

CITY OF NEWPORT
WASHINGTON COUNTY, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
December 31, 2013

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CITY OF NEWPORT
WASHINGTON COUNTY, MINNESOTA

Table of Contents

	Page
INTRODUCTORY SECTION	
CITY COUNCIL AND OTHER OFFICIALS	1
FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT	2–4
MANAGEMENT’S DISCUSSION AND ANALYSIS	5–15
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements	
Governmental Funds	
Balance Sheet	18–19
Reconciliation of the Balance Sheet to the Statement of Net Position	20
Statement of Revenue, Expenditures, and Changes in Fund Balances	21–22
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	23
Statement of Revenue, Expenditures, and Changes in Fund Balances – General Fund – Budget and Actual	24
Proprietary Funds	
Statement of Net Position	25
Statement of Revenue, Expenses, and Changes in Net Position	26
Statement of Cash Flows	27
Notes to Basic Financial Statements	28–48
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
Newport Firemen’s Relief Association	
Schedule of Funding Progress	49
Schedule of Contributions From City and Other Contributing Entities	50
Other Post-Employment Benefits Plan	
Schedule of Funding Progress	51
SUPPLEMENTAL INFORMATION	
Combining and Individual Fund Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	52
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	53
Nonmajor Special Revenue Funds	
Combining Balance Sheet	54
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	55

CITY OF NEWPORT
WASHINGTON COUNTY, MINNESOTA

Table of Contents (continued)

	Page
SUPPLEMENTAL INFORMATION (CONTINUED)	
Combining and Individual Fund Statements and Schedules (continued)	
Nonmajor Governmental Funds (continued)	
Nonmajor Debt Service Funds	
Combining Balance Sheet	56–57
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	58–59
Nonmajor Capital Project Funds	
Combining Balance Sheet	60–61
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	62–63
Schedule of Revenue, Expenditures, and Changes in Fund Balances – General Fund – Budget and Actual	64–71
Nonmajor Proprietary Funds	
Combining Statement of Net Position	72
Combining Statement of Revenue, Expenses, and Changes in Net Position	73
Comparative Schedule of Revenue, Expenses, and Changes in Net Position	
Water Fund	74
Sewer Fund	75
Street Light Fund	76
Storm Sewer Fund	77
 OTHER INFORMATION SECTION	
General Fund Revenue by Source	78
General Fund Expenditures by Function	79
Property Tax Levies and Receivables	80
Tax Capacities	81
 OTHER REQUIRED REPORTS	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	82–83
Independent Auditor’s Report on Minnesota Legal Compliance	84
Schedule of Findings and Responses	85–86

INTRODUCTORY SECTION

CITY OF NEWPORT
WASHINGTON COUNTY, MINNESOTA

City Council and Other Officials
Year Ended December 31, 2013

CITY COUNCIL

Tim Geraghty
Steven Gallagher
Thomas Ingemann
Tracy Rahm
William Sumner

Mayor
Councilmember
Councilmember
Councilmember
Councilmember

OTHER OFFICIALS

Debora Ann Hill

City Administrator

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council and Management
City of Newport, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport, Minnesota (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

(continued)

OPINIONS

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

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress and Schedule of Contributions From City and Other Contributing Entities for the Newport Firemen's Relief Association, and the Schedule of Funding Progress for the Other Post-Employment Benefits Plan, as listed in 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the supplemental information, and other information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

(continued)

Prior Year Comparative Information

We have previously audited the City's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated June 3, 2013. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
April 23, 2014

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CITY OF NEWPORT

Management's Discussion and Analysis Year Ended December 31, 2013

As management of the City of Newport, Minnesota (the City), we have provided readers of the City's financial statements with this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other information in addition to the basic financial statements.

Government-Wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private sector businesses.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, delinquent taxes and special assessments).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, public works, parks and recreation, and interest and fiscal charges. The business-type activities of the City include enterprises for water, sewer, street light, and storm sewer utilities.

The government-wide financial statements include the City itself (known as the primary government) and any component units. The City does have a component unit, the Newport Economic Development Authority, that is required to be included in the City's financial statements. The activities of the component unit have been blended with the activities of the City.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City are divided into two categories—governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The fund financial statements present information for each major governmental fund in separate columns. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The City adopts an annual appropriated budget for the General Fund. Budget-to-actual comparisons are provided in this financial report for this fund.

Proprietary Funds – All of the City’s proprietary funds are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City’s enterprise funds include the Water, Sewer, Storm Sewer, and Street Light Enterprise Funds.

The fund financial statements present information for each major enterprise fund in separate columns. Data from the nonmajor enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report.

Notes to Basic Financial Statements – The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – Combining statements for nonmajor funds and certain individual fund schedules are presented following the required supplementary information on the Newport Firemen’s Relief Association and the funding of the Other Post-Employment Benefits (OPEB) Plan.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of the City's net position:

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	\$ 4,754,435	\$ 4,200,293	\$ 1,445,961	\$ 1,303,533	\$ 6,200,396	\$ 5,503,826
Capital assets, net	10,940,947	10,357,526	2,834,616	2,942,629	13,775,563	13,300,155
Total assets	\$ 15,695,382	\$ 14,557,819	\$ 4,280,577	\$ 4,246,162	\$ 19,975,959	\$ 18,803,981
Liabilities						
Long-term liabilities outstanding	\$ 2,912,611	\$ 1,919,753	\$ 543,694	\$ 540,000	\$ 3,456,305	\$ 2,459,753
Other liabilities	180,236	100,536	43,088	29,784	223,324	130,320
Total liabilities	\$ 3,092,847	\$ 2,020,289	\$ 586,782	\$ 569,784	\$ 3,679,629	\$ 2,590,073
Net position						
Net investment in capital assets	\$ 9,043,246	\$ 8,709,526	\$ 2,309,616	\$ 2,402,629	\$ 11,352,862	\$ 11,112,155
Restricted	1,142,379	1,779,507	-	-	1,142,379	1,779,507
Unrestricted	2,416,910	2,048,497	1,384,179	1,273,749	3,801,089	3,322,246
Total net position	\$ 12,602,535	\$ 12,537,530	\$ 3,693,795	\$ 3,676,378	\$ 16,296,330	\$ 16,213,908

The City's financial position is the product of many factors. For example, the determination of the City's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts.

Over the past several years, the City has taken a conservative financial approach, carefully analyzing revenues and expenditures/expenses to assure operation of a balanced budget. The ongoing management of revenue and expenditures/expenses has allowed the City to maintain a stable net position balance.

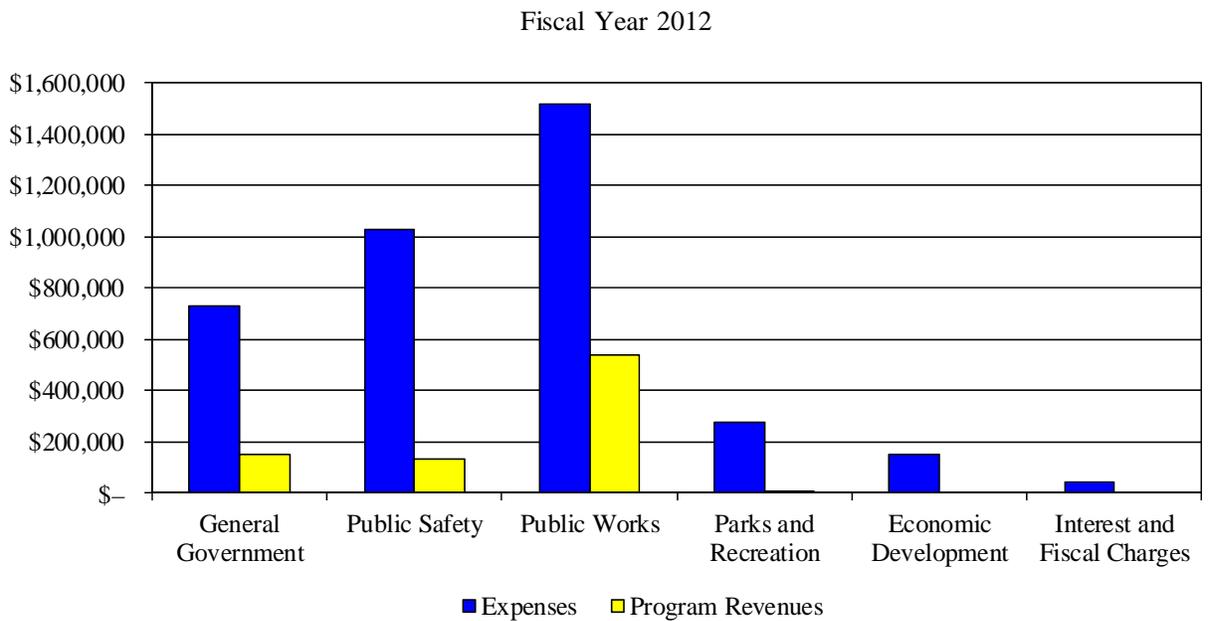
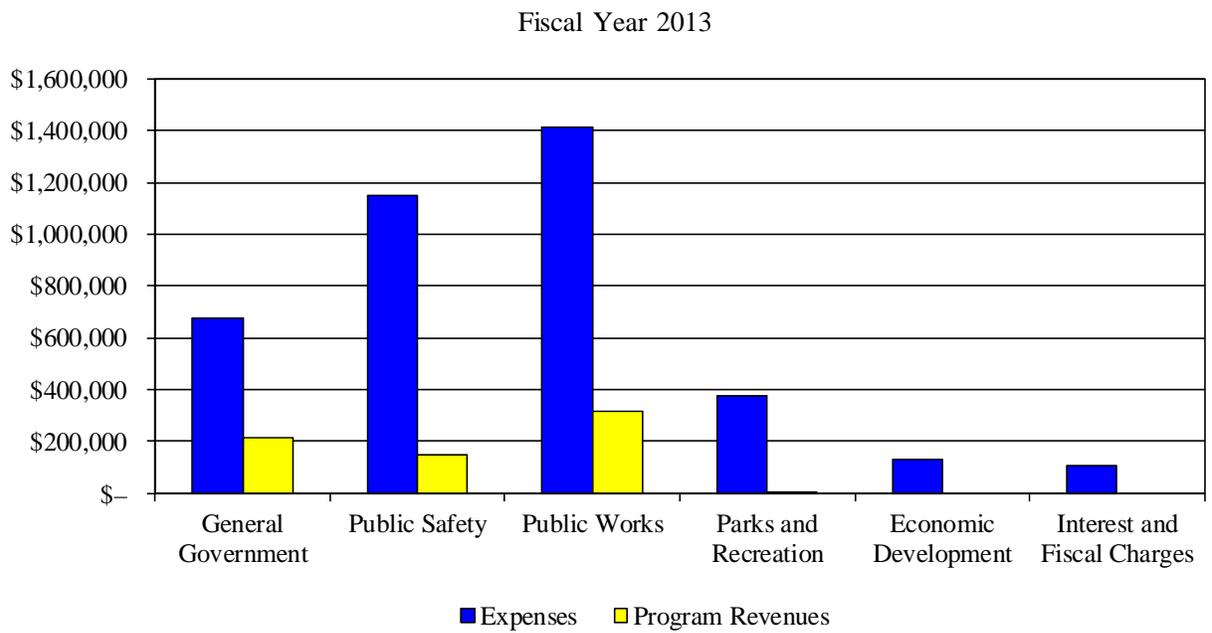
The following is a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Charges for services	\$ 188,639	\$ 165,477	\$ 706,627	\$ 674,203	\$ 895,266	\$ 839,680
Operating grants and contributions	81,541	123,097	–	–	81,541	123,097
Capital grants and contributions	410,400	539,521	1,500	167,102	411,900	706,623
General revenues						
Property taxes	2,361,926	2,307,486	–	–	2,361,926	2,307,486
General grants and contributions	716,372	692,136	–	–	716,372	692,136
Other general revenues	153,225	151,137	–	–	153,225	151,137
Investment earnings	7,425	16,069	1,044	4,879	8,469	20,948
Total revenues	<u>3,919,528</u>	<u>3,994,923</u>	<u>709,171</u>	<u>846,184</u>	<u>4,628,699</u>	<u>4,841,107</u>
Expenses						
General government	677,193	729,992	–	–	677,193	729,992
Public safety	1,150,672	1,025,646	–	–	1,150,672	1,025,646
Public works	1,414,583	1,517,411	–	–	1,414,583	1,517,411
Parks and recreation	375,109	275,260	–	–	375,109	275,260
Economic development	129,572	151,698	–	–	129,572	151,698
Water	–	–	287,424	179,607	287,424	179,607
Sewer	–	–	328,992	323,906	328,992	323,906
Other	–	–	75,338	64,284	75,338	64,284
Interest and fiscal charges	107,394	41,774	–	–	107,394	41,774
Total expenses	<u>3,854,523</u>	<u>3,741,781</u>	<u>691,754</u>	<u>567,797</u>	<u>4,546,277</u>	<u>4,309,578</u>
Changes in net position	<u>\$ 65,005</u>	<u>\$ 253,142</u>	<u>\$ 17,417</u>	<u>\$ 278,387</u>	<u>\$ 82,422</u>	<u>\$ 531,529</u>

The table above shows increases in net position in the governmental activities and increases in net position in the business-type activities.

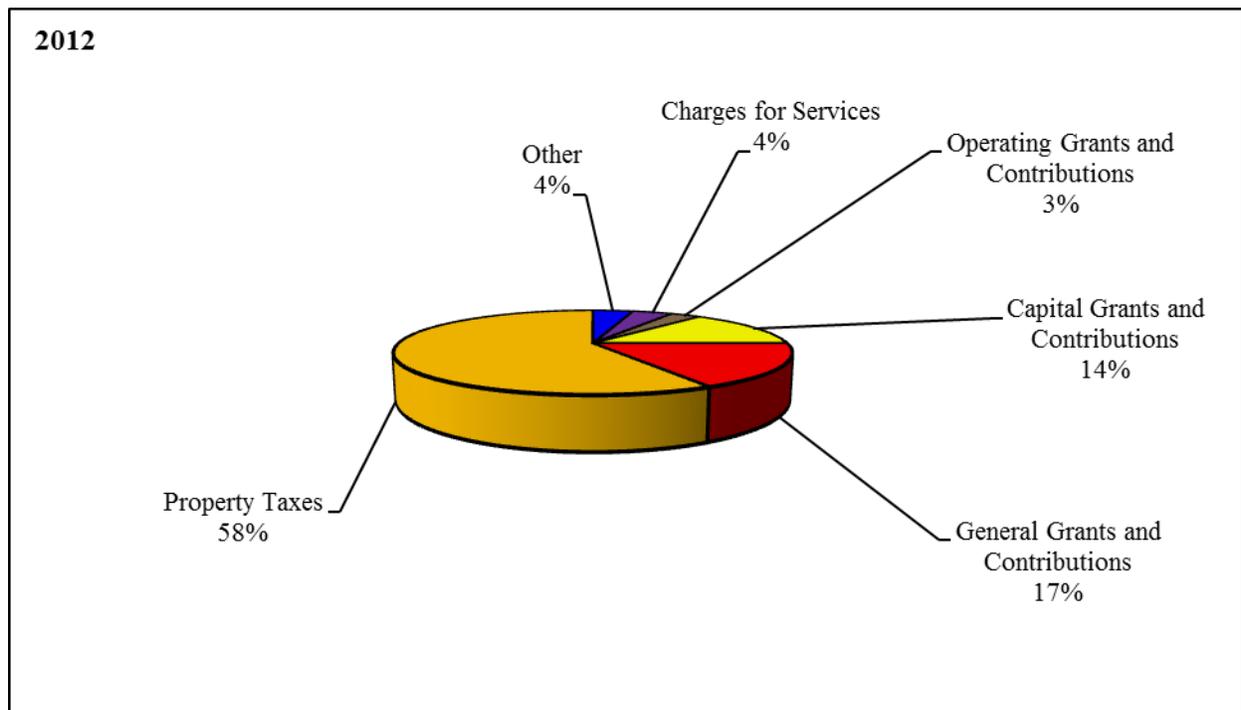
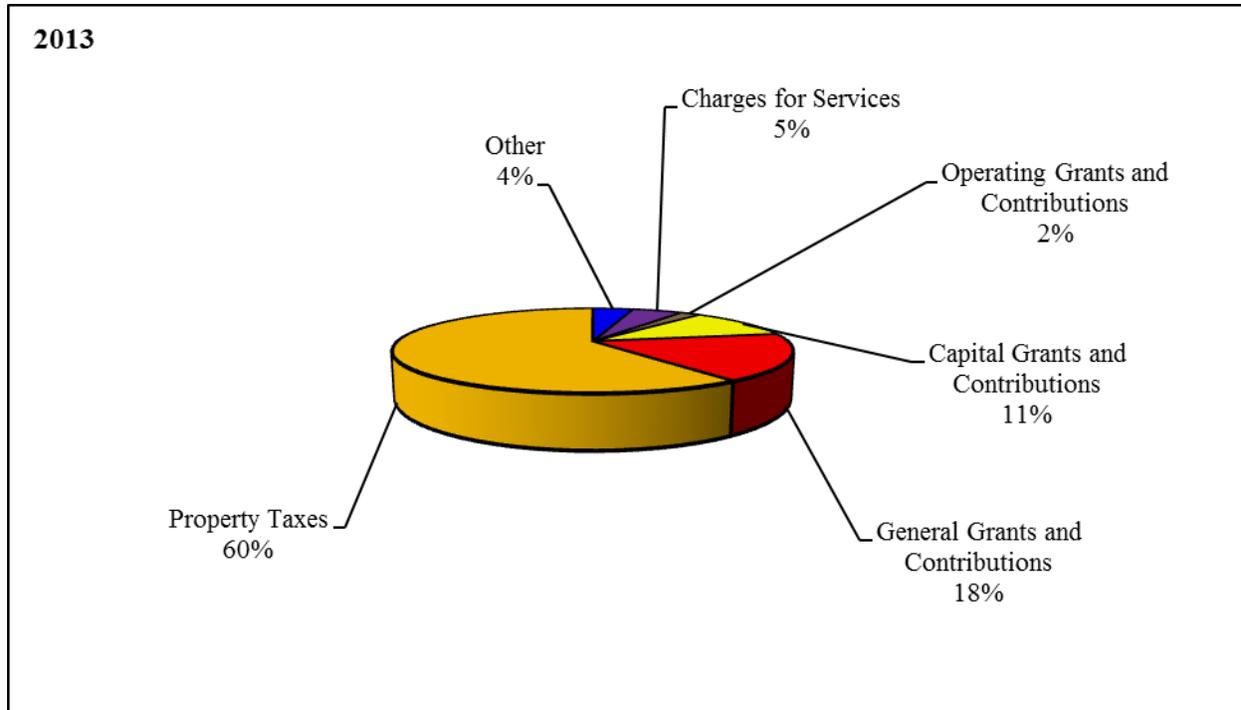
Governmental Activities – The following graphs illustrate the City’s governmental activities:

Expenses and Program Revenues – Governmental Activities for Fiscal Years 2013 and 2012



The governmental activities expenses and program revenues, shown in the above graph, clearly reflect the need for property taxes and general grants to supplement the activities of the City.

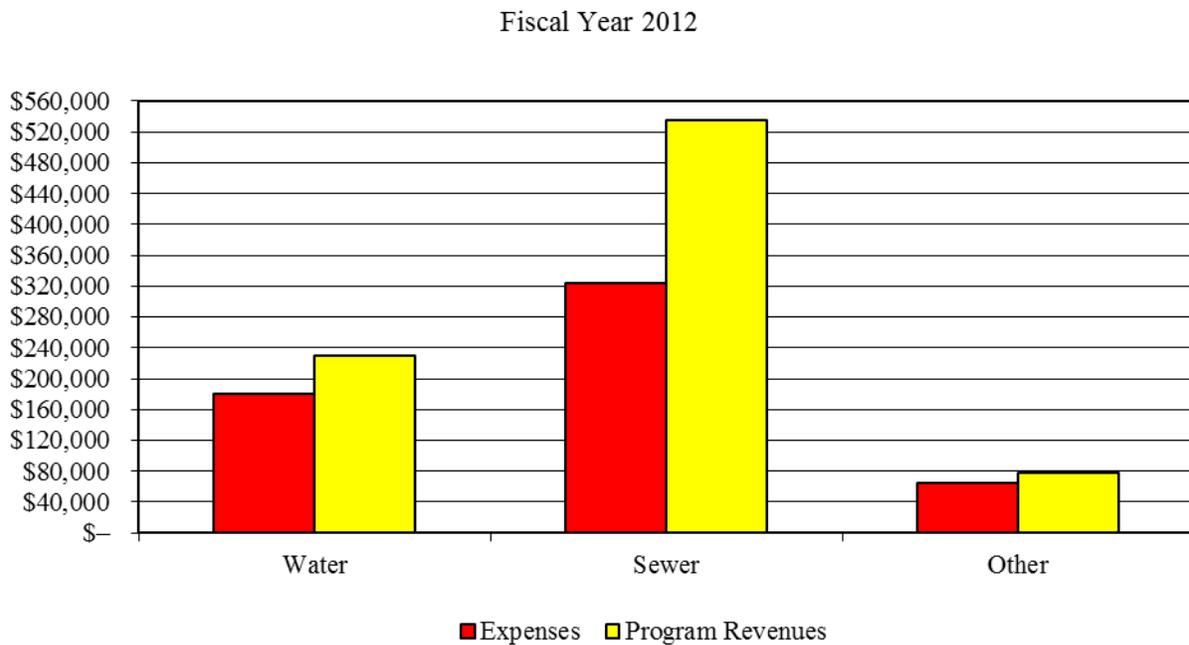
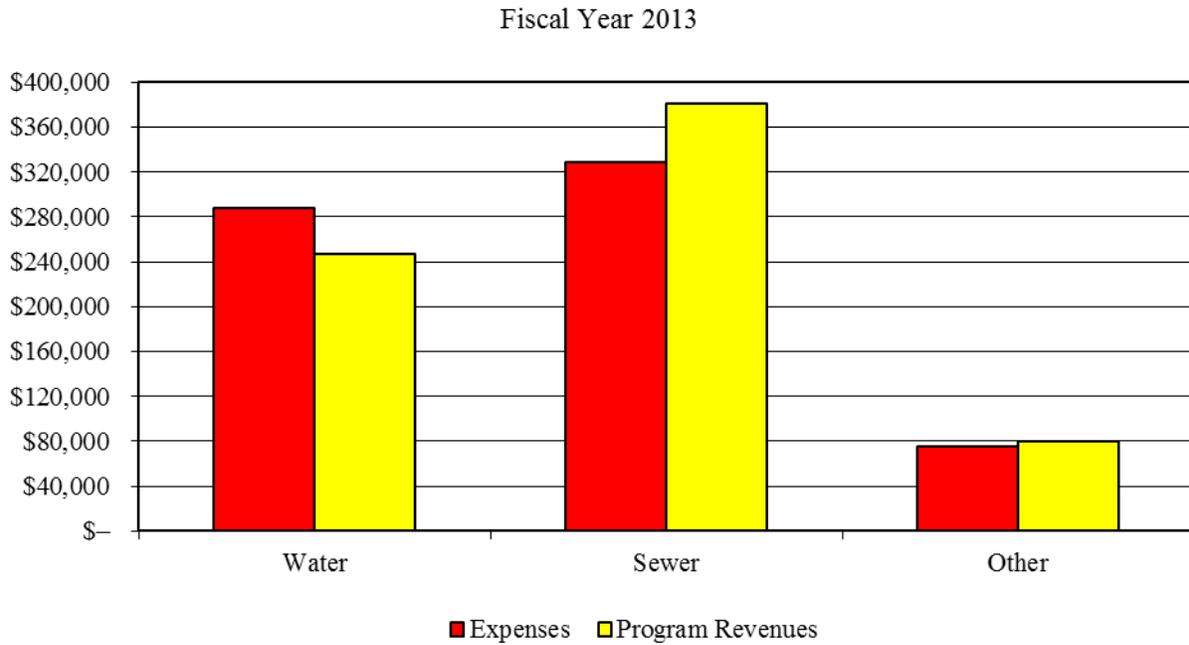
Revenue by Source – Governmental Activities for Fiscal Years 2013 and 2012



As is common with most cities, the governmental-type activities are primarily funded with taxes and general grants, including local government aid and tax credits, rather than with program revenues.

