CITY OF PRIOR LAKE
SCOTT COUNTY, MINNESOTA

Financial Statements
and Supplemental Information
Year Ended
December 31, 2013

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CITY OF PRIOR LAKE
SCOTT COUNTY, MINNESOTA

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INTRODUCTORY SECTION

CITY OF PRIOR LAKE
SCOTT COUNTY, MINNESOTA

Elected and Appointed Officials
As of December 31, 2013

ELECTED

		Term Expires
Ken Hedberg	Mayor	12/31/2016
Richard Keeney	Councilmember	12/31/2016
Michael McGuire	Councilmember	12/31/2014
Monique Morton	Councilmember	12/31/2016
Vanessa Soukup	Councilmember	12/31/2014

APPOINTED

Frank Boyles	City Manager
Jerilyn Erickson	Finance Director
Cathy Erickson	Accounting Supervisor

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FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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

To the City Council and Management
City of Prior Lake, 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 Prior Lake, Minnesota (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(continued)

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

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

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress for the Volunteer Fire Department Firefighter's Relief and Pension Association, 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 GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the supplemental information, and other information 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 was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

(continued)

Prior Year Comparative Information

We have previously audited the City's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated May 20, 2013. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
May 16, 2014

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

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $155,387,388 (*net position*). Of this amount, $21,890,172 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's total net position increased by $7,229,062.

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $20,571,161, a decrease of $511,324 in comparison with the prior year.

- At the end of the current fiscal year, the unassigned fund balance for the General Fund was $5,397,818, or 41.6 percent, of budgeted 2014 expenditures and transfers out ($12,985,255). The total fund balance of $6,431,258 reflects a decrease of $541,104. This is $289,952 less than the budgeted decrease which was primarily due to increased revenues from building permits, which resulted in less reserves being used than originally planned for 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains supplemental information in addition to the basic financial statements themselves.

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 a private sector business.

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 (e.g. uncollected taxes and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by 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 of the City include general government, public safety, public works, culture and recreation, and economic development. The business-type activities of the City include water, sewer, water quality, and transit operations.

The government-wide financial statements can be found in the financial section following this report.

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. All of the funds of the City can be 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 on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City'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 City's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains numerous individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund, and Construction Fund, all of which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found in the financial section of this report immediately following the government-wide financial statements.

Proprietary Funds – The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, water quality, and transit operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for severance compensation. Because these internal service fund activities predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The Internal Service Fund is presented separately in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found in the financial section of this report immediately following the governmental fund statements.

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. The notes to basic financial statements can be found following the proprietary fund statements within the financial section of this report.

Other Information – The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by $155,387,388 at the close of the most recent fiscal year.

The City's investment in capital asset (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding totaled 82 percent of total net position. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table provides the City's Summary of Net Position:

Table 1
Summary of Net Position
as of December 31, 2013 and 2012

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	$ 27,567,223	$ 26,646,319	$ 7,912,257	$ 7,759,852	$ 35,479,480	$ 34,406,171
Capital assets	116,684,922	110,089,409	45,640,328	45,764,121	162,325,250	155,853,530
Total assets	$ 144,252,145	$ 136,735,728	$ 53,552,585	$ 53,523,973	$ 197,804,730	$ 190,259,701
Liabilities						
Long-term liabilities	$ 39,147,080	$ 39,785,916	$ 105,754	$ 125,112	$ 39,252,834	$ 39,911,028
Other liabilities	2,927,896	1,887,955	236,612	302,392	3,164,508	2,190,347
Total liabilities	$ 42,074,976	$ 41,673,871	$ 342,366	$ 427,504	$ 42,417,342	$ 42,101,375
Net position						
Net investment in capital assets	$ 81,787,853	$ 75,168,765	$ 45,640,328	$ 45,764,121	$ 127,428,181	$ 120,932,886
Restricted	6,069,035	5,087,442	–	–	6,069,035	5,087,442
Unrestricted	14,320,281	14,805,650	7,569,891	7,332,348	21,890,172	22,137,998
Total net position	$ 102,177,169	$ 95,061,857	$ 53,210,219	$ 53,096,469	$ 155,387,388	$ 148,158,326

An additional portion of the City's net position ($6,069,035, or 3.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $21,890,172, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Table 2
Changes in Net Position
for the Years Ended December 31, 2013 and 2012

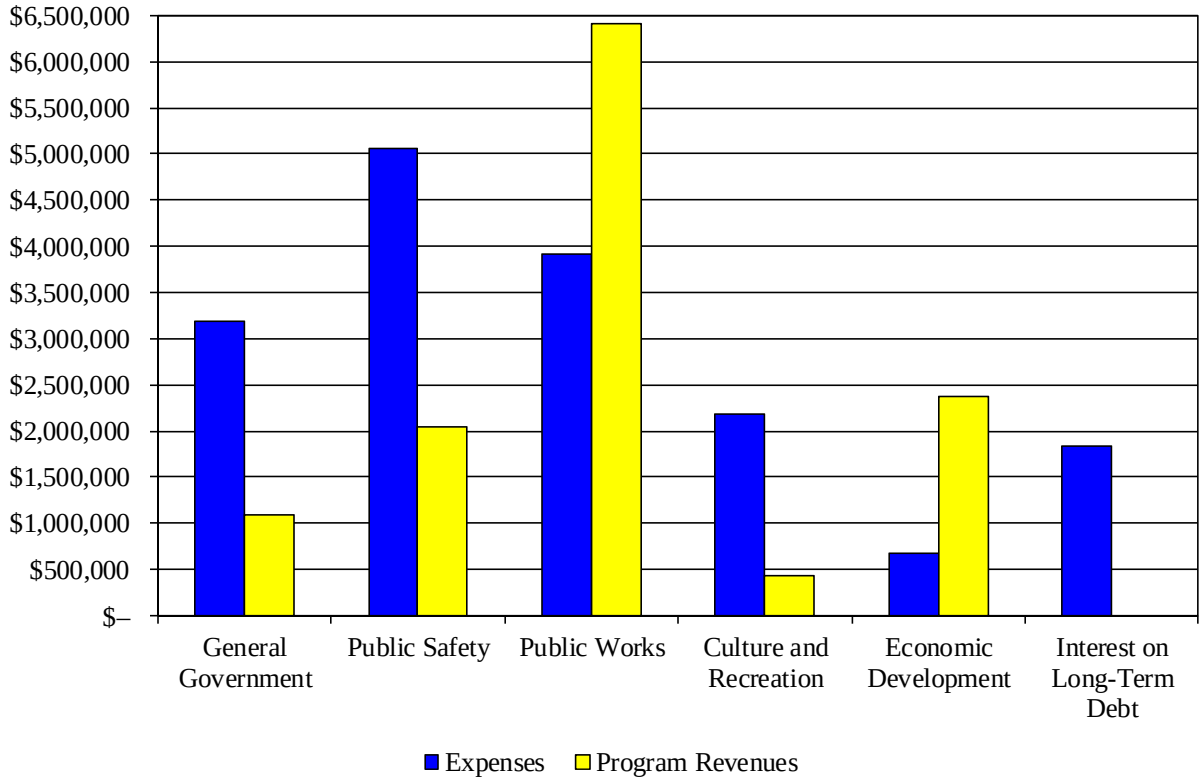
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Charges for services	$ 2,128,090	$ 1,950,862	$ 6,627,933	$ 6,669,861	$ 8,756,023	$ 8,620,723
Operating grants and contributions	1,208,622	1,132,708	717,109	520,768	1,925,731	1,653,476
Capital grants and contributions	8,994,576	6,695,232	323,909	44,485	9,318,485	6,739,717
General revenues						
Property taxes	9,835,305	9,920,264	–	–	9,835,305	9,920,264
Franchise taxes	584,295	600,172	–	–	584,295	600,172
Grants and contributions not restricted to specific programs	16,106	18,066	–	–	16,106	18,066
Interest income (losses)	(438,201)	515,906	(182,433)	181,941	(620,634)	697,847
Miscellaneous	106,610	347,684	3,109	770	109,719	348,454
Total revenues	22,435,403	21,180,894	7,489,627	7,417,825	29,925,030	28,598,719
Expenses						
General government	3,188,370	3,156,038	–	–	3,188,370	3,156,038
Public safety	5,059,458	4,744,743	–	–	5,059,458	4,744,743
Public works	3,921,783	4,931,149	–	–	3,921,783	4,931,149
Culture and recreation	2,188,148	2,231,995	–	–	2,188,148	2,231,995
Economic development	669,303	595,770	–	–	669,303	595,770
Interest on long-term debt	1,829,979	2,101,559	–	–	1,829,979	2,101,559
Water	–	–	2,188,545	2,057,934	2,188,545	2,057,934
Sewer	–	–	2,345,167	2,345,657	2,345,167	2,345,657
Water quality	–	–	532,508	362,459	532,508	362,459
Transit	–	–	772,707	841,040	772,707	841,040
Total expenses	16,857,041	17,761,254	5,838,927	5,607,090	22,695,968	23,368,344
Increase in net position before transfers	5,578,362	3,419,640	1,650,700	1,810,735	7,229,062	5,230,375
Transfers	1,536,950	1,130,328	(1,536,950)	(1,130,328)	–	–
Changes in net position	7,115,312	4,549,968	113,750	680,407	7,229,062	5,230,375
Net position – beginning	95,061,857	90,511,889	53,096,469	52,416,062	148,158,326	142,927,951
Net position – ending	$ 102,177,169	$ 95,061,857	$ 53,210,219	$ 53,096,469	$ 155,387,388	$ 148,158,326

Governmental Activities – Governmental activities increased the City's net position by $7,115,312. Key elements of this increase are seen in the table above. The increase is due mostly to increased state grants for the Main/Ridgemont/TH 13 street reconstruction and County Road 12 construction projects and prepaid special assessments.

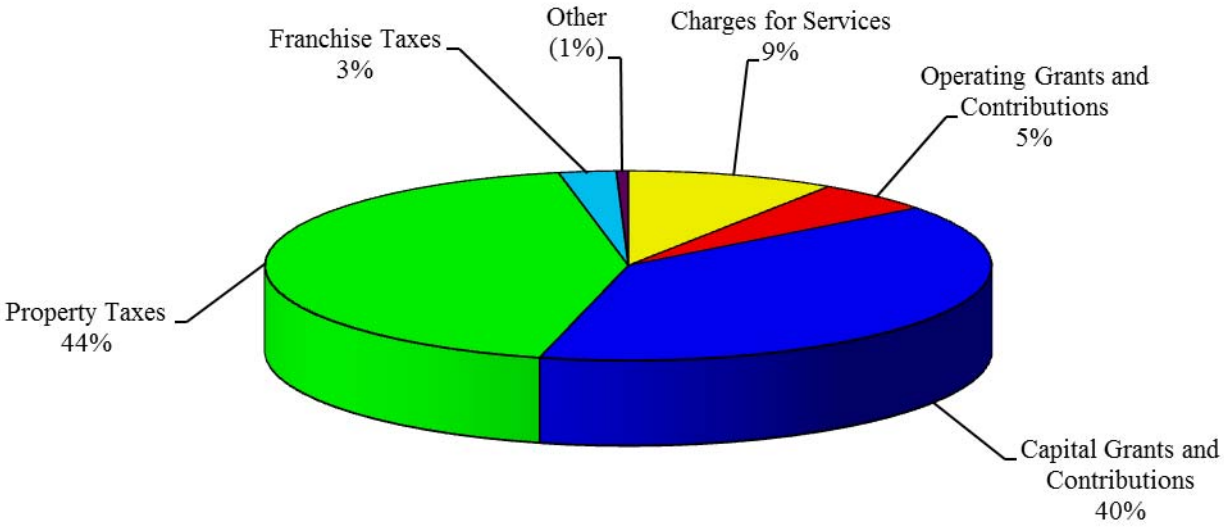
The business-type activities increased the City's net position by $113,750 due mostly to rate increases for water, sewer, and storm water services.

Interest income (losses) were lower due to negative market value adjustments on the City's investment portfolio.

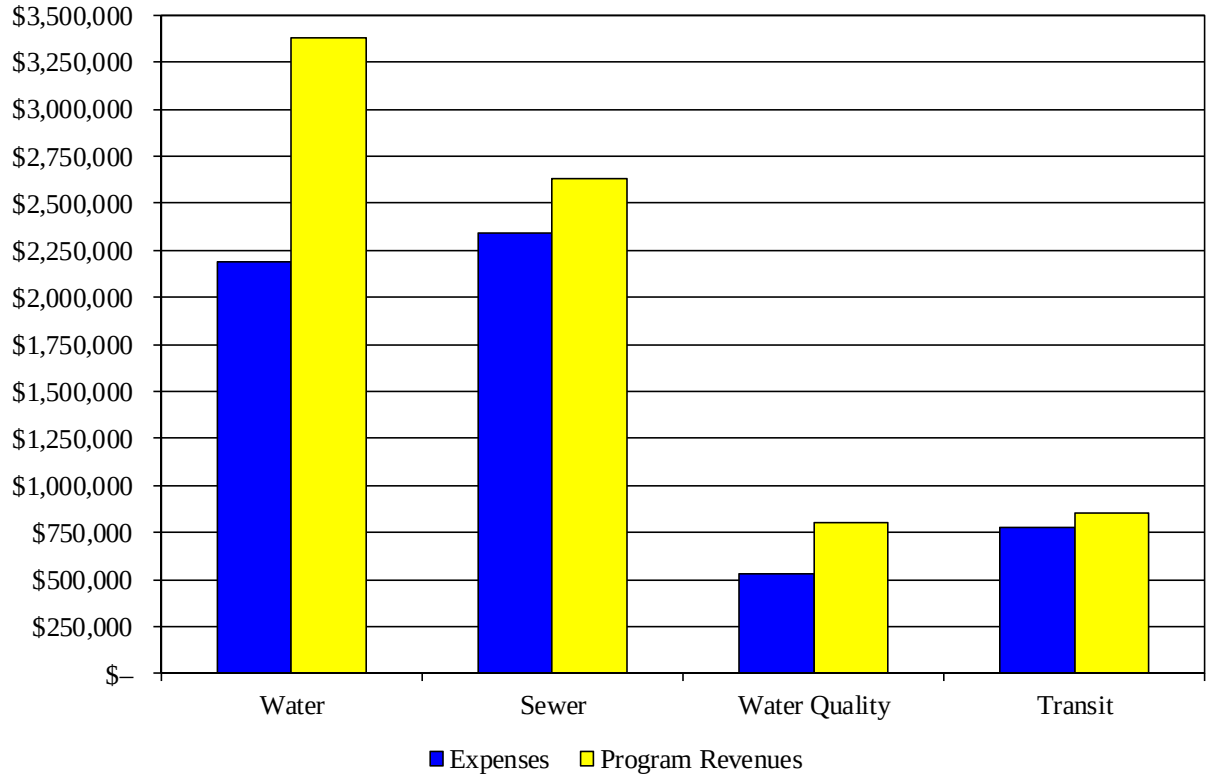
Below are specific graphs that provide comparisons of the governmental activities program revenues and expenses:



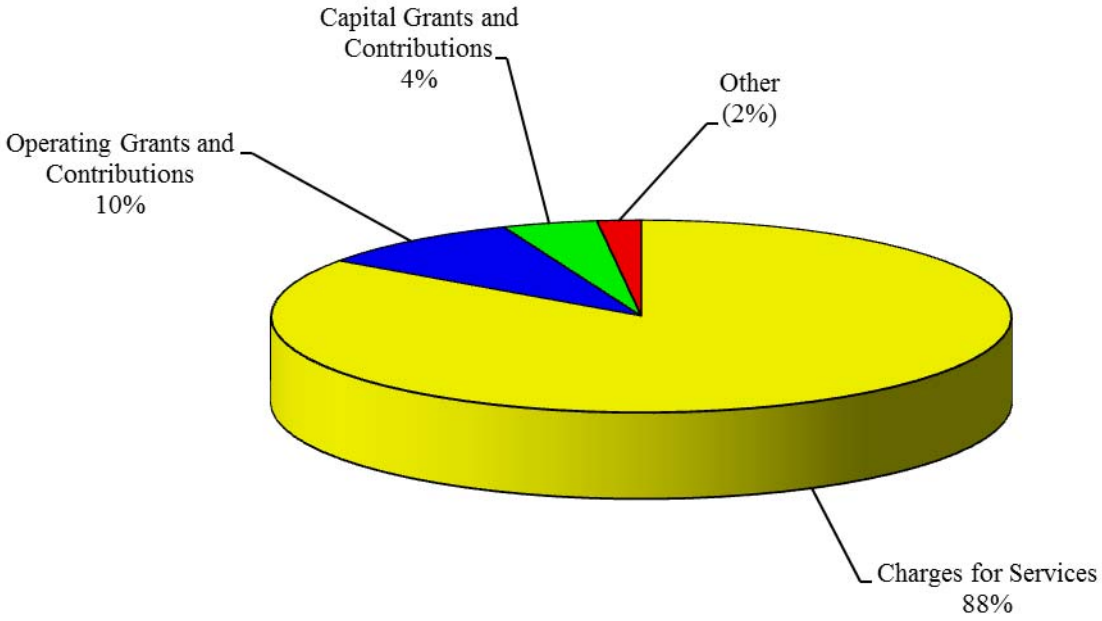
Governmental Activities – Revenue by Program



Business-Type Activities – For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Below are graphs showing the business-type activities program revenues and expense comparisons:



Business-Type Activities – Revenue by Source



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $20,571,161, a decrease of $511,324 in comparison with the prior year.

The General Fund is the chief operating fund of the City. At the end of the recent fiscal year, unassigned fund balance of the General Fund was $5,397,818, while total fund balance reached $6,431,258. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents about 41.6 percent of total 2014 General Fund budgeted expenditures and transfers out ($12,985,255).

Total fund balance for the City's General Fund decreased by $541,104 during 2013. This is $289,952 less than the budgeted decrease which was due to increased revenues from building permits, which resulted in less reserves being used than originally planned for 2013.

The Debt Service Fund balance decreased by $322,747. The City manages cash flow in all debt service funds and ensures adequate resources exist to fund future obligations.

