

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2012

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CITY OF MADISON LAKE, MINNESOTA  
 ANNUAL FINANCIAL REPORT  
 TABLE OF CONTENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Page No.
<b>INTRODUCTORY SECTION</b>	
Elected and Appointed Officials	7
 <b>FINANCIAL SECTION</b>	
Independent Auditor's Report	11
Management's Discussion and Analysis	13
 <b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Position	29
Statement of Activities	30
Fund Financial Statements	
Governmental Funds	
Balance Sheet	34
Reconciliation of the Balance Sheet to the Statement of Net Position	37
Statement of Revenues, Expenditures and Changes in Fund Balances	38
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	41
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Major Special Revenue Funds	42
Proprietary Funds	
Statements of Net Position	44
Statements of Revenues, Expenses and Changes in Net Position	46
Statements of Cash Flows	48
Notes to the Financial Statements	51
 <b>Combining and Individual Fund Financial Statements and Schedules</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet	74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	75
Nonmajor Special Revenue Funds	
Combining Balance Sheet	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	77
Nonmajor Capital Projects Funds	
Combining Balance Sheet	78
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	79
General Fund	
Comparative Balance Sheets	81
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	82
Debt Service Funds	
Combining Balance Sheet	86
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	88
Summary Financial Report	
Revenues and Expenditure for General Operations - Governmental Funds	90

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CITY OF MADISON LAKE, MINNESOTA  
ANNUAL FINANCIAL REPORT  
TABLE OF CONTENTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Page No.</u>
<b>SINGLE AUDIT AND OTHER REQUIRED REPORTS</b>	
Auditor's Report on Legal Compliance	93
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in accordance With <i>Government Auditing Standards</i>	94
Independent Auditor's Report on Compliance For Each Major Federal Program and Report On Internal Control Over Compliance Required by <i>OMB Circular A-133</i>	96
Schedule of Expenditure of Federal Awards	98
Notes to Schedule of Expenditures of Federal Awards	99
Schedule of Findings, Responses and Questioned Costs	101

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**INTRODUCTORY SECTION**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2012

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CITY OF MADISON LAKE, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
FOR THE YEAR DECEMBER 31, 2012

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ken Reichel	Mayor	12/31/14
John Howard	Council	12/31/14
Kent Hoehn	Council	12/31/14
Chuck Ries	Council	12/31/12
Steve Bjerke	Council	12/31/12

**APPOINTED**

Kelly Steele	City Administrator/Clerk
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**FINANCIAL SECTION**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2012

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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, Minnesota

### **Report on the Financial Statements**

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2011 financial statements and, in our report dated May 17, 2012, we expressed unqualified opinions on the respective proprietary fund financial statements. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

### **Opinions**

In our opinion, the financial statements referred to 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General fund, Economic Development Loan and Fire special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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## Other Matters

### *Change in Accounting Standards*

As described in the Note 6 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2012. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

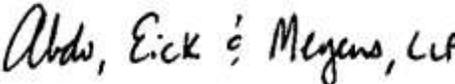
### *Supplementary Information in Relation to the Financial Statements as a Whole and Schedule of Expenditures of Federal Awards*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the accompanying combining and individual fund financial statements and schedules and the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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* in considering the City's internal control over financial reporting and compliance.

March 25, 2013  
Mankato, Minnesota

  
ABDO, EICK & MEYERS, LLP  
Certified Public Accountants

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## **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, 2012.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$7,389,811 (net position). Of this amount, \$2,677,024 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$195,593 as compared to an increase of \$201,420 in the previous year. The majority of this increase is attributable to the increase in charges for services and property tax revenue.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,367,364, an increase of \$224,447 in comparison with the prior year. The majority of this increase is due to an increase in property taxes and also transfers from enterprise funds. Approximately 70.5 percent of this total amount, \$1,668,495, is available for spending at the City's discretion, but a portion has been assigned for specific purposes.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$498,122, or 94.2 percent of total General fund expenditures.
- The City's total debt increased by \$1,779,654, or 109.7 percent during the current fiscal year. The key factor of this increase was due to the City incurring a PFA loan and also the note with the City of Mankato.

### **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**

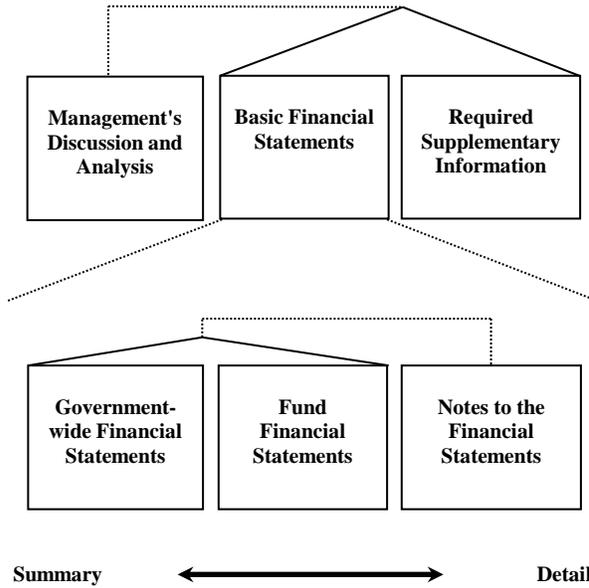


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

	<b>Fund Financial Statements</b>		
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>
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 deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow 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 position* presents information on all of the City’s assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental 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 starting on page 29 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 14 individual governmental funds, 6 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, Economic Development Loan - Federal fund, Fire fund, Debt Service fund, and the Public Improvement Revolving fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds 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, Economic Development Loan - Federal and Fire special revenue funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found starting on page 34 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 starting on page 44 of this report.

**Notes to the 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 starting on page 51 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund statements and schedules can be found starting on page 74 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$7,389,811 at the close of the most recent fiscal year.

A significant portion of the City's net position (47.3 percent) reflects its investment in capital assets (e.g., land, land improvements, 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.

