

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED
DECEMBER 31, 2006

CITY OF MADISON LAKE, MINNESOTA
 ANNUAL FINANCIAL REPORT
 DECEMBER 31, 2006
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INTRODUCTORY SECTION

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2006

CITY OF MADISON LAKE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2006

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clell Hemphill	Mayor	12/31/06
Steve Bjerke	Council	12/31/08
Charles Ries	Council	12/31/08
Mary Lou Nierman	Council	12/31/06
Patrick Fasnacht	Council	12/31/06

APPOINTED

Clerk/Treasurer	Deb DeVlaeminck
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FINANCIAL SECTION

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2006



11 Civic Center Plaza
Suite 300
P.O. Box 3166
Mankato, MN 56002-3166

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Madison Lake
Madison Lake, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Madison Lake, Minnesota, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison schedules for the General fund and the Economic Development Loan and Permanent Improvement Revolving special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages IV through XVI is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 15, 2007
Mankato, Minnesota

Abdo, Eick + Meyers, LLP

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

Management's Discussion and Analysis

As management of the City of Madison 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, 2006.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6,296,643 (net assets). Of this amount, \$1,609,765 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$214,160. The majority of this increase is attributable to capital grants and contributions of \$132,524.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,429,126, an increase of \$291,589 in comparison with the prior year. Approximately 63.9 percent of this total amount, \$913,559, is available for spending at the City's discretion, but has been designated for specific purposes.
- At the end of the current fiscal year, unreserved fund balance for the General fund was \$320,784, or 91.6 percent of total General fund expenditures. Of this amount, \$79,628 is designated for capital outlay.
- The City's total debt increased by \$10,361, or 0.6 percent during the current fiscal year. The key factor in this increase was the issuance of \$140,000 in G.O. Improvement Bonds offset by the retirement of \$129,639 in bonds during the year.

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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 reflects how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

Figure 1
Required Components of the
City's Annual Financial Report

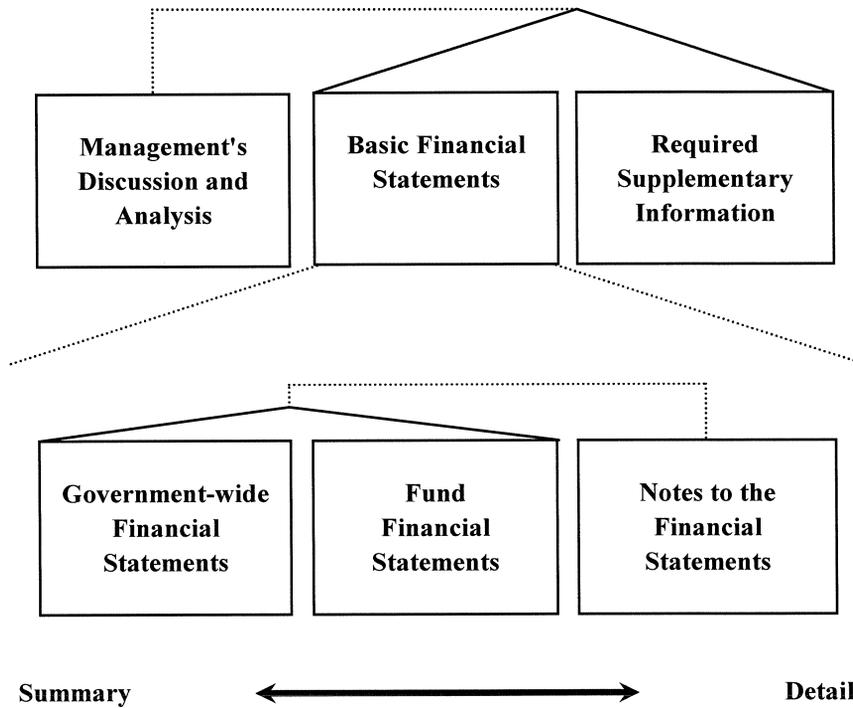


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Fund Net Assets • Statement of Cash Flows
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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 assets* presents information on all of the City’s assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 revenue (*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, streets and highways, composting, economic development, culture and recreation, and miscellaneous. The business-type activities of the City include water utility, sewer utility, and refuse operations.

The government-wide financial statements can be found on pages 1 - 3 of 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 government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund 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 22 individual governmental funds, 9 of which are Debt Service funds, which are reported as one fund for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Fire fund, Economic Development Loan fund, Public Improvement Revolving fund, Fire fund, Debt Service fund, Tax Increment District #2 fund, Northwest Project fund, and West Side Project fund all of which are considered to be major funds. Data from the other 7 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund and Fire, Economic Development Loan, and Public Improvement Revolving special revenue funds. Budgetary comparison statement has been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 4 - 12 of this report.

Proprietary funds. The City maintains one of proprietary fund. *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 utility, sewer utility and refuse operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 13 - 18 of this report.

Notes to Financial Statements

The notes 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 the financial statements can be found on pages 19- 42 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented following the notes to financial statements. Combining and individual fund statements and schedules can be found on pages 43 -58 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$6,296,643 at the close of the most recent fiscal year.

A significant portion of the City's net assets (59.7 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. 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.

Summary of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 2,303,609	\$ 2,149,567	\$ 411,956	\$ 395,564	\$ 2,715,565	\$ 2,545,131
Capital assets	2,436,106	2,788,761	2,948,707	2,594,506	5,384,813	5,383,267
Total assets	4,739,715	4,938,328	3,360,663	2,990,070	8,100,378	7,928,398
Long-term liabilities outstanding	1,254,674	1,208,624	428,294	463,370	1,682,968	1,671,994
Other liabilities	95,404	129,370	25,363	44,551	120,767	173,921
Total liabilities	1,350,078	1,337,994	453,657	507,921	1,803,735	1,845,915
Invested in capital assets, net of related debt	1,241,106	1,649,198	2,520,413	2,131,136	3,761,519	3,780,334
Restricted	810,592	765,380	114,767	96,160	925,359	861,540
Unrestricted	1,337,939	1,185,756	271,826	254,853	1,609,765	1,440,609
Total net assets	\$ 3,389,637	\$ 3,600,334	\$ 2,907,006	\$ 2,482,149	\$ 6,296,643	\$ 6,082,483

An additional portion of the City's net assets (14.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (25.7 percent) may be used to meet the City'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 assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$214,160 during the current fiscal year. The majority of this increase is attributable to capital grants and contributions of \$132,524.

Governmental activities. Governmental activities decreased the City's net assets by \$210,697, thereby offsetting 98.4 percent of the total growth in the net assets of the City. A key element of this decrease related to spending capital grants received in the prior year.

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services	\$ 161,954	\$ 158,025	\$ 365,342	\$ 378,197	\$ 527,296	\$ 536,222
Operating grants and contributions	23,036	277,121	-	-	23,036	277,121
Capital grants and contributions	66,438	1,015,508	66,086	462,467	132,524	1,477,975
General revenues:						
Property taxes/ tax increments	405,534	308,322	-	-	405,534	308,322
Other taxes	5,444	4,274	-	-	5,444	4,274
Grants and contributions not restricted to specific programs	160,295	157,151	-	-	160,295	157,151
Investment earnings	57,160	25,950	6,758	5,441	63,918	31,391
Gain on sale of capital assets	-	56	-	-	-	56
Other	2,825	9,181	-	-	2,825	9,181
Total revenues	<u>882,686</u>	<u>1,955,588</u>	<u>438,186</u>	<u>846,105</u>	<u>1,320,872</u>	<u>2,801,693</u>

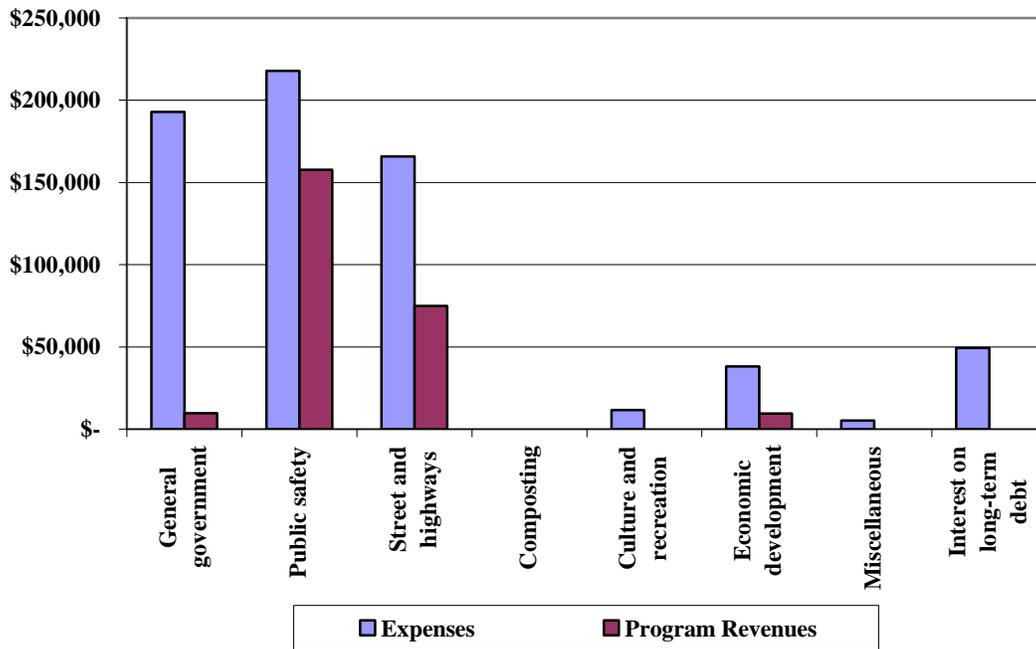
Changes in Net Assets - Continued

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Expenses						
General government	\$ 192,992	\$ 122,905	\$ -	\$ -	\$ 192,992	\$ 122,905
Public safety	217,901	187,763	-	-	217,901	187,763
Streets and highways	165,813	308,304	-	-	165,813	308,304
Composting	42	2,788	-	-	42	2,788
Culture and recreation	11,648	12,968	-	-	11,648	12,968
Economic development	38,027	18,942	-	-	38,027	18,942
Miscellaneous	5,318	3,477	-	-	5,318	3,477
Interest on long-term debt	49,407	53,773	-	-	49,407	53,773
Water utility	-	-	115,309	100,194	115,309	100,194
Sewer utility	-	-	252,802	220,927	252,802	220,927
Refuse	-	-	57,453	64,071	57,453	64,071
Total expenses	<u>681,148</u>	<u>710,920</u>	<u>425,564</u>	<u>385,192</u>	<u>1,106,712</u>	<u>1,096,112</u>
Increase in net assets before transfers	201,538	1,244,668	12,622	460,913	214,160	1,705,581
Transfers	<u>(412,235)</u>	<u>50,081</u>	<u>412,235</u>	<u>(50,081)</u>	<u>-</u>	<u>-</u>
Change in net assets	(210,697)	1,294,749	424,857	410,832	214,160	1,705,581
Net assets - January 1	3,600,334	2,104,832	2,482,149	1,923,124	6,082,483	4,027,956
Prior period adjustment	<u>-</u>	<u>200,753</u>	<u>-</u>	<u>148,193</u>	<u>-</u>	<u>348,946</u>
Net assets - December 31	<u>\$ 3,389,637</u>	<u>\$ 3,600,334</u>	<u>\$ 2,907,006</u>	<u>\$ 2,482,149</u>	<u>\$ 6,296,643</u>	<u>\$ 6,082,483</u>

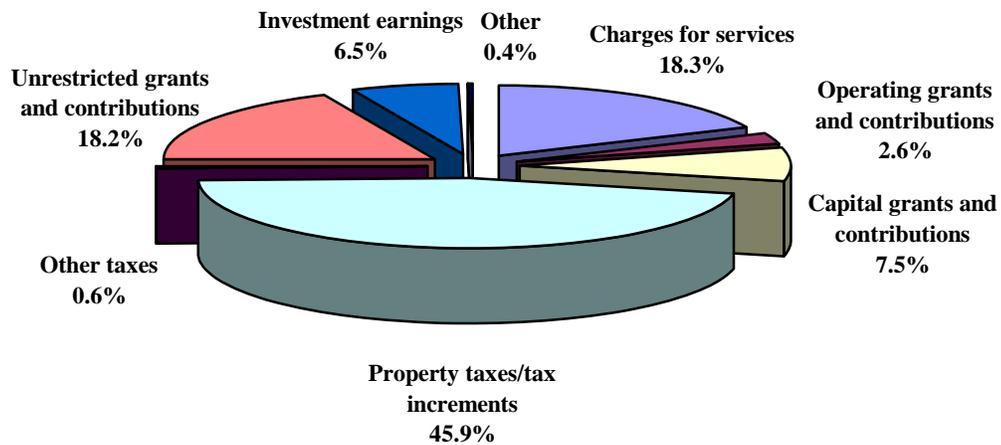
Property tax levies increased by \$26,379 (9.2 percent) during the year. The increase is a combination of increased expenses for governmental services and a tax levy for debt service.