The Construction Fund balance increased by $783,573. This increase is mainly due to an increase in state grants for the Main/Ridgemont/TH 13 street reconstruction and County Road 12 construction projects in the current year.

Proprietary Funds – The City's proprietary funds provide the same information for the business-type activities found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were $231,102 over budget in 2013. This is primarily due to licenses and permits being higher than anticipated.

Actual expenditures were $52,973 less than budget in 2013. The largest variance from budget was culture and recreation, being under budget by $60,925. This is primarily due to park improvements not being completed.

Transfers to other funds were amended in 2013 to include funding for the Technology Village Incubator. General Fund reserves were used to fund these additional transfers.

The City's General Fund balance decreased by a net amount of $541,104 to a position of $6.43 million. This General Fund amount represents a reserve of 49.5 percent based upon the 2014 General Fund budgeted expenditures and transfers out ($12,985,255).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The City's investment in capital assets for its governmental and business-type activities as of December 31, 2013 amounts to $162,325,250 (net of accumulated depreciation). This investment in capital assets includes items such as land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Table 3
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	$ 31,818,978	$ 31,593,977	$ –	$ –	$ 31,818,978	$ 31,593,977
Easements	31,120,861	29,179,937	75,300	75,300	31,196,161	29,255,237
Construction in progress	8,597,095	4,350,287	–	–	8,597,095	4,350,287
Land improvements	795,702	867,025	70,290	55,343	865,992	922,368
Machinery and equipment	2,849,168	3,008,202	302,264	285,558	3,151,432	3,293,760
Vehicles	1,044,660	1,307,659	23,005	30,270	1,067,665	1,337,929
Infrastructure	40,458,458	39,782,322	45,169,469	45,317,650	85,627,927	85,099,972
Total	$ 116,684,922	$ 110,089,409	$ 45,640,328	$ 45,764,121	$ 162,325,250	$ 155,853,530

Additional information on the City's capital assets can be found in Note 3 of the notes to basic financial statements.

Long-Term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of $37,915,000. All of this amount comprises debt backed by the full faith and credit of the City. The City's total debt decreased during the current fiscal year due to scheduled debt service payments.

Table 4
Long-Term Liabilities

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
G.O. bonds	$ 19,880,000	$ 21,335,000	$ –	$ –	$ 19,880,000	$ 21,335,000
G.O. special assessment bonds	9,885,000	8,730,000	–	–	9,885,000	8,730,000
G.O. tax increment bonds	270,000	290,000	–	–	270,000	290,000
G.O. revenue bonds	7,880,000	8,225,000	–	–	7,880,000	8,225,000
Premium (discount) on bonds payable	290,627	310,094	–	–	290,627	(294,356)
Compensated absences payable	941,453	895,822	105,754	125,112	1,047,207	1,020,934
Total	$ 39,147,080	$ 39,785,916	$ 105,754	$ 125,112	$ 39,252,834	$ 39,306,578

In April 2010, Moody's Investor Services recalibrated the City's bond rating to the global rating scale and, therefore, changed the City's bond rating from Aa3 to an Aa2. The Aa2 bond rating was reaffirmed with the 2013 bond issuance.

The City's statutory debt limit is equal to 3 percent of estimated taxable market value of property located within the City. The taxable market value totals $2,372,776,200, which calculates to a debt margin of $71,183,286. Debt financed partially or entirely by special assessments, tax increments, and other revenue sources is not applied against the City's debt limit, nor is debt financed by proprietary fund revenues. Currently, the City has $19,880,000 of general obligation debt outstanding leaving a debt margin of $51,303,286.

Additional information on the City's long-term debt can be found in Note 5 of the notes to basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The City adopted a general operating budget of $12,985,255, expenditures and other financing uses, for fiscal 2014, an increase of $792,939, or 6.5 percent, from the 2013 original budget.
- 2014 budgets were adopted for the Debt Service Fund, Capital Park Fund, Revolving Equipment Fund, Facilities Management Fund, and Economic Development Authority Fund in the amounts of $7,589,881, $170,000, $725,356, $371,395, and $189,170, respectively.
- Continued staged development of land with the 2,000 acres annexed in 2004 from Spring Lake Township will provide the majority of the City's anticipated market value growth over the course of the next 10–15 years.

Financial Management Policies

The City has set a goal to establish "Financial Performance Standards" to measure the financial health of the City. These standards serve multiple purposes:

a) To serve as best practice measures to strengthen the City's financial position and maximize the return of the taxpayer dollar.
b) To communicate the fiscal performance and condition of the City to residents in a consistent manner.
c) To facilitate the setting of policy and financial direction by the City Council with resident input.

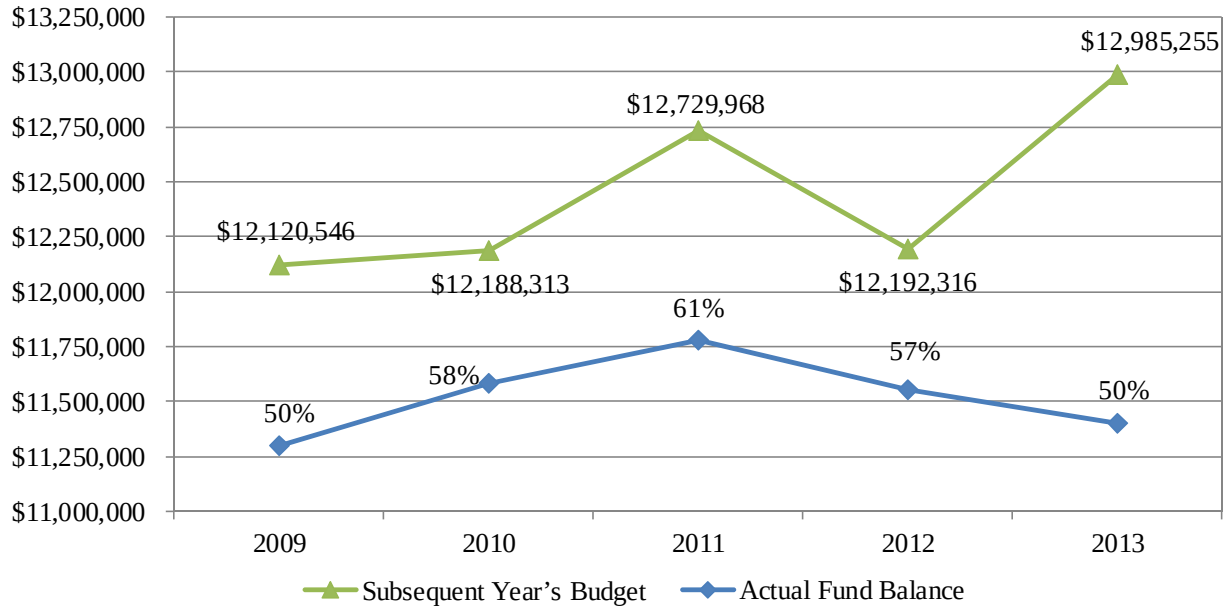
Objective 1: Aa2 Bond Rating

Maintain or improve current Aa2 Bond Rating – Strong credit rating by Moody's, Inc. provides low cost financing for the City's general obligation bonds. In April 2010, Moody's Investor Services recalibrated the City's bond rating to the global rating scale and, therefore, changed the City's bond rating from Aa3 to an Aa2. The Aa2 bond rating was reaffirmed with the 2013 bond issuances:

2009	Aa3
2010	Aa2
2011	Aa2
2012	Aa2
2013	Aa2

Objective 2: General Fund Reserve Balance

Maintain a 40 to 50 Percent General Fund Reserve Balance – The Office of the State Auditor recommended reserve to provide adequate cash flow, offset revenue shortfalls, and insurance for unforeseen catastrophic events. The City Council adopted a revision to the Comprehensive Financial Management Policy which established a fund balance policy regarding the minimum unrestricted fund balance for the General Fund. The policy established that the City will strive to maintain an unrestricted General Fund balance (which includes committed, assigned, and unassigned classifications) within a range from 40 to 50 percent of the projected expenditures for the subsequent year.



Objective 3: Property Taxes

Maintain or Improve Property Tax Rank when compared to a broader list of metro area cities. The favorable tax rate provides stimulus for growth of residential and commercial property tax base. This data reflects the tax capacity rate, which is based on the levies approved by the City Council to fund general services, such as police, fire, street maintenance, parks, recreation, finance, and general administration as well as the Economic Development Authority. The tables do not reflect the market value rate, which is a tax based on market referenda approved by the City's voters to finance the construction of two fire stations and improvements to the City's parks and library.

Average City Tax Capacity Rate

	Metro 10,000–24,999	Seven-County Metro Area	City of Prior Lake
2009	34.65	33.71	27.95
2010	36.93	36.03	29.44
2011	37.73	40.03	30.71
2012	43.27	43.45	29.74
2013	46.05	46.14	31.89

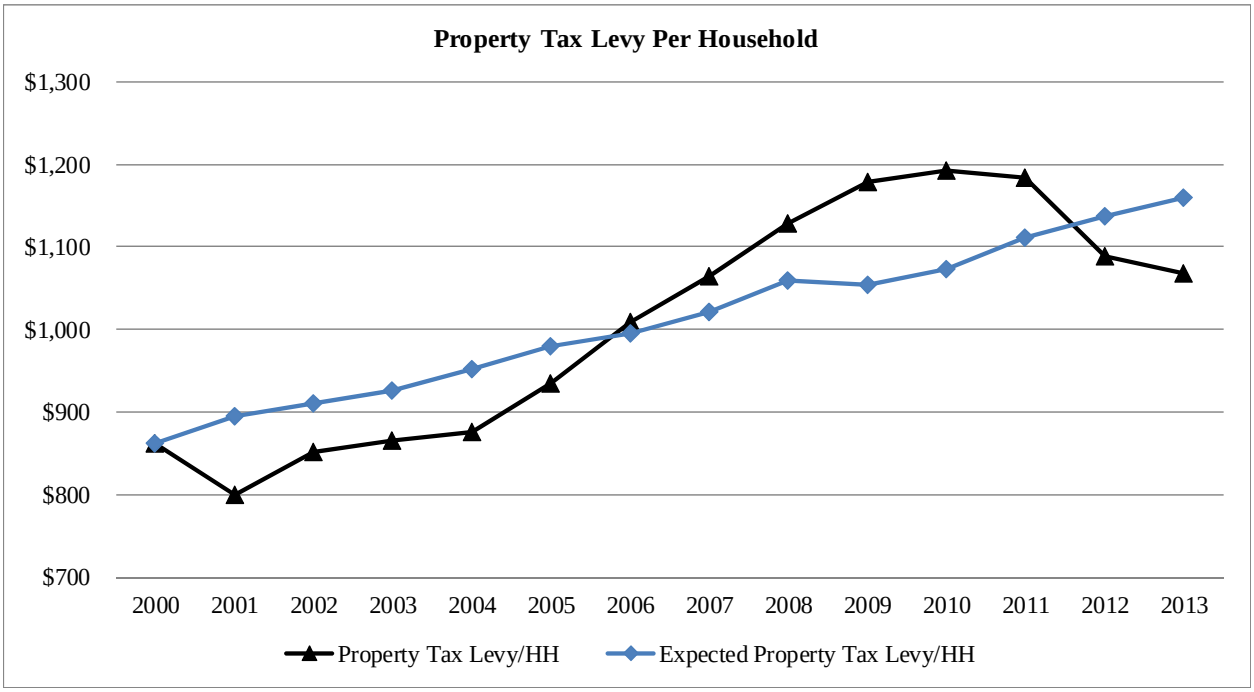
Source: League of Minnesota Cities and Scott County

Average Prior Lake EDA Tax Capacity Rate

2009	–
2010	–
2011	–
2012	–
2013	0.62

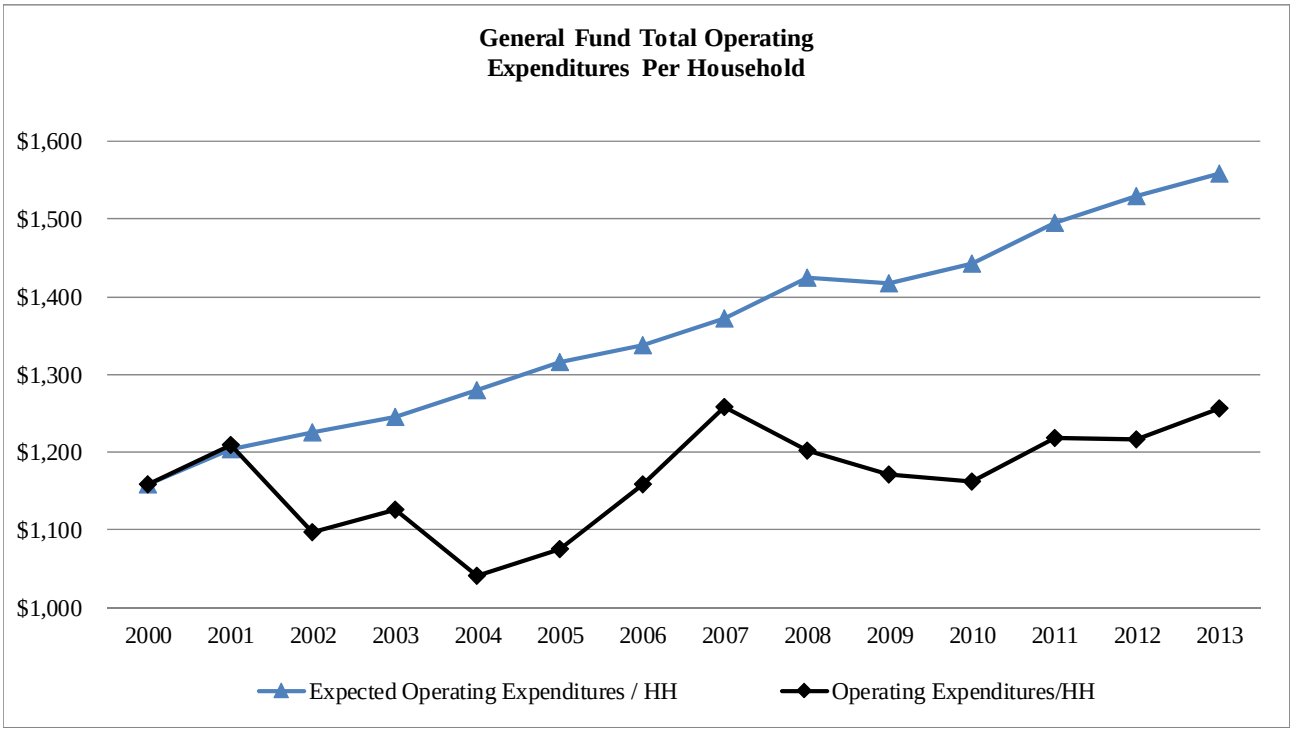
Objective 4: Property Taxes/Household

Maintain a level of property taxes on a per household basis which takes into account the cost of inflation and community growth. The goal is to have a tax levy per household that is at or below the rate of inflation over time. This chart reflects community growth and the cost of inflation using the Minneapolis-St. Paul consumer price index (CPI).



Objective 5: General Fund Expenditures/Household

Maintain a level of General Fund operational expenditures on a per household basis which takes into account the cost of inflation and community growth. The goal is to maintain General Fund operating expenditures per household at or below the rate of inflation over time. This chart reflects community growth and the cost of inflation using the Minneapolis-St. Paul CPI.



REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the office of the Finance Director, City of Prior Lake, 4646 Dakota Street Southeast, Prior Lake, MN 55372-1714.

BASIC FINANCIAL STATEMENTS

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CITY OF PRIOR LAKE

Statement of Net Position
as of December 31, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments	$ 19,957,723	$ 7,607,565	$ 27,565,288
Receivables			
Delinquent taxes	136,330	–	136,330
Accounts	289,544	141,492	431,036
Special assessments	3,442,383	5,229	3,447,612
Due from other governmental agencies	361,603	157,971	519,574
Prepaid items	71,082	–	71,082
Restricted assets – temporarily restricted			
Cash and investments held in escrow	3,308,558	–	3,308,558
Capital assets not being depreciated	71,536,934	75,300	71,612,234
Capital assets net of accumulated depreciation	45,147,988	45,565,028	90,713,016
Total assets	$ 144,252,145	$ 53,552,585	$ 197,804,730
Liabilities			
Accounts and contracts payable	$ 1,489,059	$ 155,970	$ 1,645,029
Accrued salaries and employee benefits payable	267,863	42,814	310,677
Due to other governmental agencies	101,082	37,328	138,410
Deposits payable	685,473	500	685,973
Accrued interest payable	72,291	–	72,291
Unearned revenue	312,128	–	312,128
Long-term liabilities			
Due within one year	6,710,980	43,732	6,754,712
Due in more than one year	32,436,100	62,022	32,498,122
Total liabilities	42,074,976	342,366	42,417,342
Net position			
Net investment in capital assets	81,787,853	45,640,328	127,428,181
Restricted for debt service	5,107,517	–	5,107,517
Restricted for other purposes	961,518	–	961,518
Unrestricted	14,320,281	7,569,891	21,890,172
Total net position	102,177,169	53,210,219	155,387,388
Total liabilities and net position	$ 144,252,145	$ 53,552,585	$ 197,804,730

See notes to basic financial statements

CITY OF PRIOR LAKE

Statement of Activities
Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Governmental activities				
General government	$ 3,188,370	$ 1,068,063	$ 15,000	$ –
Public safety	5,059,458	821,174	1,193,622	36,832
Public works	3,921,783	35,067	–	6,370,680
Culture and recreation	2,188,148	203,786	–	220,836
Economic development	669,303	–	–	2,366,228
Interest on long-term debt	1,829,979	–	–	–
Total governmental activities	16,857,041	2,128,090	1,208,622	8,994,576
Business-type activities				
Water	2,188,545	3,246,774	9,757	126,117
Sewer	2,345,167	2,453,432	1,667	172,155
Water quality	532,508	702,529	75,487	25,637
Transit	772,707	225,198	630,198	–
Total business-type activities	5,838,927	6,627,933	717,109	323,909
Total	$ 22,695,968	$ 8,756,023	$ 1,925,731	$ 9,318,485

