

**CITY OF SAUK CENTRE, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2016**





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## **INTRODUCTORY SECTION**





**CITY OF SAUK CENTRE, MINNESOTA  
ELECTED OFFICIALS AND ADMINISTRATION  
DECEMBER 31, 2016**

Elected Officials	Position	Term Expires
<b>CITY COUNCIL</b>		
Warren Stone	Mayor	December 31, 2018
David Thomas	Council Member	December 31, 2016
Keith Johnson	Council Member	December 31, 2018
Heidi Leach	Council Member	December 31, 2018
Diane Kelly	Council Member	December 31, 2016
<b>CITY OFFICIALS</b>		
Vicki Willer	City Administrator	Indefinite
Jacquelyn Kirckof	Accounting Specialist	Indefinite
Bryon Friedrichs	Chief of Police	Indefinite
John Egan	Fire Chief	Indefinite
<b>PUBLIC UTILITIES COMMISSION - APPOINTED</b>		
Dennis Rykken	Chairperson	December 31, 2016
David Thomas	Vice-Chairperson	December 31, 2016
Mark Roberg	Commissioner	December 31, 2018
Ted Spanier	Commissioner	December 31, 2017
Michael Bick	Commissioner	December 31, 2017
<b>HOUSING AND REDEVELOPMENT AUTHORITY BOARD - APPOINTED</b>		
Don Leonard	Board President	March 31, 2018
Robert Polipnick	Board Vice President	March 31, 2019
Mike Felling	Board Member	March 31, 2021
Diane Leukam	Board Member	March 31, 2020
Mikey Welle	Board Member	March 31, 2022
David Thomas	Council Representative	Indefinite

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## **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, 2016, 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.

### ***Auditors' 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, 2016, which represents 4%, 6%, and 3%, 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 City'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 City'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.

***Opinion***

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, as of December 31, 2016, 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***

For the year ended December 31, 2016, the Sauk Centre Public Utility restated beginning net position to correct an error in the previously issued financial statements (see Note 20). Our auditors' opinion was not modified with respect to the restatement.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedule of funding progress, schedule of the proportionate share of the net pension liability, the schedule of contributions, the fire relief association schedule of changes in the net pension asset and related ratios, and budgetary comparison schedules, as listed on the table of contents, 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.

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

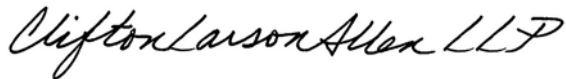
***Other Matters (Continued)***

*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 6, 2017, 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 6, 2017

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## **BASIC FINANCIAL STATEMENTS**



**CITY OF SAUK CENTRE, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

	Component Units		
	Governmental Activities	Sauk Centre Public Utilities	
		Commission	Sauk Centre HRA
<b>ASSETS</b>			
Cash and Investments	\$ 8,767,491	\$ 873,730	\$ 161,816
Designated Cash and Investments	-	5,823,457	-
Due from Other Governments	18,269	-	-
Accounts Receivable	398,818	1,302,938	-
Notes Receivable	6,732,992	-	-
Taxes Receivable - Delinquent	74,249	-	-
Special Assessments Receivable	555,734	-	-
Due from Component Unit	44,931	-	-
Due from Primary Government	-	16,000	-
Interest Receivable	23,054	30,952	-
Inventories	-	294,740	-
Prepaid Expenses	-	47,050	7,574
Land Held for Resale	1,470,140	-	-
Land Held for Investment	-	60,000	-
Net Pension Asset	20,809	-	-
Capital Assets Not Being Depreciated			
Land	4,097,473	146,633	95,745
Construction in Process	810,993	-	-
Capital Assets Being Depreciated			
Land Improvements	2,355,877	-	-
Buildings and Improvements	24,937,226	1,445,779	1,979,252
Vehicles, Machinery and Equipment	8,801,096	758,031	57,247
Infrastructure	13,515,528	25,435,139	-
Less: Accumulated Depreciation	(25,853,969)	(13,117,856)	(1,243,546)
Total Assets	46,770,711	23,116,593	1,058,088
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related	1,680,076	464,722	-
<b>LIABILITIES</b>			
Salaries/Benefits Payable	74,310	130,481	4,805
Accounts and Contracts Payable	75,502	516,941	1,025
Due to Primary Government	-	44,931	-
Due to Other Governments	-	-	9,186
Tenant Security Deposits	-	-	9,047
Unearned Revenue	10,781	-	460
Other Liabilities	-	-	63,681
Accrued Interest	122,498	41,519	-
Net Pension Liability	2,732,949	1,120,492	-
OPEB Liability	199,159	396,797	-
Long-Term Obligations			
Due Within One Year	994,111	487,000	-
Due in More than One Year	13,842,668	5,233,000	-
Total Liabilities	18,051,978	7,971,161	88,204
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Related	331,232	146,194	-
<b>NET POSITION</b>			
Net Investment in Capital Assets	13,980,531	8,947,726	888,698
Restricted For:			
Debt Service	2,678,128	-	-
Capital Outlay	552,310	-	-
Economic Development	1,992,516	-	-
Hospital Operations	2,323,091	-	-
Other Purposes	19,136	-	-
Unassigned	8,521,865	6,516,234	81,186
Total Net Position	<u>\$ 30,067,577</u>	<u>\$ 15,463,960</u>	<u>\$ 969,884</u>

See accompanying Notes to Financial Statements.

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**CITY OF SAUK CENTRE, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016**

	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
<b>PRIMARY GOVERNMENT</b>							
<b>GOVERNMENTAL ACTIVITIES</b>							
General Government	\$ 987,474	\$ 336,964	\$ -	\$ -	\$ (650,510)	\$ -	\$ -
Public Safety	2,740,806	925,556	4,266	50,000	(1,760,984)	-	-
Public Works	1,021,480	213,242	-	251,046	(557,192)	-	-
Culture and Recreation	562,004	137,909	21,185	-	(402,910)	-	-
Economic Development	177,982	73,492	-	-	(104,490)	-	-
Airport	89,850	71,361	-	298,506	280,017	-	-
Debt Service	340,302	617,155	-	-	276,853	-	-
Total Governmental Activities	<u>5,919,898</u>	<u>2,375,679</u>	<u>25,451</u>	<u>599,552</u>	<u>(2,919,216)</u>	<u>-</u>	<u>-</u>
<b>COMPONENT UNITS</b>							
Housing Activity	276,901	129,547	113,686	-	-	-	(33,668)
Public Utilities Commission	6,727,272	7,340,985	42,390	21,966	-	678,069	-
Total Component Units	<u>\$ 7,004,173</u>	<u>\$ 7,470,532</u>	<u>\$ 156,076</u>	<u>\$ 21,966</u>	<u>-</u>	<u>678,069</u>	<u>(33,668)</u>
<b>GENERAL REVENUES</b>							
Property Taxes					1,593,263	-	-
Tax Increments Received					37,543	-	-
Intergovernmental Revenues					1,143,911	-	-
Interest and Investments Earnings					335,552	61,353	506
Miscellaneous Revenues					157,467	22,601	-
Total General Revenues					<u>3,267,736</u>	<u>83,954</u>	<u>506</u>
<b>CHANGES IN NET POSITION</b>					348,520	762,023	(33,162)
Net Position - Beginning of Year					29,719,057	14,065,422	1,003,046
Restatement					-	636,515	-
Net Position - Beginning of Year, as Restated					<u>29,719,057</u>	<u>14,701,937</u>	<u>1,003,046</u>
<b>NET POSITION - END OF YEAR</b>					<u>\$ 30,067,577</u>	<u>\$ 15,463,960</u>	<u>\$ 969,884</u>

See accompanying Notes to Financial Statements.

**CITY OF SAUK CENTRE, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	Special Revenue			
	General	Arena	Hospital	Tax Increment Financing
<b>ASSETS</b>				
Cash and Investments	\$ 1,592,610	\$ 86,225	\$ 2,766,711	\$ 254,246
Taxes Receivable - Delinquent	74,249	-	-	-
Special Assessments Receivable	195,526	-	-	-
Accounts Receivable	113,894	14,415	117,827	-
Loans Receivable	-	-	-	-
Notes Receivable	-	-	6,732,992	-
Interest Receivable	4,880	101	8,879	298
Land Held for Resale	-	-	-	1,428,604
Due from Other Governments	5,887	3	-	8,565
Due from Component Unit	-	-	-	-
Advances to Other Funds	204,013	-	-	-
Total Assets	<u>\$ 2,191,059</u>	<u>\$ 100,744</u>	<u>\$ 9,626,409</u>	<u>\$ 1,691,713</u>
<b>LIABILITIES</b>				
Salaries/Benefits Payable	\$ 59,153	\$ 1,169	\$ -	\$ -
Accounts and Contracts Payable	37,121	3,836	-	10,213
Advances from Other Funds	-	-	-	-
Unearned Revenue	7,451	585	-	-
Total Liabilities	<u>103,725</u>	<u>5,590</u>	<u>-</u>	<u>10,213</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Taxes	74,249	-	-	-
Unavailable Loans Receivable	-	-	-	-
Unavailable Notes Receivable	-	-	6,732,992	-
Unavailable Grant Receivable	-	-	-	-
Unavailable Special Assessments	195,526	-	-	-
Total Deferred Inflows of Resources	<u>269,775</u>	<u>-</u>	<u>6,732,992</u>	<u>-</u>
<b>FUND BALANCES</b>				
Nonspendable	204,013	-	-	-
Restricted	56,315	-	2,323,091	1,681,500
Committed	465,458	95,154	-	-
Assigned	-	-	570,326	-
Unassigned	1,091,773	-	-	-
Total Fund Balances	<u>1,817,559</u>	<u>95,154</u>	<u>2,893,417</u>	<u>1,681,500</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,191,059</u>	<u>\$ 100,744</u>	<u>\$ 9,626,409</u>	<u>\$ 1,691,713</u>

See accompanying Notes to Financial Statements.

Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 444,579	\$ 2,431,913	\$ 1,191,207	\$ 8,767,491
-	-	-	74,249
-	360,208	-	555,734
22,392	-	97,203	365,731
-	-	33,087	33,087
-	-	-	6,732,992
1,466	5,260	2,170	23,054
41,536	-	-	1,470,140
-	3,245	569	18,269
-	-	44,931	44,931
-	-	-	204,013
<u>\$ 509,973</u>	<u>\$ 2,800,626</u>	<u>\$ 1,369,167</u>	<u>\$ 18,289,691</u>
\$ -	\$ -	\$ 13,988	\$ 74,310
13,978	-	10,354	75,502
-	-	204,013	204,013
-	-	2,745	10,781
<u>13,978</u>	<u>-</u>	<u>231,100</u>	<u>364,606</u>
-	-	-	74,249
-	-	32,581	32,581
-	-	-	6,732,992
8,397	-	-	8,397
-	360,208	-	555,734
<u>8,397</u>	<u>360,208</u>	<u>32,581</u>	<u>7,403,953</u>
-	-	-	204,013
487,598	2,440,418	297,571	7,286,493
-	-	361,825	922,437
-	-	446,090	1,016,416
-	-	-	1,091,773
<u>487,598</u>	<u>2,440,418</u>	<u>1,105,486</u>	<u>10,521,132</u>
<u>\$ 509,973</u>	<u>\$ 2,800,626</u>	<u>\$ 1,369,167</u>	<u>\$ 18,289,691</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, 2016**

**FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 10,521,132

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	54,518,193
Less: Accumulated Depreciation	(25,853,969)

The City's net pension asset and liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:

Net Pension Asset	20,809
Net Pension Liability	(2,732,949)
Deferred Outflows of Resources - Pension Related	1,680,076
Deferred Inflows of Resources - Pension Related	(331,232)

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	(14,836,779)
OPEB Liability	(199,159)
Accrued Interest Payable	(122,498)

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	74,249
Grants Receivable	8,397
Unavailable Special Assessments Receivable	555,734

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.

6,765,573

**NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 30,067,577

**CITY OF SAUK CENTRE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2016**

	Special Revenue			
	General	Arena	Hospital	Tax Increment Financing
<b>REVENUES</b>				
Taxes	\$ 1,100,782	\$ 189	\$ -	\$ -
Tax Increments	-	-	-	35,158
Special Assessments	6,080	-	-	-
Licenses and Permits	324,420	-	-	-
Intergovernmental Revenues	1,242,309	-	-	-
Charges for Services	150,549	70,262	142,097	-
Fines and Forfeits	50,127	-	-	-
Other Revenues	133,010	877	265,198	2,934
Total Revenues	3,007,277	71,328	407,295	38,092
<b>EXPENDITURES</b>				
General Government	795,411	-	-	-
Public Safety	1,001,676	-	142,264	-
Public Works	517,306	-	-	-
Culture and Recreation	380,089	98,278	-	-
Economic Development	-	-	-	161,441
Airport	-	-	-	-
Debt Service				
Principal	9,110	-	-	-
Interest and Fiscal Charges	710	-	-	-
Capital Outlay	148,981	-	-	-
Total Expenditures	2,853,283	98,278	142,264	161,441
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	153,994	(26,950)	265,031	(123,349)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	2,400	-	-	-
Transfers Out	(150,000)	-	-	(3,200)
Payment to Bond Escrow Agent	-	-	-	-
Sale of Assets	55,000	-	-	-
Total Other Financing Sources (Uses)	(92,600)	-	-	(3,200)
<b>NET CHANGE IN FUND BALANCES</b>	61,394	(26,950)	265,031	(126,549)
Fund Balances - Beginning of Year	1,756,165	122,104	2,628,386	1,808,049
<b>FUND BALANCES - END OF YEAR</b>	\$ 1,817,559	\$ 95,154	\$ 2,893,417	\$ 1,681,500

See accompanying Notes to Financial Statements.

Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 408,897	\$ 98,919	\$ 1,608,787
-	-	-	35,158
20,206	89,084	-	115,370
-	-	-	324,420
253,668	-	40,441	1,536,418
-	-	882,726	1,245,634
-	-	8,739	58,866
280,269	642,988	100,386	1,425,662
<u>554,143</u>	<u>1,140,969</u>	<u>1,131,211</u>	<u>6,350,315</u>
-	-	25,331	820,742
-	-	404,160	1,548,100
-	-	3,796	521,102
-	-	36,919	515,286
3,595	-	12,946	177,982
-	-	58,913	58,913
-	900,000	-	909,110
-	319,536	2,747	322,993
859,717	-	476,590	1,485,288
<u>863,312</u>	<u>1,219,536</u>	<u>1,021,402</u>	<u>6,359,516</u>
(309,169)	(78,567)	109,809	(9,201)
165,000	398,087	3,200	568,687
(210,925)	-	(204,562)	(568,687)
-	(2,175,000)	-	(2,175,000)
-	-	-	55,000
<u>(45,925)</u>	<u>(1,776,913)</u>	<u>(201,362)</u>	<u>(2,120,000)</u>
(355,094)	(1,855,480)	(91,553)	(2,129,201)
842,692	4,295,898	1,197,039	12,650,333
<u>\$ 487,598</u>	<u>\$ 2,440,418</u>	<u>\$ 1,105,486</u>	<u>\$ 10,521,132</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, 2016**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (2,129,201)

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	1,485,330
Depreciation Expense	(1,616,507)
Disposal of Assets - Net Book Value	(76,302)

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	904,000
Payment on Refunded Bonds	2,175,000
Amortization of Bond Discount	(4,625)
Amortization of Bond Premium	19,339
Change in Accrued Interest	(32,023)

Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources. (257,049)

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. 5,110

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	(30,076)
Change in Compensated Absences	(14,065)

Delinquent property taxes, notes receivable, 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 \$13,139, notes receivable decreased by \$60,998, grants increased \$8,397 and special assessments decreased by \$14,671. (80,411)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 348,520

See accompanying Notes to Financial Statements.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**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, 2016**

**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, 2016.

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.

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.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

E. Fund Accounting (Continued)

**Governmental Funds (Continued)**

**Arena Special Revenue Fund** – The Arena Special Revenue Fund is used to account for the proceeds of 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 rent and interest and to pay the State Surcharge.

**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 2016, the City's adopted budget was consistent with U.S. generally accepted accounting principles.

The City's financial statements are prepared in accordance with GAAP. 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.



**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

G. Assets, Deferred Outflows of Resources, 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, 2016, the accounts receivable balance has been determined to be collectible and no allowance has been established.

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.

4. Inventories

Inventories are reported at cost using the weighted average method.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

5. Land Held for Resale

The City purchased land with the intent to plat and develop the property for resale for the economic growth of the City.

6. 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% of the General Fund operating expenditures.

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 difference between assets and deferred outflows of resources 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.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

7. 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 any balances remaining by October 15.

Within 30 days after the May settlement, the County Treasurer is required to pay 70% 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.

Within ten business days after November 15, the County Treasurer shall pay to each taxing district, except any school district, 100% 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 2015 which was collected during the year ended December 31, 2016. 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.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

8. Special Assessments

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

9. 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.

10. 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.

11. 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.

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.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

12. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs.

13. Net Pension Liability (Asset)

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

For purposes of measuring the liability (asset), deferred outflows of resources and deferred inflows of resources, and expense associated with the City's requirement to contribute to the Sauk Centre Firefighters Relief Association Plan, information about the Plan's fiduciary net position and additions to/deductions from the Sauk Centre Firefighters Relief Association Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. 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.

15. 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, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

16. 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.

17. Deferred Inflows of Resources

In addition to liabilities, 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 or fund balance that applies to a future period.

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, 2016**

**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, Hospital, 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.

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, 2016:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures Over Appropriations</u>
Hospital Fund	\$ 142,264	\$ 1,000	\$ 141,264
Tax Increment Fund	161,441	30,800	130,641

The above overages were offset with revenues in excess of budget, or available fund balance. 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, 2016**

**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% of the deposits not covered by insurance or bonds.

The City's deposits in excess of the \$250,000 Federal Deposit Insurance Corporation 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, 2016, 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, 2016**

**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, 2016:

Investment	Credit Risk		Concentration	Interest Rate Risk		Carrying Value
	Rating	Agency	Risk % of Portfolio	Maturity Date	Interest Rate	
Minnesota Municipal Money Market Fund						
4M Fund	N/R	N/A	N/A	N/A	N/A	\$ 19,917
4M Plus Fund	N/R	N/A	N/A	N/A	N/A	471
Smith Barney						
Certificate of Deposit	N/R	N/A	N/A	2/18/2020	N/A	101,000
Money Market Fund	N/R	N/A	N/A	N/A	N/A	7,026
Multi-Bank Securities						
Transferable Certificate of Deposit	N/R	N/A	N/A	See Below	Various	3,789,263
Total Investments						<u>\$ 3,917,677</u>
			Less Than 1 Year	1 to 2 Years	3 to 5 Years	Total
Multi-Bank Securities			\$ 249,997	\$ 651,004	\$ 2,888,262	\$ 3,789,263
Deposits					Bank Value	Carrying Value
Checking Accounts					\$ 602,301	\$ 434,390
Savings Accounts					2,663,830	2,663,830
Certificates of Deposit					1,751,594	1,751,594
Total Deposits					<u>\$ 4,849,814</u>	
Total Deposits and Investments - Governmental Funds						<u>\$ 8,767,491</u>

**Fair Value Measurements**

The City uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures.

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Fair Value Measurements (Continued)**

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level III). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statement of net position are categorized based on the inputs to the valuation techniques as follows:

- Level I – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level II – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level III – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

Investments are measured as follows:

	<u>12/31/2016</u>	<u>Fair Value Measurements Using</u>		
		<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
<b>Investments by Fair Value Level</b>				
Certificates of Deposit	\$ 3,890,263	\$ 3,890,263	\$ -	\$ -
Total investments by fair value level	<u>3,890,263</u>	<u>\$ 3,890,263</u>	<u>\$ -</u>	<u>\$ -</u>
 NAV Funds	 20,388			
 <b>Investments Measured at Amortized Cost</b>				
Money Market Funds	<u>7,026</u>			
Total Investments	<u>\$ 3,917,677</u>			

The Minnesota Municipal Money Market Fund Trust is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00. The Pool elects to measure its investments at amortized cost in accordance with accounting statements issued by the Government Accounting Standards Board.

