

CITY OF SAUK CENTRE, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2018

**CITY OF SAUK CENTRE, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF SAUK CENTRE, MINNESOTA
ELECTED OFFICIALS AND ADMINISTRATION
DECEMBER 31, 2018**

Elected Officials	Position	Term Expires
CITY COUNCIL		
Warren Stone	Mayor	December 31, 2022
David Thomas	Council Member	December 31, 2020
Keith Johnson	Council Member	December 31, 2018
Heidi Leach	Council Member	December 31, 2022
Diane Kelly	Council Member	December 31, 2020

CITY OFFICIALS		
Vicki Willer	City Administrator	Indefinite
Jacquelyn Kirckof	Accounting Specialist	Indefinite
Bryon Friedrichs	Chief of Police	Indefinite
Steve Moritz	Fire Chief	Indefinite

PUBLIC UTILITIES COMMISSION - APPOINTED		
David Thomas	President	December 31, 2019
Ted Spanier	Vice-President	December 31, 2020
Mark Roberg	Commissioner	December 31, 2018
Jeff Bromenshenkel	Commissioner	December 31, 2020
Roy Walz	Commissioner	December 31, 2019

HOUSING AND REDEVELOPMENT AUTHORITY BOARD - APPOINTED		
Don Leonard	Board President	March 31, 2023
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

FINANCIAL SECTION



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, 2018, 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, 2018, which represents 3%, 5%, 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, 2018, 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, 2018, the Sauk Centre Public Utility restated beginning net position as the result of a change in accounting principle (see Note 18). 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 changes in the total OPEB liability, related ratios and notes, schedule of the proportionate share of the net pension liability, the schedule of pension 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 information is 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 2, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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 2, 2019

BASIC FINANCIAL STATEMENTS

**CITY OF SAUK CENTRE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental Activities	Component Units	
		Sauk Centre Public Utilities Commission	Sauk Centre HRA
ASSETS			
Cash and Investments	\$ 10,880,562	\$ 1,724,520	\$ 168,364
Designated Cash and Investments	-	6,467,453	-
Due from Other Governments	370,230	-	-
Accounts Receivable	584,125	1,319,300	14,045
Notes Receivable	6,732,992	-	-
Taxes Receivable - Delinquent	52,831	-	-
Special Assessments Receivable	1,530,387	-	-
Due from Component Unit	1,046,675	-	-
Due from Primary Government	-	8,000	-
Interest Receivable	29,352	52,699	-
Inventories	-	271,729	-
Prepaid Expenses	-	50,001	7,897
Land Held for Resale	920,322	-	-
Land Held for Investment	-	60,000	-
Net Pension Asset	155,629	-	-
Capital Assets Not Being Depreciated			
Land	4,044,573	146,633	95,745
Construction in Process	1,860,042	10,700	-
Capital Assets Being Depreciated			
Land Improvements	1,763,867	-	-
Buildings and Improvements	24,965,726	2,606,663	1,992,784
Vehicles, Machinery and Equipment	9,038,790	764,803	64,048
Infrastructure	16,918,158	26,635,153	-
Less: Accumulated Depreciation	(27,850,807)	(14,570,828)	(1,455,584)
Total Assets	53,043,454	25,546,826	887,299
DEFERRED OUTFLOWS OF RESOURCES			
OPEB Related	14,531	49,384	-
Pension Related	807,547	121,290	-
Total Deferred Outflows of Resources	822,078	170,674	-
LIABILITIES			
Salaries/Benefits Payable	95,265	133,960	4,267
Accounts and Contracts Payable	224,340	505,630	4,843
Due to Primary Government	-	1,046,675	-
Due to Other Governments	-	-	9,877
Tenant Security Deposits	-	-	9,730
Unearned Revenue	11,784	-	500
Other Liabilities	-	-	3,544
Accrued Interest	137,764	32,934	-
Net Pension Liability	1,182,284	737,829	-
OPEB Liability	362,332	228,593	-
Long-Term Obligations			
Due Within One Year	994,000	355,000	-
Due in More than One Year	15,290,033	4,381,000	-
Total Liabilities	18,297,802	7,421,621	32,761
DEFERRED INFLOWS OF RESOURCES			
Pension Related	1,203,542	204,904	-
Total Deferred Inflows of Resources	1,203,542	204,904	-
NET POSITION			
Net Investment in Capital Assets	16,114,466	10,857,124	696,993
Restricted For:			
Net Pension Asset	58,382	-	-
Debt Service	3,835,409	-	-
Capital Outlay	1,668,734	-	-
Economic Development	2,232,650	-	-
Fire Service	132,053	-	-
Hospital Operations	2,323,091	-	-
Other Purposes	197,991	-	-
Unrestricted	7,801,412	7,233,851	157,545
Total Net Position	\$ 34,364,188	\$ 18,090,975	\$ 854,538

See accompanying Notes to Financial Statements.

CITY OF SAUK CENTRE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units	
					Governmental Activities	Sauk Centre Public Utilities Commission	Sauk Centre HRA
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 1,008,593	\$ 375,482	\$ -	\$ 104,190	\$ (528,921)	\$ -	\$ -
Public Safety	2,586,943	1,060,228	101,514	10,000	(1,415,201)	-	-
Public Works	2,114,650	253,411	-	2,191,910	330,671	-	-
Culture and Recreation	544,041	145,183	-	-	(398,858)	-	-
Economic Development	24,605	1,724	-	-	(22,881)	-	-
Airport	95,388	79,719	-	66,270	50,601	-	-
Debt Service	321,342	616,168	-	-	294,826	-	-
Total Governmental Activities	<u>6,695,562</u>	<u>2,531,915</u>	<u>101,514</u>	<u>2,372,370</u>	<u>(1,689,763)</u>	<u>-</u>	<u>-</u>
COMPONENT UNITS							
Housing Activity	321,112	145,290	124,243	597	-	-	(50,982)
Public Utilities Commission	6,629,202	7,742,215	7,125	46,387	-	1,166,525	-
Total Component Units	<u>\$ 6,950,314</u>	<u>\$ 7,887,505</u>	<u>\$ 131,368</u>	<u>\$ 46,984</u>	<u>-</u>	<u>1,166,525</u>	<u>(50,982)</u>
GENERAL REVENUES							
Property Taxes					1,783,451	-	-
Tax Increments					13,751	-	-
Intergovernmental Revenues					1,187,376	-	-
Interest and Investments Earnings					348,203	107,699	576
Gain on Disposal of Assets					-	6,960	-
Miscellaneous Revenues					146,413	64,584	-
Total General Revenues					<u>3,479,194</u>	<u>179,243</u>	<u>576</u>
CHANGES IN NET POSITION					1,789,431	1,345,768	(50,406)
Net Position - Beginning of Year					32,574,757	16,602,350	904,944
Restatement					-	142,857	-
Net Position - Beginning of Year, as Restated					<u>32,574,757</u>	<u>16,745,207</u>	<u>904,944</u>
NET POSITION - END OF YEAR					<u>\$ 34,364,188</u>	<u>\$ 18,090,975</u>	<u>\$ 854,538</u>

See accompanying Notes to Financial Statements.

**CITY OF SAUK CENTRE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	Special Revenue			
	General	Arena	Hospital	Tax Increment Financing
ASSETS				
Cash and Investments	\$ 1,668,786	\$ 17,933	\$ 3,316,871	\$ 695,844
Taxes Receivable - Delinquent	39,962	-	-	-
Special Assessments Receivable	130,263	-	-	-
Accounts Receivable	79,170	16,740	143,076	5,000
Loans Receivable	-	-	-	-
Notes Receivable	-	-	6,732,992	-
Interest Receivable	5,480	46	8,629	1,810
Land Held for Resale	-	-	-	920,322
Due from Other Governments	6,667	126	-	-
Due from Component Unit	-	-	-	-
Due from Other Funds	420,953	-	-	-
Advances to Other Funds	69,356	-	-	-
	<u>\$ 2,420,637</u>	<u>\$ 34,845</u>	<u>\$ 10,201,568</u>	<u>\$ 1,622,976</u>
LIABILITIES				
Salaries/Benefits Payable	\$ 74,167	\$ 1,296	\$ -	\$ -
Accounts and Contracts Payable	49,890	9,159	-	17
Due to Other Funds	-	-	-	-
Advances from Other Funds	-	-	-	-
Unearned Revenue	4,624	-	-	-
Total Liabilities	<u>128,681</u>	<u>10,455</u>	<u>-</u>	<u>17</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Taxes	39,962	-	-	-
Unavailable Loans Receivable	-	-	-	-
Unavailable Notes Receivable	-	-	6,732,992	-
Unavailable Special Assessments	130,263	-	-	-
Total Deferred Inflows of Resources	<u>170,225</u>	<u>-</u>	<u>6,732,992</u>	<u>-</u>
FUND BALANCES				
Nonspendable	69,356	-	-	-
Restricted	127,192	-	2,323,091	1,624,682
Committed	789,284	24,390	-	-
Assigned	-	-	1,145,485	-
Unassigned	1,135,899	-	-	(1,723)
Total Fund Balances	<u>2,121,731</u>	<u>24,390</u>	<u>3,468,576</u>	<u>1,622,959</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,420,637</u>	<u>\$ 34,845</u>	<u>\$ 10,201,568</u>	<u>\$ 1,622,976</u>

See accompanying Notes to Financial Statements.

Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 680,194	\$ 2,567,424	\$ 1,933,510	\$ 10,880,562
-	12,869	-	52,831
-	1,383,581	16,543	1,530,387
-	-	99,141	343,127
-	-	240,998	240,998
-	-	-	6,732,992
1,752	6,642	4,993	29,352
-	-	-	920,322
329,118	2,657	31,662	370,230
1,000,674	-	46,001	1,046,675
-	-	-	420,953
-	-	-	69,356
<u>\$ 2,011,738</u>	<u>\$ 3,973,173</u>	<u>\$ 2,372,848</u>	<u>\$ 22,637,785</u>
\$ -	\$ -	\$ 19,802	\$ 95,265
136,286	-	28,988	224,340
420,630	-	323	420,953
-	-	69,356	69,356
-	-	7,160	11,784
<u>556,916</u>	<u>-</u>	<u>125,629</u>	<u>821,698</u>
-	12,869	-	52,831
-	-	240,998	240,998
-	-	-	6,732,992
-	1,383,581	16,543	1,530,387
-	1,396,450	257,541	8,557,208
-	-	-	69,356
1,541,542	2,576,723	680,609	8,873,839
-	-	457,421	1,271,095
10,802	-	851,648	2,007,935
(97,522)	-	-	1,036,654
<u>1,454,822</u>	<u>2,576,723</u>	<u>1,989,678</u>	<u>13,258,879</u>
<u>\$ 2,011,738</u>	<u>\$ 3,973,173</u>	<u>\$ 2,372,848</u>	<u>\$ 22,637,785</u>

**CITY OF SAUK CENTRE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 13,258,879

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	58,591,156
Less: Accumulated Depreciation	(27,850,807)

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	155,629
Net Pension Liability	(1,182,284)
Deferred Outflows of Resources - Pension Related	807,547
Deferred Inflows of Resources - Pension Related	(1,203,542)

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

OPEB Liability	(362,332)
Deferred Outflows of Resources - OPEB Related	14,531

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

Long-Term Debt	(16,284,033)
Accrued Interest Payable	(137,764)

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	52,831
Unavailable Special Assessments Receivable	1,530,387

Loans and notes 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.

