE IN ACCOUNTING PRINCIPLE

The City has adopted GASB Statement No. 65, Items Previously Recognized as Assets and Liabilities. GASB Statement No. 65 impacted financial reporting by establishing accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SAUK CENTRE, MINNESOTA
SCHEDULES OF FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2013**

Sauk Centre Fireman's Relief Association

Fiscal Year Ending	Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Benefit Per Year of Service
12/31/2012	\$ 603,328	\$ 614,606	\$ 11,278	98.2 %	\$ 1,550
12/31/2011	525,986	608,499	82,513	86.4	1,550
12/31/2010	466,639	559,426	92,787	83.4	1,550
12/31/2009	463,720	591,511	127,791	78.4	1,550
12/31/2008	505,087	679,954	174,867	74.3	1,550
12/31/2007	597,407	663,431	66,024	90.0	1,550
12/31/2006	537,514	554,092	16,578	97.0	1,550
12/31/2005	448,372	490,644	42,272	91.4	1,550
12/31/2004	420,191	384,289	(35,902)	109.3	1,550
12/31/2003	397,040	390,424	(6,616)	101.7	1,550
12/31/2002	332,463	364,155	31,692	91.3	1,550

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
City:						
Governmental Activities 1/1/2012	\$ -	\$ 294,682	\$ 294,682	- %	\$ 916,999	32.1 %
Governmental Activities 1/1/2009	-	319,269	319,269	-	945,773	33.8
Public Utilities Commission						
Sauk Centre Public Utilities Commission 1/1/2012	-	359,394	359,394	-	759,242	47.3
Sauk Centre Public Utilities Commission 1/1/2009	-	362,880	362,880	-	709,360	51.2

**CITY OF SAUK CENTRE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variances with Budget Over (Under)</u>
REVENUES			
General Property Taxes	\$ 1,396,942	\$ 1,088,219	\$ (308,723)
Special Assessments	550	790	240
Licenses and Permits	207,050	126,700	(80,350)
Intergovernmental Revenues	1,063,105	1,021,002	(42,103)
Charges for Services	162,000	231,860	69,860
Fines and Forfeits	39,950	45,726	5,776
Other Revenues	26,300	278,159	251,859
Total Revenues	<u>2,895,897</u>	<u>2,792,456</u>	<u>(103,441)</u>
EXPENDITURES			
General Government	1,077,369	734,441	(342,928)
Public Safety	852,038	875,836	23,798
Public Works	723,757	841,989	118,232
Culture and Recreation	296,309	279,266	(17,043)
Debt Service	7,552	14,729	7,177
Total Expenditures	<u>2,957,025</u>	<u>2,746,261</u>	<u>(210,764)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(61,128)	46,195	107,323
OTHER FINANCING SOURCES (USES)			
Transfers In	60,000	26,480	(33,520)
Transfers Out	(60,000)	-	60,000
Capital Lease Proceeds	-	25,552	25,552
Insurance Proceeds	-	67,448	67,448
Total Other Financing Sources	<u>-</u>	<u>119,480</u>	<u>119,480</u>
NET CHANGE IN FUND BALANCES	<u>\$ (61,128)</u>	165,675	<u>\$ 226,803</u>
Fund Balances - Beginning of Year		<u>1,469,383</u>	
FUND BALANCES - ENDING END OF YEAR		<u>\$ 1,635,058</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF SAUK CENTRE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ARENA FUND
YEAR ENDED DECEMBER 31, 2013**

	Original and Final Budget	Actual	Variances with Budget Over (Under)
REVENUES			
General Property Taxes	\$ 50,000	\$ 50,224	\$ 224
Charges for Services	70,100	61,798	(8,302)
Other Revenues	-	370	370
Total Revenues	<u>120,100</u>	<u>112,392</u>	<u>(7,708)</u>
EXPENDITURES			
Culture and Recreation	<u>59,656</u>	<u>60,427</u>	<u>771</u>
NET CHANGE IN FUND BALANCES			
	<u>\$ 60,444</u>	51,965	<u>\$ (8,479)</u>
Fund Balances (Deficit) - Beginning of year		<u>61,508</u>	
FUND BALANCES (DEFICIT) - END OF YEAR		<u>\$ 113,473</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF SAUK CENTRE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
TAX INCREMENT FINANCING FUND
YEAR ENDED DECEMBER 31, 2013**

