



**CITY OF NEWPORT
REGULAR COUNCIL MEETING
NEWPORT CITY HALL
JUNE 6, 2013 – 5:30 P.M.**

MAYOR: Tim Geraghty
COUNCIL: Tom Ingemann
Bill Sumner
Tracy Rahm
Steven Gallagher

City Administrator: Deb Hill
Supt. of Public Works: Bruce Hanson
Chief of Police: Curt Montgomery
Fire Chief: Mark Mailand
Executive Analyst: Renee Helm

AGENDA

1. CALL TO ORDER
2. PLEDGE OF ALLEGIANCE
3. ROLL CALL
4. ADOPT AGENDA
5. ADOPT CONSENT AGENDA – All items listed under this section are considered routine and non-controversial by the Council and will be approved by a single motion. An item may be removed from the consent agenda and discussed if a Council member, staff member, or citizen so requests.
 - A. Minutes of the May 16, 2013 Regular City Council Meeting
 - B. Minutes of the May 16, 2013 Special City Council Meeting
 - C. Minutes of the May 16, 2013 City Council Workshop Meeting
 - D. List of Bills in the Amount of \$186,823.26
 - E. Approval of Park Permit
6. VISITORS PRESENTATIONS/PETITIONS/CORRESPONDENCE
7. MAYOR'S REPORT
8. COUNCIL REPORTS
9. ADMINISTRATOR'S REPORT
 - A. Approval of Annual Financial Report for Year Ended December 31, 2012
 - B. Deer Hunt Agreement
10. ATTORNEY'S REPORT
11. POLICE CHIEF'S REPORT
12. FIRE CHIEF'S REPORT

Agenda for 06-06-13

13. ENGINEER'S REPORT

A. 2013-2015 Street Improvement Project

1. **Resolution No. 2013-24** – Establishing a Policy for Repair of Sanitary Sewer Services
2. **Resolution No. 2013-25** – Establishing Revisions to the City's Driveway Policy

14. SUPERINTENDENT OF PUBLIC WORKS REPORT

15. NEW / OLD BUSINESS

16. ADJOURNMENT

Upcoming Meetings and Events:

- | | | |
|--|---------------|-----------|
| 1. Planning Commission Meeting | June 13, 2013 | 6:00 p.m. |
| 2. City Council Meeting | June 20, 2013 | 5:30 p.m. |
| 3. Park Board Meeting | June 27, 2013 | 7:00 p.m. |
| 4. 4 th of July – City Offices will be Closed | July 4, 2013 | |



**City of Newport
City Council Minutes
May 16, 2013**

1. CALL TO ORDER

Mayor Geraghty called the meeting to order at 5:30 P.M.

2. PLEDGE OF ALLEGIANCE

3. ROLL CALL -

Council Present – Tim Geraghty; Tom Ingemann, Bill Sumner, Tracy Rahm, Steven Gallagher

Council Absent –

Staff Present – Deb Hill, City Administrator; Bruce Hanson, Supt. of Public Works; Curt Montgomery, Police Chief; Mark Mailand, Fire Chief; Fritz Knaak, City Attorney; John Stewart and Jim Stremel, City Engineers;

Staff Absent –Renee Helm, Executive Analyst;

4. ADOPT AGENDA

Motion by Gallagher, seconded by Sumner, to adopt the Agenda as presented. With 5 Ayes, 0 Nays, the motion carried.

5. ADOPT CONSENT AGENDA

Motion by Rahm, seconded by Sumner, to approve the Consent Agenda as presented, which includes the following items:

- A. Minutes of the May 2, 2013 Regular City Council Meeting
- B. Minutes of the May 2, 2013 City Council Workshop Meeting
- C. Minutes of the May 2, 2013 Special City Council Meeting
- D. List of Bills in the Amount of \$193,374.63
- E. Liability Coverage Waiver Form
- F. Approval of 2013-2014 Liquor License Renewals

With 5 Ayes, 0 Nays, the motion carried.

6. VISITORS PRESENTATIONS/PETITIONS/CORRESPONDENCE

A. Presentation of the Betty Haugen Preservation Award

Linda Michie, Chair of the Heritage Preservation Commission – As the Chair, it is my honor to present the 2013 Betty Haugen Preservation Award. We've been presenting these for about 10-12 years. Every year, we try to find a property within the City that is deserving of recognition. This year, we are presenting it to Everett and Gloria Acker. In recognition of their outstanding stewardship of their historic house at 615 4th Street. This is one of the events that we do to honor preservation month.

Gloria Acker – This is a great honor and thank you.

Fred Leimbek, 603 7th Avenue – I was here about two weeks ago talking about Cedar Lane. I would like to compliment the Council on their choice of City Administrator; I think you did a great job.

7. MAYOR'S REPORT –

Mayor Geraghty – I'd like to congratulate the Newport Lutheran Church on their 75th Anniversary. Applications for the

Summer Rec program are being taken now. The applications are on the website. The program runs June 11th through August 8th.

8. COUNCIL REPORTS –

Councilman Rahm – Nothing to report.

Councilman Ingemann – Nothing to report.

Councilman Sumner – I attended the HPC meeting on May 8th. They discussed updating the boundaries for the Red Rock Cemetery and possibly repairing and replacing the front entrance gate. Planning continues in working together with the Park Board and Planning Commission to look at the Heritage Preservation activities throughout the City. There's going to be a walk-through of the Emergency Management Plan for the historic sites in Newport. Next year marks the 125 anniversary for Newport. One of the reasons that they wanted to incorporate was so they could set up the Library. Hastings Avenue was one of the first paved roads in Minnesota in 1921.

Councilman Gallagher – I attended a Met Council TAB meeting yesterday. The core cities want Met Council to encourage employers to relocate into the core cities and outer ring suburbs are fighting back saying that they want employers in the suburbs. I also attended a MSP Thrive roundtable discussion. I saw a lack of east metro representation there so I believe we're going to try to have an east metro roundtable discussion. I also met with staff to discuss the upcoming deer hunt.

9. ADMINISTRATOR'S REPORT –

Admin. Hill – Deb and I have been meeting with investment groups to identify a strategy for the investments we do have so we can utilize our funds more efficiently and maximize the investments. The deer hunt agreement should be on the June 6 agenda.

10. ATTORNEY'S REPORT –

A. Discussion Regarding 515 4th Avenue

Attorney Knaak – I have prepared a resolution for 515 4th Avenue, which is owned by Mr. Douglas Gackstetter. I believe the Council is aware that the City has received repeatedly complaints regarding the property. As a result of that, I was asked to draft a resolution for your consideration. My understanding is that Mr. Gackstetter is present tonight and I would encourage him to speak to you before the resolution is approved. The resolution would involve a finding that as this condition exists it is hazardous and it would give Mr. Gackstetter 20 days to provide a formal answer. Per the resolution, you can do anything up to actually raising the house and assess that cost to the property. We have repeatedly tried to get a hold of Mr. Gackstetter and he came in this week to obtain building permits. The point being is that you need to take formal action to commence anything.

Douglas Gackstetter, 515 4th Avenue – The reasons my utilities aren't on is that I was out of town for four to five months. I'm finally back and am waiting for the stadium to start back up so that I can work and get more finances. I did apply for permits, which haven't been issued yet.

Councilman Rahm – When you're away, do you forward your mail?

Mr. Gackstetter – No.

Councilman Rahm – But you do live at 515?

Mr. Gackstetter – No, I live in Inver Grove Heights. I didn't know it was a big deal. I came as soon as I found out.

Councilman Gallagher – I've seen people at your property in the last couple months.

Mr. Gackstetter – I told my neighbor he could park there.

Councilman Sumner – So you plan to rehab the house to a livable condition?

Mr. Gackstetter – Yes, the inside is fine and the inspector can come look at it. The work is really cosmetic. I did work on the pipes.

Mayor Geraghty – What permits do you have?

Mr. Gackstetter – I applied for reroofing, residing, windows and a door.

Mayor Geraghty – When did you apply?

Mr. Gackstetter – A couple days ago.

Admin. Hill – It's my understanding that he only has one permit for a new roof from last summer. He did come in for the rest of the permits last week and I told him that we would not issue it because he does not have utilities on.

Mayor Geraghty – How long are the permits good for?

Attorney Knaak – Six months.

Admin. Hill – The previous permit is long expired.

Attorney Knaak – The issue here is the inhabitability of the structure and the absence of a plan. You're not hearing anything tonight that would suggest he has a plan to bring the structure into code and make it habitable.

Mr. Gackstetter – What is inhabitable?

Attorney Knaak – You need water, sewer and electricity.

Mr. Gackstetter – There is water and sewer.

Admin. Hill – The water is not on.

Mr. Gackstetter – I paid my bill and they never turned it back on. I wasn't going to have it turned on in the middle of winter when I wouldn't be there.

Attorney Knaak – The point I am making is that if he were coming in with a response to remedy all of the issues it would be easy for me to recommend that it would be reasonable to defer any action. Absent from that, if all he is doing is piecemeal work and there is no plan in place, the City has no assurance that the property won't be in the same condition a year from now.

Mr. Gackstetter – I can have the utilities on within the next 20 days.

Councilman Gallagher – I think what we, as a Council, needs to do is pass the resolution and then it would be your responsibility to come in with a plan to remedy the situation.

Mr. Gackstetter – What do you need on the plan?

Councilman Gallagher – You'll need to work that out with staff on what is acceptable.

Admin. Hill – I would recommend having Bob LaBrosse inspect the entire property and provide a list of items that need to be done and if he shows good faith in turning the utilities back on and it is habitable then maybe we could change things up.

Mr. Gackstetter – Bob was in there last summer but it's fine if he wants to come back.

Councilman Ingemann – He needs the electricity and water turned back on?

Admin. Hill – Yes.

Councilman Rahm – I also think you need to have some forwarding address so that you can get your mail.

Mayor Geraghty – Did you run a generator?

Mr. Gackstetter – Yes, it's no louder than a lawn mower. I used it last summer when I did the roof.

Councilman Gallagher – There were complaints about smoke coming out of the smoke stack next to the garage over the winter, what was that?

Mr. Gackstetter – My neighbor wanted to use the garage to work on some stuff.

Councilman Gallagher – And the items that are attached to the side of the house?

Mr. Gackstetter – I just put them on last week.

Councilman Gallagher – It's been a lot longer than a week.

Mr. Gackstetter – It's just for presentation, I'm taking pictures to put them up for sale.

Councilman Rahm – If we pass the resolution and he comes up with a plan that's acceptable then we won't take up any action.

Mr. Gackstetter – How am I supposed to get any permits to do the work?

Admin. Hill – I would have Bob inspect it sometime next week and then the utilities are turned back on then I would have the 20 days start after the inspection is completed and a list is provided on what needs to be remedied.

Mayor Geraghty – I also think some general clean-up work needs to be done.

Mr. Gackstetter – It's a lot cleaner than any of my neighbors and you don't say anything to them.

Councilman Gallagher – It's complaint driven and your property has been receiving the complaints.

Councilman Rahm – When did you turn off the water?

Admin. Hill – Last October.

Mr. Gackstetter – I paid it in full and I thought they would turn it back on but they didn't.

Mayor Geraghty – Did you give us a correct mailing address?

Mr. Gackstetter – I get my mail at 515 4th Avenue.

Attorney Knaak – So you'll accept a certified copy of the resolution at that address?

Mr. Gackstetter – Yes.

Motion by Gallagher, seconded by Geraghty to approve Resolution No. 2013-23 Finding and Declaring the Existence of a Hazardous Structure Under Minnesota Statutes §463.16 and a Public Nuisance at 515 Fourth Avenue in the City of Newport, Minnesota, Ordering the Immediate Abatement Thereof, Including the Possible Raising of the Building and Authorizing the Assessment of the Cost of Abatement. With 5 Ayes, 0 Nays, the motion carried.

11. POLICE CHIEF'S REPORT –

A. April 2013 Police Activity Report

12. FIRE CHIEF'S REPORT – Chief Mailand reported on the number of calls in the past few weeks, which include: car crash, semi crash, CO alarms. We'll be conducting a live burn at 1605 Cedar Lane on June 1st. He also thanked Public Works their work. The meat raffle is May 17 at Cloverleaf Bar.

13. ENGINEER'S REPORT –

A. 2013-2015 Street Improvement Projects

Engineer Stremel presented on this item as outlined in the May 16, 2013 City Council packet. The items include two quotes for services. The first quote is for televising and clean-up services. The City will pay half of the televising the lateral lines and the residents will pay the other half. The total cost of televising lateral lines is \$140. Additionally, if clean-up services are required for the lateral line, the resident will be responsible for that, which begins at \$144. The second quote was for geotechnical evaluation.

The Public Hearing opened at 5:59 p.m.

Eric Smith, 765 18th Street – I see that they marked property lines, how wide is that street going to be?

Engineer Stremel – We are considering going up to 28 feet. The curb and gutter won't intrude into your property, it'll be in the right-of-way.

Mr. Smith – I was wondering because there is a tree there and I was wondering what would happen to that. Also, 18th Street slopes down and my property is at the bottom of it, the water and drainage from that has ruined the driveway there. What happens with that?

Engineer Stremel – We're looking at that and I don't have an answer for you yet. The neighborhood meeting will be in June and I'll have an answer at that time.

Mr. Smith – Also, I don't mind being assessed for this but I have renters there that have complained to me and the City about the appearance of the property next door and I have also complained about the property next to me on 2nd Avenue. We've talked to the City about it but nothing seems to have been done. If I can get assessed for this improvement why can't the people who own those properties be assessed to improve the City's looks?

Mayor Geraghty – Did you make a formal complaint?

Mr. Smith – Yes, my wife has actually spoken with the CSO on it.

Mayor Geraghty – You can give the Chief the addresses and we can look into it.

Mr. Smith – I would also like to comment on something else. Everything is complaint driven and we're told to talk to our neighbors about it, I don't really think that's a good way to do it. If we talk to our neighbors about it, it then causes a problem. We have all these codes and laws, why don't we uphold them? You look at other cities; they don't have problems like this.

Mayor Geraghty – I think a lot of people would be very unhappy if every law and ordinance was enforced.

Mr. Smith – The City needs to get serious about cleaning stuff up. You're serious about charging me and you don't do anything to clean it up.

Mayor Geraghty – Were you here for the earlier discussions?

Mr. Smith – Yes and I was pleased about that but what about the small things? They're easier to fix.

Councilman Ingemann – We have a CSO, it's his job.

Mr. Smith – Who's responsible for making sure he does his job? I don't see anything being done. It's in plain sight and nothing is being done. I would like to see the City enforce the Code and do the right thing.

Councilman Sumner – There are many things that impact peoples' lives and what may seem like an easy fix to the individual. I think we need to be a little kinder to those individuals.

Mayor Geraghty – We're talking about putting a street in.

Mr. Smith – I have a letter from a tenant saying they can't move to Newport because of the stigma. It's not acceptable in my eyes. When is the City going to get serious about cleaning up the City?

Councilman Sumner – It's an ongoing process.

Lynn Murray, 1130 Mark Court – I was looking at the sheets and one of them showed what the City was anticipating for the assessments and the other figure was so much higher, I was wondering if you could show me why?

Engineer Stremel – We had a range of values. The appraiser came up with a value increase and the City is considering something in that range. We'll have an assessment hearing where we'll have to identify an assessment. Everyone should get a letter for it.

Councilman Gallagher – We have to wait until all the factors come through. We have to bond for this money and have to have a certain percentage that we need to charge for the assessment. I believe it's 20%.

Paul Hanson, 1925 10th Avenue – Will there be transparency with the bidding process? Also, I question the 5.5%, which is very steep. Also, will there be a break for us that pay cash?

Mayor Geraghty – If you pay cash, there won't be any interest. The interest is based on bonds.

Engineer Stewart – When we present information at a public hearing like this, we give the highest number that it could possibly be because it's easy to go down but not easy to go up. They look at the bond rate, typically 2%, and the City, by law, is required to add a contingency to that for people that do not pay their taxes. The City had decided prior to this that they would add 1.25% to that initial percent.

Mr. Hanson – In any rate, I'm not going to back off, I think 5.5% is ridiculous.

Mayor Geraghty – He's saying that the 5.5% is the highest that it could be, it'll probably be around 4%.

Engineer Stremel – In regards to the bidding, since it's over \$100,000, we need to have a public bidding process. We'll advertise in a local paper and in a paper in a first class city for at least 21 days. We'll open the bids at a certain date and time. Typically the Council will go with the low bid.

Mr. Murray – I know the low bid wasn't accepted for the St. Croix Bridge because there weren't enough minorities, will we have similar problems?

Engineer Stremel – No because we don't have any Federal or State funds so that's not required.

The Public Hearing closed at 6:23 p.m.

Motion by Geraghty, seconded by Gallagher to approve Resolution No. 2013-21 Ordering the Improvement and Preparation of Plans for 18th Street. With 5 Ayes, 0 Nays, the motion carried.

Motion by Gallagher, seconded by Rahm to approve Resolution No. 2013-22 Approving Plans and Specifications and Ordering Advertisement for Bids. With 5 Ayes, 0 Nays, the motion carried.

Motion by Geraghty, seconded by Ingemann directing Staff to Enter into a Contract with Professional Drain Services in an Amount up to \$57,825 for Televising and Clean-Up Services. With 5 Ayes, 0 Nays, the motion carried.

Motion by Geraghty, seconded by Rahm directing Staff to Enter into a Contract with Northern Technologies for Geo-Technical Evaluation and Design Services. With 5 Ayes, 0 Nays, the motion carried.

14. SUPERINTENDENT OF PUBLIC WORKS REPORT –

Superintendent Hanson – Hydrant flushing is complete, we will begin street sweeping next week, we're still working on parks prep, and we'll be doing some sewer inspections.

Councilman Rahm – When will the work be done on the tennis court in Loveland Park?

Superintendent Hanson – It's slated for July. The late spring has put them behind as well.

15. NEW/OLD BUSINESS

Mayor Geraghty – I believe Mr. Murphy would like to talk with us.

Tim Murphy, 1156 Hastings Avenue – I'm here to attempt to explain what happened with the demolition project and the agreement that I thought I had with Mr. Anderson. We had talked about it last year and in order to demolish the property I had to pay of the CD off, which I did at the end of last year. The demolition couldn't be done until weather permitted. I am set to go now and the agreement I had with Brian has changed a little bit. I'm here to try to get you to reconsider what Brian and I had agreed upon. Brian and I had agreed upon \$10,000 for the demolition of the property and five years to build a new building with the same footprint. The agreement that was approved is for \$5,500 for four years.

Councilman Gallagher – I believe it was up to half the cost of the proposal.

Mr. Murphy – I based my project on what Brian and I had talked about.

Councilman Gallagher – I know the loan program we had set up was for up to 50% of the total cost so when you brought in the proposal, we took half of that.

Mr. Murphy – The understanding I had with Brian was that it would be up to \$10,000.

Councilman Gallagher – The half that the City would cover would be up to \$10,000 but then your entire project would need to be \$20,000.

Mr. Murphy – We never talked about that, he was aware that it was \$10,000. I had already talked with Marty about it. He had a separate conversation with Brian about it. The reason it came out to \$11,000 was that I would take out the blacktop.

Councilman Gallagher – So is your bid wrong?

Mr. Murphy – No that's correct, it is \$11,150.

Councilman Gallagher – So the project is \$11,150 and you're asking for \$10,000?

Mr. Murphy – Yes, with the agreement that there would be another building put up there.

Councilman Gallagher – It would have to be a lot sooner than four years if we're going to take almost the entire cost.

Mr. Murphy – I think it's a good deal for both of us. I'm tearing down a building that's in blight and trying to clean up the area. The worst possible scenario is that I need to pay it back. My attempt is to clean it up and sell it or develop it. If three years come around then I'll probably have to redevelop. I think every city is going through some of this.

Councilman Gallagher – Per the loan agreement, if you sell the property then you need to repay the loan.

Mr. Murphy – That may be, Brian said that as long as the buyer agrees to put up a building the same size then it could be transferred. I spoke with Brian today and he is willing to talk with you.

Mayor Geraghty – There were a lot of discussions regarding it. At one point you were talking about remodeling it.

Mr. Murphy – That may still happen but my budget was set up around that \$10,000.

Mayor Geraghty – I think it's a good project and think it's worth the \$10,000 to get that building demolished.

Councilman Gallagher – Can you type something up on what your plan is and the timeline?

Mr. Murphy – What it really boils down to is that I set up a budget of what Brian and I had agreed upon.

Councilman Gallagher – Can we see the budget?

Mr. Murphy – The budget is in my head.

Mayor Geraghty – In regards to the demolition, will you be seeding it?

Mr. Murphy – My thought was just to keep the weeds down.

Mayor Geraghty – If the City gave you some more money could you maintain it? I don't want a large dirt pile.

Councilman Gallagher – We have to bring this back to the EDA don't we?

Mayor Geraghty – There's a contract now so I don't know if we can modify it at the Council level.

Attorney Knaak – It needs to go back to the EDA.

Mayor Geraghty – We have to bring it back to the EDA, which is represented by the City Council.

Mr. Murphy – What's your timeline there?

Admin. Hill – The next meeting is June 6, 2013.

Councilman Ingemann – That way you can provide the City with a plan.

Councilman Rahm – I have a couple items to discuss. The first is in regards to our boards and commissions. I would like them to present an annual presentation to the Council. I'd like the Council to consider that. Secondly, I would like the Council to talk about Operational Excellence and the implementation of more formal operational excellence program that looks at best practices for smaller cities. That Performance Measurement Program that we said we're going to participate in folds into that so I would like to look at a larger program that looks at metrics. For example, code enforcement and police statistics. Third of all, I would like to talk about a City rebranding campaign. I think it's a prerequisite that we have

a rebranding campaign. I would like to give a presentation on it. Also, in regards to City communications. I've received positive feedback on the meetings that we've had for the street improvement projects. We have all these web programs but I don't think we have a feedback mechanism for residents. I would like to have a customer satisfaction survey. Finally, I've been asked to get a Public Works schedule and possibly publish it. People like to know when we're working on things and where. These are things that I would like the Council to consider.

Councilman Ingemann – I had asked the Attorney about liquor establishments and if we should review our code and require a distance requirement for off-sale businesses.

Admin. Hill – Renee made a map of the two businesses if you want to come take a look at it.

Councilman Gallagher – I think it depends on the distance.

16. ADJOURNMENT

Motion by Geraghty, seconded by Gallagher, to adjourn the regular Council Meeting at 6:45 P.M. With 5 Ayes, 0 Nays, the motion carried.

Signed: _____
Tim Geraghty, Mayor

Respectfully Submitted,

Renee Helm
Executive Analyst



**City of Newport
Public Hearing Minutes for MS4 (Storm Water Pollution Prevention Program)
May 16, 2013**

1. OPEN PUBLIC HEARING

The Public Hearing Opened at 6:50 p.m.

2. STORM WATER POLLUTION PREVENTION PROGRAM PRESENTATION

Bruce Hanson, Supt. of Public Works, presented on the 2012 Annual Report of the Storm Water Pollution Prevention Program to the Council. The report is attached as part of the minutes.

3. RECEIVE PUBLIC OPINION

4. CLOSE PUBLIC HEARING

The Public Hearing Closed at 6:54 p.m.

5. ACCEPT ANNUAL REPORT FOR 2013

Councilman Sumner – Is there anything else Council can do besides accept the Report?

Superintendent Hanson – No, like I said, our street sweeping, pond maintenance and our ordinance prohibiting littering are huge things.

Councilman Sumner – I often notice that the gutters in street are full of trash, is there something that the Public Works staff are doing to keep that clean?

Superintendent Hanson – Yes, we go around to clean them up. We try to get to them before a major rain especially.

Motion by Gallagher, seconded by Ingemann, to accept the 2012 Annual Report. With 5 Ayes, 0 Nays, the motion carried.

6. ADJOURN

Motion by Geraghty, seconded by Sumner, to adjourn the Public Hearing meeting at 6:56 PM. With 5 Ayes, 0 Nays, the motion carried.