6,973,990

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 34,364,188

CITY OF SAUK CENTRE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	Special Revenue			
	General	Arena	Hospital	Tax Increment Financing
REVENUES				
Taxes	\$ 1,242,144	\$ 24,549	\$ -	\$ -
Tax Increments	-	-	-	12,900
Special Assessments	62,464	-	-	-
Licenses and Permits	362,607	-	-	-
Intergovernmental Revenues	1,296,415	-	-	-
Charges for Services	155,785	63,955	96,000	-
Fines and Forfeits	41,108	-	-	-
Other Revenues	65,920	490	302,740	14,107
Total Revenues	<u>3,226,443</u>	<u>88,994</u>	<u>398,740</u>	<u>27,007</u>
EXPENDITURES				
General Government	845,777	-	-	-
Public Safety	1,116,483	-	79,486	-
Public Works	500,064	-	-	-
Culture and Recreation	356,896	116,955	-	-
Economic Development	-	-	-	21,951
Airport	-	-	-	-
Debt Service				
Principal	4,000	-	-	-
Interest and Fiscal Charges	-	-	-	-
Capital Outlay	226,038	-	-	-
Total Expenditures	<u>3,049,258</u>	<u>116,955</u>	<u>79,486</u>	<u>21,951</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	177,185	(27,961)	319,254	5,056
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Bond Proceeds	-	-	-	-
Premium on Bonds	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	177,185	(27,961)	319,254	5,056
Fund Balances - Beginning of Year	<u>1,944,546</u>	<u>52,351</u>	<u>3,149,322</u>	<u>1,617,903</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,121,731</u>	<u>\$ 24,390</u>	<u>\$ 3,468,576</u>	<u>\$ 1,622,959</u>

See accompanying Notes to Financial Statements.

Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 404,920	\$ 86,695	\$ 1,758,308
-	-	-	12,900
-	52,012	-	114,476
-	-	-	362,607
130,329	-	41,131	1,467,875
-	-	1,060,486	1,376,226
-	-	11,503	52,611
<u>1,011,616</u>	<u>804,168</u>	<u>209,190</u>	<u>2,408,231</u>
<u>1,141,945</u>	<u>1,261,100</u>	<u>1,409,005</u>	<u>7,553,234</u>
-	-	25,097	870,874
-	-	539,132	1,735,101
-	-	9,967	510,031
-	-	41,867	515,718
-	-	7,654	29,605
-	-	64,014	64,014
-	970,000	-	974,000
-	310,102	2,747	312,849
<u>2,860,031</u>	<u>-</u>	<u>181,560</u>	<u>3,267,629</u>
<u>2,860,031</u>	<u>1,280,102</u>	<u>872,038</u>	<u>8,279,821</u>
(1,718,086)	(19,002)	536,967	(726,587)
-	198,769	-	198,769
-	-	(198,769)	(198,769)
3,350,000	-	-	3,350,000
<u>78,996</u>	<u>-</u>	<u>-</u>	<u>78,996</u>
<u>3,428,996</u>	<u>198,769</u>	<u>(198,769)</u>	<u>3,428,996</u>
1,710,910	179,767	338,198	2,702,409
<u>(256,088)</u>	<u>2,396,956</u>	<u>1,651,480</u>	<u>10,556,470</u>
<u>\$ 1,454,822</u>	<u>\$ 2,576,723</u>	<u>\$ 1,989,678</u>	<u>\$ 13,258,879</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, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,702,409

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	2,216,021
Depreciation Expense	(1,470,265)
Disposal of Assets - Net Book Value	(48,040)

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	974,000
Amortization of Bond Discount	(4,625)
Amortization of Bond Premium	20,353
Change in Accrued Interest	(24,221)
Premium on Bonds Sold	(78,996)
General Obligation Bond Proceeds	(3,350,000)

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 (asset) and the related deferred inflows and outflows of resources.

45,103

Payments to the City's OPEB liability are recognized as expenditures at the fund level while the change in the OPEB obligation and the related deferred inflows and outflows of resources are recognized in the statement of net position.

(122,685)

In the statement of activities, compensated absences 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).

(7,948)

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 \$25,991, note receivable decreased by \$73,199 and special assessments increased by \$1,037,515.

938,325

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 1,789,431

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 accounting principles generally accepted in the United States of America (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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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, 2018.

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, Minnesota 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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 2018, the City's adopted budget was consistent with accounting principles generally accepted in the United States of America.

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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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, 2018, the allowance is \$85,697.

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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 2017 which was collected during the year ended December 31, 2018. 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. During the current year, the County collected taxes levied for the subsequent period. These taxes will be recognized as revenue in the year for which they were levied and are reported as property taxes levied for subsequent year.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 acquisition value. The City maintains a threshold level of \$5,000 to \$100,000, depending on asset type, for capitalizing capital assets.

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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 nonexempt 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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 accounting principles generally accepted in the United States of America.

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

Expenditures in Excess of Appropriations

In the Tax Increment Financing Fund, expenditures exceeded the appropriations during the year ended December 31, 2018 by \$2,201.

The 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.

Deficit Fund Balance

The following funds have a deficit fund balance as of December 31, 2018:

<u>Deficit Fund Balance</u>	<u>Amount</u>
Tax Increment Financing District No. 1-12	\$ 1,723
Capital Project Fund - Cates Estate	97,522

Deficit fund balances are due to expenditures exceeding revenues in the current year and will be recovered through future tax increment collections or transfers.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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, 2018, 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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

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, 2018:

Investment	Credit Risk		Concentration	Interest Rate Risk		Carrying Value
	Rating	Agency	Risk % of Portfolio	Maturity Date	Interest Rate	
Minnesota Municipal Money Market Fund						
4M Plus Fund	N/R	N/A	N/A	N/A	N/A	\$ 482
4M Fund	N/R	N/A	N/A	N/A	N/A	2,503,310
Smith Barney						
Negotiable Certificate of Deposit	N/R	N/A	N/A	2/18/2020	N/A	100,283
Money Market Fund	N/R	N/A	N/A	N/A	N/A	10,306
Multi-Bank Securities						
Negotiable Certificate of Deposit	N/R	N/A	N/A	See Below	Various	4,565,767
Total Investments						<u>\$ 7,180,148</u>
			Less Than 1 Year	1 to 2 Years	3 to 5 Years	Total
Negotiable Certificate of Deposit			<u>\$ 789,964</u>	<u>\$ 1,761,042</u>	<u>\$ 2,115,044</u>	<u>\$ 4,666,050</u>
Deposits					Bank Value	Carrying Value
Checking Accounts					\$ 1,769,470	\$ 1,568,349
Savings Accounts					352,568	352,568
Certificates of Deposit					1,779,497	1,779,497
Total Deposits					<u>\$ 3,700,414</u>	
Total Deposits and Investments - Governmental Funds						<u>\$ 10,880,562</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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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>12/31/2018</u>	<u>Fair Value Measurements Using</u>		
		<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Investments by Fair Value Level				
Certificates of Deposit	\$ 4,666,050	\$ 4,666,050	\$ -	\$ -
Total Investments by Fair Value Level	4,666,050	<u>\$ 4,666,050</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at Amortized Cost				
Money Market Funds	2,514,098			
Total Investments	<u>\$ 7,180,148</u>			

The City’s external investment pool investment is with the 4M Fund which is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities. The 4M Fund is an unrated pool and reported at amortized cost. The 4M Fund does not restrict or limit withdrawals made by the City.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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	1,723,920
Designated Current Assets:	
Capital Replacement Deposits	740,325
Operations and Maintenance Deposits	400,000
Designated Noncurrent Assets:	
Capital Replacement Deposits	4,748,535
OPEB Deposits	228,593
Debt Retirement Deposits	<u>350,000</u>
Total Cash and Investments	8,191,973
Less: Noncash Equivalents	<u>(4,814,064)</u>
Total Cash and Cash Equivalents	<u><u>\$ 3,377,909</u></u>

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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 is as follows:

GOVERNMENTAL ACTIVITIES	January 1, 2018 Balance	Additions	Disposals	December 31, 2018 Balance
Capital Assets, Not Being Depreciated				
Land	\$ 4,044,573	\$ -	\$ -	\$ 4,044,573
Construction in Progress	2,948,555	4,741,973	5,830,486	1,860,042
Total Capital Assets, Not Being Depreciated	6,993,128	4,741,973	5,830,486	5,904,615
Capital Assets, Being Depreciated				
Land Improvements	1,496,792	267,075	-	1,763,867
Buildings and Improvements	24,937,226	28,500	-	24,965,726
Vehicles, Machinery and Equipment	8,915,230	240,414	116,854	9,038,790
Infrastructure	14,149,613	2,768,545	-	16,918,158
Total Capital Assets, Being Depreciated	49,498,861	3,304,534	116,854	52,686,541
Total Capital Assets	56,491,989	8,046,507	5,947,340	58,591,156
Less: Accumulated Depreciation	(26,449,356)	(1,470,265)	(68,814)	(27,850,807)
Capital Assets, Net	<u>\$ 30,042,633</u>	<u>\$ 6,576,242</u>	<u>\$ 5,878,526</u>	<u>\$ 30,740,349</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	\$ 99,664
Public Safety	811,984
Public Works	461,980
Culture and Recreation	65,527
Airport	31,110
Total Depreciation Expense, Governmental Activities	<u>\$ 1,470,265</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 5 CAPITAL ASSETS (CONTINUED)