	Original and Final Budget	Actual	Variances with Budget Over (Under)
REVENUES			
Tax Increments	\$ 685,500	\$ 888,059	\$ 202,559
Other Revenues	7,700	6,240	(1,460)
Total Revenues	693,200	894,299	201,099
 EXPENDITURES			
Economic Development	90,045	220,606	130,561
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	603,155	673,693	70,538
 OTHER FINANCING SOURCES (USES)			
Transfers Out	(451,625)	(301,243)	150,382
 NET CHANGE IN FUND BALANCES	\$ 151,530	372,450	\$ 220,920
Fund Balances - Beginning of Year		1,068,089	
FUND BALANCES - ENDING END OF YEAR		\$ 1,440,539	

See accompanying Notes to Required Supplementary Information.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2013**

NOTE 1 LEGAL COMPLIANCE – BUDGETS

The General, Arena and Tax Increment Financing Fund budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

In the following funds, expenditures exceeded the appropriations during the year ended December 31, 2013:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures Over Appropriations</u>
Arena Fund	\$ 60,427	\$ 59,656	\$ 771
Tax Increment Fund	673,693	603,155	70,538

The above overages were considered by the City’s management to be the result of necessary expenditures critical to the operations and were approved by the Council.

NOTE 2 UNBUDGETED MAJOR SPECIAL REVENUE FUND

The City has not adopted a budget for the Hospital Special Revenue Fund or Tax Increment Financing Fund. Thus, there is no budgetary comparison schedule included in the required supplementary information.

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SUPPLEMENTARY INFORMATION

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013**

	General	Arena	Hospital	TIF	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes								
Property Taxes	\$ 1,088,219	\$ 50,224	\$ -	\$ -	\$ -	\$ 331,731	\$ 128,494	\$ 1,598,668
Tax Increments	-	-	-	888,059	-	-	-	888,059
Special Assessments	790	-	-	-	-	212,335	-	213,125
Total Taxes	1,089,009	50,224	-	888,059	-	544,066	128,494	2,699,852
Licenses and Permits								
Licenses								
Beer, Liquor and Cigarettes	25,950	-	-	-	-	-	-	25,950
Cable Franchise Fee	41,737	-	-	-	-	-	-	41,737
Other	55,913	-	-	-	-	-	-	55,913
Building Permits	3,100	-	-	-	-	-	-	3,100
Total Licenses and Permits	126,700	-	-	-	-	-	-	126,700
Intergovernmental Revenues								
Federal Grants								
Other Grants	-	-	-	-	95,431	-	-	95,431
State Aids								
Local Governmental Aid	966,004	-	-	-	-	-	-	966,004
Fire State Aid	-	-	-	-	-	-	44,928	44,928
Police State Aid	48,715	-	-	-	-	-	-	48,715
Other Grants	-	-	-	-	-	-	13,484	13,484
PERA Aid	6,283	-	-	-	-	-	-	6,283
Total Intergovernmental Revenues	1,021,002	-	-	-	95,431	-	58,412	1,174,845
Charges for Services								
Special Police Services	1,555	-	-	-	-	-	-	1,555
Fire Contracts	-	-	-	-	-	-	182,801	182,801
Ambulance Service	-	-	-	-	-	-	378,412	378,412
Arena Rentals and Charges	-	61,798	-	-	-	-	-	61,798
Planning and Zoning Charges	62,047	-	-	-	-	-	158,701	220,748
County Highway Maintenance	6,649	-	-	-	-	-	-	6,649
Campground Charges	99,836	-	-	-	-	-	-	99,836
Rent	10,000	-	480,000	-	-	-	35,524	525,524
Other	51,773	-	-	-	-	-	84,701	136,474
Total Charges for Services	231,860	61,798	480,000	-	-	-	840,139	1,613,797
Fines and Forfeits								
	45,726	-	-	-	-	-	-	45,726
Other Revenues								
Interest	12,397	370	210,421	6,240	2,951	7,962	6,067	246,408
Donations/Contributions	1,361	-	-	-	-	-	52,196	53,557
Refunds and Reimbursements	19,700	-	-	-	-	-	8,548	28,248
Other	244,701	-	-	-	14,090	497,678	50,153	806,622
Total Other Revenues	278,159	370	210,421	6,240	17,041	505,640	116,964	1,134,835
Total Revenues	2,792,456	112,392	690,421	894,299	112,472	1,049,706	1,144,009	6,795,755