Signed: _____
Tim Geraghty, Mayor

Respectfully Submitted,

Renee Helm
Executive Analyst

MS4 Report for 2012

May 16, 2013

This is the annual Public Hearing involving our Storm Water Pollution Prevention Program for 2012. The purpose of it is to take comments from the Public regarding the effectiveness and adequacy of the program that is in place.

In 1972; Federal legislation developed the Clean Water Act which is designed to protect all surface water in the United States. This includes Rivers, Ponds and Streams.

In 1987; it was amended requiring the Environmental Protection Agency to develop a comprehensive phased program to regulate storm water discharges.

This means that each community was to take gradual steps guided by the EPA and the Minnesota Pollution Control Agency to gear up to control and maintain the chemical, physical, and biological integrity of the waters of Newport and all waters of Minnesota through management and treatment of urban storm water runoff.

We need to make sure the water flowing to Rivers, Ponds and Streams is as clean as we can keep it.

In Newport; our concerns are mainly with the Mississippi River.

With construction of the new Wakota Bridge Highway 61 interchange; The City acquired 15 new ponds that are containment sites for water runoff related to the freeway system. Each pond is designed to collect the runoff and then guide it to the Mississippi River. The pond acts as a filter by removing the silt, leaves, grasses, chemicals and trash that is in the water as it continues to the river.

Water enters these ponds and the river through catch basins. These are the same grates that you see in the gutter lines of our streets. Many of these grates are piped straight into the river. There are over 800 catch basins in Newport that collect runoff water and guide it to the pond systems and then into the river.

The North Ravine project of 2012 also added 5 new ponds which were designed to take the runoff from the Bailey/Military watershed. This project is a perfect example of storm water treatment prior to it entering the Mississippi River.

The Storm Water Pollution Prevention Program is divided into six categories.

1. Public Education and Outreach.

How does Newport educate the public about Storm Water Pollution?

- A. The first step is by conducting the Public Hearing.

We are live on the South Washington County Cable System.

This program is repeated throughout the month and is available to those that have Cable access.

- B. We publish information Quarterly in the Newport Newsletters.

- C. We have information on the City of Newport Website concerning all of the departments and events in the community

www.ci.newport.mn.us

2. Illicit discharge detection and elimination.

This is any drain or pipe on the surface or subsurface which allows non storm water discharge such as sewage, process water, wash water and any connections to the storm water system from any drains or sinks.

We are always watching for things draining into the storm sewer.

3. Construction site storm water control

When construction starts and there is going to be a disruption of the soil; silt fence is installed to keep the mud, dirt and fine silt from entering into the storm system. You will see silt fence on all construction areas. There were thousands of feet of silt fence on the North Ravine Project.

4. Post construction storm water management.

This is usually discussed when a commercial development of one acre or more of land is to be disrupted. This will be discussed in the future as tracts of land in Newport start to develop. The Knox site...Raceway to fun..etc.

5. Pollution prevention/good housekeeping for municipal operations.

A. Always Pave and Patch streets only in dry weather

The oils and chemicals can bleed when wet and end in the storm line

B. Always cover manholes and catch basins prior to paving, patching, etc.

Same reasons

C. Always clean all fluid leaks immediately

Hydraulic leaks can occur on any of our equipment and would contaminate water

6. Maintain roadside vegetation – restrict pesticide use

A. Decaying and composting vegetation makes the water rich in nutrients

B. Chemicals can be washed off into storm lines

C. This means we as citizens should not mow the grass and leaves from our yards into the street

D. Also it is the intent to GPS the location and elevation of all of the ponds that handle storm water in Newport. We will have to monitor them as time goes by to see that they do not fill up with silt, sand etc. Records will be kept; and these ponds will have to be dug out to the elevations that were in place when they were designed

7. Sweep/vacuum roadways and shoulders to remove debris, and particulate

Matter

DO THIS WHEN EVER POSSIBLE

A. We have started to document the specific areas that we sweep and then record the amounts of material that we pickup

B. We then compare the loads of product used for ice control and winter maintenance to the loads of material that are swept in the spring.

8. The last category is that of **Public participation.**

What can the Public do to help our effort?

A. Help to keep our catch basins clean. Remove any debris, grass or garbage that you see on the grate.

B. Do not mow your lawns out into the street. Composting vegetation makes the waters very rich in content. This promotes algae growth on the surfaces of stagnate water.

C. A program that has been in development is that of stenciling all drains that lead to the Mississippi River. This is what the stencil looks like. We have a few drains on this side of the highway that need painting. If someone would be interested in this—Please contact Public Works.

In conclusion; I have to say that the City of Newport will continue to work hard on all minimum control measures that are required to continue to have a successful Storm Water Pollution Prevention Program. We are meeting the goals created early in the program; and we are progressively working to meet the demands that are put on us.

Again...Please use our Website

[CLICK on PUBLIC WORKS](#)

Please read our Newsletters

And by all means...Stop by City Hall if you have any questions.

THANK YOU.



**City of Newport
City Council Workshop Meeting Minutes
May 16, 2013**

1. ROLL CALL -

Council Present – Tim Geraghty, Tom Ingemann, Bill Sumner, Steven Gallagher, Tracy Rahm

Council Absent –

Staff Present – Deb Hill, City Administrator; Bruce Hanson, Superintendent of Public Works; Renee Helm, Executive Analyst; Fritz Knaak, City Attorney; John Stewart, City Engineer

Staff Absent - Curt Montgomery, Police Chief; Mark Mailand, Fire Chief;

2. DISCUSSION REGARDING THE LOCAL IMPROVEMENT GUIDE

John Stewart, City Engineer, presented on this item as outlined in the May 16, 2013 City Council Workshop Packet. Below are the items that were addressed.

Local Improvement Guide

- **Sewer Services.**

Should the City charge a portion of the cost of the sewer televising to properties with “failed” service connections only, or to all properties within the project scope?

The City will pay 50% of the cost of televising for all properties within the project scope. Any other costs will be paid by the property owner.

- **Driveways**

What should the maximum width be?

24 feet at the transition to the curb or driveway apron

How many allowed per lot?

One driveway is allowed per residential property. However, if a residential property has street frontage exceeding 180 lineal feet and has two or more existing driveways at the time that a street reconstruction project is ordered than the property may be granted no more than two driveways onto a dedicated City street. The driveways cannot be closer than 50 feet and the property owner must agree that both driveways will be paved from the curb line to the storage area with bituminous, paver block, or concrete surface.

When should concrete driveway aprons be installed?

For all types of improvements

• **Assessment Amounts**

Based on discussions from previous work sessions, feedback from property owners, and consideration of assessment bonding limits, the following per unit assessments are recommended:

Assessment Rate Structure (for Council Consideration)		
Improvement Category	Per Unit Assessments	Notes
Street – Overlay Only	\$2,400	No aprons or curbs
Street – Overlay with Curb	\$2,900	No aprons
Street – Mill and Overlay	\$2,400	No aprons or curbs
Street – Mill and Overlay with Curb	\$2,900	No aprons
Street – Full Depth Reclamation	\$4,500	Includes curb, no utilities
Street – Full Street Reconstruction	\$5,500	Includes concrete curb/gutter, concrete aprons, includes utilities

City Council recommended that the assessments be changed to the following:

Assessment Rate Structure (for Council Consideration)		
Improvement Category	Per Unit Assessments	Notes
Street – Overlay Only	\$2,500	No aprons or curbs
Street – Overlay with Curb	\$3,000	No aprons
Street – Mill and Overlay	\$2,500	No aprons or curbs
Street – Mill and Overlay with Curb	\$3,000	No aprons
Street – Full Depth Reclamation	\$4,500	Includes curb, no utilities
Street – Full Street Reconstruction	\$5,500	Includes concrete curb/gutter, concrete aprons, includes utilities

3. ADJOURNMENT

Signed: _____
 Tim Geraghty, Mayor

Respectfully Submitted,

Renee Helm
 Executive Analyst

Text25	Text26	Text27	Text28	Comments
Paid Chk# 000169E	FEDERAL TAXES	41408	2,233.08	FICA and Medicare
Paid Chk# 000170E	FEDERAL TAXES	41408	8,668.57	FICA, federal and Medicare
Paid Chk# 000171E	MN REVENUE	41408	1,815.00	State tax
Paid Chk# 000172E	ING LIFE INSURANCE & ANNUITY	41408	408.80	HCSP
Paid Chk# 000173E	DELTA DENTAL OF MN	41417	1,168.52	Dental insurance
Paid Chk# 000174E	MN REVENUE	41424	1,920.25	State taxes
Paid Chk# 000175E	FEDERAL TAXES	41424	9,106.18	fica, SS, and medicare
Paid Chk# 000176E	ING LIFE INSURANCE & ANNUITY	41424	408.80	MSRS Employee
Paid Chk# 014964	ADVANCED SPORTSWEAR	41410	1,621.00	
Paid Chk# 014965	EHLERS	41410	1,875.00	Financial planning
Paid Chk# 014966	EXPRESS AUTO PARTS	41410	31.65	Fire Department
Paid Chk# 014967	G & K SERVICES	41410	238.37	Uniforms
Paid Chk# 014968	ING LIFE INSURANCE & ANNUITY	41410	1,723.00	
Paid Chk# 014969	JACK W. CLINTON, P.A.	41410	5,814.50	Professional services
Paid Chk# 014970	JOHN BARTL HARDWARE	41410	161.70	Hardware supplies
Paid Chk# 014971	LAW ENFORCEMENT LABOR SERVI	41410	270.00	
Paid Chk# 014972	LEAGUE OF MN CITIES INS TRUST	41410	323.00	Volunteer accident insurance
Paid Chk# 014973	MINNESOTA DEPARTMENT OF HEA	41410	23.00	Water supply system operator I
Paid Chk# 014974	ON SITE SANITATION	41410	100.95	Pioneer Park
Paid Chk# 014975	OXYGEN SERVICE CO.	41410	525.80	Welding supplies
Paid Chk# 014976	PERA	41410	7,621.13	
Paid Chk# 014977	SELECTACCOUNT	41410	31.10	
Paid Chk# 014978	SELECTACCOUNT	41410	567.00	
Paid Chk# 014979	STREICHERS	41410	486.59	Uniforms
Paid Chk# 014980	VERIZON	41410	197.12	Air cards
Paid Chk# 014981	XCEL ENERGY	41410	7,337.63	Gas and energy bills
Paid Chk# 014982	ZEP SALES & SERVICE	41410	968.75	Cleaning supplies
Paid Chk# 014983	ANCOM TECHNICAL CENTER	41417	202.00	
Paid Chk# 014984	BDM Consulting Engineers	41417	15,461.84	
Paid Chk# 014985	COMMERCIAL ASPHALT CO.	41417	110.85	Dura drive
Paid Chk# 014986	DEBORA HILL	41417	101.56	Mileage and purchase reimburse
Paid Chk# 014987	EDS TROPHIES INC	41417	34.28	Plaque
Paid Chk# 014988	LEAF	41417	619.83	
Paid Chk# 014989	MINNESOTA BENEFIT ASSOC.	41417	61.43	Neska life
Paid Chk# 014990	MMKR	41417	3,000.00	
Paid Chk# 014991	THE LOCK SHOP	41417	49.81	Key change warming house
Paid Chk# 014992	WASHINGTON CNTY TAX SERVICES	41417	285.86	Truth in taxation notice
Paid Chk# 014993	WASHINGTON CTY PROPERTY REC	41417	18,932.99	2013 Assessment fees
Paid Chk# 014994	XCEL ENERGY	41417	519.70	Energy and gas
Paid Chk# 014999	BANYON DATA SYSTEMS, INC.	41424	100.00	
Paid Chk# 015000	BDM Consulting Engineers	41424	12,833.78	
Paid Chk# 015001	COMCAST	41424	123.27	
Paid Chk# 015002	DEB MCDONALD	41424	27.43	Mileage reimbursement
Paid Chk# 015003	EDAM	41424	295.00	Summer conference
Paid Chk# 015004	H&L MESABI	41424	5,663.41	Plow equipment
Paid Chk# 015005	ING LIFE INSURANCE & ANNUITY	41424	1,723.00	
Paid Chk# 015006	INVER GROVE FORD	41424	274.82	PD #1350
Paid Chk# 015007	MINNESOTA DEPARTMENT OF HEA	41424	1,508.00	Water connection fee
Paid Chk# 015008	MN CHILD SUPPORT PAYMENT CNT	41424	605.44	Child Support
Paid Chk# 015009	NCPERS MINNESOTA	41424	80.00	Life Insurance
Paid Chk# 015010	NEWPORT POST OFFICE	41424	298.99	Utility bill mailing
Paid Chk# 015011	PERA	41424	7,815.20	
Paid Chk# 015012	SELECTACCOUNT	41424	567.00	
Paid Chk# 015013	STANDARD INSURANCE CO.	41424	533.31	Life and ADD
Paid Chk# 015014	STREICHERS	41424	149.00	Police uniforms
Paid Chk# 015015	VERIZON	41424	383.81	cell phone
Paid Chk# 015016	XCEL ENERGY	41424	8.08	
Paid Chk# 015017	NEWPORT POST OFFICE	41424	52.13	
Paid Chk# 015018	DEB MCDONALD	41424	205.09	First class Newport post offic
		Staff	58,549.86	
			\$ 186,823.26	

PARK PERMIT FOR THE CITY OF NEWPORT



596 7th Avenue, Newport, MN. 55055
(651) 459-5677 FAX (651) 459-9883

REQUESTER'S NAME: AL BOCHE

ADDRESS: 8296 GRANER BLVD, C.E. - 55016

PHONE # (HOME) 651-459-5344 (WORK) _____

PARK REQUESTED:

- LOVELAND PARK (Glen Road)
 - Pavilion #1 (Large Pavilion w/water)
 - Pavilion #2 (Between Ballfields)
 - Pavilion #3 (By Kids Play Area)

- PIONEER PARK (4th Ave. & 6th St.)
 - Pavilion #1 (Small Pavilion)
 - Pavilion #2 (Large Pavilion)

- LIONS PARK (2nd Ave. & 20th St.)

BUSY BEAVER PARK (10th Ave. & 17th St.)

NOTE: If you wish to use ball fields you must contact someone from the NAA to make sure they are available.

DATE RESERVED: JULY 23 FROM 4 TO 9
(Time) (Time)

PARK BEING USED FOR: LIONS PICNIC

NUMBER OF PEOPLE ATTENDING: @100

(The City provides portable toilets in each Park System. If your group is larger than 25 people, it will be your responsibility to contract with a company to provide more portable toilets, at your expense.)

DO YOU INTEND TO SERVE BEER? : YES NO

NOTE: Beer in any quantity, may be possessed, transported to and from and consumed during the course of picnicking within those grounds specifically designated and equipped for such use, between the hours of 12:00 Noon and 11:00 P.M., by special permit which shall be issued by the City Council prior to the actual occasion. All applications for a special beer permit shall include proof of liquor liability insurance obtained by the applicant for the occasion naming the City as an additional insured, the location where the beer is to be consumed, the name and address of the applicant and other information required on the application. No permit shall be granted to any person under the legal drinking age in Minnesota or who within 5 years prior to the application has been convicted of a felony, or of violating any law of the State of Minnesota or local Ordinance relating to the manufacture, sale, distribution, or possession for sale or distribution of beer. Upon receiving a completed application along with proof of insurance, the City Park and Recreation Administrator shall present the application to the City Council for action to either grant or deny the special permit allowing the consumption of beer on a specified date in a City Park.

The Grantee of a Park Permit shall be bound by Chapter 3. Section 300, Park System, of the Newport Code of Ordinances. This Ordinance is attached to this Permit.

CERTIFICATE OF LIQUOR LIABILITY INSURANCE RECEIVED ON: _____

FEE OF: \$50.00 DATE PAID: _____ CHECK# _____ RECEIPT# _____

DAMAGE DEPOSIT: \$100.00 DATE PAID: _____ CHECK# _____

DEPOSIT REFUNDED:

YES DATE: _____

NO REASON: _____

Approved by the Newport City Council on this _____ day of _____, 20____.

MOTION BY: _____, SECONDED BY: _____

VOTE: GERAGHTY _____
 INGEMANN _____
 RAHM _____
 SUMNER _____
 GALLAGHER _____

SIGNED: _____

Mayor

ATTEST: _____

City Administrator



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
 10/27/2011

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Hendrickson Agency Inc. 8009 34th Ave South Suite 1455 Bloomington MN 55428	CONTACT NAME: Lynn Schroll	
	PHONE (Ac. No. Ex.): (952) 903-2300	FAX (Ac. No.): (952) 903-2395
E-MAIL ADDRESS: Lynn@hendricksagency.com		
INSURER(S) AFFORDING COVERAGE		NAIC #
INSURER A: USG Insurance Services, Inc.		
INSURER B:		
INSURER C:		
INSURER D:		
INSURER E:		
INSURER F:		

COVERAGES **CERTIFICATE NUMBER:** October 2011 **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL/SUBR INSR WVO	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
	GENERAL LIABILITY <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR GENL AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC					EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (EA occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COM/CP AGG \$ \$
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS					COMBINED SINGLE LIMIT (EA occurrence) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per occurrence) \$ \$
	UMBRELLA LIAB <input type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> RETENTIONS					EACH OCCURRENCE \$ AGGREGATE \$ \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? <input type="checkbox"/> Y/N (Mandatory in MN) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A				WC STATU- TORY LIMITS <input type="checkbox"/> OTH- ER <input type="checkbox"/> EL EACH ACCIDENT \$ EL DISEASE - EA EMPLOYEE \$ EL DISEASE - POLICY LIMIT \$
A	Liquor Liability		SE800900R7	10/31/2011	10/31/2012	Occurrence \$1,000,000 Aggregate \$2,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
 Member Club: St. Paul Park/Newport Lions
 Certificate Holder is included as additional insured

CERTIFICATE HOLDER City of Newport 596 7th Avenue Newport, MN 55055	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.
	AUTHORIZED REPRESENTATIVE T Hendrickson/LYNNE <i>Lynn Schroll</i>

CITY OF NEWPORT
WASHINGTON COUNTY, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
December 31, 2012

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	28-46
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
Newport Firemen's Relief Association	
Schedule of Funding Progress	47
Schedule of Contributions From City and Other Contributing Entities	48
Other Post-Employment Benefits Plan	
Schedule of Funding Progress	49
SUPPLEMENTAL INFORMATION	
Combining and Individual Fund Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	50
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	51
Nonmajor Special Revenue Funds	
Combining Balance Sheet	52
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	53

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	54
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	55
Nonmajor Capital Project Funds	
Combining Balance Sheet	56–57
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	58–59
Schedule of Revenue, Expenditures, and Changes in Fund Balances – General Fund – Budget and Actual	60–67
Nonmajor Proprietary Funds	
Combining Statement of Net Position	68
Combining Statement of Revenue, Expenses, and Changes in Net Position	69
Comparative Schedule of Revenue, Expenses, and Changes in Net Position	
Water Fund	70
Sewer Fund	71
Street Light Fund	72
Storm Sewer Fund	73
OTHER INFORMATION SECTION (UNAUDITED)	
General Fund Revenue by Source	74
General Fund Expenditures by Function	75
Property Tax Levies and Receivables	76
Tax Capacities	77
OTHER REQUIRED REPORTS	
Independent Auditor’s Report on Internal Control Over Financial Reporting	78–79
Independent Auditor’s Report on Minnesota Legal Compliance	80
Schedule of Findings and Responses	81–84

INTRODUCTORY SECTION

CITY OF NEWPORT
WASHINGTON COUNTY, MINNESOTA

City Council and Other Officials
Year Ended December 31, 2012

CITY COUNCIL

Timothy Geraghty
Steven Gallagher
Thomas Ingemann
Tracy Rahm
William Sumner

Mayor
Councilmember
Councilmember
Councilmember
Councilmember

OTHER OFFICIALS

Brian Anderson

City Administrator

FINANCIAL SECTION



PRINCIPALS

Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. The prior year partial comparative information presented has been derived from the City's financial statements for the year ended December 31, 2011, and in our report dated March 30, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

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. 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.

(continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2012, 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.

The financial statements include prior year partial comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2011, from which it was derived.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedules of Funding Progress, and the Schedule of Contributions From City and Other Contributing Entities, 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 the other information section, 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 were 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.

(continued)

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.

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

Minneapolis, Minnesota

June 3, 2013

CITY OF NEWPORT

Management's Discussion and Analysis Year Ended December 31, 2012

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, 2012.

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.

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. Supplemental information is presented following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 4,200,293	\$ 3,959,705	\$ 1,303,533	\$ 1,568,798	\$ 5,503,826	\$ 5,528,503
Capital assets, net	10,357,526	10,702,697	2,942,629	2,404,867	13,300,155	13,107,564
Total assets	\$ 14,557,819	\$ 14,662,402	\$ 4,246,162	\$ 3,973,665	\$ 18,803,981	\$ 18,636,067
Liabilities						
Long-term liabilities						
outstanding	\$ 1,919,753	\$ 2,214,046	\$ 540,000	\$ 540,000	\$ 2,459,753	\$ 2,754,046
Other liabilities	100,536	163,968	29,784	35,674	130,320	199,642
Total liabilities	\$ 2,020,289	\$ 2,378,014	\$ 569,784	\$ 575,674	\$ 2,590,073	\$ 2,953,688
Net position						
Net investment in capital						
assets	\$ 8,709,526	\$ 8,746,697	\$ 2,402,629	\$ 2,168,867	\$ 11,112,155	\$ 10,915,564
Restricted	1,779,507	1,542,565	–	–	1,779,507	1,542,565
Unrestricted	2,048,497	1,995,126	1,273,749	1,229,124	3,322,246	3,224,250
Total net assets	\$ 12,537,530	\$ 12,284,388	\$ 3,676,378	\$ 3,397,991	\$ 16,213,908	\$ 15,682,379

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 asset balance.