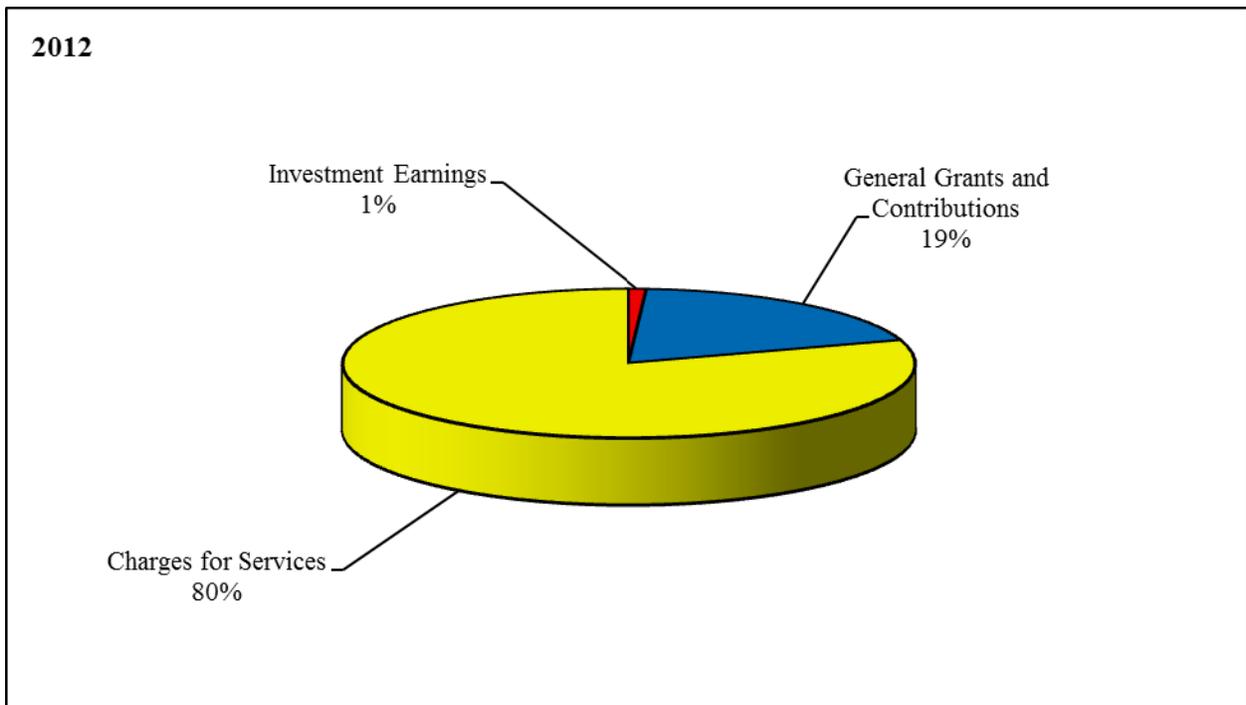
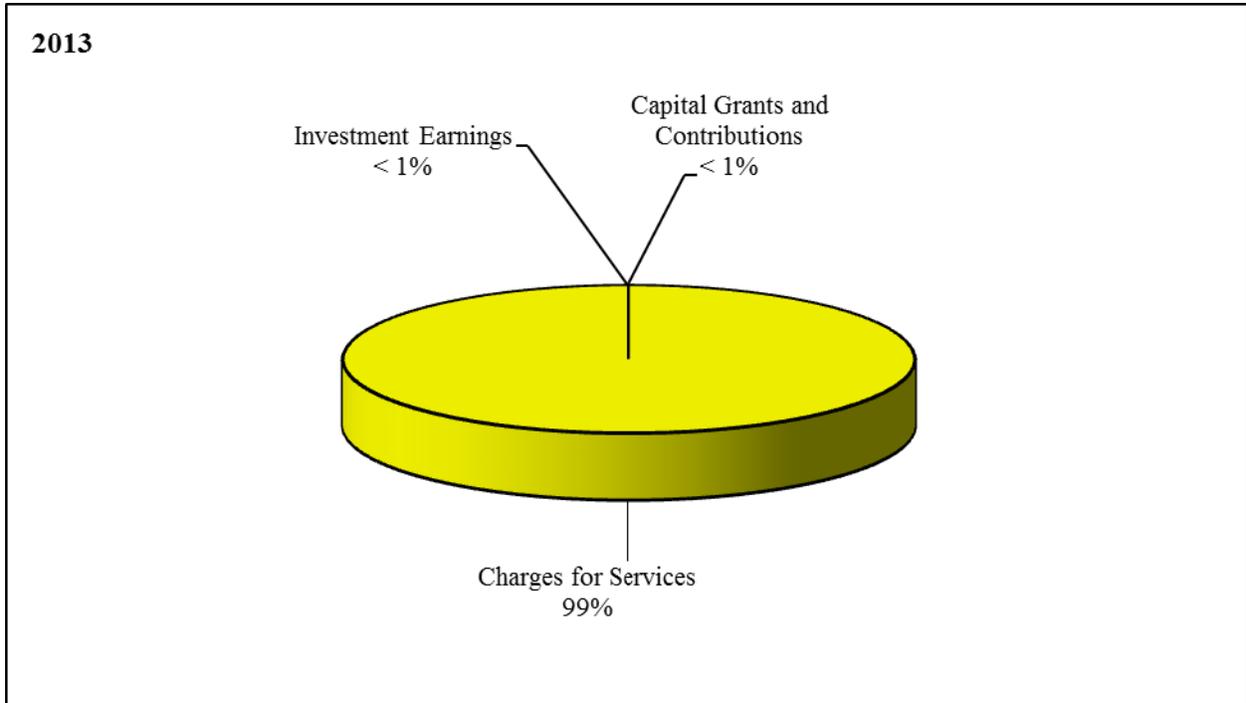
Business-Type Activities – The following graphs illustrate the City’s business-type activities:

Expenses and Program Revenues – Business-Type Activities for Fiscal Years 2013 and 2012



Unlike governmental activities, these activities are mostly funded through program revenues such as sales and user charges.

Revenues by Source – Business-Type Activities for Fiscal Years 2013 and 2012



During fiscal 2013 the Sewer Fund did not receive as large of a grant for infrastructure-related projects as it received in 2012.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds – At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$4,128,306, an increase of \$358,251 in comparison with the prior year.

General Fund – The General Fund operating results can be summarized as follows:

	Original Budget	Final Budget	Actual	Over (Under) Budget	Prior Year Actual
Revenue	\$ 3,051,576	\$ 3,051,576	\$ 3,135,930	\$ 84,354	\$ 3,226,690
Expenditures	2,465,683	2,490,683	2,480,164	(10,519)	2,479,017
Excess of revenue over expenditures	585,893	560,893	655,766	94,873	747,673
Other financing sources (uses)					
Transfers (out)	(449,200)	(424,200)	(425,450)	(1,250)	(219,000)
Net change in fund balances	<u>\$ 136,693</u>	<u>\$ 136,693</u>	230,316	<u>\$ 93,623</u>	528,673
Fund balances					
Beginning of year			<u>1,688,775</u>		<u>1,160,102</u>
End of year			<u>\$ 1,919,091</u>		<u>\$ 1,688,775</u>

General Fund Budgetary Highlights – The majority of the City's revenue stream happens twice a year with the receipt of tax settlement dollars and it is the intent of the City Council to cover revenue downturns with General Fund savings or fund balance monies.

Actual financial results were better than projected due to higher than anticipated revenue, mainly in fines and forfeits (\$20,193) and miscellaneous revenue (\$58,617). Most of the other revenue sources were from grants, donations, and other reimbursements that were not anticipated in fiscal 2013. Expenditures were under budget by \$10,519, mainly in administration (\$23,050) and public safety (\$14,626), offset by expenditures over budget in parks and recreation (\$27,634).

Other Governmental Funds – The other major funds of the City include the Economic Development Authority Special Revenue Fund, the Capital Equipment Capital Project Fund, and the Street Reconstruction Capital Project Fund. The Economic Development Authority Special Revenue Fund balance increased mainly from a transfer in from the General Fund. The Capital Equipment Fund balance decreased from the spend down of fund balances for related projects, and the Street Reconstruction Fund increased due to the issuance of bonds to finance significant street improvement projects taking place in 2013. All nonmajor fund balances combined decreased \$98,433 in fiscal 2013.

Proprietary Funds – The City's proprietary funds had a combined net position of \$3,693,795 at December 31, 2013. The financial activities are the same as the business-type information summarized in previous charts within this MD&A. The proprietary funds consist of the Water, Sewer, Storm Sewer, and Street Light Enterprise Funds.

Capital Assets – The City’s investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of December 31, 2013 are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 3,225,160	\$ 3,013,196	\$ –	\$ –	\$ 3,225,160	\$ 3,013,196
Buildings and improvements	1,960,400	1,895,600	540,461	540,461	2,500,861	2,436,061
Machinery and equipment	319,532	361,837	350,607	350,607	670,139	712,444
Vehicles	1,545,838	1,415,140	–	–	1,545,838	1,415,140
Infrastructure	12,539,308	12,175,692	4,913,097	4,913,097	17,452,405	17,088,789
Construction in progress	459,589	363,616	–	–	459,589	363,616
Total capital assets	20,049,827	19,225,081	5,804,165	5,804,165	25,853,992	25,029,246
Accumulated depreciation	(9,108,880)	(8,867,555)	(2,969,549)	(2,861,536)	(12,078,429)	(11,729,091)
Total capital assets, net of depreciation	\$ 10,940,947	\$ 10,357,526	\$ 2,834,616	\$ 2,942,629	\$ 13,775,563	\$ 13,300,155
Depreciation expense	\$ 737,326	\$ 814,064	\$ 108,013	\$ 108,010	\$ 845,339	\$ 922,074

Additional details of capital asset activity for the year can be found in the notes to basic financial statements.

Long-Term Liabilities – The enterprise funds and governmental debt service funds account for the accumulation of resources to finance all of the City’s general obligation bonds. The revenue sources for these funds include annual tax levies, special assessments, and water and sewer fund revenue. Compensated absences and OPEB obligations are paid for by the General Fund and respective enterprise funds. The following table summarizes the City’s long-term liabilities:

	2013	2012
Governmental activities		
General obligation bonds	\$ 2,619,000	\$ 1,648,000
Premiums on debt issued	64,570	–
Compensated absences	201,109	252,180
Net OPEB obligation	27,932	19,573
Business-type activities		
General obligation bonds	525,000	540,000
Compensated absences	18,694	–
Total	\$ 3,456,305	\$ 2,459,753

The City has sufficient funds on hand to make all required bond payments, and anticipates an ongoing stream of revenue to make future bond payments.

Additional details of long-term debt activity for the year can be found in the notes to basic financial statements.

ECONOMIC FACTORS AND OTHER FINANCIAL ANALYSIS

Budget management has been and remains a high priority for the City Council. Efforts to maintain cost constraints include staggering the purchase of capital equipment, negotiating long-term union contracts, and forestalling long-term general obligation debt. The City has struggled under the burden of a loss of taxable property, decreased building starts, and very low interest rates on investments.

The City will continue to utilize conservative financial budgeting.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional information should be addressed by writing to the City of Newport, 596 – 7th Avenue, Newport, Minnesota 55055 or by calling (651) 459–5677.

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BASIC FINANCIAL STATEMENTS

CITY OF NEWPORT

Statement of Net Position
as of December 31, 2013

	Governmental Activities	Business-Type Activities	Totals
Assets			
Cash and temporary investments	\$ 4,223,312	\$ 1,283,472	\$ 5,506,784
Receivables			
Accounts	–	161,110	161,110
Accrued interest	5,493	–	5,493
Current taxes	35,245	–	35,245
Delinquent taxes	102,021	–	102,021
Delinquent special assessments	16,232	–	16,232
Deferred special assessments	351,497	–	351,497
Due from other governmental units	3,769	–	3,769
Prepaid items	16,866	1,379	18,245
Capital assets			
Not depreciated	3,684,749	–	3,684,749
Depreciated, net of accumulated depreciation	7,256,198	2,834,616	10,090,814
Total capital assets, net of accumulated depreciation	<u>10,940,947</u>	<u>2,834,616</u>	<u>13,775,563</u>
Total assets	<u>\$ 15,695,382</u>	<u>\$ 4,280,577</u>	<u>\$ 19,975,959</u>
Liabilities			
Accounts and contracts payable	\$ 129,286	\$ 30,294	\$ 159,580
Salaries payable	31,513	4,122	35,635
Accrued interest payable	19,437	7,702	27,139
Due to other governmental units	–	970	970
Long-term liabilities			
Due within one year	453,434	38,694	492,128
Due in more than one year	2,459,177	505,000	2,964,177
Total long-term liabilities	<u>2,912,611</u>	<u>543,694</u>	<u>3,456,305</u>
Total liabilities	3,092,847	586,782	3,679,629
Net position			
Net investment in capital assets	9,043,246	2,309,616	11,352,862
Restricted for			
Debt service	436,903	–	436,903
Capital acquisition	680,066	–	680,066
Other purposes	25,410	–	25,410
Unrestricted	2,416,910	1,384,179	3,801,089
Total net position	<u>12,602,535</u>	<u>3,693,795</u>	<u>16,296,330</u>
Total liabilities and net position	<u>\$ 15,695,382</u>	<u>\$ 4,280,577</u>	<u>\$ 19,975,959</u>

See notes to basic financial statements

CITY OF NEWPORT

Balance Sheet
 Governmental Funds
 as of December 31, 2013

	General Fund	Special Revenue – Economic Development Authority	Capital Project	
			Capital Equipment	Street Reconstruction
Assets				
Cash and temporary investments	\$ 1,963,426	\$ 596,700	\$ –	\$ 785,869
Receivables				
Accrued interest	5,493	–	–	–
Current taxes	32,165	–	–	–
Delinquent taxes	102,021	–	–	–
Delinquent special assessments	–	–	–	–
Deferred special assessments	622	–	–	276,830
Due from other governmental units	3,769	–	–	–
Prepaid items	16,866	–	–	–
Total assets	\$ 2,124,362	\$ 596,700	\$ –	\$ 1,062,699
Liabilities				
Accounts and contracts payable	\$ 71,115	\$ 610	\$ –	\$ 57,561
Salaries payable	31,513	–	–	–
Total liabilities	102,628	610	–	57,561
Deferred inflows of resources				
Unavailable revenue – taxes	102,643	–	–	–
Unavailable revenue – special assessments	–	–	–	276,830
Total deferred inflows of resources	102,643	–	–	276,830
Fund balances				
Nonspendable	16,866	–	–	–
Restricted	–	596,090	–	728,308
Assigned	–	–	–	–
Unassigned	1,902,225	–	–	–
Total fund balances	1,919,091	596,090	–	728,308
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,124,362	\$ 596,700	\$ –	\$ 1,062,699

See notes to basic financial statements

<u>Nonmajor Funds</u>	<u>Totals</u>
\$ 877,317	\$ 4,223,312
–	5,493
3,080	35,245
–	102,021
16,232	16,232
74,045	351,497
–	3,769
–	16,866
<u>\$ 970,674</u>	<u>\$ 4,754,435</u>
\$ –	\$ 129,286
–	31,513
–	160,799
–	102,643
85,857	362,687
<u>85,857</u>	<u>465,330</u>
–	16,866
523,491	1,847,889
361,326	361,326
–	1,902,225
<u>884,817</u>	<u>4,128,306</u>
<u>\$ 970,674</u>	<u>\$ 4,754,435</u>

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CITY OF NEWPORT

Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
as of December 31, 2013

Total fund balances – governmental funds	\$ 4,128,306
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.	
Cost of capital assets	20,049,827
Less accumulated depreciation	(9,108,880)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.	
General obligation bonds payable	(2,619,000)
Premiums on debt issued	(64,570)
Compensated absences payable	(201,109)
Net other post-employment benefit obligations	(27,932)
Certain revenues (including delinquent and deferred taxes and special assessments) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	
	465,330
Accrued interest payable is included in net position, but is excluded from fund balances until due and payable.	
	<u>(19,437)</u>
Total net position – governmental activities	<u><u>\$ 12,602,535</u></u>

See notes to basic financial statements

CITY OF NEWPORT

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended December 31, 2013

	General Fund	Special Revenue – Economic Development Authority	Capital Project	
			Capital Equipment	Street Reconstruction
Revenue				
Property taxes	\$ 2,118,004	\$ 5,199	\$ –	\$ –
Licenses and permits	89,767	–	–	–
Special assessments	–	–	–	95,247
Intergovernmental	674,822	109,590	–	–
Charges for services	98,929	–	–	–
Fines and forfeits	68,193	–	–	–
Investment earnings	5,598	472	285	37
Miscellaneous	80,617	13,412	–	–
Total revenue	<u>3,135,930</u>	<u>128,673</u>	<u>285</u>	<u>95,284</u>
Expenditures				
Current				
General government	666,612	–	–	–
Public safety	975,112	–	–	–
Public works	400,294	–	–	–
Parks and recreation	381,842	–	–	–
Economic development	–	129,572	–	–
Capital outlay	56,304	211,964	494,674	757,914
Debt service				
Principal retirement	–	–	–	–
Interest and fiscal charges	–	–	–	–
Total expenditures	<u>2,480,164</u>	<u>341,536</u>	<u>494,674</u>	<u>757,914</u>
Excess (deficiency) of revenue over expenditures	655,766	(212,863)	(494,389)	(662,630)
Other financing sources (uses)				
Debt issued	–	–	–	1,350,000
Premium on debt issued	–	–	–	–
Transfers in	–	246,250	–	–
Transfers (out)	(425,450)	–	–	–
Total other financing sources (uses)	<u>(425,450)</u>	<u>246,250</u>	<u>–</u>	<u>1,350,000</u>
Net change in fund balances	230,316	33,387	(494,389)	687,370
Fund balances				
Beginning of year	<u>1,688,775</u>	<u>562,703</u>	<u>494,389</u>	<u>40,938</u>
End of year	<u>\$ 1,919,091</u>	<u>\$ 596,090</u>	<u>\$ –</u>	<u>\$ 728,308</u>

See notes to basic financial statements

<u>Nonmajor Funds</u>	<u>Totals</u>
\$ 220,685	\$ 2,343,888
–	89,767
208,527	303,774
3,347	787,759
–	98,929
–	68,193
1,033	7,425
6,600	100,629
<u>440,192</u>	<u>3,800,364</u>
9,718	676,330
–	975,112
–	400,294
3,991	385,833
–	129,572
285,195	1,806,051
379,000	379,000
105,400	105,400
<u>783,304</u>	<u>4,857,592</u>
(343,112)	(1,057,228)
–	1,350,000
65,479	65,479
271,016	517,266
(91,816)	(517,266)
<u>244,679</u>	<u>1,415,479</u>
(98,433)	358,251
<u>983,250</u>	<u>3,770,055</u>
<u>\$ 884,817</u>	<u>\$ 4,128,306</u>

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CITY OF NEWPORT

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended December 31, 2013

Total net change in fund balances – governmental funds	\$ 358,251
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.	
Capital outlays	1,438,074
Depreciation expense	(737,326)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(117,327)
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.	(1,350,000)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.	379,000
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	(64,570)
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However it is included in the change in fund balances when due.	(2,973)
Net other post-employment benefit obligations payable reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds until actually due.	(8,359)
Compensated absences are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.	51,071
Certain revenues (including delinquent taxes and special assessments) are included in the change in net position, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.	119,164
Change in net position – governmental activities	<u>\$ 65,005</u>