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013**

	General	Arena	Hospital	TIF	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
EXPENDITURES								
General Government								
Mayor and Council	\$ 61,585	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,585
Administration	334,223	-	-	-	-	-	-	334,223
Assessor	23,469	-	-	-	-	-	-	23,469
Finance	22,255	-	-	-	-	-	-	22,255
Legal	28,690	-	-	-	-	-	-	28,690
Planning and Zoning	128,773	-	-	-	-	-	-	128,773
Buildings and Property	54,605	-	-	-	-	-	-	54,605
Other General Government	63,029	-	-	-	-	-	24,278	87,307
Capital Outlay	17,812	-	-	-	-	-	-	17,812
Total General Government	734,441	-	-	-	-	-	24,278	758,719
Public Safety								
Police	708,446	-	-	-	-	-	342	708,788
Fire Department	155,067	-	-	-	-	-	141,222	296,289
Ambulance	923	-	450,100	-	-	-	258,420	709,443
Animal Control	160	-	-	-	-	-	-	160
Capital Outlay	11,240	-	-	-	-	-	18,841	30,081
Total Public Safety	875,836	-	450,100	-	-	-	418,825	1,744,761
Public Works								
Highways, Streets and Alleys	425,278	-	-	-	124,588	-	28,469	578,335
Snow and Ice Control	11,309	-	-	-	-	-	-	11,309
Street Lighting	63,753	-	-	-	-	-	-	63,753
Campground	40,527	-	-	-	-	-	-	40,527
Other	29,309	-	-	-	-	-	-	29,309
Capital Outlay	271,813	-	-	-	813,856	-	-	1,085,669
Total Public Works	841,989	-	-	-	938,444	-	28,469	1,808,902
Culture and Recreation								
Arena Activities	-	60,427	-	-	-	-	-	60,427
Parks	271,430	-	-	-	-	-	-	271,430
Other	7,836	-	-	-	-	-	29,960	37,796
Total Culture and Recreation	279,266	60,427	-	-	-	-	29,960	369,653
Economic Development								
Other Charges	-	-	-	220,606	-	-	26,485	247,091
Airport								
Other	-	-	-	-	-	-	112,503	112,503
Debt Service								
Principal	14,729	-	-	-	-	999,900	24,727	1,039,356
Interest and Fiscal Charges	-	-	-	-	-	648,234	2,976	651,210
Total Debt Service	14,729	-	-	-	-	1,648,134	27,703	1,690,566
Total Expenditures	2,746,261	60,427	450,100	220,606	938,444	1,648,134	668,223	6,732,195

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**CITY OF SAUK CENTRE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES (CONTINUED)
 GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2013**

	General	Arena	Hospital	TIF	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 46,195	\$ 51,965	\$ 240,321	\$ 673,693	\$ (825,972)	\$ (598,428)	\$ 475,786	\$ 63,560
OTHER FINANCING SOURCES (USES)								
Transfers From:								
Governmental Funds	26,480	-	-	-	15,000	503,375	-	544,855
Transfers To:								
Governmental Funds	-	-	(208)	(301,243)	-	-	(243,404)	(544,855)
Proceeds from Bonds and Leases	25,552	-	-	-	-	-	-	25,552
Insurance Proceeds	67,448	-	-	-	-	-	72,555	140,003
Total Other Financing Sources/(Uses)	<u>119,480</u>	<u>-</u>	<u>(208)</u>	<u>(301,243)</u>	<u>15,000</u>	<u>503,375</u>	<u>(170,849)</u>	<u>165,555</u>
NET CHANGE IN FUND BALANCES	165,675	51,965	240,113	372,450	(810,972)	(95,053)	304,937	229,115
Fund Balances (Deficit) - Beginning of Year	<u>1,469,383</u>	<u>61,508</u>	<u>2,390,651</u>	<u>1,068,089</u>	<u>1,375,165</u>	<u>2,254,865</u>	<u>1,122,806</u>	<u>9,742,467</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 1,635,058</u>	<u>\$ 113,473</u>	<u>\$ 2,630,764</u>	<u>\$ 1,440,539</u>	<u>\$ 564,193</u>	<u>\$ 2,159,812</u>	<u>\$ 1,427,743</u>	<u>\$ 9,971,582</u>