The following graphs depict various governmental activities and show the revenue and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities

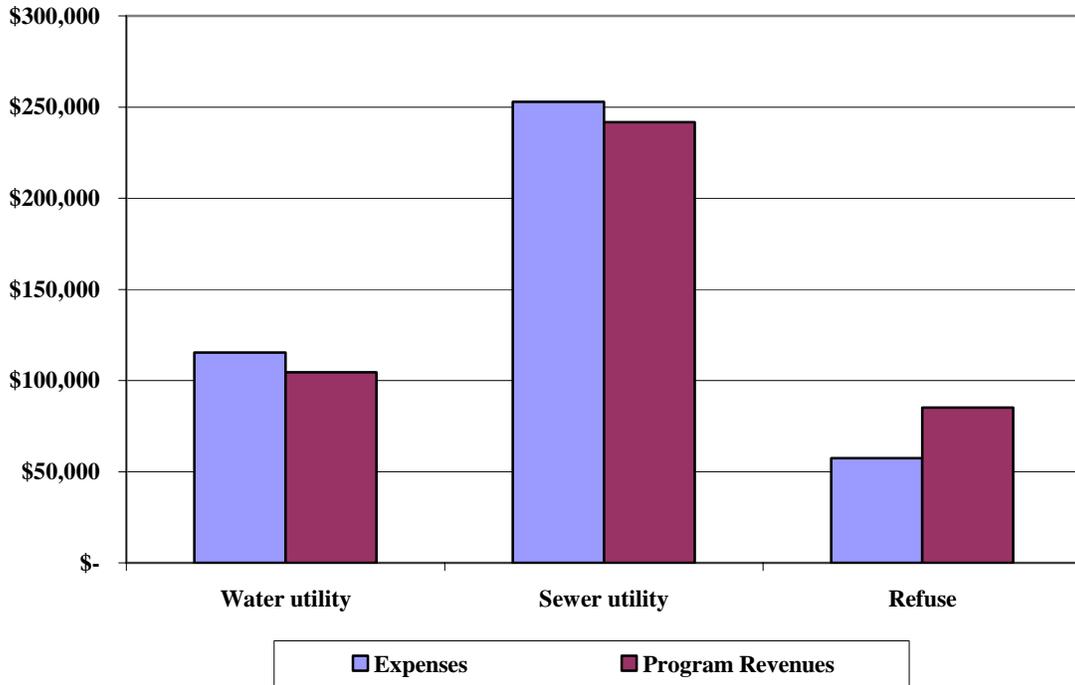


Revenues by Source - Governmental Activities

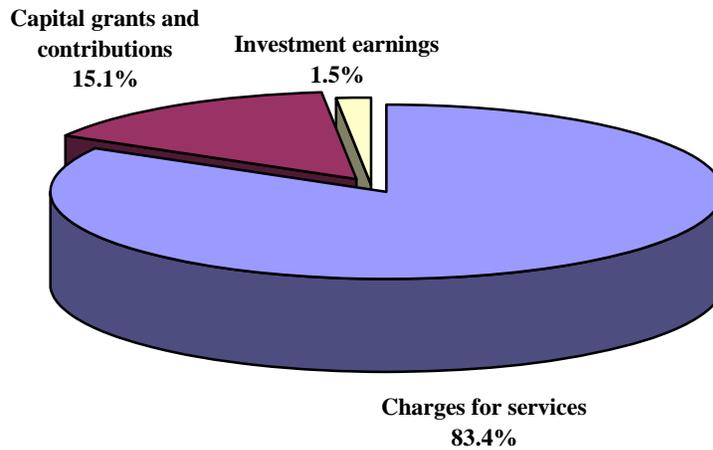


Business-type activities. Business-type activities increased the City’s net assets by \$424,857, accounting for 198.4 percent of the total growth in the City’s net assets. The key factor in this increase was increased capital contributions.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the City'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, *unreserved 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 \$1,429,126, an increase of \$291,589 in comparison with the prior year. Approximately 63.9 percent of this total amount \$913,559 constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service, interfund loans and prepaid items in the amount of \$361,579, \$112,228 and \$572, respectively.

The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$353,870. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Total fund balance represented 101.0 percent of fund expenditures, while unreserved fund balance represents 91.6 percent of fund expenditures.

The fund balance of the City's General fund increased by \$114,440 during the current fiscal year. The key factors in this increase were increased tax revenues and decreased spending for capital outlay. Property tax revenue in the General fund increased by \$64,323.

The Economic Development Loan fund has a total fund balance of \$114,803. The net increase in fund balance during the current year in the Economic Development Loan fund was \$76,699. The key factor in this increase was the repayment of outstanding loans.

The Public Improvement Revolving fund has a total fund balance of \$519,284. The net increase in fund balance during the current year in the Public Improvement Revolving fund was \$65,953. The key factors of this increase were transfers from the Water Utility, Sewer Utility and Tax Increment District # 2-5 funds totaling \$40,587.

The Fire fund has a total fund balance of \$75,874. The net decrease in fund balance during the current year in the Fire fund was \$74,643. The key factor in this change was capital outlay spending during the year.

The Debt Service fund has a total fund balance of \$361,579, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the Debt Service fund was \$33,772. The key factor in this increase was the collection of special assessments.

The Tax Increment District # 2 fund has a total fund balance deficit of \$109,428. The net increase in fund balance during the current year in the Tax Increment District # 2 fund was \$5,030.

The West Side Project fund has total fund balance of \$1,094. The net decrease in fund balance during the current year in the West Side Project fund was \$1,491. The key factor in this decrease was capital outlay expenditures in excess of special assessments collected.

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$271,826. The total growth in net assets for the funds was \$424,857. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. The budget called for decreasing reserves by approximately \$16,840. Revenues exceeded expectations by \$94,320, expenditures came in under budget by \$26,059 and transfers in were greater than budget by \$10,901 due to a transfer from the Refuse enterprise fund of \$27,777. As a result, reserves increased during 2006 by \$114,440.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of December 31, 2006, amounts to \$5,384,813 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total change in the City's investment in capital assets for the current fiscal year was 0.0 percent (a 12.6 percent decrease for governmental activities and a 13.7 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- A new rescue vehicle was purchased for the Fire Department at a cost of \$125,100.
- A new playground was constructed at a cost of \$20,565.
- The West Side Project was completed with water and sewer infrastructure being capitalized at \$218,252 and \$227,557 respectively.

Additional information on the City's capital assets can be found in Note 3D on pages 29 - 31 of this report.

Capital Assets Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 466,218	\$ 466,218	\$ 47,313	\$ 11,842	\$ 513,531	\$ 478,060
Buildings	361,009	383,300	-	-	361,009	383,300
Infrastructure	1,338,670	1,412,255	2,896,942	2,577,584	4,235,612	3,989,839
Machinery and equipment	226,680	95,304	4,452	5,080	231,132	100,384
Construction in progress	43,529	431,684	-	-	43,529	431,684
Total	\$ 2,436,106	\$ 2,788,761	\$ 2,948,707	\$ 2,594,506	\$ 5,384,813	\$ 5,383,267

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,678,294. Of this amount, \$60,000 is general obligation debt, \$1,135,000 is special assessment debt, \$428,294 is revenue debt and \$55,000 is tax increment revenue debt. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 60,000	\$ 70,000	\$ -	\$ -	\$ 60,000	\$ 70,000
G.O. tax increment bonds	55,000	65,000	-	-	55,000	65,000
G.O. improvement bonds	1,135,000	1,060,000	-	-	1,135,000	1,060,000
General obligation revenue bonds	-	-	428,294	463,370	428,294	463,370
Capital equipment notes	-	9,563	-	-	-	9,563
Total	<u>\$ 1,250,000</u>	<u>\$ 1,204,563</u>	<u>\$ 428,294</u>	<u>\$ 463,370</u>	<u>\$ 1,678,294</u>	<u>\$ 1,667,933</u>

The City's total debt increased by \$10,361, or 0.6 percent during the current fiscal year. The key factor in this increase was the issuance of \$140,000 in G.O. Improvement Bonds offset by the retirement of \$129,639 in bonds during the year.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 2 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$1,411,378, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 3F on pages 33 - 36 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for Blue Earth County is currently 3.2 percent, which is a slight decrease from a rate of 3.3 percent a year ago. This compares favorably to the State's average unemployment rate of 4.2 percent and the national average rate of 4.6 percent.

- Property valuations within the City remain strong and growing.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2007 fiscal year.

Property taxes will increase in 2007 by approximately 10.9 percent. The tax increase will provide an additional \$34,002 for operations of our governmental services.

There were various rate increases related to charges for services in 2006. Charges for licenses and permits, service fees, garbage rates, and water and sewer base fees were all increased by 5 percent.

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 City Clerk-Treasurer, City of Madison Lake, 525 Main Street, Madison Lake, Minnesota 56063.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2006

CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,295,838	\$ 103,340	\$ 1,399,178
Investments	162,808	214,190	376,998
Receivables:			
Delinquent taxes	15,665	-	15,665
Accounts	8,910	44,018	52,928
Notes	265,054	-	265,054
Special assessments	494,750	38,188	532,938
Intergovernmental	4,583	-	4,583
Prepaid items	31,092	-	31,092
Unamortized bond discount	24,909	12,220	37,129
Capital assets not being depreciated:			
Land	466,218	47,313	513,531
Construction in progress	43,529	-	43,529
Capital assets net of accumulated depreciation:			
Buildings	361,009	-	361,009
Infrastructure	1,338,670	2,896,942	4,235,612
Machinery and equipment	226,680	4,452	231,132
TOTAL ASSETS	4,739,715	3,360,663	8,100,378
LIABILITIES			
Accounts payable	48,110	17,001	65,111
Due to other governments	5	1,844	1,849
Accrued interest payable	21,630	6,477	28,107
Accrued salaries payable	8,914	-	8,914
Customer deposits payable	-	41	41
Deferred revenue	16,745	-	16,745
Noncurrent liabilities:			
Due within one year	115,674	35,076	150,750
Due in more than one year	1,139,000	393,218	1,532,218
TOTAL LIABILITIES	1,350,078	453,657	1,803,735
NET ASSETS			
Invested in capital assets, net of related debt	1,241,106	2,520,413	3,761,519
Restricted for:			
Debt service	769,404	27,741	797,145
Infrastructure	-	87,026	87,026
Park land dedication	41,188	-	41,188
Unrestricted	1,337,939	271,826	1,609,765
TOTAL NET ASSETS	\$ 3,389,637	\$ 2,907,006	\$ 6,296,643

The notes to the financial statements are an integral part of this statement.

CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 192,992	\$ 9,583	\$ -	\$ -
Public safety	217,901	135,212	22,436	-
Streets and highways	165,813	7,774	600	66,438
Composting	42	-	-	-
Culture and recreation	11,648	-	-	-
Economic development	38,027	9,385	-	-
Miscellaneous	5,318	-	-	-
Interest on long-term debt	49,407	-	-	-
Total governmental activities	681,148	161,954	23,036	66,438
Business-type activities:				
Water utility	115,309	90,723	-	13,875
Sewer utility	252,802	189,415	-	52,211
Refuse	57,453	85,204	-	-
Total business-type activities	425,564	365,342	-	66,086
Total	\$ 1,106,712	\$ 527,296	\$ 23,036	\$ 132,524

General revenues:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Tax increments
- Gambling taxes
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Other revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets, January 1

Net assets, December 31

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (183,409)	\$ -	\$ (183,409)
(60,253)	-	(60,253)
(91,001)	-	(91,001)
(42)	-	(42)
(11,648)	-	(11,648)
(28,642)	-	(28,642)
(5,318)	-	(5,318)
(49,407)	-	(49,407)
<u>(429,720)</u>	<u>-</u>	<u>(429,720)</u>
-	(10,711)	(10,711)
-	(11,176)	(11,176)
-	27,751	27,751
<u>-</u>	<u>5,864</u>	<u>5,864</u>
<u>(429,720)</u>	<u>5,864</u>	<u>(423,856)</u>
272,584	-	272,584
48,145	-	48,145
84,805	-	84,805
986	-	986
4,458	-	4,458
160,295	-	160,295
57,160	6,758	63,918
2,825	-	2,825
(412,235)	412,235	-
<u>219,023</u>	<u>418,993</u>	<u>638,016</u>
(210,697)	424,857	214,160
<u>3,600,334</u>	<u>2,482,149</u>	<u>6,082,483</u>
<u>\$ 3,389,637</u>	<u>\$ 2,907,006</u>	<u>\$ 6,296,643</u>

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FUND FINANCIAL STATEMENTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2006

GOVERNMENTAL FUNDS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2006

CITY OF MADISON LAKE, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2006

	General	Economic Development Loan	Public Improvement Revolving	Fire
ASSETS				
Cash and cash equivalents (deficits)	\$ 214,524	\$ 114,803	\$ 454,147	\$ 84,001
Investments	125,386	-	-	-
Receivables				
Loans	-	265,054	-	-
Delinquent taxes	13,423	-	-	-
Accounts	4,598	-	-	4,312
Special assessments	-	-	36,500	-
Intergovernmental	2,540	-	1,374	-
Due from other funds	32,514	-	71,764	-
Prepaid items	572	-	-	-
	<u>393,557</u>	<u>379,857</u>	<u>563,785</u>	<u>88,313</u>
TOTAL ASSETS	\$ 393,557	\$ 379,857	\$ 563,785	\$ 88,313
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts payable	\$ 8,601	\$ -	\$ -	\$ 12,439
Due to other funds	-	-	-	-
Due to other governments	5	-	-	-
Accrued interest payable	-	-	-	-
Accrued salaries payable	8,914	-	-	-
Deferred revenue	22,167	265,054	44,501	-
	<u>39,687</u>	<u>265,054</u>	<u>44,501</u>	<u>12,439</u>
TOTAL LIABILITIES	39,687	265,054	44,501	12,439
FUND BALANCES (DEFICITS)				
Reserved for:				
Interfund advance	32,514	-	79,714	-
Debt service	-	-	-	-
Prepaid items	572	-	-	-
Park land dedication	41,188	-	-	-
Unreserved, designated for:				
Economic development	-	114,803	-	-
Capital outlay	79,628	-	-	52,390
Public improvements	-	-	439,570	-
Unreserved, undesignated, reported in:				
General fund	199,968	-	-	-
Special revenue funds	-	-	-	23,484
Capital projects funds	-	-	-	-
	<u>353,870</u>	<u>114,803</u>	<u>519,284</u>	<u>75,874</u>
TOTAL FUND BALANCES (DEFICITS)	353,870	114,803	519,284	75,874
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 393,557	\$ 379,857	\$ 563,785	\$ 88,313

The notes to the financial statements are an integral part of this statement.

<u>Debt Service</u>	<u>Tax Increment District #2</u>	<u>West Side Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 293,299	\$ (5,150)	\$ 1,094	\$ 139,120	\$ 1,295,838
37,422	-	-	-	162,808
-	-	-	-	265,054
965	1,262	-	15	15,665
-	-	-	-	8,910
458,250	-	-	-	494,750
669	-	-	-	4,583
-	-	-	-	104,278
30,520	-	-	-	31,092
<u>\$ 821,125</u>	<u>\$ (3,888)</u>	<u>\$ 1,094</u>	<u>\$ 139,135</u>	<u>\$ 2,382,978</u>
\$ -	\$ -	\$ -	\$ 27,070	\$ 48,110
-	104,278	-	-	104,278
-	-	-	-	5
331	-	-	-	331
-	-	-	-	8,914
459,215	1,262	-	15	792,214
<u>459,546</u>	<u>105,540</u>	<u>-</u>	<u>27,085</u>	<u>953,852</u>
-	-	-	-	112,228
361,579	-	-	-	361,579
-	-	-	-	572
-	-	-	-	41,188
-	-	-	-	114,803
-	-	-	91,541	223,559
-	-	-	-	439,570
-	-	-	-	199,968
-	-	-	3,282	26,766
-	(109,428)	1,094	17,227	(91,107)
<u>361,579</u>	<u>(109,428)</u>	<u>1,094</u>	<u>112,050</u>	<u>1,429,126</u>
<u>\$ 821,125</u>	<u>\$ (3,888)</u>	<u>\$ 1,094</u>	<u>\$ 139,135</u>	<u>\$ 2,382,978</u>

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CITY OF MADISON LAKE, MINNESOTA
 GOVERNMENTAL FUNDS
 RECONCILIATION OF THE BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 DECEMBER 31, 2006

Total fund balances - governmental funds	\$ 1,429,126
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	2,436,106
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Compensated absences payable	(4,674)
Bonds payable	(1,250,000)
Bond discounts/issue costs, net of accumulated amortization	24,909
Long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	
Delinquent property taxes receivable	15,665
Special assessments receivable	494,750
Loans receivable	265,054
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(21,299)</u>
Total net assets - governmental activities	<u><u>\$ 3,389,637</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MADISON LAKE, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
YEAR ENDED DECEMBER 31, 2006

	General	Economic Development Loan	Public Improvement Revolving	Fire
REVENUES				
Taxes	\$ 276,822	\$ -	\$ -	\$ -
Special assessments	-	-	2,372	-
Licenses and permits	29,056	-	-	-
Intergovernmental	156,950	-	-	14,350
Charges for services	2,405	-	13,100	77,198
Fines and forfeits	34,219	-	-	-
Investment earnings	13,754	3,562	21,615	6,236
Miscellaneous	9,061	73,137	30,981	7,747
TOTAL REVENUES	522,267	76,699	68,068	105,531
EXPENDITURES				
Current				
General government	112,983	-	100	-
Public safety	99,076	-	-	75,947
Streets and highways	81,513	-	663	-
Sanitation and waste removal	42	-	-	-
Culture and recreation	7,050	-	-	-
Housing and economic development	6,233	-	-	-
Miscellaneous	5,318	-	1,312	-
Capital outlay				
Public safety	9,722	-	-	139,470
Streets and highways	1,407	-	5,156	-
Culture and recreation	26,955	-	-	-
Water and sewer	-	-	35,471	-
Debt service				
Principal	-	-	-	9,563
Interest and other	-	-	-	605
TOTAL EXPENDITURES	350,299	-	42,702	225,585
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	171,968	76,699	25,366	(120,054)
OTHER FINANCING SOURCES (USES)				
Transfers in	27,777	-	40,587	45,411
Bonds issued	-	-	-	-
Transfers out	(85,305)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(57,528)	-	40,587	45,411
NET CHANGE IN FUND BALANCES	114,440	76,699	65,953	(74,643)
FUND BALANCES (DEFICITS), JANUARY 1	239,430	38,104	473,119	150,517
PRIOR PERIOD ADJUSTMENT (NOTE 7)	-	-	(19,788)	-
FUND BALANCES (DEFICITS), JANUARY 1 AS RESTATED	239,430	38,104	453,331	150,517
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 353,870</u>	<u>\$ 114,803</u>	<u>\$ 519,284</u>	<u>\$ 75,874</u>

The notes to the financial statements are an integral part of this statement.

Debt Service	Tax Increment District #2	West Side Project	Other Governmental Funds	Total Governmental Funds
\$ 66,793	\$ 5,157	\$ -	\$ 61,000	\$ 409,772
59,665	-	13,809	-	75,846
-	-	-	-	29,056
670	513	-	258	172,741
-	-	-	-	92,703
-	-	-	-	34,219
8,013	-	25	3,955	57,160
-	-	-	-	120,926
<u>135,141</u>	<u>5,670</u>	<u>13,834</u>	<u>65,213</u>	<u>992,423</u>
500	-	1,200	-	114,783
-	-	-	-	175,023
-	-	-	-	82,176
-	-	-	-	42
-	-	-	-	7,050
5,223	640	-	91,274	103,370
-	-	-	-	6,630
-	-	-	-	149,192
-	-	14,125	43,529	64,217
-	-	-	-	26,955
-	-	-	-	35,471
85,000	-	-	-	94,563
46,608	-	-	8,350	55,563
<u>137,331</u>	<u>640</u>	<u>15,325</u>	<u>143,153</u>	<u>915,035</u>
<u>(2,190)</u>	<u>5,030</u>	<u>(1,491)</u>	<u>(77,940)</u>	<u>77,388</u>
29,665	-	-	16,876	160,316
7,107	-	-	132,893	140,000
(810)	-	-	-	(86,115)
<u>35,962</u>	<u>-</u>	<u>-</u>	<u>149,769</u>	<u>214,201</u>
<u>33,772</u>	<u>5,030</u>	<u>(1,491)</u>	<u>71,829</u>	<u>291,589</u>
327,807	(114,458)	2,585	20,433	1,137,537
-	-	-	19,788	-
<u>327,807</u>	<u>(114,458)</u>	<u>2,585</u>	<u>40,221</u>	<u>1,137,537</u>
<u>\$ 361,579</u>	<u>\$ (109,428)</u>	<u>\$ 1,094</u>	<u>\$ 112,050</u>	<u>\$ 1,429,126</u>

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CITY OF MADISON LAKE, MINNESOTA
 GOVERNMENTAL FUNDS
 RECONCILIATION OF THE STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICITS)
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2006

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

Net change in fund balances - governmental funds	\$ 291,589
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	269,008
Depreciation expense	(135,227)
<p>The net effect of various miscellaneous transactions involving capital assets</p>	
Capital asset contributions to enterprise funds	(486,436)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	94,563
Debt issued or incurred	(140,000)
Bond issue costs, net of amortization expense	8,350
Discount on bonds issued, net of amortization expense	(2,450)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	256
<p>Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	
Property taxes	220
<p>Certain revenues are recognized as soon as it is earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special assessments	(46,205)
Loan principal repayments	(63,752)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	(613)
	(613)
Change in net assets - governmental activities	\$ (210,697)

The notes to the financial statements are an integral part of this statement.

CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED DECEMBER 31, 2006

	General			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Taxes	\$ 262,994	\$ 262,994	\$ 276,822	\$ 13,828
Special assessments	-	-	-	-
Licenses and permits	33,295	21,179	29,056	7,877
Intergovernmental	125,229	125,229	156,950	31,721
Charges for services	1,960	1,960	2,405	445
Fines and forfeits	8,000	8,000	34,219	26,219
Investment earnings	3,000	3,000	13,754	10,754
Miscellaneous	5,585	5,585	9,061	3,476
TOTAL REVENUES	440,063	427,947	522,267	94,320
EXPENDITURES				
Current				
General government	116,787	116,787	112,983	3,804
Public safety	87,262	87,262	99,076	(11,814)
Streets and highways	108,041	108,041	81,513	26,528
Sanitation and waste removal	-	-	42	(42)
Culture and recreation	5,336	5,336	7,050	(1,714)
Housing and economic development	11,067	11,067	6,233	4,834
Miscellaneous	1,365	1,365	5,318	(3,953)
Capital outlay				
General government	1,000	1,000	-	1,000
Public safety	5,500	5,500	9,722	(4,222)
Streets and highways	25,000	25,000	1,407	23,593
Culture and recreation	15,000	15,000	26,955	(11,955)
Economic development	-	-	-	-
Water and sewer	-	-	-	-
TOTAL EXPENDITURES	376,358	376,358	350,299	26,059
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	63,705	51,589	171,968	120,379
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	27,777	27,777
Transfers out	(68,429)	(68,429)	(85,305)	(16,876)
TOTAL OTHER FINANCING SOURCES (USES)	(68,429)	(68,429)	(57,528)	10,901
NET CHANGE IN FUND BALANCES	(4,724)	(16,840)	114,440	131,280
FUND BALANCES, JANUARY 1	239,430	239,430	239,430	-
PRIOR PERIOD ADJUSTMENT (NOTE 7)	-	-	-	-
FUND BALANCES, JANUARY 1, AS RESTATED	-	-	-	-
FUND BALANCES, DECEMBER 31	\$ 234,706	\$ 222,590	\$ 353,870	\$ 131,280

The notes to the financial statements are an integral part of this statement.