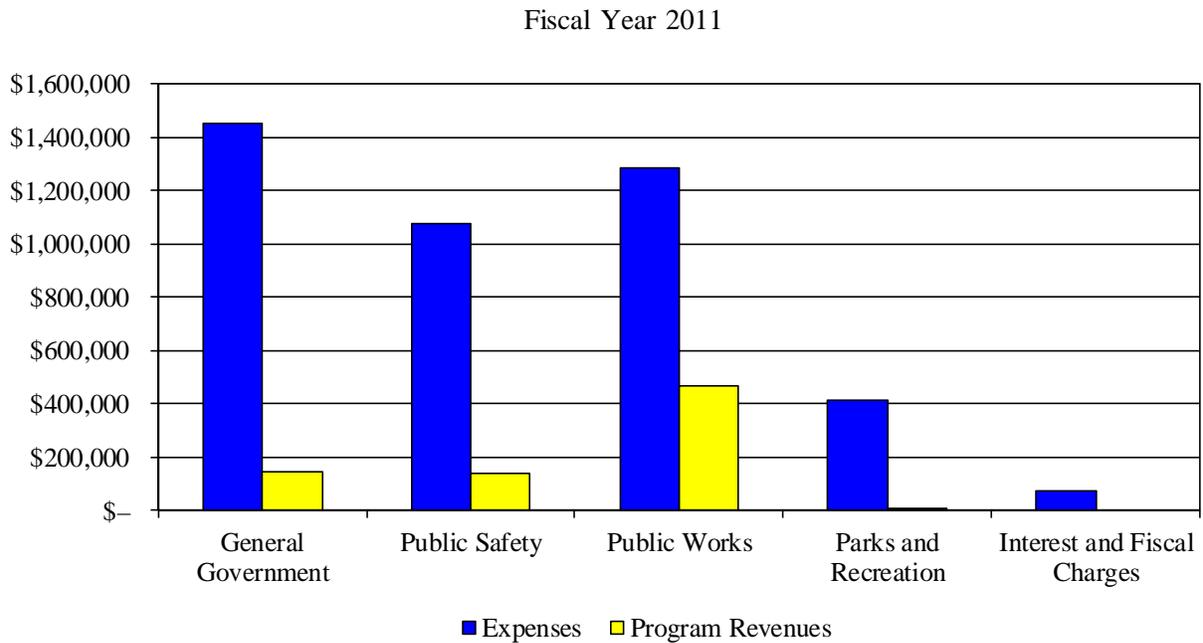
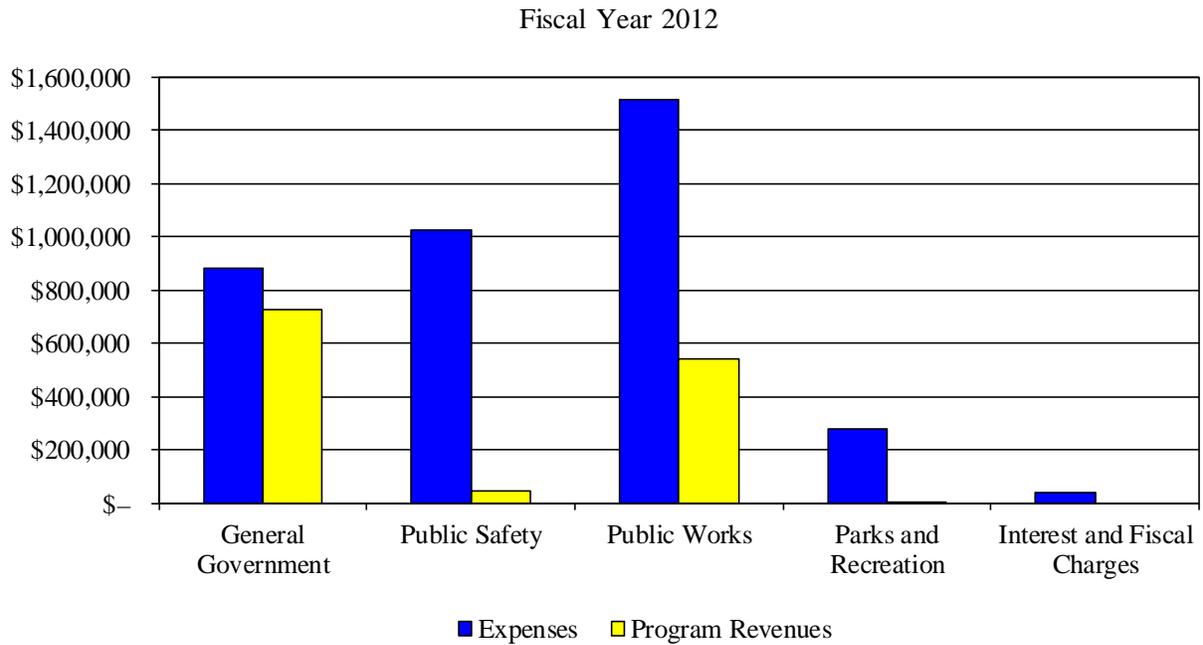
The following is a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	\$ 165,477	\$ 162,854	\$ 674,203	\$ 597,401	\$ 839,680	\$ 760,255
Operating grants and contributions	123,097	122,208	–	–	123,097	122,208
Capital grants and contributions	539,521	467,046	167,102	–	706,623	467,046
General revenues						
Property taxes	2,307,486	2,321,398	–	–	2,307,486	2,321,398
General grants and contributions	692,136	564,773	–	–	692,136	564,773
Other general revenues	151,137	141,349	–	–	151,137	141,349
Investment earnings	16,069	26,533	4,879	7,670	20,948	34,203
Transfers	–	(12,000)	–	12,000	–	–
Total revenues	<u>3,994,923</u>	<u>3,794,161</u>	<u>846,184</u>	<u>617,071</u>	<u>4,841,107</u>	<u>4,411,232</u>
Expenses						
General government	881,690	1,451,040	–	–	881,690	1,451,040
Public safety	1,025,646	1,077,866	–	–	1,025,646	1,077,866
Public works	1,517,411	1,287,291	–	–	1,517,411	1,287,291
Parks and recreation	275,260	411,632	–	–	275,260	411,632
Water	–	–	179,607	225,948	179,607	225,948
Sewer	–	–	323,906	294,221	323,906	294,221
Other	–	–	64,284	51,226	64,284	51,226
Interest and fiscal charges	41,774	73,902	–	–	41,774	73,902
Total expenses	<u>3,741,781</u>	<u>4,301,731</u>	<u>567,797</u>	<u>571,395</u>	<u>4,309,578</u>	<u>4,873,126</u>
Changes in net position	<u>\$ 253,142</u>	<u>\$ (507,570)</u>	<u>\$ 278,387</u>	<u>\$ 45,676</u>	<u>\$ 531,529</u>	<u>\$ (461,894)</u>

The table above shows increases in net position in the governmental activities and increases in net position in the business-type activities. The largest change from fiscal 2012 was the decrease in general government expenses of \$569,350. Most of this decrease was due to the City decertifying the Tax Increment District No. 1 in fiscal 2011. In the business-type activities, the City's improved financial results in fiscal 2012 were mostly related to increases in overall operating revenues.

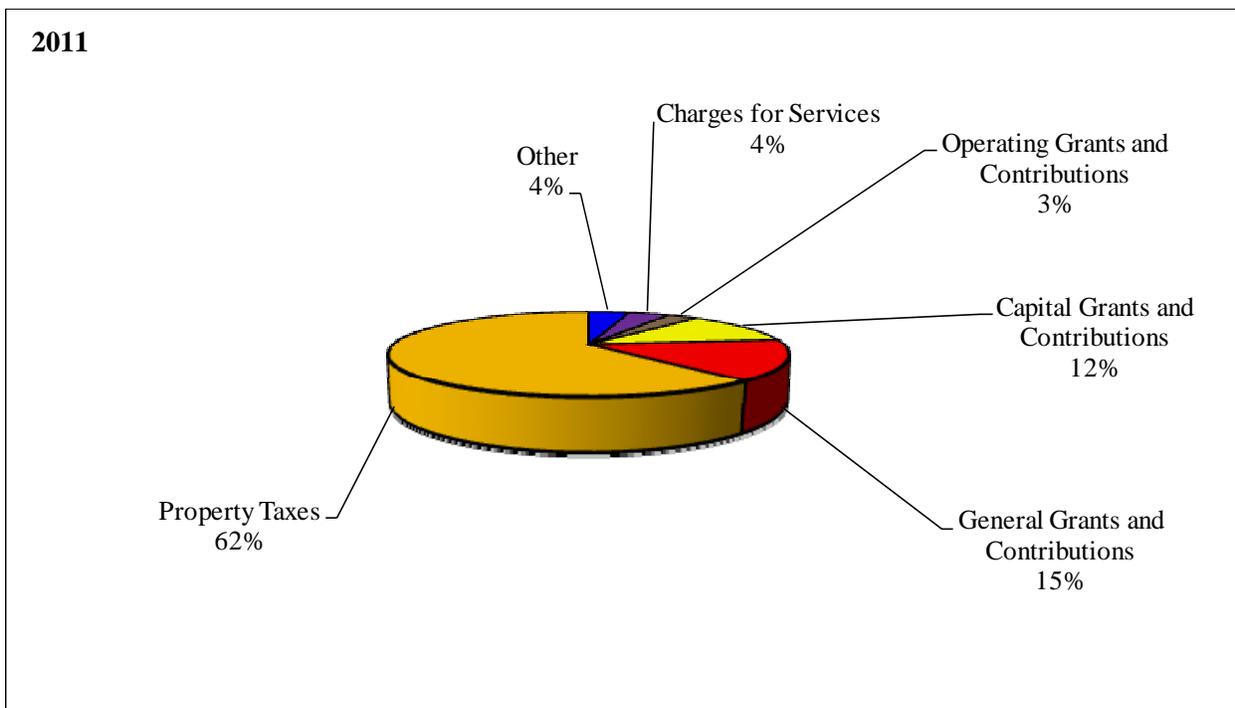
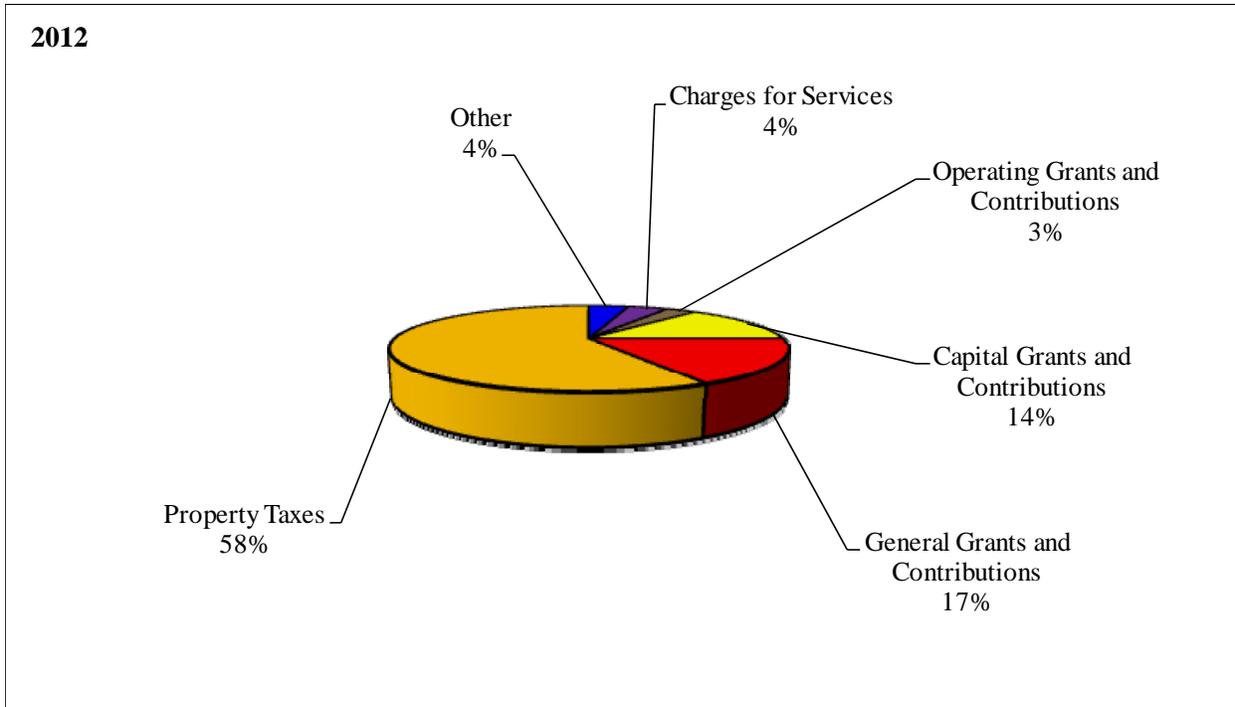
Governmental Activities – The following graphs illustrate the City’s governmental activities:

Expenses and Program Revenues – Governmental Activities for Fiscal Years 2012 and 2011



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 2012 and 2011

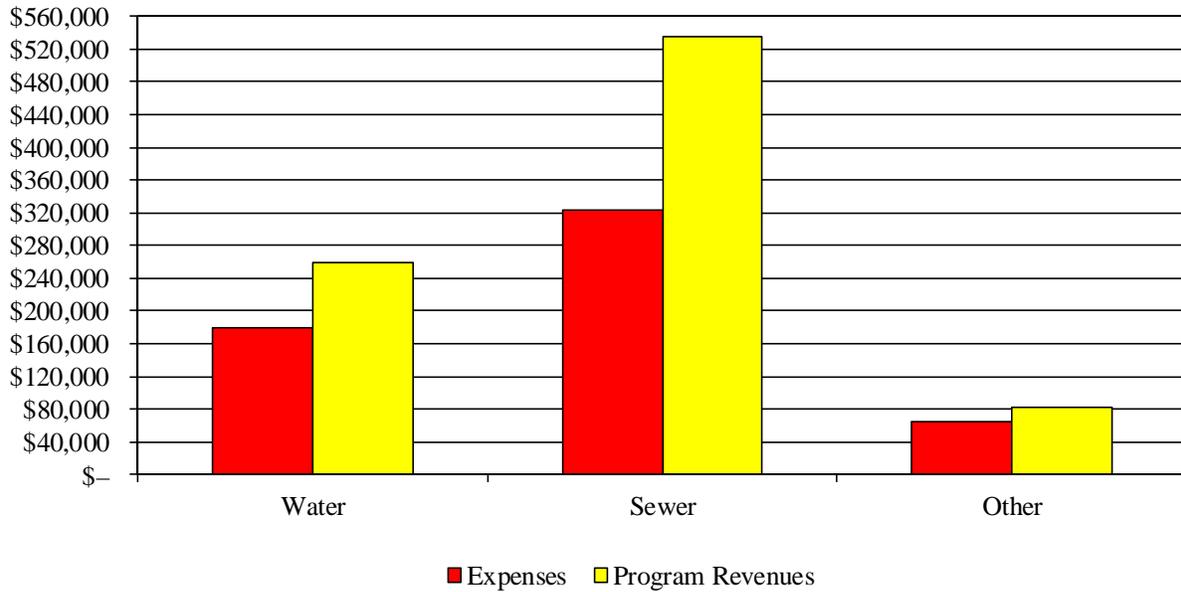


As is common with most cities, the governmental-type activities are primarily funded with taxes and general grants, including local government aid and tax credits, rather than with program revenues.

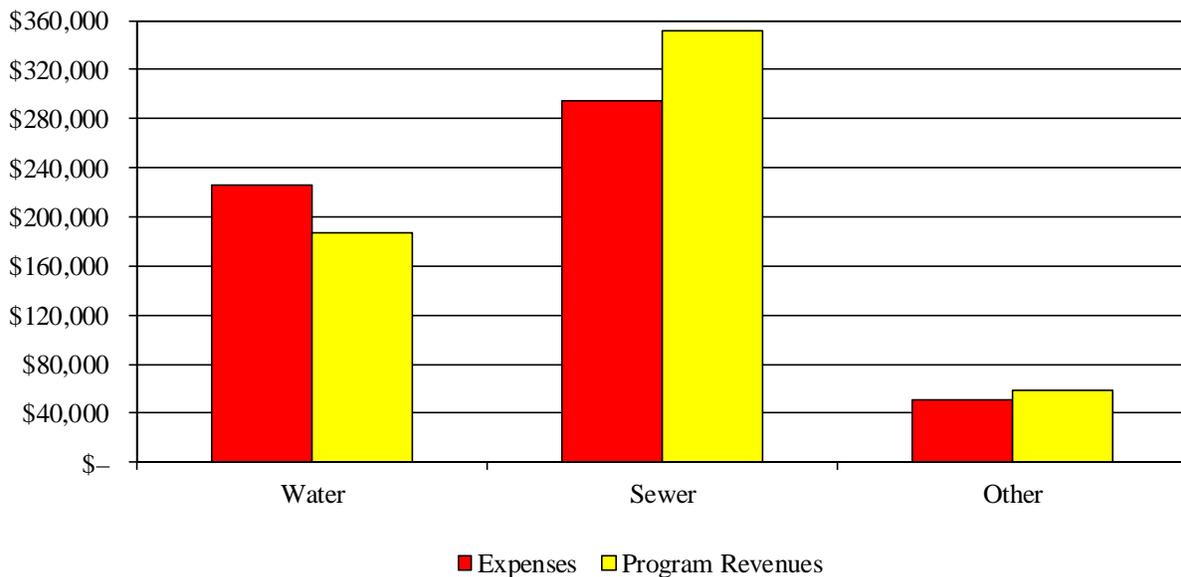
Business-Type Activities – The following graphs illustrate the City’s business-type activities:

Expenses and Program Revenues – Business-Type Activities for Fiscal Years 2012 and 2011

Fiscal Year 2012

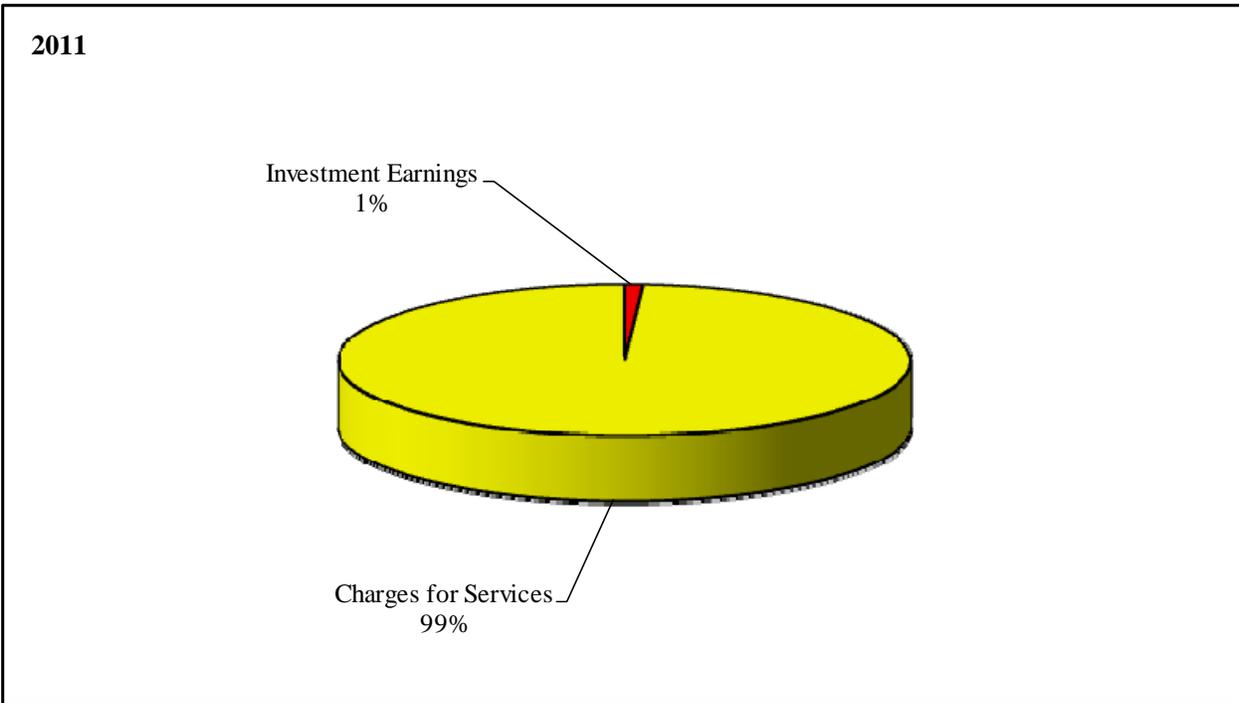
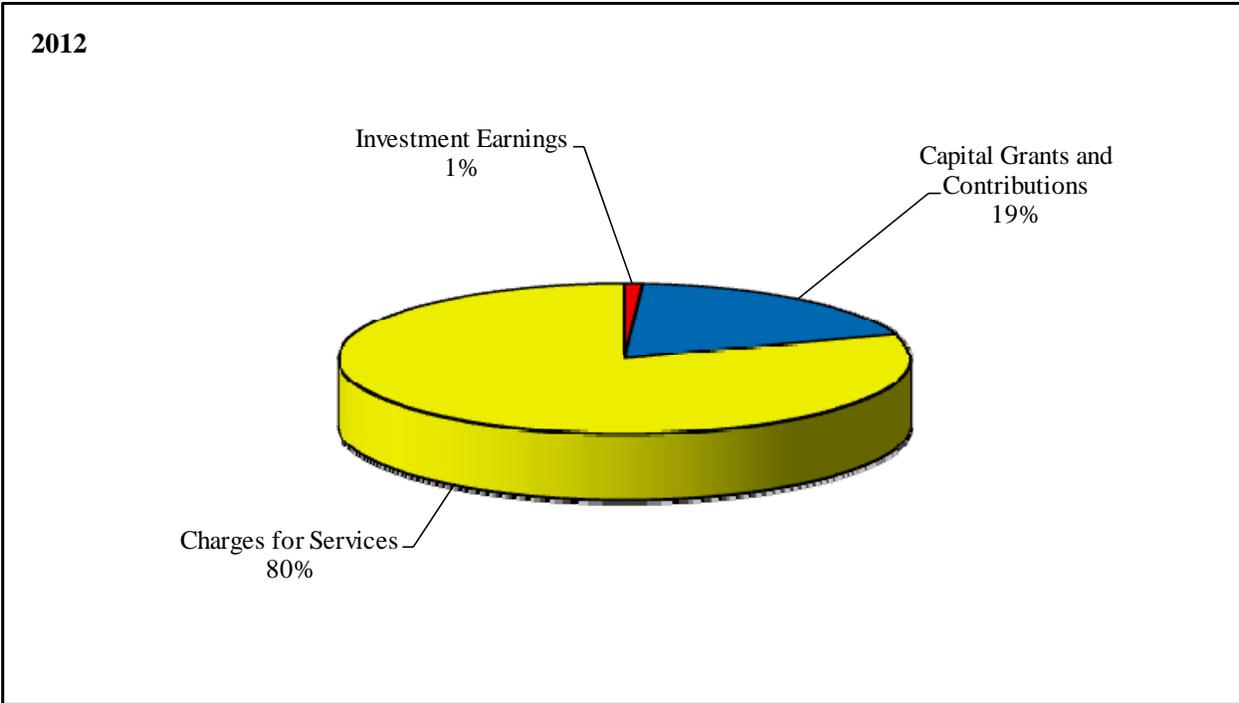


Fiscal Year 2011



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 2012 and 2011



During fiscal 2012, the Sewer Fund received a grant for infrastructure-related projects.

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 \$3,770,055, an increase of \$530,239 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	\$ 2,980,785	\$ 2,980,785	\$ 3,226,690	\$ 245,905	\$ 3,088,899
Expenditures	<u>2,518,455</u>	<u>2,518,455</u>	<u>2,479,017</u>	<u>(39,438)</u>	<u>2,611,503</u>
Excess (deficiency) of revenue over expenditures	462,330	462,330	747,673	285,343	477,396
Other financing sources (uses)					
Transfers (out)	<u>(319,000)</u>	<u>(319,000)</u>	<u>(219,000)</u>	<u>100,000</u>	<u>(165,320)</u>
Net change in fund balances	<u>\$ 143,330</u>	<u>\$ 143,330</u>	528,673	<u>\$ 385,343</u>	312,076
Fund balances					
Beginning of year			<u>1,160,102</u>		<u>848,026</u>
End of year			<u>\$ 1,688,775</u>		<u>\$ 1,160,102</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 intergovernmental (\$26,260) and other revenue (\$170,138). Most of the other revenue sources were from grants, donations, and other reimbursements that were not anticipated in fiscal 2012. Expenditures were under budget by \$39,438, mainly in administration (\$28,629) and police department (\$48,911). Administration was lower than expected due to lower contractual service costs in a variety of areas. Police department was lower than projected in personnel-related costs.

Other Governmental Funds – The other major funds of the City include the Economic Development Authority Special Revenue Fund, PFA G.O. Bonds of 2002 Debt Service Fund, G.O. Refunding Bonds of 2010 Debt Service Fund, the Tax Increment District No. 1 Capital Project Fund, the Capital Equipment Capital Project Fund, and the North Ravine Capital Project Fund. The Economic Development Authority Special Revenue Fund balance increased mainly from a budgeted transfer in from the General Fund. The two debt service fund balances increased by a total of \$17,649 in fiscal 2012. The Tax Increment District No. 1 Capital Project Fund balance is small due to the decertification of the tax increment district. The Capital Project Fund balances decreased from the spenddown of fund balances for related projects. All nonmajor fund balances combined increased \$78,507 in fiscal 2012.

Proprietary Funds – The City’s proprietary funds had a combined net position of \$3,676,378 at December 31, 2012. 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, 2012 are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 3,013,196	\$ 2,851,496	\$ –	\$ –	\$ 3,013,196	\$ 2,851,496
Buildings and improvements	1,895,600	1,862,264	540,461	484,154	2,436,061	2,346,418
Machinery and equipment	361,837	342,745	350,607	350,607	712,444	693,352
Vehicles	1,415,140	1,364,035	–	–	1,415,140	1,364,035
Infrastructure	12,175,692	12,142,548	4,913,097	4,308,549	17,088,789	16,451,097
Construction in progress	363,616	281,412	–	15,083	363,616	296,495
Total capital assets	19,225,081	18,844,500	5,804,165	5,158,393	25,029,246	24,002,893
Accumulated depreciation	(8,867,555)	(8,141,803)	(2,861,536)	(2,753,526)	(11,729,091)	(10,895,329)
Total capital assets, net of depreciation	\$ 10,357,526	\$ 10,702,697	\$ 2,942,629	\$ 2,404,867	\$ 13,300,155	\$ 13,107,564
Depreciation expense	\$ 814,064	\$ 899,582	\$ 108,010	\$ 105,833	\$ 922,074	\$ 1,005,415

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:

	2012	2011
General obligation bonds	\$ 2,188,000	\$ 2,496,000
Compensated absences	252,180	250,618
Net OPEB obligation	19,573	7,428
Total	\$ 2,459,753	\$ 2,754,046

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.