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	211	224	225	230	240	226
	Library	Fire Department Equipment	Area Fire Service	Airport	Ambulance	Sauk Centre Economic Development Authority
ASSETS						
Cash and Investments	\$ 55,730	\$ 107,556	\$ 320,374	\$ 134,315	\$ 297,067	\$ 22,202
Accounts Receivable	-	-	2,878	6,519	79,239	-
Loans Receivable	-	-	-	-	-	-
Due from Other Governments	358	-	347	401	-	291
Total Assets	<u>\$ 56,088</u>	<u>\$ 107,556</u>	<u>\$ 323,599</u>	<u>\$ 141,235</u>	<u>\$ 376,306</u>	<u>\$ 22,493</u>
LIABILITIES						
Salaries/Benefits Payable	\$ 100	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts and Contracts Payable	493	-	8,229	-	6,923	-
Unearned Revenue	-	-	-	720	-	-
Total Liabilities	<u>593</u>	<u>-</u>	<u>8,229</u>	<u>720</u>	<u>6,923</u>	<u>-</u>
FUND BALANCES						
Restricted	-	-	-	-	-	-
Committed	40,353	50,422	50,327	35,215	166,259	-
Assigned	15,142	57,134	265,043	105,300	203,124	22,493
Total Fund Balances	<u>55,495</u>	<u>107,556</u>	<u>315,370</u>	<u>140,515</u>	<u>369,383</u>	<u>22,493</u>
Total Liabilities and Fund Balances	<u>\$ 56,088</u>	<u>\$ 107,556</u>	<u>\$ 323,599</u>	<u>\$ 141,235</u>	<u>\$ 376,306</u>	<u>\$ 22,493</u>

227	228	229	260	214	280	
Economic Development Revolving Loan	Park Dedication	Siren Dedication	Senior Center	Police Forfeiture	Storm Water Utility	Total Nonmajor Special Revenue
\$ 231,174	\$ 44,417	\$ 11,469	\$ 35,597	\$ 29,037	\$ 65,617	\$ 1,354,555
-	-	-	-	-	-	88,636
65,080	-	-	-	-	-	65,080
-	-	-	290	-	-	1,687
<u>\$ 296,254</u>	<u>\$ 44,417</u>	<u>\$ 11,469</u>	<u>\$ 35,887</u>	<u>\$ 29,037</u>	<u>\$ 65,617</u>	<u>\$ 1,509,958</u>
\$ -	\$ -	\$ -	\$ 670	\$ -	\$ -	\$ 770
-	-	-	-	-	-	15,645
65,080	-	-	-	-	-	65,800
<u>65,080</u>	<u>-</u>	<u>-</u>	<u>670</u>	<u>-</u>	<u>-</u>	<u>82,215</u>
231,174	44,417	11,469	800	29,037	-	316,897
-	-	-	-	-	65,617	408,193
-	-	-	34,417	-	-	702,653
<u>231,174</u>	<u>44,417</u>	<u>11,469</u>	<u>35,217</u>	<u>29,037</u>	<u>65,617</u>	<u>1,427,743</u>
<u>\$ 296,254</u>	<u>\$ 44,417</u>	<u>\$ 11,469</u>	<u>\$ 35,887</u>	<u>\$ 29,037</u>	<u>\$ 65,617</u>	<u>\$ 1,509,958</u>

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

	211	224	225	230	240	226
	Library	Fire Department Equipment	Area Fire Service	Airport	Ambulance	Sauk Centre Economic Development Authority
REVENUES						
Taxes						
Property Taxes	\$ 27,274	\$ -	\$ 27,470	\$ 30,334	\$ -	\$ 20,421
Intergovernmental Revenues						
State Aids						
Fire State Aid	-	-	44,928	-	-	-
Other Grants	-	-	-	13,184	-	-
Total Intergovernmental Revenues	-	-	44,928	13,184	-	-
Charges for Services						
Fire Contracts	-	-	182,801	-	-	-
Ambulance Service	-	-	-	-	378,412	-
Planning and Zoning Charges	-	-	-	-	-	-
Rent	-	-	-	28,417	-	-
Other	-	-	-	78,236	6,465	-
Total Charges for Services	-	-	182,801	106,653	384,877	-
Other Revenues						
Interest	188	396	1,254	513	1,248	138
Donations/Contributions	100	41,200	50	-	4,680	-
Refunds and Reimbursements	-	-	2,454	2,368	3,726	-
Other	124	4,528	18,779	1,012	35	-
Total Other Revenues	412	46,124	22,537	3,893	9,689	138
Total Revenues	27,686	46,124	277,736	154,064	394,566	20,559
EXPENDITURES						
General Government						
Other General Government	24,278	-	-	-	-	-
Public Safety						
Police	-	-	-	-	-	-
Fire Department	-	28,062	113,160	-	-	-
Ambulance	-	-	-	-	258,420	-
Capital Outlay	-	10,528	124	-	-	-
Total Public Safety	-	38,590	113,284	-	258,420	-
Public Works						