Economic Development Loan				Permanent Improvement Revolving			
Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	2,372	2,372
-	-	-	-	-	-	-	-
-	-	-	-	-	-	13,100	13,100
-	-	-	-	-	-	-	-
-	-	3,562	3,562	-	-	21,615	21,615
42,295	42,295	73,137	30,842	5,520	5,520	30,981	25,461
42,295	42,295	76,699	34,404	5,520	5,520	68,068	62,548
-	-	-	-	100	100	100	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	663	(663)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,312	(1,312)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	5,156	(5,156)
-	-	-	-	-	-	-	-
-	-	-	-	10,600	10,600	-	10,600
-	-	-	-	-	-	35,471	(35,471)
-	-	-	-	10,700	10,700	42,702	(32,002)
42,295	42,295	76,699	34,404	(5,180)	(5,180)	25,366	30,546
-	-	-	-	71,197	71,197	40,587	(30,610)
-	-	-	-	-	-	-	-
-	-	-	-	71,197	71,197	40,587	(30,610)
42,295	42,295	76,699	34,404	66,017	66,017	65,953	(64)
38,104	38,104	38,104	-	473,119	473,119	473,119	-
-	-	-	-	-	-	(19,788)	-
-	-	-	-	-	-	453,331	-
\$ 80,399	\$ 80,399	\$ 114,803	\$ 34,404	\$ 539,136	\$ 539,136	\$ 519,284	\$ (64)

CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL AND MAJOR SPECIAL REVENUE FUNDS - CONTINUED
YEAR ENDED DECEMBER 31, 2006

	Fire			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	14,350	14,350
Charges for services	73,527	73,527	77,198	3,671
Fines and forfeits	-	-	-	-
Investment earnings	-	-	6,236	6,236
Miscellaneous	-	-	7,747	7,747
TOTAL REVENUES	73,527	73,527	105,531	32,004
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	66,644	66,644	75,947	(9,303)
Streets and highways	-	-	-	-
Sanitation and waste removal	-	-	-	-
Culture and recreation	-	-	-	-
Housing and economic development	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay				
General government	-	-	-	-
Public safety	42,000	42,000	139,470	(97,470)
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Culture and recreation	-	-	-	-
TOTAL EXPENDITURES	118,938	118,938	225,585	(106,647)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(45,411)</u>	<u>(45,411)</u>	<u>(120,054)</u>	<u>(74,643)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	45,411	45,411	45,411	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	45,411	45,411	45,411	-
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>(74,643)</u>	<u>(74,643)</u>
FUND BALANCES, JANUARY 1	150,517	150,517	150,517	-
PRIOR PERIOD ADJUSTMENT (NOTE 7)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, JANUARY 1, AS RESTATED	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u>\$ 150,517</u>	<u>\$ 150,517</u>	<u>\$ 75,874</u>	<u>\$ (74,643)</u>

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUNDS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2006

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF NET ASSETS
 DECEMBER 31, 2006 AND 2005

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2006	2005	2006	2005
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (deficit)	\$ (12,546)	\$ (7,693)	\$ 117,507	\$ 83,610
Investments	147,448	143,676	66,742	61,399
Accounts receivable	12,739	11,674	24,088	24,238
TOTAL CURRENT ASSETS	147,641	147,657	208,337	169,247
NONCURRENT ASSETS				
Deferred assessments receivable	-	-	38,188	38,188
Unamortized bond discount and fees	-	-	12,220	13,125
Capital assets				
Land	35,471	-	11,842	11,842
Buildings	12,572	12,572	-	-
Infrastructure	1,448,122	1,229,870	3,627,090	3,394,377
Machinery and equipment	2,948	2,948	24,033	21,860
Less accumulated depreciation	(377,466)	(344,603)	(1,835,905)	(1,734,360)
Total capital assets, net of depreciation	1,121,647	900,787	1,827,060	1,693,719
TOTAL NONCURRENT ASSETS	1,121,647	900,787	1,877,468	1,745,032
TOTAL ASSETS	1,269,288	1,048,444	2,085,805	1,914,279
CURRENT LIABILITIES				
Accounts payable	824	876	12,231	7,683
Due to other governments	220	181	-	-
Accrued interest payable	-	-	6,477	7,264
Deposits payable	41	16	-	-
Deferred revenue	-	-	-	1,184
Bonds payable - current	-	-	35,076	35,076
TOTAL CURRENT LIABILITIES	1,085	1,073	53,784	51,207
NONCURRENT LIABILITIES				
Bonds payable - net of current portion	-	-	393,218	428,294
TOTAL LIABILITIES	1,085	1,073	447,002	479,501
NET ASSETS				
Invested in capital assets, net of related debt	1,121,647	900,787	1,398,766	1,230,349
Restricted for:				
Debt retirement	-	-	27,741	23,784
Infrastructure	-	-	87,026	72,376
Unrestricted	146,556	146,584	125,270	108,269
TOTAL NET ASSETS	\$ 1,268,203	\$ 1,047,371	\$ 1,638,803	\$ 1,434,778

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2006	2005	2006	2005
\$ (1,621)	\$ 20,137	\$ 103,340	\$ 96,054
-	-	214,190	205,075
7,191	7,210	44,018	43,122
<u>5,570</u>	<u>27,347</u>	<u>361,548</u>	<u>344,251</u>
-	-	38,188	38,188
-	-	12,220	13,125
-	-	47,313	11,842
-	-	12,572	12,572
-	-	5,075,212	4,624,247
-	-	26,981	24,808
-	-	(2,213,371)	(2,078,963)
-	-	2,948,707	2,594,506
-	-	2,999,115	2,645,819
<u>5,570</u>	<u>27,347</u>	<u>3,360,663</u>	<u>2,990,070</u>
3,946	22,346	17,001	30,905
1,624	1,559	1,844	1,740
-	-	6,477	7,264
-	-	41	16
-	3,442	-	4,626
-	-	35,076	35,076
<u>5,570</u>	<u>27,347</u>	<u>60,439</u>	<u>79,627</u>
-	-	393,218	428,294
<u>5,570</u>	<u>27,347</u>	<u>453,657</u>	<u>507,921</u>
-	-	2,520,413	2,131,136
-	-	27,741	23,784
-	-	87,026	72,376
-	-	271,826	254,853
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,907,006</u>	<u>\$ 2,482,149</u>

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 YEARS ENDED DECEMBER 31, 2006 AND 2005

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2006	2005	2006	2005
OPERATING REVENUES				
Charges for services	\$ 90,011	\$ 98,662	\$ 189,415	\$ 195,019
OPERATING EXPENSES				
Salaries and benefits	52,845	42,068	53,565	42,488
Supplies	11,683	7,938	10,980	19,854
Other services and charges	9,425	13,789	44,723	24,673
Insurance	1,477	833	2,094	1,429
Utilities	6,334	6,438	23,682	20,973
Depreciation	32,863	28,298	101,545	93,792
TOTAL OPERATING EXPENSES	114,627	99,364	236,589	203,209
OPERATING INCOME (LOSS)	(24,616)	(702)	(47,174)	(8,190)
NONOPERATING REVENUES (EXPENSES)				
Investment income	3,814	3,760	2,918	1,633
Connection and infrastructure fees	13,875	13,500	52,211	52,778
Other income	30	30	-	-
Interest and fees	-	-	(16,213)	(17,718)
TOTAL NONOPERATING REVENUES (EXPENSES)	17,719	17,290	38,916	36,693
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRAN	(6,897)	16,588	(8,258)	28,503
CAPITAL CONTRIBUTIONS	253,723	253,489	232,713	142,700
TRANSFERS IN	19,171	7,504	3,847	30,651
TRANSFERS OUT	(45,165)	(24,000)	(24,277)	(20,250)
CHANGE IN NET ASSETS	220,832	253,581	204,025	181,604
NET ASSETS, JANUARY 1	1,047,371	793,790	1,434,778	1,253,174
NET ASSETS, DECEMBER 31	<u>\$ 1,268,203</u>	<u>\$ 1,047,371</u>	<u>\$ 1,638,803</u>	<u>\$ 1,434,778</u>

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2006	2005	2006	2005
\$ 85,204	\$ 83,656	\$ 364,630	\$ 377,337
-	-	106,410	84,556
1,176	1,769	23,839	29,561
56,277	62,302	110,425	100,764
-	-	3,571	2,262
-	-	30,016	27,411
-	-	134,408	122,090
57,453	64,071	408,669	366,644
27,751	19,585	(44,039)	10,693
26	48	6,758	5,441
-	-	66,086	66,278
-	-	30	30
-	-	(16,213)	(17,718)
26	48	56,661	54,031
27,777	19,633	12,622	64,724
-	-	486,436	396,189
-	-	23,018	38,155
(27,777)	(43,986)	(97,219)	(88,236)
-	(24,353)	424,857	410,832
-	24,353	2,482,149	2,071,317
\$ -	\$ -	\$ 2,907,006	\$ 2,482,149

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF CASH FLOWS
 YEARS ENDED DECEMBER 31, 2006 AND 2005

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 88,946	\$ 97,902	\$ 188,381	\$ 178,494
Payments to suppliers and vendors	(28,932)	(29,324)	(76,931)	(65,568)
Payments to and on behalf of employees	(52,845)	(42,068)	(53,565)	(42,488)
Other receipts	30	30	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,199	26,540	57,885	70,438
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	19,171	7,504	3,847	30,651
Transfers to other funds	(45,165)	(24,000)	(24,277)	(20,250)
Decrease in customer deposits	25	(1,631)	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(25,969)	(18,127)	(20,430)	10,401
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection and infrastructure fees	13,875	13,500	52,211	52,778
Acquisition of capital assets	-	(640)	(2,173)	(14,030)
Principal paid on bonds	-	-	(35,076)	(30,076)
Interest paid on bonds	-	-	(16,095)	(17,039)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	13,875	12,860	(1,133)	(8,367)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(3,772)	(3,676)	(5,343)	(4,731)
Interest received on cash and investments	3,814	3,760	2,918	1,633
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	42	84	(2,425)	(3,098)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,853)	21,357	33,897	69,374
CASH AND CASH EQUIVALENTS (DEFICITS), JANUARY 1	(7,693)	(29,050)	83,610	14,236
CASH AND CASH EQUIVALENTS (DEFICITS), DECEMBER 31	\$ (12,546)	\$ (7,693)	\$ 117,507	\$ 83,610
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (24,616)	\$ (702)	\$ (47,174)	\$ (8,190)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Other income related to operations	30	30	-	-
Depreciation	32,863	28,298	101,545	93,792
(Increase) decrease in assets:				
Accounts receivable	(1,065)	(760)	150	(16,605)
Increase (decrease) in liabilities:				
Accounts payable	(52)	(362)	4,548	1,361
Due to other governments	39	36	-	-
Deferred revenue	-	-	(1,184)	80
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,199	\$ 26,540	\$ 57,885	\$ 70,438
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Bond discount amortization	\$ -	\$ -	\$ 905	\$ 679
Capital assets contributed by developer and other funds	253,723	253,489	232,713	142,700
Prior period adjustment - prior contributed infrastructure	-	67,112	-	81,081

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2006	2005	2006	2005
\$ 81,781	\$ 76,990	\$ 359,108	\$ 353,386
(75,788)	(45,267)	(181,651)	(140,159)
-	-	(106,410)	(84,556)
-	-	30	30
<u>5,993</u>	<u>31,723</u>	<u>71,077</u>	<u>128,701</u>
-	-	23,018	38,155
(27,777)	(43,986)	(97,219)	(88,236)
-	-	25	(1,631)
<u>(27,777)</u>	<u>(43,986)</u>	<u>(74,176)</u>	<u>(51,712)</u>
-	-	66,086	66,278
-	-	(2,173)	(14,670)
-	-	(35,076)	(30,076)
-	-	(16,095)	(17,039)
-	-	<u>12,742</u>	<u>4,493</u>
-	-	(9,115)	(8,407)
<u>26</u>	<u>48</u>	<u>6,758</u>	<u>5,441</u>
<u>26</u>	<u>48</u>	<u>(2,357)</u>	<u>(2,966)</u>
(21,758)	(12,215)	7,286	78,516
<u>20,137</u>	<u>32,352</u>	<u>96,054</u>	<u>17,538</u>
<u>\$ (1,621)</u>	<u>\$ 20,137</u>	<u>\$ 103,340</u>	<u>\$ 96,054</u>
\$ 27,751	\$ 19,585	\$ (44,039)	\$ 10,693
-	-	30	30
-	-	134,408	122,090
19	(7,210)	(896)	(24,575)
(18,400)	18,706	(13,904)	19,705
65	98	104	134
(3,442)	544	(4,626)	624
<u>\$ 5,993</u>	<u>\$ 31,723</u>	<u>\$ 71,077</u>	<u>\$ 128,701</u>
\$ -	\$ -	\$ 905	\$ 679
-	-	486,436	396,189
-	-	-	148,193

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Madison Lake, (the City) operates under “Optional Plan A” as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. 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 Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the GASB criteria.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue in the fund financial statements.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire fund* accounts for the costs associated with the City's fire protection.