### City of Madison Lake's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2012	(Restated) 2011	Increase (Decrease)	2012	(Restated) 2011	Increase (Decrease)
Current and other assets	\$ 2,723,056	\$ 2,571,410	\$ 151,646	\$ 2,522,374	\$ 1,067,960	\$ 1,454,414
Capital assets	1,916,507	2,029,877	(113,370)	3,811,620	3,214,229	597,391
<b>Total assets</b>	<b>4,639,563</b>	<b>4,601,287</b>	<b>38,276</b>	<b>6,333,994</b>	<b>4,282,189</b>	<b>2,051,805</b>
Long-term liabilities outstanding	439,417	545,842	(106,425)	2,966,709	1,082,055	1,884,654
Other liabilities	59,594	34,338	25,256	118,026	27,023	91,003
<b>Total liabilities</b>	<b>499,011</b>	<b>580,180</b>	<b>(81,169)</b>	<b>3,084,735</b>	<b>1,109,078</b>	<b>1,975,657</b>
Net investment in capital assets	1,481,507	1,502,537	(21,030)	2,013,285	2,132,174	(118,889)
Restricted	874,397	924,325	(49,928)	343,598	268,348	75,250
Unrestricted	1,784,648	1,594,245	190,403	892,376	772,589	119,787
<b>Total net position</b>	<b>\$ 4,140,552</b>	<b>\$ 4,021,107</b>	<b>\$ 119,445</b>	<b>\$ 3,249,259</b>	<b>\$ 3,173,111</b>	<b>\$ 76,148</b>

An additional portion of the City's net position (16.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (36.2 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 position, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net position increased by \$195,593 during the current fiscal year. The majority of this increase is attributable to the increase in charges for services and property tax revenue.

**Governmental activities.** Governmental activities increased the City's net position by \$119,445. Key elements of this change can be seen in the following tables.

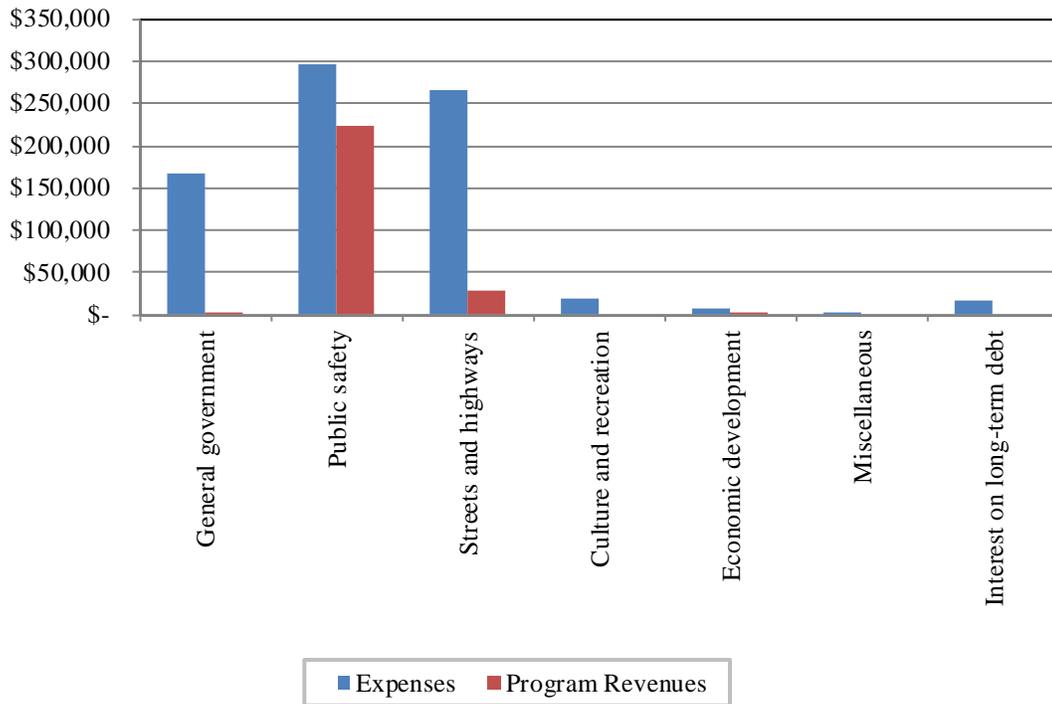
### City of Madison Lake's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2012	(Restated) 2011	Increase (Decrease)	2012	(Restated) 2011	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 219,878	\$ 214,759	\$ 5,119	\$ 632,986	\$ 564,347	\$ 68,639
Operating grants and contributions	29,510	21,801	7,709	-	-	-
Capital grants and contributions	7,212	24,444	(17,232)	39,590	39,772	(182)
General revenues						
Property taxes/tax increments	451,734	407,920	43,814	-	-	-
Other taxes	7,425	7,902	(477)	-	-	-
Grants and contributions not restricted to specific programs	119,406	124,845	(5,439)	-	-	-
Investment earnings	4,509	8,970	(4,461)	4,582	10,617	(6,035)
Other	9,630	5,248	4,382	-	-	-
<b>Total revenues</b>	<b>849,304</b>	<b>815,889</b>	<b>33,415</b>	<b>677,158</b>	<b>614,736</b>	<b>62,422</b>
Expenses						
General government	165,997	154,388	11,609	-	-	-
Public safety	295,362	319,562	(24,200)	-	-	-
Streets and highways	265,469	236,063	29,406	-	-	-
Culture and recreation	19,696	16,177	3,519	-	-	-
Economic development	6,580	5,511	1,069	-	-	-
Miscellaneous	772	905	(133)	-	-	-
Interest on long-term debt	16,312	25,667	(9,355)	-	-	-
Water utility	-	-	-	185,119	175,155	9,964
Sewer utility	-	-	-	316,585	239,429	77,156
Refuse	-	-	-	58,977	56,348	2,629
<b>Total expenses</b>	<b>770,188</b>	<b>758,273</b>	<b>11,915</b>	<b>560,681</b>	<b>470,932</b>	<b>89,749</b>
Increase in net position before transfers	79,116	57,616	21,500	116,477	143,804	(27,327)
Transfers	40,329	27,407	12,922	(40,329)	(27,407)	(12,922)
<b>Change in net position</b>	<b>119,445</b>	<b>85,023</b>	<b>34,422</b>	<b>76,148</b>	<b>116,397</b>	<b>(40,249)</b>
Net position - January 1 as restated	4,021,107	3,936,084	85,023	3,173,111	3,056,714	116,397
<b>Net position - December 31 as restated</b>	<b>\$ 4,140,552</b>	<b>\$ 4,021,107</b>	<b>\$ 119,445</b>	<b>\$ 3,249,259</b>	<b>\$ 3,173,111</b>	<b>\$ 76,148</b>