COMPONENT UNIT	January 1, 2018			December 31, 2018
SAUK CENTRE PUBLIC UTILITIES COMMISSION	Balance	Additions	Disposals	Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 146,633	\$ -	\$ -	\$ 146,633
Construction in Progress	114,006	2,210	105,516	10,700
Total Capital Assets, Not Being Depreciated	<u>260,639</u>	<u>2,210</u>	<u>105,516</u>	<u>157,333</u>
Capital Assets, Being Depreciated:				
Station Equipment	533,067	-	354	532,713
Distribution System	24,841,959	404,241	15,000	25,231,200
General Plant	1,602,274	1,037,726	33,337	2,606,663
Load Management	227,235	4,855	-	232,090
Treatment Facility	1,403,953	-	-	1,403,953
Total Capital Assets, Being Depreciated	<u>28,608,488</u>	<u>1,446,822</u>	<u>48,691</u>	<u>30,006,619</u>
Total Capital Assets	28,869,127	1,449,032	154,207	30,163,952
Less: Accumulated Depreciation	<u>(13,836,673)</u>	<u>(782,632)</u>	<u>48,477</u>	<u>(14,570,828)</u>
Capital Assets, Net	<u>\$ 15,032,454</u>	<u>\$ 666,400</u>	<u>\$ 105,730</u>	<u>\$ 15,593,124</u>
COMPONENT UNIT				
HOUSING AND REDEVELOPMENT AUTHORITY				
OF SAUK CENTRE	October 1, 2017			September 30, 2018
	Balance	Additions	Disposals	Balance
Capital Assets, Not Being Depreciated				
Land and Improvements	\$ 95,745	\$ -	\$ -	\$ 95,745
Capital Assets, Being Depreciated				
Buildings	1,989,682	3,102	-	1,992,784
Equipment and Other	62,585	3,208	(1,745)	64,048
Total Capital Assets being Depreciated	<u>2,052,267</u>	<u>6,310</u>	<u>(1,745)</u>	<u>2,056,832</u>
Less: Accumulated Depreciation	<u>(1,352,762)</u>	<u>(103,700)</u>	<u>878</u>	<u>(1,455,584)</u>
Total Capital Assets being Depreciated, Net	<u>699,505</u>	<u>(97,390)</u>	<u>(867)</u>	<u>601,248</u>
Capital Assets, Net	<u>\$ 795,250</u>	<u>\$ (97,390)</u>	<u>\$ (867)</u>	<u>\$ 696,993</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 6 LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended December 31, 2018:

	Balance January 1, 2018	Increases	Decreases	Balance December 31, 2018	Amounts Due in One Year
General Obligation Improvement Bonds	\$ 4,290,000	\$ 3,350,000	\$ 455,000	\$ 7,185,000	\$ 465,000
Premium on Bonds	205,101	78,996	20,353	263,744	-
Discount on Bonds	(9,260)	-	(4,625)	(4,635)	-
Other Long-Term Debt	12,000	-	4,000	8,000	4,000
Revenue Bonds	9,175,000	-	515,000	8,660,000	525,000
Compensated Absences	163,976	113,293	105,345	171,924	-
Total Long-Term Debt	<u>\$ 13,836,817</u>	<u>\$ 3,542,289</u>	<u>\$ 1,095,073</u>	<u>\$ 16,284,033</u>	<u>\$ 994,000</u>

General Obligation Bonds

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

	Balance Outstanding
General Obligation Improvement Bonds	
\$1,245,000 of General Obligation Improvement Bonds, Series 2012A, interest from 2.00% to 2.20%, matures February 1, 2029.	\$ 930,000
\$2,185,000 of General Obligation Refunding Bonds, Series 2015B, interest at 2.00%, matures February 1, 2025.	1,720,000
\$1,440,000 of General Obligation Bonds, Series 2015A, interest from 1.50% to 3.00%, matures February 1, 2026.	1,185,000
\$3,350,000 of General Obligation Bonds, Series 2018A, interest from 3.00% to 3.25%, matures February 1, 2034.	<u>3,350,000</u>
Total General Obligation Improvement Bonds	7,185,000
Other Long-Term Debt	
\$80,000 City purchase of Public Utilities Property of 2000, Interest at 0.00% matures September 20, 2020.	8,000
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.	1,115,000
\$8,845,000 of General Obligation Hospital Refunding Bonds, Series 2015C, interest from 2.00% to 3.00%, due September 1, 2033.	<u>7,545,000</u>
Total Revenue Bonds	8,660,000
Plus Premium/(Discount) on Bonds	259,109
Compensated Absences	<u>171,924</u>
Total Long-Term Debt	<u>\$ 16,284,033</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Long-term debt maturities are as follows:

<u>Year Ending December 31.</u>	<u>Total Principal Maturities</u>	<u>Total Interest Maturities</u>
2019	\$ 994,000	\$ 378,354
2020	1,154,000	367,648
2021	1,205,000	342,316
2022	1,225,000	315,698
2023	1,255,000	288,141
2024-2028	5,450,000	1,029,158
2029-2033	4,295,000	406,850
2034	275,000	4,469
Total	15,853,000	3,132,634
Plus: Premium/(Discount)	259,109	-
Total	<u>\$ 16,112,109</u>	<u>\$ 3,132,634</u>

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 4th Street Storm Water Construction project.

The City issued \$3,350,000 in general obligation improvement during 2018 for the Getty Street Improvement project and 2018 Improvements project.

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

Long-Term Debt –Sauk Centre Public Utilities Commission

The following is a summary of bond information for the component units for the year ended December 31, 2018.

**Long-Term Debt - Sauk Centre Public Utilities Commission -
Component Unit**

<u>Component Unit</u>	<u>Balance Outstanding</u>
General Obligation Clean Water Revenue Note - \$7,058,050, 2010 Issue, Interest 1.911%, due August 2030.	\$ 4,736,000
Less: Current Maturities	<u>(355,000)</u>
Total Long-Term Debt, Less Current Maturities	<u>\$ 4,381,000</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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

Sauk Centre Public Utilities Commission			
<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 355,000	\$ 90,505	\$ 445,505
2020	362,000	83,721	445,721
2021	368,000	76,803	444,803
2022	376,000	69,771	445,771
2023	383,000	62,585	445,585
2024-2028	2,026,000	200,387	2,226,387
2029-2031	866,000	24,900	890,900
Total	<u>\$ 4,736,000</u>	<u>\$ 608,672</u>	<u>\$ 5,344,672</u>

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, 2018 consists of the following:

Sauk Centre Public Utilities Commission				
	<u>Balance January 1, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31, 2018</u>
G.O. Bonds	<u>\$ 5,233,000</u>	<u>\$ -</u>	<u>\$ 497,000</u>	<u>\$ 4,736,000</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

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.

Actuarial Methods and Assumptions

The City's OPEB liability was measured as of January 1, 2018, and the total OPEB liability was determined by an actuarial valuation as of January 1, 2018.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary	3.0%
Health Care Trend Rates	6.50% Decreasing to 5.00% Over 6 Years

Mortality rates were based on the RP-2014 white collar mortality tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel)

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2017 to December 31, 2017.

The discount rate used to measure the total OPEB liability was 3.3%. The discount rate is equal to the 20-Year Municipal Bond Yield.

Since the most recent GASB 45 valuation, the following plan changes have been made:

- Nonunion employees must now stay on the City's medical plan post-employment in order to receive a GASB 75 subsidy. Therefore, it was assumed more employees will stay on the City's medical plan.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Since the most recent GASB 45 valuation, the following assumption changes have been made:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2014 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel)
- The discount rate was changed from 4.00% to 3.30%.
- The withdrawal and retirement tables for all employees were updated
- The percentage of future retirees and spouses of retirees eligible for a subsidy who are assumed to continue on one of the City's medical plans post-employment was decreased from 100% to 90%.

Changes in Total OPEB Liability

	Governmental Funds	Sauk Centre Public Utilities Commission	Total
Balance as of January 1, 2018	\$ 357,696	\$ 269,812	\$ 627,508
Changes for the Year:			
Service Cost	15,575	4,911	20,486
Interest	11,943	8,177	20,120
Benefit Payments	<u>(22,882)</u>	<u>(54,307)</u>	<u>(77,189)</u>
Net Change in Total OPEB Liability	<u>4,636</u>	<u>(41,219)</u>	<u>(36,583)</u>
Balance as of December 31, 2018	<u>\$ 362,332</u>	<u>\$ 228,593</u>	<u>\$ 590,925</u>

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (2.30%)	Discount Rate (3.30%)	1% Increase (4.30%)
Total OPEB Liability	\$ 391,172	\$ 362,332	\$ 335,374

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Total OPEB Liability (Continued)

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.5% decreasing to 4.00% over 6 years) or 1% higher (7.5% decreasing to 6.00% over 6 years) than the current healthcare cost trend rates:

Medical Trend Rate	1% Decrease (5.50% Decreasing to 4.00%)	Current Trend Rates (6.50% Decreasing to 5.00%)	1% Increase (7.50% Decreasing to 6.00%)
Total OPEB Liability	\$ 324,024	\$ 362,332	\$ 407,642

For the year ended December 31, 2018, the City recognized OPEB expense of \$27,518. At December 31, 2018, the City reported no deferred inflows of resources, and \$14,531 in deferred outflows of resources resulting from City contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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	\$ 69,356	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:							
Capital Projects	-	-	-	-	1,541,542	-	-
Fire Service	-	-	-	-	-	-	130,468
Economic Development	-	-	-	1,624,682	-	-	-
Debt Service	-	-	-	-	-	2,576,723	-
EDA Improvement Projects	-	-	-	-	-	-	164,634
Economic Development Loan Payments	-	-	-	-	-	-	297,980
Park Capital Outlay	-	-	-	-	-	-	15,739
Police Forfeiture Operations	-	-	-	-	-	-	1,075
Hospital Operations	-	-	2,323,091	-	-	-	-
Street Improvements	127,192	-	-	-	-	-	-
Small City Development	-	-	-	-	-	-	70,713
Committed For:							
Library Operations	-	-	-	-	-	-	21,453
Fire Protection Capital Outlay	-	-	-	-	-	-	65,097
Ambulance Operations	-	-	-	-	-	-	34,793
Airport Capital Outlay	-	-	-	-	-	-	35,215
Storm Water Utility	-	-	-	-	-	-	300,863
Arena Operations	-	24,390	-	-	-	-	-
Park Land	19,000	-	-	-	-	-	-
Police Department Severance	18,340	-	-	-	-	-	-
Street Improvements	380,513	-	-	-	-	-	-
Campground	179,999	-	-	-	-	-	-
MnDOT Signs	5,636	-	-	-	-	-	-
Build A Forest	7,455	-	-	-	-	-	-
Parks	161,260	-	-	-	-	-	-
Splash Pad	17,081	-	-	-	-	-	-
Assigned:							
Hospital Operations	-	-	1,145,485	-	-	-	-
Library Operations	-	-	-	-	-	-	17,110
Senior Center Operations	-	-	-	-	-	-	40,475
Fire Department Equipment Purchases	-	-	-	-	-	-	187,024
Ambulance Services	-	-	-	-	-	-	265,585
Economic Development	-	-	-	-	-	-	74,577
Airport Operations	-	-	-	-	-	-	183,284
Small City Development	-	-	-	-	-	-	83,593
Capital Projects	-	-	-	-	10,802	-	-
Unassigned:	1,135,899	-	-	(1,723)	(97,522)	-	-
Total Fund Balances (Deficit)	<u>\$ 2,121,731</u>	<u>\$ 24,390</u>	<u>\$ 3,468,576</u>	<u>\$ 1,622,959</u>	<u>\$1,454,822</u>	<u>\$ 2,576,723</u>	<u>\$ 1,989,678</u>