BASIC FINANCIAL STATEMENTS

CITY OF NEWPORT

Statement of Net Position
as of December 31, 2012

	Governmental Activities	Business-Type Activities	Totals
Assets			
Cash and temporary investments	\$ 3,727,167	\$ 1,162,384	\$ 4,889,551
Receivables			
Accounts	-	138,615	138,615
Accrued interest	4,480	-	4,480
Current taxes	29,216	-	29,216
Delinquent taxes	84,605	-	84,605
Delinquent special assessments	10,023	-	10,023
Deferred special assessments	253,774	-	253,774
Due from other governmental units	58,905	-	58,905
Prepaid items	32,123	2,534	34,657
Capital assets			
Not depreciated	3,376,812	-	3,376,812
Depreciated, net of accumulated depreciation	6,980,714	2,942,629	9,923,343
Total capital assets, net of accumulated depreciation	<u>10,357,526</u>	<u>2,942,629</u>	<u>13,300,155</u>
Total assets	<u>\$ 14,557,819</u>	<u>\$ 4,246,162</u>	<u>\$ 18,803,981</u>
Liabilities			
Accounts and contracts payable	\$ 67,230	\$ 17,052	\$ 84,282
Salaries payable	16,842	2,723	19,565
Accrued interest payable	16,464	8,016	24,480
Due to other governmental units	-	1,993	1,993
Long-term liabilities			
Due within one year	489,105	15,000	504,105
Due in more than one year	1,430,648	525,000	1,955,648
Total long-term liabilities	<u>1,919,753</u>	<u>540,000</u>	<u>2,459,753</u>
Total liabilities	2,020,289	569,784	2,590,073
Net position			
Net investment in capital assets	8,709,526	2,402,629	11,112,155
Restricted for			
Debt service	625,868	-	625,868
Capital acquisition	565,141	-	565,141
Other purposes	588,498	-	588,498
Unrestricted	2,048,497	1,273,749	3,322,246
Total net position	<u>12,537,530</u>	<u>3,676,378</u>	<u>16,213,908</u>
Total liabilities and net position	<u>\$ 14,557,819</u>	<u>\$ 4,246,162</u>	<u>\$ 18,803,981</u>

See notes to basic financial statements

CITY OF NEWPORT

Statement of Activities
Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-	
						Type Activities	Total
Governmental activities							
General government	\$ 881,690	\$ 93,779	\$ 56,980	\$ -	\$ (730,931)	\$ -	\$ (730,931)
Public safety	1,025,646	71,698	60,210	-	(893,738)	-	(893,738)
Public works	1,517,411	-	-	539,521	(977,890)	-	(977,890)
Parks and recreation	275,260	-	5,907	-	(269,353)	-	(269,353)
Interest and fiscal charges	41,774	-	-	-	(41,774)	-	(41,774)
Total governmental activities	3,741,781	165,477	123,097	539,521	(2,913,686)	-	(2,913,686)
Business-type activities							
Water	179,607	228,980	-	-	-	49,373	49,373
Sewer	323,906	367,619	-	167,102	-	210,815	210,815
Other	64,284	77,604	-	-	-	13,320	13,320
Total business-type activities	567,797	674,203	-	167,102	-	273,508	273,508
Total governmental and business-type activities	\$ 4,309,578	\$ 839,680	\$ 123,097	\$ 706,623	(2,913,686)	273,508	(2,640,178)
General revenues							
Property taxes					2,307,486	-	2,307,486
General grants and contributions					692,136	-	692,136
Other general revenues					151,137	-	151,137
Investment earnings					16,069	4,879	20,948
Total general revenues					3,166,828	4,879	3,171,707
Change in net position					253,142	278,387	531,529
Net position – beginning					12,284,388	3,397,991	15,682,379
Net position – ending					\$ 12,537,530	\$ 3,676,378	\$ 16,213,908

See notes to basic financial statements

CITY OF NEWPORT

Balance Sheet
Governmental Funds
as of December 31, 2012

	General Fund	Special Revenue – Economic Development Authority	Debt Service		Tax Increment District No. 1	Capital Project		Nonmajor Funds	Totals
			PFA G.O. Bonds of 2002	G.O. Refunding Bonds of 2010		Capital Equipment	North Ravine		
Assets									
Assets									
Cash and temporary investments	\$ 1,701,586	\$ 569,896	\$ 299,683	\$ 5,644	\$ 5	\$ 494,389	\$ 5,508	\$ 650,456	\$ 3,727,167
Receivables									
Accrued interest	4,480	–	–	–	–	–	–	–	4,480
Current taxes	26,552	–	–	1,589	–	–	–	1,075	29,216
Delinquent taxes	84,605	–	–	–	–	–	–	–	84,605
Delinquent special assessments	–	–	10,023	–	–	–	–	–	10,023
Deferred special assessments	–	–	253,774	–	–	–	–	–	253,774
Due from other governmental units	4,566	–	–	–	–	–	41,563	12,776	58,905
Prepaid items	32,123	–	–	–	–	–	–	–	32,123
Total assets	<u>\$ 1,853,912</u>	<u>\$ 569,896</u>	<u>\$ 563,480</u>	<u>\$ 7,233</u>	<u>\$ 5</u>	<u>\$ 494,389</u>	<u>\$ 47,071</u>	<u>\$ 664,307</u>	<u>\$ 4,200,293</u>
Liabilities and Fund Balances									
Liabilities									
Accounts and contracts payable	\$ 58,190	\$ 7,193	\$ –	\$ –	\$ –	\$ –	\$ 1,847	\$ –	\$ 67,230
Salaries payable	16,842	–	–	–	–	–	–	–	16,842
Deferred revenue	90,105	–	256,061	–	–	–	–	–	346,166
Total liabilities	165,137	7,193	256,061	–	–	–	1,847	–	430,238
Fund balances									
Nonspendable	32,123	–	–	–	–	–	–	–	32,123
Restricted	–	562,703	307,419	7,233	5	494,389	45,224	122,937	1,539,910
Assigned	–	–	–	–	–	–	–	541,370	541,370
Unassigned	1,656,652	–	–	–	–	–	–	–	1,656,652
Total fund balances	1,688,775	562,703	307,419	7,233	5	494,389	45,224	664,307	3,770,055
Total liabilities and fund balances	<u>\$ 1,853,912</u>	<u>\$ 569,896</u>	<u>\$ 563,480</u>	<u>\$ 7,233</u>	<u>\$ 5</u>	<u>\$ 494,389</u>	<u>\$ 47,071</u>	<u>\$ 664,307</u>	<u>\$ 4,200,293</u>

See notes to basic financial statements

CITY OF NEWPORT

Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
as of December 31, 2012

Total fund balances – governmental funds \$ 3,770,055

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of capital assets 19,225,081
Less accumulated depreciation (8,867,555)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

General obligation bonds payable (1,648,000)
Compensated absences payable (252,180)
Net other post-employment benefit obligations (19,573)

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.

346,166

Accrued interest payable is included in net position, but is excluded from fund balances until due and payable.

(16,464)

Total net position – governmental activities \$ 12,537,530

See notes to basic financial statements

CITY OF NEWPORT

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended December 31, 2012

	General Fund	Special Revenue – Economic Development Authority	Debt Service		Tax Increment District No. 1	Capital Project		Nonmajor Funds	Totals
			PFA G.O. Bonds of 2002	G.O. Refunding Bonds of 2010		Capital Equipment	North Ravine		
Revenue									
Property taxes	\$ 2,113,254	\$ 5,320	\$ –	\$ 127,205	\$ –	\$ –	\$ –	\$ 86,044	\$ 2,331,823
Licenses and permits	75,652	–	–	–	–	–	–	–	75,652
Special assessments	–	–	181,755	–	–	–	55,000	43,359	280,114
Intergovernmental	692,136	24,405	–	–	–	–	375,313	68,574	1,160,428
Charges for services	93,339	–	–	–	–	–	–	–	93,339
Fines and forfeits	58,234	–	–	–	–	–	–	–	58,234
Investment earnings	7,937	2,226	1,137	–	5	2,300	103	2,361	16,069
Miscellaneous	186,138	14,051	–	–	–	–	–	6,247	206,436
Total revenue	<u>3,226,690</u>	<u>46,002</u>	<u>182,892</u>	<u>127,205</u>	<u>5</u>	<u>2,300</u>	<u>430,416</u>	<u>206,585</u>	<u>4,222,095</u>
Expenditures									
Current									
General government	700,253	151,698	–	–	10,308	–	–	10,316	872,575
Public safety	964,427	–	–	–	–	–	–	–	964,427
Public works	503,054	–	–	–	–	–	–	–	503,054
Parks and recreation	260,114	–	–	–	–	–	–	9,656	269,770
Capital outlay	51,169	–	–	–	–	100,424	460,883	118,827	731,303
Debt service									
Principal retirement	–	–	118,000	110,000	–	–	–	80,000	308,000
Interest and fiscal charges	–	–	6,704	10,822	–	–	–	25,201	42,727
Total expenditures	<u>2,479,017</u>	<u>151,698</u>	<u>124,704</u>	<u>120,822</u>	<u>10,308</u>	<u>100,424</u>	<u>460,883</u>	<u>244,000</u>	<u>3,691,856</u>
Excess (deficiency) of revenue over expenditures	747,673	(105,696)	58,188	6,383	(10,303)	(98,124)	(30,467)	(37,415)	530,239
Other financing sources (uses)									
Transfers in	–	150,000	–	–	–	–	18,750	115,922	284,672
Transfers (out)	(219,000)	(18,750)	(46,922)	–	–	–	–	–	(284,672)
Total other financing sources (uses)	<u>(219,000)</u>	<u>131,250</u>	<u>(46,922)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>18,750</u>	<u>115,922</u>	<u>–</u>
Net change in fund balances	528,673	25,554	11,266	6,383	(10,303)	(98,124)	(11,717)	78,507	530,239
Fund balances									
Beginning of year	<u>1,160,102</u>	<u>537,149</u>	<u>296,153</u>	<u>850</u>	<u>10,308</u>	<u>592,513</u>	<u>56,941</u>	<u>585,800</u>	<u>3,239,816</u>
End of year	<u>\$ 1,688,775</u>	<u>\$ 562,703</u>	<u>\$ 307,419</u>	<u>\$ 7,233</u>	<u>\$ 5</u>	<u>\$ 494,389</u>	<u>\$ 45,224</u>	<u>\$ 664,307</u>	<u>\$ 3,770,055</u>

See notes to basic financial statements

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, 2012

Total net change in fund balances – governmental funds \$ 530,239

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	468,893
Depreciation expense	(814,064)

Issuance of long-term debt provides current financial resources to governmental funds, while repayment of long-term liabilities is an expenditure in the governmental funds. Neither transaction, however, has any effect on net position.

Repayment of principal on long-term debt	308,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

953

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.

(12,145)

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.

(1,562)

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.

(227,172)

Change in net position – governmental activities	<u>\$ 253,142</u>
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See notes to basic financial statements

CITY OF NEWPORT

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 General Fund
 Year Ended December 31, 2012

	Original and Final Budget	Actual	Over (Under) Final Budget
Revenue			
Property taxes	\$ 2,098,859	\$ 2,113,254	\$ 14,395
Licenses and permits	61,500	75,652	14,152
Intergovernmental	665,876	692,136	26,260
Charges for services	88,050	93,339	5,289
Fines and forfeits	48,000	58,234	10,234
Investment earnings	2,500	7,937	5,437
Miscellaneous	16,000	186,138	170,138
Total revenue	<u>2,980,785</u>	<u>3,226,690</u>	<u>245,905</u>
Expenditures			
Current			
General government	743,902	700,253	(43,649)
Public safety	1,014,227	964,427	(49,800)
Public works	455,542	503,054	47,512
Parks and recreation	256,848	260,114	3,266
Capital outlay	47,936	51,169	3,233
Total expenditures	<u>2,518,455</u>	<u>2,479,017</u>	<u>(39,438)</u>
Excess of revenue over expenditures	462,330	747,673	285,343
Other financing (uses)			
Transfers (out)	<u>(319,000)</u>	<u>(219,000)</u>	<u>100,000</u>
Net change in fund balances	<u>\$ 143,330</u>	<u>528,673</u>	<u>\$ 385,343</u>
Fund balances			
Beginning of year		<u>1,160,102</u>	
End of year		<u>\$ 1,688,775</u>	

See notes to basic financial statements

CITY OF NEWPORT

Statement of Net Position
Proprietary Funds
as of December 31, 2012

	Business-Type Activities – Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Assets				
Current assets				
Cash and temporary investments	\$ 469,661	\$ 666,307	\$ 26,416	\$ 1,162,384
Receivables				
Accounts	49,528	73,223	15,864	138,615
Prepaid items	1,167	1,367	–	2,534
Total current assets	<u>520,356</u>	<u>740,897</u>	<u>42,280</u>	<u>1,303,533</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	1,723,637	1,137,899	–	2,861,536
Net capital assets	<u>1,656,185</u>	<u>1,286,444</u>	<u>–</u>	<u>2,942,629</u>
Total assets	<u>\$ 2,176,541</u>	<u>\$ 2,027,341</u>	<u>\$ 42,280</u>	<u>\$ 4,246,162</u>
Liabilities and Net Position				
Current liabilities				
Accounts payable	\$ 7,328	\$ 5,164	\$ 4,560	\$ 17,052
Salaries payable	1,349	1,374	–	2,723
Accrued interest payable	3,598	4,418	–	8,016
Due to other governments	1,993	–	–	1,993
Long-term liabilities – current	6,600	8,400	–	15,000
Total current liabilities	<u>20,868</u>	<u>19,356</u>	<u>4,560</u>	<u>44,784</u>
Long-term liabilities				
Due in more than one year	<u>229,400</u>	<u>295,600</u>	<u>–</u>	<u>525,000</u>
Total liabilities	<u>250,268</u>	<u>314,956</u>	<u>4,560</u>	<u>569,784</u>
Net position				
Net investment in capital assets	1,420,185	982,444	–	2,402,629
Unrestricted	506,088	729,941	37,720	1,273,749
Total net position	<u>1,926,273</u>	<u>1,712,385</u>	<u>37,720</u>	<u>3,676,378</u>
Total liabilities and net position	<u>\$ 2,176,541</u>	<u>\$ 2,027,341</u>	<u>\$ 42,280</u>	<u>\$ 4,246,162</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, 2012

	Business-Type Activities – Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Operating revenue				
Water sales	\$ 228,980	\$ –	\$ –	\$ 228,980
Sewer charges	–	367,409	–	367,409
Street light charges	–	–	50,655	50,655
Storm sewer charges	–	–	26,949	26,949
Permits and licenses	–	210	–	210
Total operating revenue	<u>228,980</u>	<u>367,619</u>	<u>77,604</u>	<u>674,203</u>
Operating expenses				
Salaries	20,806	24,667	–	45,473
Employee benefits	5,651	5,655	–	11,306
MCES sewer charges	–	221,122	–	221,122
Insurance	7,032	9,035	–	16,067
Supplies	10,235	8,464	–	18,699
Utilities	27,967	8,248	43,544	79,759
Depreciation	74,999	33,011	–	108,010
Other	26,051	4,737	20,740	51,528
Total operating expenses	<u>172,741</u>	<u>314,939</u>	<u>64,284</u>	<u>551,964</u>
Operating income	56,239	52,680	13,320	122,239
Nonoperating revenue (expense)				
State aid and grants	–	167,102	–	167,102
Investment earnings	1,831	2,822	226	4,879
Interest and fiscal charges	(6,866)	(8,967)	–	(15,833)
Total nonoperating revenue (expense)	<u>(5,035)</u>	<u>160,957</u>	<u>226</u>	<u>156,148</u>
Change in net position	51,204	213,637	13,546	278,387
Net position				
Beginning of year	<u>1,875,069</u>	<u>1,498,748</u>	<u>24,174</u>	<u>3,397,991</u>
End of year	<u>\$ 1,926,273</u>	<u>\$ 1,712,385</u>	<u>\$ 37,720</u>	<u>\$ 3,676,378</u>

See notes to basic financial statements

CITY OF NEWPORT

Statement of Cash Flows
 Proprietary Funds
 Year Ended December 31, 2012

	Business-Type Activities – Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Cash flows from operating activities				
Cash received from customers	\$ 240,519	\$ 393,013	\$ 78,037	\$ 711,569
Cash paid to suppliers	(75,377)	(258,028)	(65,776)	(399,181)
Cash paid to employees	(26,594)	(26,591)	–	(53,185)
Net cash provided by operating activities	138,548	108,394	12,261	259,203
Cash flows from capital and related financing activities				
Acquisition of capital assets	(19,540)	(626,232)	–	(645,772)
State aid and grants	–	167,102	–	167,102
Interest paid on debt	(7,098)	(7,099)	–	(14,197)
Net cash provided by capital financing activities	(26,638)	(466,229)	–	(492,867)
Cash flows from noncapital financing activities				
Cash received from other funds	–	523	(523)	–
Cash flows from investing activities				
Interest received	1,831	2,822	226	4,879
Net change in cash and cash equivalents	113,741	(354,490)	11,964	(228,785)
Cash and cash equivalents				
Beginning of year	355,920	1,020,797	14,452	1,391,169
End of year	\$ 469,661	\$ 666,307	\$ 26,416	\$ 1,162,384
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 56,239	\$ 52,680	\$ 13,320	\$ 122,239
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	74,999	33,011	–	108,010
Change in assets and liabilities				
Accounts receivable	11,539	25,394	433	37,366
Prepaid items	(343)	(543)	–	(886)
Accounts payable	1,033	(224)	(1,492)	(683)
Salaries payable	(5,788)	(1,924)	–	(7,712)
Due to other governmental units	869	–	–	869
Net cash provided by operating activities	\$ 138,548	\$ 108,394	\$ 12,261	\$ 259,203

See notes to basic financial statements

CITY OF NEWPORT

Notes to Basic Financial Statements December 31, 2012

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.

PFA G.O. Bonds of 2002 Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, debt service on the PFA loan.

G.O. Refunding Bonds of 2010 Debt Service Fund – This fund is used to account for the payment of the debt service on bonds sold to refund the HRA Lease Revenue Bonds.

Tax Increment District No. 1 Capital Project Fund – This fund is used to account for the establishment and development of TIF District No. 1.

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

North Ravine Capital Project Fund – This fund is used to account for the financial resources for the North Ravine 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

A portion of the property taxes levied is paid by the state of Minnesota through various tax credits, which are included in intergovernmental revenue in the financial statements.

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. Due To/From Other Funds

All outstanding balances between funds that are not lending or borrowing arrangements are reported as "due to/from other funds."

J. 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.

K. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

L. 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 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.

M. 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 GASB Statement No. 45, at January 1, 2012.

N. 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, discounts, and issuance costs 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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. 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2012.

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

For the fiscal year ended December 31, 2012, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement change how governmental entities present a statement of net position, adding two new basic financial statement elements, and replacing "net assets" with "net position" as the terminology used to describe the differences between the other four elements. The two basic financial statement elements added are "deferred inflows of resources" and "deferred outflows of resources." These new elements are differentiated from assets (deferred outflows of resources) and liabilities (deferred inflows of resources), but have similar effects on net position.

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	\$	3,898,245
Investments		991,231
Cash on hand		<u>75</u>
Total	\$	<u><u>4,889,551</u></u>

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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 \$3,898,245 while the balance on the bank records was \$3,933,445. At December 31, 2012, 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.

C. Investments

The City has the following investments at year-end:

Investment Type	Credit Risk		Interest Risk – Maturity Duration in Years			Total
	Rating	Agency	Less Than 1	1 to 5	5 to 10	
U.S. agencies	AA	S&P	\$ 101,930	\$ –	\$ –	\$ 101,930
Municipal bonds	A	Moody’s	\$ –	\$ 102,647	\$ –	102,467
Municipal bonds	AA	S&P	\$ –	\$ 241,418	\$ –	241,418
Investment pools/mutual funds						
Money market funds	AAA	S&P	N/A	N/A	N/A	11,910
Money market funds	Aaa	Moody’s	N/A	N/A	N/A	533,506
Total investments						<u>\$ 991,231</u>

N/A – Not Applicable

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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.

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.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

At December 31, 2012, the City's investment portfolio includes the following percentages of specific issuers:

U.S. agencies	
Federal Home Loan Mortgage Corporation	10.3%
Municipal bonds	
Kenosha County, Wisconsin	24.4%
Taxable bonds	
Pine City, Minnesota	10.3%

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, 2012 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	\$ 2,851,496	\$ 161,700	\$ –	\$ 3,013,196
Construction in progress	281,412	82,204	–	363,616
Total capital assets, not depreciated	3,132,908	243,904	–	3,376,812
Capital assets, depreciated				
Buildings and improvements	1,862,264	33,336	–	1,895,600
Machinery and equipment	342,745	19,092	–	361,837
Vehicles	1,364,035	139,417	(88,312)	1,415,140
Infrastructure	12,142,548	33,144	–	12,175,692
Total capital assets, depreciated	15,711,592	224,989	(88,312)	15,848,269
Less accumulated depreciation for				
Buildings and improvements	(625,267)	(35,926)	–	(661,193)
Machinery and equipment	(264,995)	(16,679)	–	(281,674)
Vehicles	(981,875)	(57,205)	88,312	(950,768)
Infrastructure	(6,269,666)	(704,254)	–	(6,973,920)
Total accumulated depreciation	(8,141,803)	(814,064)	88,312	(8,867,555)
Net capital assets, depreciated	7,569,789	(589,075)	–	6,980,714
Net capital assets	\$ 10,702,697	\$ (345,171)	\$ –	\$ 10,357,526

NOTE 3 – CAPITAL ASSETS (CONTINUED)

B. Changes in Capital Assets Used in Business-Type Activities

	Balance – Beginning of Year	Additions	Deletions	Completed Construction	Balance – End of Year
Capital assets, not depreciated					
Construction in progress	\$ 15,083	\$ 569,925	\$ –	\$ (585,008)	\$ –
Capital assets, depreciated					
Buildings and improvements	484,154	56,307	–	–	540,461
Machinery and equipment	350,607	–	–	–	350,607
Infrastructure	4,308,549	19,540	–	585,008	4,913,097
Total capital assets, depreciated	<u>5,143,310</u>	<u>75,847</u>	<u>–</u>	<u>585,008</u>	<u>5,804,165</u>
Less accumulated depreciation for					
Buildings and improvements	(361,454)	(11,072)	–	–	(372,526)
Machinery and equipment	(150,313)	(30,352)	–	–	(180,665)
Infrastructure	(2,241,759)	(66,586)	–	–	(2,308,345)
Total accumulated depreciation	<u>(2,753,526)</u>	<u>(108,010)</u>	<u>–</u>	<u>–</u>	<u>(2,861,536)</u>
Net capital assets, depreciated	<u>2,389,784</u>	<u>(32,163)</u>	<u>–</u>	<u>585,008</u>	<u>2,942,629</u>
Net capital assets	<u>\$ 2,404,867</u>	<u>\$ 537,762</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 2,942,629</u>

C. Depreciation Expense by Function

Governmental activities	
General government	\$ 1,898
Public safety	59,925
Public works	748,186
Parks and recreation	4,055
	<u>814,064</u>
Total depreciation expense – governmental activities	<u>\$ 814,064</u>
Business-type activities	
Water	\$ 74,999
Sewer	33,011
	<u>108,010</u>
Total depreciation expense – business-type activities	<u>\$ 108,010</u>

NOTE 4 – LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

	December 31, 2011	Additions	Retirements	December 31, 2012	Due Within One Year
Governmental activities					
General obligation bonds payable	\$ 1,956,000	\$ –	\$ 308,000	\$ 1,648,000	\$ 379,000
Compensated absences payable	250,618	110,104	108,542	252,180	110,105
Net other post-employment benefit (OPEB) obligation	7,428	34,996	22,851	19,573	–
	<u>2,214,046</u>	<u>145,100</u>	<u>439,393</u>	<u>1,919,753</u>	<u>489,105</u>
Business-type activities					
General obligation bonds payable	540,000	–	–	540,000	15,000
	<u>\$ 2,754,046</u>	<u>\$ 145,100</u>	<u>\$ 439,393</u>	<u>\$ 2,459,753</u>	<u>\$ 504,105</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	\$ 363,000
G.O. Improvement Bonds of 2002A	\$ 690,000	3.00–4.65%	06/01/2002	02/01/2014	175,000
G.O. Capital Improvement Plan Refunding Bonds of 2010A	\$ 685,000	0.85–2.35%	07/06/2010	10/01/2016	465,000
G.O. Improvement Bonds of 2011A	\$ 645,000	3.00%	11/01/2011	02/01/2021	<u>645,000</u>
Total governmental activity bonds payable					<u>\$ 1,648,000</u>
Business-type activities					
G.O. Improvement Bonds of 2011A	\$ 540,000	3.00–4.10%	11/01/2011	02/01/2032	<u>\$ 540,000</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
2013	\$ 379,000	\$ 38,587	\$ 15,000	\$ 18,710
2014	396,000	29,232	20,000	18,185
2015	308,000	21,410	20,000	17,405
2016	190,000	15,120	20,000	16,985
2017	70,000	10,200	25,000	16,310
2018–2022	305,000	18,525	125,000	70,263
2023–2028	–	–	145,000	48,498
2028–2032	–	–	170,000	17,768
	<u>\$ 1,648,000</u>	<u>\$ 133,074</u>	<u>\$ 540,000</u>	<u>\$ 224,124</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.