General revenues
Taxes
Property taxes, levied for general purposes
Property taxes, levied for debt service
Franchise taxes
Tax increments
Grants and contributions not restricted to specific programs
Interest income (losses)
Miscellaneous
Transfers
Total general revenues and transfers

Change in net position

Net position – beginning

Net position – ending

See notes to basic financial statements

Net (Expense) Revenues and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (2,105,307)	$ –	$ (2,105,307)
(3,007,830)	–	(3,007,830)
2,483,964	–	2,483,964
(1,763,526)	–	(1,763,526)
1,696,925	–	1,696,925
(1,829,979)	–	(1,829,979)
(4,525,753)	–	(4,525,753)
–	1,194,103	1,194,103
–	282,087	282,087
–	271,145	271,145
–	82,689	82,689
–	1,830,024	1,830,024
(4,525,753)	1,830,024	(2,695,729)
7,531,829	–	7,531,829
1,828,978	–	1,828,978
584,295	–	584,295
474,498	–	474,498
16,106	–	16,106
(438,201)	(182,433)	(620,634)
106,610	3,109	109,719
1,536,950	(1,536,950)	–
11,641,065	(1,716,274)	9,924,791
7,115,312	113,750	7,229,062
95,061,857	53,096,469	148,158,326
$ 102,177,169	$ 53,210,219	$ 155,387,388

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FUND FINANCIAL STATEMENTS

CITY OF PRIOR LAKE

Balance Sheet
Governmental Funds
as of December 31, 2013

	General	Debt Service	Construction
Assets			
Cash and investments	$ 7,635,527	$ 1,755,890	$ 2,247,707
Cash held in escrow	–	3,298,558	–
Receivables			
Delinquent taxes	134,183	–	–
Accounts	231,206	8,716	3,066
Special assessments			
Delinquent	–	4,867	–
Deferred	4,831	2,676,749	–
Other (Green Acres)	–	731,135	–
Due from other governmental agencies	112,973	12,451	232,309
Due from other funds	236	–	–
Prepaids	–	–	71,082
Total assets	$ 8,118,956	$ 8,488,366	$ 2,554,164
Liabilities and Fund Balances			
Liabilities			
Accounts and contracts payable	$ 637,536	$ –	$ 577,844
Accrued salaries and employee benefits payable	265,890	–	–
Due to other governmental agencies	100,798	–	–
Due to other funds	945	–	–
Deposits payable	481,946	–	–
Unearned revenue	61,569	–	216,809
Total liabilities	1,548,684	–	794,653
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	134,183	–	–
Unavailable revenue from special assessments	4,831	3,412,751	–
Total deferred inflows of resources	139,014	3,412,751	–
Fund balances			
Nonspendable	–	–	71,082
Restricted	–	5,075,615	102,304
Assigned	1,033,440	–	1,586,125
Unassigned, reported in			
General Fund	5,397,818	–	–
Capital project funds	–	–	–
Total fund balances	6,431,258	5,075,615	1,759,511
Total liabilities, deferred inflows of resources, and fund balances	$ 8,118,956	$ 8,488,366	$ 2,554,164

See notes to basic financial statements

Nonmajor Governmental Funds	Total Governmental Funds
$ 7,760,229	$ 19,399,353
10,000	3,308,558
2,147	136,330
44,127	287,115
–	4,867
21,438	2,703,018
3,363	734,498
3,870	361,603
–	236
–	71,082
$ 7,845,174	$ 27,006,660

$ 273,679	$ 1,489,059
1,973	267,863
284	101,082
236	1,181
203,527	685,473
33,750	312,128
513,449	2,856,786
2,147	136,330
24,801	3,442,383
26,948	3,578,713
–	71,082
834,086	6,012,005
6,470,927	9,090,492
–	5,397,818
(236)	(236)
7,304,777	20,571,161
$ 7,845,174	$ 27,006,660

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CITY OF PRIOR LAKE

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

Total fund balances – governmental funds	$ 20,571,161
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.	
Cost of capital assets	164,075,149
Less accumulated depreciation	(47,390,227)
Long-term liabilities are included in net position but are excluded from fund balances until due and payable.	
Bond principal payable	(37,915,000)
Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.	(290,627)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(72,291)
Internal service funds are used by management to charge certain costs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.	
Internal service fund net position included in governmental activities	(379,709)
Certain revenues (including delinquent property taxes) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	
Delinquent property taxes	136,330
Special assessments	3,442,383
Total net position – governmental activities	$ 102,177,169

See notes to basic financial statements

CITY OF PRIOR LAKE

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

	General	Debt Service	Construction
Revenues			
Taxes	$ 7,130,672	$ 1,828,978	$ –
Franchise taxes	584,295	–	–
Special assessments	495	1,089,105	32,234
Licenses and permits	766,834	–	–
Intergovernmental	1,514,185	–	2,503,361
Charges for services	1,165,190	–	–
Fines and forfeits	137,529	–	–
Interest (losses) on investments	(191,208)	(31,065)	(14,691)
Miscellaneous	282,738	–	–
Total revenues	11,390,730	2,887,018	2,520,904
Expenditures			
Current			
General government	2,677,900	–	–
Public safety	4,630,971	–	–
Public works	1,905,280	–	–
Culture and recreation	1,660,103	–	–
Economic development	–	–	–
Capital outlay	199,210	–	6,799,113
Debt service			
Principal	–	3,905,000	–
Interest and other	–	1,240,840	69,860
Total expenditures	11,073,464	5,145,840	6,868,973
Excess (deficiency) of revenues over expenditures	317,266	(2,258,822)	(4,348,069)
Other financing sources (uses)			
Debt issued	–	59,200	3,180,800
Premium on debt issued	–	–	47,068
Transfers in	341,700	1,876,875	1,903,774
Transfers out	(1,200,070)	–	–
Sale of assets	–	–	–
Total other financing sources (uses)	(858,370)	1,936,075	5,131,642
Net change in fund balances	(541,104)	(322,747)	783,573
Fund balances			
Beginning of year	6,972,362	5,398,362	975,938
End of year	$ 6,431,258	$ 5,075,615	$ 1,759,511

See notes to basic financial statements

Nonmajor Governmental Funds	Total Governmental Funds
$ 907,101	$ 9,866,751
–	584,295
19,946	1,141,780
–	766,834
–	4,017,546
1,491,069	2,656,259
–	137,529
(186,077)	(423,041)
37,032	319,770
2,269,071	19,067,723
–	2,677,900
–	4,630,971
–	1,905,280
17,533	1,677,636
194,575	194,575
1,688,364	8,686,687
–	3,905,000
–	1,310,700
1,900,472	24,988,749
368,599	(5,921,026)
–	3,240,000
–	47,068
182,599	4,304,948
(985,754)	(2,185,824)
3,510	3,510
(799,645)	5,409,702
(431,046)	(511,324)
7,735,823	21,082,485
$ 7,304,777	$ 20,571,161

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CITY OF PRIOR LAKE

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

Total net change in fund balances – governmental funds	$ (511,324)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.	
Capital outlay	7,983,831
Capital contributions	2,366,228
Depreciation expense	(3,156,329)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balance.	(16,043)
Capital assets constructed in the governmental funds then transferred to enterprise funds are shown in government-wide statements but not governmental funds statements.	(582,174)
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.	
Principal repayments	3,905,000
Debt issued	(3,240,000)
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	18,636
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	(584,983)
Internal service funds are used by management to charge certain costs to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities in the government-wide financial statements.	
Internal service fund activity included in governmental activities	(84,142)
Certain revenues (including delinquent property taxes) 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.	
Delinquent property taxes	(31,446)
Special assessments	1,048,058
Change in net position – governmental activities	$ 7,115,312

See notes to basic financial statements

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CITY OF PRIOR LAKE

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

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
Revenues				
Taxes				
Property taxes	$ 7,151,439	$ 7,151,439	$ 7,130,672	$ (20,767)
Franchise taxes	571,700	571,700	584,295	12,595
Special assessments	–	–	495	495
Licenses and permits	512,020	512,020	766,834	254,814
Intergovernmental	1,402,721	1,402,721	1,514,185	111,464
Charges for services	1,054,748	1,054,748	1,165,190	110,442
Fines and forfeits	155,000	155,000	137,529	(17,471)
Interest (losses) on investments	181,000	181,000	(191,208)	(372,208)
Miscellaneous	131,000	131,000	282,738	151,738
Total revenues	11,159,628	11,159,628	11,390,730	231,102
Expenditures				
Current				
General government	2,535,514	2,638,581	2,677,900	39,319
Public safety				
Police	3,277,062	3,277,062	3,244,052	(33,010)
Fire and rescue	811,539	811,539	855,750	44,211
Other	542,377	542,377	531,169	(11,208)
Public works	1,878,397	1,878,397	1,905,280	26,883
Culture and recreation	1,721,028	1,721,028	1,660,103	(60,925)
Capital outlay				
General government	38,116	38,116	45,637	7,521
Public safety				
Police	5,000	5,000	338	(4,662)
Fire and rescue	46,000	46,000	46,473	473
Culture and recreation	168,337	168,337	106,762	(61,575)
Total expenditures	11,023,370	11,126,437	11,073,464	(52,973)
Excess of revenues over expenditures	136,258	33,191	317,266	284,075
Other financing sources (uses)				
Transfers in	341,700	341,700	341,700	–
Transfers out	(1,168,947)	(1,205,947)	(1,200,070)	5,877
Total other financing sources (uses)	(827,247)	(864,247)	(858,370)	5,877
Net change in fund balances	$ (690,989)	$ (831,056)	(541,104)	$ 289,952
Fund balances, January 1			6,972,362	
Fund balances, December 31			$ 6,431,258	

See notes to basic financial statements

CITY OF PRIOR LAKE

Statement of Net Position
Proprietary Funds
as of December 31, 2013 and 2012

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2013	2012	2013	2012
Assets				
Current assets				
Cash and investments	$ 3,150,687	$ 3,171,318	$ 2,623,875	$ 2,465,228
Receivables				
Accounts	55,979	45,180	64,224	53,273
Special assessments	5,229	4,260	–	–
Due from other governmental agencies	8,205	163	194	462
Due from other funds	–	–	–	–
Prepaid items	–	–	–	99,624
Total current assets	3,220,100	3,220,921	2,688,293	2,618,587
Noncurrent assets				
Capital assets not being depreciated	75,300	75,300	–	–
Depreciable capital assets	34,435,704	33,886,074	23,056,148	22,846,286
Accumulated depreciation	(6,828,506)	(6,201,771)	(5,791,417)	(5,433,895)
Total noncurrent assets	27,682,498	27,759,603	17,264,731	17,412,391
Total assets	$ 30,902,598	$ 30,980,524	$ 19,953,024	$ 20,030,978
Liabilities and Net Position				
Current liabilities				
Accounts and contracts payable	$ 71,173	$ 102,028	$ 18,843	$ 18,868
Accrued salaries and employee benefits payable	16,262	14,880	17,585	14,559
Due to other governmental agencies	9,071	28,700	3,662	2,271
Due to other funds	–	172	–	34
Deposits payable	500	500	–	–
Current portion of compensated absences payable	19,422	14,815	18,735	17,278
Total current liabilities	116,428	161,095	58,825	53,010
Noncurrent liabilities				
Compensated absences payable	37,196	42,911	24,826	23,907
Total liabilities	153,624	204,006	83,651	76,917
Net position (deficit)				
Net invested in capital assets	27,682,498	27,759,603	17,264,731	17,412,391
Unrestricted	3,066,476	3,016,915	2,604,642	2,541,670
Total net position	30,748,974	30,776,518	19,869,373	19,954,061
Total liabilities and net position	$ 30,902,598	$ 30,980,524	$ 19,953,024	$ 20,030,978

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2013	2012	2013	2012	2013	2012	
$ 287,389	$ 199,797	$ 1,545,614	$ 1,564,197	$ 7,607,565	$ 7,400,540	$ 558,370
14,840	10,443	6,449	6,208	141,492	115,104	2,429
–	–	–	–	5,229	4,260	–
7,601	33,923	141,971	105,982	157,971	140,530	–
–	–	–	–	–	–	945
–	–	–	–	–	99,624	–
309,830	244,163	1,694,034	1,676,387	7,912,257	7,760,058	561,744
–	–	–	–	75,300	75,300	–
840,830	686,967	–	–	58,332,682	57,419,327	–
(147,731)	(94,840)	–	–	(12,767,654)	(11,730,506)	–
693,099	592,127	–	–	45,640,328	45,764,121	–
$ 1,002,929	$ 836,290	$ 1,694,034	$ 1,676,387	$ 53,552,585	$ 53,524,179	$ 561,744
$ 4,634	$ 11,310	$ 61,320	$ 56,284	$ 155,970	$ 188,490	$ –
8,967	7,587	–	2,877	42,814	39,903	–
13,081	27,077	11,514	15,451	37,328	73,499	–
–	–	–	–	–	206	–
–	–	–	–	500	500	–
5,575	3,060	–	4,891	43,732	40,044	310,980
32,257	49,034	72,834	79,503	280,344	342,642	310,980
–	–	–	18,250	62,022	85,068	630,473
32,257	49,034	72,834	97,753	342,366	427,710	941,453
693,099	592,127	–	–	45,640,328	45,764,121	–
277,573	195,129	1,621,200	1,578,634	7,569,891	7,332,348	(379,709)
970,672	787,256	1,621,200	1,578,634	53,210,219	53,096,469	(379,709)
$ 1,002,929	$ 836,290	$ 1,694,034	$ 1,676,387	$ 53,552,585	$ 53,524,179	$ 561,744

CITY OF PRIOR LAKE

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Years Ended December 31, 2013 and 2012

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2013	2012	2013	2012
Operating revenues				
Sewer charges	$ –	$ –	$ 2,210,221	$ 2,264,134
Water charges	2,865,971	3,051,952	–	–
Storm water charges	–	–	–	–
Capital facility charges	243,202	238,275	243,211	238,275
Meter sales	137,601	126,156	–	–
Transit charges	–	–	–	–
Charges for services	–	–	–	–
Total operating revenues	3,246,774	3,416,383	2,453,432	2,502,409
Operating expenses				
Personal services	530,477	504,917	583,932	567,222
Supplies	202,490	222,476	21,323	20,912
Repairs and maintenance	459,839	320,148	89,170	84,699
Other services and charges	134,755	153,552	43,403	70,760
Insurance	1,975	1,823	1,975	1,823
Utilities	229,917	221,512	35,956	35,154
Disposal charges	–	–	1,195,487	1,197,812
Miscellaneous	2,358	2,415	5,109	4,193
Depreciation	626,734	624,020	368,812	360,340
Total operating expenses	2,188,545	2,050,863	2,345,167	2,342,915
Operating income (loss)	1,058,229	1,365,520	108,265	159,494
Nonoperating revenues (expenses)				
Intergovernmental	9,757	10,000	1,667	–
Interest income (losses)	(72,851)	71,257	(60,504)	59,661
Loss on disposal of capital assets	–	(7,071)	–	(2,742)
Miscellaneous	3,109	770	–	–
Total nonoperating revenues (expenses)	(59,985)	74,956	(58,837)	56,919
Income (loss) before contributions and transfers	998,244	1,440,476	49,428	216,413
Capital contributions from other funds	404,951	783,165	48,997	367,138
Capital contributions to other funds	–	–	–	(3,301)
Capital contributions from developers	126,117	–	172,155	–
Transfers out	(1,556,856)	(1,514,830)	(355,268)	(508,907)
Change in net position	(27,544)	708,811	(84,688)	71,343
Net position, January 1	30,776,518	30,067,707	19,954,061	19,882,718
Net position, December 31	$ 30,748,974	$ 30,776,518	$ 19,869,373	$ 19,954,061

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2013	2012	2013	2012	2013	2012	
$ –	$ –	$ –	$ –	$ 2,210,221	$ 2,264,134	$ –
–	–	–	–	2,865,971	3,051,952	–
702,529	552,264	–	–	702,529	552,264	–
–	–	–	–	486,413	476,550	–
–	–	–	–	137,601	126,156	–
–	–	225,198	198,805	225,198	198,805	–
–	–	–	–	–	–	23,195
702,529	552,264	225,198	198,805	6,627,933	6,669,861	23,195
309,859	226,306	92,077	95,109	1,516,345	1,393,554	92,177
2,785	971	1,161	6,250	227,759	250,609	–
57,816	21,363	–	41,643	606,825	467,853	–
108,584	61,210	679,469	698,038	966,211	983,560	–
–	–	–	–	3,950	3,646	–
–	–	–	–	265,873	256,666	–
–	–	–	–	1,195,487	1,197,812	–
573	2,591	–	–	8,040	9,199	–
52,891	50,018	–	–	1,048,437	1,034,378	–
532,508	362,459	772,707	841,040	5,838,927	5,597,277	92,177
170,021	189,805	(547,509)	(642,235)	789,006	1,072,584	(68,982)
75,487	70,237	630,198	485,016	717,109	565,253	–
(8,955)	9,661	(40,123)	41,362	(182,433)	181,941	(15,160)
–	–	–	–	–	(9,813)	–
–	–	–	–	3,109	770	–
66,532	79,898	590,075	526,378	537,785	738,151	(15,160)
236,553	269,703	42,566	(115,857)	1,326,791	1,810,735	(84,142)
128,226	186,790	–	–	582,174	1,337,093	–
–	–	–	–	–	(3,301)	–
25,637	–	–	–	323,909	–	–
(207,000)	(440,383)	–	–	(2,119,124)	(2,464,120)	–
183,416	16,110	42,566	(115,857)	113,750	680,407	(84,142)
787,256	771,146	1,578,634	1,694,491	53,096,469	52,416,062	(295,567)
$ 970,672	$ 787,256	$ 1,621,200	$ 1,578,634	$ 53,210,219	$ 53,096,469	$ (379,709)