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 Plan

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

2. Public Employees Police and Fire Plan

The Police and Fire Plan, 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 Police and Fire Plan 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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 9 PENSION PLANS (CONTINUED)

Benefits Provided (Continued)

1. General Employee Plan 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. Police and Fire Plan Benefits

Benefits for the Police and Fire Plan 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 Police and Fire Plan 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 Police and Fire Plan members 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. General Employee Plan Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2018. The City and Sauk Centre Public Utilities Commission contributions to the General Employees Plan for the year ended December 31, 2018, were \$62,788 and \$64,435 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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 9 PENSION PLANS (CONTINUED)

Contributions (Continued)

2. Police and Fire Plan Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2018. The City was required to contribute 16.20% of pay for Police and Fire Plan members in calendar year 2018. The City contributions to the Police and Fire Plan for the year ended December 31, 2018, were \$81,741. The City contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Plan Pension Costs

At December 31, 2018, the City reported a liability of \$710,092 for its proportionate share of the General Employees Plan's net pension liability. The City net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a nonemployer 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 \$23,257. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City proportion was 0.0128%, which was no change from its proportion measured as of June 30, 2017.

At December 31, 2018, the Sauk Centre Public Utilities Commission reported a liability of \$737,829 for its proportionate share of the General Employee's Plan net pension liability. The Utility's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a nonemployer 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 \$24,138. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the Utility's proportion was 0.0133%, which was a decrease of 0.0002% from its proportion measured as of June 30, 2017.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 9 PENSION PLANS (CONTINUED)

Pension Costs (Continued)

1. General Employees Plan Pension Costs (Continued)

City of Sauk Centre

City's Proportionate Share of the Net Pension Liability	\$	710,092
State of Minnesota's Proportionate Share of the Net Pension Liability with the City		23,257
Total	\$	733,349

Sauk Centre Public Utility Commission

Utility's Proportionate Share of the Net Pension Liability	\$	737,829
State of Minnesota's Proportionate Share of the Net Pension Liability with the Utility		24,138
Total	\$	761,967

For the year ended December 31, 2018, the City recognized pension expense of \$57,968 for its proportionate share of the General Employee Pension Plan's pension expense. The Sauk Centre Public Utility recognized pension expense of \$56,786 for its proportionate share of the General Employee Pension Plan's pension expense. In addition, the City and Sauk Centre Public Utility recognized an additional \$2,048 and \$5,629 respectively, as pension expense (and grant revenue) for their proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the proportionate share of the General Employee Fund'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	\$ 18,795	\$ 20,710	\$ 19,529	\$ 21,519
Changes in Actuarial Assumptions	67,832	79,786	70,481	82,904
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	72,560	-	75,394
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	10,254	-	25,087
Contributions Subsequent to the Measurement Date	30,483	-	31,280	-
Total	\$ 117,110	\$ 183,310	\$ 121,290	\$ 204,904

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 9 PENSION PLANS (CONTINUED)

1. General Employees Plan Pension Costs (Continued)

Pension Costs (Continued)

\$61,763 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>City Pension Expense Amount</u>	<u>Utility Pension Expense Amount</u>
2019	\$ 15,573	\$ 10,641
2020	(39,818)	(47,204)
2021	(57,618)	(62,930)
2022	(14,820)	(15,401)

2. Police and Fire Pension Costs

At December 31, 2018, the City reported a liability of \$472,192 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City proportion was 0.0443% which represents 0.0023% increase from its proportion measured as of June 30, 2017. For the year ended December 31, 2018, the City recognized pension expense of \$58,257 for its proportionate share of the Police and Fire pension expense. The City also recognized \$3,987 for the year ended December 31, 2018, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Plan. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 9 PENSION PLANS (CONTINUED)

Pension Costs (Continued)

2. Police and Fire Pension Costs (Continued)

At December 31, 2018, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions 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	\$ 19,032	\$ 115,841
Changes in Actuarial Assumptions	587,053	695,129
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	98,902
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	34,717	5,613
City Contributions Subsequent to the Measurement Date	42,135	-
Total	<u>\$ 682,937</u>	<u>\$ 915,485</u>

\$42,135 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2019	\$ (6,385)
2020	(28,310)
2021	(63,368)
2022	(182,005)
2023	5,385

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2018 was \$122,260.

The total pension expense for all plans recognized by the Sauk Centre Public Utility for the year ended December 31, 2018 was \$62,415.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 9 PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2018, 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 for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan and 1.0% per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employee Plan Assumption Changes

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

Police and Fire Plan Assumption Changes

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 Stocks	36 %	5.10 %
International Stocks	17	5.30
Bonds (Fixed Income)	20	0.75
Alternative Assets	25	5.90
Cash	2	-
Total	<u>100 %</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 General Employee Plan Net Pension Liability	\$ 1,153,990	\$ 710,092	\$ 343,666
Utility's Proportionate Share of the General Employee Plan Net Pension Liability	1,199,067	737,829	357,091

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 Police and Fire Plan Net Pension Liability	\$ 1,012,410	\$ 472,192	\$ 25,455

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.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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). 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, 2018, membership includes 29 active participants and 1 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 \$2,000 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.

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 \$2,000 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.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 10 PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)

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 \$50,633 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2018. Required employer contributions are calculated annually based on statutory provisions. For the year ended December 31, 2018, there was no statutorily-required City contribution to the plan.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 10 PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)

Pension Costs

At December 31, 2018, the City reported a net pension asset of \$155,629 for the Association’s net pension asset. The net pension asset/liability was measured as of December 31, 2017, 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 \$5,009 for the year ended December 31, 2018. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ -	\$ 42,324
Changes in Actuarial Assumptions	-	31,622
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	-	30,801
City Contributions Subsequent to the Measurement Date	7,500	-
Total	\$ 7,500	\$ 104,747

The City contributions to the Association subsequent to the measurement date, \$7,500 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to the Association’s pension will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2019	\$ (15,549)
2020	(13,459)
2021	(20,307)
2022	(18,463)
2022	(9,244)
Thereafter	(27,725)

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 10 PENSION PLANS – FIRE RELIEF ASSOCIATION (CONTINUED)

Actuarial Assumptions

The actuarial total pension liability was determined as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	1/1/17
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
	Closed
Actuarial Assumptions:	
Discount Rate	5.25%
Investment Rate of Return	5.25%
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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Allocation at December 31, 2017</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	27.00%	2.25%
Fixed Income	22.00%	3.30%
Equities	49.00%	7.50%
Real Estate	2.00%	6.00%
Total Portfolio	<u>100.00%</u>	<u>5.25%</u>

Discount Rate

The discount rate used to measure the total pension liability was 5.25%. 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 BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

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 5.25%, 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 (4.25%) or one percentage point higher (6.25%) than the current rate:

	1% Decrease in Discount Rate (4.25)	Current Discount Rate (5.25)	1% Increase in Discount Rate (6.25)
Net Pension Liability (Asset)	\$ (145,198)	\$ (155,629)	\$ (165,693)

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 2018.

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 2018 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, 2018**

NOTE 13 OPERATING LEASES

Lessee

The City of Sauk Centre, Minnesota, entered into two separate contracts for the lease of two squad cars during 2018. The City had two leases for squad cars that ended during 2018. The squad car operating leases are for a period of 2-3 years. The 2018 payments on the squad car operating leases totaled \$16,400. Future payments on the operating leases will be as follows:

	Squad Car
2019	\$ 20,579
2020	17,285
2021	5,894
Total	\$ 43,758

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 nonprofit 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 \$15,774,314. Minimum lease payments and a summary of the capital assets being leased at December 31, 2018 are as follows:

	CentraCare Health System Lease		Capital Assets
2019	\$ 617,273	Land	\$ 529,585
2020	618,673	Land Improvements	262,441
2021	614,873	Buildings	18,199,528
2022	615,973	Moveable and Fixed Equipment	4,919,433
2023	616,873	Total Capital Assets	23,910,987
2024-2028	3,086,263	Less: Accumulated Depreciation	(15,774,314)
2029-2033	3,089,500	Capital Assets, Net	\$ 8,136,673
Total	\$ 9,259,428		

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 14 INTERFUND TRANSACTIONS

Advances To and From

At December 31, 2018, advances from and to other funds were as follows:

Advances From	Advances To Other Governmental Funds	Purpose
General Fund	\$ 35,360	Loan for New Facility Purchase
General Fund	33,996	Loan for New Fire Pumper
	\$ 69,356	

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

Interfund Transfers

There was \$198,769 in transfers from Other Governmental Funds to Debt Service Funds in 2018 to fund principal and interest payments.

Interfund Receivable and Payable

The composition of interfund payables and receivables as of December 31, 2018 is as follows:

Due To	Due From		Purpose
	Capital Projects	Other Governmental Funds	
General Fund	\$ 420,630	\$ 323	To Eliminate Deficit Cash Balances

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 15 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, 2018, the bank amount of the Organization’s deposits was \$168,364. 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 16 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, 2018. At December 31, 2018, the City had spent \$1,958,630 on these projects and had remaining contractor commitments with contractors of \$1,543,467. These projects are financed with 2018A bond proceeds and contributions from other governmental entities. The City’s commitments were as follows:

Project	Spent to Date	Estimated Remaining
North End Project	\$ 1,698,495	\$ 1,501,708
Getty Street Project	260,135	41,759
Total	\$ 1,958,630	\$ 1,543,467

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 17 TAX ABATEMENTS

The City has two pay-as-you-go tax increment financing district with a local business to promote economic development within the City as authorized under Minnesota Statutes §469.174. One of the two districts was created in 2018. The City is currently collecting tax increments that are paid through the property tax collection process. The district stop collection in 2021 and 2029. The requirements for the businesses to receive the excess tax increments from the City are 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, 2018, the City paid excess tax increment in the amount of \$12,900. No other commitments were made by the City as a part of these agreements.