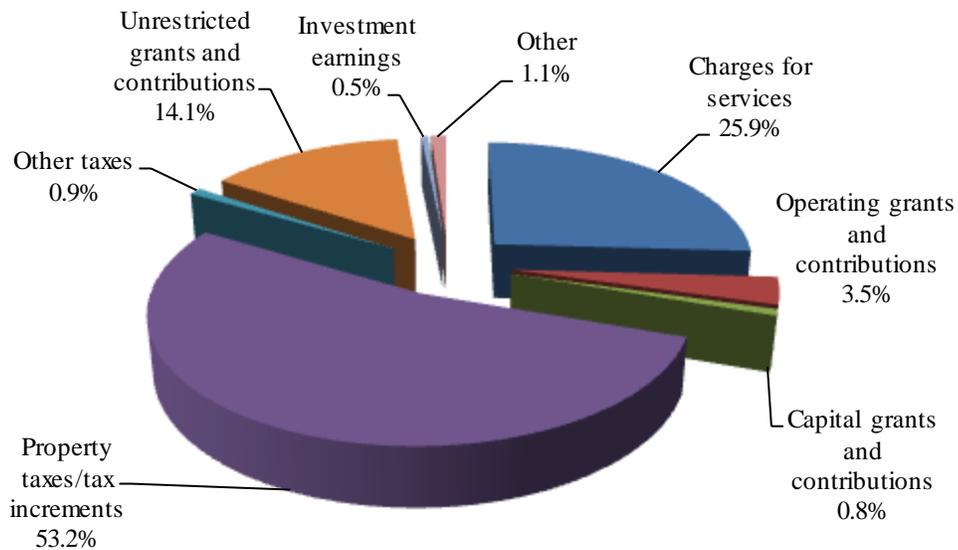
Property tax levies increased by \$22,282 (5.2 percent) during the year.

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

### Expenses and Program Revenues - Governmental Activities

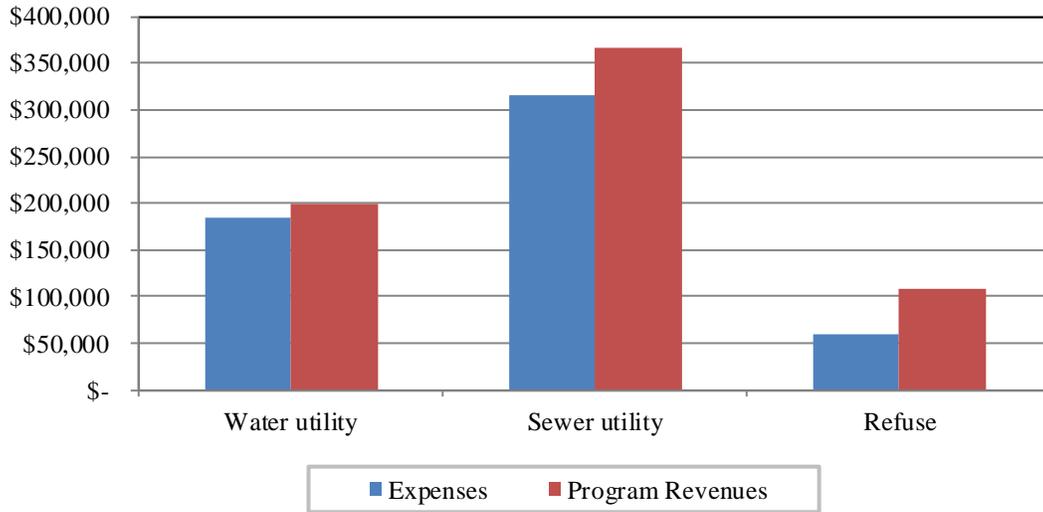


### Revenues by Source - Governmental Activities

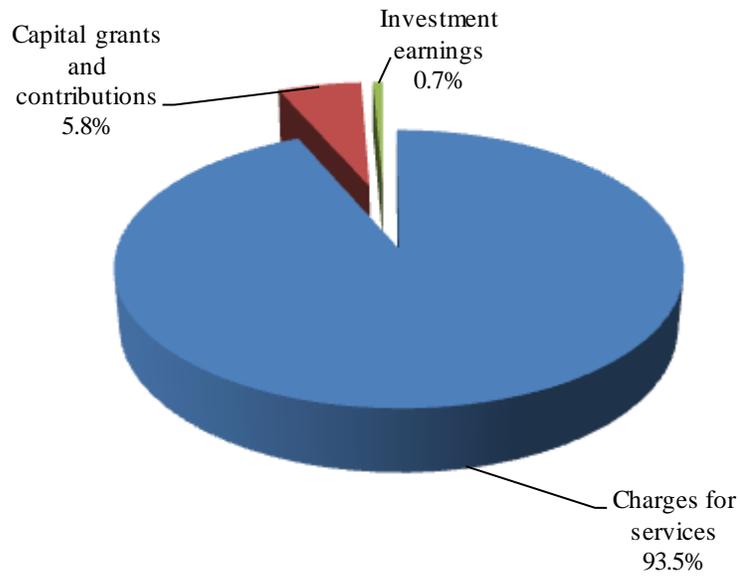


**Business-type activities.** Business-type activities increased the City's net position by \$76,148.

### 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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,367,364, an increase of \$224,447 in comparison with the prior year. The majority of this increase is due to an increase in property taxes and also transfers from enterprise funds. Approximately 20.0 percent of this total amount (\$493,924) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) restricted (\$660,956), 2) committed (\$37,913), or 3) assigned (\$1,174,571) for the purposes described in the fund balance section of each balance sheet.

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 \$672,542. 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 127.2 percent of fund expenditures, while unassigned fund balance represents 94.2 percent of fund expenditures.

The fund balance of the City's General fund increased by \$77,255 during the current fiscal year. The key factor in this increase was due to an increase in property tax revenue.

The *Economic Development Loan- Federal fund* has a total fund balance of \$313,227. The net increase in fund balance during the current year in the Economic Development Loan - Federal fund was \$27,852. The key factor in this increase was the repayment of outstanding loans.

The *Fire fund* has a total fund balance of \$387,744. The net increase in fund balance during the current year in the Fire fund was \$82,703. The key factor in this increase was increased revenues from donations and also a decrease in expenditures.