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	\$ 764,124	\$ 14,201	\$ 596,389

NOTE 5 – FUND BALANCES

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

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Nonmajor Funds	Total
Nonspendable						
Prepaid items	\$ 32,123	\$ -	\$ -	\$ -	\$ -	\$ 32,123
Restricted						
Economic Development Authority	\$ -	\$ 562,703	\$ -	\$ -	\$ -	\$ 562,703
Special revenue funds						
Recycling	-	-	-	-	24,492	24,492
Buy Forfeiture	-	-	-	-	1,303	1,303
Debt service						
PFA G.O. Bonds of 2002	-	-	307,419	-	-	307,419
G.O. Refunding Bonds of 2010	-	-	7,233	-	-	7,233
G.O. Improvement Bonds of 2011A	-	-	-	-	71,619	71,619
Capital projects						
Tax Increment District No. 1	-	-	-	5	-	5
Capital Equipment	-	-	-	494,389	-	494,389
North Ravine	-	-	-	45,224	-	45,224
4th Avenue Ravine	-	-	-	-	25,523	25,523
Total restricted	\$ -	\$ 562,703	\$ 314,652	\$ 539,618	\$ 122,937	\$ 1,539,910
Assigned						
Heritage Preservation	\$ -	\$ -	\$ -	\$ -	\$ 2,339	\$ 2,339
Pioneer Days	-	-	-	-	18,304	18,304
Capital projects						
Parks	-	-	-	-	28,335	28,335
Street Reconstruction	-	-	-	-	40,938	40,938
Equipment Revolving	-	-	-	-	209,658	209,658
Highway 61 Project	-	-	-	-	241,796	241,796
Total assigned	\$ -	\$ -	\$ -	\$ -	\$ 541,370	\$ 541,370

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 2012. PEPFF members were required to contribute 9.6 percent of their annual covered salary in 2012. In 2012, 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>
2012	\$ 46,611	\$ 69,617
2011	\$ 43,583	\$ 59,409
2010	\$ 50,358	\$ 64,154

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	334
Adjustment to annual required contribution	(459)
Annual OPEB cost	<u>34,996</u>
Contributions made	<u>22,851</u>
Increase in net OPEB obligation	12,145
Net OPEB obligation – beginning of year	<u>7,428</u>
Net OPEB obligation – end of year	<u><u>\$ 19,573</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>
2010	\$ 26,237	\$ 23,913	91.1%	\$ 7,764
2011	\$ 26,188	\$ 26,524	101.3%	\$ 7,428
2012	\$ 34,996	\$ 22,851	65.3%	\$ 19,573

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; 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 December 31, 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 Policy

Minnesota Statutes, Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the City and 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 (there are no covered payroll percentage calculations).

Contributions totaling \$84,907 (\$71,816 from the City and \$13,091 from the state of Minnesota) were made in accordance with state statute requirements for the year ended December 31, 2011.

The minimum contribution from 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
-	<u>Projected investment earnings @ 5%</u>
=	<u><u>Total contribution required</u></u>

The City contributed the required amounts in 2012 and 2011 and has no net pension obligation.

The plan members are volunteers with no contribution requirements.

C. Accrued Pension Liability

The Association calculates its accrued pension liability actuarially in accordance with Minnesota Statute § 69.772 for lump-sum pension benefits.

Significant assumptions are as follows:

- The entry age normal cost method was used to determine the normal cost of all benefits.

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

- The rate of investment return used in making the valuation was 5 percent per annum, compounded annually.
- Service retirement was assumed to occur at age 50.
- No turnover or early retirements.
- Actuarial valuation period is open.

Based on the most recent available audit report of the Association as of December 31, 2011, the Association’s accrued pension liability is \$1,065,395. The Association’s Special Pension Trust Fund had net assets (accrual basis) at December 31, 2011 of \$847,735 (at fair value), resulting in an accrued liability in excess of assets of \$217,660.

NOTE 9 – TRANSFERS AND INTERFUND RECEIVABLES AND PAYABLES

Transfers

The following interfund transfers were made during the year ended December 31, 2012:

Transfers Out	Transfers In			Total
	Economic Development Authority	North Ravine Capital Project Fund	Nonmajor Governmental Funds	
General Fund	\$ 150,000	\$ –	\$ 69,000	\$ 219,000
Economic Development Authority	–	18,750	–	18,750
PFA G.O. Bonds of 2002	–	–	46,922	46,922
	<u>\$ 150,000</u>	<u>\$ 18,750</u>	<u>\$ 115,922</u>	<u>\$ 284,672</u>

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.

B. 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.

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>
2002	\$ 703,548	\$ 831,225	\$ (127,677)	84.6 %
2003	824,522	828,503	(3,981)	99.5
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

Note 1: The Association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll amounts or percentage calculations).

Note 2: Information for the year ended December 31, 2012 is not available.

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		
2002	\$ 18,925	\$ 12,327	\$ 31,252	\$ 23,018	\$ 13,637	\$ 36,655	117.3 %	\$ 2,500
2003	24,240	12,051	36,291	24,207	16,619	40,826	112.5	2,500
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

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	12/31/2011
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

Note: Information for the year ended December 31, 2012 is not available.

CITY OF NEWPORT

Other Post-Employment Benefits Plan
 Schedule of Funding Progress
 December 31, 2012

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
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, 2012

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Totals</u>
Assets				
Cash and temporary investments	\$ 46,438	\$ 70,544	\$ 533,474	\$ 650,456
Receivables				
Current taxes	—	1,075	—	1,075
Due from other governments	—	—	12,776	12,776
Total assets	<u>\$ 46,438</u>	<u>\$ 71,619</u>	<u>\$ 546,250</u>	<u>\$ 664,307</u>
Fund Balances				
Fund balances				
Restricted	\$ 25,795	\$ 71,619	\$ 25,523	\$ 122,937
Assigned	<u>20,643</u>	<u>—</u>	<u>520,727</u>	<u>541,370</u>
Total fund balance	<u>\$ 46,438</u>	<u>\$ 71,619</u>	<u>\$ 546,250</u>	<u>\$ 664,307</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended December 31, 2012

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Totals</u>
Revenue				
Property taxes	\$ -	\$ 86,044	\$ -	\$ 86,044
Special assessments	-	43,359	-	43,359
Intergovernmental	4,695	-	63,879	68,574
Investment earnings (charged)	188	(17)	2,190	2,361
Miscellaneous	5,035	-	1,212	6,247
Total revenue	<u>9,918</u>	<u>129,386</u>	<u>67,281</u>	<u>206,585</u>
Expenditures				
Current				
General government	10,316	-	-	10,316
Parks and recreation	9,656	-	-	9,656
Capital outlay	-	-	118,827	118,827
Debt service				
Principal retirement	-	80,000	-	80,000
Interest and fiscal charges	-	25,201	-	25,201
Total expenditures	<u>19,972</u>	<u>105,201</u>	<u>118,827</u>	<u>244,000</u>
Excess (deficiency) of revenue over expenditures	(10,054)	24,185	(51,546)	(37,415)
Other financing sources				
Transfers in	<u>7,200</u>	<u>46,922</u>	<u>61,800</u>	<u>115,922</u>
Net change in fund balances	(2,854)	71,107	10,254	78,507
Fund balances				
Beginning of year	<u>49,292</u>	<u>512</u>	<u>535,996</u>	<u>585,800</u>
End of year	<u>\$ 46,438</u>	<u>\$ 71,619</u>	<u>\$ 546,250</u>	<u>\$ 664,307</u>

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 as of December 31, 2012

	<u>Heritage Preservation</u>	<u>Recycling</u>	<u>Buy Forfeiture</u>	<u>Pioneer Days</u>	<u>Total</u>
Assets					
Cash and temporary investments	<u>\$ 2,339</u>	<u>\$ 24,492</u>	<u>\$ 1,303</u>	<u>\$ 18,304</u>	<u>\$ 46,438</u>
Fund Balances					
Fund balances					
Restricted	\$ -	\$ 24,492	\$ 1,303	\$ -	\$ 25,795
Assigned	<u>2,339</u>	<u>-</u>	<u>-</u>	<u>18,304</u>	<u>20,643</u>
Total fund balances	<u>\$ 2,339</u>	<u>\$ 24,492</u>	<u>\$ 1,303</u>	<u>\$ 18,304</u>	<u>\$ 46,438</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended December 31, 2012

	Heritage Preservation	Recycling	Buy Forfeiture	Pioneer Days	Total
Revenue					
Intergovernmental	\$ -	\$ 4,695	\$ -	\$ -	\$ 4,695
Investment earnings	13	97	5	73	188
Miscellaneous					
Donations	-	-	-	5,035	5,035
Total revenue	<u>13</u>	<u>4,792</u>	<u>5</u>	<u>5,108</u>	<u>9,918</u>
Expenditures					
Current					
General government	-	5,432	-	4,884	10,316
Parks and recreation	9,656	-	-	-	9,656
Total expenditures	<u>9,656</u>	<u>5,432</u>	<u>-</u>	<u>4,884</u>	<u>19,972</u>
Excess (deficiency) of revenue over expenditures	(9,643)	(640)	5	224	(10,054)
Other financing sources					
Transfers in	<u>7,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,200</u>
Net change in fund balances	(2,443)	(640)	5	224	(2,854)
Fund balances					
Beginning of year	<u>4,782</u>	<u>25,132</u>	<u>1,298</u>	<u>18,080</u>	<u>49,292</u>
End of year	<u>\$ 2,339</u>	<u>\$ 24,492</u>	<u>\$ 1,303</u>	<u>\$ 18,304</u>	<u>\$ 46,438</u>

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Debt Service Funds
 as of December 31, 2012

	<u>G.O. Improvement Bonds of 2002A</u>	<u>G.O. Improvement Bonds of 2011A</u>	<u>Total</u>
Assets			
Cash and temporary investments	\$ —	\$ 70,544	\$ 70,544
Receivables			
Current taxes	<u>—</u>	<u>1,075</u>	<u>1,075</u>
Total assets	<u>\$ —</u>	<u>\$ 71,619</u>	<u>\$ 71,619</u>
Fund Balances			
Fund balances			
Restricted	<u>\$ —</u>	<u>\$ 71,619</u>	<u>\$ 71,619</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Debt Service Funds
 Year Ended December 31, 2012

	<u>G.O. Improvement Bonds of 2002A</u>	<u>G.O. Improvement Bonds of 2011A</u>	<u>Total</u>
Revenue			
Property taxes	\$ -	\$ 86,044	\$ 86,044
Special assessments	43,359	-	43,359
Investment earnings (charged)	(17)	-	(17)
Total revenue	<u>43,342</u>	<u>86,044</u>	<u>129,386</u>
Expenditures			
Debt service			
Principal retirement	80,000	-	80,000
Interest and fiscal charges	10,264	14,937	25,201
Total expenditures	<u>90,264</u>	<u>14,937</u>	<u>105,201</u>
Excess (deficiency) of revenue over expenditures	(46,922)	71,107	24,185
Other financing sources			
Transfers in	<u>46,922</u>	<u>-</u>	<u>46,922</u>
Net change in fund balances	-	71,107	71,107
Fund balances			
Beginning of year	<u>-</u>	<u>512</u>	<u>512</u>
End of year	<u>\$ -</u>	<u>\$ 71,619</u>	<u>\$ 71,619</u>

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Capital Project Funds
 as of December 31, 2012

	<u>Parks</u>	<u>Street Reconstruction</u>	<u>Equipment Revolving</u>	<u>4th Avenue Ravine</u>	<u>Highway 61 Project</u>	<u>Total</u>
Assets						
Cash and temporary investments	\$ 28,335	\$ 40,938	\$ 209,658	\$ 12,747	\$ 241,796	\$ 533,474
Receivables						
Due from other governments	—	—	—	12,776	—	12,776
Total assets	<u>\$ 28,335</u>	<u>\$ 40,938</u>	<u>\$ 209,658</u>	<u>\$ 25,523</u>	<u>\$ 241,796</u>	<u>\$ 546,250</u>
Fund Balances						
Fund balances						
Restricted	\$ —	\$ —	\$ —	\$ 25,523	\$ —	\$ 25,523
Assigned	<u>28,335</u>	<u>40,938</u>	<u>209,658</u>	<u>—</u>	<u>241,796</u>	<u>520,727</u>
Total fund balances	<u>\$ 28,335</u>	<u>\$ 40,938</u>	<u>\$ 209,658</u>	<u>\$ 25,523</u>	<u>\$ 241,796</u>	<u>\$ 546,250</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Capital Project Funds
 Year Ended December 31, 2012

	Parks	Street Reconstruction	Equipment Revolving	4th Avenue Ravine	Highway 61 Project	Total
Revenue						
Intergovernmental	\$ -	\$ 3,061	\$ -	\$ -	\$ 60,818	\$ 63,879
Investment earnings	170	161	841	50	968	2,190
Miscellaneous						
Donations	1,212	-	-	-	-	1,212
Total revenue	<u>1,382</u>	<u>3,222</u>	<u>841</u>	<u>50</u>	<u>61,786</u>	<u>67,281</u>
Expenditures						
Capital outlay	<u>58,841</u>	<u>-</u>	<u>59,986</u>	<u>-</u>	<u>-</u>	<u>118,827</u>
Excess (deficiency) of revenue over expenditures	(57,459)	3,222	(59,145)	50	61,786	(51,546)
Other financing sources						
Transfers in	<u>11,800</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>61,800</u>
Net changes in fund balances	(45,659)	3,222	(9,145)	50	61,786	10,254
Fund balances						
Beginning of year	<u>73,994</u>	<u>37,716</u>	<u>218,803</u>	<u>25,473</u>	<u>180,010</u>	<u>535,996</u>
End of year	<u>\$ 28,335</u>	<u>\$ 40,938</u>	<u>\$ 209,658</u>	<u>\$ 25,523</u>	<u>\$ 241,796</u>	<u>\$ 546,250</u>

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended December 31, 2012
 (With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		Over (Under) Budget	2011
	Budget	Actual		Actual
Revenue				
Property taxes				
Current ad valorem	\$ 1,715,821	\$ 1,825,793	\$ 109,972	\$ 1,634,410
Fiscal disparities	318,838	286,461	(32,377)	310,234
Fire relief	64,200	1,000	(63,200)	65,000
Delinquent	-	-	-	4,908
Total property taxes	<u>2,098,859</u>	<u>2,113,254</u>	<u>14,395</u>	<u>2,014,552</u>
Licenses and permits				
Conditional use permits	600	2,100	1,500	-
Licenses and permits	4,500	1,180	(3,320)	1,740
Alcoholic beverages	8,300	8,430	130	8,330
Cigarette licenses	100	250	150	800
Building permit fees	45,000	58,387	13,387	66,218
Animal licenses/citations	2,000	2,305	305	1,970
Recycling/sanitation	1,000	3,000	2,000	4,200
Total licenses and permits	<u>61,500</u>	<u>75,652</u>	<u>14,152</u>	<u>83,258</u>
Intergovernmental				
State				
Local governmental aid	588,876	589,106	230	588,876
Market value and other tax credits	-	-	-	131
Police town aid	50,000	45,308	(4,692)	46,565
Police training reimbursement	3,000	2,325	(675)	2,651
State fire relief aid	14,000	12,577	(1,423)	13,091
Other/miscellaneous grants	10,000	42,820	32,820	63,166
Total intergovernmental	<u>665,876</u>	<u>692,136</u>	<u>26,260</u>	<u>714,480</u>
Charges for services				
Planning and zoning	5,500	-	(5,500)	1,050
Accident reports	100	153	53	206
Franchise fees	82,000	80,591	(1,409)	69,132
Miscellaneous	450	12,595	12,145	9,344
Total charges for services	<u>88,050</u>	<u>93,339</u>	<u>5,289</u>	<u>79,732</u>
Fines and forfeits	48,000	58,234	10,234	70,006
Investment earnings	2,500	7,937	5,437	8,401

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2012
 (With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		Over (Under) Budget	2011
	Budget	Actual		Actual
Revenue (continued)				
Miscellaneous				
Rent or sale of property	–	2,138	2,138	2,477
Donations	2,000	48,884	46,884	52,055
Other	14,000	135,116	121,116	63,938
Total miscellaneous	16,000	186,138	170,138	118,470
Total revenue	2,980,785	3,226,690	245,905	3,088,899
Expenditures				
Current				
General government				
Mayor and City Council				
Personal services	21,681	22,318	637	23,545
Travel/conferences	300	492	192	–
Memberships	100	65	(35)	–
Education	2,000	194	(1,806)	80
Miscellaneous	–	–	–	133
Total Mayor and City Council	24,081	23,069	(1,012)	23,758
Administration				
Personal services	198,593	192,432	(6,161)	280,207
Insurance	52,391	53,678	1,287	66,112
Office supplies	13,523	4,655	(8,868)	6,153
Communications	1,600	761	(839)	949
Equipment, repairs, and maintenance	13,972	–	(13,972)	24,978
Travel	5,475	1,344	(4,131)	486
Printing and publishing	2,576	9,176	6,600	5,626
Postage	3,031	4,309	1,278	3,341
Dues and subscriptions	6,975	6,597	(378)	6,464
Education	2,500	2,791	291	2,149
Contractual services	16,141	3,368	(12,773)	14,194
Capital outlay	3,000	9,474	6,474	1,686
Miscellaneous	6,500	9,063	2,563	5,082
Total administration	326,277	297,648	(28,629)	417,427

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2012
 (With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		Over (Under)	2011
	Budget	Actual	Budget	Actual
Expenditures (continued)				
Current (continued)				
General government (continued)				
Elections				
Temporary employees	4,000	2,884	(1,116)	732
Operating supplies	2,100	612	(1,488)	–
Miscellaneous	900	1,045	145	940
Total elections	7,000	4,541	(2,459)	1,672
Professional services				
Accounting/audit	57,000	67,165	10,165	42,930
Engineering	25,000	19,959	(5,041)	26,390
Legal	72,000	62,626	(9,374)	72,670
IT, phone support, and hardware	30,000	44,949	14,949	26,253
Assessing service	–	–	–	33,498
Building inspection	40,000	12,315	(27,685)	17,929
Insurance	63,000	62,956	(44)	50,152
Miscellaneous contracted services	10,000	12,663	2,663	5,608
Total professional services	297,000	282,633	(14,367)	275,430
Planning and zoning				
Personal services	33,967	33,185	(782)	2,086
Operating supplies	100	–	(100)	–
Professional services	4,500	30,906	26,406	61,930
Miscellaneous	500	925	425	4,020
Capital outlay	–	1,178	1,178	–
Total planning and zoning	39,067	66,194	27,127	68,036
Composting				
Personal services	4,500	4,528	28	–
Operating supplies	–	685	685	210
Miscellaneous	500	513	13	500
Total composting	5,000	5,726	726	710
Special projects				
Special contributions	5,000	2,913	(2,087)	7,237

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2012
 (With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		2011
	Budget	Actual	Over (Under) Budget
Expenditures (continued)			
Current (continued)			
General government (continued)			
Miscellaneous			
Contingency	10,000	—	(10,000)
Government buildings			
City Hall			
Operating supplies	100	659	559
Repairs and maintenance	6,500	1,491	(5,009)
Utilities	8,442	6,987	(1,455)
Capital outlay	3,500	4,161	661
Total City Hall	18,542	13,298	(5,244)
Library			
Personnel	12,500	13,253	753
Operating supplies	—	1,027	1,027
Repairs and maintenance	750	727	(23)
Utilities	4,003	3,425	(578)
Capital outlay	7,500	10,351	2,851
Total library	24,753	28,783	4,030
Railroad tower			
Repairs and maintenance	750	33	(717)
Utilities	432	579	147
Total railroad tower	1,182	612	(570)
Total government buildings	44,477	42,693	(1,784)
Total general government	757,902	725,417	(32,485)
Public safety			
Police department			
Personal services	642,060	611,410	(30,650)
Insurance	86,048	94,173	8,125
Office supplies	4,391	4,141	(250)
Communications – telephones and pagers	3,518	3,387	(131)

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2012
 (With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		Over (Under) Budget	2011
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Public safety (continued)				
Police department (continued)				
Vehicle supplies	8,680	1,864	(6,816)	3,721
Tools and equipment	828	820	(8)	433
Fuel	26,000	26,738	738	27,219
Uniforms	9,289	6,060	(3,229)	6,111
Travel	20	30	10	23
Departmental services	9,500	258	(9,242)	8,351
Memberships and conferences	450	445	(5)	219
Education	4,147	2,621	(1,526)	3,916
Vehicle repair and maintenance	3,452	2,142	(1,310)	470
Dispatch	39,212	38,720	(492)	19,811
MDT lease – Washington County	–	3,375	3,375	9,085
Capital outlay	7,500	–	(7,500)	7,892
Total police department	845,095	796,184	(48,911)	774,591
Fire Station No. 1				
Operating supplies	500	–	(500)	–
Repairs and maintenance	1,000	187	(813)	444
Utilities	11,246	6,359	(4,887)	6,602
Capital outlay	1,500	–	(1,500)	817
Total Fire Station No. 1	14,246	6,546	(7,700)	7,863
Fire Station No. 2				
Operating supplies	500	–	(500)	–
Utilities	3,318	1,946	(1,372)	2,142
Total Fire Station No. 2	3,818	1,946	(1,872)	2,142
Fire protection				
Personal services	33,000	36,393	3,393	27,059
Insurance	3,253	3,693	440	4,421
Office supplies	6,000	1,739	(4,261)	7,210
Vehicle supplies	15,124	8,499	(6,625)	6,728
Tools and equipment	4,000	4,055	55	172
Fuel	2,018	1,722	(296)	3,130
Uniforms	1,000	1,026	26	54,351