The City has one a property tax abatement agreement with a developer to develop a market rate residential housing rental facility and increase the tax base as authorized under Minnesota Statutes Section 469.1812 to 469.1815. The agreement calls for the City to provide a subsidy consisting of land, administrative costs, and assessments totaling \$149,415. The goals of the subsidy are to secure development and to maintain improvements for a period of 10 years. The City will be reimbursed for the cost of the subsidy through tax collections on the real property improvements over a period of ten years commencing August 1, 2019. There were no abated taxes under this agreement in 2018. No other commitments were made by the City as part of that agreement.

NOTE 18 RESTATEMENT

Sauk Centre Public Utilities Commission

During the year ended December 31, 2018, the Utility adopted provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This pronouncement requires the restatement of the December 31, 2017 net position as follows:

Net Position - Beginning of Year, As Originally Stated	\$ 16,602,350
Affect of Application of GASB 75	142,857
Net Position, December 31, 2017 as Restated	<u><u>\$ 16,745,207</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SAUK CENTRE, MINNESOTA
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY, RELATED RATIOS AND NOTES

	Measurement Date January 1, 2018
Total OPEB Liability	
<u>City</u>	
Service Cost	\$ 15,575
Interest	11,943
Benefit Payments	(22,882)
Net Change in Total OPEB Liability	4,636
Total OPEB Liability - Beginning	357,696
Total OPEB Liability - Ending	\$ 362,332
 Covered Employee Payroll	\$ 1,188,690
 City's OPEB Liability as a Percentage of Covered Employee Payroll	30%
 <u>Sauk Centre Public Utility Commission</u>	
Service Cost	\$ 4,911
Interest	8,177
Benefit Payments	(54,307)
Net Change in Total OPEB Liability	(41,219)
Total OPEB Liability - Beginning	269,812
Total OPEB Liability - Ending	\$ 228,593
 Covered Employee Payroll	\$ 894,900
 Utility's OPEB Liability as a Percentage of Covered Employee Payroll	26%

Note 1: The City and Utility implement GASB Statement No. 75 in 2018, and the above table will be expanded to ten years of information as the information becomes available.

Note 2: No assets are accumulated in a trust.

**CITY OF SAUK CENTRE, MINNESOTA
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN MEASUREMENT PERIODS**

	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
City - General Employee Plan				
City's Proportion of the Net Pension Liability	0.013%	0.013%	0.013%	0.014%
City's Proportionate Share of the Net Pension Liability	\$ 710,092	\$ 827,107	\$ 1,047,416	\$ 448,486
State's Proportionate Share of the Net Pension Liability Associated with the City	\$ 23,257	\$ 10,306	\$ 13,713	\$ -
Total Proportionate Share of the Net Pension Liability Associated with the City	\$ 733,349	\$ 837,413	\$ 1,061,129	\$ 448,486
City's Covered Payroll	\$ 858,708	\$ 811,693	\$ 795,985	\$ 795,189
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	85.40%	103.17%	133.31%	56.40%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.91%	78.20%
Sauk Centre Public Utilities Commission - General Employee Plan				
Utility's Proportion of the Net Pension Liability	0.014%	0.014%	0.014%	0.014%
Utility's Proportionate Share of the Net Pension Liability	\$ 737,829	\$ 861,831	\$ 1,120,492	\$ 746,283
State's Proportionate Share of the Net Pension Liability Associated with the Utility	\$ 24,138	\$ 10,875	\$ 14,655	\$ -
Total Proportionate Share of the Net Pension Liability Associated with the Utility	\$ 761,967	\$ 872,706	\$ 1,135,147	\$ 746,283
Utility's Covered Payroll	\$ 889,219	\$ 872,681	\$ 858,049	\$ 864,745
Utility's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	85.69%	100.00%	132.29%	86.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.91%	78.20%
Police and Fire Plan				
City's Proportion of the Net Pension Liability	0.042%	0.042%	0.042%	0.043%
City's Proportionate Share of the Net Pension Liability	\$ 1,012,410	\$ 567,050	\$ 1,685,533	\$ 153,554
City's Covered Payroll	\$ 466,471	\$ 432,708	\$ 407,160	\$ 392,976
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	217.04%	131.05%	413.97%	39.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.80%	85.43%	63.88%	86.60%
Fire Relief Association				
	Measurement Date December 31, 2017	Measurement Date December 31, 2016	Measurement Date December 31, 2015	Measurement Date December 31, 2014
City's Proportion of the Net Pension Liability (Asset)	100%	100%	100%	100%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ (155,629)	\$ (114,076)	\$ (20,809)	\$ (18,815)
City's Covered Payroll	N/A	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
SCHEDULE OF PENSION CONTRIBUTIONS
LAST TEN YEARS**

	2018	2017	2016	2015	2014
City - General Employee Plan					
Statutorily Required Contribution	\$ 62,788	\$ 63,267	\$ 60,877	\$ 60,515	\$ 55,551
Contributions in Relation to the Statutorily Required Contribution	<u>(62,788)</u>	<u>(63,267)</u>	<u>(60,877)</u>	<u>(60,515)</u>	<u>(55,551)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 837,173	\$ 843,560	\$ 811,693	\$ 806,867	\$ 766,221
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.25%
Sauk Centre Public Utilities Commission - General Employee Plan					
Statutorily Required Contribution	\$ 64,435	\$ 66,691	\$ 64,123	\$ 64,855	\$ 60,774
Contributions in Relation to the Statutorily Required Contribution	<u>(64,435)</u>	<u>(66,691)</u>	<u>(64,123)</u>	<u>(64,855)</u>	<u>(60,774)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility's Covered Payroll	\$ 859,144	\$ 889,219	\$ 854,983	\$ 864,733	\$ 838,262
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.25%
Police and Fire Plan					
Statutorily Required Contribution	\$ 81,741	\$ 71,436	\$ 67,974	\$ 64,949	\$ 59,101
Contributions in Relation to the Statutorily Required Contribution	<u>(81,741)</u>	<u>(71,436)</u>	<u>(67,974)</u>	<u>(64,949)</u>	<u>(59,101)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 504,574	\$ 440,963	\$ 419,593	\$ 400,920	\$ 386,281
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%	16.20%	15.30%
Fire Relief Association					
Statutorily Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Statutorily Required Contribution	<u>7,500</u>	<u>6,000</u>	<u>5,000</u>	<u>4,500</u>	<u>4,500</u>
Contribution Deficiency (Excess)	<u>\$ (7,500)</u>	<u>\$ (6,000)</u>	<u>\$ (5,000)</u>	<u>\$ (4,500)</u>	<u>\$ (4,500)</u>
City's Covered Payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	N/A	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
LAST TEN MEASUREMENT PERIODS**

	December 31, 2017 (Measurement Date)	December 31, 2016 (Measurement Date)	December 31, 2015 (Measurement Date)	December 31, 2014 (Measurement Date)
Total Pension Liability				
Service Cost	\$ 25,429	\$ 18,613	\$ 19,203	\$ 18,735
Interest	30,866	34,556	34,168	40,479
Differences Between Expected and Actual Experience	-	(52,906)	-	-
Changes of Assumptions	-	(39,528)	-	-
Changes of Benefit Terms	-	40,988	-	-
Benefit Payments, Including Member Contribution Refunds	(42,008)	(1,183)	(129,292)	(126,539)
Plan Changes	33,730	-	-	-
Net Change in Total Pension Liability	48,017	540	(75,921)	(67,325)
Total Pension Liability - Beginning	583,497	582,957	658,878	726,203
Total Pension Liability - Ending (a)	631,514	583,497	582,957	658,878
Plan Fiduciary Net Position				
Municipal Contributions	6,000	5,500	4,500	4,500
State Contributions	50,631	50,596	53,333	48,845
Projected Investment Return	36,798	-	-	-
Net Investment Income	46,094	45,332	2,528	48,859
Benefit Payments	(42,008)	(1,183)	(129,292)	(126,539)
Administrative Expenses	(7,945)	(6,438)	(4,996)	(5,029)
Net Change in Fiduciary Net Position	89,570	93,807	(73,927)	(29,364)
Fiduciary Net Position - Beginning	697,573	603,766	677,693	707,057
Fiduciary Net Position - Ending (b)	787,143	697,573	603,766	677,693
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	\$ (155,629)	\$ (114,076)	\$ (20,809)	\$ (18,815)
Fiduciary Net Position as a Percentage of the Total Pension Liability	124.64%	119.55%	103.57%	102.86%
Covered Payroll	N/A	N/A	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	N/A	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
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual	Variances with Budget Over (Under)
REVENUES			
Taxes	\$ 1,175,613	\$ 1,183,383	\$ 7,770
Special Assessments	7,000	62,464	55,464
Other Taxes	50,000	58,761	8,761
Licenses and Permits	340,200	362,607	22,407
Intergovernmental Revenues	1,251,457	1,296,415	44,958
Charges for Services	144,400	155,785	11,385
Fines and Forfeits	45,700	41,108	(4,592)
Other Revenues	43,021	65,920	22,899
Total Revenues	<u>3,057,391</u>	<u>3,226,443</u>	<u>169,052</u>
EXPENDITURES			
General Government	877,469	845,777	(31,692)
Public Safety	1,088,417	1,121,637	33,220
Public Works	887,890	682,248	(205,642)
Culture and Recreation	490,052	395,596	(94,456)
Debt Service	4,000	4,000	-
Total Expenditures	<u>3,347,828</u>	<u>3,049,258</u>	<u>(298,570)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(290,437)	177,185	467,622
OTHER FINANCING SOURCES (USES)			
Transfers In	340,000	-	(340,000)
Transfers Out	(340,000)	-	340,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (290,437)</u>	177,185	<u>\$ 467,622</u>
Fund Balance - Beginning of Year		<u>1,944,546</u>	
FUND BALANCE - ENDING END OF YEAR		<u>\$ 2,121,731</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF SAUK CENTRE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ARENA FUND
YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual	Variances with Budget Over (Under)
REVENUES			
Taxes	\$ 25,000	\$ 24,549	\$ (451)
Charges for Services	71,000	63,955	(7,045)
Other Revenues	500	490	(10)
Total Revenues	<u>96,500</u>	<u>88,994</u>	<u>(7,506)</u>
EXPENDITURES			
Culture and Recreation	<u>118,786</u>	<u>116,955</u>	<u>(1,831)</u>
OTHER FINANCING SOURCES			
Transfer Out	<u>(25,000)</u>	<u>-</u>	<u>25,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ (47,286)</u>	<u>(27,961)</u>	<u>\$ 19,325</u>
Fund Balance - Beginning of year		<u>52,351</u>	
FUND BALANCE - END OF YEAR		<u>\$ 24,390</u>	