The City reports its investment in the Pool at the NAV per share, the fair value established by the Pool.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

	<u>Sauk Centre Public Utility Commission</u>
Cash on Hand	\$ 600
Cash in Checking	873,130
Designated Current Assets:	
Capital Replacement Deposits	736,617
Operations and Maintenance Deposits	400,000
Designated Noncurrent Assets:	
Capital Replacement Deposits	3,940,043
OPEB Deposits	396,797
Debt Retirement Deposits	<u>350,000</u>
Total Cash and Investments	6,697,187
Less: Noncash Equivalents	<u>(4,686,840)</u>
Total Cash and Investments	<u><u>\$ 2,010,347</u></u>

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

**NOTE 4 NOTES RECEIVABLE**

The City has \$6,732,992 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, 2016**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 is as follows:

<b>GOVERNMENTAL ACTIVITIES</b>	January 1, 2016 Balance	Additions	Disposals	December 31, 2016 Balance
Capital Assets, Not Being Depreciated				
Land	\$ 4,097,473	\$ -	\$ -	\$ 4,097,473
Construction in Progress	1,226,218	810,988	1,226,213	810,993
Total Capital Assets, Not Being Depreciated	<u>5,323,691</u>	<u>810,988</u>	<u>1,226,213</u>	<u>4,908,466</u>
Capital Assets, Being Depreciated				
Land Improvements	2,316,145	39,732	-	2,355,877
Buildings and Improvements	25,072,004	-	134,778	24,937,226
Vehicles, Machinery and Equipment	8,322,021	532,109	53,034	8,801,096
Infrastructure	12,186,814	1,328,714	-	13,515,528
Total Capital Assets, Being Depreciated	<u>47,896,984</u>	<u>1,900,555</u>	<u>187,812</u>	<u>49,609,727</u>
Total Capital Assets	53,220,675	2,711,543	1,414,025	54,518,193
Less: Accumulated Depreciation	<u>(24,348,972)</u>	<u>(1,616,507)</u>	<u>(111,510)</u>	<u>(25,853,969)</u>
Capital Assets, Net	<u>\$ 28,871,703</u>	<u>\$ 1,095,036</u>	<u>\$ 1,302,515</u>	<u>\$ 28,664,224</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	\$ 107,134
Public Safety	985,971
Public Works	403,699
Culture and Recreation	88,407
Airport	31,296
Total Depreciation Expense, Governmental Activities	<u>\$ 1,616,507</u>

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

<b>COMPONENT UNIT</b>	January 1, 2016			December 31, 2016
<b>SAUK CENTRE PUBLIC UTILITIES COMMISSION</b>	Balance	Additions	Disposals	Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 129,633	\$ 17,000	\$ -	\$ 146,633
Construction in Progress	135,238	429,151	564,389	-
Total Capital Assets, Not Being Depreciated	<u>264,871</u>	<u>446,151</u>	<u>564,389</u>	<u>146,633</u>
Capital Assets, Being Depreciated:				
Station Equipment	533,067	-	-	533,067
Distribution System	23,267,745	775,265	11,824	24,031,186
General Plant	1,523,772	18,931	96,924	1,445,779
Load Management	212,047	12,917	-	224,964
Treatment Facility	1,403,953	-	-	1,403,953
Total Capital Assets, Being Depreciated	<u>26,940,584</u>	<u>807,113</u>	<u>108,748</u>	<u>27,638,949</u>
Total Capital Assets	27,205,455	1,253,264	673,137	27,785,582
Less: Accumulated Depreciation	<u>(12,436,103)</u>	<u>(790,501)</u>	<u>108,748</u>	<u>(13,117,856)</u>
Capital Assets, Net	<u>\$ 14,769,352</u>	<u>\$ 462,763</u>	<u>\$ 564,389</u>	<u>\$ 14,667,726</u>
<b>COMPONENT UNIT</b>	October 1, 2015			September 30, 2016
<b>HOUSING AND REDEVELOPMENT AUTHORITY OF SAUK CENTRE</b>	Balance	Additions	Disposals	Balance
Capital Assets, Not Being Depreciated				
Land and Improvements	\$ 95,745	\$ -	\$ -	\$ 95,745
Capital Assets, Being Depreciated				
Buildings	1,890,201	92,686	(3,635)	1,979,252
Equipment and Other	47,003	25,453	(15,209)	57,247
Total Capital Assets being Depreciated	<u>1,937,204</u>	<u>118,139</u>	<u>(18,844)</u>	<u>2,036,499</u>
Less: Accumulated Depreciation	<u>(1,155,962)</u>	<u>(102,370)</u>	<u>14,786</u>	<u>(1,243,546)</u>
Total Capital Assets being Depreciated, Net	<u>781,242</u>	<u>15,769</u>	<u>(4,058)</u>	<u>792,953</u>
Capital Assets, Net	<u>\$ 876,987</u>	<u>\$ 15,769</u>	<u>\$ (4,058)</u>	<u>\$ 888,698</u>

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 6 LONG-TERM DEBT**

The following is a summary of debt transactions of the City for the year ended December 31, 2016:

	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016	Amounts Due in One Year
General Obligation Improvement Bonds	\$ 7,280,000	\$ -	\$ 2,515,000	\$ 4,765,000	\$ 475,000
Premium on Bonds	245,807	-	19,339	226,468	-
Discount on Bonds	(18,511)	-	(4,625)	(13,886)	-
Other Long-Term Debt	20,000	-	4,000	16,000	4,000
Revenue Bonds	10,245,000	-	560,000	9,685,000	510,000
Compensated Absences	139,021	101,438	87,373	153,086	-
Capital Leases	10,221	-	5,110	5,111	5,111
Total Long-Term Debt	<u>\$ 17,921,538</u>	<u>\$ 101,438</u>	<u>\$ 3,186,197</u>	<u>\$ 14,836,779</u>	<u>\$ 994,111</u>

**General Obligation Bonds**

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

	Balance Outstanding
General Obligation Improvement Bonds	
\$415,000 General Obligation Improvement Bonds, Series 2007B, interest from 3.65% to 4.10%, matures February 1, 2017.	\$ 50,000
\$1,245,000 of General Obligation Improvement Bonds, Series 2012A, interest from 2.00% to 2.20%, matures February 1, 2029.	1,090,000
\$2,185,000 of General Obligation Refunding Bonds, Series 2015B, interest at 2.00%, matures February 1, 2025.	2,185,000
\$1,440,000 of General Obligation Bonds, Series 2015A, interest from 1.50% to 3.00%, matures February 1, 2026.	<u>1,440,000</u>
Total General Obligation Improvement Bonds	4,765,000
Other Long-Term Debt	
\$80,000 City purchase of Public Utilities Property of 2000, Interest at 0.00% matures September 20, 2020.	16,000
Revenue Bonds - Expected to be repaid from charges for services	
\$1,495,000 of General Obligation Revenue Bonds, Series 2012A, interest from 2.00% to 2.20%, matures February 1, 2029.	1,305,000
\$8,845,000 of General Obligation Hospital Refunding Bonds, Series 2015C, interest from 2.00% to 3.00%, due September 1, 2033.	<u>8,380,000</u>
Total Revenue Bonds	\$ 9,685,000

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

	Balance Outstanding
Capital Leases	
\$25,552 of Capital lease for a copier machine, interest at 4.8% and due May 2017.	\$ 5,111
Plus Premium/(Discount) on Bonds	212,582
Compensated Absences	153,086
Total Long-Term Debt	\$ 14,836,779

Long-term debt maturities are as follows:

Year Ending December 31,	Total Principal Maturities	Total Interest Maturities
2017	\$ 989,000	\$ 700,282
2018	974,000	666,896
2019	994,000	633,332
2020	1,009,000	597,713
2021	1,020,000	560,757
2022-2026	5,025,000	2,194,030
2027-2031	3,275,000	1,145,042
2032-2033	1,180,000	146,320
Total	14,466,000	6,644,372
Plus: Premium/(Discount)	212,582	-
Total	\$ 14,678,582	\$ 6,644,372

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 repaying this debt.

The City issued \$1,245,000 in general obligation improvement bonds and \$1,495,000 in general obligation revenue bonds during 2012 for the 4<sup>th</sup> 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.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

**Long-Term Debt –Sauk Centre Public Utilities Commission**

The following is a summary of bond information for the component units for the year ended December 31, 2016.

<b>Long-Term Debt - Sauk Centre Public Utilities Commission - Component Unit</b>	Balance Outstanding
Drinking Water General Obligation Revenue Bonds - \$2,121,231, 1998 Issue, Interest at 3.54%, due August 2018.	\$ 294,000
General Obligation Clean Water Revenue Note - \$7,058,050, 2010 Issue, Interest 1.911%, due August 2030.	5,426,000
Total	5,720,000
Less: Current Maturities	(487,000)
Total Long-Term Debt	\$ 5,233,000

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

**Sauk Centre Public Utilities Commission**

<u>Year Ending December 31,</u>	Principal	Interest	Total
2017	\$ 487,000	\$ 114,098	\$ 601,098
2018	497,000	102,430	599,430
2019	355,000	90,505	445,505
2020	362,000	83,721	445,721
2021	368,000	76,803	444,803
2022-2026	1,951,000	275,662	2,226,662
2027-2030	1,700,000	81,982	1,781,982
Total	\$ 5,720,000	\$ 825,201	\$ 6,545,201

The drinking water 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 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 wastewater treatment facility.

Long-term debt activity for the year ended December 31, 2016 consists of the following:

	Balance January 1, 2016	Additions	Payments	Balance December 31, 2016
G.O. Bonds	\$ 6,151,539	\$ -	\$ 431,539	\$ 5,720,000



**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 7 OTHER POSTEMPLOYMENT BENEFITS**

GASB Statement No. 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 \$648 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 \$800 per month until the age of 65 or when eligible for Medicare. The employee shall be responsible for any premiums over the \$648 or \$800.

**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 No. 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 and Sauk Centre Public Utilities Commission's net OPEB obligation to the plan:

	Governmental Funds	Sauk Centre Public Utilities Commission	Total
Annual Required Contribution	\$ 52,167	\$ -	\$ 52,167
Interest on Net OPEB Obligation	6,763	17,403	24,166
Amortization of Net OPEB Obligation	(9,588)	-	(9,588)
Annual OPEB Cost (Expense)	49,342	17,403	66,745
Contributions Made	(19,266)	(55,674)	(74,940)
Increase (Decrease) in Net OPEB Obligation	30,076	(38,271)	(8,195)
Net OPEB Obligation - Beginning of Year	169,083	435,068	604,151
Net OPEB Obligation - End of Year	<u>\$ 199,159</u>	<u>\$ 396,797</u>	<u>\$ 595,956</u>
Net OPEB Designated Assets	<u>\$ -</u>	<u>\$ 396,797</u>	<u>\$ 396,797</u>

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**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 year ending December 31, 2016 and the two preceding years were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Governmental Funds	12/31/2016	\$ 49,342	\$ 19,266	39.0 %	\$ 199,159
Sauk Centre Public Utilities Commission	12/31/2016	17,403	55,674	319.9	396,797
Governmental Funds	12/31/2015	49,497	17,623	35.6	169,083
Sauk Centre Public Utilities Commission	12/31/2015	18,246	39,332	215.6	435,068
Governmental Funds	12/31/2014	33,601	11,641	34.6	137,209
Sauk Centre Public Utilities Commission	12/31/2014	28,921	26,560	91.8	456,154

**Funded Status and Funding Progress**

As of January 1, 2015 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 1/1/2015	\$ -	\$ 454,072	\$ 454,072	- %	\$ 1,078,451	42.1 %
Sauk Centre Public Utilities Commission 1/1/2015	-	327,010	327,010	-	793,266	41.2

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, 2016**

**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, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00% 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 7.25%, reduced by decrements to an ultimate rate of 5% over nine years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis over a 30 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, 2016**