See notes to basic financial statements

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CITY OF NEWPORT

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 General Fund
 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Property taxes	\$ 2,128,900	\$ 2,128,900	\$ 2,118,004	\$ (10,896)
Licenses and permits	76,300	76,300	89,767	13,467
Intergovernmental	675,026	675,026	674,822	(204)
Charges for services	93,350	93,350	98,929	5,579
Fines and forfeits	48,000	48,000	68,193	20,193
Investment earnings	8,000	8,000	5,598	(2,402)
Miscellaneous	22,000	22,000	80,617	58,617
Total revenue	<u>3,051,576</u>	<u>3,051,576</u>	<u>3,135,930</u>	<u>84,354</u>
Expenditures				
Current				
General government	689,342	689,662	666,612	(23,050)
Public safety	989,738	989,738	975,112	(14,626)
Public works	398,738	398,738	400,294	1,556
Parks and recreation	329,528	354,208	381,842	27,634
Capital outlay	58,337	58,337	56,304	(2,033)
Total expenditures	<u>2,465,683</u>	<u>2,490,683</u>	<u>2,480,164</u>	<u>(10,519)</u>
Excess of revenue over expenditures	585,893	560,893	655,766	94,873
Other financing (uses)				
Transfers (out)	(449,200)	(424,200)	(425,450)	(1,250)
Net change in fund balances	<u>\$ 136,693</u>	<u>\$ 136,693</u>	230,316	<u>\$ 93,623</u>
Fund balances				
Beginning of year			<u>1,688,775</u>	
End of year			<u>\$ 1,919,091</u>	

See notes to basic financial statements

CITY OF NEWPORT

Statement of Net Position
 Proprietary Funds
 as of December 31, 2013

	Business-Type Activities – Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Assets				
Current assets				
Cash and temporary investments	\$ 498,642	\$ 737,164	\$ 47,666	\$ 1,283,472
Receivables				
Accounts	59,218	85,632	16,260	161,110
Prepaid items	646	733	–	1,379
Total current assets	<u>558,506</u>	<u>823,529</u>	<u>63,926</u>	<u>1,445,961</u>
Capital assets				
Buildings and improvements	123,291	417,170	–	540,461
Machinery and equipment	294,264	56,343	–	350,607
Infrastructure	2,962,267	1,950,830	–	4,913,097
	<u>3,379,822</u>	<u>2,424,343</u>	<u>–</u>	<u>5,804,165</u>
Less accumulated depreciation	1,798,636	1,170,913	–	2,969,549
Net capital assets	<u>1,581,186</u>	<u>1,253,430</u>	<u>–</u>	<u>2,834,616</u>
Total assets	<u>\$ 2,139,692</u>	<u>\$ 2,076,959</u>	<u>\$ 63,926</u>	<u>\$ 4,280,577</u>
Liabilities and net position				
Current liabilities				
Accounts payable	\$ 8,188	\$ 609	\$ 21,497	\$ 30,294
Salaries payable	2,061	2,061	–	4,122
Accrued interest payable	3,389	4,313	–	7,702
Due to other governments	970	–	–	970
Long-term liabilities – current	18,147	20,547	–	38,694
Total current liabilities	<u>32,755</u>	<u>27,530</u>	<u>21,497</u>	<u>81,782</u>
Long-term liabilities				
Due in more than one year	<u>220,600</u>	<u>284,400</u>	<u>–</u>	<u>505,000</u>
Total liabilities	<u>253,355</u>	<u>311,930</u>	<u>21,497</u>	<u>586,782</u>
Net position				
Net investment in capital assets	1,351,786	957,830	–	2,309,616
Unrestricted	534,551	807,199	42,429	1,384,179
Total net position	<u>1,886,337</u>	<u>1,765,029</u>	<u>42,429</u>	<u>3,693,795</u>
Total liabilities and net position	<u>\$ 2,139,692</u>	<u>\$ 2,076,959</u>	<u>\$ 63,926</u>	<u>\$ 4,280,577</u>

See notes to basic financial statements

CITY OF NEWPORT

Statement of Revenue, Expenses, and Changes in Net Position
 Proprietary Funds
 Year Ended December 31, 2013

	Business-Type Activities – Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Operating revenue				
Water sales	\$ 245,452	\$ –	\$ –	\$ 245,452
Sewer charges	–	379,223	–	379,223
Street light charges	–	–	57,470	57,470
Storm sewer charges	–	–	22,547	22,547
Permits and licenses	1,620	315	–	1,935
Total operating revenue	<u>247,072</u>	<u>379,538</u>	<u>80,017</u>	<u>706,627</u>
Operating expenses				
Salaries	77,159	78,224	–	155,383
Employee benefits	15,968	16,339	–	32,307
MCES sewer charges	–	156,338	–	156,338
Insurance	12,596	15,496	–	28,092
Supplies	19,274	5,300	–	24,574
Utilities	33,267	10,225	48,400	91,892
Depreciation	74,999	33,014	–	108,013
Other	46,138	3,523	26,938	76,599
Total operating expenses	<u>279,401</u>	<u>318,459</u>	<u>75,338</u>	<u>673,198</u>
Operating income (loss)	(32,329)	61,079	4,679	33,429
Nonoperating revenue (expense)				
State grant and aids	–	1,500	–	1,500
Investment earnings	416	598	30	1,044
Interest and fiscal charges	(8,023)	(10,533)	–	(18,556)
Total nonoperating revenue (expense)	<u>(7,607)</u>	<u>(8,435)</u>	<u>30</u>	<u>(16,012)</u>
Change in net position	(39,936)	52,644	4,709	17,417
Net position				
Beginning of year	<u>1,926,273</u>	<u>1,712,385</u>	<u>37,720</u>	<u>3,676,378</u>
End of year	<u>\$ 1,886,337</u>	<u>\$ 1,765,029</u>	<u>\$ 42,429</u>	<u>\$ 3,693,795</u>

See notes to basic financial statements

CITY OF NEWPORT

Statement of Cash Flows
 Proprietary Funds
 Year Ended December 31, 2013

	Business-Type Activities – Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Cash flows from operating activities				
Cash received from customers	\$ 237,382	\$ 367,129	\$ 79,621	\$ 684,132
Cash paid to suppliers	(110,917)	(194,803)	(58,401)	(364,121)
Cash paid to employees	(83,068)	(84,529)	–	(167,597)
Net cash provided by operating activities	<u>43,397</u>	<u>87,797</u>	<u>21,220</u>	<u>152,414</u>
Cash flows from capital and related financing activities				
State aid and grants	–	1,500	–	1,500
Principal paid on debt	(6,600)	(8,400)	–	(15,000)
Interest paid on debt	(8,232)	(10,638)	–	(18,870)
Net cash provided by capital financing activities	<u>(14,832)</u>	<u>(17,538)</u>	<u>–</u>	<u>(32,370)</u>
Cash flows from investing activities				
Interest received	<u>416</u>	<u>598</u>	<u>30</u>	<u>1,044</u>
Net change in cash and cash equivalents	28,981	70,857	21,250	121,088
Cash and cash equivalents				
Beginning of year	<u>469,661</u>	<u>666,307</u>	<u>26,416</u>	<u>1,162,384</u>
End of year	<u>\$ 498,642</u>	<u>\$ 737,164</u>	<u>\$ 47,666</u>	<u>\$ 1,283,472</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (32,329)	\$ 61,079	\$ 4,679	\$ 33,429
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	74,999	33,014	–	108,013
Change in assets and liabilities				
Accounts receivable	(9,690)	(12,409)	(396)	(22,495)
Prepaid items	521	634	–	1,155
Accounts payable	860	(4,555)	16,937	13,242
Salaries and compensated absences payable	10,059	10,034	–	20,093
Due to other governmental units	(1,023)	–	–	(1,023)
Net cash provided by operating activities	<u>\$ 43,397</u>	<u>\$ 87,797</u>	<u>\$ 21,220</u>	<u>\$ 152,414</u>

See notes to basic financial statements

CITY OF NEWPORT

Notes to Basic Financial Statements
December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The City of Newport, Minnesota (the City) operates under the “Optional Plan A” form of government as defined in Minnesota Statutes, Chapter 412. Under this plan, the government of the City is run by a council composed of an elected mayor and four councilmembers. The City Council exercises legislative authority and determines all matters of policy.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

B. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include the City (the primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit’s board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

The Newport Economic Development Authority (EDA) is fiscally dependent upon the City and its governing body consists of City Council members. Therefore, the EDA is included as a component unit of the City. The EDA’s financial data has been blended with that of the City (reported as though its funds were funds of the City).

C. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of the City. 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 sales, fees, and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 fiscal year for which they are levied while special assessments are recognized when certified. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, charges between the City's enterprise funds and other functions are not eliminated, as that would distort the direct costs and program revenues reported in those functions. The City applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental and proprietary funds are reported in a single column in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if collected within 60 days after year-end.

Major revenue that is susceptible to accrual includes property taxes, intergovernmental revenue, charges for services, and interest earned on investments. 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. Revenue that is not susceptible to accrual includes licenses and permits, fees, and miscellaneous revenue. Such revenue is recorded only when received because it is not measurable until collected. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, compensated absences, and other post-employment benefit obligations, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Funds

The City reports the following major 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.

Economic Development Authority Special Revenue Fund – This fund is used to account for the financial resources of the EDA.

Capital Equipment Capital Project Fund – This fund is used to account for the financial resources for acquisition of new equipment for the City.

Street Reconstruction Capital Project Fund – This fund is used to account for the financial resources for the 2013 street improvement project.

The City reports the following major proprietary funds:

Water Enterprise Fund – The Water Enterprise Fund is used to account for the operation, maintenance, and improvement of the City’s water utility system.

Sewer Enterprise Fund – The Sewer Enterprise Fund is used to account for the operation, maintenance, and improvement of the City’s sewer utility system.

E. Cash and Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are generally stated at fair value, except for investments in 2a-7 like external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers’ acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

F. Receivables

Utility and miscellaneous accounts receivable are reported at gross. Since the City is generally able to certify delinquent amounts to the county for collection as special assessments, no allowance for uncollectible accounts has been provided on current receivables. All receivables are expected to be collected within one year with the exception of deferred special assessments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property Taxes

Property tax levies are set by the City Council by December of each year, and are certified to Washington County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City on that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes are due in full on May 15. The county provides tax settlements to cities and other taxing districts several times a year. Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable.

H. Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as delinquent (levied, but unremitted) or deferred (certified, but not yet levied) special assessments receivable.

I. Prepaid Items

The inventories of the City's proprietary funds are recorded in prepaid items at the lower of cost or market on the first-in, first-out basis. Prepaid items in all funds are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

J. Capital Assets

Capital assets, which include property, buildings, equipment, and improvements (infrastructure assets such as roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City defines capital assets as those with an initial, individual cost of \$5,000 or more with an estimated useful life in excess of one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide and proprietary fund financial statements, but are not reported in the governmental fund financial statements. Interest incurred during the construction phase of capital assets for business-type activities is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over their estimated useful lives. Land and construction in progress are not depreciated. Useful lives vary from 10 to 50 years for buildings and improvements; 4 to 20 years for machinery, equipment, and vehicles; and 10 to 65 years for infrastructure.

The City has chosen to report infrastructure beginning with capital assets acquired after 1980. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Absences Payable

All employees of the City are eligible for certain severance benefits. The severance calculation is dependent upon employee type, as well as years of service. Non-union employees receive severance pay for unused vacation days and one-half of their unused sick leave benefits to a maximum of 60 days of additional severance pay. Severance pay for all full-time employees of the police department who are members of the Minnesota Teamsters Public and Law Enforcement Employees Union, Local #320 Union are paid in accordance with the terms of their contract. All full-time employees who are members of the International Union of Operating Engineers #49, AFL-CIO are also paid in accordance with the terms of their contract. These compensated absences are paid to an employee leaving in good standing, at their current rate of pay, by the governmental or proprietary fund that paid the largest portion of the employee's salary. The amount of severance that is based on convertible sick leave is recorded as a liability in the government-wide financial statements and proprietary funds as it is earned and it becomes probable that it will vest at some point in the future. Severance pay is accrued in the governmental fund financial statements only when it becomes due and payable.

L. Other Post-Employment Benefits

Under Minnesota Statute § 471.61, Subd. 2b, public employers must allow retirees and their dependants to continue coverage indefinitely in an employer-sponsored healthcare plan, under the following conditions: 1) retirees must be receiving (or be eligible to receive) an annuity from a Minnesota public pension plan; 2) coverage must continue in a group plan until age 65, and retirees must pay no more than the group premium; and 3) retirees may obtain dependant coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, at January 1, 2012.

M. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. If they are material, bond premiums, and discounts, are deferred and amortized over the life of the bonds using the straight-line method.

In the governmental fund financial statements, long-term debt and other long-term obligations are not reported as liabilities. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

N. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section of deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items which qualify for reporting in this category.

These two items are unavailable revenue from property taxes and special assessments, which arise under a modified accrual basis of accounting and are reported only in the governmental funds Balance Sheet. Property taxes and special assessments not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Net Position

In the government-wide and proprietary fund financial statements, net position represents the differences between assets and liabilities and deferred inflow of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

P. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the City’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Budgets and Budgetary Accounting

Budget amounts are presented on the modified accrual basis of accounting. Each fall the City Council adopts a General Fund budget for the following fiscal year beginning January 1. The City has established budgetary control at the fund level. Budget appropriations lapse at year-end.

R. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid debt instruments with an original maturity from the time of purchase by the City of three months or less to be cash equivalent. The proprietary funds' portion in the government-wide cash and investment management pool is considered to be cash equivalent.

S. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for its general property and casualty, workers' compensation, and other miscellaneous insurance coverage. LMCIT operates as a common risk management and insurance program for a large number of cities in Minnesota. The City pays an annual premium to LMCIT for insurance coverage. The LMCIT agreement provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. The City also carries commercial insurance for certain other risks of loss. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in 2013.

T. Use of Estimates

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States of America, requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

U. Change in Accounting Principle

During the year ended June 30, 2013, the City implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." GASB Statement No. 65 identified specific items previously reported as assets that will now be classified as either deferred outflows of resources or outflows (expenditures/expenses), and items previously reported as liabilities that will now be reported as either deferred inflows of resources or inflows (revenues).

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	\$	3,823,039
Investments		1,683,670
Cash on hand		<u>75</u>
Total	\$	<u><u>5,506,784</u></u>

B. Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council, including checking accounts and certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City has no additional deposit policies addressing custodial credit risk.

At year-end, the carrying amount of the City’s deposits was \$3,823,039 while the balance on the bank records was \$3,847,528. At December 31, 2013, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the City’s agent in the City’s name.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

C. Investments

The City has the following investments at year-end:

Investment Type	Credit Risk		Concentration Risk	Interest Risk – Maturity Duration in Years			Total
	Rating	Agency	Over 5% of Portfolio	Less Than 1	1 to 5	5 to 10	
U.S. agencies							
Federal Farm Credit Bank	AA+	S&P	7.4%	\$ –	\$ –	\$ 123,856	\$ 123,856
Municipal bonds							
Kenosha County, Wisconsin	AA	S&P	14.4%	–	242,544	–	242,544
Pine City, Minnesota	A2	Moody's	6.0%	101,116	–	–	101,116
Negotiable certificates of deposit							
Bank of India – New York City, NY	N/R	N/A	14.5%	244,929	–	–	244,929
Bank of China – New York, NY	N/R	N/A	14.2%	239,713	–	–	239,713
Fifth Third Bank – Cincinnati, OH	N/R	N/A	14.5%	244,885	–	–	244,885
BMW Bank NA – Salt Lake City, UT	N/R	N/A	14.5%	243,380	–	–	243,380
Amex Centurion – Salt Lake City, UT	N/R	N/A	14.3%	241,440	–	–	241,440
Investment pools/mutual funds							
Money market funds	Aaa	Moody's	N/A	N/A	N/A	N/A	<u>1,807</u>
Total investments							<u>\$ 1,683,670</u>

N/R – Not Rated

N/A – Not Applicable

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer), the City would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy addresses credit risk. It states the City will minimize deposit custodial risk by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the City’s investments to 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 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 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, rated 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 qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The City’s investment policy addresses this risk. It states that designated depositories shall have insurance through the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below. Furthermore, the City Council will approve all financial institutions, brokers, and advisors with which the City will do business.

Concentration Risk – This is the risk associated with investing a significant portion of the City’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City’s investment policy addresses concentration risk. It states the City’s investments shall be diversified as to specific maturity, issuer, and institution in order to minimize risk to the portfolio. Investments should be purchased to match expected cash flow needs, minimizing the market risk associated with the early sale of investments. Investments beyond two years should be related to debt payments, or other known expenditures. Up to 20 percent of the portfolio may be invested beyond five years, but no more than 10 years in maturity. Securities with a maturity of more than five years shall be fixed term securities and not securities whose term can be extended by changes in market conditions. No more than 50 percent of the portfolio should be invested in any one security issuer, with the exception of U.S. treasury obligations, which could represent 100 percent of the portfolio. Commercial paper is limited to 20 percent of the portfolio and no more than 2.5 percent of the portfolio should be invested in any one commercial paper issuer. No more than 50 percent of the portfolio shall be purchased from any one investment institution.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City’s investment policy addresses interest rate risk. It states that the City will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market to maturity.

NOTE 3 – CAPITAL ASSETS

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

A. Changes in Capital Assets Used in Governmental Activities

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	\$ 3,013,196	\$ 211,964	\$ –	\$ 3,225,160
Construction in progress	363,616	459,589	(363,616)	459,589
Total capital assets, not depreciated	<u>3,376,812</u>	<u>671,553</u>	<u>(363,616)</u>	<u>3,684,749</u>
Capital assets, depreciated				
Buildings and improvements	1,895,600	64,800	–	1,960,400
Machinery and equipment	361,837	62,856	(105,161)	319,532
Vehicles	1,415,140	638,865	(508,167)	1,545,838
Infrastructure	12,175,692	363,616	–	12,539,308
Total capital assets, depreciated	<u>15,848,269</u>	<u>1,130,137</u>	<u>(613,328)</u>	<u>16,365,078</u>
Less accumulated depreciation for				
Buildings and improvements	(661,193)	(39,406)	–	(700,599)
Machinery and equipment	(281,674)	(16,612)	92,454	(205,832)
Vehicles	(950,768)	(99,406)	403,547	(646,627)
Infrastructure	<u>(6,973,920)</u>	<u>(581,902)</u>	<u>–</u>	<u>(7,555,822)</u>
Total accumulated depreciation	<u>(8,867,555)</u>	<u>(737,326)</u>	<u>496,001</u>	<u>(9,108,880)</u>
Net capital assets, depreciated	<u>6,980,714</u>	<u>392,811</u>	<u>(117,327)</u>	<u>7,256,198</u>
Net capital assets	<u>\$ 10,357,526</u>	<u>\$ 1,064,364</u>	<u>\$ (480,943)</u>	<u>\$ 10,940,947</u>

NOTE 3 – CAPITAL ASSETS (CONTINUED)**B. Changes in Capital Assets Used in Business-Type Activities**

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets, depreciated				
Buildings and improvements	\$ 540,461	\$ –	\$ –	\$ 540,461
Machinery and equipment	350,607	–	–	350,607
Infrastructure	4,913,097	–	–	4,913,097
Total capital assets, depreciated	<u>5,804,165</u>	<u>–</u>	<u>–</u>	<u>5,804,165</u>
Less accumulated depreciation for				
Buildings and improvements	(372,526)	(11,075)	–	(383,601)
Machinery and equipment	(180,665)	(30,352)	–	(211,017)
Infrastructure	(2,308,345)	(66,586)	–	(2,374,931)
Total accumulated depreciation	<u>(2,861,536)</u>	<u>(108,013)</u>	<u>–</u>	<u>(2,969,549)</u>
Net capital assets	<u>\$ 2,942,629</u>	<u>\$ (108,013)</u>	<u>\$ –</u>	<u>\$ 2,834,616</u>

C. Depreciation Expense by Function

Governmental activities	
General government	\$ 1,898
Public safety	69,241
Public works	657,812
Parks and recreation	<u>8,375</u>
Total depreciation expense – governmental activities	<u>\$ 737,326</u>
Business-type activities	
Water	\$ 74,999
Sewer	<u>33,014</u>
Total depreciation expense – business-type activities	<u>\$ 108,013</u>

NOTE 4 – LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

	December 31, 2012	Additions	Retirements	December 31, 2013	Due Within One Year
Governmental activities					
General obligation bonds payable	\$ 1,648,000	\$ 1,350,000	\$ 379,000	\$ 2,619,000	\$ 396,000
Premiums on debt issued	–	65,479	909	64,570	–
Compensated absences payable	252,180	57,434	108,505	201,109	57,434
Net other post-employment benefit (OPEB) obligation	19,573	34,780	26,421	27,932	–
	<u>1,919,753</u>	<u>1,507,693</u>	<u>514,835</u>	<u>2,912,611</u>	<u>453,434</u>
Business-type activities					
General obligation revenue bonds payable	540,000	–	15,000	525,000	20,000
Compensated absences payable	–	26,994	8,300	18,694	18,694
	<u>540,000</u>	<u>26,994</u>	<u>23,300</u>	<u>543,694</u>	<u>38,694</u>
 Total long-term liabilities	 <u>\$ 2,459,753</u>	 <u>\$ 1,534,687</u>	 <u>\$ 538,135</u>	 <u>\$ 3,456,305</u>	 <u>\$ 492,128</u>

B. Details on Bonds Payable

	Original Issue	Interest Rate	Issue Date	Final Maturity Date	Balance – End of Year
Governmental activities					
Public Facilities Authority G.O. Bonds	\$ 1,625,600	1.39%	11/28/2001	08/20/2015	\$ 244,000
G.O. Improvement Bonds of 2002A	\$ 690,000	3.00–4.65%	06/01/2002	02/01/2014	90,000
G.O. Capital Improvement Plan Refunding Bonds of 2010A	\$ 685,000	0.85–2.35%	07/06/2010	10/01/2016	350,000
G.O. Improvement Bonds of 2011A	\$ 645,000	3.00%	11/01/2011	02/01/2021	585,000
G.O. Improvement Bonds of 2013A	\$ 1,350,000	0.45–3.50%	10/15/2013	02/01/2029	<u>1,350,000</u>
 Total governmental activity bonds payable					 <u>\$ 2,619,000</u>
Business-type activities					
G.O. Improvement Bonds of 2011A	\$ 540,000	3.00–4.10%	11/01/2011	02/01/2032	<u>\$ 525,000</u>

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire bonds payable are as follows:

Year Ending December 31,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 396,000	\$ 56,070	\$ 20,000	\$ 18,185
2015	383,000	54,843	20,000	17,585
2016	290,000	48,190	20,000	16,985
2017	170,000	42,420	25,000	16,310
2018	180,000	39,061	25,000	15,560
2019–2023	775,000	129,894	125,000	66,400
2024–2028	360,000	39,200	150,000	43,105
2029–2032	65,000	1,138	140,000	11,463
	<u>\$ 2,619,000</u>	<u>\$ 410,816</u>	<u>\$ 525,000</u>	<u>\$ 205,593</u>

D. Descriptions and Restrictions of Long-Term Debt

- **General Obligation Improvement Bonds** – These bonds were issued to finance various improvements and capital purchases. The governmental activity bonds will be repaid primarily from either general property taxes or special assessments levied on the properties benefiting from the improvements. The business-type activity bonds will be repaid from Water Enterprise Fund and Sewer Enterprise Fund operating revenues pledged for the payment of these bonds.
- **Public Facilities Authority General Obligation Bonds** – These bonds were issued by the City with the Minnesota Public Facilities Authority (PFA) for the construction associated with the City’s local share of the Wakota Bridge Replacement Project. These bonds will be repaid primarily from either property taxes or special assessments levied on the properties benefiting from the improvements.