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2012
 (With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		Over (Under)	2011
	Budget	Actual	Budget	Actual
Expenditures (continued)				
Current (continued)				
Public safety (continued)				
Fire protection (continued)				
Communication	2,568	1,524	(1,044)	1,449
Travel and conferences	655	758	103	1,093
Memberships and subscriptions	536	753	217	3,318
Education	6,934	5,262	(1,672)	9,278
Repairs and maintenance	280	265	(15)	759
Contractual	6,500	11,425	4,925	8,904
Fire relief	64,200	65,438	1,238	71,816
State fire relief aid	14,000	12,577	(1,423)	13,091
Miscellaneous	-	-	-	678
Capital outlay	20,000	10,000	(10,000)	6,200
Total fire protection	180,068	165,129	(14,939)	219,657
Civil defense				
Contractual services	-	4,622	4,622	-
Electricity	-	-	-	23
Total civil defense	-	4,622	4,622	23
Total public safety	1,043,227	974,427	(68,800)	1,004,276
Public works				
Streets				
Personal services	233,791	282,024	48,233	197,906
Insurance	42,737	50,842	8,105	37,338
Materials and supplies	-	26,980	26,980	68,063
Vehicle supplies	5,328	14,094	8,766	17,779
Small tools and equipment	553	459	(94)	280
Fuel	18,379	14,547	(3,832)	16,909
Uniforms	4,709	2,414	(2,295)	3,817
Communications	3,832	4,861	1,029	5,966
Rentals	-	116	116	-
Seal coat	80,000	80,818	818	61,056
Repairs and maintenance	5,951	3,734	(2,217)	3,956

(continued)

CITY OF NEWPORT

General Fund

Schedule of Revenue, Expenditures, and Changes in Fund Balances

Budget and Actual (continued)

Year Ended December 31, 2012

(With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		Over (Under) Budget	2011
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Public works (continued)				
Streets (continued)				
Miscellaneous contractual	40,737	8,780	(31,957)	16,098
Miscellaneous	3,266	503	(2,763)	3,223
Capital outlay	—	202	202	—
Total streets	439,283	490,374	51,091	432,391
Public works garage				
Operating supplies	500	374	(126)	125
Repairs and maintenance	750	1,930	1,180	5,595
Utilities	15,009	10,578	(4,431)	11,422
Capital outlay	1,500	636	(864)	—
Total public works garage	17,759	13,518	(4,241)	17,142
Total public works	457,042	503,892	46,850	449,533
Parks and recreation				
Parks				
Personal services	192,189	175,230	(16,959)	256,856
Insurance	34,930	46,680	11,750	46,157
Operating supplies	8,479	7,968	(511)	10,555
Vehicle supplies	3,274	2,925	(349)	2,733
Tools and minor equipment	896	1,880	984	138
Fuel	718	8,601	7,883	71
Uniforms	362	1,231	869	1,397
Rental	—	34	34	554
Communications	—	1,370	1,370	1,258
Miscellaneous	—	—	—	388
Miscellaneous contractual	7,500	8,199	699	10,853
Capital outlay	2,936	15,167	12,231	3,783
Total parks	251,284	269,285	18,001	334,743

(continued)

CITY OF NEWPORT

General Fund

Schedule of Revenue, Expenditures, and Changes in Fund Balances

Budget and Actual (continued)

Year Ended December 31, 2012

(With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		2011
	Budget	Actual	Over (Under) Budget
Expenditures (continued)			
Current (continued)			
Parks and recreation (continued)			
Park buildings			
Repairs and maintenance	500	—	(500)
Utilities	5,000	3,542	(1,458)
Capital outlay	—	—	—
Total park buildings	<u>5,500</u>	<u>3,542</u>	<u>(1,958)</u>
Recreation			
Personal services	2,500	2,062	(438)
Supplies	500	392	(108)
Capital outlay	500	—	(500)
Total recreation	<u>3,500</u>	<u>2,454</u>	<u>(1,046)</u>
Total parks and recreation	<u>260,284</u>	<u>275,281</u>	<u>14,997</u>
Total expenditures	<u>2,518,455</u>	<u>2,479,017</u>	<u>(39,438)</u>
Excess of revenue over expenditures	462,330	747,673	285,343
Other financing (uses)			
Transfers (out)			
Economic Development Authority	(250,000)	(150,000)	100,000
Heritage Preservation Fund	(7,200)	(7,200)	—
Fire Engine Fund	—	—	—
Buy Forfeiture Fund	—	—	—
Equipment Revolving	(50,000)	(50,000)	—
Parks Fund	(11,800)	(11,800)	—
Streetlight Enterprise Fund	—	—	—
Total other financing (uses)	<u>(319,000)</u>	<u>(219,000)</u>	<u>100,000</u>
Net change in fund balances	<u>\$ 143,330</u>	528,673	<u>\$ 385,343</u>
Fund balances			
Beginning of year		<u>1,160,102</u>	<u>848,026</u>
End of year		<u>\$ 1,688,775</u>	<u>\$ 1,160,102</u>

CITY OF NEWPORT

Combining Statement of Net Position
 Nonmajor Proprietary Funds
 as of December 31, 2012

	Business-Type Activities – Enterprise Funds		
	Street Light	Storm Sewer	Total
Assets			
Cash and temporary investments	\$ 11,364	\$ 15,052	\$ 26,416
Receivables			
Accounts	9,741	6,123	15,864
Total assets	<u>\$ 21,105</u>	<u>\$ 21,175</u>	<u>\$ 42,280</u>
Liabilities and Net Position			
Current liabilities			
Accounts payable	\$ 4,560	\$ –	\$ 4,560
Net position			
Unrestricted	16,545	21,175	37,720
Total liabilities and net position	<u>\$ 21,105</u>	<u>\$ 21,175</u>	<u>\$ 42,280</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenses, and Changes in Net Position
 Nonmajor Proprietary Funds
 Year Ended December 31, 2012

	Business-Type Activities – Enterprise Funds		
	Street Light	Storm Sewer	Total
Operating revenue			
Street light charges	\$ 50,655	\$ –	\$ 50,655
Storm sewer charges	–	26,949	26,949
Total operating revenue	<u>50,655</u>	<u>26,949</u>	<u>77,604</u>
Operating expenses			
Utilities	43,544	–	43,544
Professional services	–	20,631	20,631
Miscellaneous	–	109	109
Total operating expenses	<u>43,544</u>	<u>20,740</u>	<u>64,284</u>
Operating income	7,111	6,209	13,320
Nonoperating revenue			
Investment earnings	<u>49</u>	<u>177</u>	<u>226</u>
Change in net position	7,160	6,386	13,546
Net position			
Beginning of year	<u>9,385</u>	<u>14,789</u>	<u>24,174</u>
End of year	<u>\$ 16,545</u>	<u>\$ 21,175</u>	<u>\$ 37,720</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
 Water Fund
 Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue		
Water sales	\$ 228,980	\$ 183,372
Permits and licenses	-	3,420
Total operating revenue	<u>228,980</u>	<u>186,792</u>
Operating expenses		
Salaries	20,806	50,167
Employee benefits	5,651	8,551
Insurance	7,032	6,373
Supplies	10,235	22,462
Utilities	27,967	25,985
Depreciation	74,999	74,699
Other	26,051	28,821
Total operating expenses	<u>172,741</u>	<u>217,058</u>
Operating income (loss)	56,239	(30,266)
Nonoperating revenue (expenses)		
Investment earnings	1,831	2,921
Interest and fiscal charges	<u>(6,866)</u>	<u>(8,890)</u>
Total nonoperating revenue (expenses)	<u>(5,035)</u>	<u>(5,969)</u>
Change in net position	51,204	(36,235)
Net position		
Beginning of year	<u>1,875,069</u>	<u>1,911,304</u>
End of year	<u>\$ 1,926,273</u>	<u>\$ 1,875,069</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
Sewer Fund
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue		
Sewer charges	\$ 367,409	\$ 330,254
Permits and licenses	210	21,965
Total operating revenue	<u>367,619</u>	<u>352,219</u>
Operating expenses		
Salaries	24,667	47,382
Employee benefits	5,655	8,161
MCES sewer charges	221,122	171,392
Insurance	9,035	6,313
Supplies	8,464	9,562
Utilities	8,248	5,749
Depreciation	33,011	31,134
Other	4,737	9,228
Total operating expenses	<u>314,939</u>	<u>288,921</u>
Operating income	52,680	63,298
Nonoperating revenue (expense)		
State grant and aids	167,102	-
Interest earnings	2,822	4,643
Interest and fiscal charges	(8,967)	(5,300)
Total nonoperating revenue (expense)	<u>160,957</u>	<u>(657)</u>
Change in net position	213,637	62,641
Net position		
Beginning of year	<u>1,498,748</u>	<u>1,436,107</u>
End of year	<u>\$ 1,712,385</u>	<u>\$ 1,498,748</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
 Street Light Fund
 Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue		
Street light charges	\$ 50,655	\$ 46,267
Operating expenses		
Utilities	<u>43,544</u>	<u>49,115</u>
Operating income (loss)	7,111	(2,848)
Nonoperating revenue		
Interest earnings	<u>49</u>	<u>65</u>
Income (loss) before transfers	7,160	(2,783)
Transfers in	<u>—</u>	<u>12,000</u>
Change in net position	7,160	9,217
Net position		
Beginning of year	<u>9,385</u>	<u>168</u>
End of year	<u>\$ 16,545</u>	<u>\$ 9,385</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
 Storm Sewer Fund
 Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue		
Storm sewer charges	\$ 26,949	\$ 12,123
Operating expenses		
Professional services	20,631	2,111
Miscellaneous	109	-
Total operating expenses	<u>20,740</u>	<u>2,111</u>
Operating income	6,209	10,012
Nonoperating revenue		
Interest earnings	<u>177</u>	<u>41</u>
Change in net position	6,386	10,053
Net position		
Beginning of year	<u>14,789</u>	<u>4,736</u>
End of year	<u>\$ 21,175</u>	<u>\$ 14,789</u>

OTHER INFORMATION SECTION

(UNAUDITED)

CITY OF NEWPORT

General Fund Revenue by Source
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Taxes Ad Valorem</u>	<u>Licenses and Permits</u>	<u>Intergovernmental Revenue</u>	<u>Charges for Services</u>	<u>Fines and Forfeits</u>	<u>Other</u>	<u>Total</u>
2003	\$ 1,209,604	\$ 159,535	\$ 441,444	\$ 26,578	\$ 50,365	\$ 97,275	\$ 1,984,801
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

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>
2003	\$ 648,649	\$ 788,788	\$ 223,938	\$ 208,398	\$ -	\$ 44,490	\$ 1,914,263
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

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, 2012	
	Local Levy	Fiscal Disparities	Total Levy	Amount	Percent
2003	\$ 1,198,150	\$ 200,839	\$ 1,398,989	\$ -	- %
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	-	-
2007	1,470,699	229,301	1,700,000	1,296	0.1
2008	1,549,222	223,628	1,772,850	5,088	0.3
2009	1,524,176	256,261	1,780,437	4,721	0.3
2010	1,714,828	257,472	1,972,300	8,253	0.4
2011	1,972,163	318,837	2,291,000	14,745	0.6
2012	1,999,196	311,804	2,311,000	50,502	2.2
				<u>84,605</u>	
Tax Increments Collectible					
2003	\$ 312,875	\$ -	\$ 312,875	\$ -	- %
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	-	-	-	-	-
				<u>-</u>	
				<u>\$ 84,605</u>	
			Total – all taxes		

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			
2003	\$ 2,692,439	\$ 95,812	\$ (361,812)	\$ (241,320)	\$ 2,185,119
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

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

OTHER REQUIRED REPORTS



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INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING

City Council and Management
City of Newport, Minnesota

In planning and performing our audit of 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, 2012, and the related notes to the financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, 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 2012-1 and 2012-2 to be material weaknesses.

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.

(continued)

PURPOSE OF THIS REPORT

This communication is intended solely for the information and use of management, the City Council of the City, others within the City, and the state of Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

Malloy, Montague, Karowski, Radosевич, & Co., P.A.

Minneapolis, Minnesota
June 3, 2013



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INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

City Council and Management
City of Newport, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 3, 2013.

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 study included 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*, except as described in the Schedule of Findings and Responses as items 2012-3 and 2012-4. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The City's responses to the legal compliance findings in our audit have been included in the Schedule of Findings and Responses. The City's responses were not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of those charged with governance and management of the City and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

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

Minneapolis, Minnesota
June 3, 2013

CITY OF NEWPORT

Schedule of Findings and Reponses
Year Ended December 31, 2012

A. FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2012-1 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 – Deb Hill, City Administrator.

Planned Completion Date – December 31, 2013.

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

Plan to Monitor – Deb Hill, 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, 2012

A. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2012-2 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 report. 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 – Deb Hill, City Administrator.

Planned Completion Date – December 31, 2013.

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

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

CITY OF NEWPORT

Schedule of Findings and Responses (continued)
Year Ended December 31, 2012

B. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2012-3 Claims Declaration

Criteria – Minnesota Statute § 471.38.

Condition – Minnesota Statutes require that each person claiming payment from the City make the following written declaration: "I declare under penalties of law that this account, claim, or demand is just and correct and that no part of it has been paid." This declaration was not obtained for disbursements made using checks in 2012.

Cause – This was an oversight by management.

Context – This is a current year finding.

Effect – The City did not properly obtain this declaration for disbursements made in 2012 as required by Minnesota law.

Recommendation – We recommend that the City include the required declaration above the endorsement line on the back of its checks in the future to ensure compliance with this requirement.

Corrective Action Plan

Actions Planned – The City will review disbursements to ensure the required declaration is obtained.

Official Responsible – Deb Hill, City Administrator.

Planned Completion Date – December 31, 2013.

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

Plan to Monitor – Deb Hill, City Administrator, will obtain proper declaration on checks for disbursements.

2012-4 Supporting Documentation – Payroll

Criteria – Minnesota Statute § 412.271.

Condition – This statute requires supervisors, or other officers or employees having knowledge of the facts, to sign a declaration indicating the facts recited on their payroll are correct to the best of the declarant's information and belief. The statute also requires that claims for payroll be signed in proper forms or with a declaration to the effect that employees have received the wages and done the work for which wages have been paid. During the audit procedures for the year ended December 31, 2012, we noted 2 out of 25 individuals selected for testing for which the City did not receive the required declaration.

CITY OF NEWPORT

Schedule of Findings and Responses (continued)
Year Ended December 31, 2012

B. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)

2012-4 Supporting Documentation – Payroll (continued)

Cause – The two individuals tested that were not in compliance were both volunteer firefighters. The City is not obtaining proper supporting documentation for these types of wages paid.

Context – This is a current year finding.

Effect – The City did not comply with Minnesota Statutes.

Recommendation – We recommend that the City obtain documentation to support the claims of the volunteer firefighters.

Corrective Action Plan

Actions Planned – The City will obtain proper back-up documentation for volunteer firefighters' payroll disbursements in the future.

Official Responsible – Deb Hill, City Administrator.

Planned Completion Date – December 31, 2013.

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

Plan to Monitor – Deb Hill, City Administrator, will review future payments of this nature, to ensure proper supporting documentation is received.

Management Report
for
City of Newport, Minnesota
December 31, 2012



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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, 2012. 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
- Funding Cities in Minnesota
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- 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.

June 3, 2013

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

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, 2012 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, 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, 2012:

- We have issued an unqualified 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.
- We have reported two findings based on our testing of the City's compliance with Minnesota laws and regulations:
 - 1) Each person claiming payment from the City is required to make the following written declaration: "I declare under penalties of law that this account, claim, or demand is just and correct and that no part of it has been paid." This declaration was not obtained for disbursements made using checks during 2012.
 - 2) Minnesota Statutes require supervisors, or other officers or employees having knowledge of the facts, to sign a declaration indicating the facts recited on their payroll are correct to the best of the declarant's information and belief. The statute also requires that claims for payroll be signed in proper forms or with a declaration to the effect that employees have received the wages and done the work for which wages have been paid. During the audit procedures for the year ended December 31, 2012, we noted 2 out of 25 individuals selected for testing for which the City did not receive the required declaration.

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, 2012, 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's timely payment of invoices and not having required subcontractor language in the contracts with contractors. 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, 2012, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement changed how governmental entities present a statement of net position, adding two new basic financial statement elements, and replacing “net assets” with “net position” as the terminology used to describe the difference between the other four elements. The two basic financial statement elements added are “deferred inflows of resources” and “deferred outflows of resources”. These new elements are differentiated from assets (deferred outflows of resources) and liabilities (deferred inflows of resources), but have similar effects on net position.

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 and sick leave balances.

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 June 3, 2013.

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 INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

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

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.

FUNDING CITIES IN MINNESOTA

LEGISLATION

The 2011 Legislative Session was very long and difficult. It featured a large budget deficit and a very contentious battle between the Democratic Governor and the Republican-led House and Senate; and resulted in numerous vetoes, a special session, and the longest shutdown of non-essential state government services in Minnesota history.

The outlook going into the 2012 Legislative Session was brightened somewhat by positive economic news. The November 2011 financial forecast projected a surplus of \$876 million in the state general fund for the biennium ending June 30, 2013, later revised to a surplus of almost \$1.2 billion in the February 2012 forecast. This meant that the Legislature would not have to pass a “supplemental budget” to deal with projected shortfalls for the second half of the biennium, as was the case in the previous short session.

The positive feeling was short-lived, however, as the 2012 Legislative Session quickly degenerated into more partisan squabbling. Once again, the Governor exercised his veto power a number of times to block Republican legislative initiatives. The Republican Legislature reacted by introducing several potential amendments to the state constitution, which once passed would be subject to a public vote and could not be vetoed by the Governor. Two potential amendments, addressing voter identification and the legal definition of marriage, made it on the ballot for the November 2012 election and were voted down by the public. In the end, the main accomplishment of the session was a hard-fought compromise on partial public funding for a Vikings stadium.

The 2012 Legislature did pass a state bonding bill, a technical tax bill (after two omnibus tax bills were vetoed), and a few other bills that impacted Minnesota cities. The following is a summary of recent legislative activity affecting the finances of Minnesota cities in 2012 and into the future:

Local Government Aid (LGA) – The state-wide LGA appropriation for fiscal 2012 was \$425.2 million. For fiscal 2012, cities received the lesser of their 2010 actual or 2011 certified LGA allocations. For fiscal 2013 and beyond, the state-wide LGA appropriation had been set to increase to \$426.4 million; however, the 2012 Legislature made some changes. LGA payments for 2013 are frozen at 2012 levels for cities with a population of 5,000 or more. For cities with populations below 5,000, 2013 LGA will be the greater of their 2012 aid or the amount they would have received for 2013 under existing law. The Legislature also froze the base for calculating the maximum increases and decreases for a city’s 2013 and 2014 LGA to their 2012 aid. Beginning in 2015, the previous year’s LGA payment will be used to calculate the minimum and maximum increases.

Market Value Homestead Credit (MVHC) – The 2011 Legislature eliminated the MVHC reimbursement program beginning in fiscal 2012. Rather than receiving a property tax credit, qualifying homeowner taxpayers had a portion of the market value of their house excluded from their taxable market value. This new system provides homeowners property tax relief by shifting a portion of their potential tax burden to other property classifications, rather than directly reducing their taxes through a state paid tax credit reimbursement. While this new homestead exclusion is calculated in a similar manner to the repealed MVHC, the actual tax relief to individual homeowner taxpayers varies depending on the makeup of the taxing jurisdictions that levy on their particular property.

Depositories Authorized to Redeposit City Funds – Banks designated as depositories of city funds are authorized to redeposit the funds in another bank, savings and loan, or credit union located within the United States, provide the redeposited funds are fully covered by federal depository insurance (FDIC or NCUA). This law change was enacted to make additional federal depository insurance available to cover municipal deposits in anticipation of the December 31, 2012 sunset of the temporary unlimited coverage for non-interest bearing municipal accounts provisions of the Dodd-Frank Act.

Municipal State Aid (MSA) Eligibility – Three changes were made that protect the MSA of cities dropping below a population of 5,000, which is the eligibility threshold for receiving MSA for street maintenance. Under previous law, if a city that formerly had a population of 5,000 or more fell below a 5,000 population at the 2010 decennial census, it would have been ineligible for MSA beginning in fiscal 2012. The first change enacted allows previously eligible cities falling below 5,000 population at a decennial census to continue to be considered to have a population of 5,000 for purposes of calculating MSA, thereby remaining eligible, until the end of the fourth year of the decade. The second change enacted states that for purposes of calculating MSA, which is based 50 percent on population, a city is deemed to have a population equal to the greater of 5,000 or as otherwise determined by statute. The final change requires that, for 2013 MSA only, the aid be allocated in a manner that backfills the MSA cities lost in 2012 due to population drops.

Contractor Bond Threshold – The threshold at which a municipality is required to obtain contractor performance and payment bonds for public construction contracts was increased from \$75,000 to match the current competitive bid law threshold of \$100,000.

Municipal Detachment of Parcels – A number of corrections and clarifications were made related to petitions for the detachment of parcels from a municipality. The changes affect petition requirements, the hearing process, and the sharing of associated hearing and mediation costs with the landowners.

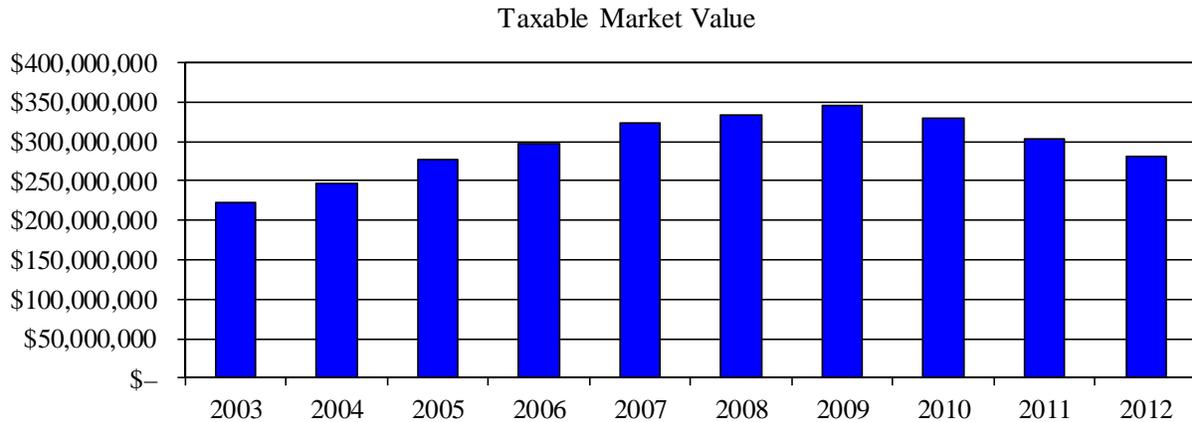
Tort Liability Limits for Cities Contracting With Certain Nonprofits – The liability limit on claims against cities involving nonprofit organizations that are engaged in or administer outdoor recreational activities that are funded or authorized by a municipality were lowered from \$1.5 million to \$1.0 million.

PROPERTY TAXES

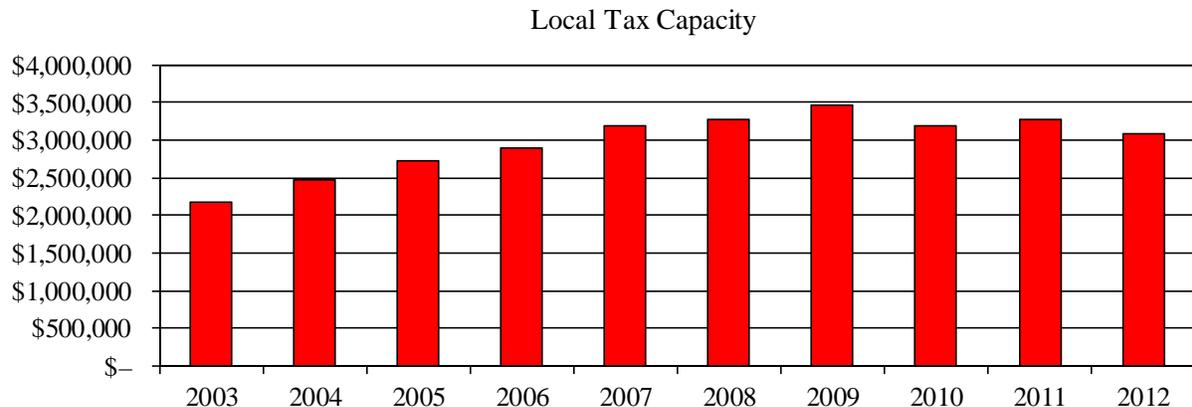
Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. In recent years this dependence has been heightened due to reductions in state aids and fees from new development due to the struggling economy. As a result, many cities have repeatedly been faced with the difficult choice of either reducing services or increasing taxes on their already overburdened constituents.