The *Economic Development Loan fund* accounts for costs associated with the City's Economic Development Loan program.

The *Public Improvement Revolving Loan fund* accounts for costs associated with the City's Public Improvement Loan program.

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *Tax Increment District # 2 fund* accounts for tax increments received and costs associated with this City tax increment district.

The *West Side Project fund* accounts for project costs associated with the West Side capital project. The West Side Project is currently constructing new street, water lines, and storm sewers in the City.

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and to insure that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and to insure that user charges are sufficient to pay for those costs.

The *Refuse fund* accounts for the costs associated with the City's refuse collection and to insure that user charges are sufficient to pay for those costs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewer and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

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

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities in (1) above.
3. General obligations of the State of Minnesota or any of its municipalities.
4. Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
5. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality, and maturing in 270 days or less.
6. Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
7. Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.

Investments for the City are reported at fair value. The GNMA pool, Franklin Fund, Voyager Fund and 4M Fund investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

The City has not adopted a formal investment policy as of December 31, 2006.

Property Taxes

The City Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Taxes payable on homestead property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credit is paid to the City by the State of Minnesota, (the State) in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred revenue liability for delinquent taxes not received within 60 days after year end in the fund financial statements.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2006. All enterprise fund trade receivables are considered collectible because the City annually certifies delinquent accounts to the County for collection.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred revenue liability in the fund financial statements.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). 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."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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.

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

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 backtracking (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using the appropriate price-level index to deflate the cost to the acquisition year or estimate acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of donation. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For the financial statements purposes only, a capitalization threshold is established for each capital asset category as follows:

Land and land improvements	\$	1
Buildings		10,000
Machinery and equipment		1,000
Infrastructure		50,000
Other assets		1,000

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land improvements	15 - 20
Buildings	7 - 40
System improvements/infrastructure	15 - 50
Machinery and equipment	5 - 15

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net assets - Consist of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Comparative Data/Reclassifications

Comparative total data for the prior year have 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 have been reclassified in order to be consistent with the current year's presentation.

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2006

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund and Fire, Economic Development Loan, and Public Improvement Revolving special revenue funds. All annual appropriations lapse at fiscal year end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the Clerk/Treasurer 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 Clerk/Treasurer. The legal level of budgetary control is the department level. Budgeted amounts are originally adopted or as amended by the Council. No budget amendments were made during the year.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations in the following funds:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess of Expenditures Over Appropriations</u>
Special revenue			
Permanent Improvement Revolving	\$ 10,700	\$ 42,702	\$ 32,002
Fire fund	118,938	225,585	106,647

These over expenditures were funded by an excess of actual revenues over budget and available fund balance.

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2006:

<u>Fund</u>	<u>Amount</u>
Capital Projects	
Tax Increment District #2	\$ 109,428
Tax Increment District #2-8	112

The above fund deficits will be funded through future collections of tax increment district taxes and other sources.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the District's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (140 percent in the case of mortgage notes pledged).

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other State or local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the City or in a financial institution other than that furnishing the collateral.

At year end, the City's carrying amount of deposits was \$380,995 and the bank balance was \$396,627. Of the bank balance, \$100,000 was covered by federal depository insurance. Of the remaining balance of \$296,627, \$272,727 was collateralized with \$300,000 of securities held by the pledging financial institution's trust department in the City's name and \$23,900 was not collateralized.

Investments

As of December 31, 2006, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

<u>Types of Investments</u>	<u>Fair Value and Carrying Amount</u>	<u>Credit Quality/ Ratings (1)</u>	<u>Segmented Time Distribution (2)</u>
Pooled investments:			
Minnesota Municipal Money Market Fund (4M fund)	\$ 1,270,797	N/A	less than 6 months
Franklin Fund - US Government Securities	102,636	N/A	less than 6 months
Primevest Money Market	21,265	N/A	less than 6 months
GNMA Pool	<u>283</u>	AAA	less than 6 months
Total investments	<u>\$ 1,394,981</u>		

- (1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.
N/A indicates not applicable or available.
- (2) Interest rate risk is disclosed using the segmented time distribution method.

The Minnesota Municipal Money Market Fund (the 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, rated investments.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Cash on Hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$200.

Cash and Investments Summary

A reconciliation of cash and investments as shown on the Statement of Net Assets for the City follows:

Petty cash	\$ 200
Deposits	380,995
Investments	<u>1,394,981</u>
 Total	 <u>\$ 1,776,176</u>
 Cash and cash equivalents	 \$ 1,399,178
Investments	<u>376,998</u>
 Total	 <u>\$ 1,776,176</u>

B. Loans and Contracts Receivable

The City received funds from the County to be used for community development. These funds were borrowed for improvements to existing businesses and are to be paid back to the City with interest at 6.00-6.50 percent over five years. The balance on these loans at December 31, 2006 was \$265,054.

C. Intergovernmental Receivables/Deferred Revenue

A summary of all intergovernmental receivables as of December 31, 2006 is as follows:

Fund	County
Governmental Activities	
General	\$ 2,540
Public Improvement Revolving	1,374
Debt Service	<u>669</u>
 Total	 <u>\$ 4,583</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent taxes receivable (General fund)	\$ 13,423	\$ -
Delinquent taxes receivable (Debt Service funds)	965	-
Delinquent taxes receivable (TIF #2 fund)	1,262	-
Delinquent taxes receivable (Other governmental funds)	15	-
Loans receivable (Economic Development Loan fund)	265,054	-
Special assessments receivable (Public Improvement Revolving fund)	36,500	-
Special assessments receivable (Debt Service funds)	458,250	-
Unearned revenue (Public Improvement Revolving fund)	-	8,000
Unearned license revenue (General fund)	-	<u>8,745</u>
 Total	 <u>\$ 775,469</u>	 <u>\$ 16,745</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Capital Assets

Capital asset activity for the City for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 466,218	\$ -	\$ -	\$ 466,218
Construction in progress	431,684	57,654	(445,809)	43,529
 Total capital assets not being depreciated	 897,902	 57,654	 (445,809)	 509,747
Capital assets being depreciated				
Buildings	900,321	-	-	900,321
Infrastructure	2,348,730	-	-	2,348,730
Machinery and equipment	469,858	170,727	-	640,585
 Total capital assets being depreciated	 3,718,909	 170,727	 -	 3,889,636
Less accumulated depreciation for				
Buildings	(517,021)	(22,291)	-	(539,312)
Infrastructure	(936,475)	(73,585)	-	(1,010,060)
Machinery and equipment	(374,554)	(39,351)	-	(413,905)
 Total accumulated depreciation	 (1,828,050)	 (135,227)	 -	 (1,963,277)
 Total capital assets being depreciated, net	 1,890,859	 35,500	 -	 1,926,359
 Governmental activities capital assets, net	 <u>\$ 2,788,761</u>	 <u>\$ 93,154</u>	 <u>\$ (445,809)</u>	 <u>\$ 2,436,106</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 11,842	\$ 35,471	\$ -	\$ 47,313
Capital assets being depreciated				
Buildings	12,572	-	-	12,572
Infrastructure	4,624,247	450,965	-	5,075,212
Machinery and equipment	24,808	2,173	-	26,981
Total capital assets being depreciated	<u>4,661,627</u>	<u>453,138</u>	<u>-</u>	<u>5,114,765</u>
Less accumulated depreciation for				
Buildings	(12,572)	-	-	(12,572)
Infrastructure	(2,046,663)	(131,607)	-	(2,178,270)
Machinery and equipment	(19,728)	(2,801)	-	(22,529)
Total accumulated depreciation	<u>(2,078,963)</u>	<u>(134,408)</u>	<u>-</u>	<u>(2,213,371)</u>
Total capital assets being depreciated, net	<u>2,582,664</u>	<u>318,730</u>	<u>-</u>	<u>2,901,394</u>
Business-type activities capital assets, net	<u>\$ 2,594,506</u>	<u>\$ 354,201</u>	<u>\$ -</u>	<u>\$ 2,948,707</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:		
General government		\$ 13,995
Public safety		36,990
Streets and highways		79,644
Culture and recreation		4,598
Total depreciation expense - governmental activities		<u>\$ 135,227</u>
Business-type activities:		
Water utility		\$ 32,863
Sewer utility		101,545
Total depreciation expense - business-type activities		<u>\$ 134,408</u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Construction Commitments

The City has active construction projects as of December 31, 2006. At year end the City's commitments with contractors are as follows:

Project	Spent to date	Remaining Commitment
Diamond Drive Reconstruction	\$ 22,819	\$ 78,965

The special assessment portion of the commitment for residential street construction is being financed by special assessment bonds that will be repaid by the benefiting property owners.

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances at December 31, 2006 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Tax Increment District #2	\$ 32,514
Public Improvement Revolving	Tax Increment District #2	71,764
Total		\$ 104,278

The above interfund balances are a result of tax increment project loans between funds that will be repaid as tax increments are received.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Interfund transfers:

The composition of interfund transfers at December 31, 2006 is as follows:

	Transfer in:			
	General	Public Improvement Revolving	Debt Service	Other Nonmajor Governmental
Transfer out:				
General fund	\$ -	\$ -	\$ -	\$ 16,876
Debt Service fund	-	810	-	-
Water Utility fund	-	15,500	29,665	-
Sewer Utility fund	-	24,277	-	-
Refuse fund	27,777	-	-	-
Total transfers out	<u>\$ 27,777</u>	<u>\$ 40,587</u>	<u>\$ 29,665</u>	<u>\$ 16,876</u>

	Transfer in:			
	Fire Fund	Water Utility Fund	Sewer Utility Fund	Total
Transfer out:				
General fund	\$ 45,411	\$ 19,171	\$ 3,847	\$ 85,305
Debt Service fund	-	-	-	810
Water Utility fund	-	-	-	45,165
Sewer Utility fund	-	-	-	24,277
Refuse fund	-	-	-	27,777
Total transfers out	<u>\$ 45,411</u>	<u>\$ 19,171</u>	<u>\$ 3,847</u>	<u>\$ 183,334</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the Debt Service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the Debt Service fund to establish mandatory reserve accounts, 3) move unrestricted General fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. The City made the following budgeted transfers for the year ended December 31, 2006:

- From the General fund to the following funds for operations: Fire fund (\$45,411), Water Utility fund (\$19,171) and the Sewer Utility fund (\$3,847).
- From the General fund to TIF District 1 and TIF District 2-7 (\$11,315) and (\$5,561), respectively, to close the funds upon decertification.
- From TIF District 2-5 to the Public Improvement Revolving fund (\$810) to close the district upon decertification.
- From the Water Utility fund (\$15,500) and Sewer Utility fund (\$24,277) to the Public Improvement Revolving fund for connection fees.
- From the Water Utility fund (\$29,665) to the Debt Service fund for debt service.
- From the Refuse Utility fund (\$26,838) to the General fund to transfer excess net assets.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Long-term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund special assessments related bonds.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds were issued for the construction of the City hall and fire department. The debt is a general obligation of the City and will be retired through ad valorem tax levies. General obligation bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Building Bonds of 1982	\$ 210,000	5.00 %	02/01/82	01/01/12	<u>\$ 60,000</u>