CITY OF PRIOR LAKE

Statement of Cash Flows
Proprietary Funds
Years Ended December 31, 2013 and 2012

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2013	2012	2013	2012
Cash flows from operating activities				
Cash received from customers	$ 3,226,964	$ 3,405,955	$ 2,442,749	$ 2,501,199
Cash payments to suppliers	(1,081,818)	(905,717)	(1,291,433)	(1,561,827)
Cash payments to employees	(530,203)	(480,319)	(578,530)	(576,890)
Net cash flows from operating activities	1,614,943	2,019,919	572,786	362,482
Cash flows from noncapital financing activities				
Cash received (paid) to other funds	(172)	–	(34)	–
Intergovernmental	9,757	10,000	1,667	–
Transfers in (out)	(1,556,856)	(1,514,830)	(355,268)	(508,907)
Net cash flows from noncapital financing activities	(1,547,271)	(1,504,830)	(353,635)	(508,907)
Cash flows from capital and related financing activities				
Miscellaneous	3,109	–	–	–
Purchase of capital assets	(18,561)	(36,066)	–	(3,301)
Net cash flows from capital financing activities	(15,452)	(36,066)	–	(3,301)
Cash flows from investing activities				
Interest (losses) received on cash and investments	(72,851)	71,257	(60,504)	59,661
Net increase (decrease) in cash and cash equivalents	(20,631)	550,280	158,647	(90,065)
Cash and cash equivalents, January 1	3,171,318	2,621,038	2,465,228	2,555,293
Cash and cash equivalents, December 31	$ 3,150,687	$ 3,171,318	$ 2,623,875	$ 2,465,228

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2013	2012	2013	2012	2013	2012	
$ 724,454	$ 585,219	$ 188,968	$ 158,629	$ 6,583,135	$ 6,651,002	$ 23,111
(190,430)	(58,217)	(679,531)	(744,261)	(3,243,212)	(3,270,022)	–
(305,964)	(226,930)	(118,095)	(90,492)	(1,532,792)	(1,374,631)	(46,546)
228,060	300,072	(608,658)	(676,124)	1,807,131	2,006,349	(23,435)
–	–	–	–	(206)	–	(73)
75,487	70,237	630,198	485,016	717,109	565,253	–
(207,000)	(440,383)	–	–	(2,119,124)	(2,464,120)	–
(131,513)	(370,146)	630,198	485,016	(1,402,221)	(1,898,867)	(73)
–	–	–	–	3,109	–	–
–	–	–	–	(18,561)	(39,367)	–
–	–	–	–	(15,452)	(39,367)	–
(8,955)	9,661	(40,123)	41,362	(182,433)	181,941	(15,160)
87,592	(60,413)	(18,583)	(149,746)	207,025	250,056	(38,668)
199,797	260,210	1,564,197	1,713,943	7,400,540	7,150,484	597,038
$ 287,389	$ 199,797	$ 1,545,614	$ 1,564,197	$ 7,607,565	$ 7,400,540	$ 558,370

(continued)

CITY OF PRIOR LAKE

Statement of Cash Flows (continued)
Proprietary Funds
Years Ended December 31, 2013 and 2012

	Business-Type Activities – Enterprise Funds			
	Water		Sewer	
	2013	2012	2013	2012
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	$ 1,058,229	$ 1,365,520	$ 108,265	$ 159,494
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Other income related to operations	–	770	–	–
Depreciation	626,734	624,020	368,812	360,340
(Increase) decrease in assets				
Accounts receivable	(10,799)	(9,641)	(10,951)	(9,025)
Special assessments receivable	(969)	1,055	–	–
Due from other governments	(8,042)	238	268	7,815
Prepaid items	–	–	99,624	(99,624)
Increase (decrease) in liabilities				
Accounts and contracts payable	(30,855)	13,278	(25)	(46,421)
Accrued salaries and employee benefits payable	1,382	14,880	3,026	14,559
Due to other governmental agencies	(19,629)	2,931	1,391	(429)
Deposits payable	–	(2,850)	–	–
Compensated absences payable	(1,108)	9,718	2,376	(24,227)
Net cash flows from operating activities	$ 1,614,943	$ 2,019,919	$ 572,786	$ 362,482
Schedule of noncash activities from capital and related financing activities				
Capital assets contributed from other funds	$ 404,951	$ 783,165	$ 48,997	$ 367,138
Capital assets contributed to other funds	$ –	$ –	$ –	$ (3,301)
Capital assets contributed by developers	$ 126,117	$ –	$ 172,155	$ (3,301)
Loss on disposal of capital assets	$ –	$ (7,071)	$ –	$ (2,742)

See notes to basic financial statements

Water Quality		Transit		Totals		Governmental Activities – Internal Service Fund
2013	2012	2013	2012	2013	2012	
$ 170,021	$ 189,805	$ (547,509)	$ (642,235)	$ 789,006	$ 1,072,584	$ (68,982)
–	–	–	–	–	770	–
52,891	50,018	–	–	1,048,437	1,034,378	–
(4,397)	(3,164)	(241)	(6,208)	(26,388)	(28,038)	(84)
–	229	–	–	(969)	1,284	–
26,322	35,890	(35,989)	(33,968)	(17,441)	9,975	–
–	–	–	–	99,624	(99,624)	–
(6,676)	3,466	5,036	(4,984)	(32,520)	(34,661)	–
1,380	7,587	(2,877)	2,877	2,911	39,903	–
(13,996)	24,452	(3,937)	6,654	(36,171)	33,608	–
–	–	–	–	–	(2,850)	–
2,515	(8,211)	(23,141)	1,740	(19,358)	(20,980)	45,631
$ 228,060	$ 300,072	$ (608,658)	$ (676,124)	$ 1,807,131	$ 2,006,349	$ (23,435)
$ 128,226	$ 186,790	$ –	$ –	$ 582,174	$ 1,337,093	$ –
			–			
$ –	$ –	$ –	$ –	$ –	$ (3,301)	$ –
$ 25,637	$ –	$ –	$ –	$ 323,909	$ (3,301)	$ –
$ –	$ –	$ –	$ –	$ –	$ (9,813)	$ –

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The City of Prior Lake, Minnesota (the City) operates under "Optional Plan B" as defined in Minnesota Statutes. Under this plan, the government of the City is directed by a Council composed of an elected Mayor and four elected councilmembers. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

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.

As a result of applying these criteria, certain organizations have been included or disclosed in this report as follows:

Blended Component Unit – The Prior Lake Economic and Development Authority (EDA) was created pursuant to Minnesota Statutes § 469.090 through § 469.108 to carryout economic and industrial development and redevelopment within the City in accordance with policies established by the City Council. The five-member Board of Directors consists of two councilmembers and three members appointed from the community. The EDA is reported as a blended component unit within the EDA Special Revenue Fund. Separate financial statements are not issued for this component unit. The EDA may not exercise any of the powers enumerated by the authorizing statutes without prior approval of the Council.

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 are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which significantly rely upon sales, fees, and charges for support.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 and special assessments are recognized as revenues in the fiscal year for which they are certified for levy. Grants and similar items are recognized 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 funds is 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. Under this basis of accounting transactions are recorded in the following manner:

1. **Revenue Recognition** – 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 they are collected within 60 days after year-end. 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. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

   Major revenue that is susceptible to accrual includes property taxes, franchise taxes, special assessments, intergovernmental revenue, charges for services, and interest earned on investments. Major 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.

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and compensated absences, 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary fund financial statements are reported using the economic resources measurement focus and 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 and internal service funds are charges to customers for sales and services. The operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses that do not meet this definition are reported as nonoperating revenues and expenses.

Aggregated information for the internal service funds is reported in a single column in the proprietary fund financial statements. Because the principal user of the internal services is the City's governmental activities, the financial statements of the internal service funds are consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Description of Funds

The City reports the following major governmental funds:

General Fund – This 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.

Debt Service Fund – This fund accounts for the resources accumulated to provide repayment of the City's general obligation debt.

Construction Capital Project Fund – This fund accounts for the resources accumulated and payments made for city projects.

The City reports the following major proprietary funds:

Water Fund – This fund is used to account for the operation, maintenance, and improvement of the City's water system.

Sewer Fund – This fund is used to account for the operation, maintenance, and improvement of the City's sewer collection operations.

Water Quality Fund – This fund accounts for the costs associated with the City's storm water system, which are financed by the storm water surcharge, and ensure that user charges are sufficient to pay for those costs.

Transit Fund – This fund is used to account for the City's transit services, which are funded mainly by the Metropolitan Council.

The City also reports the following fund types:

Internal Service Fund – This fund is used to account for the City's severance benefits offered by the City to its employees. The Internal Service Fund operates in a manner similar to the enterprise funds; however, it provides services primarily to other departments within the City.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Investments

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, commercial paper, government securities, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are combined and invested to the extent available in short-term investments. Earnings from the pooled investments are allocated to the individual funds based on the average monthly cash and investment balances of the respective funds.

The Minnesota Municipal Money Market Fund (4M Fund) is a customized cash management and investment program for Minnesota public funds. Sponsored and governed by the League of Minnesota Cities since 1987, the 4M Fund is a unique investment alternative designed to address the daily and long-term investment needs of Minnesota cities and other municipal entities. Allowable under Minnesota Statutes, the 4M Fund is comprised of top quality-related investments.

Investments are generally stated at fair value, except for investments in 2a7-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.

Cash held in escrow includes balances held in escrow accounts for future bond refunding. Earnings on these accounts are allocated directly to those funds.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Investment Policy

The City's investment policy contains the following restrictions:

A. Allowable Investments

The City may invest in any type of security allowed by Minnesota Statutes as may be amended from time to time. The City has chosen to limit its allowable investments to those instruments listed below:

1) Bonds, notes, certificates of indebtedness, treasury bills, or other securities now or hereafter issued by the United States of America, its agencies, and allowable instrumentalities.
2) Interest bearing checking and savings accounts, or any other investments constituting direct obligations of any bank.
3) Certificates of deposit with federal insured institutions that are collateralized or insured in excess of the $250,000 provided by the Federal Deposit Insurance Corporation (FDIC) coverage limit.
4) Money market accounts that are invested in above referenced government securities.
5) Commercial paper meeting the following requirements:
    a. The corporation must be organized in the United States
    b. The corporation's assets must exceed $500,000,000
    c. The obligations at the time of purchase must be rated at the highest classifications by at least two of the four standard rating services (Standard and Poor's, Duff and Phelp's, Moody's, and Fitch Investors Service)
    d. The obligations cannot have a maturity longer than 270 days
    e. The total investment in any one corporation cannot exceed 10 percent of that corporation's outstanding obligations
    f. The total investment in any one corporation cannot be more than $2 million
6) Investments may only be made in those savings banks or savings and loan associations the shares, or investment certificates of which are insured by the FDIC.
7) Investment products that are considered as derivatives are specifically excluded from approved investments.

B. Diversification

It is the policy of the City to diversify its investment portfolio. Investments shall be diversified to eliminate the risk of loss resulting in over concentration in a specific maturity, issuers, or class of securities. Diversification strategies shall be determined and revised periodically by the City Finance Director. The diversification shall be as follows:

1) Up to 100 percent of 1., but not less than 10 percent
2) Up to 90 percent of 2. and 3.
3) Up to 20 percent of 4.
4) Up to 10 percent of 5.

C. Duration

It is the policy of the City to require that all investment maturities shall not extend beyond 10 years in length. Subject to market conditions and cash flow requirements, it is desirable for the City's investments to be laddered over time in an effort to reduce interest rate market risk.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables

Accounts receivable include amounts billed for services provided before year-end. The City annually certifies delinquent water and sewer accounts to the county for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

G. Property Taxes

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

The county spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City on that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes are due in full on May 15. The county provides tax settlements to cities and other taxing districts three times a year; in July, December, and January. Taxes which remain unpaid on 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. Deferred contingent special assessments represent assessments on undeveloped property that will not be levied and collected until the properties are subdivided or developed.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures at the time of consumption.

J. Interfund Receivables and Payables

In the fund financial statements, activity between funds that is representative of lending or borrowing arrangements is reported as either “due to/from other funds” (current portion) or “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

K. Capital Assets

Capital assets, which include property, buildings, improvements, equipment, infrastructure assets (roads, bridges, sidewalks, and similar items), and intangible assets such as easements, 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 on 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.

In the case of initial capitalization of general infrastructure assets (i.e. those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through back-trending (i.e. estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

NOTE 1 – 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. Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Land improvements	5–20
Building and structures	50
Machinery and equipment	5–30
Vehicles	8–25
Infrastructure	10–65

Land, easements, and construction in progress are not depreciated.

L. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave. Upon separation, unused vacation and 50 percent of sick pay are paid to the employee if employed longer than five years. The majority of separation benefits are paid into a retirement health savings plan.

Vacation and sick leave are computed at year-end. Accrued vacation and sick leave totaled $1,047,207 at year-end. Vacation and sick pay are accrued when incurred in proprietary funds and reported as long-term liabilities. The total liability in the enterprises funds is $105,754. Vacation and sick pay of the Internal Service Fund totaled $941,453 at year-end. The City has provided funding for these obligations in the Severance Compensation Internal Service Fund at a currently computed level of 60 percent.

M. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenues from two sources: delinquent taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Net Position

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

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position** – All other elements of 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. Pursuant to Council resolution, the Finance Director is authorized to establish assignments of fund balance.

- **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. Comparative Data

Comparative total data for the prior year has been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. All annual appropriations lapse at year-end. The City does not use encumbrance accounting.

In June of each year, all departments of the City submit requests for appropriations to the Finance Director so that a budget may be prepared. Before September 15, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Manager. The legal level of budgetary control is the fund level.

S. 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 equivalents. The proprietary funds' portion in the government-wide cash and investment management pool is considered to be cash equivalent.

T. 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 coverages. 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 did not exceed insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage in 2013.

U. Restricted Assets

Restricted assets are cash, investments, and interest accrued thereon; the use of which is limited by external requirements such as a bond indenture or trust agreements.

V. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

W. Change in Accounting Principle

For the fiscal year ended December 31, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement identified specific items previously reported as assets that will now be classified as either deferred outflows of resources or outflows (expenditures/expenses), and items previously reported as liabilities that will now be reported as either deferred inflows of resources or inflows (revenues).

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$ 461,814
Investments	30,411,282
Cash on hand	750
Total	$ 30,873,846

Cash and investments are presented in the financial statements as follows:

Cash and investments – Statement of Net Position	$ 27,565,288
Restricted assets – temporarily restricted – cash and investments held in escrow	3,308,558
Total	$ 30,873,846

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 $461,814 while the balance on the bank records was $551,973. At December 31, 2013, all deposits were fully covered by federal depository insurance or collateral held by the City's agent in the City's name.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

C. Investments

The City has the following investments at year-end:

Investment Type	Credit Risk Rating	Credit Risk Agency	Interest Risk – Segmented Time Distribution in Years: Less Than 1	1 to 5	Over 5	Total
U.S. treasury securities	N/A	N/A	$ 3,298,558	$ –	$ –	$ 3,298,558
U.S. government securities	AA+	S&P	–	3,247,419	10,064,516	13,311,935
Local government securities	AAA	S&P	–	–	257,838	257,838
Local government securities	AA+	S&P	–	1,612,320	1,079,710	2,692,030
Total local government securities			–	1,612,320	1,337,548	2,949,868
Negotiable certificates of deposit	N/R	N/A	1,231,527	3,143,495	474,697	4,849,719
			$ 4,530,085	$ 8,003,234	$ 11,876,761	24,410,080
Investment pools/mutual funds						
Minnesota Municipal Money Market Fund	N/R	N/A				6,001,202
Total investments						$ 30,411,282

N/A – Not Applicable
N/R – Not Rated

The 4M Fund is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The City's investment in the 4M Fund is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

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. With regard to the City's investment in local government securities, the City has a custodial credit risk exposure of $6,398,570 because the related securities are uninsured and not registered in the City's name, with securities held by the government's brokerage firm's trust (not safekeeping) department, which is also the counterparty for these particular securities. The City does not have a formal investment policy addressing this risk, but typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the City's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The City's investment policy as described in Note 1 addresses credit risk.

Concentration Risk – This is the risk associated with investing a significant portion of the City's investment (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. At December 31, 2013, the City had 20.3 and 23.4 percent of its portfolio invested with Federal Home Loan Mortgage Corporation and Federal Home Loan Bank, respectively. The City's investment policy as described in Note 1 addresses concentration risk.

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 has an investment policy as described in Note 1 which addresses interest rate risk.