Property values within Minnesota cities experienced average decreases of 5.7 percent and 8.8 percent for taxes payable in 2011 and 2012, respectively, as market values have continued to slide despite recent signs of improvement in other areas of the economy. In comparison, the City's taxable market value decreased 7.9 percent for taxes payable in 2011 and decreased 7.6 percent for taxes payable in 2012. The market value for taxes payable in 2012 is based on estimated values as of January 1, 2011.

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 increased 2.4 percent and decreased 5.5 percent for taxes payable in 2011 and 2012, 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	
	2011	2012	2011	2012	2011	2012
Average tax rate						
City	42.5	46.3	40.0	43.4	60.3	64.7
County	43.7	46.8	42.1	45.0	29.8	31.9
School	25.2	27.3	26.8	28.5	35.2	37.9
Special taxing	6.4	6.8	8.1	8.7	4.7	5.1
Total	<u>117.8</u>	<u>127.2</u>	<u>117.0</u>	<u>125.6</u>	<u>130.0</u>	<u>139.6</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 2012 was caused by the City's need to increase its levy, coupled with the decline in property market values.

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 Fund, 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.

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, 2012, presented both by fund balance classification and by fund:

Governmental Funds Change in Fund Balance			
	Fund Balance as of December 31,		Increase (Decrease)
	<u>2012</u>	<u>2011</u>	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 32,123	\$ 28,144	\$ 3,979
Restricted	1,539,910	1,546,329	(6,419)
Assigned	541,370	533,385	7,985
Unassigned	<u>1,656,652</u>	<u>1,131,958</u>	<u>524,694</u>
Total – governmental funds	<u><u>\$ 3,770,055</u></u>	<u><u>\$ 3,239,816</u></u>	<u><u>\$ 530,239</u></u>
Total by fund			
General	\$ 1,688,775	\$ 1,160,102	\$ 528,673
Economic Development Authority	562,703	537,149	25,554
Debt Service Funds	386,271	296,665	89,606
Capital Project Funds	1,085,868	1,196,608	(110,740)
Special Revenue Funds	<u>46,438</u>	<u>49,292</u>	<u>(2,854)</u>
Total – governmental funds	<u><u>\$ 3,770,055</u></u>	<u><u>\$ 3,239,816</u></u>	<u><u>\$ 530,239</u></u>

In total, the fund balances of the City's governmental funds increased by \$530,239 during the year ended December 31, 2012, 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 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, 2011			2010	2011	2012
Population	2,000–2,500	2,500–10,000	10,000–20,000	3,435	3,449	3,449
Property taxes	\$ 369	\$ 390	\$ 363	\$ 537	\$ 729	\$ 676
Tax increments	37	40	48	119	–	–
Franchise and other taxes	8	27	36	–	–	–
Special assessments	65	70	56	74	66	81
Licenses and permits	18	23	21	28	24	22
Intergovernmental revenues	396	283	263	230	252	336
Charges for services	109	95	79	19	23	17
Other	110	65	75	29	65	92
Total revenue	<u>\$ 1,112</u>	<u>\$ 993</u>	<u>\$ 941</u>	<u>\$ 1,036</u>	<u>\$ 1,159</u>	<u>\$ 1,224</u>

In total, the City's governmental fund revenues for 2012 were \$4,222,095, an increase of \$223,552, or 5.6 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. The City experienced an increase in total per capita revenue of \$65 in fiscal 2012. The largest increase was in intergovernmental revenues totaling \$84. This increase is related to the increase in capital project related grants and aid received in fiscal 2012. Property taxes declined in fiscal 2012 as a result of excess tax increment financing (TIF) funds received in fiscal 2011, due to the closing of the TIF District, of \$89 per capita.

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.

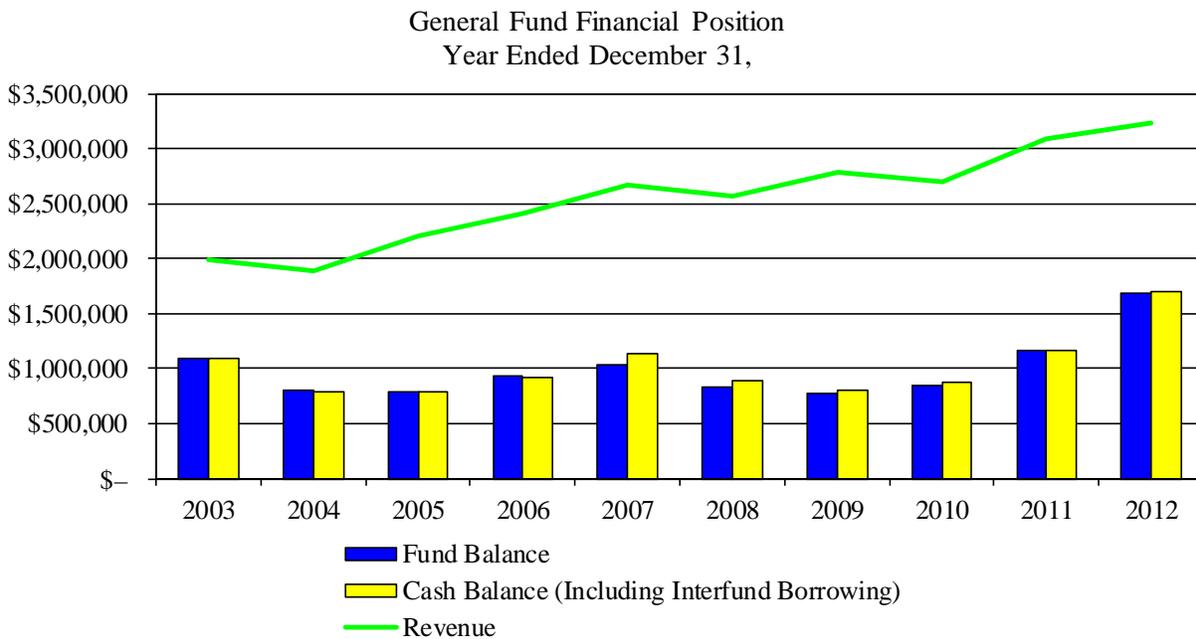
The City's expenditures per capita of its governmental funds for the past three years, together with state-wide averages, are presented in the following table:

Governmental Funds Expenditures per Capita						
With State-Wide Averages by Population Class						
Year	State-Wide			City of Newport		
	December 31, 2011			2010	2011	2012
Population	2,000–2,500	2,500–10,000	10,000–20,000	3,435	3,449	3,449
Current						
General government	\$ 164	\$ 126	\$ 99	\$ 225	\$ 421	\$ 253
Public safety	249	231	225	284	287	280
Street maintenance and lighting	129	114	108	116	130	146
Parks and recreation	97	79	96	94	103	78
All other	100	74	81	–	–	–
	<u>\$ 739</u>	<u>\$ 624</u>	<u>\$ 609</u>	<u>\$ 719</u>	<u>\$ 941</u>	<u>\$ 757</u>
Capital outlay and construction	<u>\$ 242</u>	<u>\$ 258</u>	<u>\$ 272</u>	<u>\$ 21</u>	<u>\$ 74</u>	<u>\$ 212</u>
Debt service						
Principal	\$ 229	\$ 186	\$ 148	\$ 229	\$ 250	\$ 89
Interest and fiscal	<u>75</u>	<u>60</u>	<u>48</u>	<u>39</u>	<u>16</u>	<u>12</u>
	<u>\$ 304</u>	<u>\$ 246</u>	<u>\$ 196</u>	<u>\$ 268</u>	<u>\$ 266</u>	<u>\$ 101</u>

Total expenditures in the City's governmental funds for 2012 were \$3,691,856, a decrease of \$726,098 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 \$184 in fiscal 2012, mostly due to decreases in general government expenditures. Almost all of this decrease was due to the one-time payback of the excess tax increment revenues in fiscal 2011 totaling \$185 per capita, which is included in general government expenditures in the table above. Debt service costs also declined \$165 per capita due to the payoff of the tax increment bonds of 1999A in fiscal 2012.

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 revenue to reflect the change in the size of the General Fund operation over the same period.



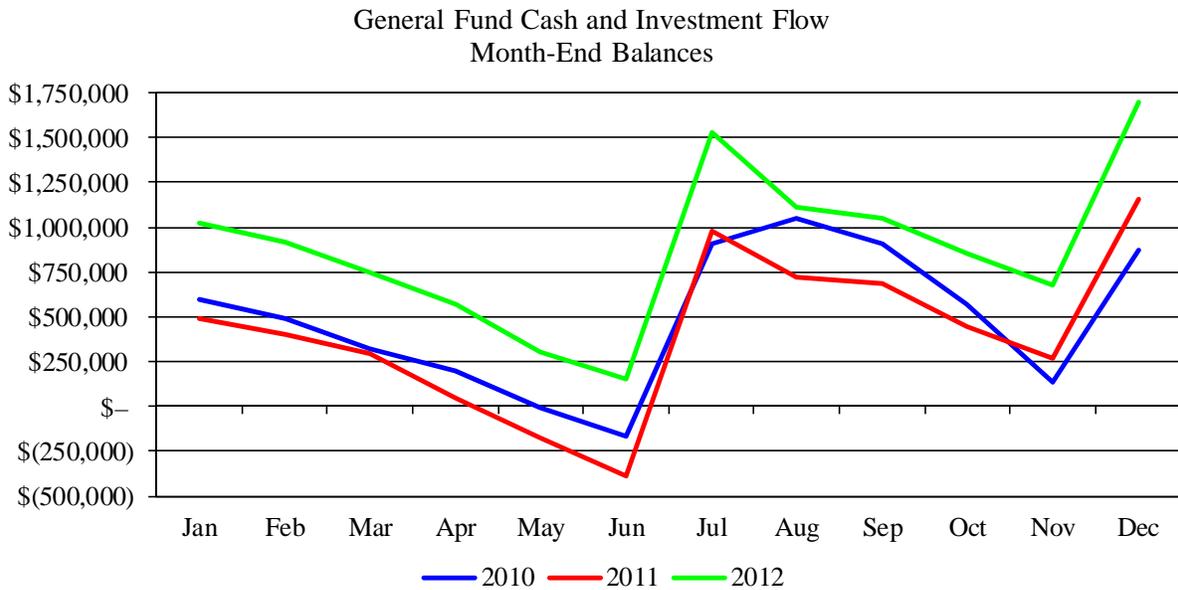
The City's General Fund position improved in 2012 with fund balance increasing by \$528,673 to \$1,688,775. As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a 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.

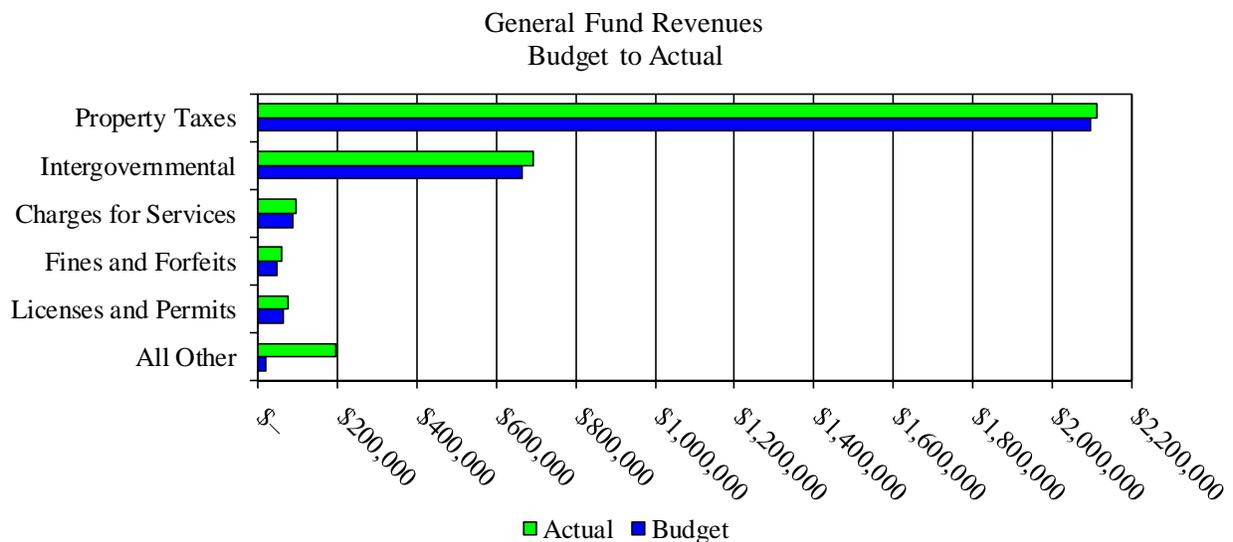
At December 31, 2012, the City's fund balance as a percentage of 2012 expenditures and transfers is 62.6 percent. The Office of the State Auditor recommends this percentage be between 35 and 50 percent.

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 almost 65 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:



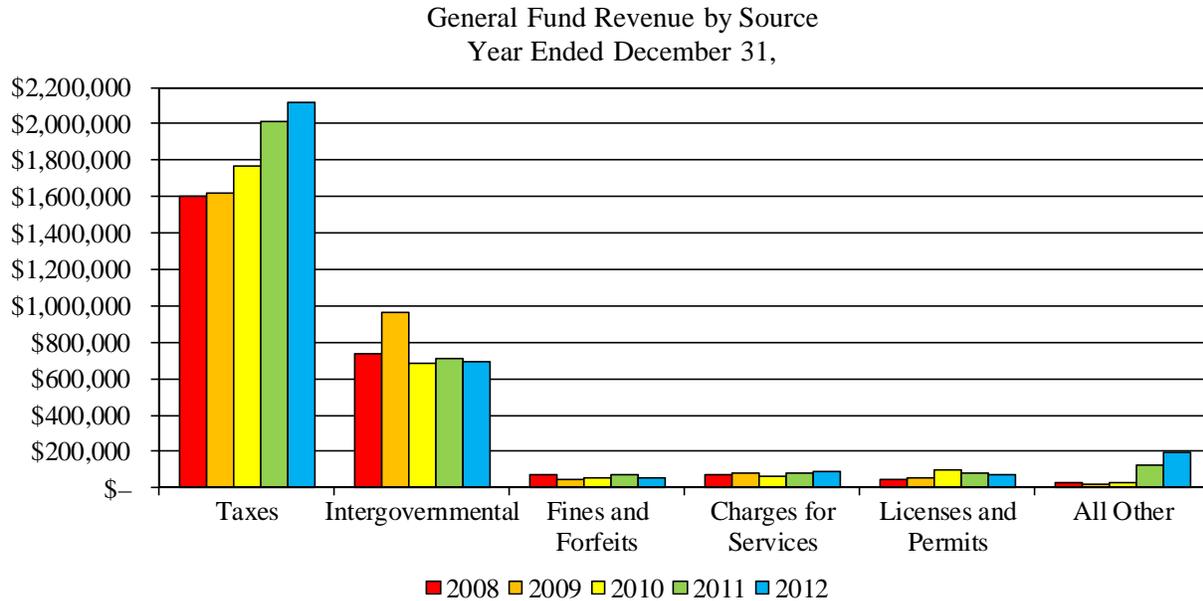
The following chart reflects the City's General Fund revenue sources for 2012 compared to budget:



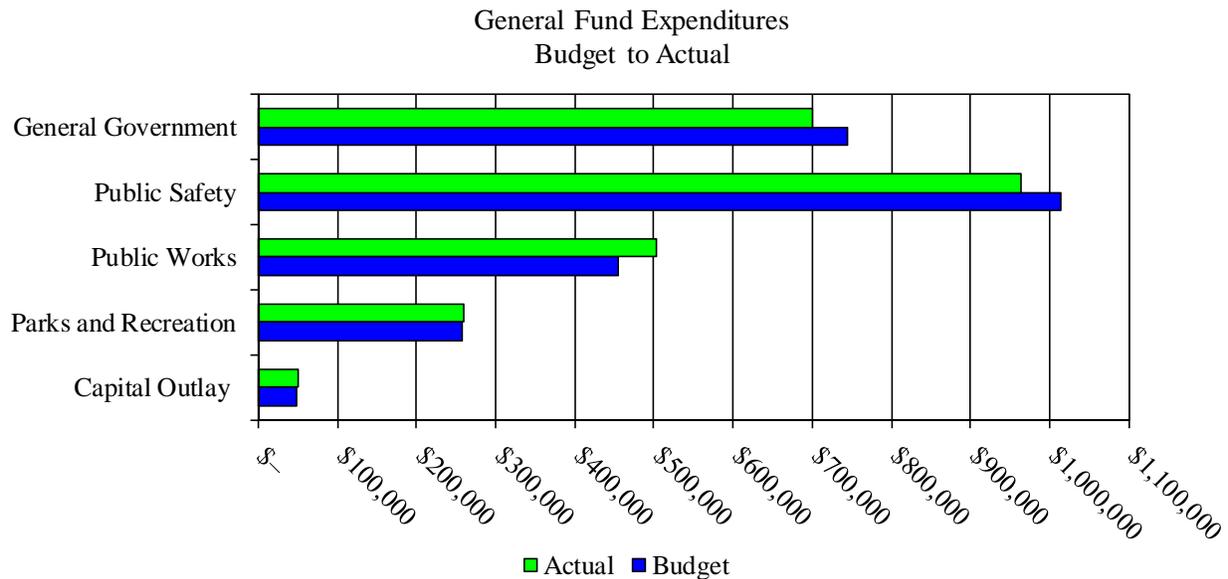
General Fund revenue for 2012 was \$3,226,690, which was \$245,905 (8.2 percent) higher than budget.

Actual financial results were better than projected due to higher than anticipated revenue mainly in property taxes (\$14,395), intergovernmental (\$26,260), and other revenue (\$175,575). Most of the other revenue sources were from grants and other reimbursements that were not anticipated in the fiscal 2012 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:

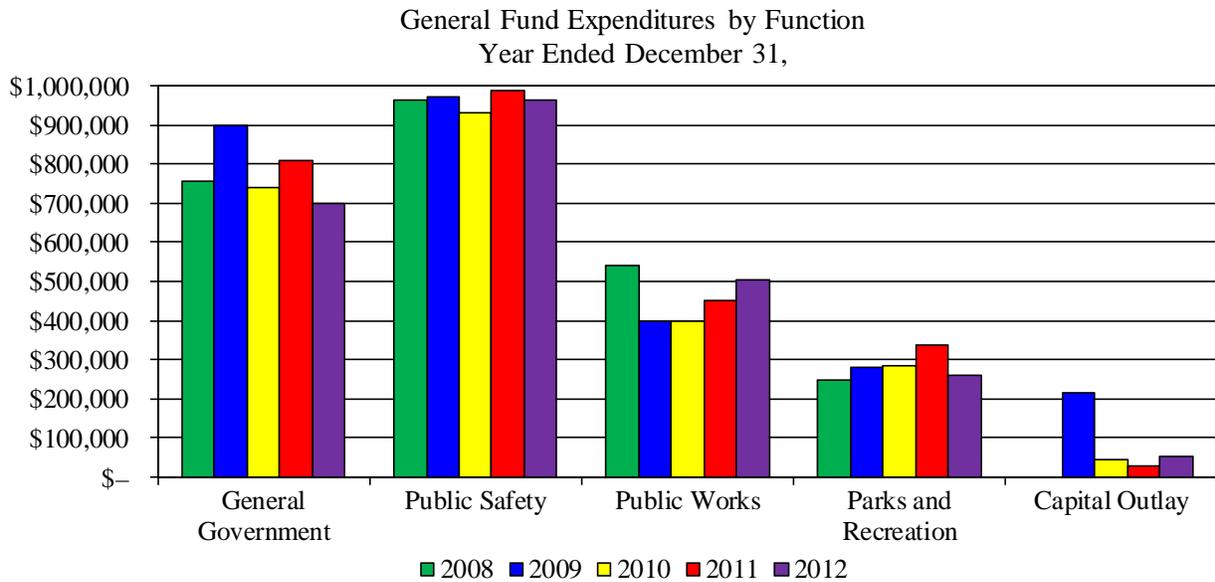


Total General Fund revenue for 2012 was \$137,791 (4.5 percent) higher than last year. Property taxes increased by \$98,702 as the City's general levy was increased and the level of delinquent taxes decreased. The following graphs illustrate the components of General Fund spending for 2012 compared to budget:



Total General Fund expenditures decreased \$132,486, or 5.1 percent, from the prior year. Actual expenditures were \$39,438, or 1.6 percent, lower than budgeted amounts. General government expenditures were lower than budget by \$32,485 mostly in administrative costs for contracted services. The variance in public safety was mainly in costs for personal services.

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



Total General Fund expenditures for 2012 were \$132,486 lower than the previous year. Administration costs decreased \$119,779, mainly in salaries and contracted services. Public safety costs decreased \$29,849, mainly in fire protection uniform costs. Parks and recreation costs were \$66,890 less than last year, due to a decrease in personal services.

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 and Sewer Utility, Storm Sewer, and Street Light Utility.

ENTERPRISE FUNDS FINANCIAL POSITION

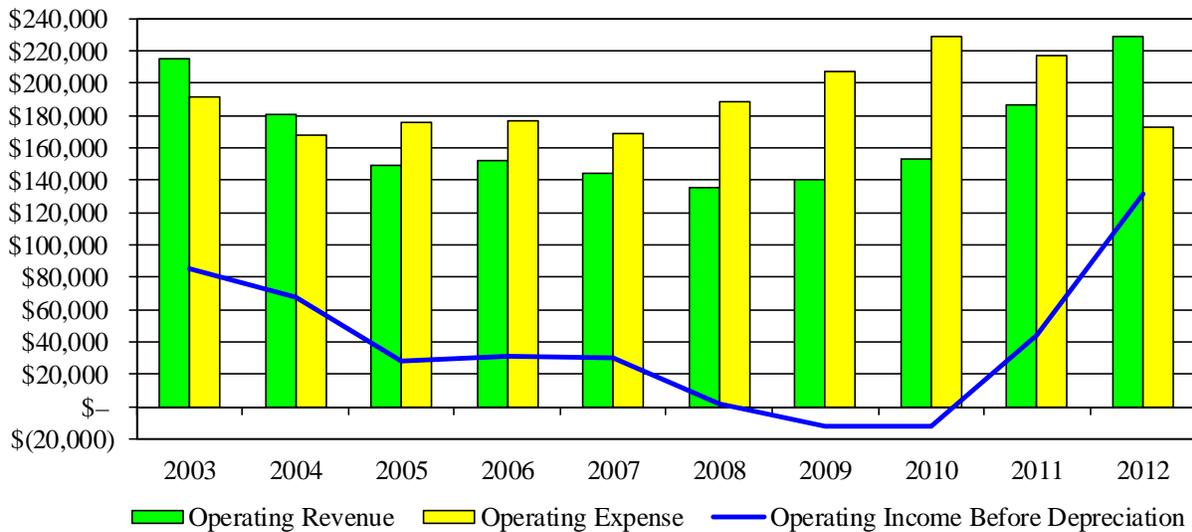
The following table summarizes the changes in the financial position of the City's enterprise funds during the year ended December 31, 2012, presented both by classification and by fund:

Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Increase (Decrease)
	<u>2012</u>	<u>2011</u>	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 2,402,629	\$ 2,168,867	\$ 233,762
Unrestricted	<u>1,273,749</u>	<u>1,229,124</u>	<u>44,625</u>
 Total enterprise funds	 <u><u>\$ 3,676,378</u></u>	 <u><u>\$ 3,397,991</u></u>	 <u><u>\$ 278,387</u></u>
Total by fund			
Water	\$ 1,926,273	\$ 1,875,069	\$ 51,204
Sewer	1,712,385	1,498,748	213,637
Street Light	16,545	9,385	7,160
Storm Sewer	<u>21,175</u>	<u>14,789</u>	<u>6,386</u>
 Total enterprise funds	 <u><u>\$ 3,676,378</u></u>	 <u><u>\$ 3,397,991</u></u>	 <u><u>\$ 278,387</u></u>

WATER ENTERPRISE FUND

At December 31, 2012, the Water Enterprise Fund had a cash balance of \$469,661. Net position for the fund was \$1,926,273. Net position consisted of \$1,420,185 of net investment in capital assets and \$506,088 in unrestricted net position.