The *Debt Service fund* has a total fund balance of \$298,625, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the Debt Service fund was \$47,976. The key factor in this increase was a decrease in principal and interest payments.

The *Public Improvement Revolving fund* has a total fund balance of \$665,931. The net decrease in fund balance during the current year in the Public Improvement Revolving fund was \$14,388. The key factor for the decrease was a transfer of \$40,420 to close the 2005 G.O. Improvements Debt Service fund.

**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 position of the enterprise funds at the end of the year amounted to \$892,376. The total increase in net position for the funds was \$76,148. 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 final budget called for a break-even year. Revenues exceeded expectations by \$69,817, expenditures were over budget by \$26,130.

## 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, 2012, amounts to \$5,728,127 (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 a 9.2 percent increase (a 5.6 percent decrease for governmental activities and a 18.6 percent increase for business-type activities).

- The Water Tower project incurred costs of \$786,396 during 2012 which was added to construction in process.

Additional information on the City's capital assets can be found in Note 3D starting on page 62 of this report.

### City of Madison Lake's Capital Assets (net of depreciation)

	Governmental Activities			Business-type Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Land	\$ 466,218	\$ 466,218	\$ -	\$ 47,313	\$ 47,313	\$ -
Land improvements	28,518	31,017	(2,499)	-	-	-
Buildings	237,940	258,320	(20,380)	-	-	-
Infrastructure	1,005,039	1,085,367	(80,328)	2,934,509	3,121,467	(186,958)
Machinery and equipment	178,792	188,955	(10,163)	1,132	3,179	(2,047)
Construction in progress	-	-	-	828,666	42,270	786,396
<b>Total</b>	<b>\$ 1,916,507</b>	<b>\$ 2,029,877</b>	<b>\$ (113,370)</b>	<b>\$ 3,811,620</b>	<b>\$ 3,214,229</b>	<b>\$ 597,391</b>

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$2,233,335. Of this amount, \$435,000 is special assessment debt and \$1,798,335 is 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.

### City of Madison Lake's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
G.O. improvement bonds	\$ 435,000	\$ 540,000	\$ (105,000)	\$ -	\$ -	\$ -
General obligation revenue bonds	-	-	-	1,798,335	1,082,055	716,280
Loans payable	-	-	-	1,168,374	-	1,168,374
<b>Total</b>	<b>\$ 435,000</b>	<b>\$ 540,000</b>	<b>\$ (105,000)</b>	<b>\$ 2,966,709</b>	<b>\$ 1,082,055</b>	<b>\$ 1,884,654</b>

The City's total debt increased by \$1,779,654, or 109.7 percent during the current fiscal year. The key factors in this increase were the issuance of \$813,583 in PFA loans and also \$1,210,829 in loans payable to the City of Mankato.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 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 \$2,676,176, 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 starting on page 65 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The unemployment rate for Blue Earth County is currently 4.4 percent, which is a decrease from a rate of 5.4 percent a year ago. This compares favorably to the State's average unemployment rate of 5.4 percent and the national average rate of 7.6 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 2013 fiscal year.

Property taxes will increase in 2013 by approximately 4.0 percent. The tax increase will provide an additional \$15,677 for operations of our governmental services.

Water, sewer and refuse utility rates will increase in 2013. Water and sewer base charges will increase approximately 5.0 percent. Garbage and recycling fees will increase approximately 3.0 percent. These rate increases relate to future capital expenditures and retirement of debt service.

## **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 Administrator/Clerk, City of Madison Lake, 525 Main Street, Madison Lake, Minnesota 56063.

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2012

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CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,163,462	\$ 936,837	\$ 3,100,299
Cash with fiscal agent	32,640	-	32,640
Investments	203,010	268,007	471,017
Receivables			
Delinquent taxes	22,313	-	22,313
Accounts	11,424	71,377	82,801
Notes	74,222	-	74,222
Special assessments	207,347	35,302	242,649
Intergovernmental	8,638	60,563	69,201
Intangibles - sewer hookup rights	-	1,150,288	1,150,288
Capital assets			
Capital assets not being depreciated	466,218	875,979	1,342,197
Capital assets net of accumulated depreciation	1,450,289	2,935,641	4,385,930
<b>TOTAL ASSETS</b>	<b>4,639,563</b>	<b>6,333,994</b>	<b>10,973,557</b>
<b>LIABILITIES</b>			
Accounts payable	31,711	13,725	45,436
Contracts payable	-	74,085	74,085
Due to other governments	3,522	6,052	9,574
Accrued interest payable	7,784	22,247	30,031
Accrued salaries payable	16,577	-	16,577
Customer deposits payable	-	1,917	1,917
Noncurrent liabilities			
Due within one year	109,417	181,292	290,709
Due in more than one year	330,000	2,785,417	3,115,417
<b>TOTAL LIABILITIES</b>	<b>499,011</b>	<b>3,084,735</b>	<b>3,583,746</b>
<b>NET POSITION</b>			
Net investment in capital assets	1,481,507	2,013,285	3,494,792
Restricted for			
Debt service	437,844	190,701	628,545
Infrastructure	-	152,897	152,897
Park land dedication	24,899	-	24,899
Economic development	407,540	-	407,540
Community service	4,114	-	4,114
Unrestricted	1,784,648	892,376	2,677,024
<b>TOTAL NET POSITION</b>	<b>\$ 4,140,552</b>	<b>\$ 3,249,259</b>	<b>\$ 7,389,811</b>

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

CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 165,997	\$ 1,796	\$ -	\$ -
Public safety	295,362	188,642	28,910	5,700
Streets and highways	265,469	26,786	600	1,512
Culture and recreation	19,696	-	-	-
Economic development	6,580	2,654	-	-
Miscellaneous	772	-	-	-
Interest on long-term debt	16,312	-	-	-
Total governmental activities	<u>770,188</u>	<u>219,878</u>	<u>29,510</u>	<u>7,212</u>
Business-type activities				
Water utility	185,119	199,400	-	-
Sewer utility	316,585	326,328	-	39,590
Refuse	58,977	107,258	-	-
Total business-type activities	<u>560,681</u>	<u>632,986</u>	<u>-</u>	<u>39,590</u>
Total	<u>\$ 1,330,869</u>	<u>\$ 852,864</u>	<u>\$ 29,510</u>	<u>\$ 46,802</u>