NOTE 3 – CAPITAL ASSETS

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

A. Changes in Capital Assets Used in Governmental Activities

	Beginning of Year	Additions	Deletions	Transfers, Contributions, and Completed Construction	End of Year
Capital assets, not depreciated					
Land	$ 31,593,977	$ 225,001	$ –	$ –	$ 31,818,978
Easements	29,179,937	1,940,924	–	–	31,120,861
Construction in progress	4,350,287	6,691,645	–	(2,444,837)	8,597,095
Total capital assets, not depreciated	65,124,201	8,857,570	–	(2,444,837)	71,536,934
Capital assets, depreciated					
Land improvements	2,085,499	7,009	–	–	2,092,508
Machinery and equipment	5,545,112	218,676	(178,218)	(48,997)	5,536,573
Vehicles	5,072,576	124,882	(115,137)	–	5,082,321
Infrastructure	76,773,231	1,141,922	–	1,911,660	79,826,813
Total capital assets, depreciated	89,476,418	1,492,489	(293,355)	1,862,663	92,538,215
Less accumulated depreciation on					
Land improvements	(1,218,474)	(78,332)	–	–	(1,296,806)
Machinery and equipment	(2,536,910)	(324,088)	173,593	–	(2,687,405)
Vehicles	(3,764,917)	(376,463)	103,719	–	(4,037,661)
Infrastructure	(36,990,909)	(2,377,446)	–	–	(39,368,355)
Total accumulated depreciation	(44,511,210)	(3,156,329)	277,312	–	(47,390,227)
Net capital assets, depreciated	44,965,208	(1,663,840)	(16,043)	1,862,663	45,147,988
Total capital assets, net	$ 110,089,409	$ 7,193,730	$ (16,043)	$ (582,174)	$ 116,684,922

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

	Beginning of Year	Additions	Deletions	Transfers, Contributions, and Completed Construction	End of Year
Capital assets, not depreciated					
Easements	$ 75,300	$ –	$ –	$ –	$ 75,300
Capital assets, depreciated					
Land improvements	69,178	18,561	–	–	87,739
Machinery and equipment	926,816	48,997	(11,289)	–	964,524
Vehicles	302,245	–	–	–	302,245
Infrastructure	56,121,088	274,912	–	582,174	56,978,174
Total capital assets, depreciated	57,419,327	342,470	(11,289)	582,174	58,332,682
Less accumulated depreciation on					
Land improvements	(13,835)	(3,614)	–	–	(17,449)
Machinery and equipment	(641,258)	(32,291)	11,289	–	(662,260)
Vehicles	(271,975)	(7,265)	–	–	(279,240)
Infrastructure	(10,803,438)	(1,005,267)	–	–	(11,808,705)
Total accumulated depreciation	(11,730,506)	(1,048,437)	11,289	–	(12,767,654)
Net capital assets, depreciated	45,688,821	(705,967)	–	582,174	45,565,028
Total capital assets, net	$ 45,764,121	$ (705,967)	$ –	$ 582,174	$ 45,640,328

NOTE 3 – CAPITAL ASSETS (CONTINUED)

C. Depreciation Expense by Function

Depreciation expense for the year ended December 31, 2013 was charged to the following functions:

Governmental activities	
General government	$ 425,763
Public safety	322,375
Public works	1,989,123
Culture and recreation	419,068
Total depreciation expense – governmental activities	$ 3,156,329
Business-type activities	
Water	$ 626,734
Sewer	368,812
Water quality	52,891
Total depreciation expense – business-type activities	$ 1,048,437

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Due To and Due From Other Funds

Interfund receivables and payables at year-end, which represent short-term cash flow borrowing, were as follows:

	Due From Other Funds		
	Governmental	Proprietary	
Due To Other Funds	General	Internal Service	Total
Governmental funds			
General	$ –	$ 945	$ 945
Nonmajor	236	–	236
Total	$ 236	$ 945	$ 1,181

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

B. Interfund Transfers

A schedule of interfund transfers is as follows:

	Transfer In				
	Governmental				
Transfers Out	General	Debt Service	Construction	Nonmajor	Total
Governmental funds					
General	$ –	$ 1,167,471	$ –	$ 32,599	$ 1,200,070
Nonmajor	–	26,690	959,064	–	985,754
Proprietary funds					
Water	170,850	589,701	711,305	85,000	1,556,856
Sewer	170,850	93,013	26,405	65,000	355,268
Water quality	–	–	207,000	–	207,000
	$ 341,700	$ 1,876,875	$ 1,903,774	$ 182,599	$ 4,304,948

Transfers are used to move revenues from the funds in which they are collected to the funds where they are to be spent in accordance with statutory, budgetary, or contractual requirements.

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Debt

	Original Issue	Interest Rate	Issue Date	Final Maturity Date	Balance – End of Year
Governmental activities					
General obligation bonds					
Park Refunding Bonds of 2005	$ 6,260,000	3.75–5.00%	09/01/2005	12/01/2017	$ 2,890,000
Fire Hall Bonds of 2006	$ 3,700,000	4.00–4.50%	11/21/2006	12/15/2031	3,290,000
Street Reconstruction Bonds of 2007	$ 1,400,000	4.00%	05/15/2007	12/15/2017	635,000
Capital Improvement Plan Bonds	$ 1,225,000	3.80–3.90%	08/01/2007	02/01/2017	555,000
Fire Hall Refunding Bonds 2011B	$ 3,500,000	2.00–3.40%	12/14/2011	12/15/2031	3,500,000
Capital Improvement Refunding Bonds 2012A	$ 9,825,000	2.00–2.70%	03/13/2012	12/15/2029	9,010,000
Total general obligation bonds					$ 19,880,000
General obligation special assessment bonds					
Improvement Bonds of 2008	$ 1,300,000	2.40–3.65%	05/15/2008	12/15/2018	$ 670,000
Improvement Bonds of 2009A	$ 1,700,000	1.10–3.50%	05/15/2009	12/15/2019	1,050,000
Improvement Bonds of 2010A	$ 1,235,000	0.80–3.20%	05/26/2010	12/15/2020	875,000
Improvement Bonds of 2011A	$ 2,950,000	1.80–2.50%	08/31/2011	12/15/2021	1,975,000
Improvement Bonds of 2011B	$ 2,280,000	2.00–2.35%	12/14/2011	12/15/2022	2,075,000
Improvement Bonds of 2013A	$ 3,240,000	2.00–2.65%	08/15/2013	12/15/2023	3,240,000
Total general obligation special assessment bonds					$ 9,885,000
Tax increment bonds					
General Tax Increment Refunding Bonds of 2011A	$ 290,000	1.80–3.00%	08/31/2011	12/15/2024	$ 270,000
General obligation revenue bonds					
Refunding Bonds of 2005	$ 1,310,000	3.75–4.75%	09/01/2005	12/01/2014	$ 170,000
Water Treatment Plant Revenue Bonds of 2007A	$ 8,500,000	4.00–4.20%	05/15/2007	12/15/2032	7,710,000
Total general obligation revenue bonds					$ 7,880,000

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Changes in Long-Term Debt

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year	Due Within One Year
Governmental activities					
Bonds payable					
G.O. bonds	$ 21,335,000	$ –	$ 1,455,000	$ 19,880,000	$ 4,590,000
G.O. special assessment bonds	8,730,000	3,240,000	2,085,000	9,885,000	1,415,000
G.O. tax increment bonds	290,000	–	20,000	270,000	25,000
G.O. revenue bonds	8,225,000	–	345,000	7,880,000	370,000
Premium (discount) on bonds payable	(294,356)	47,068	(537,915)	290,627	–
Total bonds payable, net of premium (discount)	38,285,644	3,287,068	3,367,085	38,205,627	6,400,000
Compensated absences payable	895,822	104,175	58,544	941,453	310,980
Governmental activity long-term liabilities	$ 39,181,466	$ 3,391,243	$ 3,425,629	$ 39,147,080	$ 6,710,980
Business-type activities					
Compensated absences payable	$ 125,112	$ 9,805	$ 29,163	$ 105,754	$ 43,732

C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt are as follows:

	Governmental Activities							
Year Ending	General Obligation		G.O. Special Assessment		Tax Increment Bonds		G.O. Revenue Bonds	
December 31,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 4,590,000	$ 625,608	$ 1,415,000	$ 229,253	$ 25,000	$ 6,330	$ 370,000	$ 322,589
2015	1,515,000	430,756	1,180,000	200,533	20,000	5,880	220,000	306,514
2016	1,625,000	375,271	1,200,000	174,593	20,000	5,520	240,000	297,714
2017	1,645,000	313,351	1,200,000	146,758	20,000	5,160	260,000	288,114
2018	610,000	254,476	1,215,000	118,273	25,000	4,800	280,000	277,714
2019–2023	3,560,000	1,074,808	3,675,000	221,035	130,000	15,588	1,750,000	1,202,569
2024–2028	4,635,000	633,831	–	–	30,000	900	2,375,000	800,994
2029–2032	1,700,000	83,250	–	–	–	–	2,385,000	256,628
	$ 19,880,000	$ 3,791,351	$ 9,885,000	$ 1,090,445	$ 270,000	$ 44,178	$ 7,880,000	$ 3,752,836

D. Descriptions and Restrictions of Long-Term Debt

General Obligation Bonds – The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. They will be repaid with ad valorem taxes. General obligation bonds have been issued for general government activities. In addition, general obligation bonds have been issued to refund bond issues. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The capital improvement plan bonds were issued on behalf of the City by Scott County for the City's share of the County Road 82 improvement.

General Obligation Special Assessment Bonds – Special assessment bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by full faith and credit of the City.

NOTE 5 – LONG TERM DEBT (CONTINUED)

General Obligation Tax Increment Bonds – These bonds were issued for downtown redevelopment projects. The additional tax increments resulting from increased tax capacity of the redeveloped properties will be used to retire related debt.

General Obligation Revenue Bonds – These bonds were used to finance maintenance and building improvements. They will be repaid with ad valorem taxes and revenue from the utilities. The bonds are backed by the full faith and credit of the City.

Compensated Absences – This liability represents vested benefits earned by employees through the end of the year, which will be paid at termination of employment in future years. The Internal Service Fund and enterprise funds will be used to liquidate this liability.

Refunding Bonds – In 2011, the City issued $5,780,000 of General Obligation Bonds, Series 2011B. A portion of the bond issue is a crossover refunding of the 2006A Fire Hall Bonds. The new bonds have an average coupon rate of 2.9 percent compared to the 4.5 percent average coupon rate of the old bonds. The proceeds of the new bonds were deposited in an escrow account pending the call date. The escrow investments bear interest rates that will provide sufficient funds to refund the old bonds on December 15, 2014. The escrow account will also provide debt service payments on the new bonds until the crossover date. The old bonds are not considered defeased until the crossover date and, therefore, will not be removed as a liability until that date. As a result of the crossover refunding issue, the City will save $160,514 in debt service payments and achieve an economic gain (the present value of the difference between the old and the new debt service) of $163,048.

E. Conduit Debt Obligations

Conduit debt obligations are certain limited-obligation revenue bonds or similar instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued revenue bonds to provide funding to private sector entities for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City. The aggregate amount of all conduit debt outstanding at December 31, 2013 is $28,585,000.

F. Revenue Pledged

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

		Revenue Pledged				Current Year	
Bond Issue	Use of Proceeds	Type	Percent of Total Debt Service	Term of Pledge	Remaining Principal and Interest	Principal and Interest Paid	Pledged Revenue Received
Tax Increment Refunding Bonds of 2011A	Street and site improvements	Tax increment financing	100%	2011–2024	$ 314,178	$ 26,690	$ 112,489
Refunding Bonds of 2005	System improvements	Utility charges	100%	2005–2017	$ 178,075	$ 185,938	$ 5,700,206
Water Treatment Plant Revenue Bonds of 2007A	Water Treatment Facility	Utility charges	100%	2006–2031	$ 11,454,759	$ 496,514	$ 3,246,774

G. Legal Debt Margin

The City's statutory debt limit is equal to 3 percent of estimated taxable market value of property located within the City. The taxable market value totals $2,372,776,200, which calculates to a debt margin of $71,183,286. Debt financed partially or entirely by special assessments is not applied against the City's debt limit, nor is debt financed by proprietary fund revenues. Currently, the City has $19,880,000 of general obligation debt outstanding, leaving a debt margin of $51,303,286.

NOTE 5 – LONG TERM DEBT (CONTINUED)

H. Tax Increment Districts

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

NOTE 6 – FUND BALANCES

A. Classifications

At December 31, 2013, a summary of the City's governmental fund balance classifications are as follows:

	General Fund	Debt Service Fund	Construction Fund	Nonmajor Funds	Total
Nonspendable					
Prepaid items	$ –	$ –	$ 71,082	$ –	$ 71,082
Restricted					
Future debt service	–	5,075,615	–	–	5,075,615
Capital improvements	–	–	102,304	–	102,304
Economic development	–	–	–	202,026	202,026
Tax increment	–	–	–	549,411	549,411
Forfeiture sales	–	–	–	82,649	82,649
Total restricted	–	5,075,615	102,304	834,086	6,012,005
Assigned					
Capital improvements	–	–	1,586,125	5,626,114	7,212,239
Development	–	–	–	804,391	804,391
Communications	–	–	–	40,422	40,422
Subsequent year budget	1,033,440	–	–	–	1,033,440
Total assigned	1,033,440	–	1,586,125	6,470,927	9,090,492
Unassigned	5,397,818	–	–	(236)	5,397,582
Total	$ 6,431,258	$ 5,075,615	$ 1,759,511	$ 7,304,777	$ 20,571,161

B. Minimum Unrestricted Fund Balance Policy

The City Council has formally adopted a fund balance policy regarding the minimum unrestricted fund balance for the General Fund. The policy establishes that the City will strive to maintain an unrestricted General Fund balance (which includes committed, assigned, and unassigned classifications) between 40 and 50 percent of the subsequent year's General Fund budgeted expenditures. At December 31, 2013, the unrestricted fund balance of the General Fund was 50 percent of the subsequent year's budgeted expenditures and transfers out.

NOTE 6 – FUND BALANCES (CONTINUED)

The City Council may consider the judicious use of reserve balances in the following situations:

- to fund an expenditure of long-term benefit or legacy to the community
- to fund a one-time (nonrecurring) expenditure or grant matching opportunity
- to fund a one-time unplanned revenue shortfall
- to fund an unplanned expenditure due to an emergency or disaster
- to moderate property taxes
- to retire existing debt
- to fund policy shifts by other governmental entities having a negative impact on the City
- to provide catch-up funding for long-term obligations not previously recognized

In no case will the unrestricted balance be allowed to fall below 40 percent.

In the event that the year-end unrestricted balance is projected to be less than the target level due to the use of unrestricted balances for purposes identified above, a plan must be presented to the City Council at the time the unrestricted funds are appropriated that will reestablish the target level within 24 to 36 months.

Should the fund balance unrestricted amount fall below the 40 percent targeted level, the City Council must approve and adopt a plan to restore this balance to the target level within 24 to 36 months.

If restoration of the unrestricted balance cannot be accomplished within such period without severe hardship to the City, then the City Council will establish a different time period.

NOTE 7 – 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 the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statutes, and vest after five 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

B. Funding Policy

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6 percent of their annual covered salary in 2013. In 2013, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members, 7.25 percent for Coordinated Plan 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:

	GERF	PEPFF
2013	$ 282,357	$ 308,015
2012	$ 271,623	$ 282,433
2011	$ 262,770	$ 287,731

NOTE 8 – VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION – SINGLE EMPLOYER PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)

A. Plan Description

The Prior Lake Fire Department Firefighter's Relief and Pension Association (the Association) is the administrator of a single-employer defined benefit Public Employee Retirement System (PERS) established to provide benefits for members of the Prior Lake Fire Department (the Department) and is administered in accordance with Minnesota Statute § 69. The Association maintains a separate Special Fund to accumulate assets to fund the retirement benefits earned by the Department's membership.

NOTE 8 – VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION – SINGLE EMPLOYER PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS) (CONTINUED)

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Association.

B. Pension Benefits

Retirement Benefits

According to the bylaws of the Association and pursuant to Minnesota Statutes, Chapter 424A.02, Subdivisions 2 and 4, the Association pays to each member who has served as an active firefighter in the Department for a period of 20 years or more to his/her resignation, and who has reached the age of 50 years or more, $6,500 per year of service for lump sum. A member who has served in the Department for at least 20 years, but has not reached the age of 50 years may retire and be placed on the deferred pension roll until he/she reaches the age of 50. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension.

Disability Benefits

If a member of the Association becomes totally or permanently disabled, the Association shall pay to such members the sum of $6,500 lump sum plan for each year that they have served as an active member of the Department.

Death Benefit

Upon the death of any member of the Association who is in good standing at the time of their death, the Association shall pay to the surviving spouse, if any and if there is no surviving spouse, to surviving child or children, if any and if no child or children survive, to the estate of such deceased member under ten (10) years of service, the sum of $6,500 for each year that they served as an active member of the Department.

NOTE 8 – VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION – SINGLE EMPLOYER PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS) (CONTINUED)

C. Annual Pension Cost

The City's annual pension cost and related information as of December 31, 2012 (the most current data available) is as follows:

Annual pension cost	$	222,863
Contributions made		
City	$	75,925
State aid	$	146,938
Actuarial valuation date		12/31/2012
Actuarial cost method		Entry age method
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		8%
Projected salary increases		N/A
Inflation rate		N/A
Cost of living adjustments		None

N/A – Not Applicable

D. Three-Year Trend Information

Three-Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2012	$ 222,863	100.00 %	$ –
12/31/2011	$ 240,586	100.00 %	$ –
12/31/2010	$ 228,854	100.00 %	$ –

The City makes excess voluntary contributions annually, which, according to Minnesota Statutes, cannot be used to offset the actuarially required amount. As a result, the percentage of APC contributed may be over 100 percent. These excess voluntary contributions will be used for the future increases in benefits for the Association's members.

NOTE 8 – VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION – SINGLE EMPLOYER PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS) (CONTINUED)

E. Schedule of Funding Progress

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Benefit per Year of Service
12/31/2013	*	*	*	*	*
12/31/2012	$ 2,650,519	$ 2,665,512	$ (14,993)	99.4%	$ 6,500
12/31/2011	$ 2,548,946	$ 2,843,178	$ (294,232)	89.7%	$ 6,500
12/31/2010	$ 2,316,807	$ 2,640,554	$ (323,747)	87.7%	$ 6,500

* Information is currently unavailable

NOTE 9 – STEWARDSHIP AND ACCOUNTABILITY

Deficit Net Position

As of December 31, 2013, the Internal Service Fund had a deficit net position of $379,709. This deficit will be eliminated by future charges for services. The Tax Increment 1-4 River Vet Nonmajor Capital Project Fund had a deficit fund balance of $236.

NOTE 10 – JOINT POWERS AGREEMENT

The City is a member of a joint powers agreement, together with the cities of Belle Plaine, Elko New Market, Jordan, New Prague, Savage, and Shakopee, to provide for the joint exercise of prosecutorial powers. The cities of Belle Plain, Elko New Market, Jordan, New Prague, Savage, Shakopee, and the City each shall appoint one individual to serve on the Scott Joint Prosecution Association Board (the Board). Each member city contributes funds to cover their city's proportionate share of the costs of performing prosecution services. Contributions made by member cities for 2013 are as follows:

	Contribution	Percentage
City of Belle Plaine	$ 62,373	7.1 %
City of Elko New Market	20,949	2.4
City of Jordan	61,463	7.0
City of New Prague	63,602	7.3
City of Prior Lake	161,729	18.5
City of Savage	166,268	19.0
City of Shakopee	338,881	38.7
	$ 875,265	100.0 %

The Board issues a publicly available financial report at the Savage City Hall, 6000 McColl Drive, Savage, Minnesota 55378.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Funding

Amounts received 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 funds that may be disallowed by the 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.

C. Construction Contracts

During fiscal 2013, the City awarded contracts for various construction and remodeling projects. The City's commitment for uncompleted work on these contracts at December 31, 2013 is $1,148,543.