**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:							
Advances to Other Funds	\$ 204,013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:							
Economic Development	-	-	-	1,681,500	-	-	-
Debt Service	-	-	-	-	-	2,440,418	-
EDA Improvement Projects	-	-	-	-	322,361	-	-
Economic Development Loan Payments	-	-	-	-	-	-	278,435
Park Capital Outlay	-	-	-	-	-	-	15,334
Police Forfeiture Operations	-	-	-	-	-	-	3,802
Hospital Operations	-	-	2,323,091	-	-	-	-
Capital Improvement Projects	-	-	-	-	165,237	-	-
Street Improvements	56,315	-	-	-	-	-	-
Committed For:							
Library Operations	-	-	-	-	-	-	21,453
Fire Protection Capital Outlay	-	-	-	-	-	-	79,097
Ambulance Operations	-	-	-	-	-	-	34,793
Airport Capital Outlay	-	-	-	-	-	-	35,215
Storm Water Utility	-	-	-	-	-	-	191,267
Arena Operations	-	95,154	-	-	-	-	-
Park Land	19,000	-	-	-	-	-	-
Police Department Severance	17,867	-	-	-	-	-	-
Street Improvements	143,323	-	-	-	-	-	-
Campground	106,553	-	-	-	-	-	-
MnDOT Signs	5,484	-	-	-	-	-	-
Build A Forest	7,263	-	-	-	-	-	-
Park Mower	107,470	-	-	-	-	-	-
Splash Pad	17,081	-	-	-	-	-	-
Compensation Plan	41,417	-	-	-	-	-	-
Assigned:							
Hospital Operations	-	-	570,326	-	-	-	-
Library Operations	-	-	-	-	-	-	23,975
Senior Center Operations	-	-	-	-	-	-	39,442
Fire Department Equipment Purchases	-	-	-	-	-	-	43,494
Ambulance Services	-	-	-	-	-	-	222,572
Economic Development	-	-	-	-	-	-	40,387
Airport Operations	-	-	-	-	-	-	76,220
Oak Street Project	-	-	-	-	-	-	-
Unassigned:	1,091,773	-	-	-	-	-	-
Total Fund Balances	<u>\$ 1,817,559</u>	<u>\$ 95,154</u>	<u>\$ 2,893,417</u>	<u>\$ 1,681,500</u>	<u>\$ 487,598</u>	<u>\$ 2,440,418</u>	<u>\$ 1,105,486</u>

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 9 PENSION PLANS**

**Plan Description**

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

1. General Employees Retirement Fund (GERF)

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

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

**Benefits Provided**

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Benefits Provided (Continued)**

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**Contributions**

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City and Sauk Centre Public Utilities Commission contributions to the GERF for the year ended December 31, 2016, were \$60,877 and \$64,123, respectively. The City and the Sauk Centre Public Utilities Commission contributions were equal to the required contributions as set by state statute.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Contributions (Continued)**

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2016. The City contributions to the PEPFF for the year ended December 31, 2016, were \$67,974. The City contributions were equal to the required contributions as set by state statute.

**Pension Costs**

1. GERF Pension Costs

At December 31, 2016, the City reported a liability of \$1,047,416 for its proportionate share of the GERF's net pension liability. The City net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$13,713. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City proportion was 0.0129%, which was a decrease of 0.0006% from its proportion measured as of June 30, 2015.

At December 31, 2016, the Sauk Centre Public Utilities Commission reported a liability of \$1,120,492 for its proportionate share of the GERF's net pension liability. The Utility's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Utility totaled \$14,655. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Utility's proportion was 0.0138%, which was a decrease of 0.0006% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$131,763 for its proportionate share of the GERF's pension expense. The Sauk Centre Public Utility recognized pension expense of \$136,340 for its proportionate share of the GERF's pension expense. In addition, the City and Sauk Centre Public Utility recognized an additional \$4,089 and \$4,370, respectively, as pension expense (and grant revenue) for their proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Pension Costs (Continued)**

1. **GERF Pension Costs (Continued)**

At December 31, 2016, the proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources is as follows:

Description	City of Sauk Centre		Sauk Centre Public Utility Commission	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual				
Economic Experience	\$ -	\$ 85,087	\$ -	\$ 91,023
Changes in Actuarial Assumptions	205,085	-	219,393	-
Net Difference Between Projected and Actual				
Earnings on Pension Plan Investments	198,804	-	212,674	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	43,428	-	55,171
Contributions Subsequent to the Measurement Date	30,594	-	32,655	-
Total	<u>\$ 434,483</u>	<u>\$ 128,515</u>	<u>\$ 464,722</u>	<u>\$ 146,194</u>

\$63,249 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	City Pension Expense Amount	Utility Pension Expense Amount
2017	\$ 71,912	\$ 72,313
2018	71,912	72,313
2019	93,716	100,773
2020	37,834	40,474

2. **PEPFF Pension Costs**

At December 31, 2016, the City reported a liability of \$1,685,533 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City proportion was 0.042%, which was a decrease of .001% from its proportion measured as of June 30, 2015.



**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Pension Costs (Continued)**

2. PEPFF Pension Costs (Continued)

For the year ended December 31, 2016, the City recognized pension expense of \$290,045 for its proportionate share of the PEPFF's pension expense. The City also recognized \$3,780 for the year ended December 31, 2016, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2016, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 193,363
Changes in Actuarial Assumptions	927,623	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	257,224	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	9,354
City Contributions Subsequent to the Measurement Date	34,624	-
Total	<u>\$ 1,219,471</u>	<u>\$ 202,717</u>

\$34,624 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2017	\$ 211,388
2018	211,388
2019	211,388
2020	190,601
2021	157,365

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Actuarial Assumptions**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per Year
Active Member Payroll Growth	3.25% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

**GERF Assumption Changes**

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**PEPFF Assumption Changes**

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 5.6%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Actuarial Assumptions (Continued)**

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

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

**Discount Rate**

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.90% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Pension Liability Sensitivity**

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

Description	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
City's Proportionate Share of the GERP Net Pension Liability	\$ 1,487,641	\$ 1,047,416	\$ 684,790
Utility's Proportionate Share of the GERP Net Pension Liability	1,591,430	1,120,492	732,566

Description	1% Decrease in Discount Rate (4.60%)	Current Discount Rate (5.60%)	1% Increase in Discount Rate (6.60%)
City's Proportionate Share of the PEPFF Net Pension Liability	\$ 2,359,523	\$ 1,685,533	\$ 1,134,832

**Pension Plan Fiduciary Net Position**

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

**NOTE 10 PENSION PLANS – FIRE RELIEF ASSOCIATION**

**Plan Description**

Firefighters of the City of Sauk Centre are members of the Sauk Centre Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2015, membership includes 30 active participants and 2 terminated employees entitled to benefit but not yet receiving them. The plan issues a stand-alone financial statement.

**Benefits Provided**

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 10 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$1,825 for each year of active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

**CITY OF SAUK CENTRE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2016**

**NOTE 10 PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)**

**Benefits Provided (Continued)**

Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with 10 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$1,825 for each year the member was an active member of the Sauk Centre Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10% of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

**Contributions**

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from state aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). The minimum contribution from the City of Sauk Centre and state aid is determined as follows:

	Normal Cost
+	Amortization Payment on Unfunded Accrued Liability Prior to Any Change
+	Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change
+	Administrative Expenses
-	Anticipated State Aid
-	Projected Investment Earnings
=	Total Contribution Required

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$49,333 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2015. Required employer contributions are calculated annually based on statutory provisions. For the year ended December 31, 2015, there was no statutorily-required City contribution to the plan.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 10 PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)**

**Pension Costs**

At December 31, 2016, the City reported an asset of \$20,809 for the Association's net pension asset. The net pension asset/liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$26,356 for the year ended December 31, 2016. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ -	\$ -
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	21,122	-
City Contributions Subsequent to the Measurement Date	5,000	-
Total	<u>\$ 26,122</u>	<u>\$ -</u>

The City contributions to the Association subsequent to the measurement date, \$5,000 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2017	\$ 4,758
2018	4,758
2019	4,758
2020	6,848

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 10 PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)**

**Actuarial Assumptions**

The actuarial total pension liability was determined as of December 31, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	1/1/15
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
	Closed
Actuarial Assumptions:	
Discount Rate	5.75%
Investment Rate of Return	5.75%
20-Year Municipal Bond Yield	3.50%
Age of Service Retirement	50

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Allocation at December 31, 2015</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	19.00%	2.00%
Fixed Income	21.00%	3.75%
Equities	57.00%	7.75%
Real Estate	3.00%	6.00%
Total Portfolio	<u>100.00%</u>	<u>5.75%</u>

**Discount Rate**

The discount rate used to measure the total pension liability was 5.75%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 10 PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)**

**Pension Liability Sensitivity**

The following presents the City of Sauk Centre's proportionate share of the net pension liability (asset) of the Association, calculated using the discount rate of 5.75%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.75%) or one percentage point higher (6.75%) than the current rate:

	1% Decrease in Discount Rate (4.75)	Current Discount Rate (5.75)	1% Increase in Discount Rate (6.75)
Net Pension Liability (Asset)	\$ (16,965)	\$ (20,809)	\$ (24,363)

**Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in a separately-issued financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Sauk Centre City Hall at 320 Oak Street South, Sauk Centre, Minnesota, 56378; or by calling (320) 352-2203.

**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 2016.

**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 2016 is estimated to be immaterial based on workers' compensation rates and salaries for the year.



**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 13 OPERATING LEASES**

**Lessee**

The City of Sauk Centre, Minnesota, entered into two separate contracts for the lease of two squad cars. The squad car operating leases are for a period of two years. The 2016 payments on the operating lease beginning in 2015 totaled \$9,140. The payments during 2016 on the operating lease beginning in 2016 were \$8,678. Future payments on the operating leases will be \$15,379 and \$2,893 for 2017 and 2018, respectively.

**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 which were refunded in 2015 with General Obligation Hospital Refunding Bonds, Series 2015C. The amount of assets leased is \$23,910,987 with accumulated depreciation of \$14,411,318. Minimum lease payments and a summary of the capital assets being leased at December 31, 2016 are as follows:

	CentraCare Health System Lease		Capital Assets
2017	\$ 618,973	Land	\$ 529,585
2018	615,673	Land Improvements	262,441
2019	617,273	Buildings	18,199,528
2020	618,673	Moveable and Fixed Equipment	4,919,433
2021	614,873	Total Capital Assets	23,910,987
2022-2026	3,085,418	Less: Accumulated Depreciation	(14,411,318)
2027-2031	3,089,793	Capital Assets, Net	\$ 9,499,669
2032-2033	1,233,400		
Total	<u>\$ 10,494,076</u>		

**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 \$20,440. Future minimum lease payments are as follows:

	Principal	Interest	Total
2017	<u>\$ 5,111</u>	<u>\$ 708</u>	<u>\$ 5,819</u>

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 15 INTERFUND TRANSACTIONS**

At December 31, 2016, advances from and to other funds were as follows:

<u>Advances From</u>	<u>Advances To Other Governmental Funds</u>	<u>Purpose</u>
General Fund	\$ 104,013	Loan for New Facility Purchase
General Fund	100,000	Loan for New Fire Pumper
	<u>\$ 204,013</u>	

These balances are not expected to be repaid within one year.