227	228	229	260	214	280	
Economic Development Revolving Loan	Park Dedication	Siren Dedication	Senior Center	Police Forfeiture	Storm Water Utility	Total Nonmajor Special Revenue
\$ -	\$ -	\$ -	\$ 22,995	\$ -	\$ -	\$ 128,494
-	-	-	-	-	-	44,928
-	-	-	300	-	-	13,484
-	-	-	300	-	-	58,412
-	-	-	-	-	-	182,801
-	-	-	-	-	-	378,412
-	-	-	-	-	158,701	158,701
-	-	-	7,107	-	-	35,524
-	-	-	-	-	-	84,701
-	-	-	7,107	-	158,701	840,139
1,150	229	59	139	114	639	6,067
-	-	-	6,166	-	-	52,196
-	-	-	-	-	-	8,548
14,783	-	-	300	10,592	-	50,153
15,933	229	59	6,605	10,706	639	116,964
15,933	229	59	37,007	10,706	159,340	1,144,009
-	-	-	-	-	-	24,278
-	-	-	-	342	-	342
-	-	-	-	-	-	141,222
-	-	-	-	-	-	258,420
-	-	-	-	8,189	-	18,841
-	-	-	-	8,531	-	418,825

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013**

	211	224	225	230	240	226
	Library	Fire Department Equipment	Area Fire Service	Airport	Ambulance	Sauk Centre Economic Development Authority
EXPENDITURES (CONTINUED)						
Culture and Recreation						
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Economic Development						
Other Charges	-	-	-	-	-	26,485
Airport						
Other	-	-	-	112,503	-	-
Debt Service						
Principal	-	-	24,727	-	-	-
Interest and Fiscal Charges	-	-	2,976	-	-	-
Total Debt Service	-	-	27,703	-	-	-
Total Expenditures	24,278	38,590	140,987	112,503	258,420	26,485
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,408	7,534	136,749	41,561	136,146	(5,926)
OTHER FINANCING SOURCES (USES)						
Transfers To:						
Governmental Funds	-	-	(64,891)	(53,313)	-	-
Insurance Proceeds	18,963	-	-	53,592	-	-
Total Other Financing Sources (Uses)	18,963	-	(64,891)	279	-	-
NET CHANGE IN FUND BALANCES	22,371	7,534	71,858	41,840	136,146	(5,926)
Fund Balances - Beginning of Year	33,124	100,022	243,512	98,675	233,237	28,419
FUND BALANCES - END OF YEAR	<u>\$ 55,495</u>	<u>\$ 107,556</u>	<u>\$ 315,370</u>	<u>\$ 140,515</u>	<u>\$ 369,383</u>	<u>\$ 22,493</u>

227	228	229	260	214	280	
Economic Development Revolving Loan	Park Dedication	Siren Dedication	Senior Center	Police Forfeiture	Storm Water Utility	Total Nonmajor Special Revenue
\$ -	\$ -	\$ -	\$ 29,960	\$ -	\$ -	\$ 29,960
-	-	-	-	-	-	26,485
-	-	-	-	-	-	112,503
-	-	-	-	-	-	24,727
-	-	-	-	-	-	2,976
-	-	-	-	-	-	27,703
-	-	-	29,960	8,531	28,469	668,223
15,933	229	59	7,047	2,175	130,871	475,786
-	-	-	-	-	(125,200)	(243,404)
-	-	-	-	-	-	72,555
-	-	-	-	-	(125,200)	(170,849)
15,933	229	59	7,047	2,175	5,671	304,937
215,241	44,188	11,410	28,170	26,862	59,946	1,122,806
\$ 231,174	\$ 44,417	\$ 11,469	\$ 35,217	\$ 29,037	\$ 65,617	\$ 1,427,743

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING BALANCE SHEET
TAX INCREMENT FINANCING FUND
DECEMBER 31, 2013**

	255	250	251	252	254	257	259	
	Tax Increment Financing District No. 5	Tax Increment Financing District No. 1	Tax Increment Financing District No. 1 Expanded	Tax Increment Financing District No. 1-11	Tax Increment Housing District 4	Tax Increment Financing Roach Center Crossing	East River Heights Housing	Total TIF Funds
ASSETS								
Cash and Investments	\$ -	\$ 1,021,862	\$ 291,482	\$ -	\$ 41,474	\$ 53,561	\$ 21,404	\$ 1,429,783
Taxes Receivable - Delinquent	-	42,897	-	-	-	-	-	42,897
Due from Other Governments	-	12,949	177	-	-	-	-	13,126
Total Assets	<u>\$ -</u>	<u>\$ 1,077,708</u>	<u>\$ 291,659</u>	<u>\$ -</u>	<u>\$ 41,474</u>	<u>\$ 53,561</u>	<u>\$ 21,404</u>	<u>\$ 1,485,806</u>
LIABILITIES								
Due to Other Funds	\$ -	\$ -	\$ -	\$ 2,370	\$ -	\$ -	\$ -	\$ 2,370
DEFERRED INFLOWS OF RESOURCES								
Unavailable Taxes	-	42,897	-	-	-	-	-	42,897
FUND BALANCES (DEFICITS)								
Restricted	-	1,034,811	291,659	-	41,474	53,561	21,404	1,442,909
Unassigned	-	-	-	(2,370)	-	-	-	(2,370)
Total Fund Balances	<u>-</u>	<u>1,034,811</u>	<u>291,659</u>	<u>(2,370)</u>	<u>41,474</u>	<u>53,561</u>	<u>21,404</u>	<u>1,440,539</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ -</u>	<u>\$ 1,077,708</u>	<u>\$ 291,659</u>	<u>\$ -</u>	<u>\$ 41,474</u>	<u>\$ 53,561</u>	<u>\$ 21,404</u>	<u>\$ 1,485,806</u>