General Obligation Tax Increment Bonds

The following bonds were issued for redevelopment projects. The additional tax increments resulting from increased tax capacity of the redeveloped properties will be used to retire related debt.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Tax Increment Bonds of 1996	\$ 150,000	5.50 - 6.00 %	06/18/96	02/01/11	<u>\$ 55,000</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

G.O. Special Assessment (Improvement) Bonds

The following 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 the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. PIR					
Bonds of 1999A	\$ 635,000	4.90 - 5.70 %	12/01/99	02/01/16	\$ 305,000
G.O. PIR Refunding					
Bonds of 2004B	300,000	3.00 - 4.10	11/01/04	02/01/16	280,000
G.O. Improvement					
Bonds of 2004A	265,000	3.00 - 4.00	09/01/04	02/01/15	245,000
G.O. Improvement					
Bonds of 2005A	165,000	3.75 - 4.10	06/01/05	02/01/15	165,000
G.O. Improvement					
Bonds of 2006A	140,000	4.25	11/01/06	02/01/18	<u>140,000</u>
Total G.O. Special Assessment Bonds					<u><u>\$ 1,135,000</u></u>

G.O. Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Sewer Revenue					
Bonds of 2000A	\$ 325,000	5.25 - 5.95 %	07/13/00	02/01/17	\$ 270,000
G.O. Water Revenue					
Bonds of 1995A (PFA)	400,400	0.00	09/25/95	02/20/17	<u>158,294</u>
Total G.O. Revenue Bonds					<u><u>\$ 428,294</u></u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Annual requirement to maturity for long-term liabilities is as follows:

Year Ending December 31,	General Obligation Bonds Governmental Activities			G.O. Tax Increment Bonds Governmental Activities		
	Principal	Interest	Total	Principal	Interest	Total
	2007	\$ 11,000	\$ 3,000	\$ 14,000	\$ 10,000	\$ 3,000
2008	11,000	2,450	13,450	10,000	2,400	12,400
2009	12,000	1,900	13,900	10,000	1,800	11,800
2010	13,000	1,300	14,300	10,000	1,200	11,200
2011	13,000	650	13,650	15,000	450	15,450
2012 - 2016	-	-	-	-	-	-
2017 - 2021	-	-	-	-	-	-
Total	\$ 60,000	\$ 9,300	\$ 69,300	\$ 55,000	\$ 8,850	\$ 63,850

Year Ending December 31,	G.O. Special Assessment Bonds Governmental Activities			G.O. Revenue Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
	2007	\$ 90,000	\$ 53,899	\$ 143,899	\$ 35,076	\$ 14,995
2008	90,000	52,686	142,686	35,076	13,895	48,971
2009	105,000	49,586	154,586	35,076	12,795	47,871
2010	105,000	46,086	151,086	40,076	11,533	51,609
2011	115,000	42,191	157,191	40,076	10,108	50,184
2012 - 2016	600,000	155,840	755,840	205,378	28,731	234,109
2017 - 2021	30,000	1,275	31,275	37,536	893	38,429
Total	\$ 1,135,000	\$ 401,563	\$ 1,536,563	\$ 428,294	\$ 92,950	\$ 521,244

Year Ending December 31,	Total Governmental Activities			Total Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
	2007	\$ 111,000	\$ 59,899	\$ 170,899	\$ 35,076	\$ 14,995
2008	111,000	57,536	168,536	35,076	13,895	48,971
2009	127,000	53,286	180,286	35,076	12,795	47,871
2010	128,000	48,586	176,586	40,076	11,533	51,609
2011	143,000	43,291	186,291	40,076	10,108	50,184
2012 - 2016	600,000	155,840	755,840	205,378	28,731	234,109
2017 - 2021	30,000	1,275	31,275	37,536	893	38,429
Total	\$ 1,250,000	\$ 419,713	\$ 1,669,713	\$ 428,294	\$ 92,950	\$ 521,244

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 70,000	\$ -	\$ (10,000)	\$ 60,000	\$ 11,000
General obligation tax increment bonds	65,000	-	(10,000)	55,000	10,000
General obligation special assessment bonds	<u>1,060,000</u>	<u>140,000</u>	<u>(65,000)</u>	<u>1,135,000</u>	<u>90,000</u>
Total bonds payable	1,195,000	140,000	(85,000)	1,250,000	111,000
Capital leases payable	9,563	-	(9,563)	-	-
Compensated absences payable	<u>4,061</u>	<u>7,612</u>	<u>(6,999)</u>	<u>4,674</u>	<u>4,674</u>
Governmental activities long-term liabilities	<u>\$ 1,208,624</u>	<u>\$ 147,612</u>	<u>\$ (101,562)</u>	<u>\$ 1,254,674</u>	<u>\$ 115,674</u>
Business-type activities					
Bonds payable:					
General obligation revenue bonds	<u>\$ 463,370</u>	<u>\$ -</u>	<u>\$ (35,076)</u>	<u>\$ 428,294</u>	<u>\$ 35,076</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

G. Tax Increment Districts

The City is the administering authority for the following tax increment finance districts:

	Tax Increment <u>District No. 1</u>	Tax Increment <u>District No. 2</u>	Tax Increment <u>District No. 2-3</u>	Tax Increment <u>District No. 2-4</u>
Authorizing Law	M.S. 472A	M.S. 472A	M.S. 472A	M.S. 472A
Type of District	Redevelopment	Redevelopment	Redevelopment	Housing
Year Established	1982	1984	1995	1995
Duration of District	15	15	28	29
Tax Capacity				
Original	\$ 3,656	\$ 385	\$ 1,106	\$ 17
Current	<u>17,484</u>	<u>6,700</u>	<u>8,155</u>	<u>8,377</u>
Captured - Retained	<u>\$ 13,828</u>	<u>\$ 6,315</u>	<u>\$ 7,049</u>	<u>\$ 8,360</u>
Total General Obligation Tax Increment				
Bonds and Notes issued	\$ -	\$ -	\$ 60,700	\$ 49,400
Amounts redeemed	<u>-</u>	<u>-</u>	<u>(38,000)</u>	<u>(30,750)</u>
Outstanding at December 31, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,700</u>	<u>\$ 18,650</u>
	Tax Increment <u>District No. 2-5</u>	Tax Increment <u>District No. 2-6</u>	Tax Increment <u>District No. 2-7</u>	Tax Increment <u>District No. 2-8</u>
Authorizing Law	M.S. 472A	M.S. 472A	M.S. 472A	M.S. 472A
Type of District	Economic Development	Economic Development	Redevelopment	Redevelopment
Year Established	1995	1999	2000	2006
Duration of District	11	11	10	25
Tax Capacity				
Original	\$ 113	\$ 83	\$ 1,415	\$ 6,775
Current	<u>1,852</u>	<u>44,878</u>	<u>2,592</u>	<u>90,038</u>
Captured - Retained	<u>\$ 1,739</u>	<u>\$ 44,795</u>	<u>\$ 1,177</u>	<u>\$ 83,263</u>
Total General Obligation Tax Increment				
Bonds and Notes issued	\$ 39,900	\$ -	\$ -	\$ -
Amounts redeemed	<u>(26,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Outstanding at December 31, 2006	<u>\$ 13,650</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE

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 of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) 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.

PERF 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, fire-fighters 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 statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of 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 and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF 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 members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated 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 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 PERF and PEPFF. That report may be obtained on the Internet at mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 4: DEFINED BENEFIT PENSION PLAN – STATEWIDE - CONTINUED

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 Minnesota statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75 percent. PEPFF members were required to contribute 7.0 percent of their annual covered salary in 2006. That rate will increase to 7.8 percent in 2007. The City is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members, 6.0 percent of Coordinated Plan PERF members and 10.5 percent for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.25 percent and 11.7 percent, respectively, effective January 1, 2007. The City's contributions to the PERF for the years ending December 31, 2006, 2005 and 2004 were \$7,332, \$6,484, and \$6,274, respectively. The City's contributions to the PEPFF for the years ending December 31, 2006, 2005 and 2004 were \$4,752, \$4,118, and \$3,187, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION

Plan Description

All members of the Madison Lake Fire Department, (the Department) are covered by a defined benefit plan administered by the Madison Lake Firefighters' Relief Association, (the Association). The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

The Association issues a publicly available financial report. The report may be obtained by writing to Madison Lake Firefighters' Relief Association, Madison Lake, MN 56063.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION

Funding Policy

The financial requirements of the Special fund are determined in accordance with section 69.772 of the Minnesota statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 20 years of service, and 5 years of Association membership or upon death. The City's annual pension cost for the current year and related information for the plan is as follows:

Annual pension cost	\$ 14,350
Contributions made	
City (voluntary)	2,650
State aid	14,350
Actuarial valuation date	12/31/06
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	5%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/06	\$ 14,350	118.5 %	\$ -
12/31/05	14,185	126.9	-
12/31/04	18,125	104.8	-

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/06	*	*	*	*	\$ 1,100
12/31/05	248,229	200,354	47,875	123.9	900
12/31/04	224,893	186,954	37,939	120.3	900

* Information unavailable at time of audit

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 6: OTHER INFORMATION

A. 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; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Contingent Liabilities

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

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

C. Legal Debt Margin

The City's statutory debt limit is 2 percent of the estimated taxable market value of real and personal property located in the City. The taxable market value was \$70,568,900 at December 31, 2006 for a limit of \$1,411,378. The City currently has no general obligation debt subject to the limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

The City's G.O. Building Bonds of 1982 issue is excluded from this computation of the debt limitation applicable to the City in accordance with legislation passed by the State.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 7: PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were made to beginning equity balances as follows:

Fund	Fund Balance/ Net Assets January 1, 2006 as Previously Reported	Prior Period Adjustment/ Restatement	Fund Balance/ Net Assets January 1, 2006 as Restated
Governmental funds			
Special revenue			
Public Improvement Revolving	\$ 473,119	\$ (19,788)	\$ 453,331
Capital projects			
Tax Increment District #1	16,944	19,788	36,732
	\$ 490,063	\$ -	\$ 490,063
			Adjustment/ Restatement
Governmental funds			
Special revenue			
Public Improvement Revolving			
To record interest on interfund loan from prior years, net of transfers			\$ (19,788)
Capital projects			
Tax Increment District #1			
To record interest on interfund loan from prior years, net of transfers			19,788
Total governmental funds			\$ -

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2006

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2006

	<u>Development Special Revenue Fund</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,282	\$ 135,838	\$ 139,120
Receivables			
Delinquent taxes	-	15	15
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 3,282</u>	<u>\$ 135,853</u>	<u>\$ 139,135</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ 27,070	\$ 27,070
Deferred revenue	-	15	15
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>-</u>	<u>27,085</u>	<u>27,085</u>
FUND BALANCES			
Unreserved, designated for:			
Capital outlay	-	91,541	91,541
Unreserved, undesignated, reported in:			
Special revenue funds	3,282	-	3,282
Capital projects funds	-	17,227	17,227
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>3,282</u>	<u>108,768</u>	<u>112,050</u>
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,282</u>	<u>\$ 135,853</u>	<u>\$ 139,135</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2006

	Development Special Revenue Fund	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ -	\$ 61,000	\$ 61,000
Intergovernmental	-	258	258
Investment earnings	17	3,938	3,955
 TOTAL REVENUES	 <u>17</u>	 <u>65,196</u>	 <u>65,213</u>
EXPENDITURES			
Current			
Housing and economic development	-	91,274	91,274
Capital outlay			
Streets and highways	-	43,529	43,529
Debt service			
Interest and other	-	8,350	8,350
 TOTAL EXPENDITURES	 <u>-</u>	 <u>143,153</u>	 <u>143,153</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 <u>17</u>	 <u>(77,957)</u>	 <u>(77,940)</u>
OTHER FINANCING SOURCES			
Bonds issued	-	132,893	132,893
Transfers in	-	16,876	16,876
 TOTAL OTHER FINANCING SOURCES	 <u>-</u>	 <u>149,769</u>	 <u>149,769</u>
NET CHANGE IN FUND BALANCES	 <u>17</u>	 <u>71,812</u>	 <u>71,829</u>
FUND BALANCES, JANUARY 1	3,265	17,168	20,433
PRIOR PERIOD ADJUSTMENT	-	19,788	19,788
FUND BALANCES, JANUARY 1 AS RESTATED	<u>3,265</u>	<u>36,956</u>	<u>40,221</u>
FUND BALANCES, DECEMBER 31	<u>\$ 3,282</u>	<u>\$ 108,768</u>	<u>\$ 112,050</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2006