The composition of interfund transfers as of December 31, 2016 is as follows:

	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	
<u>Transfers Out</u>					
General Fund	\$ -	\$ 150,000	\$ -	\$ -	\$ 150,000
Tax Increment Financing	-	-	-	3,200	3,200
Capital Projects Fund	-	-	210,925	-	210,925
Other Governmental Funds	2,400	15,000	187,162	-	204,562
Total	<u>\$ 2,400</u>	<u>\$ 165,000</u>	<u>\$ 398,087</u>	<u>\$ 3,200</u>	<u>\$ 568,687</u>

Transfers are used to 1) fund capital projects, 2) allocate administrative fees, 3) reimburse for lost tax base, and 4) close debt service funds.

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 16 DISCRETELY PRESENTED COMPONENT UNIT**

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

**Deposits**

Minnesota Statutes require deposits be protected by insurance, surety bonds, or collateral. The market value of collateral pledged must equal 110% 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.

At September 30, 2016, the bank carrying amount of the Organization’s deposits was \$161,904. 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.

**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.

**Construction Commitments**

The City had major contractual commitments related to various capital projects at December 31, 2016. At December 31, 2016, the City had spent \$702,652 on these projects and had remaining contractor commitments with contractors of \$3,499,170. These projects are financed with grants and transfers from the General Fund. The City’s commitments were as follows:

Project	Spent to Date	Estimated Remaining
Airport Improvements	\$ 283,359	\$ 2,881,926
Oak Street	381,925	48,773
Getty Street	23,751	313,858
Cates Estates	13,617	254,613
Total	\$ 702,652	\$ 3,499,170

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 18 TAX ABATEMENTS**

The City has two pay-as-you-go tax increment financing districts with local businesses to promote economic development within the City as authorized under Minnesota Statute 469.174. The City is currently collecting tax increments that are paid through the property tax collection process. The districts stop collection in 2017 and 2021, respectively. The requirement for businesses to receive the excess tax increments from the City is to perform improvements on the owned property, purchase property to increase tax base and create jobs. The increment taxes are based on the increase of the property value after the improvements are made. The agreements call for 90% of the property tax increments collected to be returned to the developers. For the year ended December 31, 2016, the City paid excess tax increment in the amount of \$29,321. No other commitments were made by the City as a part of these agreements.

The City entered into a property tax abatement agreement with a developer to repurpose an existing underutilized building, promote job development and increase the tax base as authorized under Minnesota Statutes Section 469.1812 to 469.1815. The City entered into the agreement in 2009 to abate property taxes for a period of 15 years or up to \$75,000 whichever comes first. To be eligible for abated property taxes, the Developer needed to purchase property at a specified site and expand their existing Wisconsin business. Within two years of the benefit date the Developer shall maintain or create at least 10 full time equivalent jobs. If the Developer fails to meet the goals, the Developer shall repay to the City a pro rata share of the subsidy provided. For the year ended December 31, 2016, the City abated taxes totaling \$4,543. No other commitments were made by the City as part of that agreement.

**NOTE 19 SUBSEQUENT EVENT**

Subsequent to December 31, 2016, the City Council entered into a sales agreement to sell land held for resale for a price of \$500,000. The purchase price is equal to the carrying value of the land at December 31, 2016.

**NOTE 20 RESTATEMENT**

**Sauk Centre Public Utilities Commission**

Prior to 2016, the Utility had been recognizing the December utility revenue in the subsequent year. This was corrected for the year ended December 31, 2016 and beginning net position was restated by \$636,515 to reflect the impact of this change.

Net Position - Beginning of Year, As Originally Stated	\$ 14,065,422
Restatement	636,515
Net Position - Beginning of Year, as Restated	<u>\$ 14,701,937</u>

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF SAUK CENTRE, MINNESOTA  
SCHEDULE OF FUNDING PROGRESS**

**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 1/1/2015	\$ -	\$ 454,072	\$ 454,072	- %	\$ 1,078,451	42.1 %
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 1/1/2015	\$ -	\$ 327,010	\$ 327,010	- %	\$ 793,266	41.2 %
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

See accompanying Notes to Required Supplementary Information.

**CITY OF SAUK CENTRE, MINNESOTA**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	Measurement Date June 30, 2016	Measurement Date June 30, 2015
<b>City - GERF</b>		
City's Proportion of the Net Pension Liability	0.013%	0.014%
City's Proportionate Share of the Net Pension Liability	\$ 1,047,416	\$ 684,790
State's Proportionate Share of the Net Pension Liability Associated with the City	\$ 13,713	\$ -
City's Covered-Employee Payroll	\$ 795,985	\$ 795,189
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	131.59%	86.12%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.91%	78.20%
<b>Sauk Centre Public Utilities Commission - GERF</b>		
Utility's Proportion of the Net Pension Liability	0.014%	0.014%
Utility's Proportionate Share of the Net Pension Liability	\$ 1,120,492	\$ 746,283
State's Proportionate Share of the Net Pension Liability Associated with the Utility	\$ 14,655	\$ -
Utility's Covered-Employee Payroll	\$ 858,049	\$ 864,745
Utility's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	130.59%	86.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.91%	78.20%
<b>PEPFF</b>		
City's Proportion of the Net Pension Liability	0.042%	0.043%
City's Proportionate Share of the Net Pension Liability	\$ 1,685,533	\$ 1,134,832
City's Covered-Employee Payroll	\$ 407,160	\$ 392,976
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	413.97%	288.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.88%	86.60%
<b>Fire Relief Association</b>		
	Measurement Date December 31, 2015	Measurement Date December 31, 2014
City's Proportion of the Net Pension Liability (Asset)	100%	100%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ (20,809)	\$ (18,815)
City's Covered-Employee Payroll	N/A	N/A
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	N/A	N/A
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	103.57%	102.86%

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.



**CITY OF SAUK CENTRE, MINNESOTA  
SCHEDULE OF CONTRIBUTIONS  
LAST THREE YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>City - GERP</b>			
Contractually Required Contribution	\$ 60,877	\$ 60,515	\$ 55,551
Contributions in Relation to the Contractually Required Contribution	<u>(60,877)</u>	<u>(60,515)</u>	<u>(55,551)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 811,693	\$ 806,867	\$ 766,221
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.25%
<b>Sauk Centre Public Utilities Commission - GERP</b>			
Contractually Required Contribution	\$ 64,123	\$ 64,855	\$ 60,774
Contributions in Relation to the Contractually Required Contribution	<u>(64,123)</u>	<u>(64,855)</u>	<u>(60,774)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's Covered-Employee Payroll	\$ 854,983	\$ 864,733	\$ 838,262
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.25%
<b>PEPFF</b>			
Contractually Required Contribution	\$ 67,974	\$ 64,949	\$ 59,101
Contributions in Relation to the Contractually Required Contribution	<u>(67,974)</u>	<u>(64,949)</u>	<u>(59,101)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 419,593	\$ 400,920	\$ 386,281
Contributions as a Percentage of Covered Employee Payroll	16.20%	16.20%	15.30%
<b>Fire Relief Association</b>			
Statutorily Required Contribution	\$ -	\$ -	\$ -
Contributions in Relation to the Statutorily Required Contribution	<u>5,000</u>	<u>4,500</u>	<u>4,500</u>
Contribution Deficiency (Excess)	<u>\$ (5,000)</u>	<u>\$ (4,500)</u>	<u>\$ (4,500)</u>
City's Covered-Employee Payroll	N/A	N/A	N/A
Contributions as a Percentage of Covered Employee Payroll	N/A	N/A	N/A

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

**CITY OF SAUK CENTRE, MINNESOTA  
SAUK CENTRE FIRE RELIEF ASSOCIATION  
SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND RELATED RATIOS**

	December 31, 2015 (Measurement Date)	December 31, 2014 (Measurement Date)
<b>Total Pension Liability</b>		
Service Cost	\$ 19,203	\$ 18,735
Interest	34,168	40,479
Benefit Payments, Including Member Contribution Refunds	(129,292)	(126,539)
<b>Net Change in Total Pension Liability</b>	<u>(75,921)</u>	<u>(67,325)</u>
<b>Total Pension Liability - Beginning</b>	<u>658,878</u>	<u>726,203</u>
<b>Total Pension Liability - Ending (a)</b>	<u>582,957</u>	<u>658,878</u>
<b>Plan Fiduciary Net Position</b>		
Municipal Contributions	4,500	4,500
State Contributions	53,333	48,845
Net Investment Income	2,528	48,859
Benefit Payments	(129,292)	(126,539)
Administrative Expenses	(4,996)	(5,029)
<b>Net Change in Fiduciary Net Position</b>	<u>(73,927)</u>	<u>(29,364)</u>
<b>Fiduciary Net Position - Beginning</b>	<u>677,693</u>	<u>707,057</u>
<b>Fiduciary Net Position - Ending (b)</b>	<u>603,766</u>	<u>677,693</u>
<b>Association's Net Pension Liability/(Asset) - Ending (a) - (b)</b>	<u>\$ (20,809)</u>	<u>\$ (18,815)</u>
<b>Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	103.57%	102.86%
<b>Covered-Employee Payroll</b>	N/A	N/A
<b>Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	N/A	N/A

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

**CITY OF SAUK CENTRE, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2016**

	Original and Final Budget	Actual	Variances with Budget Over (Under)
<b>REVENUES</b>			
Taxes	\$ 1,063,738	\$ 1,043,525	\$ (20,213)
Special Assessments	1,550	6,080	4,530
Other Taxes	48,000	57,257	9,257
Licenses and Permits	355,700	324,420	(31,280)
Intergovernmental Revenues	1,230,153	1,242,309	12,156
Charges for Services	129,715	150,549	20,834
Fines and Forfeits	41,900	50,127	8,227
Other Revenues	85,329	133,010	47,681
Total Revenues	<u>2,956,085</u>	<u>3,007,277</u>	<u>51,192</u>
<b>EXPENDITURES</b>			
General Government	808,752	795,411	(13,341)
Public Safety	965,645	1,005,339	39,694
Public Works	761,609	641,396	(120,213)
Culture and Recreation	421,828	401,317	(20,511)
Debt Service	4,000	9,820	5,820
Total Expenditures	<u>2,961,834</u>	<u>2,853,283</u>	<u>(108,551)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(5,749)	153,994	159,743
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	60,000	2,400	(57,600)
Transfers Out	(100,000)	(150,000)	(50,000)
Sale of Assets	-	55,000	55,000
Total Other Financing Sources (Uses)	<u>(40,000)</u>	<u>(92,600)</u>	<u>(52,600)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (45,749)</u>	61,394	<u>\$ 107,143</u>
Fund Balance - Beginning of Year		<u>1,756,165</u>	
<b>FUND BALANCE - ENDING END OF YEAR</b>		<u>\$ 1,817,559</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF SAUK CENTRE, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE  
 ARENA FUND  
 YEAR ENDED DECEMBER 31, 2016**