E. Ultimate Responsibility of Debt

All long-term debt is backed by the full faith and credit of the City.

F. OPEB and Compensated Absences Payable

Long-term liabilities for personal time off, vacation, compensation time, sick leave, and other post-employment benefits (OPEB) will be paid by the General Fund, Water Enterprise Fund, and Sewer Enterprise Fund.

G. Revenue Pledged

Future revenue pledged for the payment of long-term debt is as follows:

Bond Issue	Use of Proceeds	Revenue Pledged			Remaining Principal and Interest	Current Year	
		Type	Percent of Total Debt Service	Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
G.O. Improvement Bonds of 2011A	Water meters and sewer infrastructure	Utility charges	100%	2012–2032	\$ 730,593	\$ 33,870	\$ 626,610

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report:

	General Fund	Economic Development Authority Special Revenue Fund	Street Reconstruction Capital Project Fund	Nonmajor Funds	Total
Nonspendable					
Prepaid items	\$ 16,866	\$ –	\$ –	\$ –	\$ 16,866
Restricted					
Economic Development Authority	\$ –	\$ 596,090	\$ –	\$ –	\$ 596,090
Special revenue funds					
Recycling	–	–	–	24,106	24,106
Buy Forfeiture	–	–	–	1,304	1,304
Debt service					
PFA G.O. Bonds of 2002	–	–	–	294,375	294,375
G.O. Refunding Bonds of 2010	–	–	–	12,142	12,142
G.O. Improvement Bonds of 2011A	–	–	–	84,003	84,003
G.O. Improvement Bonds of 2013A	–	–	–	1,070	1,070
Capital projects					
Street Reconstruction	–	–	728,308	–	728,308
4th Avenue Ravine	–	–	–	12,758	12,758
North Ravine	–	–	–	53,723	53,723
Buildings	–	–	–	40,010	40,010
Total restricted	\$ –	\$ 596,090	\$ 728,308	\$ 523,491	\$ 1,847,889
Assigned					
Heritage Preservation	\$ –	\$ –	\$ –	\$ 8,417	\$ 8,417
Pioneer Days	–	–	–	19,710	19,710
Capital projects					
Parks	–	–	–	11,408	11,408
Equipment Revolving	–	–	–	87,794	87,794
Highway 61 Project	–	–	–	233,997	233,997
Total assigned	\$ –	\$ –	\$ –	\$ 361,326	\$ 361,326

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Description

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

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and for GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members, and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

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

B. Funding Policy

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6 percent of their annual covered salary in 2012. In 2013, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERF members, 7.25 percent for Coordinated Plan GERF members, and 14.4 percent for PEPFF members. The City's contributions for the past three years ending December 31, which were equal to the contractually required contributions for each year as set by state statutes, were as follows:

	<u>GERF</u>	<u>PEPFF</u>
2013	\$ 46,340	\$ 72,018
2012	\$ 46,611	\$ 69,617
2011	\$ 43,583	\$ 59,409

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS PLAN

A. Plan Description

The City provides post-employment benefits to certain eligible employees through the City's Other Post-Employment Benefits Plan, a single-employer defined benefit plan administered by the City. All post-employment benefits are based on contractual agreements with employee groups. As of January 1, 2012, the plan had 17 active participants, 3 retired participants, and 1 spouse receiving payments. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the City have the option under state law to continue their medical insurance coverage through the City from the time of retirement until the employee reaches the age of eligibility for Medicare. For one employee, the City pays for all of the eligible retiree's premiums for medical insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Retirees not eligible for these city-paid premium benefits must pay the full city premium rate for their coverage.

The City is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the City or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the City's younger and statistically healthier active employees.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the City. There is no invested plan assets accumulated for payment of future benefits.

C. Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the City, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation to the plan:

ARC	\$	35,121
Interest on net OPEB obligation		881
Adjustment to annual required contribution		(1,222)
Annual OPEB cost		<u>34,780</u>
Contributions made		<u>26,421</u>
Increase in net OPEB obligation		8,359
Net OPEB obligation – beginning of year		<u>19,573</u>
Net OPEB obligation – end of year	\$	<u><u>27,932</u></u>

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year are as follows:

<u>Year Ended December 31,</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 26,188	\$ 26,524	101.3%	\$ 7,428
2012	\$ 34,996	\$ 22,851	65.3%	\$ 19,573
2013	\$ 34,780	\$ 26,421	76.0%	\$ 27,932

D. Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$223,699, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$223,699. The covered payroll (annual payroll of active employees covered by the plan) was \$1,079,874, and the ratio of the UAAL to the covered payroll was 20.7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress immediately following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

In the January 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.5 percent investment rate of return (net of administrative expenses) based on the City's own investments; a 2.5 percent rate of projected salary increases; a general inflation rate of 2.5 percent; and an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after six years. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization base periods at January 1, 2012 range from 27 to 30 years.

NOTE 8 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION

A. Plan Description

The Newport Firemen’s Relief Association (the Association) is the administrator of a single-employer defined benefit pension plan established to provide retirement, disability, and death benefits to plan members and beneficiaries of the Newport Fire Department.

The Association was incorporated under the provisions of Minnesota Laws 1951, Chapter 550, Minnesota Statute § 317, as amended. It is governed by a Board of Trustees of nine members. Six of the boardmembers are elected by the members of the Association and three are appointed by the City. The mayor, fire chief, and clerk of the City are ex-officio members of the Board of Trustees. The Association issues a publicly available financial report that includes financial statements and required supplementary information for the Association. That report may be obtained by writing to Newport Firemen’s Relief Association, 155 – 20th Street, Newport, Minnesota 55055.

For financial reporting purposes, the Association’s financial statements are not included in the City’s financial statements as the Association is not a component unit of the City.

B. Funding Requirements

Minnesota Statute, Chapter 424A.092 specifies minimum contributions required on an annual basis. The minimum contribution from the City and state aid is determined as follows:

	Normal cost
+	Amortization payment on unfunded actuarial liability prior to any change
+	Amortization contribution on unfunded actuarial liability attributed to any change
+	Administrative expenses
-	Projected investment earnings @ 5%
	<hr/>
=	<u>Total contribution required</u>

The plan members are volunteers with no contribution requirements.

C. Actuarial Method and Significant Assumptions

The accrued pension liability was determined as of December 31, 2013 pursuant to state statutes. Significant actuarial assumptions are as follows:

Valuation date	12/13/2013
Actuarial cost method	Entry Age Normal
Actuarial method	Level dollar closed
Remaining amortization period:	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	5%
Projected salary increases	N/A
Includes inflation at	N/A
Cost-of-living adjustments	None
Age of service retirement	50
Post-retirement benefit increases	None

**NOTE 8 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION
(CONTINUED)**

D. Contributions Required and Contributions Made

Minnesota Statute, Chapter 424A.092 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).

Contributions totaling \$87,060 (\$69,213 {the City} and \$17,847 {state of Minnesota}) were made in accordance with state statute requirements for the year ended December 31, 2013. The contributions from the City and the state were intended to cover normal costs.

Based on the most recent available audit report of the Association as of December 31, 2013, the Association’s accrued pension liability is \$975,483. The Association’s Special Pension Trust Fund had net assets (accrual basis) at December 31, 2013 of \$950,537 (at fair value), resulting in an accrued liability in excess of assets of \$24,946.

E. Historical Trend Information

Historical trend information related to the pension plan is presented in the required supplementary information. The information is presented to enable the reader to assess the progress made by the Association in accumulating sufficient assets to pay pension benefits as they become due.

NOTE 9 – TRANSFERS

The following interfund transfers were made during the year ended December 31, 2013:

Transfers Out	Transfers In		Total
	Economic Development Authority	Nonmajor Governmental Funds	
General Fund	\$ 246,250	\$ 179,200	\$ 425,450
Nonmajor governmental funds	–	91,816	91,816
	\$ 246,250	\$ 271,016	\$ 517,266

Transfers are used to finance operations of other funds, to finance capital project purchases, and to fund bond payments.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Receivables

Amounts recorded or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of claims which may be disallowed by the grantor agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Construction Contracts

During fiscal 2013, the City awarded contracts for street improvement projects. The City's commitment for uncompleted work on these contracts at December 31, 2013 is approximately \$266,000.

C. Commitments

The City entered into an agreement with the South Washington Watershed District (the District) to share in the costs of a project for drainage improvements that benefit the City. The District is responsible for the financing of this project that benefits multiple communities. The District issued debt to finance this project. The City is not responsible for payments on this debt service; only the cost participation agreed to by the City. The City's share of this project, as required in this agreement, will be paid annually to the District as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>
2014	\$ 20,000
2015	20,000
2016	20,000
2017	20,000
2018	20,000
2019–2023	100,000
2024–2028	100,000
2029–2031	<u>60,000</u>
	<u><u>\$ 360,000</u></u>

D. Legal Claims

The City has the usual and customary type of miscellaneous legal claims pending at year-end. Although the outcome of these lawsuits is not presently determinable, the City's management believes that the City will not incur any material monetary loss resulting from these claims. No loss has been recorded on the City's financial statements relating to these claims.

NOTE 11 – RECENTLY ISSUED ACCOUNTING STANDARDS

GASB recently approved the following statement which is not implemented for these financial statements: Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The provisions of this statement are effective for financial statements per periods after June 15, 2013 (calendar year 2014). The effect this standard may have on future financial statements is not determinable at this time.

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REQUIRED SUPPLEMENTARY INFORMATION

(UNAUDITED)

CITY OF NEWPORT

Newport Firemen's Relief Association
 Required Supplemental Information
 Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Market Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Assets in Excess of (Unfunded) Accrued Liability</u>	<u>Funded Ratio</u>
2004	\$ 841,803	\$ 857,515	\$ (15,712)	98.2 %
2005	789,284	817,829	(28,545)	96.5
2006	846,933	848,646	(1,713)	99.8
2007	847,077	873,272	(26,195)	97.0
2008	618,680	901,914	(283,234)	68.6
2009	674,638	952,168	(277,530)	70.9
2010	819,192	1,023,444	(204,252)	80.0
2011	847,735	1,065,395	(217,660)	79.6
2012	904,225	1,038,752	(134,527)	87.0
2013	950,537	975,483	(24,946)	97.4

Note: The Association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll amounts or percentage calculations).

CITY OF NEWPORT

Newport Firemen's Relief Association
 Required Supplemental Information
 Schedule of Contributions From City and Other Contributing Entities

Year Ended December 31,	Annual Required Contribution			Actual Contribution			Percentage Contributed	Pension Benefit per Year of Service
	City Contribution	State Contribution	Total	City Contribution	State Contribution	Total		
2004	\$ 39,397	\$ 13,637	\$ 53,034	\$ 39,794	\$ 21,390	\$ 61,184	115.4 %	\$ 2,800
2005	10,577	16,619	27,196	19,281	20,502	39,783	146.3	2,800
2006	15,764	21,390	37,154	21,000	21,293	42,293	113.8	2,800
2007	21,193	18,280	39,473	23,267	18,280	41,547	105.3	3,000
2008	23,267	15,401	38,668	23,267	15,401	38,668	100.0	3,000
2009	26,388	13,238	39,626	27,604	13,238	40,842	103.1	3,000
2010	66,009	13,630	79,639	66,660	13,630	80,290	100.8	3,000
2011	71,816	13,091	84,907	71,816	13,091	84,907	100.0	3,000
2012	64,438	12,577	77,015	64,438	12,577	77,015	100.0	3,000
2013	68,605	17,847	86,452	69,213	17,847	87,060	100.7	3,000

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation date	12/31/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	5%
Projected salary increases	N/A
Includes inflation at	N/A
Cost-of-living adjustments	None
Age of service requirements	50
Post-retirement benefit increases	None

N/A – Not Available

CITY OF NEWPORT

Other Post-Employment Benefits Plan
 Schedule of Funding Progress
 December 31, 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Plan Assets</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Payroll</u>
January 1, 2009	\$ 303,132	\$ -	\$ 303,132	- %	\$ 1,056,643	28.7 %
January 1, 2012	\$ 223,699	\$ -	\$ 223,699	- %	\$ 1,079,874	20.7 %

SUPPLEMENTAL INFORMATION

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Governmental Funds
 as of December 31, 2013

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Totals</u>
Assets				
Cash and temporary investments	\$ 53,537	\$ 384,090	\$ 439,690	\$ 877,317
Receivables				
Current taxes	-	3,080	-	3,080
Delinquent special assessments	-	16,232	-	16,232
Deferred special assessments	-	52,938	21,107	74,045
	<u>53,537</u>	<u>456,340</u>	<u>460,797</u>	<u>970,674</u>
Total assets	<u>\$ 53,537</u>	<u>\$ 456,340</u>	<u>\$ 460,797</u>	<u>\$ 970,674</u>
Deferred inflows of resources				
Unavailable revenue – special assessments	\$ -	\$ 64,750	\$ 21,107	\$ 85,857
Fund balances				
Restricted	25,410	391,590	106,491	523,491
Assigned	28,127	-	333,199	361,326
Total fund balances	<u>53,537</u>	<u>391,590</u>	<u>439,690</u>	<u>884,817</u>
Total deferred inflows of resources and fund balances	<u>\$ 53,537</u>	<u>\$ 456,340</u>	<u>\$ 460,797</u>	<u>\$ 970,674</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended December 31, 2013

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Totals</u>
Revenue				
Property taxes	\$ -	\$ 220,685	\$ -	\$ 220,685
Special assessments	-	202,976	5,551	208,527
Intergovernmental	4,696	-	(1,349)	3,347
Investment earnings	41	579	413	1,033
Miscellaneous	6,000	-	600	6,600
Total revenue	<u>10,737</u>	<u>424,240</u>	<u>5,215</u>	<u>440,192</u>
Expenditures				
Current				
General government	9,713	-	5	9,718
Parks and recreation	1,125	-	2,866	3,991
Capital outlay	-	-	285,195	285,195
Debt service				
Principal retirement	-	379,000	-	379,000
Interest and fiscal charges	-	105,400	-	105,400
Total expenditures	<u>10,838</u>	<u>484,400</u>	<u>288,066</u>	<u>783,304</u>
(Deficiency) of revenue over expenditures	(101)	(60,160)	(282,851)	(343,112)
Other financing sources (uses)				
Premium on debt issued	-	65,479	-	65,479
Transfers in	7,200	91,816	172,000	271,016
Transfers out	-	(91,816)	-	(91,816)
Total other financing sources (uses)	<u>7,200</u>	<u>65,479</u>	<u>172,000</u>	<u>244,679</u>
Net change in fund balances	7,099	5,319	(110,851)	(98,433)
Fund balances				
Beginning of year	<u>46,438</u>	<u>386,271</u>	<u>550,541</u>	<u>983,250</u>
End of year	<u>\$ 53,537</u>	<u>\$ 391,590</u>	<u>\$ 439,690</u>	<u>\$ 884,817</u>

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 as of December 31, 2013

	<u>Heritage Preservation</u>	<u>Recycling</u>	<u>Buy Forfeiture</u>	<u>Pioneer Days</u>	<u>Total</u>
Assets					
Cash and temporary investments	\$ 8,417	\$ 24,106	\$ 1,304	\$ 19,710	\$ 53,537
Fund balances					
Restricted	\$ -	\$ 24,106	\$ 1,304	\$ -	\$ 25,410
Assigned	8,417	-	-	19,710	28,127
Total fund balances	\$ 8,417	\$ 24,106	\$ 1,304	\$ 19,710	\$ 53,537

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended December 31, 2013

	Heritage Preservation	Recycling	Buy Forfeiture	Pioneer Days	Total
Revenue					
Intergovernmental	\$ -	\$ 4,696	\$ -	\$ -	\$ 4,696
Investment earnings	3	21	1	16	41
Miscellaneous					
Donations	-	-	-	6,000	6,000
Total revenue	<u>3</u>	<u>4,717</u>	<u>1</u>	<u>6,016</u>	<u>10,737</u>
Expenditures					
Current					
General government	-	5,103	-	4,610	9,713
Parks and recreation	1,125	-	-	-	1,125
Total expenditures	<u>1,125</u>	<u>5,103</u>	<u>-</u>	<u>4,610</u>	<u>10,838</u>
Excess (deficiency) of revenue over expenditures	(1,122)	(386)	1	1,406	(101)
Other financing sources					
Transfers in	<u>7,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,200</u>
Net change in fund balances	6,078	(386)	1	1,406	7,099
Fund balances					
Beginning of year	<u>2,339</u>	<u>24,492</u>	<u>1,303</u>	<u>18,304</u>	<u>46,438</u>
End of year	<u>\$ 8,417</u>	<u>\$ 24,106</u>	<u>\$ 1,304</u>	<u>\$ 19,710</u>	<u>\$ 53,537</u>

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Debt Service Funds
 as of December 31, 2013

	<u>G.O. Improvement Bonds of 2002A</u>	<u>PFA G.O. Bonds of 2002</u>	<u>G.O. Refunding Bonds of 2010</u>
Assets			
Cash and temporary investments	\$ -	\$ 289,955	\$ 10,336
Receivables			
Current taxes	-	-	1,806
Delinquent special assessments	-	16,232	-
Deferred special assessments	-	52,938	-
	<u>\$ -</u>	<u>\$ 359,125</u>	<u>\$ 12,142</u>
Deferred inflows of resources			
Unavailable revenue – special assessments	\$ -	\$ 64,750	\$ -
Fund balances			
Restricted	<u>-</u>	<u>294,375</u>	<u>12,142</u>
	<u>\$ -</u>	<u>\$ 359,125</u>	<u>\$ 12,142</u>
Total deferred inflows of resources and fund balances			
	<u>\$ -</u>	<u>\$ 359,125</u>	<u>\$ 12,142</u>

<u>G.O. Improvement Bonds of 2011A</u>	<u>G.O. Improvement Bonds of 2013A</u>	<u>Total</u>
\$ 82,729	\$ 1,070	\$ 384,090
1,274	-	3,080
-	-	16,232
-	-	52,938
<u>\$ 84,003</u>	<u>\$ 1,070</u>	<u>\$ 456,340</u>
\$ -	\$ -	\$ 64,750
<u>84,003</u>	<u>1,070</u>	<u>391,590</u>
<u>\$ 84,003</u>	<u>\$ 1,070</u>	<u>\$ 456,340</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Debt Service Funds
 Year Ended December 31, 2013

	<u>G.O. Improvement Bonds of 2002A</u>	<u>PFA G.O. Bonds of 2002</u>	<u>G.O. Refunding Bonds of 2010</u>
Revenue			
Property taxes	\$ -	\$ -	\$ 129,375
Special assessments	-	202,976	-
Investment earnings	49	502	2
Total revenue	<u>49</u>	<u>203,478</u>	<u>129,377</u>
Expenditures			
Debt service			
Principal retirement	85,000	119,000	115,000
Interest and fiscal charges	6,865	5,706	9,468
Total expenditures	<u>91,865</u>	<u>124,706</u>	<u>124,468</u>
Excess (deficiency) of revenue over expenditures	(91,816)	78,772	4,909
Other financing sources (uses)			
Premium on debt issued	-	-	-
Transfers in	91,816	-	-
Transfers out	-	(91,816)	-
Total other financing sources (uses)	<u>91,816</u>	<u>(91,816)</u>	<u>-</u>
Net change in fund balances	-	(13,044)	4,909
Fund balances			
Beginning of year	<u>-</u>	<u>307,419</u>	<u>7,233</u>
End of year	<u>\$ -</u>	<u>\$ 294,375</u>	<u>\$ 12,142</u>

<u>G.O. Improvement Bonds of 2011A</u>	<u>G.O. Improvement Bonds of 2013A</u>	<u>Total</u>
\$ 91,310	\$ -	\$ 220,685
-	-	202,976
19	7	579
<u>91,329</u>	<u>7</u>	<u>424,240</u>
60,000	-	379,000
18,945	64,416	105,400
<u>78,945</u>	<u>64,416</u>	<u>484,400</u>
12,384	(64,409)	(60,160)
-	65,479	65,479
-	-	91,816
-	-	(91,816)
<u>-</u>	<u>65,479</u>	<u>65,479</u>
12,384	1,070	5,319
71,619	-	386,271
<u>\$ 84,003</u>	<u>\$ 1,070</u>	<u>\$ 391,590</u>

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Capital Project Funds
 as of December 31, 2013

	<u>Parks</u>	<u>Equipment Revolving</u>	<u>Tax Increment District No. 1</u>
Assets			
Cash and temporary investments	\$ 11,408	\$ 87,794	\$ -
Receivables			
Deferred special assessments	-	-	-
	<u>11,408</u>	<u>87,794</u>	<u>-</u>
Total assets	<u>\$ 11,408</u>	<u>\$ 87,794</u>	<u>\$ -</u>
Deferred inflows of resources			
Unavailable revenue – special assessments	\$ -	\$ -	\$ -
Fund balances			
Restricted	-	-	-
Assigned	<u>11,408</u>	<u>87,794</u>	<u>-</u>
Total fund balances	<u>11,408</u>	<u>87,794</u>	<u>-</u>
	<u>\$ 11,408</u>	<u>\$ 87,794</u>	<u>\$ -</u>
Total deferred inflows of resources and fund balances	<u>\$ 11,408</u>	<u>\$ 87,794</u>	<u>\$ -</u>