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 position

Net position, January 1 as restated

Net position, December 31

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

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (164,201)		\$ (164,201)
(72,110)		(72,110)
(236,571)		(236,571)
(19,696)		(19,696)
(3,926)		(3,926)
(772)		(772)
(16,312)		(16,312)
<u>(513,588)</u>		<u>(513,588)</u>
-	\$ 14,281	14,281
-	49,333	49,333
-	48,281	48,281
<u>-</u>	<u>111,895</u>	<u>111,895</u>
<u>(513,588)</u>	<u>111,895</u>	<u>(401,693)</u>
379,664	-	379,664
71,985	-	71,985
85	-	85
4,369	-	4,369
3,056	-	3,056
119,406	-	119,406
4,509	4,582	9,091
9,630	-	9,630
40,329	(40,329)	-
<u>633,033</u>	<u>(35,747)</u>	<u>597,286</u>
119,445	76,148	195,593
4,021,107	3,173,111	7,194,218
<u>\$ 4,140,552</u>	<u>\$ 3,249,259</u>	<u>\$ 7,389,811</u>

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**FUND FINANCIAL STATEMENTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2012

CITY OF MADISON LAKE, MINNESOTA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2012

	General	Special Revenue	
		Economic Development Loan - Federal	Fire
<b>ASSETS</b>			
Cash and cash equivalents	\$ 593,143	\$ 313,227	\$ 389,142
Cash with fiscal agent	-	-	-
Investments	159,033	-	-
Receivables			
Notes	-	71,253	-
Delinquent taxes	22,313	-	-
Accounts	3,374	-	7,490
Special assessments	-	-	-
Intergovernmental	8,632	-	-
Advances to other funds	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 786,495</u>	<u>\$ 384,480</u>	<u>\$ 396,632</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 22,963	\$ -	\$ 8,748
Advances from other funds	48,718	-	-
Due to other governments	3,382	-	140
Accrued salaries payable	16,577	-	-
<b>TOTAL LIABILITIES</b>	<u>91,640</u>	<u>-</u>	<u>8,888</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	22,313	-	-
Unavailable revenue - special assessments	-	-	-
Unavailable revenue - loans	-	71,253	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>22,313</u>	<u>71,253</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted for			
Debt service	-	-	-
Park land dedication	24,899	-	-
Economic development	-	313,227	-
Community service	-	-	-
Committed for			
Fire department operations	-	-	37,913
Assigned for			
Capital outlay	149,521	-	-
Fire department operations	-	-	349,831
Unassigned	498,122	-	-
<b>TOTAL FUND BALANCES</b>	<u>672,542</u>	<u>313,227</u>	<u>387,744</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 786,495</u>	<u>\$ 384,480</u>	<u>\$ 396,632</u>

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

Debt Service	Capital Projects		Total Governmental Funds
	Public Improvement Revolving	Other Governmental Funds	
\$ 265,985	\$ 573,230	\$ 28,735	\$ 2,163,462
32,640	-	-	32,640
-	43,977	-	203,010
-	-	2,969	74,222
-	-	-	22,313
-	-	560	11,424
147,003	60,344	-	207,347
-	6	-	8,638
-	48,718	-	48,718
<u>\$ 445,628</u>	<u>\$ 726,275</u>	<u>\$ 32,264</u>	<u>\$ 2,771,774</u>
\$ -	\$ -	\$ -	\$ 31,711
-	-	-	48,718
-	-	-	3,522
-	-	-	16,577
-	-	-	100,528
-	-	-	22,313
147,003	60,344	-	207,347
-	-	2,969	74,222
<u>147,003</u>	<u>60,344</u>	<u>2,969</u>	<u>303,882</u>
298,625	-	-	298,625
-	-	-	24,899
-	-	20,091	333,318
-	-	4,114	4,114
-	-	-	37,913
-	665,931	9,288	824,740
-	-	-	349,831
-	-	(4,198)	493,924
<u>298,625</u>	<u>665,931</u>	<u>29,295</u>	<u>2,367,364</u>
<u>\$ 445,628</u>	<u>\$ 726,275</u>	<u>\$ 32,264</u>	<u>\$ 2,771,774</u>

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CITY OF MADISON LAKE, MINNESOTA  
 GOVERNMENTAL FUNDS  
 RECONCILIATION OF THE BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 DECEMBER 31, 2012

Total fund balances - governmental funds	\$ 2,367,364
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	1,916,507
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	(4,417)
Bonds payable	(435,000)
Long-term assets are not available to pay current-period expenditures and, therefore, are unavailable in the funds.	
Delinquent property taxes receivable	22,313
Special assessments receivable	207,347
Loans receivable	74,222
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(7,784)</u>
Total net position - governmental activities	<u><u>\$ 4,140,552</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  
FOR THE YEAR ENDED DECEMBER 31, 2012

	General	Special Revenue	
		Economic Development Loan - Federal	Fire
REVENUES			
Taxes	\$ 392,255	\$ -	\$ -
Special assessments	-	-	-
Licenses and permits	42,852	-	-
Intergovernmental	128,689	-	16,800
Charges for services	2,692	-	105,070
Fines and forfeits	29,349	-	-
Investment earnings	3,425	42	83
Miscellaneous	21,279	27,810	9,187
<b>TOTAL REVENUES</b>	<b>620,541</b>	<b>27,852</b>	<b>131,140</b>
EXPENDITURES			
Current			
General government	143,180	-	-
Public safety	155,410	-	95,056
Streets and highways	107,460	-	-
Culture and recreation	10,457	-	-
Economic development	6,380	-	-
Miscellaneous	772	-	-
Capital outlay			
General government	7,483	-	-
Public safety	42,193	-	13,205
Streets and highways	53,378	-	-
Culture and recreation	1,993	-	-
Economic development	200	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>528,906</b>	<b>-</b>	<b>108,261</b>
EXCESS OF REVENUES OVER EXPENDITURES	91,635	27,852	22,879
OTHER FINANCING SOURCES (USES)			
Transfers in	71,736	-	59,824
Transfers out	(86,116)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(14,380)</b>	<b>-</b>	<b>59,824</b>
NET CHANGE IN FUND BALANCES	77,255	27,852	82,703
FUND BALANCES, JANUARY 1	595,287	285,375	305,041
FUND BALANCES, DECEMBER 31	\$ 672,542	\$ 313,227	\$ 387,744