	Original and Final Budget	Actual	Variances with Budget Over (Under)
<b>REVENUES</b>			
Taxes	\$ -	\$ 189	\$ 189
Charges for Services	72,550	70,262	(2,288)
Other Revenues	-	877	877
Total Revenues	72,550	71,328	(1,222)
 <b>EXPENDITURES</b>			
Culture and Recreation	117,411	98,278	(19,133)
 <b>NET CHANGE IN FUND BALANCE</b>	\$ (44,861)	(26,950)	\$ 17,911
Fund Balance - Beginning of year		122,104	
<b>FUND BALANCE - END OF YEAR</b>		\$ 95,154	

**CITY OF SAUK CENTRE, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE  
 HOSPITAL FUND  
 YEAR ENDED DECEMBER 31, 2016**

	Original and Final Budget	Actual	Variances with Budget Over (Under)
<b>REVENUES</b>			
Charges for Services	\$ -	\$ 142,097	\$ 142,097
Other Revenues	230,000	265,198	35,198
Total Revenues	230,000	407,295	177,295
 <b>EXPENDITURES</b>			
Public Safety	1,000	142,264	141,264
 <b>NET CHANGE IN FUND BALANCE</b>	\$ 229,000	265,031	\$ 36,031
Fund Balance - Beginning of year		2,628,386	
<b>FUND BALANCE - END OF YEAR</b>		\$ 2,893,417	

**CITY OF SAUK CENTRE, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
TAX INCREMENT FINANCING FUND  
YEAR ENDED DECEMBER 31, 2016**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variances with Budget Over (Under)</u>
<b>REVENUES</b>			
Tax Increments	\$ 29,500	\$ 35,158	\$ 5,658
Other Revenues	500	2,934	2,434
Total Revenues	<u>30,000</u>	<u>38,092</u>	<u>8,092</u>
 <b>EXPENDITURES</b>			
Economic Development	<u>30,800</u>	<u>161,441</u>	<u>130,641</u>
 <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	 (800)	 (123,349)	 (122,549)
 <b>OTHER FINANCING SOURCES (USES)</b>			
Transfers Out	<u>-</u>	<u>(3,200)</u>	<u>(3,200)</u>
 <b>NET CHANGE IN FUND BALANCE</b>	 <u>\$ (800)</u>	 (126,549)	 <u>\$ (125,749)</u>
Fund Balance - Beginning of Year		<u>1,808,049</u>	
 <b>FUND BALANCE - ENDING END OF YEAR</b>		 <u>\$ 1,681,500</u>	

**CITY OF SAUK CENTRE, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2016**

**NOTE 1 LEGAL COMPLIANCE – BUDGETS**

The General, Arena, Hospital, 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, 2016:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures Over Appropriations</u>
Hospital Fund	\$ 142,264	\$ 1,000	\$ 141,264
Tax Increment Fund	161,441	30,800	130,641

The above overages were offset with revenues in excess of budget, or available fund balance. 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.

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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, 2016**

	General	Arena	Hospital	TIF	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>								
Taxes								
Property Taxes	\$ 1,043,525	\$ 189	\$ -	\$ -	\$ -	\$ 408,897	\$ 98,919	\$ 1,551,530
Tax Increments	-	-	-	35,158	-	-	-	35,158
Other Taxes	57,257	-	-	-	-	-	-	57,257
Total Taxes	1,100,782	189	-	35,158	-	408,897	98,919	1,643,945
Special Assessments	6,080	-	-	-	20,206	89,084	-	115,370
Licenses and Permits								
Licenses								
Beer, Liquor and Cigarettes	23,325	-	-	-	-	-	-	23,325
Electricity Franchise Fee	152,141	-	-	-	-	-	-	152,141
Cable Franchise Fee	50,073	-	-	-	-	-	-	50,073
Gas Franchise Fee	45,769	-	-	-	-	-	-	45,769
Other	1,289	-	-	-	-	-	-	1,289
Building Permits	51,823	-	-	-	-	-	-	51,823
Total Licenses and Permits	324,420	-	-	-	-	-	-	324,420
Intergovernmental Revenues								
Federal Grants	-	-	-	-	216,316	-	-	216,316
State Aids								
Local Governmental Aid	1,123,379	-	-	-	-	-	-	1,123,379
Fire State Aid	50,596	-	-	-	-	-	-	50,596
Police State Aid	51,802	-	-	-	-	-	-	51,802
Other Grants	2,380	-	-	-	37,352	-	40,441	80,173
PERA Aid	14,152	-	-	-	-	-	-	14,152
Total Intergovernmental Revenues	1,242,309	-	-	-	253,668	-	40,441	1,536,418
Charges for Services								
Fire Contracts	-	-	-	-	-	-	199,347	199,347
Ambulance Service	-	-	-	-	-	-	401,408	401,408
Arena Rentals and Charges	-	70,262	-	-	-	-	-	70,262
Planning and Zoning Charges	4,620	-	-	-	-	-	205,452	210,072
County Highway Maintenance	7,181	-	-	-	-	-	-	7,181
Campground Charges	119,540	-	-	-	-	-	-	119,540
Rent	6,020	-	142,097	-	-	-	76,519	224,636
Other	13,188	-	-	-	-	-	-	13,188
Total Charges for Services	150,549	70,262	142,097	-	-	-	882,726	1,245,634
Fines and Forfeits	50,127	-	-	-	-	-	8,739	58,866
Other Revenues								
Interest	23,598	861	265,198	2,934	7,020	25,833	12,855	338,299
Donations/Contributions	6,141	-	-	-	-	-	61,233	67,374
Refunds and Reimbursements	83,954	16	-	-	273,249	-	25,283	382,502
Other	19,317	-	-	-	-	617,155	1,015	637,487
Total Other Revenues	133,010	877	265,198	2,934	280,269	642,988	100,386	1,425,662

**CITY OF SAUK CENTRE, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES (CONTINUED)  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2016**

	General	Arena	Hospital	TIF	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>EXPENDITURES</b>								
General Government								
Mayor and Council	\$ 66,807	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,807
Administration	380,919	-	-	-	-	-	-	380,919
Assessor	23,230	-	-	-	-	-	-	23,230
Finance	24,890	-	-	-	-	-	-	24,890
Legal	33,523	-	-	-	-	-	-	33,523
Planning and Zoning	142,546	-	-	-	-	-	-	142,546
Buildings and Property	54,931	-	-	-	-	-	-	54,931
Other General Government	68,565	-	-	-	-	-	25,331	93,896
Total General Government	795,411	-	-	-	-	-	25,331	820,742
Public Safety								
Police	841,203	-	-	-	-	-	5,242	846,445
Fire Department	159,951	-	-	-	-	-	120,394	280,345
Ambulance	325	-	142,264	-	-	-	278,524	421,113
Animal Control	197	-	-	-	-	-	-	197
Capital Outlay	3,663	-	-	-	-	-	466,717	470,380
Total Public Safety	1,005,339	-	142,264	-	-	-	870,877	2,018,480
Public Works								
Highways, Streets and Alleys	408,197	-	-	-	-	-	3,796	411,993
Snow and Ice Control	15,736	-	-	-	-	-	-	15,736
Street Lighting	73,987	-	-	-	-	-	-	73,987
Other	19,386	-	-	-	-	-	-	19,386
Capital Outlay	124,090	-	-	-	586,257	-	-	710,347
Total Public Works	641,396	-	-	-	586,257	-	3,796	1,231,449
Culture and Recreation								
Arena Activities	-	98,278	-	-	-	-	-	98,278
Parks	320,886	-	-	-	-	-	-	320,886
Campground	56,761	-	-	-	-	-	-	56,761
Other	2,442	-	-	-	-	-	36,919	39,361
Capital Outlay	21,228	-	-	-	-	-	-	21,228
Total Culture and Recreation	401,317	98,278	-	-	-	-	36,919	536,514
Economic Development								
Other	-	-	-	161,441	3,595	-	12,946	177,982
Airport								
Other	-	-	-	-	-	-	58,913	58,913
Capital Outlay	-	-	-	-	273,460	-	9,873	283,333
Total Airport	-	-	-	-	273,460	-	68,786	342,246
Debt Service								
Principal	9,110	-	-	-	-	900,000	-	909,110
Interest and Fiscal Charges	710	-	-	-	-	319,536	2,747	322,993
Total Debt Service	9,820	-	-	-	-	1,219,536	2,747	1,232,103
Total Expenditures	2,853,283	98,278	142,264	161,441	863,312	1,219,536	1,021,402	6,359,516

**CITY OF SAUK CENTRE, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES (CONTINUED)  
 GOVERNMENTAL FUNDS  
 YEAR ENDED DECEMBER 31, 2016**

	General	Arena	Hospital	TIF	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 153,994	\$ (26,950)	\$ 265,031	\$ (123,349)	\$ (309,169)	\$ (78,567)	\$ 109,809	\$ (9,201)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfer In	2,400	-	-	-	165,000	398,087	3,200	568,687
Transfer Out	(150,000)	-	-	(3,200)	(210,925)	-	(204,562)	(568,687)
Payment to Bond Escrow Agent	-	-	-	-	-	(2,175,000)	-	(2,175,000)
Sale of Assets	55,000	-	-	-	-	-	-	55,000
Total Other Financing Sources/(Uses)	<u>(92,600)</u>	<u>-</u>	<u>-</u>	<u>(3,200)</u>	<u>(45,925)</u>	<u>(1,776,913)</u>	<u>(201,362)</u>	<u>(2,120,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	61,394	(26,950)	265,031	(126,549)	(355,094)	(1,855,480)	(91,553)	(2,129,201)
Fund Balances - Beginning of Year	<u>1,756,165</u>	<u>122,104</u>	<u>2,628,386</u>	<u>1,808,049</u>	<u>842,692</u>	<u>4,295,898</u>	<u>1,197,039</u>	<u>12,650,333</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 1,817,559</u>	<u>\$ 95,154</u>	<u>\$ 2,893,417</u>	<u>\$ 1,681,500</u>	<u>\$ 487,598</u>	<u>\$ 2,440,418</u>	<u>\$ 1,105,486</u>	<u>\$ 10,521,132</u>