NOTE 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 68 replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" and Statement No. 50, "Pension Disclosures," as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PRIOR LAKE

Required Supplementary Information

Volunteer Fire Department Firefighter's Relief and Pension Association
Schedule of Funding Progress

Actuarial Valuation Date – December 31,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Accrued Liability	Funded Ratio
2013	*	*	*	*
2012	$ 2,650,519	$ 2,665,512	$ (14,993)	99.4%
2011	$ 2,548,946	$ 2,843,178	$ (294,232)	89.7%
2010	$ 2,316,807	$ 2,640,554	$ (323,747)	87.7%

* Information is currently unavailable

SUPPLEMENTAL INFORMATION

CITY OF PRIOR LAKE

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

	Special Revenue	Capital Projects	Total
Assets			
Cash and investments	$ 1,705,624	$ 6,054,605	$ 7,760,229
Cash held in escrow	10,000	–	10,000
Receivables			
Delinquent taxes	1,604	543	2,147
Accounts	14,947	29,180	44,127
Special assessments			
Deferred	–	21,438	21,438
Other (Green Acres)	–	3,363	3,363
Due from other governmental agencies	910	2,960	3,870
Total assets	$ 1,733,085	$ 6,112,089	$ 7,845,174
Liabilities			
Accounts and contracts payable	$ 57,749	$ 215,930	$ 273,679
Accrued salaries and employee benefits payable	1,973	–	1,973
Due to other governmental agencies	284	–	284
Due to other funds	–	236	236
Deposits payable	203,527	–	203,527
Unearned revenue	33,750	–	33,750
Total liabilities	297,283	216,166	513,449
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	1,604	543	2,147
Unavailable revenue from special assessments	–	24,801	24,801
Total deferred inflows of resources	1,604	25,344	26,948
Fund balances (deficit)			
Restricted	202,026	632,060	834,086
Assigned	1,232,172	5,238,755	6,470,927
Unassigned	–	(236)	(236)
Total fund balances	1,434,198	5,870,579	7,304,777
Total liabilities, deferred inflows of resources, and fund balances	$ 1,733,085	$ 6,112,089	$ 7,845,174

CITY OF PRIOR LAKE

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

	Special Revenue	Capital Projects	Total
Revenue			
Taxes	$ 147,940	$ 759,161	$ 907,101
Special assessments	–	19,946	19,946
Charges for services	244,876	1,246,193	1,491,069
Interest (losses) on investments	(16,753)	(169,324)	(186,077)
Miscellaneous			
Contributions and donations	200	–	200
Other	–	36,832	36,832
Total revenue	376,263	1,892,808	2,269,071
Expenditures			
Current			
Culture and recreation	17,533	–	17,533
Economic development	194,557	18	194,575
Capital outlay	276,009	1,412,355	1,688,364
Total expenditures	488,099	1,412,373	1,900,472
Excess (deficiency) of revenues over expenditures	(111,836)	480,435	368,599
Other financing sources (uses)			
Transfers in	32,599	150,000	182,599
Transfers out	–	(985,754)	(985,754)
Sale of assets	–	3,510	3,510
Total other financing sources (uses)	32,599	(832,244)	(799,645)
Net change in fund balances	(79,237)	(351,809)	(431,046)
Fund balances			
Beginning of year	1,513,435	6,222,388	7,735,823
End of year	$ 1,434,198	$ 5,870,579	$ 7,304,777

CITY OF PRIOR LAKE

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

	Capital Park	ED Revolving Loan	Revolving Loan
Assets			
Cash and investments	$ 462,298	$ 113,255	$ 87,948
Cash held in escrow	–	–	–
Receivables			
Delinquent taxes	–	–	–
Accounts	1,163	463	360
Due from other governmental agencies	–	–	–
Total assets	$ 463,461	$ 113,718	$ 88,308
Liabilities			
Accounts and contracts payable	$ 42,352	$ –	$ –
Accrued salaries and employee benefits payable	–	–	–
Due to other governmental agencies	–	–	–
Deposits payable	–	–	–
Unearned revenue	33,750	–	–
Total liabilities	76,102	–	–
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	–	–	–
Fund balances			
Restricted for economic development	–	113,718	88,308
Assigned for capital improvements	387,359	–	–
Assigned for development	–	–	–
Assigned for communications	–	–	–
Total fund balances	387,359	113,718	88,308
Total liabilities, deferred inflows of resources, and fund balances	$ 463,461	$ 113,718	$ 88,308

DAG	Cable Franchise	EDA	Total
$ 932,968	$ 40,422	$ 68,733	$ 1,705,624
–	10,000	–	10,000
–	–	1,604	1,604
–	–	12,961	14,947
–	–	910	910
$ 932,968	$ 50,422	$ 84,208	$ 1,733,085
$ 14,519	$ –	$ 878	$ 57,749
–	–	1,973	1,973
–	–	284	284
193,527	10,000	–	203,527
–	–	–	33,750
208,046	10,000	3,135	297,283
–	–	1,604	1,604
–	–	–	202,026
–	–	–	387,359
724,922	–	79,469	804,391
–	40,422	–	40,422
724,922	40,422	79,469	1,434,198
$ 932,968	$ 50,422	$ 84,208	$ 1,733,085

CITY OF PRIOR LAKE

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

	Capital Park	ED Revolving Loan	Revolving Loan
Revenues			
Taxes	$ –	$ –	$ –
Charges for services	203,887	–	–
Interest (losses) on investments	(11,085)	(2,905)	(2,255)
Miscellaneous			
Contributions and donations	200	–	–
Total revenues	193,002	(2,905)	(2,255)
Expenditures			
Current			
Culture and recreation	17,533	–	–
Economic development	–	–	–
Capital outlay	45,579	–	–
Total expenditures	63,112	–	–
Excess (deficiency) of revenues over expenditures	129,890	(2,905)	(2,255)
Other financing sources (uses)			
Transfers in	–	–	–
Net change in fund balances	129,890	(2,905)	(2,255)
Fund balances			
Beginning of year	257,469	116,623	90,563
End of year	$ 387,359	$ 113,718	$ 88,308

DAG	Cable Franchise	EDA	Total
$ –	$ –	$ 147,940	$ 147,940
35,070	3,208	2,711	244,876
–	–	(508)	(16,753)
–	–	–	200
35,070	3,208	150,143	376,263
–	–	–	17,533
85,831	–	108,726	194,557
215,940	14,490	–	276,009
301,771	14,490	108,726	488,099
(266,701)	(11,282)	41,417	(111,836)
–	–	32,599	32,599
(266,701)	(11,282)	74,016	(79,237)
991,623	51,704	5,453	1,513,435
$ 724,922	$ 40,422	$ 79,469	$ 1,434,198

CITY OF PRIOR LAKE

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

	Tax Increment	Revolving Equipment	Trunk Reserve
Assets			
Cash and investments	$ 209,878	$ 1,459,362	$ 1,516,983
Receivables			
Delinquent taxes	–	–	–
Accounts	870	9,196	8,295
Special assessments			
Deferred	–	–	7,000
Other (Green Acres)	–	–	3,363
Due from other governmental agencies	–	1,701	–
Total assets	$ 210,748	$ 1,470,259	$ 1,535,641
Liabilities			
Accounts and contracts payable	$ –	$ 7,528	$ 3,218
Due to other funds	–	–	–
Total liabilities	–	7,528	3,218
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	–	–	–
Unavailable revenue from special assessments	–	–	10,363
Total deferred inflows of resources	–	–	10,363
Fund balances			
Restricted for tax increment	210,748	–	–
Restricted for forfeiture sales	–	82,649	–
Assigned for capital improvements	–	1,380,082	1,522,060
Unassigned (deficit in restricted balance)	–	–	–
Total fund balances	210,748	1,462,731	1,522,060
Total liabilities, deferred inflows of resources, and fund balances	$ 210,748	$ 1,470,259	$ 1,535,641

Street Oversizing	Water Storage	Tax Increment 1-3 Lakefront	Tax Increment 3-1 Creekside	Tax Increment 4-1 Onsite
$ 690,012	$ 754,093	$ 141,525	$ 99,052	$ 7,204
–	–	543	–	–
2,717	2,214	505	327	25
9,771	4,667	–	–	–
–	–	–	–	–
–	–	1,259	–	–
$ 702,500	$ 760,974	$ 143,832	$ 99,379	$ 7,229
$ –	$ –	$ 40,000	$ 32,786	$ 3,009
–	–	–	–	–
–	–	40,000	32,786	3,009
–	–	543	–	–
9,771	4,667	–	–	–
9,771	4,667	543	–	–
–	–	103,289	66,593	4,220
–	–	–	–	–
692,729	756,307	–	–	–
–	–	–	–	–
692,729	756,307	103,289	66,593	4,220
$ 702,500	$ 760,974	$ 143,832	$ 99,379	$ 7,229

(continued)

CITY OF PRIOR LAKE

Nonmajor Capital Projects Funds
Combining Balance Sheet (continued)
as of December 31, 2013

	Tax Increment 5-1 Premiere	Tax Increment 6-1 Shepards Path	Tax Increment 1-4 River Vet
Assets			
Cash and investments	$ 8,959	$ 284,090	$ –
Receivables			
Delinquent taxes	–	–	–
Accounts	28	873	–
Special assessments			
Deferred	–	–	–
Other (Green Acres)	–	–	–
Due from other governmental agencies	–	–	–
Total assets	$ 8,987	$ 284,963	$ –
Liabilities			
Accounts and contracts payable	$ 4,860	$ 124,529	$ –
Due to other funds	–	–	236
Total liabilities	4,860	124,529	236
Deferred inflows of resources			
Unavailable revenue from delinquent taxes	–	–	–
Unavailable revenue from special assessments	–	–	–
Total deferred inflows of resources	–	–	–
Fund balances			
Restricted for tax increment	4,127	160,434	–
Restricted for forfeiture sales	–	–	–
Assigned for capital improvements	–	–	–
Unassigned (deficit in restricted balance)	–	–	(236)
Total fund balances	4,127	160,434	(236)
Total liabilities, deferred inflows of resources, and fund balances	$ 8,987	$ 284,963	$ –

Revolving Park Equipment	Facility Management	Total
$ 314,135	$ 569,312	$ 6,054,605
–	–	543
1,314	2,816	29,180
–	–	21,438
–	–	3,363
–	–	2,960
$ 315,449	$ 572,128	$ 6,112,089
$ –	$ –	$ 215,930
–	–	236
–	–	216,166
–	–	543
–	–	24,801
–	–	25,344
–	–	549,411
–	–	82,649
315,449	572,128	5,238,755
–	–	(236)
315,449	572,128	5,870,579
$ 315,449	$ 572,128	$ 6,112,089

CITY OF PRIOR LAKE

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

	Tax Increment	Revolving Equipment	Trunk Reserve
Revenues			
Taxes	$ –	$ 279,595	$ –
Special assessments	–	–	8,120
Charges for services	–	–	827,919
Interest (losses) on investments	(5,456)	(36,916)	(54,783)
Miscellaneous			
Other	–	36,832	–
Total revenues	(5,456)	279,511	781,256
Expenditures			
Current			
Economic development	–	–	–
Capital outlay	590	321,011	354,964
Total expenditures	590	321,011	354,964
Excess (deficiency) of revenues over expenditures	(6,046)	(41,500)	426,292
Other financing sources (uses)			
Transfers in	–	110,000	–
Transfers out	–	–	(959,064)
Sale of assets	–	3,510	–
Total other financing sources (uses)	–	113,510	(959,064)
Net change in fund balances	(6,046)	72,010	(532,772)
Fund balances (deficit)			
Beginning of year	216,794	1,390,721	2,054,832
End of year	$ 210,748	$ 1,462,731	$ 1,522,060

Street Oversizing	Water Storage	Tax Increment 1-3 Lakefront	Tax Increment 3-1 Creekside	Tax Increment 4-1 Onsite
$ –	$ –	$ 112,489	$ 72,858	$ 6,686
6,413	5,413	–	–	–
224,274	194,000	–	–	–
(18,870)	(17,625)	(3,871)	(2,376)	(178)
–	–	–	–	–
211,817	181,788	108,618	70,482	6,508
–	–	–	–	–
177,372	–	86,379	66,361	6,535
177,372	–	86,379	66,361	6,535
34,445	181,788	22,239	4,121	(27)
–	–	–	–	–
–	–	(26,690)	–	–
–	–	–	–	–
–	–	(26,690)	–	–
34,445	181,788	(4,451)	4,121	(27)
658,284	574,519	107,740	62,472	4,247
$ 692,729	$ 756,307	$ 103,289	$ 66,593	$ 4,220

(continued)

CITY OF PRIOR LAKE

Nonmajor Capital Projects Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances (continued)
Year Ended December 31, 2013

	Tax Increment 5-1 Premiere	Tax Increment 6-1 Shepards Path	Tax Increment 1-4 River Vet
Revenues			
Taxes	$ 10,800	$ 276,733	$ –
Special assessments	–	–	–
Charges for services	–	–	–
Interest (losses) on investments	(219)	(6,706)	–
Miscellaneous			
Other	–	–	–
Total revenues	10,581	270,027	–
Expenditures			
Current			
Economic development	–	–	18
Capital outlay	10,238	249,578	–
Total expenditures	10,238	249,578	18
Excess (deficiency) of revenues over expenditures	343	20,449	(18)
Other financing sources (uses)			
Transfers in	–	–	–
Transfers out	–	–	–
Sale of assets	–	–	–
Total other financing sources (uses)	–	–	–
Net change in fund balances	343	20,449	(18)
Fund balances (deficit)			
Beginning of year	3,784	139,985	(218)
End of year	$ 4,127	$ 160,434	$ (236)

Revolving Park Equipment	Facility Management	Total
$ –	$ –	$ 759,161
–	–	19,946
–	–	1,246,193
(8,240)	(14,084)	(169,324)
–	–	36,832
(8,240)	(14,084)	1,892,808
–	–	18
–	139,327	1,412,355
–	139,327	1,412,373
(8,240)	(153,411)	480,435
–	40,000	150,000
–	–	(985,754)
–	–	3,510
–	40,000	(832,244)
(8,240)	(113,411)	(351,809)
323,689	685,539	6,222,388
$ 315,449	$ 572,128	$ 5,870,579

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CITY OF PRIOR LAKE

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

	2013				2012
	Budgeted Amounts		Actual	Variance With	Actual
	Original	Final	Amounts	Final Budget	Amounts
Revenues					
Taxes					
Property taxes	$ 7,151,439	$ 7,151,439	$ 7,130,672	$ (20,767)	$ 8,133,237
Franchise taxes	571,700	571,700	584,295	12,595	600,172
Total taxes	7,723,139	7,723,139	7,714,967	(8,172)	8,733,409
Special assessments	–	–	495	495	2,411
Licenses and permits					
Business	76,170	76,170	80,775	4,605	76,470
Nonbusiness	435,850	435,850	686,059	250,209	564,114
Total licenses and permits	512,020	512,020	766,834	254,814	640,584
Intergovernmental					
Federal grants	1,500	1,500	3,246	1,746	7,741
State					
Road and bridge aid	260,000	260,000	276,721	16,721	268,116
Fire relief aid	143,000	143,000	206,356	63,356	148,138
Police aid	163,246	163,246	174,344	11,098	158,124
Other state aids	29,569	29,569	32,352	2,783	25,573
County and local					
County aid	–	–	15,000	15,000	15,610
Township fire and rescue aid	362,106	362,106	362,106	–	343,017
Liaison aid	43,300	43,300	44,060	760	42,656
Payment in lieu of taxes	400,000	400,000	400,000	–	380,000
Total intergovernmental	1,402,721	1,402,721	1,514,185	111,464	1,388,975
Charges for services					
Zoning fees	7,810	7,810	23,817	16,007	17,149
Plan check fees	214,250	214,250	322,411	108,161	270,552
Park fees	46,250	46,250	51,704	5,454	68,189
Project fees	376,000	376,000	363,462	(12,538)	361,000
Park program revenue	84,000	84,000	71,640	(12,360)	76,528
Tower leases	199,986	199,986	200,128	142	197,305
PEG access fees	31,000	31,000	33,471	2,471	32,683
Park admission/rent	22,000	22,000	25,389	3,389	21,557
Facility rental	70,252	70,252	70,579	327	68,917
Reports	3,200	3,200	2,589	(611)	2,403
Total charges for services	1,054,748	1,054,748	1,165,190	110,442	1,116,283
Fines and forfeits	155,000	155,000	137,529	(17,471)	159,198
Interest (losses) on investments	181,000	181,000	(191,208)	(372,208)	197,812

(continued)

CITY OF PRIOR LAKE

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

	2013				2012
	Budgeted Amounts			Variance With	
	Original	Final	Actual	Final Budget	Actual
Revenues (continued)					
Miscellaneous					
Other	65,000	65,000	88,697	23,697	164,847
Contributions and donations	11,000	11,000	38,981	27,981	32,554
Developers' agreements	55,000	55,000	155,060	100,060	100,503
Total miscellaneous	131,000	131,000	282,738	151,738	297,904
Total revenues	11,159,628	11,159,628	11,390,730	231,102	12,536,576
Expenditures					
Current expenditures					
General government					
Mayor and Council					
Personal services	55,817	55,817	47,479	(8,338)	51,773
Supplies	500	500	286	(214)	113
Other services and charges	5,850	5,850	7,062	1,212	8,059
Total Mayor and Council	62,167	62,167	54,827	(7,340)	59,945
Ordinance					
Other services and charges	6,000	6,000	8,096	2,096	6,922
Administration					
Personal services	355,540	355,540	353,922	(1,618)	350,631
Supplies	3,450	3,450	1,306	(2,144)	3,630
Other services and charges	40,927	40,927	49,191	8,264	39,793
Total administration	399,917	399,917	404,419	4,502	394,054
Boards and commissions					
Personal services	9,689	9,689	9,474	(215)	7,536
Other services and charges	300	300	86	(214)	1,728
Total boards and commissions	9,989	9,989	9,560	(429)	9,264
Election					
Personal services	–	–	–	–	11,864
Supplies	–	–	–	–	12,101
Other services and charges	–	–	–	–	1,344
Total election	–	–	–	–	25,309

(continued)