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

Debt Service	Capital Projects		Total Governmental Funds
	Public Improvement Revolving	Other Governmental Funds	
\$ 71,985	\$ -	\$ 3,609	\$ 467,849
66,466	1,303	-	67,769
-	-	-	42,852
-	-	-	145,489
-	-	-	107,762
-	-	-	29,349
30	-	929	4,509
-	25,552	1,159	84,987
<u>138,481</u>	<u>26,855</u>	<u>5,697</u>	<u>950,566</u>
1,293	-	2,648	147,121
-	-	-	250,466
-	823	-	108,283
-	-	-	10,457
-	-	-	6,380
-	-	-	772
-	-	-	7,483
-	-	-	55,398
-	-	-	53,378
-	-	-	1,993
-	-	-	200
105,000	-	-	105,000
19,517	-	-	19,517
<u>125,810</u>	<u>823</u>	<u>2,648</u>	<u>766,448</u>
<u>12,671</u>	<u>26,032</u>	<u>3,049</u>	<u>184,118</u>
68,873	-	-	200,433
<u>(33,568)</u>	<u>(40,420)</u>	<u>-</u>	<u>(160,104)</u>
<u>35,305</u>	<u>(40,420)</u>	<u>-</u>	<u>40,329</u>
47,976	(14,388)	3,049	224,447
<u>250,649</u>	<u>680,319</u>	<u>26,246</u>	<u>2,142,917</u>
<u>\$ 298,625</u>	<u>\$ 665,931</u>	<u>\$ 29,295</u>	<u>\$ 2,367,364</u>

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CITY OF MADISON LAKE, MINNESOTA  
 GOVERNMENTAL FUNDS  
 RECONCILIATION OF THE STATEMENT OF  
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2012

Net change in fund balances - governmental funds	\$ 224,447
<p>Amounts reported for governmental activities in the statement of activities are different because</p>	
<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	57,399
Depreciation expense	(170,769)
<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 position. Also, governmental funds report the effect of 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	105,000
<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>	
	3,205
<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>	
Property taxes	(8,690)
Special assessments	(66,257)
Loan principal repayments	(26,315)
<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	<u>1,425</u>
Change in net position - governmental activities	<u><u>\$ 119,445</u></u>

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 - CONTINUED ON THE FOLLOWING PAGES  
GENERAL AND MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 383,064	\$ 383,064	\$ 392,255	\$ 9,191
Licenses and permits	21,200	21,200	42,852	21,652
Intergovernmental	113,803	113,803	128,689	14,886
Charges for services	1,097	1,097	2,692	1,595
Fines and forfeits	20,000	20,000	29,349	9,349
Investment earnings	7,000	7,000	3,425	(3,575)
Miscellaneous	4,560	4,560	21,279	16,719
<b>TOTAL REVENUES</b>	<b>550,724</b>	<b>550,724</b>	<b>620,541</b>	<b>69,817</b>
EXPENDITURES				
Current				
General government	158,414	158,414	143,180	15,234
Public safety	130,235	130,235	155,410	(25,175)
Streets and highways	117,099	117,099	107,460	9,639
Culture and recreation	12,142	12,142	10,457	1,685
Economic development	7,297	7,297	6,380	917
Miscellaneous	1,089	1,089	772	317
Capital outlay				
General government	6,000	6,000	7,483	(1,483)
Public safety	11,500	11,500	42,193	(30,693)
Streets and highways	50,000	50,000	53,378	(3,378)
Culture and recreation	7,000	7,000	1,993	5,007
Economic development	2,000	2,000	200	1,800
<b>TOTAL EXPENDITURES</b>	<b>502,776</b>	<b>502,776</b>	<b>528,906</b>	<b>(26,130)</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	47,948	47,948	91,635	43,687
OTHER FINANCING SOURCES (USES)				
Transfers in	38,168	38,168	71,736	33,568
Transfers out	(86,116)	(86,116)	(86,116)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(47,948)</b>	<b>(47,948)</b>	<b>(14,380)</b>	<b>33,568</b>
NET CHANGE IN FUND BALANCES	-	-	77,255	77,255
FUND BALANCES, JANUARY 1	595,287	595,287	595,287	-
FUND BALANCES, DECEMBER 31	<u>\$ 595,287</u>	<u>\$ 595,287</u>	<u>\$ 672,542</u>	<u>\$ 77,255</u>

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

Economic Development Loan - Federal				Fire			
Budgeted Amounts		Actual Amounts	Variance with Final Budget	Budgeted Amounts		Actual Amounts	Variance with Final Budget
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	16,800	16,800
-	-	-	-	96,072	96,072	105,070	8,998
-	-	-	-	-	-	-	-
-	-	42	42	-	-	83	83
27,810	27,810	27,810	-	-	-	9,187	9,187
27,810	27,810	27,852	42	96,072	96,072	131,140	35,068
-	-	-	-	-	-	-	-
-	-	-	-	98,096	98,096	95,056	3,040
-	-	-	-	-	-	-	-
27,810	27,810	-	27,810	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	57,800	57,800	13,205	44,595
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
27,810	27,810	-	27,810	155,896	155,896	108,261	47,635
-	-	27,852	27,852	(59,824)	(59,824)	22,879	82,703
-	-	-	-	59,824	59,824	59,824	-
-	-	-	-	-	-	-	-
-	-	-	-	59,824	59,824	59,824	-
-	-	27,852	27,852	-	-	82,703	82,703
285,375	285,375	285,375	-	305,041	305,041	305,041	-
<u>\$ 285,375</u>	<u>\$ 285,375</u>	<u>\$ 313,227</u>	<u>\$ 27,852</u>	<u>\$ 305,041</u>	<u>\$ 305,041</u>	<u>\$ 387,744</u>	<u>\$ 82,703</u>