**CITY OF SAUK CENTRE, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	211	224	225	230	240	226
	Library	Fire Department Equipment	Area Fire Service	Airport	Ambulance	Sauk Centre Economic Development Authority
<b>ASSETS</b>						
Cash and Investments	\$ 46,744	\$ 44,776	\$ 176,163	\$ 104,717	\$ 296,646	\$ 38,685
Accounts Receivable	-	-	5,118	10,039	80,529	1,517
Loans Receivable	-	-	-	-	-	-
Interest Receivable	55	53	207	123	348	45
Due from Other Governments	138	-	2	166	-	150
Due from Component Unit	-	-	-	-	-	-
Total Assets	<u>\$ 46,937</u>	<u>\$ 44,829</u>	<u>\$ 181,490</u>	<u>\$ 115,045</u>	<u>\$ 377,523</u>	<u>\$ 40,397</u>
<b>LIABILITIES</b>						
Salaries/Benefits Payable	\$ 177	\$ -	\$ 314	\$ -	\$ 12,529	\$ -
Accounts and Contracts Payable	1,332	1,335	2,079	865	3,616	10
Advance from Other Funds	-	-	100,000	-	104,013	-
Unearned Revenue	-	-	-	2,745	-	-
Total Liabilities	<u>1,509</u>	<u>1,335</u>	<u>102,393</u>	<u>3,610</u>	<u>120,158</u>	<u>10</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Loans Receivable	-	-	-	-	-	-
<b>FUND BALANCES</b>						
Restricted	-	-	-	-	-	-
Committed	21,453	-	79,097	35,215	34,793	-
Assigned	23,975	43,494	-	76,220	222,572	40,387
Total Fund Balances	<u>45,428</u>	<u>43,494</u>	<u>79,097</u>	<u>111,435</u>	<u>257,365</u>	<u>40,387</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 46,937</u>	<u>\$ 44,829</u>	<u>\$ 181,490</u>	<u>\$ 115,045</u>	<u>\$ 377,523</u>	<u>\$ 40,397</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
\$ 276,832	\$ 15,316	\$ -	\$ 41,111	\$ 4,052	\$ 146,165	\$ 1,191,207
-	-	-	-	-	-	97,203
33,087	-	-	-	-	-	33,087
1,097	18	-	48	5	171	2,170
-	-	-	113	-	-	569
-	-	-	-	-	44,931	44,931
<u>\$ 311,016</u>	<u>\$ 15,334</u>	<u>\$ -</u>	<u>\$ 41,272</u>	<u>\$ 4,057</u>	<u>\$ 191,267</u>	<u>\$ 1,369,167</u>
\$ -	\$ -	\$ -	\$ 968	\$ -	\$ -	\$ 13,988
-	-	-	862	255	-	10,354
-	-	-	-	-	-	204,013
-	-	-	-	-	-	2,745
-	-	-	1,830	255	-	231,100
32,581	-	-	-	-	-	32,581
278,435	15,334	-	-	3,802	-	297,571
-	-	-	-	-	191,267	361,825
-	-	-	39,442	-	-	446,090
<u>278,435</u>	<u>15,334</u>	<u>-</u>	<u>39,442</u>	<u>3,802</u>	<u>191,267</u>	<u>1,105,486</u>
<u>\$ 311,016</u>	<u>\$ 15,334</u>	<u>\$ -</u>	<u>\$ 41,272</u>	<u>\$ 4,057</u>	<u>\$ 191,267</u>	<u>\$ 1,369,167</u>

**CITY OF SAUK CENTRE, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2016**

	211	224	225	230	240	226
	Library	Fire Department Equipment	Area Fire Service	Airport	Ambulance	Sauk Centre Economic Development Authority
<b>REVENUES</b>						
Taxes						
Property Taxes	\$ 24,729	\$ -	\$ 111	\$ 29,658	\$ -	\$ 19,791
Intergovernmental Revenues						
State Aids:						
Other Grants	-	-	4,000	36,441	-	-
Charges for Services						
Fire Contracts	-	-	199,347	-	-	-
Ambulance Service	-	-	-	-	401,408	-
Planning and Zoning Charges	-	-	-	-	-	-
Rent	75	-	-	69,582	-	1,517
Total Charges for Services	75	-	199,347	69,582	401,408	1,517
Fines and Forfeits	-	-	-	-	-	-
Other Revenues						
Interest Income (Loss)	375	549	1,981	816	2,267	315
Donations/Contributions	-	50,050	500	-	4,126	-
Refunds and Reimbursements	2	-	9,555	1,779	3,076	-
Other	-	-	-	-	1,015	-
Total Other Revenues	377	50,599	12,036	2,595	10,484	315
Total Revenues	25,181	50,599	215,494	138,276	411,892	21,623
<b>EXPENDITURES</b>						
General Government						
Other General Government	25,331	-	-	-	-	-
Public Safety						
Police	-	-	-	-	-	-
Fire Department	-	4,360	116,034	-	-	-
Ambulance	-	-	-	-	278,524	-
Capital Outlay	-	162,403	266,832	-	25,737	-
Total Public Safety	-	166,763	382,866	-	304,261	-
Public Works						
Highways, Streets and Alleys	-	-	-	-	-	-



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
\$ -	\$ -	\$ -	\$ 24,630	\$ -	\$ -	\$ 98,919
-	-	-	-	-	-	40,441
-	-	-	-	-	-	199,347
-	-	-	-	-	-	401,408
-	-	-	-	-	205,452	205,452
-	-	-	5,345	-	-	76,519
-	-	-	5,345	-	205,452	882,726
-	-	-	-	8,739	-	8,739
4,487	137	84	324	(32)	1,552	12,855
-	-	-	6,557	-	-	61,233
8,841	-	-	2,030	-	-	25,283
-	-	-	-	-	-	1,015
13,328	137	84	8,911	(32)	1,552	100,386
13,328	137	84	38,886	8,707	207,004	1,131,211
-	-	-	-	-	-	25,331
-	-	-	-	5,242	-	5,242
-	-	-	-	-	-	120,394
-	-	-	-	-	-	278,524
-	-	11,745	-	-	-	466,717
-	-	11,745	-	5,242	-	870,877
-	-	-	-	-	3,796	3,796

**CITY OF SAUK CENTRE, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2016**

	211	224	225	230	240	226
	Library	Fire Department Equipment	Area Fire Service	Airport	Ambulance	Sauk Centre Economic Development Authority
<b>EXPENDITURES (CONTINUED)</b>						
Culture and Recreation						
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Economic Development						
Other	-	-	-	-	-	12,946
Airport						
Other	-	-	-	58,913	-	-
Capital Outlay	-	-	-	9,873	-	-
Total Airport	-	-	-	68,786	-	-
Debt Service						
Interest and Fiscal Charges	-	-	-	-	2,747	-
Total Debt Service	-	-	-	-	2,747	-
Total Expenditures	25,331	166,763	382,866	68,786	307,008	12,946
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(150)	(116,164)	(167,372)	69,490	104,884	8,677
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfer In	-	-	-	-	-	3,200
Transfer Out	-	-	(61,942)	(15,000)	(2,400)	-
Total Other Financing Sources (Uses)	-	-	(61,942)	(15,000)	(2,400)	3,200
<b>NET CHANGE IN FUND BALANCES</b>	(150)	(116,164)	(229,314)	54,490	102,484	11,877
Fund Balances - Beginning of Year	45,578	159,658	308,411	56,945	154,881	28,510
<b>FUND BALANCES - END OF YEAR</b>	\$ 45,428	\$ 43,494	\$ 79,097	\$ 111,435	\$ 257,365	\$ 40,387

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
\$ -	\$ -	\$ -	\$ 36,919	\$ -	\$ -	\$ 36,919
-	-	-	-	-	-	12,946
-	-	-	-	-	-	58,913
-	-	-	-	-	-	9,873
-	-	-	-	-	-	68,786
-	-	-	-	-	-	2,747
-	-	-	-	-	-	2,747
-	-	11,745	36,919	5,242	3,796	1,021,402
13,328	137	(11,661)	1,967	3,465	203,208	109,809
-	-	-	-	-	-	3,200
-	-	-	-	-	(125,220)	(204,562)
-	-	-	-	-	(125,220)	(201,362)
13,328	137	(11,661)	1,967	3,465	77,988	(91,553)
265,107	15,197	11,661	37,475	337	113,279	1,197,039
\$ 278,435	\$ 15,334	\$ -	\$ 39,442	\$ 3,802	\$ 191,267	\$ 1,105,486

**CITY OF SAUK CENTRE, MINNESOTA  
 COMBINING BALANCE SHEET  
 TAX INCREMENT FINANCING FUND  
 YEAR ENDED DECEMBER 31, 2016**

250	252	254
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	Tax Increment Financing District No. 1	Tax Increment Financing District No. 1-11	Tax Increment Housing District No. 4	Total TIF Funds
<b>ASSETS</b>				
Cash and Investments	\$ 195,960	\$ 84	\$ 58,202	\$ 254,246
Accrued Interest Receivable	230	-	68	298
Land Held for Resale	1,428,604	-	-	1,428,604
Due from Other Governments	8,565	-	-	8,565
Total Assets	\$ 1,633,359	\$ 84	\$ 58,270	\$ 1,691,713
<b>LIABILITIES</b>				
Accounts and Contracts Payable	\$ 10,213	\$ -	\$ -	\$ 10,213
<b>FUND BALANCES</b>				
Restricted	1,623,146	84	58,270	1,681,500
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,633,359	\$ 84	\$ 58,270	\$ 1,691,713

**CITY OF SAUK CENTRE, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**TAX INCREMENT FINANCING FUND**  
**YEAR ENDED DECEMBER 31, 2016**

	250	252	254	
	Tax Increment Financing District No. 1	Tax Increment Financing District No. 1-11	Tax Increment Housing District No. 4	Total TIF Funds
<b>REVENUES</b>				
Taxes				
Tax Increments	\$ -	\$ 10,319	\$ 24,839	\$ 35,158
Other Revenues				
Interest	2,364	47	523	2,934
Total Revenues	2,364	10,366	25,362	38,092
<b>EXPENDITURES</b>				
Economic Development				
Other Charges	131,281	12,323	17,837	161,441
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(128,917)	(1,957)	7,525	(123,349)
<b>OTHER FINANCING SOURCES</b>				
Transfer Out	(3,200)	-	-	(3,200)
<b>NET CHANGE IN FUND BALANCES</b>	(132,117)	(1,957)	7,525	(126,549)
Fund Balances - Beginning of Year	1,755,263	2,041	50,745	1,808,049
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 1,623,146</u>	<u>\$ 84</u>	<u>\$ 58,270</u>	<u>\$ 1,681,500</u>

**CITY OF SAUK CENTRE, MINNESOTA  
COMBINING BALANCE SHEET  
DEBT SERVICE FUND  
DECEMBER 31, 2016**

	327	328	329	331	333
	G.O. Improvement Bonds of 2007B	2007A G.O. City Hall Bond	G.O. Improvement Bonds of 2008A	G.O. Improvement Bonds of 2012A	2015A GO Improvement Street Reconstruction
<b>ASSETS</b>					
Cash and Investments	\$ 74,612	\$ -	\$ -	\$ 645,180	\$ 543,997
Cash with Escrow Agent	-	-	-	-	-
Special Assessments Receivable	-	-	-	151,764	76,068
Interest Receivable	485	-	-	1,477	807
Due from Other Governments	-	-	-	668	547
Total Assets	<u>\$ 75,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 799,089</u>	<u>\$ 621,419</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Special Assessments	-	-	-	151,764	76,068
<b>FUND BALANCES</b>					
Restricted for Debt Service	<u>75,097</u>	<u>-</u>	<u>-</u>	<u>647,325</u>	<u>545,351</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 75,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 799,089</u>	<u>\$ 621,419</u>