<u>4th Avenue Ravine</u>	<u>North Ravine</u>	<u>Highway 61 Project</u>	<u>Buildings</u>	<u>Total</u>
\$ 12,758	\$ 53,723	\$ 233,997	\$ 40,010	\$ 439,690
<u>–</u>	<u>21,107</u>	<u>–</u>	<u>–</u>	<u>21,107</u>
<u>\$ 12,758</u>	<u>\$ 74,830</u>	<u>\$ 233,997</u>	<u>\$ 40,010</u>	<u>\$ 460,797</u>
\$ –	\$ 21,107	\$ –	\$ –	\$ 21,107
12,758	53,723	–	40,010	106,491
<u>–</u>	<u>–</u>	<u>233,997</u>	<u>–</u>	<u>333,199</u>
<u>12,758</u>	<u>53,723</u>	<u>233,997</u>	<u>40,010</u>	<u>439,690</u>
<u>\$ 12,758</u>	<u>\$ 74,830</u>	<u>\$ 233,997</u>	<u>\$ 40,010</u>	<u>\$ 460,797</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Capital Project Funds
 Year Ended December 31, 2013

	Parks	Equipment Revolving	Tax Increment District No. 1
Revenue			
Special assessments	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Investment earnings	20	162	-
Miscellaneous			
Donations	600	-	-
Total revenue	<u>620</u>	<u>162</u>	<u>-</u>
Expenditures			
Current			
General government	-	-	5
Parks and recreation	2,866	-	-
Capital outlay	<u>71,681</u>	<u>197,026</u>	<u>-</u>
Total expenditures	<u>74,547</u>	<u>197,026</u>	<u>5</u>
Excess (deficiency) of revenue over expenditures	(73,927)	(196,864)	(5)
Other financing sources			
Transfers in	<u>57,000</u>	<u>75,000</u>	<u>-</u>
Net changes in fund balances	(16,927)	(121,864)	(5)
Fund balances			
Beginning of year	<u>28,335</u>	<u>209,658</u>	<u>5</u>
End of year	<u>\$ 11,408</u>	<u>\$ 87,794</u>	<u>\$ -</u>

4th Avenue Ravine	North Ravine	Highway 61 Project	Buildings	Total
\$ -	\$ 5,551	\$ -	\$ -	\$ 5,551
(12,777)	11,428	-	-	(1,349)
12	3	206	10	413
-	-	-	-	600
(12,765)	16,982	206	10	5,215
-	-	-	-	5
-	-	-	-	2,866
-	8,483	8,005	-	285,195
-	8,483	8,005	-	288,066
(12,765)	8,499	(7,799)	10	(282,851)
-	-	-	40,000	172,000
(12,765)	8,499	(7,799)	40,010	(110,851)
25,523	45,224	241,796	-	550,541
<u>\$ 12,758</u>	<u>\$ 53,723</u>	<u>\$ 233,997</u>	<u>\$ 40,010</u>	<u>\$ 439,690</u>

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended December 31, 2013
 (With Comparative Actual Amounts for the Year Ended December 31, 2012)

	2013		Over (Under) Budget	2012
	Final Budget	Actual		Actual
Revenue				
Property taxes				
Current ad valorem	\$ 1,776,328	\$ 1,798,043	\$ 21,715	\$ 1,825,793
Fiscal disparities	287,572	254,961	(32,611)	286,461
Fire relief	65,000	65,000	-	1,000
Total property taxes	2,128,900	2,118,004	(10,896)	2,113,254
Licenses and permits				
Conditional use permits	-	2,050	2,050	2,100
Licenses and permits	4,500	1,650	(2,850)	1,180
Alcoholic beverages	8,300	10,690	2,390	8,430
Cigarette licenses	500	1,250	750	250
Building permit fees	60,000	70,217	10,217	58,387
Animal licenses/citations	2,000	1,810	(190)	2,305
Recycling/sanitation	1,000	2,100	1,100	3,000
Total licenses and permits	76,300	89,767	13,467	75,652
Intergovernmental				
State				
Local governmental aid	588,876	589,360	484	589,106
Police town aid	50,000	47,653	(2,347)	45,308
Police training reimbursement	2,650	2,771	121	2,325
State fire relief aid	13,500	13,776	276	12,577
Other/miscellaneous grants	20,000	21,262	1,262	42,820
Total intergovernmental	675,026	674,822	(204)	692,136
Charges for services				
Planning and zoning	1,000	-	(1,000)	-
Accident reports	100	150	50	153
Franchise fees	92,000	81,904	(10,096)	80,591
Miscellaneous	250	16,875	16,625	12,595
Total charges for services	93,350	98,929	5,579	93,339
Fines and forfeits	48,000	68,193	20,193	58,234
Investment earnings	8,000	5,598	(2,402)	7,937

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2013
 (With Comparative Actual Amounts for the Year Ended December 31, 2012)

	2013		Over (Under) Budget	2012
	Final Budget	Actual		Actual
Revenue (continued)				
Miscellaneous				
Rent or sale of property	–	5,279	5,279	2,138
Donations	8,000	6,045	(1,955)	48,884
Other	14,000	69,293	55,293	135,116
Total miscellaneous	<u>22,000</u>	<u>80,617</u>	<u>58,617</u>	<u>186,138</u>
Total revenue	3,051,576	3,135,930	84,354	3,226,690
Expenditures				
Current				
General government				
Mayor and City Council				
Personal services	21,690	21,338	(352)	22,318
Travel/conferences	300	–	(300)	492
Memberships	100	15	(85)	65
Education	2,000	95	(1,905)	194
Total Mayor and City Council	<u>24,090</u>	<u>21,448</u>	<u>(2,642)</u>	<u>23,069</u>
Administration				
Personal services	169,587	179,588	10,001	192,432
Insurance	31,900	23,729	(8,171)	53,678
Office supplies	12,500	6,247	(6,253)	4,655
Communications	2,600	2,394	(206)	761
Equipment, repairs, and maintenance	14,391	–	(14,391)	–
Travel	500	1,281	781	1,344
Printing and publishing	5,640	6,200	560	9,176
Postage	3,441	4,795	1,354	4,309
Dues and subscriptions	6,658	7,619	961	6,597
Education	4,200	2,718	(1,482)	2,791
Contractual services	14,620	7,365	(7,255)	3,368
Capital outlay	1,737	3,574	1,837	9,474
Miscellaneous	5,231	6,778	1,547	9,063
Total administration	<u>273,005</u>	<u>252,288</u>	<u>(20,717)</u>	<u>297,648</u>

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2013
 (With Comparative Actual Amounts for the Year Ended December 31, 2012)

	2013		Over (Under) Budget	2012
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
General government (continued)				
Elections				
Temporary employees	1,000	960	(40)	2,884
Operating supplies	100	–	(100)	612
Miscellaneous	500	564	64	1,045
Total elections	<u>1,600</u>	<u>1,524</u>	<u>(76)</u>	<u>4,541</u>
Professional services				
Accounting/audit	78,721	64,254	(14,467)	67,165
Engineering	27,182	17,534	(9,648)	19,959
Legal	74,850	66,790	(8,060)	62,626
IT, phone support, and hardware	32,960	34,349	1,389	44,949
Building inspection	20,000	23,778	3,778	12,315
Insurance	51,657	70,963	19,306	62,956
Miscellaneous contracted services	5,776	12,973	7,197	12,663
Total professional services	<u>291,146</u>	<u>290,641</u>	<u>(505)</u>	<u>282,633</u>
Planning and zoning				
Personal services	36,223	35,031	(1,192)	33,185
Operating supplies	100	412	312	–
Professional services	10,000	21,133	11,133	30,906
Miscellaneous	1,750	676	(1,074)	925
Capital outlay	–	589	589	1,178
Total planning and zoning	<u>48,073</u>	<u>57,841</u>	<u>9,768</u>	<u>66,194</u>
Composting				
Personal services	4,500	4,364	(136)	4,528
Operating supplies	500	30	(470)	685
Miscellaneous	–	4,483	4,483	513
Total composting	<u>5,000</u>	<u>8,877</u>	<u>3,877</u>	<u>5,726</u>
Special projects				
Special contributions	5,000	1,621	(3,379)	2,913
Miscellaneous				
Contingency	10,000	4,200	(5,800)	–

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2013
 (With Comparative Actual Amounts for the Year Ended December 31, 2012)

	2013		Over (Under) Budget	2012
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
General government (continued)				
Government buildings				
City Hall				
Operating supplies	100	318	218	659
Repairs and maintenance	6,500	2,014	(4,486)	1,491
Utilities	8,695	8,269	(426)	6,987
Capital outlay	3,500	1,301	(2,199)	4,161
Total City Hall	18,795	11,902	(6,893)	13,298
Library				
Personnel	12,500	15,477	2,977	13,253
Operating supplies	320	808	488	1,027
Repairs and maintenance	750	903	153	727
Utilities	3,500	3,979	479	3,425
Capital outlay	6,500	4,051	(2,449)	10,351
Total library	23,570	25,218	1,648	28,783
Railroad tower				
Repairs and maintenance	300	-	(300)	33
Utilities	820	567	(253)	579
Total railroad tower	1,120	567	(553)	612
Total government buildings	43,485	37,687	(5,798)	42,693
Total general government	701,399	676,127	(25,272)	725,417
Public safety				
Police department				
Personal services	599,826	618,878	19,052	611,410
Insurance	84,692	74,688	(10,004)	94,173
Office supplies	4,300	5,250	950	4,141
Communications – telephones and pagers	3,200	3,374	174	3,387
Vehicle supplies	8,500	5,876	(2,624)	1,864
Tools and equipment	800	807	7	820
Fuel	28,325	26,818	(1,507)	26,738

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2013
 (With Comparative Actual Amounts for the Year Ended December 31, 2012)

	2013		Over (Under) Budget	2012
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Public safety (continued)				
Police department (continued)				
Uniforms	8,500	7,501	(999)	6,060
Travel	—	—	—	30
Departmental services	11,602	7,257	(4,345)	258
Memberships and conferences	350	207	(143)	445
Education	4,100	5,203	1,103	2,621
Vehicle repair and maintenance	3,500	5,080	1,580	2,142
Dispatch	33,180	32,042	(1,138)	38,720
MDT lease – Washington County	9,358	5,625	(3,733)	3,375
Capital outlay	7,500	—	(7,500)	—
Total police department	807,733	798,606	(9,127)	796,184
Fire Station No. 1				
Operating supplies	500	—	(500)	—
Repairs and maintenance	1,000	1,251	251	187
Utilities	9,222	8,167	(1,055)	6,359
Capital outlay	6,500	6,539	39	—
Total Fire Station No. 1	17,222	15,957	(1,265)	6,546
Fire Station No. 2				
Operating supplies	500	63	(437)	—
Utilities	2,272	2,489	217	1,946
Total Fire Station No. 2	2,772	2,552	(220)	1,946
Fire protection				
Personal services	40,300	32,721	(7,579)	36,393
Insurance	4,067	8,309	4,242	3,693
Office supplies	6,000	826	(5,174)	1,739
Vehicle supplies	15,458	13,758	(1,700)	8,499
Tools and equipment	4,000	1,588	(2,412)	4,055
Fuel	3,321	5,656	2,335	1,722
Uniforms	1,000	—	(1,000)	1,026
Communication	1,537	1,507	(30)	1,524
Travel and conferences	1,160	587	(573)	758

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2013
 (With Comparative Actual Amounts for the Year Ended December 31, 2012)

	2013		Over (Under) Budget	2012
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Public safety (continued)				
Fire protection (continued)				
Memberships and subscriptions	3,520	809	(2,711)	753
Education	9,843	6,691	(3,152)	5,262
Repairs and maintenance	805	315	(490)	265
Contractual	6,500	2,869	(3,631)	11,425
Fire relief	65,000	69,213	4,213	65,438
State fire relief aid	13,500	19,687	6,187	12,577
Capital outlay	15,000	21,172	6,172	10,000
Total fire protection	191,011	185,708	(5,303)	165,129
Civil defense				
Contractual services	—	—	—	4,622
Total public safety	1,018,738	1,002,823	(15,915)	974,427
Public works				
Streets				
Personal services	139,249	139,092	(157)	282,024
Insurance	42,677	44,949	2,272	50,842
Materials and supplies	70,105	52,545	(17,560)	26,980
Vehicle supplies	18,312	10,805	(7,507)	14,094
Small tools and equipment	288	1,114	826	459
Fuel	17,416	17,745	329	14,547
Uniforms	3,932	1,496	(2,436)	2,414
Communications	6,145	1,385	(4,760)	4,861
Rentals	—	51	51	116
Seal coat	62,888	96,731	33,843	80,818
Repairs and maintenance	4,075	231	(3,844)	3,734
Miscellaneous contractual	—	6,213	6,213	8,780
Miscellaneous	19,901	3,049	(16,852)	503
Capital outlay	—	11,060	11,060	202
Total streets	384,988	386,466	1,478	490,374

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2013
 (With Comparative Actual Amounts for the Year Ended December 31, 2012)

	2013		Over (Under) Budget	2012
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Public works (continued)				
Public works garage				
Operating supplies	500	4,046	3,546	374
Repairs and maintenance	750	1,702	952	1,930
Utilities	12,500	19,140	6,640	10,578
Capital outlay	2,000	–	(2,000)	636
Total public works garage	<u>15,750</u>	<u>24,888</u>	<u>9,138</u>	<u>13,518</u>
Total public works	400,738	411,354	10,616	503,892
Parks and recreation				
Parks				
Personal services	273,242	295,221	21,979	175,230
Insurance	41,451	48,232	6,781	46,680
Operating supplies	10,800	4,415	(6,385)	7,968
Vehicle supplies	2,500	4,731	2,231	2,925
Tools and minor equipment	1,500	–	(1,500)	1,880
Fuel	4,015	5,586	1,571	8,601
Uniforms	1,500	2,690	1,190	1,231
Rental	1,500	–	(1,500)	34
Communications	1,300	743	(557)	1,370
Miscellaneous	400	1,525	1,125	–
Miscellaneous contractual	7,500	8,790	1,290	8,199
Capital outlay	15,600	8,018	(7,582)	15,167
Total parks	<u>361,308</u>	<u>379,951</u>	<u>18,643</u>	<u>269,285</u>
Park buildings				
Repairs and maintenance	500	1,871	1,371	–
Utilities	5,000	4,963	(37)	3,542
Total park buildings	<u>5,500</u>	<u>6,834</u>	<u>1,334</u>	<u>3,542</u>

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2013
 (With Comparative Actual Amounts for the Year Ended December 31, 2012)

	2013		Over (Under) Budget	2012
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Parks and recreation (continued)				
Recreation				
Personal services	2,500	2,733	233	2,062
Supplies	500	342	(158)	392
Total recreation	<u>3,000</u>	<u>3,075</u>	<u>75</u>	<u>2,454</u>
Total parks and recreation	<u>369,808</u>	<u>389,860</u>	<u>20,052</u>	<u>275,281</u>
Total expenditures	<u>2,490,683</u>	<u>2,480,164</u>	<u>(10,519)</u>	<u>2,479,017</u>
Excess of revenue over expenditures	560,893	655,766	94,873	747,673
Other financing (uses)				
Transfers (out)				
Economic Development Authority	(245,000)	(246,250)	(1,250)	(150,000)
Heritage Preservation Fund	(7,200)	(7,200)	-	(7,200)
Building Fund	(40,000)	(40,000)	-	-
Equipment Revolving	(75,000)	(75,000)	-	(50,000)
Parks Fund	<u>(57,000)</u>	<u>(57,000)</u>	<u>-</u>	<u>(11,800)</u>
Total other financing (uses)	<u>(424,200)</u>	<u>(425,450)</u>	<u>(1,250)</u>	<u>(219,000)</u>
Net change in fund balances	<u>\$ 136,693</u>	230,316	<u>\$ 93,623</u>	528,673
Fund balances				
Beginning of year		<u>1,688,775</u>		<u>1,160,102</u>
End of year		<u>\$ 1,919,091</u>		<u>\$ 1,688,775</u>

CITY OF NEWPORT

Combining Statement of Net Position
 Nonmajor Proprietary Funds
 as of December 31, 2013

	Business-Type Activities – Enterprise Funds		
	Street Light	Storm Sewer	Total
Assets			
Current assets			
Cash and temporary investments	\$ 15,810	\$ 31,856	\$ 47,666
Receivables			
Accounts	11,309	4,951	16,260
Total assets	<u>\$ 27,119</u>	<u>\$ 36,807</u>	<u>\$ 63,926</u>
Liabilities and net position			
Current liabilities			
Accounts payable	\$ 1,497	\$ 20,000	\$ 21,497
Net position			
Unrestricted	25,622	16,807	42,429
Total liabilities and net position	<u>\$ 27,119</u>	<u>\$ 36,807</u>	<u>\$ 63,926</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenses, and Changes in Net Position
 Nonmajor Proprietary Funds
 Year Ended December 31, 2013

	Business-Type Activities – Enterprise Funds		
	Street Light	Storm Sewer	Total
Operating revenue			
Street light charges	\$ 57,470	\$ –	\$ 57,470
Storm sewer charges	–	22,547	22,547
Total operating revenue	<u>57,470</u>	<u>22,547</u>	<u>80,017</u>
Operating expenses			
Utilities	48,400	–	48,400
Professional services	–	20,000	20,000
Miscellaneous	5	6,933	6,938
Total operating expenses	<u>48,405</u>	<u>26,933</u>	<u>75,338</u>
Operating income (loss)	9,065	(4,386)	4,679
Nonoperating revenue			
Investment earnings	<u>12</u>	<u>18</u>	<u>30</u>
Change in net position	9,077	(4,368)	4,709
Net position			
Beginning of year	<u>16,545</u>	<u>21,175</u>	<u>37,720</u>
End of year	<u>\$ 25,622</u>	<u>\$ 16,807</u>	<u>\$ 42,429</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
 Water Fund
 Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenue		
Water sales	\$ 245,452	\$ 228,980
Permits and licenses	1,620	-
Total operating revenue	<u>247,072</u>	<u>228,980</u>
Operating expenses		
Salaries	77,159	20,806
Employee benefits	15,968	5,651
Insurance	12,596	7,032
Supplies	19,274	10,235
Utilities	33,267	27,967
Depreciation	74,999	74,999
Other	46,138	26,051
Total operating expenses	<u>279,401</u>	<u>172,741</u>
Operating income (loss)	(32,329)	56,239
Nonoperating revenue (expenses)		
Investment earnings	416	1,831
Interest and fiscal charges	(8,023)	(6,866)
Total nonoperating revenue (expenses)	<u>(7,607)</u>	<u>(5,035)</u>
Change in net position	(39,936)	51,204
Net position		
Beginning of year	<u>1,926,273</u>	<u>1,875,069</u>
End of year	<u>\$ 1,886,337</u>	<u>\$ 1,926,273</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
Sewer Fund
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenue		
Sewer charges	\$ 379,223	\$ 367,409
Permits and licenses	315	210
Total operating revenue	<u>379,538</u>	<u>367,619</u>
Operating expenses		
Salaries	78,224	24,667
Employee benefits	16,339	5,655
MCES sewer charges	156,338	221,122
Insurance	15,496	9,035
Supplies	5,300	8,464
Utilities	10,225	8,248
Depreciation	33,014	33,011
Other	3,523	4,737
Total operating expenses	<u>318,459</u>	<u>314,939</u>
Operating income	61,079	52,680
Nonoperating revenue (expense)		
State grant and aids	1,500	167,102
Interest earnings	598	2,822
Interest and fiscal charges	(10,533)	(8,967)
Total nonoperating revenue (expense)	<u>(8,435)</u>	<u>160,957</u>
Change in net position	52,644	213,637
Net position		
Beginning of year	<u>1,712,385</u>	<u>1,498,748</u>
End of year	<u>\$ 1,765,029</u>	<u>\$ 1,712,385</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
 Street Light Fund
 Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenue		
Street light charges	\$ 57,470	\$ 50,655
Operating expenses		
Utilities	48,400	43,544
Miscellaneous	5	-
Total operating expenses	<u>48,405</u>	<u>43,544</u>
Operating income	9,065	7,111
Nonoperating revenue		
Interest earnings	<u>12</u>	<u>49</u>
Change in net position	9,077	7,160
Net position		
Beginning of year	<u>16,545</u>	<u>9,385</u>
End of year	<u><u>\$ 25,622</u></u>	<u><u>\$ 16,545</u></u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
 Storm Sewer Fund
 Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenue		
Storm sewer charges	\$ 22,547	\$ 26,949
Operating expenses		
Professional services	20,000	20,631
Miscellaneous	6,933	109
Total operating expenses	<u>26,933</u>	<u>20,740</u>
Operating income (loss)	(4,386)	6,209
Nonoperating revenue		
Interest earnings	<u>18</u>	<u>177</u>
Change in net position	(4,368)	6,386
Net position		
Beginning of year	<u>21,175</u>	<u>14,789</u>
End of year	<u>\$ 16,807</u>	<u>\$ 21,175</u>

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OTHER INFORMATION SECTION

CITY OF NEWPORT

General Fund Revenue by Source
Last Ten Fiscal Years

Fiscal Year	Taxes Ad Valorem	Licenses and Permits	Intergovernmental Revenue	Charges for Services	Fines and Forfeits	Other	Total
2004	\$ 1,262,782	\$ 65,369	\$ 425,696	\$ 31,969	\$ 47,291	\$ 61,820	\$ 1,894,927
2005	1,420,722	87,093	566,896	28,611	71,065	35,713	2,210,100
2006	1,439,535	83,106	735,158	47,161	67,983	35,074	2,408,017
2007	1,567,725	127,610	775,644	65,820	92,431	41,611	2,670,841
2008	1,605,806	49,556	735,823	74,150	68,970	27,851	2,562,156
2009	1,621,491	58,189	960,484	77,659	44,362	19,105	2,781,290
2010	1,770,305	95,967	681,760	65,760	52,659	29,037	2,695,488
2011	2,014,552	83,258	714,480	79,732	70,006	126,871	3,088,899
2012	2,113,254	75,652	692,136	93,339	58,234	194,075	3,226,690
2013	2,118,004	89,767	674,822	98,929	68,193	86,215	3,135,930

CITY OF NEWPORT

General Fund Expenditures by Function
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Parks and Recreation</u>	<u>Capital Outlay</u>	<u>Other</u>	<u>Total</u>
2004	\$ 637,821	\$ 803,241	\$ 238,087	\$ 227,467	\$ -	\$ 19,428	\$ 1,926,044
2005	595,325	823,174	358,418	226,317	-	-	2,003,234
2006	646,651	889,690	324,662	211,530	-	-	2,072,533
2007	723,768	933,206	448,252	206,695	-	-	2,311,921
2008	757,078	962,786	539,004	246,688	-	-	2,505,556
2009	897,309	972,500	400,331	280,417	215,215	-	2,765,772
2010	740,140	930,242	399,078	284,025	46,031	-	2,399,516
2011	809,100	989,367	449,533	336,573	26,930	-	2,611,503
2012	700,253	964,427	503,054	260,114	51,169	-	2,479,017
2013	666,612	975,112	400,294	381,842	56,304	-	2,480,164

Note: In fiscal 2009, the City started to separate certain capital outlay into a separate category in the General Fund.