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENTS OF NET POSITION  
 DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	<b>601</b>		<b>602</b>	
	Water Utility		Sewer Utility	
	2012	2011	2012	(Restated) 2011
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 66,102	\$ (15,428)	\$ 800,483	\$ 657,468
Investments	178,440	175,606	89,567	87,919
Receivables				
Accounts	22,711	21,447	40,440	37,146
Delinquent special assessments	-	-	-	-
Intergovernmental	59,736	14	621	25
<b>TOTAL CURRENT ASSETS</b>	<b>326,989</b>	<b>181,639</b>	<b>931,111</b>	<b>782,558</b>
<b>NONCURRENT ASSETS</b>				
Noncurrent special assessments receivable	-	-	35,302	35,302
Intangibles - sewer hookup rights	-	-	1,150,288	-
Capital assets				
Land	35,471	35,471	11,842	11,842
Construction in progress	828,666	42,270	-	-
Buildings	12,572	12,572	-	-
Infrastructure	2,061,481	2,061,481	3,985,119	3,985,119
Machinery and equipment	7,099	7,099	31,091	31,091
Less accumulated depreciation	(656,807)	(590,399)	(2,504,914)	(2,382,317)
Total capital assets, net of depreciation	2,288,482	1,568,494	1,523,138	1,645,735
<b>TOTAL NONCURRENT ASSETS</b>	<b>2,288,482</b>	<b>1,568,494</b>	<b>2,708,728</b>	<b>1,681,037</b>
<b>TOTAL ASSETS</b>	<b>2,615,471</b>	<b>1,750,133</b>	<b>3,639,839</b>	<b>2,463,595</b>
<b>CURRENT LIABILITIES</b>				
Accounts payable	8,574	7,755	953	3,656
Contracts payable	74,085	-	-	-
Due to other governments	305	299	5,000	69
Accrued interest payable	8,951	3,827	13,296	4,641
Customer deposits payable	1,917	1,933	-	-
Loans payable - current	-	-	63,216	-
Bonds payable - current	64,000	27,000	54,076	54,076
<b>TOTAL CURRENT LIABILITIES</b>	<b>157,832</b>	<b>40,814</b>	<b>136,541</b>	<b>62,442</b>
<b>NONCURRENT LIABILITIES</b>				
Loans payable - net of current portion	-	-	1,105,158	-
Bonds payable - net of current portion	1,252,495	519,139	427,764	481,840
<b>TOTAL LIABILITIES</b>	<b>1,410,327</b>	<b>559,953</b>	<b>1,669,463</b>	<b>544,282</b>
<b>NET POSITION</b>				
Net investment in capital assets	971,987	1,022,355	1,041,298	1,109,819
Restricted for				
Debt service	-	-	190,701	127,701
Infrastructure	-	-	152,897	140,647
Unrestricted	233,157	167,825	585,480	541,146
<b>TOTAL NET POSITION</b>	<b>\$ 1,205,144</b>	<b>\$ 1,190,180</b>	<b>\$ 1,970,376</b>	<b>\$ 1,919,313</b>

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

Business-type Activities - Enterprise Funds

<b>603</b>			
Refuse		Totals	
2012	2011	2012	(Restated) 2011
\$ 70,252	\$ 61,469	\$ 936,837	\$ 703,509
-	-	268,007	263,525
8,226	6,982	71,377	65,575
-	-	-	-
206	10	60,563	49
<u>78,684</u>	<u>68,461</u>	<u>1,336,784</u>	<u>1,032,658</u>
-	-	35,302	35,302
-	-	1,150,288	-
-	-	47,313	47,313
-	-	828,666	42,270
-	-	12,572	12,572
-	-	6,046,600	6,046,600
-	-	38,190	38,190
-	-	(3,161,721)	(2,972,716)
-	-	3,811,620	3,214,229
-	-	4,997,210	3,249,531
<u>78,684</u>	<u>68,461</u>	<u>6,333,994</u>	<u>4,282,189</u>
4,198	4,123	13,725	15,534
-	-	74,085	-
747	720	6,052	1,088
-	-	22,247	8,468
-	-	1,917	1,933
-	-	63,216	-
-	-	118,076	81,076
<u>4,945</u>	<u>4,843</u>	<u>299,318</u>	<u>108,099</u>
-	-	1,105,158	-
-	-	1,680,259	1,000,979
<u>4,945</u>	<u>4,843</u>	<u>3,084,735</u>	<u>1,109,078</u>
-	-	2,013,285	2,132,174
-	-	190,701	127,701
-	-	152,897	140,647
<u>73,739</u>	<u>63,618</u>	<u>892,376</u>	<u>772,589</u>
<u>\$ 73,739</u>	<u>\$ 63,618</u>	<u>\$ 3,249,259</u>	<u>\$ 3,173,111</u>

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	<b>601</b>		<b>602</b>	
	Water Utility		Sewer Utility	
	2012	2011	2012	(Restated) 2011
OPERATING REVENUES				
Charges for services	\$ 199,251	\$ 169,149	\$ 326,328	\$ 288,394
OPERATING EXPENSES				
Salaries and benefits	56,149	40,220	18,152	32,026
Supplies	16,330	16,754	2,003	3,593
Other services and charges	22,368	25,552	80,293	54,724
Insurance	1,759	1,803	2,208	2,162
Utilities	11,251	14,187	10,792	11,605
Depreciation	66,408	66,823	122,597	123,430
TOTAL OPERATING EXPENSES	174,265	165,339	236,045	227,540
OPERATING INCOME	24,986	3,810	90,283	60,854
NONOPERATING REVENUES (EXPENSES)				
Investment income	2,844	5,567	1,730	5,049
Connection and infrastructure fees	-	-	39,590	39,772
Other income	149	2,817	-	-
Amortization expense	-	-	(60,541)	-
Interest and fees	(10,854)	(9,816)	(19,999)	(11,889)
TOTAL NONOPERATING REVENUES (EXPENSES)	(7,861)	(1,432)	(39,220)	32,932
INCOME BEFORE TRANSFERS	17,125	2,378	51,063	93,786
TRANSFERS IN	26,292	-	-	-
TRANSFERS OUT	(28,453)	(27,407)	-	-
CHANGE IN NET POSITION	14,964	(25,029)	51,063	93,786
NET POSITION, JANUARY 1 AS RESTATED	1,190,180	1,215,209	1,919,313	1,825,527
NET POSITION, DECEMBER 31 AS RESTATED	\$ 1,205,144	\$ 1,190,180	\$ 1,970,376	\$ 1,919,313