334	335		
2015B G.O. Refunding 07A & 08A	2015C G.O. Hospital Refunding Bonds	Intrafund Activity	Total Debt Service
\$ 532,746	\$ 635,378	\$ -	\$ 2,431,913
-	-	-	-
132,376	-	-	360,208
1,746	745	-	5,260
2,030	-	-	3,245
<u>\$ 668,898</u>	<u>\$ 636,123</u>	<u>\$ -</u>	<u>\$ 2,800,626</u>
132,376	-	-	360,208
<u>536,522</u>	<u>636,123</u>	<u>-</u>	<u>2,440,418</u>
<u>\$ 668,898</u>	<u>\$ 636,123</u>	<u>\$ -</u>	<u>\$ 2,800,626</u>

**CITY OF SAUK CENTRE, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**DEBT SERVICE FUND**  
**YEAR ENDED DECEMBER 31, 2016**

	327	328	329	331	333
	G.O. Improvement Bonds of 2007B	2007A G.O. City Hall Bond	G.O. Improvement Bonds of 2008A	G.O. Improvement Bonds of 2012A	2015A GO Improvement Street Reconstruction
<b>REVENUES</b>					
Taxes					
Property Taxes	\$ -	\$ -	\$ -	\$ 98,436	\$ 121,638
Special Assessments	19,886	-	-	20,771	11,003
Total Taxes	19,886	-	-	119,207	132,641
Other Revenues					
Interest	1,522	10	1,951	6,353	3,815
Other	-	-	-	-	-
Total Other Revenues	1,522	10	1,951	6,353	3,815
Total Revenues	21,408	10	1,951	125,560	136,456
<b>EXPENDITURES</b>					
Debt Service					
Principal	50,000	130,000	80,000	175,000	-
Interest and Fiscal Charges	3,242	32,082	19,172	50,913	31,391
Total Debt Service	53,242	162,082	99,172	225,913	31,391
Total Expenditures	53,242	162,082	99,172	225,913	31,391
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(31,834)	(162,072)	(97,221)	(100,353)	105,065
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers From:					
Transfer In	-	-	-	125,220	210,925
Transfers To:					
Transfer Out	-	(2,370)	(267,368)	-	-
Payment to Bond Escrow Agent	-	-	-	-	-
Premium on Bonds	-	-	-	-	-
Total Other Financing Sources (Uses)	-	(2,370)	(267,368)	125,220	210,925
<b>NET CHANGE IN FUND BALANCES</b>	(31,834)	(164,442)	(364,589)	24,867	315,990
Fund Balances - Beginning of Year	106,931	164,442	364,589	622,458	229,361
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 75,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 647,325</u>	<u>\$ 545,351</u>



334	335		
2015B G.O. Refunding 07A & 08A	2015C G.O. Hospital Refunding Bonds	Intrafund Activity	Total Debt Service
\$ 188,823	\$ -	\$ -	\$ 408,897
37,424	-	-	89,084
226,247	-	-	497,981
4,916	7,266	-	25,833
-	617,155	-	617,155
4,916	624,421	-	642,988
231,163	624,421	-	1,140,969
-	465,000	-	900,000
31,076	151,660	-	319,536
31,076	616,660	-	1,219,536
31,076	616,660	-	1,219,536
200,087	7,761	-	(78,567)
331,680	-	(269,738)	398,087
-	-	269,738	-
(2,175,000)	-	-	(2,175,000)
-	-	-	-
(1,843,320)	-	-	(1,776,913)
(1,643,233)	7,761	-	(1,855,480)
2,179,755	628,362	-	4,295,898
\$ 536,522	\$ 636,123	\$ -	\$ 2,440,418

**CITY OF SAUK CENTRE, MINNESOTA  
COMBINING BALANCE SHEET  
CAPITAL PROJECTS FUND  
DECEMBER 31, 2016**

	412	409	413	414	440
	EDA Improvement Projects	Airport 2012 CIP	Beacon/ Runway CIP	Airport 2016 CIP Runway	2015 Beltline/Centre Street
<b>ASSETS</b>					
Cash and Investments	\$ 280,496	\$ -	\$ -	\$ 165,187	\$ -
Accounts Receivable	-	-	-	22,392	-
Interest Receivable	329	-	-	787	-
Land Held for Resale	41,536	-	-	-	-
Total Assets	<u>\$ 322,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,366</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ 6,000	\$ -
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Grant Receivable	-	-	-	8,397	-
<b>FUND BALANCES</b>					
Restricted for Capital Projects	322,361	-	-	173,969	-
Assigned for Capital Projects	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>322,361</u>	<u>-</u>	<u>-</u>	<u>173,969</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 322,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,366</u>	<u>\$ -</u>

441	442	443
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2016 CIP Oak Street Project	Getty Street Reconstruction	Cates Estate	Intrafund Activity	Total Capital Projects
\$ 36,295	\$ (23,772)	\$ (13,627)	\$ -	\$ 444,579
-	-	-	-	22,392
394	(28)	(16)	-	1,466
-	-	-	-	41,536
<u>\$ 36,689</u>	<u>\$ (23,800)</u>	<u>\$ (13,643)</u>	<u>\$ -</u>	<u>\$ 509,973</u>
\$ 403	\$ 2,558	\$ 5,017	\$ -	\$ 13,978
-	-	-	-	8,397
-	-	-	-	487,598
36,286	-	-	-	36,286
-	(26,358)	(18,660)	-	(45,018)
<u>36,286</u>	<u>(26,358)</u>	<u>(18,660)</u>	<u>-</u>	<u>487,598</u>
<u>\$ 36,689</u>	<u>\$ (23,800)</u>	<u>\$ (13,643)</u>	<u>\$ -</u>	<u>\$ 509,973</u>

**CITY OF SAUK CENTRE, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**CAPITAL PROJECT FUND**  
**YEAR ENDED DECEMBER 31, 2016**

	412	409	413	414	440
	EDA Improvement Projects	Airport 2012 CIP	Beacon/ Runway CIP	Airport 2016 CIP Runway	2015 Beltline/Centre Street
<b>REVENUES</b>					
Special Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenues					
Federal Grants	-	-	7,128	209,188	-
State Aids	-	-	396	36,956	-
Total Intergovernmental Revenues	-	-	7,524	246,144	-
Other Revenues					
Interest (Expense)	1,938	(4)	(25)	2,269	3,218
Refunds and Reimbursements	122,902	-	-	-	-
Total Other Revenues	124,840	(4)	(25)	2,269	3,218
Total Revenues	124,840	(4)	7,499	248,413	3,218
<b>EXPENDITURES</b>					
Public Works					
Capital Outlay	-	-	-	-	148,985
Economic Development					
Other Charges	3,595	-	-	-	-
Airport					
Capital Outlay	-	-	-	273,460	-
Total Expenditures	3,595	-	-	273,460	148,985
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	121,245	(4)	7,499	(25,047)	(145,767)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In	-	-	-	24,665	-
Transfer Out	-	(569)	(9,096)	-	(210,925)
Total Other Financing Sources (Uses)	-	(569)	(9,096)	24,665	(210,925)
<b>NET CHANGE IN FUND BALANCES</b>	121,245	(573)	(1,597)	(382)	(356,692)
Fund Balances - Beginning of Year	201,116	573	1,597	174,351	356,692
<b>FUND BALANCES - END OF YEAR</b>	\$ 322,361	\$ -	\$ -	\$ 173,969	\$ -

441	442	443
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2016 CIP Oak Street Project	Getty Street Reconstruction	Cates Estate	Intrafund Activity	Total Capital Projects
\$ 20,206	\$ -	\$ -	\$ -	\$ 20,206
-	-	-	-	216,316
-	-	-	-	37,352
-	-	-	-	253,668
(301)	(50)	(25)	-	7,020
150,347	-	-	-	273,249
150,046	(50)	(25)	-	280,269
170,252	(50)	(25)	-	554,143
392,329	26,308	18,635	-	586,257
-	-	-	-	3,595
-	-	-	-	273,460
392,329	26,308	18,635	-	863,312
(222,077)	(26,358)	(18,660)	-	(309,169)
150,000	-	-	(9,665)	165,000
-	-	-	9,665	(210,925)
150,000	-	-	-	(45,925)
(72,077)	(26,358)	(18,660)	-	(355,094)
108,363	-	-	-	842,692
\$ 36,286	\$ (26,358)	\$ (18,660)	\$ -	\$ 487,598

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**REPORTS RELATING TO *GOVERNMENT AUDITING STANDARDS***



**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**

Honorable Mayor and 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 31, 2016. 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, 2016, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those 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.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2016-001 and 2016-002, as described in the accompanying schedule of findings and recommendations, to be material weaknesses.



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

**Compliance and Other Matters**

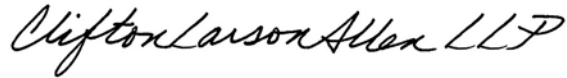
As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 them.

**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 City’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Alexandria, Minnesota  
April 6, 2017

## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and 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, 2016, 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 6, 2017. 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, 2016, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of compliance and other matters that are reported on separately by those auditors.

The City's basic financial statements include the operations of the Sauk Centre Public Utilities Commission (Utility) and Sauk Centre Housing and Redevelopment Authority (HRA). Our audit described below did not include the operations of the Utility 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 Other Political Subdivisions*.

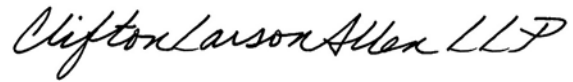
The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statutes §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, 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 Cities*, except for the item identified in the schedule of findings and recommendations as item 2016-003. 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 City of Sauk Centre's written response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. The City's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

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 Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Alexandria, Minnesota  
April 6, 2017

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**CITY OF SAUK CENTRE, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2016**

**MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:**

**2016-001 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, 2016**

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

**2016-002 OVERSIGHT OF THE FINANCIAL REPORTING PROCESS**

**Condition:** The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with U. S. generally accepted accounting principles (GAAP).

**Criteria:** The City's management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with GAAP.

**Cause:** The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

**Effect:** The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

**Recommendation:** Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

**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 rely upon 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.

**CITY OF SAUK CENTRE, MINNESOTA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2016**

**MINNESOTA LEGAL COMPLIANCE**

**2016-003 RESPONSIBLE CONTRACTOR REQUIREMENT**

**Criteria:** Minnesota Statute §16C.285 subdivision 3 requires that the successful contractor for each contract over \$50,000 submit a verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minnesota Statute §16C.285.

**Condition:** For one of two contracts tested, the City did not have the contractor verification of compliance on file.

**Cause:** The City used their standard contract for projects that do not require an engineer contract. This contract did not include a section for the contractor to verify compliance.

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

**Recommendation:** We recommend City Management implement procedures to ensure the contractor verification is obtained when the contract is signed.

**Management Response:** Management agrees and will implement procedures to ensure compliance with state contracting requirements.

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