	376	408	410
	Tax	Tax	Tax
	Increment	Increment	Increment
	<u>District #1</u>	<u>District #2-6</u>	<u>District #2-7</u>
ASSETS			
Cash and cash equivalents (deficit)	\$ -	\$ 17,339	\$ -
Receivables			
Delinquent taxes	<u>15</u>	<u>-</u>	<u>-</u>
 TOTAL ASSETS	 <u>\$ 15</u>	 <u>\$ 17,339</u>	 <u>\$ -</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Deferred revenue	<u>15</u>	<u>-</u>	<u>-</u>
 TOTAL LIABILITIES	 <u>15</u>	 <u>-</u>	 <u>-</u>
FUND BALANCES (DEFICITS)			
Unreserved			
Designated for capital outlay	-	-	-
Undesignated	<u>-</u>	<u>17,339</u>	<u>-</u>
 TOTAL FUND BALANCES (DEFICITS)	 <u>-</u>	 <u>17,339</u>	 <u>-</u>
 TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	 <u>\$ 15</u>	 <u>\$ 17,339</u>	 <u>\$ -</u>

<u>411</u> Tax Increment District #2-8	<u>430</u> Northwest Project	<u>440</u> Diamond Drive Project	<u>Total</u> <u>Nonmajor</u>
\$ (112)	\$ 9,392	\$ 109,219	\$ 135,838
-	-	-	15
<u>\$ (112)</u>	<u>\$ 9,392</u>	<u>\$ 109,219</u>	<u>\$ 135,853</u>
\$ -	\$ -	\$ 27,070	\$ 27,070
-	-	-	15
-	-	27,070	27,085
-	9,392	82,149	91,541
<u>(112)</u>	<u>-</u>	<u>-</u>	<u>17,227</u>
<u>(112)</u>	<u>9,392</u>	<u>82,149</u>	<u>108,768</u>
<u>\$ (112)</u>	<u>\$ 9,392</u>	<u>\$ 109,219</u>	<u>\$ 135,853</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
YEAR ENDED DECEMBER 31, 2006

	376 Tax Increment <u>District #1</u>	408 Tax Increment <u>District #2-6</u>	410 Tax Increment <u>District #2-7</u>
REVENUES			
Taxes			
Tax increments	\$ 10,578	\$ 49,131	\$ 1,291
Intergovernmental			
State property tax credits	258	-	-
Investment earnings	<u>2,779</u>	<u>6</u>	<u>-</u>
TOTAL REVENUES	<u>13,615</u>	<u>49,137</u>	<u>1,291</u>
EXPENDITURES			
Current			
Economic development	61,662	28,655	845
Capital outlay			
Streets and highways	-	-	-
Debt service			
Fiscal fees	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>61,662</u>	<u>28,655</u>	<u>845</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(48,047)</u>	<u>20,482</u>	<u>446</u>
OTHER FINANCING SOURCES			
Bonds issued	-	-	-
Transfers in	<u>11,315</u>	<u>-</u>	<u>5,561</u>
TOTAL OTHER FINANCING SOURCES	<u>11,315</u>	<u>-</u>	<u>5,561</u>
NET CHANGE IN FUND BALANCES	<u>(36,732)</u>	<u>20,482</u>	<u>6,007</u>
FUND BALANCES (DEFICITS), JANUARY 1	16,944	(3,143)	(6,007)
PRIOR PERIOD ADJUSTMENT	<u>19,788</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICITS), JANUARY 1 AS RESTATED	<u>36,732</u>	<u>(3,143)</u>	<u>(6,007)</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ -</u>	<u>\$ 17,339</u>	<u>\$ -</u>

<u>411</u> Tax Increment District #2-8	<u>430</u> Northwest Project	<u>440</u> Diamond Drive Project	<u>Total</u> Nonmajor
\$ -	\$ -	\$ -	\$ 61,000
-	-	-	258
<u>-</u>	<u>18</u>	<u>1,135</u>	<u>3,938</u>
<u>-</u>	<u>18</u>	<u>1,135</u>	<u>65,196</u>
112	-	-	91,274
-	-	43,529	43,529
<u>-</u>	<u>-</u>	<u>8,350</u>	<u>8,350</u>
<u>112</u>	<u>-</u>	<u>51,879</u>	<u>143,153</u>
<u>(112)</u>	<u>18</u>	<u>(50,744)</u>	<u>(77,957)</u>
-	-	132,893	132,893
<u>-</u>	<u>-</u>	<u>-</u>	<u>16,876</u>
<u>-</u>	<u>-</u>	<u>132,893</u>	<u>149,769</u>
<u>(112)</u>	<u>18</u>	<u>82,149</u>	<u>71,812</u>
-	9,374	-	17,168
<u>-</u>	<u>-</u>	<u>-</u>	<u>19,788</u>
<u>-</u>	<u>9,374</u>	<u>-</u>	<u>36,956</u>
<u>\$ (112)</u>	<u>\$ 9,392</u>	<u>\$ 82,149</u>	<u>\$ 108,768</u>

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
Cash and cash equivalents	\$ 214,524	\$ 91,685
Investments	125,386	121,143
Receivables		
Delinquent taxes	13,423	14,066
Accounts	4,598	4,925
Intergovernmental	2,540	2,379
Due from other funds	32,514	46,694
Prepaid items	572	572
TOTAL ASSETS	\$ 393,557	\$ 281,464
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 8,601	\$ 14,245
Due to other governments	5	261
Accrued payroll	8,914	6,377
Deferred revenue	22,167	21,151
TOTAL LIABILITIES	39,687	42,034
FUND BALANCES		
Reserved for:		
Interfund advance	32,514	46,694
Prepaid items	572	572
Park land dedication	41,188	27,800
Unreserved		
Designated for:		
Capital outlay	79,628	73,695
Undesignated	199,968	90,669
TOTAL FUND BALANCES	353,870	239,430
TOTAL LIABILITIES AND FUND BALANCES	\$ 393,557	\$ 281,464

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
YEAR ENDED DECEMBER 31, 2006
With Comparative Actual Amounts for Year Ended December 31, 2005

	2006		Variance with Final Budget - Positive (Negative)	2005
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Taxes				
Property taxes	\$ 260,994	\$ 272,364	\$ 11,370	\$ 208,041
Franchise fees	2,000	4,458	2,458	3,815
Total taxes	<u>262,994</u>	<u>276,822</u>	<u>13,828</u>	<u>211,856</u>
Licenses and permits				
Business	2,884	5,345	2,461	5,402
Nonbusiness	18,295	23,711	5,416	29,732
Total licenses and permits	<u>21,179</u>	<u>29,056</u>	<u>7,877</u>	<u>35,134</u>
Intergovernmental				
State				
Local government aid	124,234	128,204	3,970	124,234
Property tax credits	-	27,751	27,751	29,652
Other state aids	395	395	-	395
Total State	<u>124,629</u>	<u>156,350</u>	<u>31,721</u>	<u>154,281</u>
County				
Highway aid	600	600	-	600
Total intergovernmental	<u>125,229</u>	<u>156,950</u>	<u>31,721</u>	<u>154,881</u>
Charges for services				
General government	1,720	1,365	(355)	1,467
Public safety	-	28	28	-
Streets and highways	55	280	225	-
Sanitation	-	444	444	-
Other	185	288	103	248
Total charges for services	<u>1,960</u>	<u>2,405</u>	<u>445</u>	<u>1,715</u>
Fines and forfeits	<u>8,000</u>	<u>34,219</u>	<u>26,219</u>	<u>20,065</u>
Investment earnings	<u>3,000</u>	<u>13,754</u>	<u>10,754</u>	<u>6,503</u>
Miscellaneous				
Rent	3,285	3,245	(40)	3,396
Contributions and donations	300	3,885	3,585	19,744
Sale of assets	-	-	-	10,000
Refunds and reimbursements	2,000	1,931	(69)	8,521
Total miscellaneous	<u>5,585</u>	<u>9,061</u>	<u>3,476</u>	<u>41,661</u>
TOTAL REVENUES	<u>427,947</u>	<u>522,267</u>	<u>94,320</u>	<u>471,815</u>

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
YEAR ENDED DECEMBER 31, 2006
With Comparative Actual Amounts for Year Ended December 31, 2005

	2006		Variance with Final Budget - Positive (Negative)	2005
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES				
Current				
General government				
Mayor and Council				
Personal services	\$ 10,227	\$ 8,749	\$ 1,478	\$ 8,816
Supplies	6,500	7,534	(1,034)	1,066
Other services and charges	8,235	6,669	1,566	6,837
Total Mayor and Council	24,962	22,952	2,010	16,719
City clerk				
Personal services	32,309	26,701	5,608	29,845
Supplies	3,600	3,561	39	2,089
Other services and charges	5,962	4,448	1,514	7,460
Total city clerk	41,871	34,710	7,161	39,394
Election				
Personal services	3,000	1,509	1,491	-
Supplies	700	498	202	-
Other services and charges	400	118	282	44
Total election	4,100	2,125	1,975	44
Legal and audit				
Other services	25,000	33,863	(8,863)	31,858
Planning and zoning				
Personal services	3,000	2,075	925	2,400
Supplies	400	408	(8)	190
Other services and charges	1,290	1,548	(258)	422
Total planning and zoning	4,690	4,031	659	3,012
Municipal building				
Personal services	1,624	1,809	(185)	1,756
Supplies	6,775	6,463	312	6,389
Other services and charges	7,765	7,030	735	6,396
Total municipal building	16,164	15,302	862	14,541
Total general government	116,787	112,983	3,804	105,568

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
YEAR ENDED DECEMBER 31, 2006
With Comparative Actual Amounts for Year Ended December 31, 2005

	2006		Variance with Final Budget - Positive (Negative)	2005
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES - CONTINUED				
Current - Continued				
Public safety				
Police				
Personal services	\$ 52,756	\$ 55,708	\$ (2,952)	\$ 52,870
Supplies	11,000	12,934	(1,934)	12,933
Other services and charges	6,345	8,827	(2,482)	4,742
Total police	<u>70,101</u>	<u>77,469</u>	<u>(7,368)</u>	<u>70,545</u>
Building/health inspection				
Personal services	1,961	1,988	(27)	1,957
Supplies	50	109	(59)	356
Other services and charges	12,250	16,596	(4,346)	22,170
Total building/health inspection	<u>14,261</u>	<u>18,693</u>	<u>(4,432)</u>	<u>24,483</u>
Civil defense				
Personal services	100	-	100	-
Supplies	500	-	500	757
Other services and charges	200	1,006	(806)	216
Total civil defense	<u>800</u>	<u>1,006</u>	<u>(206)</u>	<u>973</u>
Animal control				
Other services and charges	100	128	(28)	57
Rental inspection				
Personal services	2,000	1,780	220	1,040
Total public safety	<u>87,262</u>	<u>99,076</u>	<u>(11,814)</u>	<u>97,098</u>
Streets and highways				
Street maintenance				
Personal services	62,843	42,871	19,972	61,369
Supplies	16,000	19,566	(3,566)	14,986
Other services and charges	12,698	5,377	7,321	2,145
Total street maintenance	<u>91,541</u>	<u>67,814</u>	<u>23,727</u>	<u>78,500</u>
Snow and ice removal				
Supplies	2,500	426	2,074	2,486
Street lighting				
Other services and charges	14,000	13,273	727	12,608
Total streets and highways	<u>108,041</u>	<u>81,513</u>	<u>26,528</u>	<u>93,594</u>

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
YEAR ENDED DECEMBER 31, 2006
With Comparative Actual Amounts for Year Ended December 31, 2005