CITY OF NEWPORT

Property Tax Levies and Receivables
Last Ten Fiscal Years

For Taxes Collectible	Original Levy Certified			Uncollected Taxes Receivable as of December 31, 2013	
	Local Levy	Fiscal Disparities	Total Levy	Amount	Percent
2004	\$ 1,256,956	\$ 211,634	\$ 1,468,590	\$ -	- %
2005	1,290,229	200,573	1,490,802	-	-
2006	1,414,587	194,774	1,609,361	3,136	0.2
2007	1,470,699	229,301	1,700,000	699	0.0
2008	1,549,222	223,628	1,772,850	3,688	0.2
2009	1,524,176	256,261	1,780,437	3,906	0.2
2010	1,714,828	257,472	1,972,300	5,178	0.3
2011	1,972,163	318,837	2,291,000	9,214	0.4
2012	1,999,196	311,804	2,311,000	28,573	1.2
2013	2,063,428	287,572	2,351,000	47,627	2.0
				<u>102,021</u>	
Tax Increments Collectible					
2004	\$ 320,854	\$ -	\$ 320,854	\$ -	- %
2005	329,403	-	329,403	-	-
2006	315,439	-	315,439	-	-
2007	349,612	-	349,612	-	-
2008	362,676	-	362,676	-	-
2009	368,366	-	368,366	-	-
2010	412,015	-	412,015	-	-
2011	-	-	-	-	-
2012	-	-	-	-	-
2013	-	-	-	-	-
				<u>-</u>	
				<u>\$ 102,021</u>	

Note: After eight years, any remaining uncollected taxes are written off.

Source: Washington County

CITY OF NEWPORT

Tax Capacities
Last Ten Fiscal Years

Taxes Payable Year	Tax Capacities		Fiscal Disparities Adjustment to Tax Capacity	Tax Increment Adjustment to Tax Capacity	Taxable Tax Capacity
	Real Property	Personal Property			
2004	\$ 2,990,289	\$ 93,970	\$ (342,180)	\$ (270,961)	\$ 2,471,118
2005	3,313,869	106,236	(396,056)	(300,152)	2,723,897
2006	3,484,558	116,422	(414,502)	(293,452)	2,893,026
2007	3,819,541	120,052	(409,985)	(328,501)	3,201,107
2008	3,972,247	117,824	(469,114)	(339,552)	3,281,405
2009	4,195,052	120,186	(503,975)	(350,780)	3,460,483
2010	4,026,435	113,498	(592,742)	(350,453)	3,196,738
2011	3,741,949	125,202	(594,438)	–	3,272,713
2012	3,507,580	136,990	(552,806)	–	3,091,764
2013	3,360,643	137,604	(583,921)	–	2,914,326

Note: Tax capacity is calculated by applying class rate (for specific property classifications such as residential, commercial, etc.) to the assessed market value. Class rates are periodically changed by the state.

Source: Washington County

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OTHER REQUIRED REPORTS

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

To the City Council and Management
City of Newport, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport, Minnesota (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 23, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

(continued)

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 Responses. 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 report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
April 23, 2014

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the City Council and Management
City of Newport, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport, Minnesota (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 23, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 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. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
April 23, 2014

CITY OF NEWPORT

Schedule of Findings and Responses
Year Ended December 31, 2013

A. FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2013-001 Segregation of Duties

Criteria – Internal control over financial reporting.

Condition – The City of Newport, Minnesota (the City) has limited segregation of duties over processing of cash receipts, cash disbursements, payroll, general journal entries, and utility billing transactions.

Context – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the City's office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

Recommendation – We recommend that the City continue its efforts to segregate duties as best it can within the limits of what the City considers to be cost beneficial.

Corrective Action Plan

Actions Planned – The City intends to review the transaction cycles identified above and work with the City's financial auditors to review specific weaknesses identified during the annual audit and actions needed to eliminate or mitigate this internal control weakness. Upon completion of this review, the City will weigh the related costs and benefits associated with implementation changes needed to eliminate this condition.

Official Responsible – City Administrator.

Planned Completion Date – December 31, 2014.

Disagreement With or Explanation of Finding – The City is in agreement with this finding.

Plan to Monitor – The City Administrator will make the entire business office aware of its objective to address this condition and supervise the progress of planned actions during the year.

CITY OF NEWPORT

Schedule of Findings and Reponses (continued)
Year Ended December 31, 2013

A. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2013-002 Preparation of Financial Statements

Criteria – Management is responsible for establishing and maintaining effective internal controls. These controls include the responsibility for preparation, or oversight of the preparation, of the financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition – Other than the Management’s Discussion and Analysis, the City had our firm prepare the accompanying annual financial statements. Like many similarly sized organizations, the City requested assistance from us with the drafting of the annual financial statements and related notes. Although this is common practice and may be the most practical and cost-effective method to complete this task, the fact that the City does not have the internal resources available to prepare the annual financial statements is considered a deficiency.

Context – This is a current year and prior year finding.

Cause – The City does not have the internal resources available to prepare its own annual financial statements, and has made the decision that from a cost-benefit perspective, it is more efficient to have the auditor prepare them than to contract with another outside party.

Effect – The auditor prepared the draft of the City’s annual financial statements and disclosures.

Recommendation – We recommend that the City consider whether it is cost beneficial to either provide training to its internal staff that would enable the City to prepare its own financial statements, or contract with another outside party to prepare them.

Corrective Action Plan

Actions Planned – The City will determine as to whether it is practical and cost-effective for the City or an outside contractor to prepare its financial statements in the future.

Official Responsible – City Administrator.

Planned Completion Date – December 31, 2014.

Disagreement With or Explanation of Finding – The City is in agreement with this finding.

Plan to Monitor – The City Administrator will continue to monitor this deficiency and establish policies and procedures within the limits of the staff available.

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Management Report
for
City of Newport, Minnesota
December 31, 2013

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To the City Council and Management
City of Newport, Minnesota

We have prepared this management report in conjunction with our audit of the City of Newport, Minnesota's (the City) financial statements for the year ended December 31, 2013. The purpose of this report is to provide comments resulting from our audit process and to communicate information relevant to city finances in Minnesota. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- Legislative Updates
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the City, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to city finances in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
April 23, 2014

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the City Council, administration, or those charged with governance of the City.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2013, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2013:

- We have issued an unmodified opinion on the City's basic financial statements.
- We reported two matters involving the City's internal controls over financial reporting that we consider to be material weaknesses:
 - 1) Due to the limited size of the City's office staff, the City has limited segregation of duties in certain areas.
 - 2) Like many similarly sized organizations, the City requested assistance from us with the drafting of the annual financial statements and related notes.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the City's financial statements for the year ended December 31, 2013, we performed procedures to follow-up on the findings and recommendations that resulted from our prior year audit. We reported the following findings that were corrected by the City in the current year:

- In the prior year, we reported findings related to the City having proper declaration of proper payment for general checking and payroll disbursements. Based on our testing procedures performed, we did not report these findings in the current year.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the notes to basic financial statements. For the fiscal year ended December 31, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities," which identifies specific items previously presented as assets that will now be presented as either deferred outflows of resources or outflows (expenses/expenditures), and items previously reported as liabilities that will now be presented as deferred inflows of resources or inflows (revenues).

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.
- **Net Other Post-Employment Benefit (OPEB) Liabilities** – Actuarial estimates of the net OPEB obligation is based on eligible participants, estimated future health insurance premiums, and estimated retirement dates.
- **Compensated Absences** – Management's estimate is based on current rates of pay, vacation, and sick leave balances estimated to be paid out as future termination pay.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated April 23, 2014.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

With respect to supplemental information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplemental information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

With respect to the introductory section and other information section accompanying the financial statements, our procedures were limited to reading this other information, and in doing so we did not identify any material inconsistencies with the audited financial statements.

GOVERNMENTAL FUNDS OVERVIEW

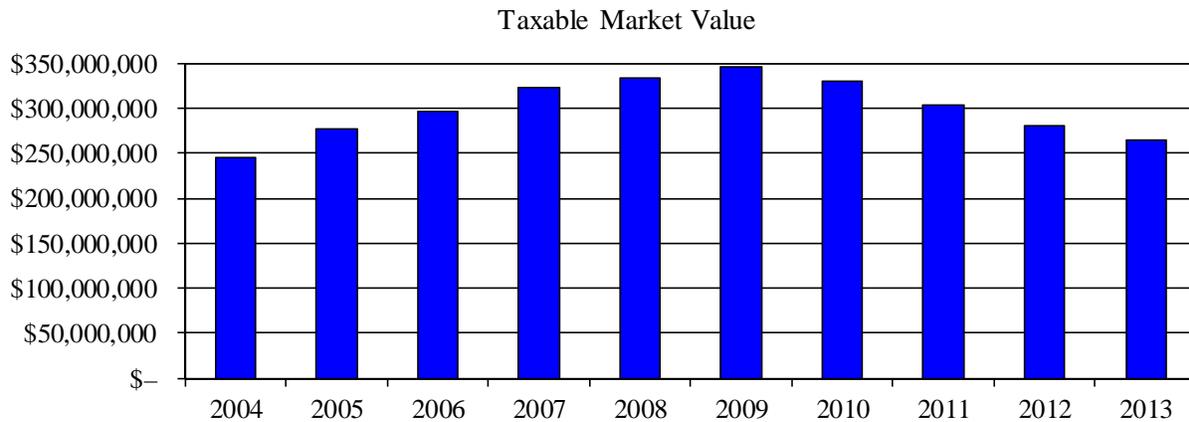
This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, Special Revenue, Debt Service, and Capital Project Funds. These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City's financial statements focuses on budgetary compliance, and the sufficiency of each governmental fund's current assets to finance its current liabilities.

PROPERTY TAXES

Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. In recent years this dependence has been heightened, as economic conditions have resulted in reductions to other revenue sources such as state aids and fees generated from property development or redevelopment. Despite these conditions, property taxes levied by Minnesota cities increased a record low 0.9 percent state-wide for 2012, and 2.27 percent for 2013. Almost one-third of Minnesota cities kept their 2013 levy at the same level as the previous year, while another 13 percent reduced their levies for 2013.

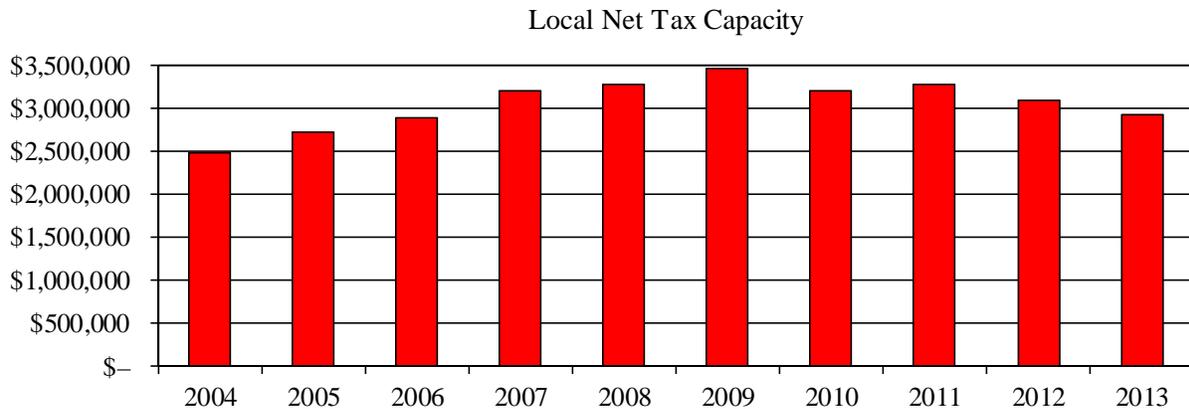
Economic conditions have also had a profound effect on the tax base of Minnesota cities with state-wide taxable market values declining each of the last four levy years, including average decreases of 8.8 percent and 4.5 percent for taxes payable in 2012 and 2013, respectively. There is optimism that this trend is reversing, as the market value decline for the 2013 levy year was the smallest of the past four years. However, since the assessed valuation used for levying property taxes is based on values from the previous fiscal year (e.g., the market value for taxes payable in 2013 is based on estimated values as of January 1, 2012), taxable market value improvement has lagged behind recent upturns in the housing market and the economy in general.

The City's taxable market value decreased 7.6 percent for taxes payable in 2012 and 5.5 percent for taxes payable in 2013, both of which were less severe than the state-wide average. The following graph shows the City's changes in taxable market value over the past 10 years:



Tax capacity is considered the actual base available for taxation. It is calculated by applying the state's property classification system to each property's market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city's total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of the City's tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates. The City's tax capacity decreased 5.5 percent and 5.7 percent for taxes payable in 2012 and 2013, respectively.

The following graph shows the City's change in tax capacities over the past 10 years:



The following table presents the average tax rates applied to city residents for each of the last two levy years, along with comparative state-wide and metro area rates. The general increase in rates reflects both the increased reliance of local governments on property taxes and the recent decline in tax capacities.

Rates expressed as a percentage of net tax capacity						
	All Cities State-Wide		Seven-County Metro Area		City of Newport	
	2012	2013	2012	2013	2012	2013
Average tax rate						
City	46.3	48.8	43.4	46.1	64.7	70.8
County	46.8	48.5	45.0	47.1	31.9	34.2
School	27.3	28.5	28.5	30.3	37.9	41.3
Special taxing	6.8	7.2	8.7	9.4	5.1	5.6
Total	<u>127.2</u>	<u>133.0</u>	<u>125.6</u>	<u>132.9</u>	<u>139.6</u>	<u>151.9</u>

The City's portion of the tax rate has been higher than average in recent years, primarily due to the levies financing the City's street improvement program debt. The increase for 2013 was caused by the City's increase to its levy, coupled with the decline in property market values.

GOVERNMENTAL FUND BALANCES

The following table summarizes the changes in the fund balances of the City's governmental funds during the year ended December 31, 2013, presented both by fund balance classification and by fund:

Governmental Funds Change in Fund Balance			
	Fund Balance as of December 31,		Increase (Decrease)
	<u>2013</u>	<u>2012</u>	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 16,866	\$ 32,123	\$ (15,257)
Restricted	1,847,889	1,539,910	307,979
Assigned	361,326	541,370	(180,044)
Unassigned	<u>1,902,225</u>	<u>1,656,652</u>	<u>245,573</u>
 Total – governmental funds	 <u>\$ 4,128,306</u>	 <u>\$ 3,770,055</u>	 <u>\$ 358,251</u>
Total by fund			
General	\$ 1,919,091	\$ 1,688,775	\$ 230,316
Economic Development Authority	596,090	562,703	33,387
Debt Service Funds	391,590	386,271	5,319
Capital Project Funds	1,167,998	1,085,868	82,130
Special Revenue Funds	<u>53,537</u>	<u>46,438</u>	<u>7,099</u>
 Total – governmental funds	 <u>\$ 4,128,306</u>	 <u>\$ 3,770,055</u>	 <u>\$ 358,251</u>

In total, the fund balances of the City's governmental funds increased by \$358,251 during the year ended December 31, 2013, mostly in the General Fund.

GOVERNMENTAL FUNDS REVENUE AND EXPENDITURES

The following table presents the per capita revenue of the City's governmental funds for the past three years, along with state-wide averages.

We have included the most recent comparative state-wide averages available from the Office of the State Auditor to provide a benchmark for interpreting your City's data. The amounts received from the typical major sources of governmental fund revenue will naturally vary between cities based on factors such as the City's stage of development, location, size and density of its population, property values, services it provides, and other attributes. It will also differ from year-to-year due to the effect of inflation and changes in the City's operation. Also, certain data on these tables may be classified differently than how they appear on the City's financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of your city. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the Management's Discussion and Analysis. An inherent difficulty in presenting per capita information is the accuracy of the population count, which for most years is based on estimates.

Governmental Funds Revenue per Capita						
With State-Wide Averages by Population Class						
Year	State-Wide			City of Newport		
	December 31, 2012			2011	2012	2013
Population	2,000–2,500	2,500–10,000	10,000–20,000	3,449	3,460	3,460
Property taxes	\$ 408	\$ 414	\$ 382	\$ 729	\$ 674	\$ 677
Tax increments	32	32	44	–	–	–
Franchise and other taxes	9	29	36	–	–	–
Special assessments	59	60	54	66	81	88
Licenses and permits	19	24	24	24	22	26
Intergovernmental revenues	352	278	279	252	335	228
Charges for services	112	104	81	23	17	29
Other	102	66	58	65	91	51
Total revenue	\$ 1,093	\$ 1,007	\$ 958	\$ 1,159	\$ 1,220	\$ 1,099

In total, the City's governmental fund revenues for 2013 were \$3,800,364, a decrease of \$422,731, or 10.0 percent, from the prior year. The City has historically had a larger percentage of its revenue come in the form of property taxes, and a lower percentage from charges for services than average for Minnesota cities in its population class. The City experienced a decrease in total per capita revenue of \$121 in fiscal 2013. The largest decrease was in intergovernmental revenues totaling \$107. This decrease is related to one-time capital project related grants and aid received in fiscal 2012. Other revenues declined \$40 per capita in fiscal 2013 as a result of decreased donations and refunds received.

The expenditures of governmental funds will also vary from state-wide averages and from year-to-year, based on the City's circumstances. Expenditures are classified into three types as follows:

- **Current** – These are typically the general operating type expenditures occurring on an annual basis, and are primarily funded by general sources such as taxes and intergovernmental revenues.
- **Capital Outlay and Construction** – These expenditures do not occur on a consistent basis, more typically fluctuating significantly from year-to-year. Many of these expenditures are project-oriented, and are often funded by specific sources that have benefited from the expenditure, such as special assessment improvement projects.
- **Debt Service** – Although the expenditures for debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

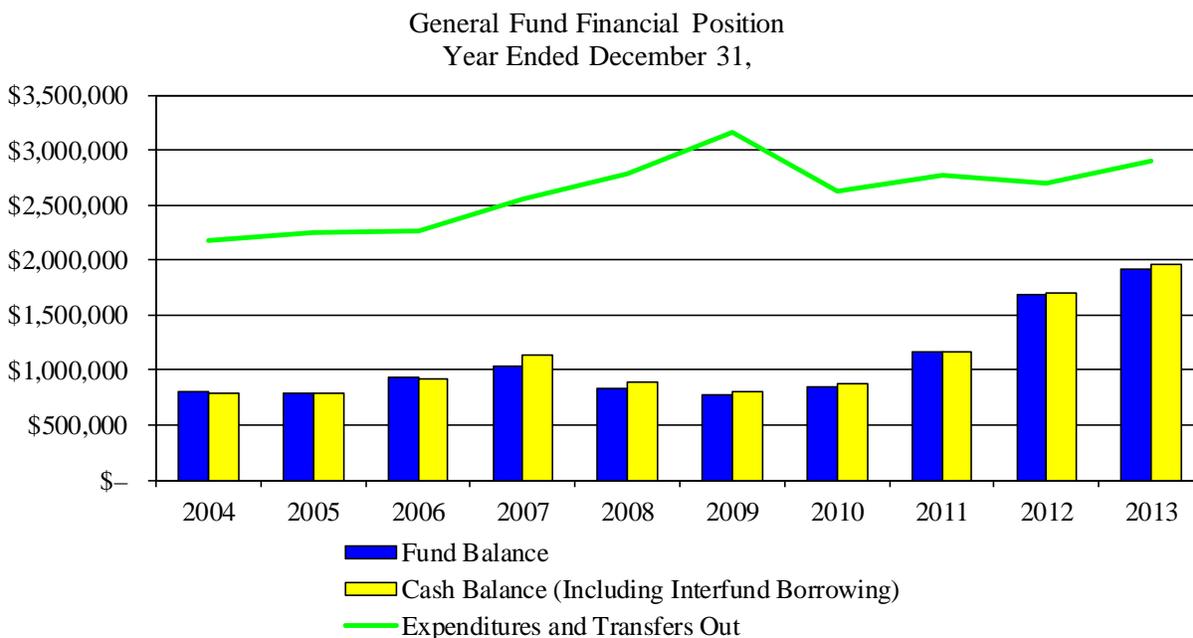
The City's expenditures per capita of its governmental funds for the past three years, together with state-wide averages, are presented in the following table:

Governmental Funds Expenditures per Capita						
With State-Wide Averages by Population Class						
Year	State-Wide			City of Newport		
	December 31, 2012			2011	2012	2013
Population	2,000–2,500	2,500–10,000	10,000–20,000	3,449	3,460	3,460
Current						
General government	\$ 165	\$ 127	\$ 101	\$ 421	\$ 208	\$ 196
Public safety	244	234	229	287	279	282
Street maintenance and lighting	130	114	105	130	145	116
Parks and recreation	93	82	95	103	78	112
All other	124	73	75	–	44	37
	<u>\$ 756</u>	<u>\$ 630</u>	<u>\$ 605</u>	<u>\$ 941</u>	<u>\$ 754</u>	<u>\$ 743</u>
Capital outlay and construction	<u>\$ 257</u>	<u>\$ 315</u>	<u>\$ 313</u>	<u>\$ 74</u>	<u>\$ 211</u>	<u>\$ 522</u>
Debt service						
Principal	\$ 254	\$ 187	\$ 135	\$ 250	\$ 89	\$ 110
Interest and fiscal	73	58	46	16	12	30
	<u>\$ 327</u>	<u>\$ 245</u>	<u>\$ 181</u>	<u>\$ 266</u>	<u>\$ 101</u>	<u>\$ 140</u>

Total expenditures in the City's governmental funds for 2013 were \$4,857,592, an increase of \$1,165,736 from the prior year. The City's costs for general government are traditionally higher than state-wide averages. General government includes expenditures for the mayor and City Council, administration, elections, professional services, planning and zoning, composting, special projects, and government buildings. Total per capita current expenditures decreased \$11 in fiscal 2013, mostly due to decreases in general government expenditures. Capital outlay and construction costs increased \$311 per capita due to the purchase of a fire truck and ongoing street improvement projects in fiscal 2013. Debt service costs also increased \$39 per capita mainly due to the issuance of General Obligation bonds in fiscal 2013.