**CITY OF SAUK CENTRE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
HOSPITAL FUND
YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual	Variances with Budget Over (Under)
REVENUES			
Charges for Services	\$ 97,200	\$ 96,000	\$ (1,200)
Other Revenues	240,000	302,740	62,740
Total Revenues	337,200	398,740	61,540
 EXPENDITURES			
Public Safety	81,400	79,486	(1,914)
 NET CHANGE IN FUND BALANCE	\$ 255,800	319,254	\$ 63,454
Fund Balance - Beginning of year		3,149,322	
FUND BALANCE - END OF YEAR		\$ 3,468,576	

**CITY OF SAUK CENTRE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
TAX INCREMENT FINANCING FUND
YEAR ENDED DECEMBER 31, 2018**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variances with Budget Over (Under)</u>
REVENUES			
Tax Increments	\$ 13,000	\$ 12,900	\$ (100)
Other Revenues	2,100	14,107	12,007
Total Revenues	<u>15,100</u>	<u>27,007</u>	<u>11,907</u>
 EXPENDITURES			
Economic Development	<u>19,750</u>	<u>21,951</u>	<u>2,201</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 (4,650)	 5,056	 9,706
 OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(5,000)</u>	<u>-</u>	<u>5,000</u>
 NET CHANGE IN FUND BALANCE	 <u>\$ (9,650)</u>	 5,056	 <u>\$ 14,706</u>
Fund Balance - Beginning of Year		<u>1,617,903</u>	
FUND BALANCE - END OF YEAR		<u>\$ 1,622,959</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2018**

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 Tax Increment Financing Fund, expenditures exceeded the appropriations during the year ended December 31, 2018 by \$2,201.

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.

NOTE 2 DEFINED BENEFIT PENSION PLAN – CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes in actuarial assumptions occurred in 2018:

General Employee Plan Assumption Changes

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

Police and Fire Plan Assumption Changes

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger

**CITY OF SAUK CENTRE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2018**

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

Since the most recent GASB 45 valuation, the following plan changes have been made:

- Nonunion employees must now stay on the City's medical plan post-employment in order to receive a GASB 75 subsidy. Therefore, it was assumed more employees will stay on the City's medical plan.

Since the most recent GASB 45 valuation, the following assumption changes have been made:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2014 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel)
- The discount rate was changed from 4.00% to 3.30%.
- The withdrawal and retirement tables for all employees were updated
- The percentage of future retirees and spouses of retirees eligible for a subsidy who are assumed to continue on one of the City's medical plans post-employment was decreased from 100% to 90%.

SUPPLEMENTARY INFORMATION

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

	General	Arena	Hospital	TIF	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes								
Property Taxes	\$ 1,183,383	\$ 24,549	\$ -	\$ -	\$ -	\$ 404,920	\$ 86,695	\$ 1,699,547
Tax Increments	-	-	-	12,900	-	-	-	12,900
Other Taxes	58,761	-	-	-	-	-	-	58,761
Total Taxes	1,242,144	24,549	-	12,900	-	404,920	86,695	1,771,208
Special Assessments	62,464	-	-	-	-	52,012	-	114,476
Licenses and Permits								
Licenses								
Beer, Liquor and Cigarettes	23,225	-	-	-	-	-	-	23,225
Electricity Franchise Fee	145,527	-	-	-	-	-	-	145,527
Cable Franchise Fee	54,295	-	-	-	-	-	-	54,295
Gas Franchise Fee	64,127	-	-	-	-	-	-	64,127
Other	627	-	-	-	-	-	-	627
Building Permits	74,806	-	-	-	-	-	-	74,806
Total Licenses and Permits	362,607	-	-	-	-	-	-	362,607
Intergovernmental Revenues								
Federal Grants	-	-	-	-	124,845	-	-	124,845
State Aids								
Local Governmental Aid	1,138,680	-	-	-	-	-	-	1,138,680
Fire State Aid	50,633	-	-	-	-	-	-	50,633
Police State Aid	58,947	-	-	-	-	-	-	58,947
Other Grants	35,837	-	-	-	5,484	-	41,131	82,452
PERA Aid	12,318	-	-	-	-	-	-	12,318
Total Intergovernmental Revenues	1,296,415	-	-	-	130,329	-	41,131	1,467,875
Charges for Services								
Fire Contracts	-	-	-	-	-	-	234,628	234,628
Ambulance Service	-	-	-	-	-	-	556,849	556,849
Arena Rentals and Charges	-	63,955	-	-	-	-	-	63,955
Planning and Zoning Charges	4,105	-	-	-	-	-	182,259	186,364
County Highway Maintenance	11,888	-	-	-	-	-	-	11,888
Campground Charges	133,436	-	-	-	-	-	-	133,436
Rent	6,356	-	96,000	-	-	-	86,440	188,796
Other	-	-	-	-	-	-	310	310
Total Charges for Services	155,785	63,955	96,000	-	-	-	1,060,486	1,376,226
Fines and Forfeits	41,108	-	-	-	-	-	11,503	52,611
Other Revenues								
Interest Income (Loss)	(8,430)	490	302,740	9,107	10,942	14,742	21,359	350,950
Donations/Contributions	12,775	-	-	-	-	-	113,199	125,974
Refunds and Reimbursements	44,828	-	-	5,000	1,000,674	173,258	72,861	1,296,621
Other	16,747	-	-	-	-	616,168	1,771	634,686
Total Other Revenues	65,920	490	302,740	14,107	1,011,616	804,168	209,190	2,408,231
Total Revenues	3,226,443	88,994	398,740	27,007	1,141,945	1,261,100	1,409,005	7,553,234

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

	General	Arena	Hospital	TIF	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
EXPENDITURES								
General Government								
Mayor and Council	\$ 76,627	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 76,627
Administration	374,816	-	-	-	-	-	-	374,816
Assessor	23,812	-	-	-	-	-	-	23,812
Finance	29,807	-	-	-	-	-	-	29,807
Legal	30,272	-	-	-	-	-	-	30,272
Planning and Zoning	184,930	-	-	-	-	-	-	184,930
Buildings and Property	58,744	-	-	-	-	-	-	58,744
Other General Government	66,769	-	-	-	-	-	25,097	91,866
Total General Government	845,777	-	-	-	-	-	25,097	870,874
Public Safety								
Police	938,224	-	-	-	-	-	6,099	944,323
Fire Department	177,400	-	-	-	-	-	125,247	302,647
Ambulance	650	-	79,486	-	-	-	407,786	487,922
Animal Control	209	-	-	-	-	-	-	209
Capital Outlay	5,154	-	-	-	-	-	181,560	186,714
Total Public Safety	1,121,637	-	79,486	-	-	-	720,692	1,921,815
Public Works								
Highways, Streets and Alleys	406,437	-	-	-	-	-	9,967	416,404
Snow and Ice Control	16,808	-	-	-	-	-	-	16,808
Street Lighting	65,677	-	-	-	-	-	-	65,677
Other	11,142	-	-	-	-	-	-	11,142
Capital Outlay	182,184	-	-	-	2,709,003	-	-	2,891,187
Total Public Works	682,248	-	-	-	2,709,003	-	9,967	3,401,218
Culture and Recreation								
Arena Activities	-	116,955	-	-	-	-	-	116,955
Parks	295,544	-	-	-	-	-	-	295,544
Campground	52,186	-	-	-	-	-	-	52,186
Other	9,166	-	-	-	-	-	41,867	51,033
Capital Outlay	38,700	-	-	-	-	-	-	38,700
Total Culture and Recreation	395,596	116,955	-	-	-	-	41,867	554,418
Economic Development								
Other	-	-	-	21,951	-	-	7,654	29,605
Airport								
Other	-	-	-	-	-	-	64,014	64,014
Capital Outlay	-	-	-	-	151,028	-	-	151,028
Total Airport	-	-	-	-	151,028	-	64,014	215,042
Debt Service								
Principal	4,000	-	-	-	-	970,000	-	974,000
Interest and Fiscal Charges	-	-	-	-	-	310,102	2,747	312,849
Total Debt Service	4,000	-	-	-	-	1,280,102	2,747	1,286,849
Total Expenditures	3,049,258	116,955	79,486	21,951	2,860,031	1,280,102	872,038	8,279,821

**CITY OF SAUK CENTRE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES (CONTINUED)
 GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2018**

	General	Arena	Hospital	TIF	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 177,185	\$ (27,961)	\$ 319,254	\$ 5,056	\$ (1,718,086)	\$ (19,002)	\$ 536,967	\$ (726,587)
OTHER FINANCING SOURCES (USES)								
Transfer In	-	-	-	-	-	198,769	-	198,769
Transfer Out	-	-	-	-	-	-	(198,769)	(198,769)
Bond Proceeds	-	-	-	-	3,350,000	-	-	3,350,000
Premium on Bonds	-	-	-	-	78,996	-	-	78,996
Total Other Financing Sources/(Uses)	-	-	-	-	3,428,996	198,769	(198,769)	3,428,996
NET CHANGE IN FUND BALANCES	177,185	(27,961)	319,254	5,056	1,710,910	179,767	338,198	2,702,409
Fund Balances - Beginning of Year	<u>1,944,546</u>	<u>52,351</u>	<u>3,149,322</u>	<u>1,617,903</u>	<u>(256,088)</u>	<u>2,396,956</u>	<u>1,651,480</u>	<u>10,556,470</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,121,731</u>	<u>\$ 24,390</u>	<u>\$ 3,468,576</u>	<u>\$ 1,622,959</u>	<u>\$ 1,454,822</u>	<u>\$ 2,576,723</u>	<u>\$ 1,989,678</u>	<u>\$ 13,258,879</u>