	2006		Variance with Final Budget - Positive (Negative)	2005
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES - CONTINUED				
Current - Continued				
Sanitation and waste removal				
Refuse/recycle				
Other services and charges	\$ -	\$ 42	\$ (42)	\$ 2,788
Culture and recreation				
Parks				
Personal services	162	95	67	1,984
Supplies	1,700	3,247	(1,547)	1,813
Other services and charges	3,474	3,708	(234)	5,291
Total culture and recreation	5,336	7,050	(1,714)	9,088
Housing and economic development				
Economic development				
Personal services	2,067	1,827	240	672
Other services and charges	9,000	4,406	4,594	5,404
Total housing and economic development	11,067	6,233	4,834	6,076
Miscellaneous				
Unallocated				
Other services and charges	1,365	5,318	(3,953)	3,477
Total current	329,858	312,215	17,643	317,689
Capital outlay				
General government	1,000	-	1,000	2,314
Public safety	5,500	9,722	(4,222)	-
Streets and highways	25,000	1,407	23,593	-
Culture and recreation	15,000	26,955	(11,955)	-
Total capital outlay	46,500	38,084	8,416	2,314
TOTAL EXPENDITURES	376,358	350,299	26,059	320,003
EXCESS OF REVENUES OVER EXPENDITURES	51,589	171,968	120,379	151,812
OTHER FINANCING SOURCES (USES)				
Transfers in	-	27,777	27,777	43,986
Transfers out	(68,429)	(85,305)	(16,876)	(90,794)
TOTAL OTHER FINANCING SOURCES (USES)	(68,429)	(57,528)	10,901	(46,808)
NET CHANGE IN FUND BALANCES	(16,840)	114,440	131,280	105,004
FUND BALANCES, JANUARY 1	239,430	239,430	-	134,426
FUND BALANCES, DECEMBER 31	\$ 222,590	\$ 353,870	\$ 131,280	\$ 239,430

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CITY OF MADISON LAKE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2006
With Comparative Totals for December 31, 2005

	301 1982 Community Center Bonds	494 2003 Refunding Bonds	499 2004B PIR Refunding Bonds	405 Tax Increment District #2-3
ASSETS				
Cash and cash equivalents (deficits)	\$ 19,431	\$ 94,619	\$ 59,992	\$ 33,609
Investments	283	-	-	37,139
Receivables				
Delinquent taxes	-	-	-	965
Special assessments				
Delinquent	-	-	-	-
Deferred	-	98,674	161,478	-
Intergovernmental	-	-	-	669
Prepaid items	-	30,520	-	-
TOTAL ASSETS	<u>\$ 19,714</u>	<u>\$ 223,813</u>	<u>\$ 221,470</u>	<u>\$ 72,382</u>
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accrued interest payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	98,674	161,478	965
TOTAL LIABILITIES	-	98,674	161,478	965
FUND BALANCES (DEFICITS)				
Reserved for debt service	<u>19,714</u>	<u>125,139</u>	<u>59,992</u>	<u>71,417</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 19,714</u>	<u>\$ 223,813</u>	<u>\$ 221,470</u>	<u>\$ 72,382</u>

406 Tax Increment District #2-4	407 Tax Increment District #2-5	330 2004 G.O. Improvement Bonds	335 2005 G.O. Improvement Bonds	340 2006 G.O. Improvement Bonds	Totals	
					2006	2005
\$ 56,638	\$ -	\$ 22,258	\$ (355)	\$ 7,107	\$ 293,299	\$ 261,175
-	-	-	-	-	37,422	36,221
-	-	-	-	-	965	1,364
-	-	992	-	-	992	854
-	-	36,759	160,347	-	457,258	502,901
-	-	-	-	-	669	-
-	-	-	-	-	30,520	30,520
<u>\$ 56,638</u>	<u>\$ -</u>	<u>\$ 60,009</u>	<u>\$ 159,992</u>	<u>\$ 7,107</u>	<u>\$ 821,125</u>	<u>\$ 833,035</u>
\$ -	\$ -	\$ -	\$ -	\$ 331	\$ 331	\$ 109
-	-	37,751	160,347	-	459,215	505,119
-	-	37,751	160,347	331	459,546	505,228
<u>56,638</u>	<u>-</u>	<u>22,258</u>	<u>(355)</u>	<u>6,776</u>	<u>361,579</u>	<u>327,807</u>
<u>\$ 56,638</u>	<u>\$ -</u>	<u>\$ 60,009</u>	<u>\$ 159,992</u>	<u>\$ 7,107</u>	<u>\$ 821,125</u>	<u>\$ 833,035</u>

CITY OF MADISON LAKE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
YEAR ENDED DECEMBER 31, 2006
With Comparative Totals for Year Ended December 31, 2005

	301 1982 Community Center Bonds	494 2003 Refunding Bonds	499 2004B PIR Refunding Bonds	405 Tax Increment District #2-3
REVENUES				
Taxes				
Property taxes	\$ 14,000	\$ 34,145	\$ -	\$ -
Tax increments	-	-	-	8,032
Special assessments	-	15,549	25,401	-
Intergovernmental				
State property tax credits	-	-	-	-
Investment earnings	67	4,006	613	2,000
TOTAL REVENUES	<u>14,067</u>	<u>53,700</u>	<u>26,014</u>	<u>10,032</u>
EXPENDITURES				
Current				
General government	100	100	100	-
Economic development	-	-	-	200
Debt service				
Principal	10,000	25,000	20,000	4,000
Interest and other	3,500	10,515	11,466	1,430
TOTAL EXPENDITURES	<u>13,600</u>	<u>35,615</u>	<u>31,566</u>	<u>5,630</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>467</u>	<u>18,085</u>	<u>(5,552)</u>	<u>4,402</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	7,000	-
Bonds issued	-	-	-	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>7,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	467	18,085	1,448	4,402
FUND BALANCES, JANUARY 1	<u>19,247</u>	<u>107,054</u>	<u>58,544</u>	<u>67,015</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 19,714</u>	<u>\$ 125,139</u>	<u>\$ 59,992</u>	<u>\$ 71,417</u>

406 Tax Increment District #2-4	407 Tax Increment District #2-5	330 2004 G.O. Improvement Bonds	335 2005 G.O. Improvement Bonds	340 2006 G.O. Improvement Bonds	Totals	
					2006	2005
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,145	\$ 49,965
8,501	2,115	-	-	-	18,648	18,890
-	-	11,096	7,619	-	59,665	54,559
670	-	-	-	-	670	684
1,166	36	119	6	-	8,013	5,186
<u>10,337</u>	<u>2,151</u>	<u>11,215</u>	<u>7,625</u>	<u>-</u>	<u>135,141</u>	<u>129,284</u>
-	-	100	100	-	500	800
231	4,792	-	-	-	5,223	2,369
3,300	2,700	20,000	-	-	85,000	590,000
1,180	965	9,341	7,880	331	46,608	53,164
<u>4,711</u>	<u>8,457</u>	<u>29,441</u>	<u>7,980</u>	<u>331</u>	<u>137,331</u>	<u>646,333</u>
<u>5,626</u>	<u>(6,306)</u>	<u>(18,226)</u>	<u>(355)</u>	<u>(331)</u>	<u>(2,190)</u>	<u>(517,049)</u>
-	-	22,665	-	-	29,665	21,004
-	-	-	-	7,107	7,107	-
-	(810)	-	-	-	(810)	-
<u>-</u>	<u>(810)</u>	<u>22,665</u>	<u>-</u>	<u>7,107</u>	<u>35,962</u>	<u>21,004</u>
5,626	(7,116)	4,439	(355)	6,776	33,772	(496,045)
51,012	7,116	17,819	-	-	327,807	823,852
<u>\$ 56,638</u>	<u>\$ -</u>	<u>\$ 22,258</u>	<u>\$ (355)</u>	<u>\$ 6,776</u>	<u>\$ 361,579</u>	<u>\$ 327,807</u>

CITY OF MADISON LAKE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	Total 2006	Total 2005	Percent Increase (Decrease)
REVENUES			
Taxes	\$ 409,772	\$ 311,760	31.44 %
Special assessments	75,846	344,700	(78.00)
Licenses and permits	29,056	35,134	(17.30)
Intergovernmental	172,741	424,431	(59.30)
Charges for services	92,703	70,119	32.21
Fines and forfeits	34,219	20,065	70.54
Investment earnings	57,160	25,950	120.27
Miscellaneous	120,926	575,361	(78.98)
TOTAL REVENUES	\$ 992,423	\$ 1,807,520	(45.09) %
Per Capita	1,090.57	2,035.50	(46.42) %
EXPENDITURES			
Current			
General government	\$ 114,783	\$ 106,568	7.71 %
Public safety	175,023	163,778	6.87
Streets and highways	82,176	118,001	(30.36)
Sanitation and waste removal	42	2,788	(98.49)
Culture and recreation	7,050	9,088	(22.43)
Housing and economic development	103,370	270,447	(61.78)
Miscellaneous	6,630	3,477	90.68
Capital outlay			
General government	-	2,314	(100.00)
Public safety	149,192	3,478	4,189.59
Streets and highways	64,217	951,971	(93.25)
Culture and recreation	26,955	-	N/A
Water and sewer	35,471	-	N/A
Debt service			
Principal	94,563	632,436	(85.05)
Interest and other charges	55,563	67,197	(17.31)
TOTAL EXPENDITURES	\$ 915,035	\$ 2,331,543	(60.75) %
Per Capita	1,005.53	2,625.61	(61.70)
Total Long-term Indebtedness	\$ 1,250,000	\$ 1,204,563	3.77 %
Per Capita	1,373.63	1,356.49	1.26
General Fund Balance - December 31	\$ 353,870	\$ 239,430	47.80 %
Per Capita	388.87	269.63	44.22

The purpose of this report is to provide a summary of financial information concerning the City of Madison Lake to interested citizens. The complete financial statements may be examined at City Hall, 525 Main Street, PO Box 225, Madison Lake, MN, 56063. Questions about this report should be directed to Deb DeVlaeminck at (507) 243-3011.

OTHER REQUIRED REPORTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2006



11 Civic Center Plaza
Suite 300
P.O. Box 3166
Mankato, MN 56002-3166

REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Madison Lake
Madison Lake, Minnesota

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 Madison Lake, Minnesota (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 15, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions, except as described in the accompanying Schedule of Findings as item 2006-3.

This report is intended solely for the information and use of the Council, management and the Minnesota Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

May 15, 2007
Mankato, Minnesota

Abdo, Eick & Meyers, LLP
ABDO, EICK & MEYERS, LLP
Certified Public Accountants



11 Civic Center Plaza
Suite 300
P.O. Box 3166
Mankato, MN 56002-3166

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*

Honorable Mayor and City Council
City of Madison Lake
Madison Lake, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Madison Lake, Minnesota (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 15, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the City as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we consider the City's internal control over financial reporting (internal control) as a basis of designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in the Schedule of Findings, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider findings 2006-1 and 2006-2 to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe that findings 2006-1 and 2006-2 do not constitute material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the Schedule of Findings as item 2006-3.

We also noted certain additional matters that we reported to management of the City in a separate letter dated May 15, 2007.

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

May 15, 2007
Mankato, Minnesota

Abdo, Eick + Meyers, LLP

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS
DECEMBER 31, 2006

2006-1 Segregation of Duties

Our study and evaluation disclosed that because of the limited size of your office staff, your City has limited segregation of duties. A good internal control structure contemplates an adequate segregation of duties so that no one individual handles transactions from inception to completion. While we recognize that your City is not large enough to permit an adequate segregation of duties in all respects, it is important, however, that you be aware of this significant deficiency. This comment should not reflect negatively on the staff and is based solely on staff size.

Management Response

Management recognizes that it is not economically feasible to correct this finding, is aware of the deficiency and is relying on oversight by management and Council to monitor this deficiency.

2006-2 Lack of Client Expertise in Financial Accounting and Reporting

Currently the City does not have anyone involved with the financial accounting and reporting to properly analyze the financial statements to ensure there are no material exclusions from the financial statements which include the notes to the financial statements. This is a common finding in many small cities. We believe this is a control deficiency that would not detect a material misstatement in the financial statements. To maintain independence in the audit, the auditor cannot be part of the internal controls. We recommend the Clerk attend training classes to gain a better understanding of government accounting and reporting requirements.

Management Response

The City is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small cities. Each year, the City has a presentation from our auditor to the Mayor and Council after the audit is performed. Management recognizes that it is not economically feasible to fully correct this finding; it is aware of the deficiency and is relying on oversight of management and Council to monitor the deficiency. The Clerk/Treasurer may attend future classes dealing with government financial/accounting practices.

2006-3 Collateral Shortage

Minnesota statute 118A.03 requires deposits not covered by FDIC to be collateralized for at least 110 percent of the amount over FDIC. The City did not meet this requirement at times during the year.

Management Response

The Clerk will obtain sufficient collateral and continually monitor collateral to insure the City is in compliance with Minnesota statutes.