CITY OF PRIOR LAKE

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

	2013				2012
	Budgeted Amounts			Variance With	
	Original	Final	Actual	Final Budget	Actual
Expenditures (continued)					
Current expenditures (continued)					
General government (continued)					
Finance					
Personal services	388,436	388,436	354,288	(34,148)	373,688
Supplies	3,175	3,175	3,266	91	3,128
Other services and charges	25,038	25,038	36,300	11,262	20,565
Total finance	416,649	416,649	393,854	(22,795)	397,381
Auditing					
Other services and charges	25,000	25,000	24,890	(110)	26,240
Assessing					
Other services and charges	118,800	118,800	126,203	7,403	118,689
Legal services					
Other services and charges	317,780	317,780	336,047	18,267	330,071
Personnel					
Personal services	123,787	123,787	124,063	276	117,927
Supplies	300	300	74	(226)	81
Other services and charges	21,720	21,720	9,613	(12,107)	26,335
Total personnel	145,807	145,807	133,750	(12,057)	144,343
Communications					
Personal services	96,101	96,101	95,082	(1,019)	90,646
Supplies	1,300	1,300	413	(887)	453
Other services and charges	20,550	20,550	19,558	(992)	16,052
Total communications	117,951	117,951	115,053	(2,898)	107,151
Community development					
Personal services	302,831	302,831	295,235	(7,596)	295,162
Supplies	2,500	2,500	832	(1,668)	688
Other services and charges	32,970	63,282	59,524	(3,758)	12,999
Total community development	338,301	368,613	355,591	(13,022)	308,849
Technology					
Personal services	22,771	22,771	22,775	4	14,977
Supplies	1,040	1,040	4,602	3,562	1,032
Other services and charges	125,830	198,585	200,143	1,558	66,941
Total technology	149,641	222,396	227,520	5,124	82,950

(continued)

CITY OF PRIOR LAKE

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

	2013				2012
	Budgeted Amounts			Variance With	
	Original	Final	Actual	Final Budget	Actual
Expenditures (continued)					
Current expenditures (continued)					
General government (continued)					
Buildings and plant					
Personal services	57,775	57,775	71,671	13,896	69,118
Supplies	6,000	6,000	4,799	(1,201)	9,265
Other services and charges	363,737	363,737	411,620	47,883	355,722
Total buildings and plant	427,512	427,512	488,090	60,578	434,105
Total general government	2,535,514	2,638,581	2,677,900	39,319	2,445,273
Public safety					
Police					
Personal services	3,023,022	3,023,022	2,974,298	(48,724)	2,840,572
Supplies	96,222	96,222	118,323	22,101	127,172
Other services and charges	157,818	157,818	151,431	(6,387)	143,756
Total police	3,277,062	3,277,062	3,244,052	(33,010)	3,111,500
Fire and rescue					
Personal services	365,576	365,576	353,114	(12,462)	328,656
Supplies	84,685	84,685	80,287	(4,398)	74,650
Other services and charges	361,278	361,278	422,349	61,071	373,707
Total fire and rescue	811,539	811,539	855,750	44,211	777,013
Building inspections					
Personal services	499,223	499,223	488,879	(10,344)	425,590
Supplies	7,900	7,900	7,557	(343)	5,284
Other services and charges	3,304	3,304	4,588	1,284	2,608
Total building inspections	510,427	510,427	501,024	(9,403)	433,482
Emergency management					
Other services and charges	5,500	5,500	3,533	(1,967)	32,932
Animal control					
Other services and charges	26,450	26,450	26,612	162	25,650
Total public safety	4,630,978	4,630,978	4,630,971	(7)	4,380,577

(continued)

CITY OF PRIOR LAKE

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

	2013				2012
	Budgeted Amounts			Variance With	
	Original	Final	Actual	Final Budget	Actual
Expenditures (continued)					
Current expenditures (continued)					
Public works					
Engineering					
Personal services	283,613	283,613	282,725	(888)	271,384
Supplies	10,250	10,250	4,866	(5,384)	11,569
Other services and charges	43,054	43,054	49,699	6,645	73,644
Total engineering	336,917	336,917	337,290	373	356,597
Central garage					
Personal services	170,826	170,826	168,041	(2,785)	169,180
Supplies	22,800	22,800	25,420	2,620	19,308
Other services and charges	176,500	176,500	183,407	6,907	161,390
Total central garage	370,126	370,126	376,868	6,742	349,878
Streets					
Personal services	337,631	337,631	310,565	(27,066)	276,767
Supplies	225,008	225,008	257,594	32,586	228,819
Other services and charges	608,715	608,715	622,963	14,248	496,703
Total streets	1,171,354	1,171,354	1,191,122	19,768	1,002,289
Total public works	1,878,397	1,878,397	1,905,280	26,883	1,708,764
Culture and recreation					
Recreation					
Personal services	285,684	285,684	272,859	(12,825)	272,799
Supplies	51,500	51,500	52,257	757	58,874
Other services and charges	44,471	44,471	50,065	5,594	41,821
Total recreation	381,655	381,655	375,181	(6,474)	373,494
Parks					
Personal services	791,451	791,451	804,958	13,507	798,988
Supplies	186,230	186,230	195,121	8,891	169,429
Other services and charges	146,429	146,429	142,046	(4,383)	160,985
Total parks	1,124,110	1,124,110	1,142,125	18,015	1,129,402
Libraries					
Supplies	2,500	2,500	5,094	2,594	8,208
Other services and charges	70,380	70,380	62,377	(8,003)	57,454
Total libraries	72,880	72,880	67,471	(5,409)	65,662

(continued)

CITY OF PRIOR LAKE

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

	2013				2012
	Budgeted Amounts			Variance With	
	Original	Final	Actual	Final Budget	Actual
Expenditures (continued)					
Current expenditures (continued)					
Culture and recreation					
Natural resources					
Personal services	90,715	90,715	34,245	(56,470)	101,763
Supplies	4,780	4,780	3,270	(1,510)	2,499
Other services and charges	46,888	46,888	37,811	(9,077)	20,856
Total natural resources	142,383	142,383	75,326	(67,057)	125,118
Total culture and recreation	1,721,028	1,721,028	1,660,103	(60,925)	1,693,676
Economic development					
Personal services	–	–	–	–	50
Supplies	–	–	–	–	344
Other services and charges	–	–	–	–	15,715
Total economic development	–	–	–	–	16,109
Total current expenditures	10,765,917	10,868,984	10,874,254	5,270	10,244,399
Capital outlay					
General government					
Technology	30,116	30,116	43,483	13,367	84,269
Buildings and plant	8,000	8,000	2,154	(5,846)	8,925
Public safety					
Police	5,000	5,000	338	(4,662)	6,745
Fire and rescue	46,000	46,000	46,473	473	54,197
Public works					
Street	–	–	–	–	5,403
Culture and recreation					
Parks	168,337	168,337	106,762	(61,575)	118,255
Total capital outlay	257,453	257,453	199,210	(58,243)	277,794
Total expenditures	11,023,370	11,126,437	11,073,464	(52,973)	10,522,193
Excess (deficiency) of revenues over expenditures	136,258	33,191	317,266	284,075	2,014,383

(continued)

CITY OF PRIOR LAKE

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

	2013				2012
	Budgeted Amounts			Variance With	
	Original	Final	Actual	Final Budget	Actual
Other financing sources (uses)					
Transfers in	341,700	341,700	341,700	–	335,000
Transfers out	(1,168,947)	(1,205,947)	(1,200,070)	5,877	(3,124,228)
Total other financing sources (uses)	(827,247)	(864,247)	(858,370)	5,877	(2,789,228)
Net change in fund balances	$ (690,989)	$ (831,056)	(541,104)	$ 289,952	(774,845)
Fund balances					
Beginning of year			6,972,362		7,747,207
End of year			$ 6,431,258		$ 6,972,362

CITY OF PRIOR LAKE

Debt Service Funds
Balance Sheet by Account
as of December 31, 2013

	Fire Hall Bonds	Park Referendum	City Hall 2005	Fire Station #2
Assets				
Cash and investments	$ –	$ –	$ 5,881	$ –
Cash held in escrow	–	–	–	3,298,558
Receivables				
Accounts	–	–	28	–
Special assessments				
Delinquent	–	–	–	–
Deferred	–	–	–	–
Other (Green Acres)	–	–	–	–
Due from other governmental agencies	–	–	3,370	–
Total assets	$ –	$ –	$ 9,279	$ 3,298,558
Deferred inflows of resources				
Unavailable revenue	$ –	$ –	$ –	$ –
Fund balances				
Restricted for debt service	–	–	9,279	3,298,558
Total deferred inflows of resources and fund balances	$ –	$ –	$ 9,279	$ 3,298,558

Water Revenue PW Building	Water Treatment Plant	150th Mitchell Condos	Tax Increment 2004	Breezy Point	Fish Point
$ –	$ –	$ 99,545	$ 25,492	$ 65,518	$ 84,625
–	–	–	–	–	–
–	–	475	103	590	3,038
–	–	–	–	357	–
–	–	19,921	–	48,896	87,831
–	–	–	–	–	722,708
–	–	696	–	1,088	84
$ –	$ –	$ 120,637	$ 25,595	$ 116,449	$ 898,286
$ –	$ –	$ 19,921	$ –	$ 49,253	$ 810,539
–	–	100,716	25,595	67,196	87,747
$ –	$ –	$ 120,637	$ 25,595	$ 116,449	$ 898,286

(continued)

CITY OF PRIOR LAKE

Debt Service Funds
Balance Sheet by Account (continued)
as of December 31, 2013

	CSAH 82	Street Reconstruction 2007	Brooksville Hills 2008	Brooksville Hills II/Maple Glen 2nd
Assets				
Cash and investments	$ 29,856	$ 17,946	$ 103,430	$ 117,355
Cash held in escrow	–	–	–	–
Receivables				
Accounts	117	118	366	750
Special assessments				
Delinquent	–	–	823	–
Deferred	–	–	181,725	164,269
Other (Green Acres)	–	–	–	–
Due from other governmental agencies	906	984	555	691
Total assets	$ 30,879	$ 19,048	$ 286,899	$ 283,065
Deferred inflows of resources				
Unavailable revenue from special assessments	$ –	$ –	$ 182,548	$ 164,269
Fund balances				
Restricted for debt service	30,879	19,048	104,351	118,796
Total deferred inflows of resources and fund balances	$ 30,879	$ 19,048	$ 286,899	$ 283,065

CR 12 & 2010 Reconstruction	Boudin Phase I	Boudin Phase II	Welcome, CR12, Sunset	Total
$ 85,019	$ 289,377	$ 200,459	$ 631,387	$ 1,755,890
–	–	–	–	3,298,558
448	1,096	710	877	8,716
–	1,151	2,536	–	4,867
70,456	321,574	310,957	1,471,120	2,676,749
–	8,427	–	–	731,135
880	1,637	1,560	–	12,451
$ 156,803	$ 623,262	$ 516,222	$ 2,103,384	$ 8,488,366
$ 70,456	$ 331,152	$ 313,493	$ 1,471,120	$ 3,412,751
86,347	292,110	202,729	632,264	5,075,615
$ 156,803	$ 623,262	$ 516,222	$ 2,103,384	$ 8,488,366

CITY OF PRIOR LAKE

Debt Service Funds
Schedule of Revenues, Expenditures,
and Changes in Fund Balances
Year Ended December 31, 2013

	Fire Hall Bonds	Park Referendum	City Hall 2005	Fire Station #2
Revenues				
Taxes	$ –	$ –	$ 554,027	$ –
Special assessments	–	–	–	–
Interest (losses) on investments	–	–	(2,915)	11,641
Total revenues	–	–	551,112	11,641
Expenditures				
Debt service				
Principal	185,000	585,000	345,000	75,000
Interest and other	5,272	168,256	207,127	243,961
Total expenditures	190,272	753,256	552,127	318,961
Excess (deficiency) of revenues over expenditures	(190,272)	(753,256)	(1,015)	(307,320)
Other financing sources (uses)				
Debt issued	–	–	–	–
Transfers in	190,272	753,256	–	223,943
Total other financing sources (uses)	190,272	753,256	–	223,943
Net change in fund balances	–	–	(1,015)	(83,377)
Fund balances				
Beginning of year	–	–	10,294	3,381,935
End of year	$ –	$ –	$ 9,279	$ 3,298,558

Water Revenue PW Building	Water Treatment Plant	150th Mitchell Condos	Tax Increment 2004	Breezy Point	Fish Point
$ –	$ –	$ 114,419	$ –	$ 156,573	$ –
–	–	55,599	–	60,760	59,824
–	–	(3,929)	(588)	(4,598)	(927)
–	–	166,089	(588)	212,735	58,897
170,000	175,000	195,000	20,000	285,000	770,000
16,025	321,689	4,876	6,734	9,584	6,280
186,025	496,689	199,876	26,734	294,584	776,280
(186,025)	(496,689)	(33,787)	(27,322)	(81,849)	(717,383)
–	–	–	–	–	–
186,025	496,689	–	26,690	–	–
186,025	496,689	–	26,690	–	–
–	–	(33,787)	(632)	(81,849)	(717,383)
–	–	134,503	26,227	149,045	805,130
$ –	$ –	$ 100,716	$ 25,595	$ 67,196	$ 87,747

(continued)

CITY OF PRIOR LAKE

Debt Service Funds
Schedule of Revenues, Expenditures,
and Changes in Fund Balances (continued)
Year Ended December 31, 2013

	CSAH 82	Street Reconstruction 2007	Brooksville Hills 2008	Brooksville Hills II/Maple Glen 2nd
Revenues				
Taxes	$ 148,830	$ 161,735	$ 91,191	$ 113,558
Special assessments	–	–	81,854	43,601
Interest (losses) on investments	–	(1,718)	(3,856)	(4,586)
Total revenues	148,830	160,017	169,189	152,573
Expenditures				
Debt service				
Principal	125,000	140,000	130,000	175,000
Interest and other	23,684	31,175	27,793	33,776
Total expenditures	148,684	171,175	157,793	208,776
Excess (deficiency) of revenues over expenditures	146	(11,158)	11,396	(56,203)
Other financing sources (uses)				
Debt issued	–	–	–	–
Transfers in	–	–	–	–
Total other financing sources (uses)	–	–	–	–
Net change in fund balances	146	(11,158)	11,396	(56,203)
Fund balances				
Beginning of year	30,733	30,206	92,955	174,999
End of year	$ 30,879	$ 19,048	$ 104,351	$ 118,796

CR 12 & 2010 Reconstruction	Boudin Phase I	Boudin Phase II	Welcome, CR12, Sunset	Total
$ 108,397	$ 166,896	$ 213,352	$ –	$ 1,828,978
17,313	106,044	67,178	596,932	1,089,105
(3,455)	(8,786)	(6,740)	(608)	(31,065)
122,255	264,154	273,790	596,324	2,887,018
120,000	205,000	205,000	–	3,905,000
25,279	38,913	47,156	23,260	1,240,840
145,279	243,913	252,156	23,260	5,145,840
(23,024)	20,241	21,634	573,064	(2,258,822)
–	–	–	59,200	59,200
–	–	–	–	1,876,875
–	–	–	59,200	1,936,075
(23,024)	20,241	21,634	632,264	(322,747)
109,371	271,869	181,095	–	5,398,362
$ 86,347	$ 292,110	$ 202,729	$ 632,264	$ 5,075,615

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OTHER INFORMATION SECTION

CITY OF PRIOR LAKE

Summary Financial Report
Revenues and Expenditures for General Operations
Governmental Funds
Years Ended December 31, 2013 and 2012

	Total		Percent Increase
	2013	2012	(Decrease)
Revenues			
Taxes	$ 9,866,751	$ 9,981,216	(1.1%)
Franchise taxes	584,295	600,172	(2.6%)
Special assessments	1,141,780	613,517	86.1%
Licenses and permits	766,834	640,584	19.7%
Intergovernmental	4,017,546	3,735,138	7.6%
Charges for services	2,656,259	2,678,865	(0.8%)
Fines and forfeits	137,529	159,198	(13.6%)
Interest (losses) on investments	(423,041)	500,933	(184.5%)
Miscellaneous	319,770	639,881	(50.0%)
Total revenues	$ 19,067,723	$ 19,549,504	(2.5%)
Per capita	$ 815	$ 836	(2.4%)
Expenditures			
Current			
General government	$ 2,677,900	$ 2,445,273	9.5%
Public safety	4,630,971	4,380,577	5.7%
Public works	1,905,280	1,708,764	11.5%
Culture and recreation	1,677,636	1,693,676	(0.9%)
Economic development	194,575	192,309	1.2%
Capital outlay	8,686,687	8,313,983	4.5%
Debt service			
Principal	3,905,000	3,320,000	17.6%
Interest and other charges	1,310,700	1,480,287	(11.5%)
Total disbursements	$ 24,988,749	$ 23,534,869	6.2%
Per capita	$ 1,069	$ 1,006	6.2%
Total long-term indebtedness	$ 37,915,000	$ 38,580,000	(1.7%)
Per capita	$ 1,621	$ 1,650	(1.7%)
General Fund balance – December 31	$ 6,431,258	$ 6,972,362	(7.8%)
Per capita	$ 275	$ 298	(7.8%)

The purpose of this report is to provide a summary of financial information concerning the City to interested citizens. The complete financial statements may be examined at City Hall, 4646 Dakota Street Southeast, Prior Lake, Minnesota 55372. Questions about this report should be directed to Jerilyn Erickson, Finance Director at (952) 447–9841.