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	202	211	224	225	230	240
	Small Cities	Library	Fire Department Equipment	Area Fire Service	Airport	Ambulance
ASSETS						
Cash and Investments	\$ 153,955	\$ 40,520	\$ 186,957	\$ 221,895	\$ 200,192	\$ 282,189
Accounts Receivable	-	-	-	10,914	-	88,181
Loans Receivable	224,752	-	-	-	-	-
Special Assessments Receivable	-	-	-	-	-	-
Interest Receivable	397	104	482	572	516	727
Due from Other Governments	-	118	-	-	29,889	-
Due from Component Unit	-	-	-	-	-	-
Total Assets	<u>\$ 379,104</u>	<u>\$ 40,742</u>	<u>\$ 187,439</u>	<u>\$ 233,381</u>	<u>\$ 230,597</u>	<u>\$ 371,097</u>
LIABILITIES						
Salaries/Benefits Payable	\$ -	\$ 139	\$ -	\$ 359	\$ -	\$ 18,139
Accounts and Contracts Payable	46	2,040	415	3,461	4,938	17,220
Due to Other Funds	-	-	-	-	-	-
Advance from Other Funds	-	-	-	33,996	-	35,360
Unearned Revenue	-	-	-	-	7,160	-
Total Liabilities	<u>46</u>	<u>2,179</u>	<u>415</u>	<u>37,816</u>	<u>12,098</u>	<u>70,719</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable Loans Receivable	224,752	-	-	-	-	-
Unavailable Special Assessments	-	-	-	-	-	-
Total Inflows of Resources	<u>224,752</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Restricted	70,713	-	-	130,468	-	-
Committed	-	21,453	-	65,097	35,215	34,793
Assigned	83,593	17,110	187,024	-	183,284	265,585
Total Fund Balances	<u>154,306</u>	<u>38,563</u>	<u>187,024</u>	<u>195,565</u>	<u>218,499</u>	<u>300,378</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 379,104</u>	<u>\$ 40,742</u>	<u>\$ 187,439</u>	<u>\$ 233,381</u>	<u>\$ 230,597</u>	<u>\$ 371,097</u>

226	227	223	228	260	214	280	
Sauk Centre Economic Development Authority	Economic Development Revolving Loan	EDA Projects	Park Dedication	Senior Center	Police Forfeiture	Storm Water Utility	Total Nonmajor Special Revenue
\$ 74,272	\$ 297,203	\$ 164,211	\$ 15,699	\$ 42,210	\$ -	\$ 254,207	\$ 1,933,510
-	-	-	-	46	-	-	99,141
-	16,246	-	-	-	-	-	240,998
-	-	16,543	-	-	-	-	16,543
191	777	423	40	109	-	655	4,993
114	-	-	-	143	1,398	-	31,662
-	-	-	-	-	-	46,001	46,001
<u>\$ 74,577</u>	<u>\$ 314,226</u>	<u>\$ 181,177</u>	<u>\$ 15,739</u>	<u>\$ 42,508</u>	<u>\$ 1,398</u>	<u>\$ 300,863</u>	<u>\$ 2,372,848</u>
\$ -	\$ -	\$ -	\$ -	\$ 1,165	\$ -	\$ -	\$ 19,802
-	-	-	-	868	-	-	28,988
-	-	-	-	-	323	-	323
-	-	-	-	-	-	-	69,356
-	-	-	-	-	-	-	7,160
-	-	-	-	2,033	323	-	125,629
-	16,246	-	-	-	-	-	240,998
-	-	16,543	-	-	-	-	16,543
-	16,246	16,543	-	-	-	-	257,541
-	297,980	164,634	15,739	-	1,075	-	680,609
-	-	-	-	-	-	300,863	457,421
74,577	-	-	-	40,475	-	-	851,648
<u>74,577</u>	<u>297,980</u>	<u>164,634</u>	<u>15,739</u>	<u>40,475</u>	<u>1,075</u>	<u>300,863</u>	<u>1,989,678</u>
<u>\$ 74,577</u>	<u>\$ 314,226</u>	<u>\$ 181,177</u>	<u>\$ 15,739</u>	<u>\$ 42,508</u>	<u>\$ 1,398</u>	<u>\$ 300,863</u>	<u>\$ 2,372,848</u>

CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	202	211	224	225	230	240
	Small Cities	Library	Fire Department Equipment	Area Fire Service	Airport	Ambulance
REVENUES						
Taxes						
Property Taxes	\$ -	\$ 20,480	\$ -	\$ 8	\$ 20,584	\$ -
Intergovernmental Revenues						
State Aids:						
Other Grants	-	-	-	1,000	40,131	-
Charges for Services						
Fire Contracts	-	-	-	234,628	-	-
Ambulance Service	-	-	-	-	-	556,849
Planning and Zoning Charges	-	-	-	-	-	-
Rent	-	-	-	-	79,213	-
Other	-	-	-	-	310	-
Total Charges for Services	-	-	-	234,628	79,523	556,849
Fines and Forfeits	-	-	-	-	-	-
Other Revenues						
Interest Income (Loss)	1,865	469	1,476	3,052	2,360	4,300
Donations/Contributions	-	-	102,500	-	-	5,230
Refunds and Reimbursements	44,624	-	-	5,842	196	2,022
Other	-	25	-	818	-	429
Total Other Revenues	46,489	494	103,976	9,712	2,556	11,981
Total Revenues	46,489	20,974	103,976	245,348	142,794	568,830
EXPENDITURES						
General Government						
Other General Government	-	25,097	-	-	-	-
Public Safety						
Police	-	-	-	-	-	-
Fire Department	-	-	9,884	115,363	-	-
Ambulance	-	-	-	-	-	407,786
Capital Outlay	-	-	-	-	-	168,560
Total Public Safety	-	-	9,884	115,363	-	576,346
Public Works						
Highways, Streets and Alleys	-	-	-	-	-	-

226	227	223	228	260	214	280	
Sauk Centre Economic Development Authority	Economic Development Revolving Loan	EDA Projects	Park Dedication	Senior Center	Police Forfeiture	Storm Water Utility	Total Nonmajor Special Revenue
\$ 20,297	\$ -	\$ -	\$ -	\$ 25,326	\$ -	\$ -	\$ 86,695
-	-	-	-	-	-	-	41,131
-	-	-	-	-	-	-	234,628
-	-	-	-	-	-	-	556,849
-	-	-	-	-	-	182,259	182,259
1,517	-	-	-	5,710	-	-	86,440
-	-	-	-	-	-	-	310
1,517	-	-	-	5,710	-	182,259	1,060,486
-	-	-	-	-	11,503	-	11,503
812	304	2,255	203	460	31	3,772	21,359
-	-	-	-	5,469	-	-	113,199
5,000	9,506	2,371	-	3,300	-	-	72,861
-	-	-	-	499	-	-	1,771
5,812	9,810	4,626	203	9,728	31	3,772	209,190
27,626	9,810	4,626	203	40,764	11,534	186,031	1,409,005
-	-	-	-	-	-	-	25,097
-	-	-	-	-	6,099	-	6,099
-	-	-	-	-	-	-	125,247
-	-	-	-	-	-	-	407,786
-	-	-	-	-	13,000	-	181,560
-	-	-	-	-	19,099	-	720,692
-	-	-	-	-	-	9,967	9,967

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

	202	211	224	225	230	240
	Small Cities	Library	Fire Department Equipment	Area Fire Service	Airport	Ambulance
EXPENDITURES (CONTINUED)						
Culture and Recreation						
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Economic Development						
Other	91	-	-	-	-	-
Airport						
Other	-	-	-	-	64,014	-
Debt Service						
Interest and Fiscal Charges	-	-	-	1,346	-	1,401
Total Debt Service	-	-	-	1,346	-	1,401
Total Expenditures	91	25,097	9,884	116,709	64,014	577,747
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	46,398	(4,123)	94,092	128,639	78,780	(8,917)
OTHER FINANCING SOURCES (USES)						
Transfer Out	-	-	-	(59,228)	-	-
NET CHANGE IN FUND BALANCES	46,398	(4,123)	94,092	69,411	78,780	(8,917)
Fund Balances - Beginning of Year	107,908	42,686	92,932	126,154	139,719	309,295
FUND BALANCES - END OF YEAR	\$ 154,306	\$ 38,563	\$ 187,024	\$ 195,565	\$ 218,499	\$ 300,378

226	227	223	228	260	214	280	
Sauk Centre Economic Development Authority	Economic Development Revolving Loan	EDA Projects	Park Dedication	Senior Center	Police Forfeiture	Storm Water Utility	Total Nonmajor Special Revenue
\$ -	\$ -	\$ -	\$ -	\$ 41,867	\$ -	\$ -	\$ 41,867
7,563	-	-	-	-	-	-	7,654
-	-	-	-	-	-	-	64,014
-	-	-	-	-	-	-	2,747
-	-	-	-	-	-	-	2,747
7,563	-	-	-	41,867	19,099	9,967	872,038
20,063	9,810	4,626	203	(1,103)	(7,565)	176,064	536,967
-	-	(14,341)	-	-	-	(125,200)	(198,769)
20,063	9,810	(9,715)	203	(1,103)	(7,565)	50,864	338,198
54,514	288,170	174,349	15,536	41,578	8,640	249,999	1,651,480
<u>\$ 74,577</u>	<u>\$ 297,980</u>	<u>\$ 164,634</u>	<u>\$ 15,739</u>	<u>\$ 40,475</u>	<u>\$ 1,075</u>	<u>\$ 300,863</u>	<u>\$ 1,989,678</u>

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING BALANCE SHEET
TAX INCREMENT FINANCING FUND
DECEMBER 31, 2018**

	250	252	253	
	Tax Increment Financing District No. 1	Tax Increment Financing District No. 1-11	Tax Increment Financing District No. 1-12	Total TIF Funds
ASSETS				
Cash and Investments	\$ 702,226	\$ 324	\$ (6,706)	\$ 695,844
Accounts Receivable	-	-	5,000	5,000
Accrued Interest Receivable	1,809	1	-	1,810
Land Held for Resale	920,322	-	-	920,322
Total Assets	\$ 1,624,357	\$ 325	\$ (1,706)	\$ 1,622,976
LIABILITIES				
Accounts and Contracts Payable	\$ -	\$ -	17	\$ 17
FUND BALANCES				
Restricted	1,624,357	325	-	1,624,682
Unassigned	-	-	(1,723)	(1,723)
Total Fund Balances	1,624,357	325	(1,723)	1,622,959
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,624,357	\$ 325	\$ (1,706)	\$ 1,622,976

CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
TAX INCREMENT FINANCING FUND
YEAR ENDED DECEMBER 31, 2018

	250	252	253	
	Tax Increment Financing District No. 1	Tax Increment Financing District No. 1-11	Tax Increment Financing District No. 1-12	Total TIF Funds
REVENUES				
Taxes				
Tax Increments	\$ -	\$ 12,900	\$ -	\$ 12,900
Other Revenues				
Interest Income (Loss)	9,133	48	(74)	9,107
Refunds and Reimbursements	-	-	5,000	5,000
Total Revenues	9,133	12,948	4,926	27,007
EXPENDITURES				
Economic Development				
Other Charges	2,476	12,826	6,649	21,951
Total Expenditures	2,476	12,826	6,649	21,951
NET CHANGE IN FUND BALANCES	6,657	122	(1,723)	5,056
Fund Balances - Beginning of Year	1,617,700	203	-	1,617,903
FUND BALANCES - END OF YEAR	\$ 1,624,357	\$ 325	\$ (1,723)	\$ 1,622,959