**CITY OF SAUK CENTRE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 TAX INCREMENT FINANCING FUND
 YEAR ENDED DECEMBER 31, 2013**

	255	250	251	252	254	257	259	
	Tax Increment Financing District No. 5	Tax Increment Financing District No. 1	Tax Increment Financing District No. 1 Expanded	Tax Increment Financing District No. 1-11	Tax Increment Housing District 4	Tax Increment Financing Roach Center Crossing	East River Heights Housing	Total TIF Funds
REVENUES								
Taxes								
Tax Increments	\$ 67,013	\$ 696,599	\$ 32,476	\$ 6,751	\$ 23,843	\$ 33,863	\$ 27,514	\$ 888,059
Other Revenues								
Interest	-	4,340	1,383	5	214	167	131	6,240
Total Revenues	67,013	700,939	33,859	6,756	24,057	34,030	27,645	894,299
EXPENDITURES								
Economic Development								
Other Charges	119,348	46,448	50	6,893	18,100	29,667	100	220,606
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(52,335)	654,491	33,809	(137)	5,957	4,363	27,545	673,693
OTHER FINANCING SOURCES (USES)								
Transfers To:								
Governmental Funds	(26,480)	(250,000)	-	-	-	-	(24,763)	(301,243)
NET CHANGE IN FUND BALANCES	(78,815)	404,491	33,809	(137)	5,957	4,363	2,782	372,450
Fund Balances (Deficits) - Beginning of Year	78,815	630,320	257,850	(2,233)	35,517	49,198	18,622	1,068,089
FUND BALANCES (DEFICITS) - END OF YEAR	\$ -	\$ 1,034,811	\$ 291,659	\$ (2,370)	\$ 41,474	\$ 53,561	\$ 21,404	\$ 1,440,539

**CITY OF SAUK CENTRE, MINNESOTA
 COMBINING BALANCE SHEET
 DEBT SERVICE FUND
 DECEMBER 31, 2013**

	314	316	318	326	327
	Increment Revenue Bonds of 1998 Series C	G.O. Increment Bonds of 1999B	Airport Revenue Bonds of 2000A	G.O. Improvement Bonds of 2006A	G.O. Improvement Bonds of 2007B
ASSETS					
Cash and Investments	\$ 1,705	\$ 114,147	\$ -	\$ 543,293	\$ 126,417
Special Assessments Receivable	-	17,303	-	-	87,113
Due from Other Governments	-	33	-	4	-
Total Assets	<u>\$ 1,705</u>	<u>\$ 131,483</u>	<u>\$ -</u>	<u>\$ 543,297</u>	<u>\$ 213,530</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Special Assessments	\$ -	\$ 17,303	\$ -	\$ -	\$ 87,113
FUND BALANCES					
Restricted for Debt Service	<u>1,705</u>	<u>114,180</u>	<u>-</u>	<u>543,297</u>	<u>126,417</u>
Total Deferred Inflows of Resources and Fund Balances	<u>\$ 1,705</u>	<u>\$ 131,483</u>	<u>\$ -</u>	<u>\$ 543,297</u>	<u>\$ 213,530</u>

328	329	330	331	332	
2007A G.O. City Hall Bond	G.O. Improvement Bonds of 2008A	G.O. Refunding Bonds of 2009A	G.O. Improvement Bonds of 2012A	G.O. Hospital Refunding Bonds of 2005C	Total Debt Service
\$ 142,625	\$ 294,627	\$ 698,662	\$ 232,124	\$ -	\$ 2,153,600
-	220,083	253,404	211,523	-	789,426
1,786	1,696	1,439	1,254	-	6,212
<u>\$ 144,411</u>	<u>\$ 516,406</u>	<u>\$ 953,505</u>	<u>\$ 444,901</u>	<u>\$ -</u>	<u>\$ 2,949,238</u>
\$ -	\$ 220,083	\$ 253,404	\$ 211,523	\$ -	\$ 789,426
144,411	296,323	700,101	233,378	-	2,159,812
<u>\$ 144,411</u>	<u>\$ 516,406</u>	<u>\$ 953,505</u>	<u>\$ 444,901</u>	<u>\$ -</u>	<u>\$ 2,949,238</u>

CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2013

	314	316	318	326	327
	Increment Revenue Bonds of 1998 Series C	G.O. Increment Bonds of 1999B	Airport Revenue Bonds of 2000A	G.O. Improvement Bonds of 2006A	G.O. Improvement Bonds of 2007B
REVENUES					
Taxes					
Property Taxes	\$ -	\$ 878	\$ -	\$ 63	\$ -
Special Assessments	-	24,704	-	-	35,486
Total Taxes	-	25,582	-	63	35,486
Intergovernmental Revenues					
State Aids					
Other Revenues					
Interest	42	531	-	1,718	525
Other	-	-	-	-	-
Total Other Revenues	42	531	-	1,718	525
Total Revenues	42	26,113	-	1,781	36,011
EXPENDITURES					
Debt Service					
Principal	19,900	65,000	30,000	195,000	40,000
Interest and Fiscal Charges	967	7,178	8,313	25,413	8,999
Total Expenditures	20,867	72,178	38,313	220,413	48,999
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	(20,825)	(46,065)	(38,313)	(218,632)	(12,988)
OTHER FINANCING SOURCES (USES)					
Transfers From:					
Governmental Funds	-	-	38,313	250,000	-
Total Other Financing Sources (Uses)	-	-	38,313	250,000	-
NET CHANGE IN FUND BALANCES					
	(20,825)	(46,065)	-	31,368	(12,988)
Fund Balances - Beginning of Year	22,530	160,245	-	511,929	139,405
FUND BALANCES - END OF YEAR	\$ 1,705	\$ 114,180	\$ -	\$ 543,297	\$ 126,417

328	329	330	331	332	
2007A G.O. City Hall Bond	G.O. Improvement Bonds of 2008A	G.O. Refunding Bonds of 2009A	G.O. Improvement Bonds of 2012A	G.O. Hospital Refunding Bonds of 2005C	Total Debt Service
\$ 136,023	\$ 85,441	\$ 6,456	\$ 102,870	\$ -	\$ 331,731
-	36,784	86,942	28,419	-	212,335
136,023	122,225	93,398	131,289	-	544,066
372	1,185	3,359	230	-	7,962
-	-	-	-	497,678	497,678
372	1,185	3,359	230	497,678	505,640
136,395	123,410	96,757	131,519	497,678	1,049,706
115,000	70,000	390,000	-	75,000	999,900
76,063	45,544	15,512	37,359	422,886	648,234
191,063	115,544	405,512	37,359	497,886	1,648,134
(54,668)	7,866	(308,755)	94,160	(208)	(598,428)
64,891	-	24,763	125,200	208	503,375
64,891	-	24,763	125,200	208	503,375
10,223	7,866	(283,992)	219,360	-	(95,053)
134,188	288,457	984,093	14,018	-	2,254,865
\$ 144,411	\$ 296,323	\$ 700,101	\$ 233,378	\$ -	\$ 2,159,812

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUND
DECEMBER 31, 2013**

	412	439	409	
	EDA Improvement Projects	4th Street Storm Water CIP Project	Airport 2012 CIP	Total Capital Projects
ASSETS				
Cash and Investments	\$ 182,478	\$ 380,149	\$ -	\$ 562,627
Accounts Receivable	-	-	20,913	20,913
Loans Receivable	117,618	-	-	117,618
Total Assets	\$ 300,096	\$ 380,149	\$ 20,913	\$ 701,158
LIABILITIES				
Accounts and Contracts Payable	\$ -	\$ 2,992	\$ -	\$ 2,992
Due to Other Funds	-	-	16,355	16,355
Unearned Revenue	117,618	-	-	117,618
Total Liabilities	117,618	2,992	16,355	136,965
FUND BALANCES (DEFICITS)				
Restricted for Capital Projects	182,478	377,157	4,558	564,193
Total Liabilities and Fund Balances	\$ 300,096	\$ 380,149	\$ 20,913	\$ 701,158

CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
CAPITAL PROJECT FUND
YEAR ENDED DECEMBER 31, 2013

	412	439	409	
	EDA Improvement Projects	4th Street Storm Water CIP Project	Airport 2012 CIP	Total Capital Projects
REVENUES				
Intergovernmental Revenues				
Other Grants	\$ -	\$ -	\$ 95,431	\$ 95,431
Other Revenues				
Interest	871	2,253	(173)	2,951
Other	14,090	-	-	14,090
Total Other Revenues	<u>14,961</u>	<u>2,253</u>	<u>(173)</u>	<u>17,041</u>
Total Revenues	14,961	2,253	95,258	112,472
EXPENDITURES				
General Government				
Public Works				
Highways, Streets and Alleys	-	124,588	-	124,588
Capital Outlay	-	721,566	92,290	813,856
Total Public Works	<u>-</u>	<u>846,154</u>	<u>92,290</u>	<u>938,444</u>
Airport				
Total Expenditures	<u>-</u>	<u>846,154</u>	<u>92,290</u>	<u>938,444</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	14,961	(843,901)	2,968	(825,972)
OTHER FINANCING SOURCES (USES)				
Transfers From:				
Governmental Funds	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>15,000</u>
NET CHANGE IN FUND BALANCES	14,961	(843,901)	17,968	(810,972)
Fund Balances (Deficits) - Beginning of Year	<u>167,517</u>	<u>1,221,058</u>	<u>(13,410)</u>	<u>1,375,165</u>
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ 182,478</u>	<u>\$ 377,157</u>	<u>\$ 4,558</u>	<u>\$ 564,193</u>

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OTHER REPORTS SECTION



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

Members of the City Council
City of Sauk Centre
Sauk Centre, 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, the discretely presented component units, each major fund, and the aggregate remaining fund information, of the City of Sauk Centre, Minnesota (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Sauk Centre, Minnesota's basic financial statements and have issued our report thereon dated April 17, 2014. Our report includes a reference to other auditors who audited the financial statements of the Sauk Centre Housing and Redevelopment Authority (HRA), whose year end is September 30, 2013, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Internal Control Over Financial Reporting (Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2013-001 and 2013-002, as described in the accompanying Schedule of Findings and Recommendations, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 or other matters that are required to be reported under *Government Auditing Standards*.

City's Responses to Findings

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



CliftonLarsonAllen LLP

Alexandria, Minnesota
April 17, 2014

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Members of the City Council
City of Sauk Centre
Sauk Centre, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sauk Centre, Minnesota (the City), as of December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated April 17, 2014. Our report includes a reference to other auditors who audited the financial statements of Sauk Centre Housing and Redevelopment Authority (HRA), as described in our report on the City of Sauk Centre, Minnesota's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are report on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

The City's basic financial statements include the operations of the Sauk Centre Public Utilities Commission (PUC) and Sauk Centre Housing and Redevelopment Authority (HRA). Our audit described below did not include the operations of the PUC and HRA because the component units engaged for their own separate audits in accordance with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for 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's noncompliance with the above-referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Alexandria, Minnesota
April 17, 2014



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**CITY OF SAUK CENTRE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2013**

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

2013-001 LACK OF SEGREGATION OF DUTIES

Condition: The City has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of lack of segregation of duties.

Criteria: Effective internal control provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: Because of the lack of segregation of duties, one individual regularly handles transactions from inception to completion.

Effect: The design of the internal controls over segregation of duties may result in the City's inability to prevent/detect misappropriation of assets.

Recommendation: While we recognize the City's office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the City be aware of this condition.

CORRECTIVE ACTION PLAN

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will continue to look for areas to improve segregation of duties.

Official Responsible for Ensuring CAP:

The City's Administrator is the official responsible for ensuring the corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP is ongoing.

Plan to Monitor Completion of CAP:

The City's Administrator will be monitoring this corrective action plan.

**CITY OF SAUK CENTRE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

**MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:
(CONTINUED)**

2013-002 OVERSIGHT OF THE FINANCIAL REPORTING PROCESS

Condition: As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.

Criteria: The City's management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance applicable accounting and reporting standards.

Cause: The City has a limited number of personnel.

Effect: The design of the controls over the financial reporting process would affect the ability of the City to report their financial data consistently with the assertions of management in the financial statements.

Recommendation: We recommend that the City's management be aware of the accounting and financial reporting standards applicable to the City. Should the City elect to establish the full oversight of the financial statement preparation at an appropriate level, we suggest management establish effective review policies and procedures including but not limited to the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the entries; review the adequacy of financial statement disclosures by completing a disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will continue to utilize the expertise of the audit firm to prepare the financial statements and related footnote disclosures and will review and approve these prior to the issuance of the annual financial statements.

Official Responsible for Ensuring CAP:

The City's Administrator is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP is ongoing.

Plan to Monitor Completion of CAP:

The City's Administrator will be monitoring this corrective action plan.