CITY OF PRIOR LAKE

Combined Schedule of Indebtedness
for the Year Ended December 31, 2013

	Interest Rate	Issue Date	Final Maturity Date
Bonded indebtedness			
G.O. special assessment bonds			
G.O. Improvement Bonds of 2005C	3.50–3.75 %	07/01/2005	12/15/2015
G.O. Street Improvement Bonds of 2008	2.40–3.65	05/15/2008	12/15/2018
G.O. Improvement Bonds of 2009A	1.10–3.50	05/15/2009	12/15/2019
G.O. Improvement Refunding Bonds of 2009B	2.50	09/03/2009	12/01/2013
G.O. Improvement Bonds of 2010A	0.80–3.20	05/26/2010	12/15/2020
G.O. Improvement Bonds of 2011A	1.80–2.50	08/31/2011	12/15/2021
G.O. Improvement Refunding Bonds of 2011A	1.80	08/31/2011	12/15/2014
G.O. Improvement Bonds of 2011B	2.00–2.35	12/14/2011	12/15/2022
G.O. Improvement Bonds of 2013A	2.00–2.65	08/15/2013	12/15/2023
Total G.O. special assessment bonds			
Tax increment bonds			
G.O. Tax Increment Refunding Bonds of 2011A	1.80–3.00	08/31/2011	12/15/2024
General obligation bonds			
G.O. Park Refunding Bonds of 2005	3.75–5.00	09/01/2005	12/01/2017
G.O. Fire Hall Bonds of 2006A	4.00–4.50	11/15/2006	12/15/2031
G.O. Street Reconstruction Bonds of 2007B	4.00	05/15/2007	12/15/2017
G.O. Refunding Fire Station Bonds of 2008A	2.85	05/01/2008	12/01/2013
G.O. Improvement Bonds of 2011B	2.00–3.40	12/14/2011	12/15/2031
G.O. Capital Improvement Refunding Bonds of 2012A	2.00–2.70	03/13/2012	12/15/2029
Total general obligation bonds			
General obligation revenue bonds			
G.O. Public Works Building Refunding Bonds of 2005	3.75–4.75	09/01/2005	12/01/2014
G.O. Water Treatment Plant Revenue Bonds of 2007A	4.00–4.20	05/15/2007	12/15/2032
Total general obligation revenue bonds			
General obligation capital improvement plan bonds			
G.O. Capital Plan Bonds of 2006A	3.80–3.90	08/01/2007	02/01/2017
Total bonded indebtedness			

Authorized	Outstanding January 1	Issued (Retired)	Outstanding December 31	Due in 2014 Principal	Due in 2014 Interest
$ 2,500,000	$ 770,000	$ (770,000)	$ –	$ –	$ –
1,300,000	800,000	(130,000)	670,000	130,000	23,208
1,700,000	1,225,000	(175,000)	1,050,000	175,000	30,450
1,260,000	195,000	(195,000)	–	–	–
1,235,000	995,000	(120,000)	875,000	120,000	23,303
2,130,000	1,935,000	(205,000)	1,730,000	205,000	35,135
820,000	530,000	(285,000)	245,000	245,000	4,410
2,280,000	2,280,000	(205,000)	2,075,000	215,000	42,968
3,240,000	–	3,240,000	3,240,000	325,000	69,779
16,465,000	8,730,000	1,155,000	9,885,000	1,415,000	229,253
290,000	290,000	(20,000)	270,000	25,000	6,330
6,260,000	3,475,000	(585,000)	2,890,000	645,000	141,113
3,700,000	3,365,000	(75,000)	3,290,000	3,290,000	145,680
1,400,000	775,000	(140,000)	635,000	150,000	25,400
945,000	185,000	(185,000)	–	–	–
3,500,000	3,500,000	–	3,500,000	–	95,018
9,825,000	9,355,000	(345,000)	9,010,000	375,000	199,557
25,630,000	20,655,000	(1,330,000)	19,325,000	4,460,000	606,768
1,310,000	340,000	(170,000)	170,000	170,000	8,075
8,500,000	7,885,000	(175,000)	7,710,000	200,000	314,514
9,810,000	8,225,000	(345,000)	7,880,000	370,000	322,589
1,225,000	680,000	(125,000)	555,000	130,000	18,840
$ 53,420,000	$ 38,580,000	$ (665,000)	$ 37,915,000	$ 6,400,000	$ 1,183,780

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CITY OF PRIOR LAKE

Bond Schedules
December 31, 2013

	Issue Date	Interest Rate	Final Maturity Date	Principal
General obligation special assessment bonds				
$1,300,000 General Obligation Street Improvement Bonds of 2008	05/15/2008	3.20 %	12/15/2014	$ 130,000
		3.40	12/15/2015	130,000
		3.40	12/15/2016	135,000
		3.65	12/15/2017	135,000
		3.65	12/15/2018	140,000
Total				670,000
$1,700,000 General Obligation Improvement Bonds, Series 2009A	05/15/2009	2.00 %	12/15/2014	175,000
		2.40	12/15/2015	175,000
		3.00	12/15/2016	175,000
		3.00	12/15/2017	175,000
		3.50	12/15/2018	175,000
		3.50	12/15/2019	175,000
Total				1,050,000
$1,235,000 General Obligation Improvement Bonds, Series 2010A	05/26/2010	1.80 %	12/15/2014	120,000
		2.20	12/15/2015	120,000
		2.50	12/15/2016	125,000
		2.75	12/15/2017	125,000
		3.00	12/15/2018	125,000
		3.10	12/15/2019	130,000
		3.20	12/15/2020	130,000
Total				875,000
$2,130,000 General Obligation Improvement Bonds, Series 2011A	08/31/2011	1.80 %	12/15/2014	205,000
		1.80	12/15/2015	210,000
		1.80	12/15/2016	215,000
		1.80	12/15/2017	215,000
		2.00	12/15/2018	220,000
		2.15	12/15/2019	220,000
		2.35	12/15/2020	220,000
		2.50	12/15/2021	225,000
Total				1,730,000

(continued)

Bond Schedules (continued)
December 31, 2013

	Issue Date	Interest Rate	Final Maturity Date	Principal
General obligation special assessment bonds (continued)				
$820,000 General Obligation Improvement Refunding Bonds, Series 2011A	08/31/2011	1.80 %	12/15/2014	245,000
$2,280,000 General Obligation Improvement Bonds, Series 2011B	12/14/2011	1.80 %	12/15/2014	215,000
		1.80	12/15/2015	220,000
		1.80	12/15/2016	225,000
		1.80	12/15/2017	225,000
		2.00	12/15/2018	230,000
		2.15	12/15/2019	230,000
		2.35	12/15/2020	240,000
		2.50	12/15/2021	245,000
		3.00	12/15/2022	245,000
Total				2,075,000
$3,240,000 General Obligation Improvement Bonds, Series 2013A	08/15/2013	2.00 %	12/15/2014	325,000
		2.00	12/15/2015	325,000
		2.00	12/15/2016	325,000
		2.00	12/15/2017	325,000
		2.00	12/15/2018	325,000
		2.00	12/15/2019	325,000
		2.10	12/15/2020	325,000
		2.30	12/15/2021	325,000
		2.50	12/15/2022	320,000
		2.65	12/15/2023	320,000
				3,240,000
Total general obligation special assessment bonds				$ 9,885,000

(continued)

Bond Schedules (continued)
December 31, 2013

	Issue Date	Interest Rate	Final Maturity Date	Principal
General obligation tax increment bonds				
$290,000 Tax Increment Refunding Bonds, Series 2011A	08/31/2011	1.80 %	12/15/2014	$ 25,000
		1.80	12/15/2015	20,000
		1.80	12/15/2016	20,000
		1.80	12/15/2017	20,000
		2.00	12/15/2018	25,000
		2.15	12/15/2019	25,000
		2.35	12/15/2020	25,000
		2.50	12/15/2021	25,000
		3.00	12/15/2022	25,000
		3.00	12/15/2023	30,000
		3.00	12/15/2024	30,000
Total general obligation tax increment bonds				$ 270,000
General obligation bonds				
$6,260,000 General Obligation Park Refunding Bonds of 2005	09/01/2005	4.750 %	12/01/2014	$ 645,000
		4.750	12/01/2015	710,000
		5.000	12/01/2016	780,000
		5.000	12/01/2017	755,000
Total				2,890,000
$3,700,000 General Obligation Fire Hall Bonds of 2006A	11/15/2006	4.00 %	12/15/2014	3,290,000
$1,400,000 General Obligation Street Reconstruction Bonds of 2007B	05/15/2007	4.00 %	12/15/2014	150,000
		4.00	12/15/2015	155,000
		4.00	12/15/2016	160,000
		4.00	12/15/2017	170,000
Total				635,000

(continued)

Bond Schedules (continued)
December 31, 2013

	Issue Date	Interest Rate	Final Maturity Date	Principal
General obligation bonds (continued)				
$3,500,000 General Obligation Improvement Bonds, Series 2011B	12/14/2011	2.00 %	12/15/2015	120,000
		2.00	12/15/2016	135,000
		2.00	12/15/2017	135,000
		2.00	12/15/2018	140,000
		2.00	12/15/2019	150,000
		2.05	12/15/2020	160,000
		2.20	12/15/2021	175,000
		2.35	12/15/2022	180,000
		2.50	12/15/2023	195,000
		2.65	12/15/2024	215,000
		2.75	12/15/2025	230,000
		2.85	12/15/2026	240,000
		3.00	12/15/2027	255,000
		3.20	12/15/2028	270,000
		3.20	12/15/2029	285,000
		3.40	12/15/2030	300,000
		3.40	12/15/2031	315,000
Total				3,500,000
$9,825,000 General Obligation Capital Improvement Refunding Bonds of 2012A	03/13/2012	2.00 %	12/15/2014	375,000
		2.00	12/15/2015	395,000
		2.00	12/15/2016	410,000
		2.00	12/15/2017	435,000
		2.00	12/15/2018	470,000
		2.00	12/15/2019	485,000
		2.00	12/15/2020	515,000
		2.00	12/15/2021	545,000
		2.00	12/15/2022	565,000
		2.00	12/15/2023	590,000
		2.15	12/15/2024	615,000
		2.30	12/15/2025	645,000
		2.40	12/15/2026	685,000
		2.50	12/15/2027	720,000
		2.60	12/15/2028	760,000
		2.70	12/15/2029	800,000
Total				9,010,000
Total general obligation bonds				$ 19,325,000

(continued)

Bond Schedules (continued)
December 31, 2013

	Issue Date	Interest Rate	Final Maturity Date	Principal
General obligation bonds (continued)				
General obligation revenue bonds				
$1,310,000 General Obligation Public Works Building Refunding Bonds of 2005	09/07/2005	4.750 %	12/01/2014	$ 170,000
$8,500,000 General Obligation Water Treatment Plant Revenue Bonds of 2007A	05/15/2007	4.00 %	12/15/2014	200,000
		4.00	12/15/2015	220,000
		4.00	12/15/2016	240,000
		4.00	12/15/2017	260,000
		4.00	12/15/2018	280,000
		4.00	12/15/2019	300,000
		4.00	12/15/2020	325,000
		4.00	12/15/2021	350,000
		4.00	12/15/2022	375,000
		4.00	12/15/2023	400,000
		4.00	12/15/2024	425,000
		4.00	12/15/2025	450,000
		4.10	12/15/2026	475,000
		4.13	12/15/2027	500,000
		4.13	12/15/2028	525,000
		4.13	12/15/2029	550,000
		4.20	12/15/2030	580,000
		4.20	12/15/2031	610,000
		4.20	12/15/2032	645,000
Total				7,710,000
Total general obligation revenue bonds				$ 7,880,000
General obligation capital improvement plan bonds				
$1,225,000 General Obligation Capital Improvement Plan Bonds	08/01/2007	3.80 %	02/01/2014	130,000
		3.80	02/01/2015	135,000
		3.85	02/01/2016	140,000
		3.90	02/01/2017	150,000
Total general obligation capital improvement plan bonds				$ 555,000

CITY OF PRIOR LAKE

Debt Service Requirements
December 31, 2013

Year	General Obligation Bonds		General Obligation Special Assessment Bonds		General Obligation Tax Increment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 4,460,000	$ 606,768	$ 1,415,000	$ 229,253	$ 25,000	$ 6,330
2015	1,380,000	416,951	1,180,000	200,533	20,000	5,880
2016	1,485,000	366,726	1,200,000	174,593	20,000	5,520
2017	1,495,000	310,423	1,200,000	146,758	20,000	5,160
2018	610,000	254,476	1,215,000	118,273	25,000	4,800
2019	635,000	242,276	1,080,000	87,787	25,000	4,300
2020	675,000	229,576	915,000	61,802	25,000	3,763
2021	720,000	215,996	795,000	40,728	25,000	3,175
2022	745,000	201,244	565,000	22,238	25,000	2,550
2023	785,000	185,716	320,000	8,480	30,000	1,800
2024	830,000	169,041	–	–	30,000	900
2025	875,000	150,120	–	–	–	–
2026	925,000	128,960	–	–	–	–
2027	975,000	105,680	–	–	–	–
2028	1,030,000	80,030	–	–	–	–
2029	1,085,000	51,630	–	–	–	–
2030	300,000	20,910	–	–	–	–
2031	315,000	10,710	–	–	–	–
2032	–	–	–	–	–	–
Total	$ 19,325,000	$ 3,747,233	$ 9,885,000	$ 1,090,445	$ 270,000	$ 44,178

General Obligation Revenue Bonds		General Obligation Plan Bonds	
Principal	Interest	Principal	Interest
$ 370,000	$ 322,589	$ 130,000	$ 18,840
220,000	306,514	135,000	13,805
240,000	297,714	140,000	8,545
260,000	288,114	150,000	2,928
280,000	277,714	–	–
300,000	266,513	–	–
325,000	254,514	–	–
350,000	241,514	–	–
375,000	227,514	–	–
400,000	212,514	–	–
425,000	196,513	–	–
450,000	179,514	–	–
475,000	161,514	–	–
500,000	142,039	–	–
525,000	121,414	–	–
550,000	99,759	–	–
580,000	77,070	–	–
610,000	52,710	–	–
645,000	27,089	–	–
$ 7,880,000	$ 3,752,836	$ 555,000	$ 44,118

CITY OF PRIOR LAKE

Tax Levies and Collections,
Special Assessment Levies and Collections
Prior Ten Years

Tax Levies and Collections

Year	Total Levy	Collection of Current Year Levy	Percentage of Levy Collected	Collections of Prior Years' Levy	Total Collections	Percentage of Total Collections to Levy
2004	$ 6,588,000	$ 6,149,977	93.35 *	$ 73,164	$ 6,223,141	94.46 %
2005	7,313,669	6,903,982	94.40 *	83,978	6,987,960	95.55
2006	8,086,236	7,733,423	95.64 *	76,133	7,809,556	96.58
2007	8,718,777	8,557,509	98.15 *	96,934	8,654,443	99.26
2008	9,365,437	9,027,680	96.39 *	1,520,587	9,148,267	97.68
2009	9,881,555	9,330,012	94.42 *	157,906	9,487,918	96.02
2010	10,079,186	9,764,852	96.88 *	235,004	9,999,856	99.21
2011	10,114,124	9,742,074	96.32 *	148,029	9,890,103	97.79
2012	9,414,124	9,367,641	99.51	132,726	9,500,367	100.92
2013	9,414,124	9,307,276	98.87	79,901	9,387,177	99.71

* Market value credit was withheld by the state of Minnesota

Special Assessment Levies and Collections

Year	Total Levy	Collection of Current Year Levy**	Percentage of Levy Collected	Collections of Prior Years' Levy	Total Collections	Percentage of Total Collections to Levy
2004	$ 471,563	$ 434,451	92.13 %	$ 4,783	$ 439,234	93.14 %
2005	408,574	380,040	93.02	5,927	385,967	94.47
2006	476,717	446,508	93.66	49,397	495,905	104.03
2007	405,756	400,937	98.81	39,075	440,012	108.44
2008	336,687	330,203	98.07	9,243	339,446	100.82
2009	366,972	362,795	98.86	3,461	366,256	99.80
2010	441,066	435,017	98.63	3,522	438,539	99.43
2011	347,795	341,728	98.26	5,802	347,530	99.92
2012	385,017	380,144	98.73	4,240	384,384	99.84
2013	393,347	388,480	98.76	4,943	393,423	100.02

** Excludes prepaid assessment collections

CITY OF PRIOR LAKE

Schedules of Market Value, Tax Levy, Tax Capacity Values,
Tax Capacity Rate, and Market Value Rate
Prior Three Years

	2011	2012	2013
Taxable market value	$ 2,640,986,500	$ 2,504,043,900	$ 2,372,776,200 *
Tax levy	$ 10,114,124	$ 9,414,124	$ 9,414,124
Tax capacity, net of fiscal disparities, and tax increment	$ 29,445,278	$ 27,782,497	$ 26,188,839
Tax capacity rate	30.710%	29.739%	31.887%
Market value rate	0.043%	0.044%	0.040%

* The 2011 Legislature eliminated the MVHC reimbursement program and replaced it with the MV Exclusion program beginning in fiscal 2012.

CITY OF PRIOR LAKE

Key Financial Indicators
Prior Three Years

	2011	2012	2013
Current population	23,010	23,385	23,385
Tax capacity, net of fiscal disparities, and tax increment	$ 29,445,278	$ 27,782,497	$ 26,188,839
Percent of current property taxes collected	96.32% *	99.51% *	98.87%
City revenues per capita (governmental funds)	$ 701	$ 836	$ 815
City expenditures per capita (governmental funds)	$ 814	$ 1,006	$ 1,069
Ratio of bonded debt to tax capacity	146.00%	143.31%	148.55%
Bond rating	Aa2	Aa2	Aa2

* Net of market value aid reduction by the state of Minnesota

OTHER REQUIRED REPORTS

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
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Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

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

City Council and Management
City of Prior Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Prior Lake, Minnesota (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 16, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(continued)

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COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota
May 16, 2014

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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 ON

MINNESOTA LEGAL COMPLIANCE

City Council and Management
City of Prior Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Prior Lake, Minnesota (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 16, 2014.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2013-001. 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 response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The City's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

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

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

Minneapolis, Minnesota
May 16, 2014

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A. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2013-001 PAYROLL DECLARATION

Criteria – Minnesota Statute § 412.271, Subd. 2.

Condition – Minnesota Statutes require that when any claim for wages listed on a payroll is paid, the employee shall sign a declaration, which may be a part of the payroll, to the effect that the employee has received the wages and done the work for which the wages have been paid. Each employee claiming payment from the City of Prior Lake, Minnesota (the City) is required to make the following written declaration: "I declare under penalties of law that I have received the wages stated on this payroll opposite my name and have done the work for which the wages were paid." This declaration was not obtained for 5 of the 25 timecards tested in fiscal year 2013. These 5 timecards were related to payments to volunteeer firefighters.

Context – This is a current year finding.

Cause – This was an oversight by city personnel.

Effect – The City did not properly obtain this declaration for 5 of the 25 timecards tested in 2013 as required by Minnesota law.

Recommendation – We recommend that the City include the required declaration onto each timesheet in the future to ensure compliance with this requirement.

Management Response – There is no disagreement with the audit finding. The City's staff has since added the required payroll declaration.

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