GENERAL FUND

The City's General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, building inspection, streets and highway maintenance, and parks and recreation. The graph below illustrates the change in the General Fund financial position over the last 10 years. We have also included a line representing annual expenditures and operating transfers out to reflect the change in the size of the General Fund operation over the same period.



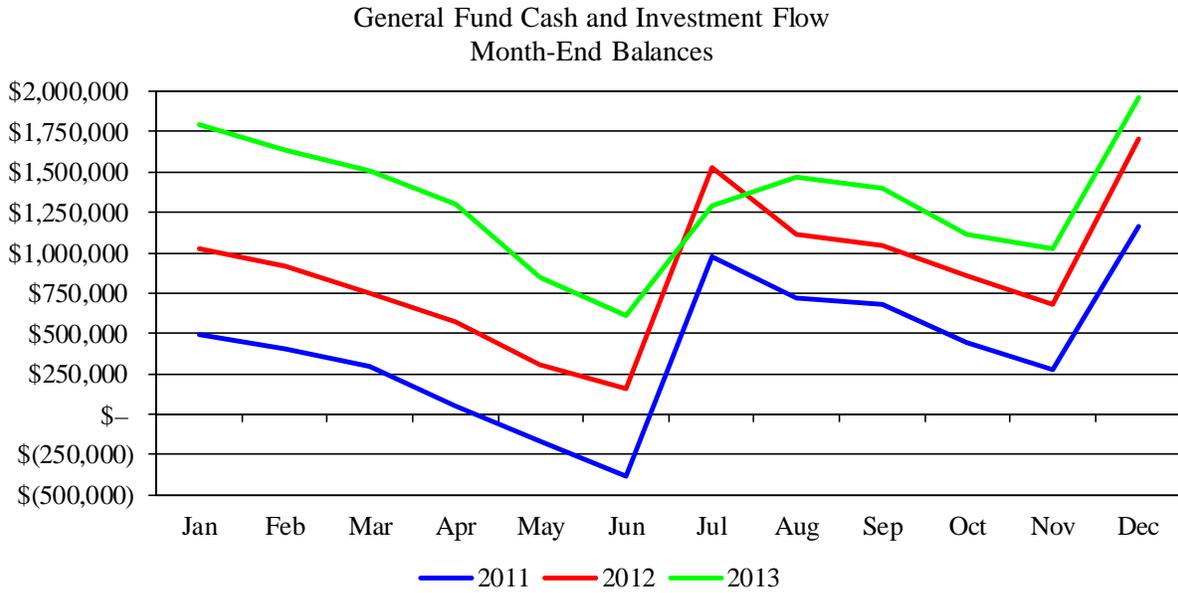
The City's General Fund position improved in 2013 with fund balance increasing by \$230,316 to \$1,919,091. As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and is a factor in determining the City's bond rating and resulting interest costs. Maintaining an adequate fund balance has become increasingly important given the fluctuations in state funding for cities in recent years.

The amount of required equity increases as the size of the operation increases. Increase in the size of the operation is natural, caused by things such as inflation, population growth, desired increases in service, and—something which has impacted cities significantly in recent years—mandated increases in services and administrative requirements.

At December 31, 2013, the City's fund balance as a percentage of 2013 expenditures and transfers is 66.0 percent. The Office of the State Auditor recommends this percentage be between 35 and 50 percent.

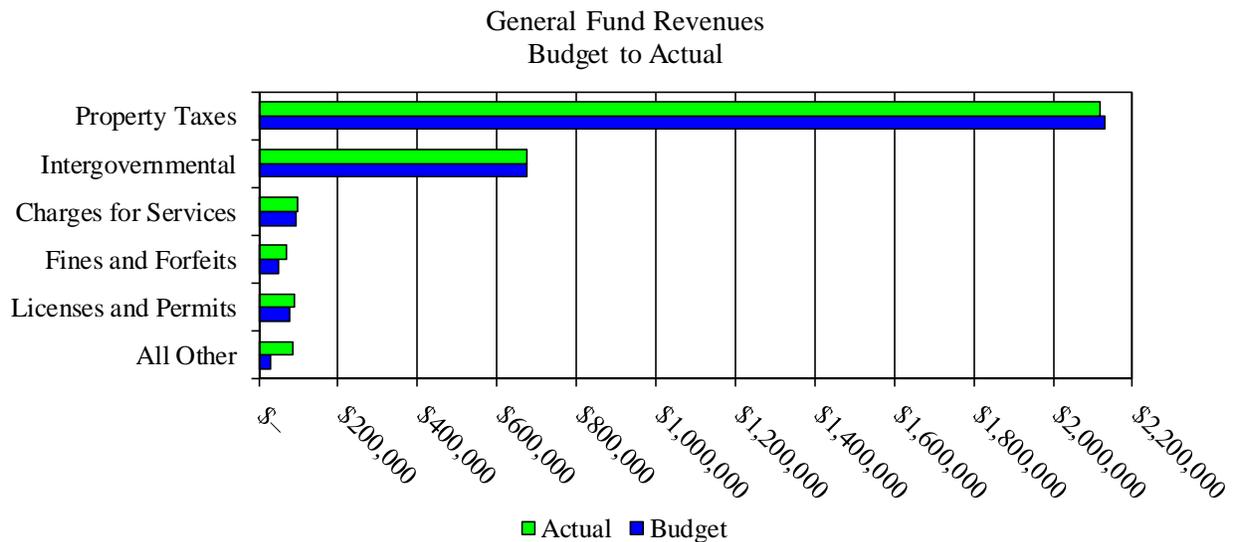
A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year other than the impact of seasonal services such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Taxes comprise about 68 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City in July and the rest in December. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

The following graph illustrates the monthly cash flow of the General Fund for the past three years:



Due to the improved financial condition, the General Fund has maintained positive cash flow throughout the last two years.

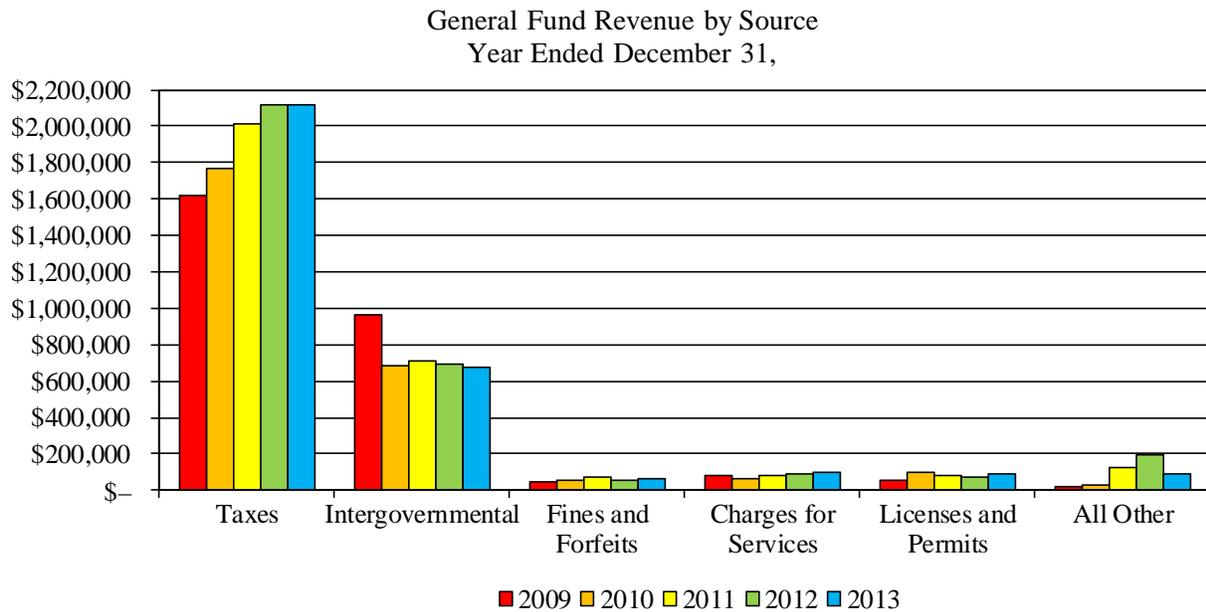
The following chart reflects the City’s General Fund revenue sources for 2013 compared to budget:



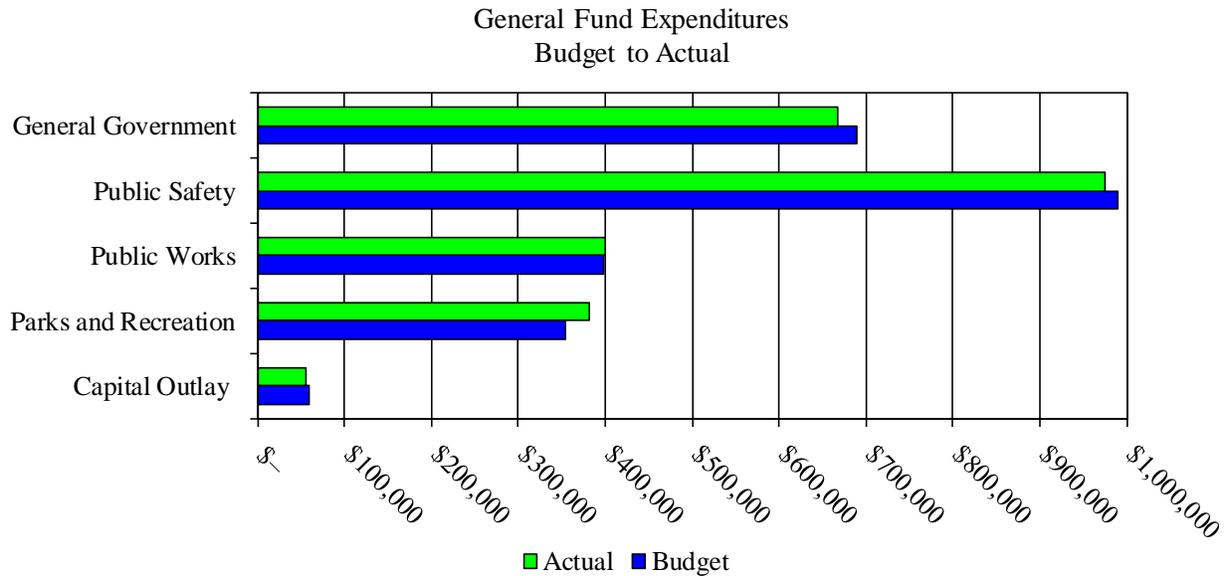
General Fund revenue for 2013 was \$3,135,930, which was \$84,354 (2.8 percent) higher than budget.

Actual financial results were better than projected due to higher than anticipated revenue mainly in licenses and permits (\$13,467), fines and forfeits (\$20,193), and other revenue (\$58,617). Most of the other revenue sources were grants and other reimbursements that were not anticipated in the fiscal 2013 budget.

The following chart reflects the City’s General Fund sources of revenue for the past five fiscal years. The graph reflects the City’s reliance on property taxes and other local sources of revenue:

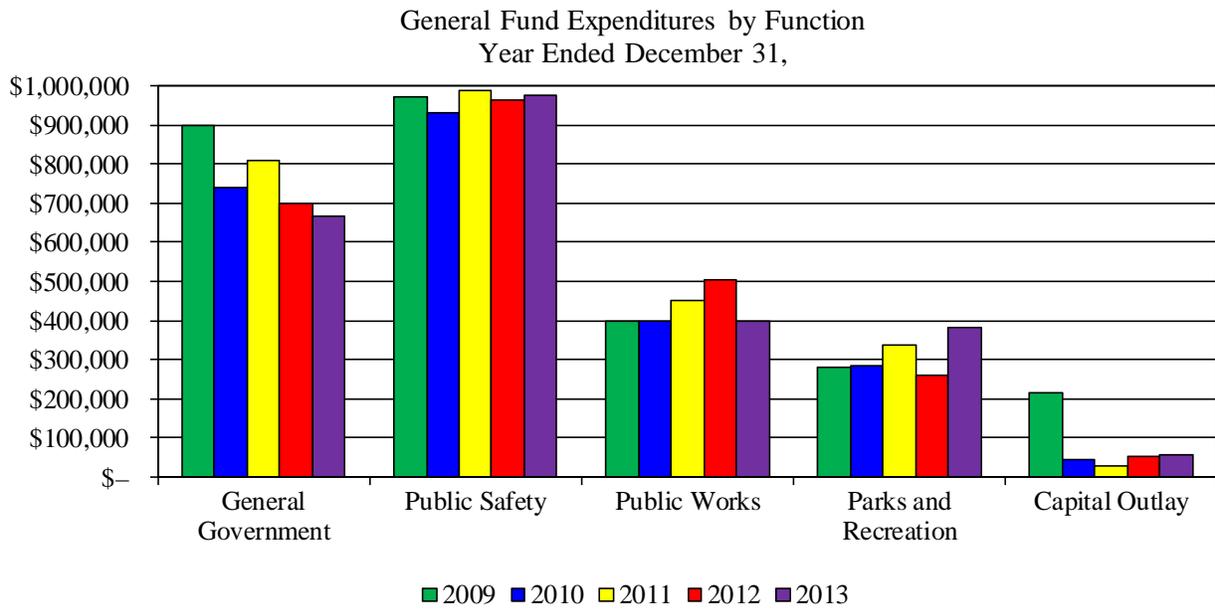


Total General Fund revenue for 2013 was \$90,760 (2.8 percent) lower than last year. Other revenues decreased by \$107,860 as the City received various one-time donations and refunds in fiscal 2012. The following graphs illustrate the components of General Fund spending for 2013 compared to budget:



Actual expenditures were \$10,519, or 0.4 percent, lower than budgeted amounts. General government expenditures were lower than budget by \$25,272 mostly in administrative costs for equipment, repairs, and maintenance. The \$15,915 variance in public safety was mainly in costs for personal. Parks and recreation expenditures were \$20,052 over budget also mainly due to costs for personal services.

The following graph provides General Fund expenditures by function for the last 5 years:



Total General Fund expenditures for 2013 were \$1,147 higher than the previous year. Administration costs decreased \$45,360, mainly in salaries and insurance costs. Public works costs decreased \$92,538 and parks and recreation costs increased \$114,579, mainly in salaries due to reclassification of staff time in both functions.

ENTERPRISE FUNDS OVERVIEW

The City maintains a number of enterprise funds to account for services the City provides that are financed primarily through fees charged to those utilizing the service. This section of the report provides you with an overview of the financial trends and activities of the City's enterprise funds, which includes the Water, Sewer, Storm Sewer, and Street Light Utility Funds.

ENTERPRISE FUNDS FINANCIAL POSITION

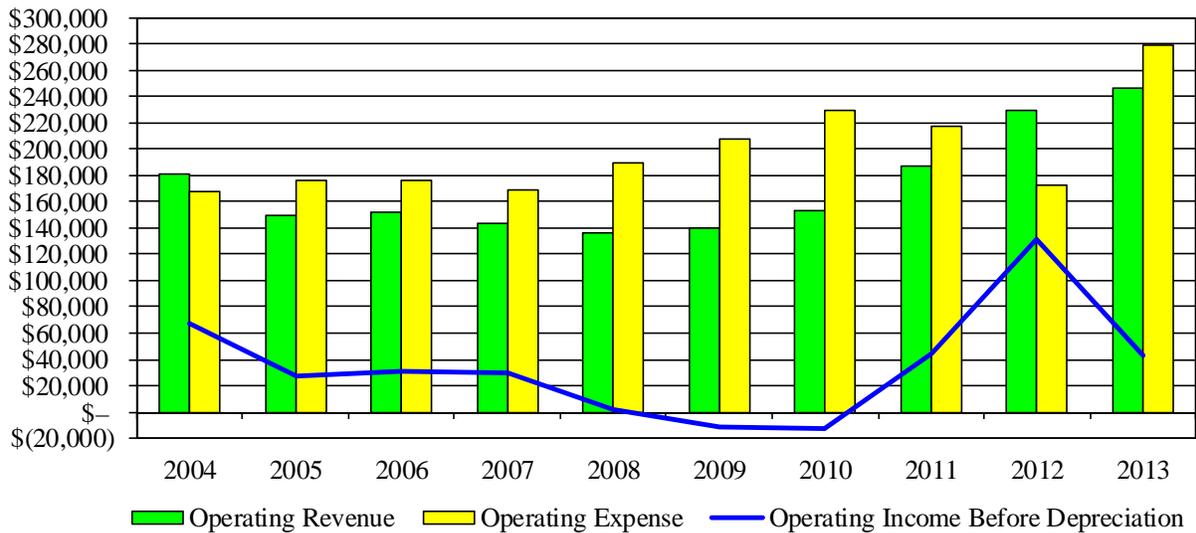
The following table summarizes the changes in the financial position of the City's enterprise funds during the year ended December 31, 2013, presented both by classification and by fund:

Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Increase (Decrease)
	<u>2013</u>	<u>2012</u>	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 2,309,616	\$ 2,402,629	\$ (93,013)
Unrestricted	<u>1,384,179</u>	<u>1,273,749</u>	<u>110,430</u>
Total enterprise funds	<u>\$ 3,693,795</u>	<u>\$ 3,676,378</u>	<u>\$ 17,417</u>
Total by fund			
Water	\$ 1,886,337	\$ 1,926,273	\$ (39,936)
Sewer	1,765,029	1,712,385	52,644
Street Light	25,622	16,545	9,077
Storm Sewer	<u>16,807</u>	<u>21,175</u>	<u>(4,368)</u>
Total enterprise funds	<u>\$ 3,693,795</u>	<u>\$ 3,676,378</u>	<u>\$ 17,417</u>

WATER ENTERPRISE FUND

At December 31, 2013, the Water Enterprise Fund had a cash balance of \$498,642. Net position for the fund was \$1,886,337, a decrease of \$39,936 from fiscal 2012. Net position consisted of \$1,351,786 of net investment in capital assets and \$534,551 in unrestricted net position.

Water Enterprise Fund Financial Activity
Year Ended December 31,

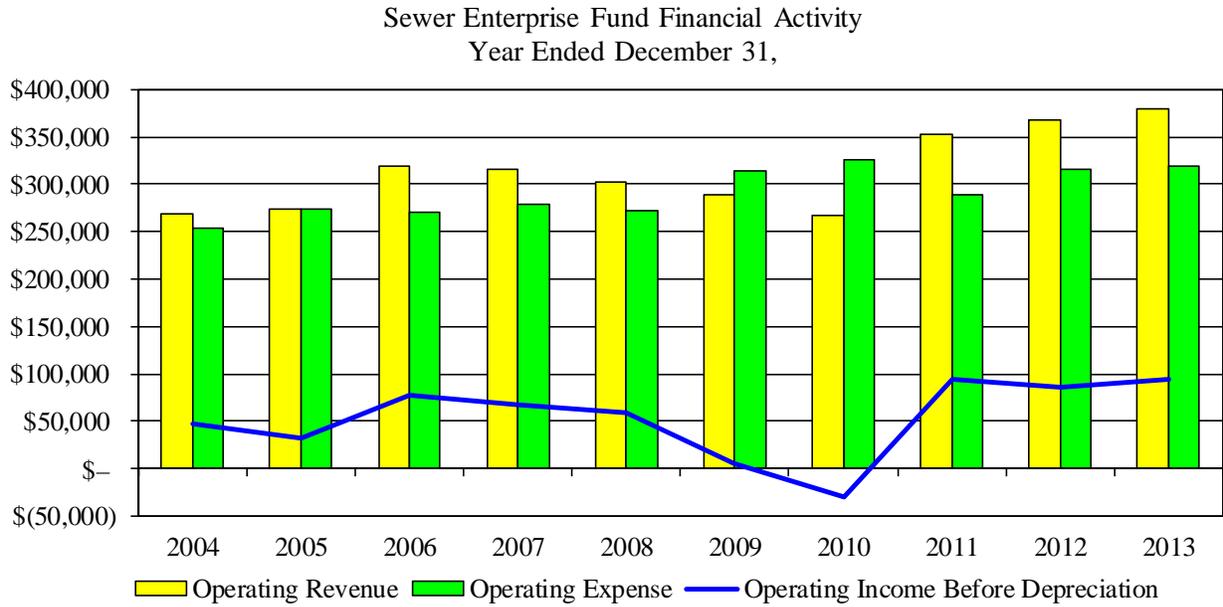


Water Enterprise Fund operating revenues for 2013 were \$247,072, which is an increase of \$18,092 from the previous year. Operating income declined in fiscal 2013, mainly due to personnel services allocated to the water fund previously reported in the general fund.

It is also important that water rates also be designed to provide for future repairs and replacement of the infrastructure assets. As seen in the above graph, the revenues of the fund did not fund any future repairs in fiscal 2009 and 2010, which were at least partially funded from fiscal 2004 to fiscal 2007 and fiscal 2011 to 2013.

SEWER ENTERPRISE FUND

At December 31, 2013, the Sewer Enterprise Fund had a cash balance of \$737,164 and a net position balance of \$1,765,029, an increase of \$52,644 from fiscal 2012. Net position consisted of \$957,830 of net investment in capital assets and \$807,199 of unrestricted net position.