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING BALANCE SHEET
DEBT SERVICE FUND
DECEMBER 31, 2018**

	331	333	334	335	336	
	G.O. Improvement Bonds of 2012A	2015A GO Improvement Street Reconstruction	2015B G.O. Refunding 07A & 08A	2015C G.O. Hospital Refunding Bonds	2018A GO Improvement Bond	Total Debt Service
ASSETS						
Cash and Investments	\$ 685,983	\$ 502,586	\$ 540,089	\$ 651,018	\$ 187,748	\$ 2,567,424
Taxes Receivable - Delinquent	3,121	3,394	6,354	-	-	12,869
Special Assessments Receivable	129,046	61,405	89,325	-	1,103,805	1,383,581
Interest Receivable	1,777	1,297	1,407	1,677	484	6,642
Due from Other Governments	890	702	1,065	-	-	2,657
Total Assets	\$ 820,817	\$ 569,384	\$ 638,240	\$ 652,695	\$ 1,292,037	\$ 3,973,173
DEFERRED INFLOWS OF RESOURCES						
Unavailable Taxes	\$ 3,121	\$ 3,394	\$ 6,354	-	-	\$ 12,869
Unavailable Special Assessments	129,046	61,405	89,325	-	1,103,805	1,383,581
Total Inflows of Resources	132,167	64,799	95,679	-	1,103,805	1,396,450
FUND BALANCES						
Restricted for Debt Service	688,650	504,585	542,561	652,695	188,232	2,576,723
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 820,817	\$ 569,384	\$ 638,240	\$ 652,695	\$ 1,292,037	\$ 3,973,173

CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSE AND CHANGES IN FUND BALANCES
DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2018

	331	333	334	335	336	
	G.O. Improvement Bonds of 2012A	2015A GO Improvement Street Reconstruction	2015B G.O. Refunding 07A & 08A	2015C G.O. Hospital Refunding Bonds	2018A GO Improvement Bond	Total Debt Service
REVENUES						
Taxes						
Property Taxes	\$ 91,489	\$ 125,595	\$ 187,836	\$ -	\$ -	\$ 404,920
Special Assessments	17,958	10,230	23,824	-	-	52,012
Total Taxes	<u>109,447</u>	<u>135,825</u>	<u>211,660</u>	<u>-</u>	<u>-</u>	<u>456,932</u>
Other Revenues						
Interest Income (Loss)	2,973	4,287	(887)	7,736	633	14,742
Refunds and Reimbursements	-	-	-	-	173,258	173,258
Other	-	-	-	616,168	-	616,168
Total Other Revenues	<u>2,973</u>	<u>4,287</u>	<u>(887)</u>	<u>623,904</u>	<u>173,891</u>	<u>804,168</u>
Total Revenues	<u>112,420</u>	<u>140,112</u>	<u>210,773</u>	<u>623,904</u>	<u>173,891</u>	<u>1,261,100</u>
EXPENDITURES						
Debt Service						
Principal	175,000	135,000	240,000	420,000	-	970,000
Interest and Fiscal Charges	44,292	31,797	37,844	196,169	-	310,102
Total Debt Service	<u>219,292</u>	<u>166,797</u>	<u>277,844</u>	<u>616,169</u>	<u>-</u>	<u>1,280,102</u>
Total Expenditures	<u>219,292</u>	<u>166,797</u>	<u>277,844</u>	<u>616,169</u>	<u>-</u>	<u>1,280,102</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(106,872)	(26,685)	(67,071)	7,735	173,891	(19,002)
OTHER FINANCING SOURCES (USES)						
Transfer In	125,200	-	59,228	-	14,341	198,769
NET CHANGE IN FUND BALANCES	18,328	(26,685)	(7,843)	7,735	188,232	179,767
Fund Balances - Beginning of Year	<u>670,322</u>	<u>531,270</u>	<u>550,404</u>	<u>644,960</u>	<u>-</u>	<u>2,396,956</u>
FUND BALANCES - END OF YEAR	<u>\$ 688,650</u>	<u>\$ 504,585</u>	<u>\$ 542,561</u>	<u>\$ 652,695</u>	<u>\$ 188,232</u>	<u>\$ 2,576,723</u>

**CITY OF SAUK CENTRE, MINNESOTA
COMBINING BALANCE SHEET
CAPITAL PROJECT FUND
DECEMBER 31, 2018**

	414	442	443	415	444	
	Airport 2016 CIP Runway	Getty Street Reconstruction	Cates Estate	Airport 2018 Entrance Road	2018 Capital Projects	Total Capital Projects
ASSETS						
Cash and Investments	\$ -	\$ -	\$ -	\$ -	\$ 680,194	\$ 680,194
Interest Receivable	-	-	-	-	1,752	1,752
Due from Other Governments	256,041	-	-	73,077	-	329,118
Due from Component Unit	-	66,356	-	-	934,318	1,000,674
Total Assets	<u>\$ 256,041</u>	<u>\$ 66,356</u>	<u>\$ -</u>	<u>\$ 73,077</u>	<u>\$ 1,616,264</u>	<u>\$ 2,011,738</u>
LIABILITIES						
Accounts and Contracts Payable	\$ 8,584	\$ 17,401	\$ 251	\$ 8,257	\$ 101,793	\$ 136,286
Due to Other Funds	220,386	43,728	97,271	59,245	-	420,630
Total Liabilities	<u>228,970</u>	<u>61,129</u>	<u>97,522</u>	<u>67,502</u>	<u>101,793</u>	<u>556,916</u>
FUND BALANCES						
Restricted for Capital Projects	27,071	-	-	-	1,514,471	1,541,542
Assigned for Capital Projects	-	5,227	-	5,575	-	10,802
Unassigned	-	-	(97,522)	-	-	(97,522)
Total Fund Balances	<u>27,071</u>	<u>5,227</u>	<u>(97,522)</u>	<u>5,575</u>	<u>1,514,471</u>	<u>1,454,822</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 256,041</u>	<u>\$ 66,356</u>	<u>\$ -</u>	<u>\$ 73,077</u>	<u>\$ 1,616,264</u>	<u>\$ 2,011,738</u>

CITY OF SAUK CENTRE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
CAPITAL PROJECT FUND
YEAR ENDED DECEMBER 31, 2018

	414	442	443	415	444	
	Airport 2016 CIP Runway	Getty Street Reconstruction	Cates Estate	Airport 2018 Entrance Road	2018 Capital Projects	Total Capital Projects
REVENUES						
Intergovernmental Revenues						
Federal Grants	\$ 26,139	\$ -	\$ -	98,706	\$ -	\$ 124,845
State Aids	-	-	-	5,484	-	5,484
Total Intergovernmental Revenues	26,139	-	-	104,190	-	130,329
Other Revenues						
Interest Income (Loss)	(4,444)	914	(1,143)	(224)	15,839	10,942
Refunds and Reimbursements	-	66,356	-	-	934,318	1,000,674
Total Other Revenues	(4,444)	67,270	(1,143)	(224)	950,157	1,011,616
Total Revenues	21,695	67,270	(1,143)	103,966	950,157	1,141,945
EXPENDITURES						
Public Works						
Capital Outlay	-	338,255	26,072	-	2,344,676	2,709,003
Airport						
Capital Outlay	41,636	-	-	109,392	-	151,028
Total Expenditures	41,636	338,255	26,072	109,392	2,344,676	2,860,031
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(19,941)	(270,985)	(27,215)	(5,426)	(1,394,519)	(1,718,086)
OTHER FINANCING SOURCES (USES)						
Bond Proceeds	-	304,850	-	-	3,045,150	3,350,000
Premium on Bonds	-	7,189	-	-	71,807	78,996
Total Other Financing Sources (Uses)	-	312,039	-	-	3,116,957	3,428,996
NET CHANGE IN FUND BALANCES						
	(19,941)	41,054	(27,215)	(5,426)	1,722,438	1,710,910
Fund Balances - Beginning of Year	47,012	(35,827)	(70,307)	11,001	(207,967)	(256,088)
FUND BALANCES - END OF YEAR	\$ 27,071	\$ 5,227	\$ (97,522)	\$ 5,575	\$ 1,514,471	\$ 1,454,822

**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, 2018, 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, 2018. 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, 2018, 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.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as items 2018-001 and 2018-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 results of that testing, and not to provide an opinion on the effectiveness of the City'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 2, 2019



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, 2018, 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 2, 2019. 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, 2018, 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*.

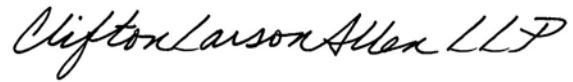
The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statutes §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, 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 as described in the schedule of findings and recommendations as item 2018-003. 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, insofar as they relate to accounting matters.

The City'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 the 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 2, 2019

**CITY OF SAUK CENTRE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL STATEMENT FINDINGS

2018-001 LACK OF SEGREGATION OF DUTIES

Type of Finding: Material Weakness in Internal Control over Financial Reporting

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. The City is making an effort to perform more electronic processing.

Criteria: Effective internal control provides an adequate segregation of duties and evidence of independent review 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. Due to the electronic process, physical evidence of review of journal entries and bank reconciliations do not exist.

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

Repeat Finding: Yes

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. We also recommend that the City update their processes for electronic processing to include adequate evidence of review by an appropriate level of management.

Views of Responsible Officials: The City will continue to look for areas to improve segregation of duties.

**CITY OF SAUK CENTRE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-002 OVERSIGHT OF THE FINANCIAL REPORTING PROCESS

Type of Finding: Material Weakness in Internal Control over Financial Reporting

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.

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 that are complete and presented in accordance 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.

Repeat Finding: Yes

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

Views of Responsible Officials: 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.

**CITY OF SAUK CENTRE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

MINNESOTA LEGAL COMPLIANCE

2018-003 FIRE AID AND FIRE FIGHTER SUPPLEMENTAL STATE AID

Type of Finding: Minnesota Legal Compliance

Criteria: Minnesota Statutes 69.031 and 423A.022 states that if the city received fire aid and firefighter supplemental state aid, it must be transmitted to the volunteer relief association within 30 days of receipt by the City.

Condition: The city submitted the state aid more than 60 days after state aid was received.

Cause: Timing of processing transactions.

Effect: State aid was not transmitted to the volunteer relief association within 30 days of receipt, thus, the City is not in compliance with Minnesota Statutes 69.031 and 423A.022.

Repeat Finding: No

Recommendation: Management should modify their reconciliation and processing procedures to ensure state aid is transmitted in a timely manner.

Views of Responsible Officials: Management will revise the process to ensure fire aid and the supplemental state aid are transmitted to the volunteer relief association within 30 days of receipt.