Water Enterprise Fund Financial Activity
Year Ended December 31,



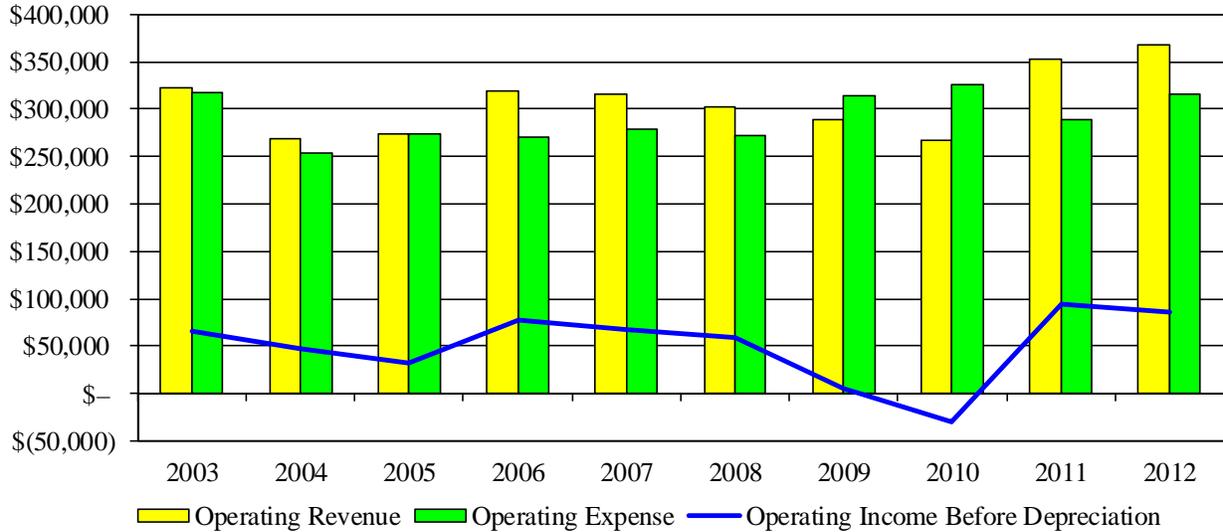
Water Enterprise Fund operating revenues for 2012 were \$228,980, which is an increase of \$42,188 from the previous year. As shown in the above graph, operating income before depreciation was below zero in fiscal years 2009 and 2010. Cash flow from operations improved in fiscal 2011 and 2012, mainly due to increased operating revenues from higher rates and increased water consumption.

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 2003 to fiscal 2007 and fiscal 2011 and 2012.

SEWER ENTERPRISE FUND

At December 31, 2012, the Sewer Enterprise Fund had a cash balance of \$666,307 and a net position balance of \$1,712,385. Net position consisted of \$982,444 of net investment in capital assets and \$729,941 of unrestricted net position.

Sewer Enterprise Fund Financial Activity
Year Ended December 31,

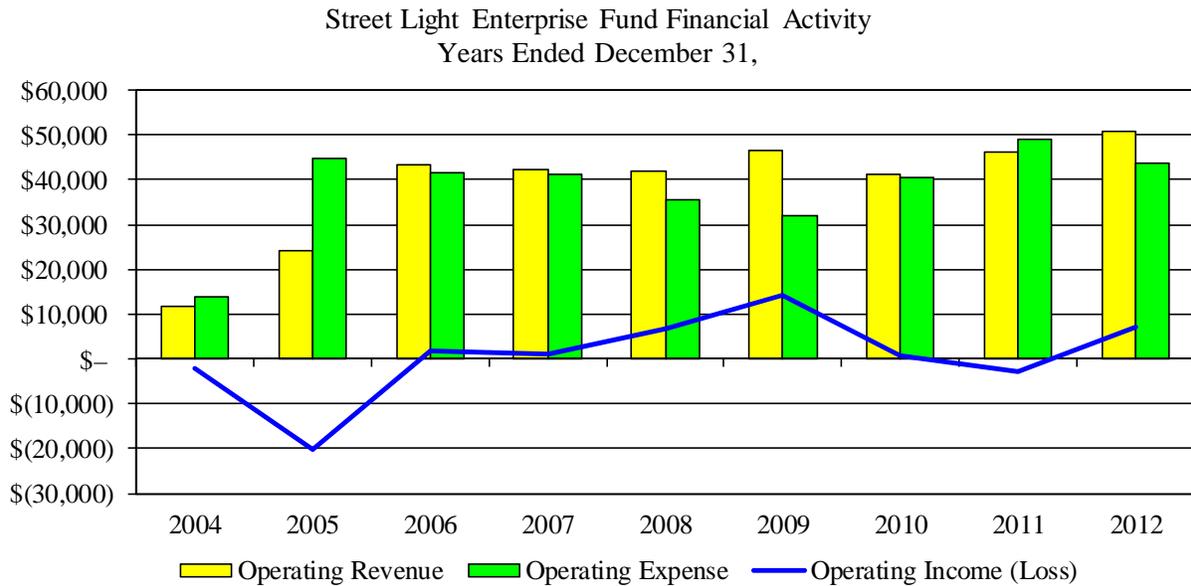


Sewer Enterprise Fund operating revenues for 2012 were \$367,619, which were \$15,400 higher than the previous year. Cash flow from operations improved in fiscal 2012, mainly due to the increase in operating revenues from higher rates and increased consumption.

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 2012.

STREET LIGHT ENTERPRISE FUND

At December 31, 2012, the Street Light Enterprise Fund had a cash balance of \$11,364 and net position of \$16,545.

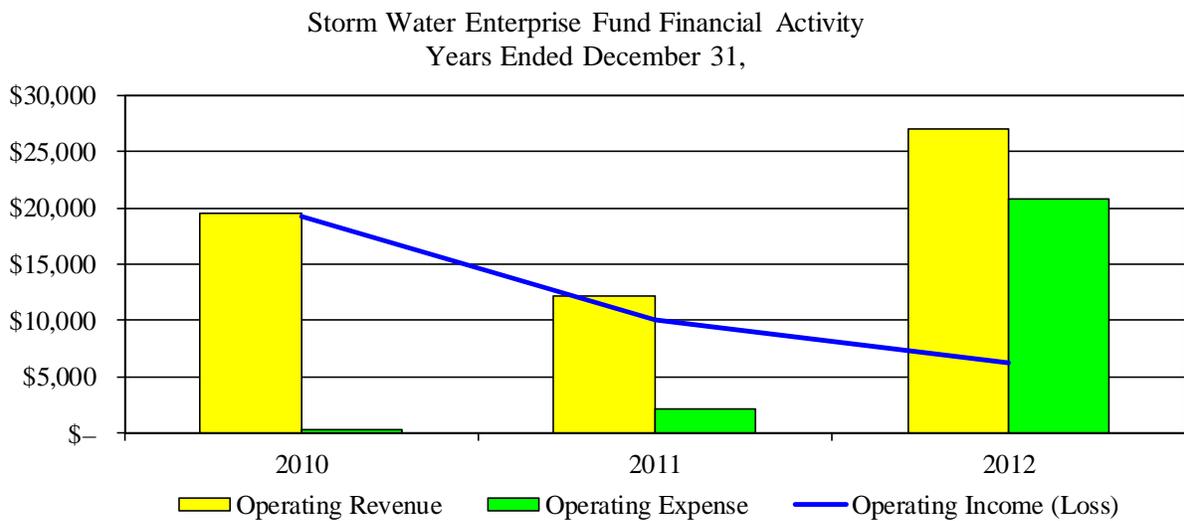


The Street Light Enterprise Fund net position increased \$7,160 in fiscal 2012.

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, 2012, the Storm Sewer Enterprise Fund had a cash balance of \$15,052 and a net position of \$21,175. The Storm Sewer Fund finished the year with an increase in net position of \$6,386.



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 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, 2012 and 2011, for governmental activities and business-type activities:

	As of December 31,		Increase (Decrease)
	2012	2011	
Net position			
Governmental activities			
Net investment in capital assets	\$ 8,709,526	\$ 8,746,697	\$ (37,171)
Restricted	1,779,507	1,542,565	236,942
Unrestricted	<u>2,048,497</u>	<u>1,995,126</u>	<u>53,371</u>
Total governmental activities	<u>12,537,530</u>	<u>12,284,388</u>	<u>253,142</u>
Business-type activities			
Net investment in capital assets	2,402,629	2,168,867	233,762
Unrestricted	<u>1,273,749</u>	<u>1,229,124</u>	<u>44,625</u>
Total business-type activities	<u>3,676,378</u>	<u>3,397,991</u>	<u>278,387</u>
Total net position	<u>\$ 16,213,908</u>	<u>\$ 15,682,379</u>	<u>\$ 531,529</u>

The City ended 2012 with combined total net position of \$16,213,908, an increase of \$531,529 from the prior year. Most of this increase relates to the increased General Fund balance and enterprise funds net position in fiscal 2012.

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, 2012 and 2011:

	2012		2011	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 881,690	\$ 150,759	\$ (730,931)	\$ (1,306,891)
Public safety	1,025,646	131,908	(893,738)	(939,806)
Public works	1,517,411	539,521	(977,890)	(820,245)
Parks and recreation	275,260	5,907	(269,353)	(408,779)
Interest on long-term debt	41,774	—	(41,774)	(73,902)
Business-type activities				
Water	179,607	228,980	49,373	(39,156)
Sewer	323,906	534,721	210,815	57,998
Other	64,284	77,604	13,320	7,164
Total net (expense) revenue	<u>\$ 4,309,578</u>	<u>\$ 1,669,400</u>	(2,640,178)	(3,523,617)
General revenues				
Property taxes			2,307,486	2,321,398
General grants and contributions			692,136	564,773
Other general revenues			151,137	141,349
Investment earnings			20,948	34,203
Total general revenues			<u>3,171,707</u>	<u>3,061,723</u>
Change in net position			<u>\$ 531,529</u>	<u>\$ (461,894)</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.

ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 61 – THE FINANCIAL REPORTING ENTITY: OMNIBUS

This statement amends the current guidance in GASB Statement No. 14, *The Financial Reporting Entity*, for identifying and presenting component units. Potential component units that meet the fiscal dependency criterion for inclusion in the financial reporting entity under existing guidance will only be included if there is also “financial interdependency” (an ongoing relationship of potential financial benefit or burden) with the primary government. This statement also clarifies the types of relationships that are considered to meet the “misleading to exclude” criterion for inclusion as a component unit; changes the criteria for blending component units; gives direction for the determination and disclosure of major component units; and adds a requirement to report an explicit, measurable equity interest in a discretely presented component unit in a statement of position prepared using the economic resources measurement focus. The requirements of this statement must be implemented for periods beginning after June 15, 2012, with earlier implementation encouraged.

GASB STATEMENT NO. 65 – ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES

This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities; and recognizes, as outflows or inflows of resources, certain items previously reported as assets and liabilities. This statement also provides financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

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 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.

PROPOSED CHANGES TO REQUIREMENTS FOR FEDERAL GRANTS

The U.S. Office of Management and Budget (OMB) has issued for comment *Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards*, which proposes broad revisions to OMB Circular A-133 and other key grant reforms. The proposed guidance 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 process 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, a reduction in the types of compliance requirements to be tested, and an increase in the threshold for reporting questioned costs. The proposed guidance would also consolidate OMB circulars and cost principles; and change certain federal requirements related to indirect costs, time and effort reporting, and grant administration.



MEMO

TO: Mayor and Council

FROM: Deb Hill, City Administrator

DATE: June 3, 2013

SUBJECT: Archery Deer Hunt

Background:

In July of 2012 the council enacted an Ordinance for an Archery Deer Hunt to be conducted after October 15th of each year. Metro Bowhunters Resource Base was contacted to organize the hunt. Councilor Gallagher and Superintendent Hanson and I met to develop some of the parameters and rules of the hunt. Attached are the rules, contract, and provision details of the Hunt - MBRB will provide the insurance. Newport School Principal Aaron Krueger has been contacted about the hunt and the use of the school forest. Attorney Knaak has reviewed and approved the contract.

Discussion:

Staff is recommending approval with MBRB to contract for the archery deer hunt.

CONTRACT FOR GOODS/SERVICES

City of Newport (City), a political subdivision of the State of Minnesota, is in need of services and/or goods (hereinafter "services") and Metro Bowhunters Resource Base, Inc., 30405 Ridgewood Ave, Shafer, MN 55074 (Contractor) desires to provide such services.

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein the parties enter into this Contract and agree as follows:

1. TERM. The term of this Contract is from the date of execution by all parties through December 31, 2013, or until all work under this Contract is completed and payments made, which ever occurs first, unless earlier terminated by law or according to the provisions of this Contract.
2. SCOPE OF SERVICES. The City requests and the Contractor agrees to provide the services that are attached and incorporated as Exhibit A. If there is a conflict between this Contract and Exhibit A, this Contract shall govern. Services provided under this Agreement will be conducted in a manner consistent with that level of care and skill ordinarily exercised by members of the Contractor's occupation performing services under similar conditions.
3. PAYMENT. The City agrees to pay for the services, including expenses in an amount not to exceed \$- 0 - (Contract Maximum), (check if applicable) and in accordance with payment rates or schedule set forth in the Exhibit(s). The City will reimburse MBRB for the cost to list the City as an additional insured party on its insurance policy for these services.
4. CITY LIAISON. Contractor shall work closely with the City's liaison, Deb Hill, 651-459-5677.
5. GENERAL CONDITIONS. The General Conditions of this Contract are attached and incorporated as Exhibit B.
6. ENTIRE AGREEMENT. This Contract is the final expression of the agreement of the parties and the complete and exclusive statement of the terms agreed upon.

IN WITNESS WHEREOF, the parties hereto have executed this Contract on the date(s) indicated below.

FOR CITY OF NEWPORT
(I represent and warrant that I am authorized to execute this contract on behalf of the City of Newport)

By: _____
Deb Hill
City Administrator/Clerk

Date of signature: _____

FOR THE CONTRACTOR
(I represent and warrant that I am authorized by law to execute this contract and legally bind the Contractor).

By: _____

Print Name: _____

Title: _____

Telephone No. _____

Date of signature: _____

EXHIBIT A

Things the City will provide:

- Approval of Hunt plan.
- Contract between City and MBRB.
- Maps of hunt areas / parking areas.
- Parking areas for hunter vehicles.
- Hunt permits issued by the city.
- Contact info / liaison with police department.
- Facilities for hunt orientation with hunters before hunt. A classroom will be fine.
- If required, a field dressing area.
- Signs to control public access if required.

MBRB will provide:

- Qualified archers.
- Hunt Coordinator to manage hunt.
- Liability Insurance Option.
- Weekly reports to City during hunt.
- Final hunt report after completion of hunt.

EXHIBIT B

Newport Special Archery Hunt Rules:

- 1) Deer hunt locations are limited to the areas as identified. Hours are limited to 1/2 hour before dawn and 1/2 hour after sunset.
- 2) Hunts are conducted using MBRB archers and are held during Saturday /Sunday on the following dates: October 19-20, and November 2-3, 2013.
- 3) Tree stands can be erected on the preceding Fridays. No Hunting on Fridays.
- 4) All hunters are selected through the Metro Bowhunters Resource Base (MBRB).
- 5) A Hunt Coordinator will be assigned from the MBRB who will provide overall management to insure the hunt is conducted in a safe and effective manner. The City will have one point of contact through the hunt coordinator.
- 6) Hunters must follow all Minnesota DNR laws, all hunt rules, and all MBRB guidelines.
- 7) All hunt periods are for: "Earn a buck" – hunters must shoot a doe before they can shoot a buck.
- 8) Hunters must carry a hunt authorization letter from the City at all times during hunt.
- 9) Hunt areas are not closed to the public during the hunt.
- 10) All incidents of trespass on private property should be reported to the MBRB hunt coordinator who will contact the Newport Police.
- 11) All archers must hunt from elevated stands. Only TMA approved stands/ steps are acceptable. Use of any homemade stands/steps is prohibited for safety reasons.
- 12) Hunters must use a five point fall restraint harness when hunting from a tree stand.
- 13) Ground blinds may be used by disabled hunters. The Hunt coordinator will assure that location and position of ground blind provides a safe backstop for arrows
- 14) Hunters must have a flashlight and a warning whistle within easy reach during entry, egress, and while on stand. A cell phone is also recommended.
- 15) Archers are to obey hunt boundaries shown on the city provided maps.
- 16) Only deer may be taken during special hunts.
- 17) Hunters must log in and out of the hunt areas each time they leave. The MBRB Hunt Coordinator will provide a log in sheet at an appropriate location.
- 18) Archers cannot track deer outside of hunt boundaries. Hunters must contact the MBRB hunt coordinator if deer retrieval is required outside of hunt boundaries. The hunt coordinator will make arrangements for police escort, or obtain landowner permission before tracking deer onto adjacent properties.
- 19) If searching for downed deer after dark, the hunt coordinator will notify police at the contact number provided by city.
- 20) The City will provide a field dressing area that will be used. However if deer are downed in steep ravines where removal would be very difficult, the hunt coordinator will select a site for the entrails to be buried. In this case the deer must be field dressed at least 50 feet away from trails and not visible from trails.

- 21) Additional restrictions may be added at the required orientation meeting.
- 22) Hunters should immediately report any incidents to the MBRB hunt coordinator.
- 23) Hunters are directed not to speak to any protestors or news media. These incidents are to be reported to the MBRB hunt coordinator immediately. The MBRB hunt coordinator will contact the appropriate City staff and/or the Police who will handle any communication needed.
- 24) Newport Police Department should be contacted immediately in the case of accidents.
- 25) Failure to follow rules will lead to removal from hunt.



STATE OF MINNESOTA

OFFICE OF THE ATTORNEY GENERAL

MIKE HATCH
ATTORNEY GENERAL

March 18, 1999

SUITE 900
445 MINNESOTA STREET
ST. PAUL, MN 55101-2127
TELEPHONE: (651) 297-0077

Mr. Gary Botzek
26 East Exchange Street, Suite 120
St. Paul, Minnesota 55101

Re: House File No. 534 - Municipal Tort Liability

Dear Mr. Botzek:

House File No. 534 proposes to amend the municipal tort claims act, Minnesota Statutes chapter 466, to add an exception for losses resulting from hunting or trapping that municipalities allow to take place within their jurisdictions. You have told me the proponents of this legislation seek to have the same municipal tort liability protections for these activities that the state enjoys. You ask whether, under current law, municipalities have any more exposure to such losses than does the state.

State exclusions from tort liability are listed in subd. 3 of the state tort claims act, Minn. Stat. § 3.736. The ones that shield the state from liability for allowing hunting and trapping are subd. 3(a), loss resulting from execution of a statute or rule; subd. 3(b), loss resulting from performance of a discretionary duty; and subd. 3(h), loss resulting from operation of the outdoor recreation system. There is no explicit exclusion for hunting and trapping.

The municipal tort claims act contains parallel exclusions. Minn. Stat. § 466.03, subd. 5, excludes losses resulting from execution of a statute, charter, ordinance, resolution or rule; subd. 6 excludes losses resulting from performance of a discretionary duty; and subd. 6e excludes losses from operation of parks and recreation areas. Furthermore, subd. 15 shields municipalities from "Any claim against a municipality, if the same claim would be excluded under Minn. Stat. § 3.736, if brought against the state."

It seems quite clear that municipalities have under current law the same protections from tort liability arising from hunting or trapping that the state has. If you should have any further questions about this, please do not hesitate to call.

Very truly yours,

STEPHEN B. MASTEN
Assistant Attorney General

(651) 297-4392

cc: B. Joseph Majors, II
P. Kenneth Kohnstamm

RESOLUTION NO. 2013-24

A RESOLUTION ESTABLISHING A POLICY FOR REPAIR OF SANITARY SEWER SERVICES

WHEREAS, The City of Newport has been advised by the Metropolitan Council that the City allows excessive Clear Water inflow and infiltration (I&I) to be discharged to the Metropolitan Council’s sanitary collection and treatment facilities.; and that the City may be fined or required to pay additional fees for such discharges, and

WHEREAS, The City of Newport has applied cooperated with the Metropolitan Council by undertaking a program of I&I reduction that indicated that a significant volume of I&I originates in the sewer service line before the connection to the City sanitary sewer mains, and

WHEREAS, The City of Newport Ordinance 1010.14 states that *“The property owner shall be responsible for maintenance of the sewer line from any building to the sewer main in the street,”* and

WHEREAS, Elimination of I&I from the service line is considered by the City of Newport to be maintenance of the service and that any costs associated with said maintenance shall be the sole cost of the property owner, and

WHEREAS, The City of Newport understands that it will be less costly for the property owner to repair or maintain service lines before a the street is reconstructed, and

WHEREAS, The City posits that it is in the interests of the City that sewer service lines be repaired before the street is reconstructed, and

WHEREAS, The City desires to provide an incentive the property owner to schedule and pay for service line repair.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF NEWPORT MINNESOTA:

1. All sanitary sewer services, that indicate faulty construction or excessive I&I that are located in the area of a street reconstruction project shall be repaired by the contractor selected to undertake the reconstruction project and such repair shall be accomplished as a component of the street reconstruction contractors work.
2. The City shall televise all sanitary sewer services located in the area of a street reconstruction project.
3. All costs associated with televising, cleaning, debris or root removal and repairs to the service line and its connection to the City wye shall be a property owner cost.
4. To assist property owners accomplish such repairs the City shall offer a loan property owner costs, said loan to be of the same term and interest rate as that bourn in repayment of assessments.
5. The City will pay 50% of the televising costs to a maximum contribution of \$100.00

Adopted this 6th day of June, 2013 by the Newport City Council.

Motion by: _____, Seconded by: _____

VOTE:	Geraghty	_____
	Ingemann	_____
	Sumner	_____
	Gallagher	_____
	Rahm	_____

Signed: _____
Tim Geraghty, Mayor

ATTEST: _____
Deb Hill, City Administrator

RESOLUTION NO. 2013-25

A RESOLUTION ESTABLISHING REVISIONS TO THE CITY’S DRIVEWAY POLICY

WHEREAS, The City of Newport adopted a policy providing guidance for driveway placement and width to be used to determine facilities reconstruction, which was first implemented on the 1993 street improvement project, and

WHEREAS, The City of Newport has applied this policy to all City sanctioned street reconstruction projects since 1993, and

WHEREAS, The City is preparing plans to design street improvements in areas of the City where property frontages are significantly larger than those addressed in past projects. The City deems it appropriate to amend its Driveway policy as follows;

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF NEWPORT MINNESOTA:

1. Driveways serving residential properties shall be no wider than 24 feet at the transition to the curb or driveway apron.
2. Each residential property may have only one driveway; except those residential properties having street frontage exceeding 180 lineal feet and two or more driveways existing at the time that a street reconstruction project is ordered may at the request of the property owner be permitted no more than 2 driveways onto a dedicated city street included on that improvement project. Providing that driveways to be upgraded are no closer than 30 feet, and that said property owner agrees that both driveways shall be paved from the curb line to the storage area with bituminous, paver block or concrete surface that is designed to provide all weather support for a vehicle having a gross loading capacity of at least 1500 lbs. (¾ ton). Said surfacing shall be approved by the City Engineer or Superintendent of Public Works, and may be constructed using permeable or impermeable materials.
3. All driveways accessing reconstructed streets shall be designed so that the last 4 feet before the curb line shall drain onto the public street. No driveway shall be permitted that allows eroded gravel, sand or detritus material to drain onto the public street in any storm having an annual recurrence frequency of more than 100% (i.e. a 1-year storm which in the City of Newport equates an equivalent 2.4-inches of precipitation during any 24 hour period.)

Adopted this 6th day of June, 2013 by the Newport City Council.

Motion by: _____, Seconded by: _____

VOTE:	Geraghty	_____
	Ingemann	_____
	Sumner	_____
	Gallagher	_____
	Rahm	_____

Signed: _____
Tim Geraghty, Mayor

ATTEST: _____
Deb Hill, City Administrator