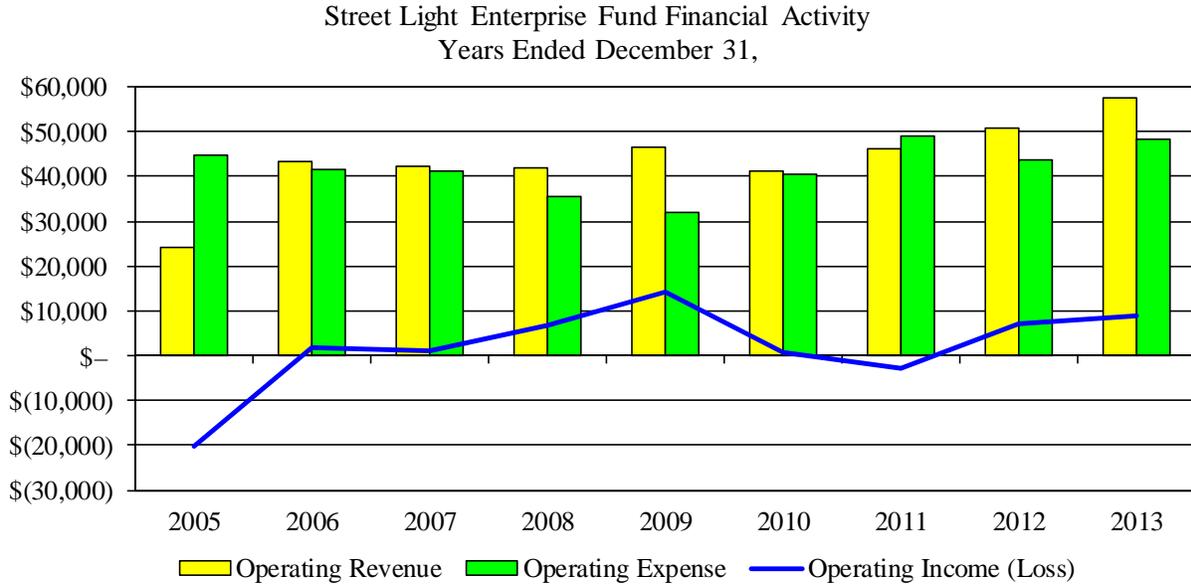


Sewer Enterprise Fund operating revenues for 2013 were \$379,538, which were \$11,919 higher than the previous year. Operating income improved in fiscal 2013, mainly due to the increase in operating revenues from higher rates, despite decreased consumption.

It is also important that sewer rates be designed to provide for future repairs and replacement of the infrastructure assets. As seen in the above graph, the fund’s revenues funded future repairs in fiscal 2013.

STREET LIGHT ENTERPRISE FUND

At December 31, 2013, the Street Light Enterprise Fund had a cash balance of \$15,810 and net position of \$25,622.

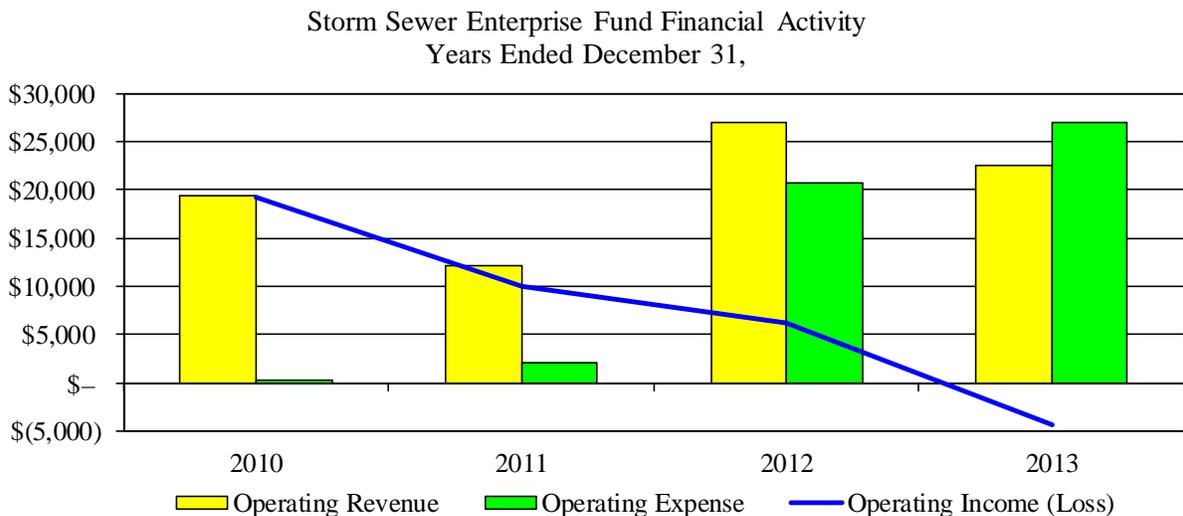


The Street Light Enterprise Fund net position increased \$9,077 in fiscal 2013.

It is important that this fund continue to have positive operating results so not to place an additional burden on other city funds. It is also important that street light rates be designed to fully recover operating costs.

STORM SEWER ENTERPRISE FUND

At December 31, 2013, the Storm Sewer Enterprise Fund had a cash balance of \$31,856 and a net position of \$16,807. The Storm Sewer Fund finished the year with a decrease in net position of \$4,368.



It is important that storm sewer charges be designed to provide for positive operating results so not to place an additional burden on other city funds.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

In addition to fund-based information, the current reporting model for governmental entities also requires the inclusion of two government-wide financial statements designed to present a clear picture of the City as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering services, including capital assets and long-term liabilities.

STATEMENT OF NET POSITION

The Statement of Net Position essentially tells you what your city owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represents the resources the City has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources can be used. Therefore, net position is divided into three components: net investment capital assets, restricted, and unrestricted.

The following table presents the components of City's net position as of December 31, 2013 and 2012 for governmental activities and business-type activities:

	As of December 31,		Increase (Decrease)
	2013	2012	
Net position			
Governmental activities			
Net investment in capital assets	\$ 9,043,246	\$ 8,709,526	\$ 333,720
Restricted	1,142,379	1,779,507	(637,128)
Unrestricted	<u>2,416,910</u>	<u>2,048,497</u>	<u>368,413</u>
Total governmental activities	12,602,535	12,537,530	65,005
Business-type activities			
Net investment in capital assets	2,309,616	2,402,629	(93,013)
Unrestricted	<u>1,384,179</u>	<u>1,273,749</u>	<u>110,430</u>
Total business-type activities	<u>3,693,795</u>	<u>3,676,378</u>	<u>17,417</u>
Total net position	<u>\$ 16,296,330</u>	<u>\$ 16,213,908</u>	<u>\$ 82,422</u>

The City ended 2013 with combined total net position of \$16,296,330, an increase of \$82,422 from the prior year. This increase relates to the increases in the General Fund and enterprise fund balances and decreases in the net investment in capital assets in both areas in fiscal 2013.

STATEMENT OF ACTIVITIES

The Statement of Activities tracks the City's yearly revenues and expenses, as well as any other transactions that increase or reduce total net positions. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in the net position of the City for the years ended December 31, 2013 and 2012:

	2013		2012	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 677,193	\$ 213,012	\$ (464,181)	\$ (579,233)
Public safety	1,150,672	147,119	(1,003,553)	(893,738)
Public works	1,414,583	315,153	(1,099,430)	(977,890)
Parks and recreation	375,109	5,296	(369,813)	(269,353)
Economic development	129,572	–	(129,572)	(151,698)
Interest on long-term debt	107,394	–	(107,394)	(41,774)
Business-type activities				
Water	287,424	247,072	(40,352)	49,373
Sewer	328,992	381,038	52,046	210,815
Other	75,338	80,017	4,679	13,320
Total net (expense) revenue	<u>\$ 4,546,277</u>	<u>\$ 1,388,707</u>	(3,157,570)	(2,640,178)
General revenues				
Property taxes			2,361,926	2,307,486
General grants and contributions			716,372	692,136
Other general revenues			153,225	151,137
Investment earnings			8,469	20,948
Total general revenues			<u>3,239,992</u>	<u>3,171,707</u>
Change in net position			<u>\$ 82,422</u>	<u>\$ 531,529</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues, such as property taxes and unrestricted grants. It also shows that, for the most part, the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses. This is critical given the current downward pressures on the general revenue sources.

LEGISLATIVE UPDATES

Despite an improving economy, the 2013 Legislature faced the familiar prospect of having to address a significant projected deficit in order to adopt a balanced budget for the next biennium. The November 2012 financial forecast projected a deficit of \$1.1 billion in the state General Fund for the 2014–2015 biennium, which was revised down to a \$627 million deficit in the February 2013 forecast. Even with this challenge, there was an expectation that with one political party holding the Governor’s office and majorities in both the House and Senate, this biennial budget agreement would be reached more quickly and easily than the previous one, which featured numerous vetoes, a special session, and the longest shutdown of non-essential state government services in Minnesota history. While in the end there was no special session or government shutdown, the 2013 session still stretched until the final day allowable under the state constitution, with the last bill passed at midnight.

The following is a summary of recent legislative activity affecting the finances of Minnesota cities in 2013 and into the future:

Local Government Aid (LGA) – The state-wide LGA appropriation for fiscal 2013 was set to increase about 2.8 percent to \$426.4 million. However, the 2012 Legislature froze 2013 LGA payments at 2012 levels for cities with a population of 5,000 or more. For cities with populations below 5,000, 2013 LGA was the greater of their 2012 aid or the amount they would have received for 2013 under existing law.

The 2013 Legislature completely overhauled the LGA formula for fiscal year 2014 and thereafter, creating a three-tiered formula that includes separate “need factor” calculations for cities with populations under 2,500, between 2,500 and 10,000, or over 10,000. The new formula simplifies the LGA calculation, and is designed to reduce the volatility of the LGA distribution by limiting the amount it may decline in a given year. Under the new formula, each city’s LGA distribution for 2014 will be no less than their 2013 LGA. Beginning in 2015, any reduction to a city’s LGA distribution will be limited to the lesser of \$10 per capita, or 5 percent of their previous year net tax levy. For cities that gain under the new formula, the increases will be distributed proportionate to their unmet need, as determined by the new “need factor” calculations. The state-wide LGA appropriation is \$507.6 million for fiscal 2014, \$509.1 million for 2015, and \$511.6 million for fiscal 2016 and thereafter.

Levy Limits – A levy limit for city property tax levies payable in 2014 was established for all cities with populations exceeding 2,500. The levy limit base is the certified levy (excluding special levies) plus the certified LGA for taxes payable in fiscal 2012 or 2013, whichever is greater, increased by 3 percent. The levy limit is equal to the base, less the city’s certified LGA for fiscal 2014. Levies for special purposes such as debt service, abatements, or voter-approved purposes, are not subject to this limitation.

Market Value Definitions – A number of levy, tax, spending, debt, and similar limits that had previously been computed based on “market value” or “taxable market value” must now be computed based on “estimated market value.” This change was enacted to eliminate the effects of the homestead market value exclusion established in 2011.

Levy Authority for Watershed Management Plan – Cities are granted the authority to levy taxes to provide funding for the implementation of a comprehensive watershed management plan.

Tax Status of Leased Tax-Exempt Property – Tax-exempt property owned by a political subdivision and held under a lease for a term of at least one year, or under a contract for the purchase thereof, is considered to be the property of the person holding it for all purposes of taxation. This change makes the tax treatment of leased property owned by local governments consistent with leased property owned by the federal government.

Tax Increment Financing (TIF) – A number of changes and clarifications were made to rules governing the use of TIF, including:

- The prohibition on using tax increments for improvements or equipment primarily of a decorative or aesthetic nature, or with costs twice as high due to the selection of materials or designs compared to more commonly used improvements or equipment, is eliminated.
- The four-year rule originally applying to TIF Districts certified between January 1, 2005 and April 20, 2009 is extended through December 31, 2016.
- Development authorities may elect to reduce the original net tax capacity of qualifying TIF districts for the effects of the homestead market value exclusion that replaced the homestead tax credit program.
- Taxes paid by captured tax capacity of TIF districts that are attributable to the new general education levy authorized by the 2013 Legislature, will be paid to the school district that imposes the levy.

Park Dedication Fees – A clarification was made to define the basis on which a city calculates a park dedication fee charged to a developer in lieu of dedicating land for park usage. The fee must be calculated on the fair market value of the land as annually determined by the city based on tax valuation or other relevant data. The new law also provides a method for resolving valuation disputes through negotiation or the use of independent appraisals of land in the same land use category.

Host Community Economic Development Grants – A new program was created that will provide grants for the acquisition and improvement of publicly owned capital assets for metro-area cities that host waste disposal facilities. No local matching funds are required.

Change to Small Cities Development Block Grants – The Minnesota Department of Employment and Economic Development is now allowed to provide a forgivable loan through the Small Cities Development Block Grant Program directly to a private enterprise. The city in which the private enterprise is located is no longer required to submit an application, only a resolution of support.

Wastewater and Stormwater Funding – Several changes were made to wastewater and stormwater grant and loan programs administered by the Public Facilities Authority. The changes include expanded eligibility for some programs, and increased grant or loan ceilings for others.

Sales Tax Exemption – Cities are exempted from paying sales tax on qualifying purchases, effective for purchases made on or after January 1, 2014. This exemption does not include purchases of goods or services to be used as inputs to goods or services cities provide to the public that are generally provided by a private business, such as liquor stores, golf courses, marinas, or fitness centers.

Cities with a population over 500 will be required to include a property tax savings report along with its proposed 2013 payable 2014 property tax levy certification, with the amount of sales or use taxes paid or estimated to have been paid in fiscal 2012. Cities must also discuss the savings resulting from the sales tax exemption at their fall truth-in-taxation public hearings.

Organized Solid Waste Collection – The process for imposing the city-organized collection of solid waste was streamlined and better defined. The previous 180-day process for cities to adopt organized collection of solid waste was eliminated. The process now begins with a 60-day period in which cities may negotiate with collectors currently operating in the city, thereby giving them the first opportunity to develop a proposal for organized collection. If the 60-day negotiation period ends without an agreement, a city may continue the process by passing a resolution to form a committee to study the methods of organizing collection and make recommendations. A city must provide public notice and hold at least one public hearing before deciding to implement organized collection.

Pensions – An omnibus pension bill was passed that made a number of changes to both state-wide pension plans and single employer relief associations, including:

- Changes to the Public Employees Retirement Association (PERA) General Plan:
 - The “average salary” for determining surviving spouse and dependent benefits was redefined.
 - A number of clarifications were made to what constitutes “salary” for plan purposes.
 - Changes were made to the level of annual post-retirement adjustments, which will vary based on the funding level of the plan.
- Changes to the PERA Police and Fire Plan:
 - Increases employee contribution rate from 9.6 percent of salary to 10.2 percent for fiscal 2014, and 10.8 percent for fiscal 2015 and thereafter.
 - Increases employer contribution rate from 14.4 percent of salary to 15.3 percent for fiscal 2014, and 16.2 percent for fiscal 2015 and thereafter.
 - A 20-year proportional vesting period was established for new hires beginning in 2014, under which the member becomes 50 percent vested after 10 years, and vests an additional 5 percent annually until fully vested at 20 years.
 - The retirement annuity formula calculation was changed to incorporate the effect of the new 20-year vesting period, and a new cap of 33 years on allowable service time included in the annuity calculation.
 - The early retirement reduction factor was increased from the current 2.4 percent per year to 5 percent, phased in over a 5-year period beginning July 1, 2014.
 - Changes were made to the level of annual post-retirement adjustments, which will vary based on the funding level of the plan.
- Changes to single employer relief associations:
 - The threshold of assets at which police relief associations and salaried or volunteer fire relief associations must prepare financial statements and have them audited by an independent auditor was raised from \$200,000 to \$500,000.
 - Volunteer firefighter relief associations are now required to pay a supplemental survivor benefit whenever it pays a survivor benefit, regardless of whether it is authorized in the association bylaws.
 - Any change to the interest rate paid during the deferral period of lump-sum service pensions must be approved by the governing body of the city or independent firefighting corporation to which the association is related.

In addition, a new supplemental state aid was created to provide funding for pension plans. An annual allotment of \$15.5 million will be distributed among the PERA Police and Fire Plan (\$9 million), municipal volunteer firefighter associations (\$5.5 million allocated based on proportionate share of fire state aid), and the Minnesota State Retirement System State Patrol Plan (\$1 million).

Expansion of Debt Authority – Several changes were made to expand the allowable uses of certain types of debt, including:

- Home rule charter city or statutory city capital notes are allowed to be used for the purchase of application development services and training related to the use of computer hardware and software.
- Capital improvement program (CIP) bonds are allowed to be used for expenditures incurred before the adoption of the CIP, if the expenditures are included in the plan.
- Street reconstruction bonds are allowed to be used for bituminous overlay projects, which previously had not been included in the definition of reconstruction.

Authorized Investments – The list of authorized investments for cities was expanded to include: revenue obligations issued by local governments without levy authority that are rated AA or better; short-term (13 month maturity or less) obligation issued by a school district that is either rated in the highest credit rating category or covered by the State of Minnesota Credit Enhancement Program; and short-term (18 month maturity or less) guaranteed investment contracts when the issuer’s or guarantor’s short-term debt is rated in the highest rating category, even if their long-term debt is rated below the top two rating categories.

Elections – The Legislature passed an omnibus elections policy bill that made a number of changes and clarifications to election requirements, including:

- Establishing “no excuse” absentee balloting;
- Increasing the time for counting absentee ballots from 4 days prior to the election to 7;
- Reducing the number of people a voter may vouch for in a polling place from 15 to 8;
- Eliminating the requirement to have at least one telecommunications device for deaf voter registration in every city of the first, second, or third class;
- Requiring that the municipal clerk designated to administer absentee ballots also be responsible for the administration of a “ballot board”;
- Reducing the number of election judges required in a precinct for elections other than a general election from 4 to 3, for precincts with more than 500 voters; and allowing the minimum number of three election judges for all elections including general elections for precincts with less than 500 registered voters;
- Modifying the vote differentials requiring publically funded recounts to 0.25 percent in elections where more than 50,000 votes are cast, and 0.5 percent for elections in which between 400 and 50,000 votes are cast;
- Amending the time period in which cities are prohibited from holding a special election from the first 40 days following a general election to the first 56 days;
- Increasing the number of days’ notice a city clerk must provide to a county auditor before holding a municipal election from 67 to 74 days; and
- Establishing a pilot program and task force for the use of electronic rosters of voters.

Alternative Bid Publication for Projects Funded by Special Assessments – A technical change was made to eliminate duplicative publication requirements for projects funded with special assessments. The definition of “recognized industry trade journal” was broadened to include websites or electronic publications, thereby eliminating circumstances that were forcing cities utilizing an alternative electronic publication method to also publish written notice for certain projects.

Met Council Allocated Costs – A change was made to allow cities that are allocated costs by the Met Council to request the cost be deferred, or to be paid over time on a payment schedule with interest as agreed to by the Met Council.

Liquor Licensing – An omnibus liquor bill was passed that made several changes to liquor licensing and distribution. Among the changes are: authorizing cities with municipal liquor operations to issue brewer taproom licenses that allow consumption on the premises or adjacent to malt liquor breweries; authorizing cities to issue brewers a license for off-sale of malt liquor packaged by the brewer; providing for the sale of malt-liquor educator licenses that will allow malt liquor tastings and education to be conducted similar to wine tastings; and allowing micro-distilleries to provide product samples on site.

Tax-Exempt Holding Period for Development Property – The tax exempt holding period for city-owned land held for development is increased from 9 to 15 years for property acquired between January 1, 2000 and December 31, 2010, or for property located in a city outside of the metro area with a population under 20,000.

Citizen Contact Information Classified as Private Data – Citizen contact information submitted to cities in order to receive certain notifications or to subscribe to the city’s electronic publications, such as phone numbers or email addresses, is now classified as private data. The names of people on such lists remain public information.

Criminal History and Background Checks – Cities are authorized to perform criminal history checks on applicants for: city employment, volunteer positions, or a license that does not otherwise subject the applicant to a criminal history check. Such criminal history checks may not be substituted for statutorily mandated background checks.

Background checks are now required for all fire department applicants, and are allowed for current fire department employees. The fire chief is also required to perform criminal history record checks of applicants.

ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 67 – FINANCIAL REPORTING FOR PENSION PLANS – AN AMENDMENT OF GASB STATEMENT NOS. 25 AND 50

The primary objective of this statement is to improve financial reporting by state and local government pension plans. GASB Statement No. 67 replaces the requirements of GASB Statement Nos. 25 and 50 for pension plans that are administered through trusts or equivalent arrangements that meet the following criteria: contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; and pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. The requirements of GASB Statement Nos. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement and to defined contribution plans that provide post-employment benefits other than pensions. The statement makes a number of changes in the financial statement presentation, measurement, and required disclosures relating to the reporting of these types of pension plans. This statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

GASB STATEMENT NO. 68 – ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS – AN AMENDMENT OF GASB STATEMENT NOS. 27 AND 50

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This statement replaces the requirements of GASB Statement Nos. 27 and 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria (as described earlier for GASB Statement No. 67). The requirements of GASB Statement Nos. 27 and 50 remain applicable for pensions that are not covered by the scope of this statement.

This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan. This statement is effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

Included in this statement are major changes in how employers that participate in cost-sharing pension plans, such as the Teachers' Retirement Association (TRA) and PERA, account for pension benefit expenses and liabilities. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting (government-wide and proprietary funds), a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability of all employers with benefits provided through the pension plan. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all active and inactive employees that are provided with pensions through the pension plan.

GASB STATEMENT NO. 69 – GOVERNMENT COMBINATIONS AND DISPOSALS OF GOVERNMENT OPERATIONS

This statement provides accounting and financial reporting guidance, including disclosure requirements, for government combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. Included within the scope of this statement are combinations of governmental entities, or combinations of governmental entities with nongovernmental entities (such as a nonprofit entity), as long as the new or continuing organization is a government. This statement does not apply to combinations in which a government acquires an organization that continues to exist as a separate entity, or acquires an equity interest in an organization that remains legally separate from the acquiring government. A disposal of operations occurs when a government either transfers or sells specific operations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged.

CHANGES TO REQUIREMENTS FOR FEDERAL GRANTS

In December 2013, the U.S. Office of Management and Budget (OMB) issued “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Audits,” which supersedes all or parts of eight OMB circulars; consolidating federal cost principles, administrative principles, and audit requirements in one document. The “Super Circular” includes a number of significant changes to the federal Single Audit process, including an increase in dollar threshold for requiring a Single Audit, changes to the thresholds and process used for determining major programs, a reduction in the percentage of expenditures required to be covered by a Single Audit, revised criteria for determining low-risk auditees, and an increase in the threshold for reporting questioned costs. The draft version of this guidance also included proposed reductions in the number of compliance requirements to be tested in a Single Audit, but final guidance on those changes will not be available until an updated compliance supplement is issued in 2014.

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