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

Business-type Activities - Enterprise Funds

<b>603</b>			
Refuse		Totals	
2012	2011	2012	(Restated) 2011
<u>\$ 107,258</u>	<u>\$ 103,987</u>	<u>\$ 632,837</u>	<u>\$ 561,530</u>
-	-	74,301	72,246
387	647	18,720	20,994
58,590	55,701	161,251	135,977
-	-	3,967	3,965
-	-	22,043	25,792
<u>-</u>	<u>-</u>	<u>189,005</u>	<u>190,253</u>
<u>58,977</u>	<u>56,348</u>	<u>469,287</u>	<u>449,227</u>
<u>48,281</u>	<u>47,639</u>	<u>163,550</u>	<u>112,303</u>
8	1	4,582	10,617
-	-	39,590	39,772
-	-	149	2,817
-	-	(60,541)	-
<u>-</u>	<u>-</u>	<u>(30,853)</u>	<u>(21,705)</u>
<u>8</u>	<u>1</u>	<u>(47,073)</u>	<u>31,501</u>
48,289	47,640	116,477	143,804
-	-	26,292	-
<u>(38,168)</u>	<u>-</u>	<u>(66,621)</u>	<u>(27,407)</u>
10,121	47,640	76,148	116,397
<u>63,618</u>	<u>15,978</u>	<u>3,173,111</u>	<u>3,056,714</u>
<u>\$ 73,739</u>	<u>\$ 63,618</u>	<u>\$ 3,249,259</u>	<u>\$ 3,173,111</u>

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2012	2011	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 197,624	\$ 175,478	\$ 322,438	\$ 290,707
Payments to suppliers and vendors	(50,883)	(65,535)	(93,068)	(99,625)
Payments to and on behalf of employees	(56,149)	(40,220)	(18,152)	(32,026)
Other receipts	149	2,817	-	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>90,741</b>	<b>72,540</b>	<b>211,218</b>	<b>159,056</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	26,292	-	-	-
Transfers to other funds	(28,453)	(27,407)	-	-
Decrease in customer deposits	(16)	(758)	-	-
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(2,177)</b>	<b>(28,165)</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Connection and infrastructure fees received	-	-	39,590	39,772
Acquisition of capital assets	(712,311)	(42,270)	-	-
Proceeds from bonds issued, net of discounts	754,223	7,220	-	-
Principal paid on bonds	(43,226)	(26,000)	(96,531)	(54,076)
Interest paid on bonds	(5,730)	(9,992)	(11,344)	(12,396)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(7,044)</b>	<b>(71,042)</b>	<b>(68,285)</b>	<b>(26,700)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(2,834)	(2,782)	(1,648)	(4,196)
Interest received on cash and investments	2,844	5,567	1,730	5,049
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>10</b>	<b>2,785</b>	<b>82</b>	<b>853</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>81,530</b>	<b>(23,882)</b>	<b>143,015</b>	<b>133,209</b>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<b>(15,428)</b>	<b>8,454</b>	<b>657,468</b>	<b>524,259</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>\$ 66,102</b>	<b>\$ (15,428)</b>	<b>\$ 800,483</b>	<b>\$ 657,468</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income	\$ 24,986	\$ 3,810	\$ 90,283	\$ 60,854
Adjustments to reconcile operating income to net cash provided by operating activities				
Other income related to operations	149	2,817	-	-
Depreciation	66,408	66,823	122,597	123,430
(Increase) decrease in assets				
Accounts receivable	(1,264)	(2,391)	(3,294)	1,605
Due from other governments	(363)	8,720	(596)	708
Special assessments receivable	-	-	-	-
Increase (decrease) in liabilities				
Accounts and contracts payable	819	(7,462)	(2,703)	(27,610)
Due to other governments	6	223	4,931	69
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 90,741</b>	<b>\$ 72,540</b>	<b>\$ 211,218</b>	<b>\$ 159,056</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Capital assets purchased on account	\$ 74,085	\$ -	\$ -	\$ -
Sewer rights acquired through issuance of debt	-	-	1,210,829	-
Bond proceeds due from other governments	59,359	-	-	-

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2012	2011	2012	2011
\$ 105,818	\$ 105,667	\$ 625,880	\$ 571,852
(58,875)	(58,879)	(202,826)	(224,039)
-	-	(74,301)	(72,246)
-	-	149	2,817
<u>46,943</u>	<u>46,788</u>	<u>348,902</u>	<u>278,384</u>
-	-	26,292	-
(38,168)	-	(66,621)	(27,407)
-	-	(16)	(758)
<u>(38,168)</u>	<u>-</u>	<u>(40,345)</u>	<u>(28,165)</u>
-	-	39,590	39,772
-	-	(712,311)	(42,270)
-	-	754,223	7,220
-	-	(139,757)	(80,076)
-	-	(17,074)	(22,388)
-	-	(75,329)	(97,742)
-	-	(4,482)	(6,978)
<u>8</u>	<u>1</u>	<u>4,582</u>	<u>10,617</u>
<u>8</u>	<u>1</u>	<u>100</u>	<u>3,639</u>
8,783	46,789	233,328	156,116
61,469	14,680	703,509	547,393
<u>\$ 70,252</u>	<u>\$ 61,469</u>	<u>\$ 936,837</u>	<u>\$ 703,509</u>
\$ 48,281	\$ 47,639	\$ 163,550	\$ 112,303
-	-	149	2,817
-	-	189,005	190,253
(1,244)	1,424	(5,802)	638
-	-	(959)	9,428
(196)	256	(196)	256
75	(2,557)	(1,809)	(37,629)
<u>27</u>	<u>26</u>	<u>4,964</u>	<u>318</u>
<u>\$ 46,943</u>	<u>\$ 46,788</u>	<u>\$ 348,902</u>	<u>\$ 278,384</u>
\$ -	\$ -	\$ 74,085	\$ -
-	-	1,210,829	-
-	-	59,359	-

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CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**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 position and the statement of activities) 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.

**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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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.

Unearned 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 unearned revenue.

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.

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 *Economic Development Loan - Federal fund* accounts for costs associated with the City's Economic Development Loan - Federal program, which are restricted revenue sources for the fund. The major source of revenue for this fund is loan repayments.

The *Fire fund* accounts for the costs associated with the City's fire protection, which are committed revenue sources for the fund. The major source of revenue for this fund is charges for services.

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

The City reports the following major proprietary funds:

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

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.

**D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

***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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The City may 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 received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments for the City are reported at fair value. The Franklin Fund, Primevest 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. Financial statements of the 4M fund can be obtained by contacting RBC Global Asset Management at 100 South Fifth Street Suite 2300, Minneapolis, MN 55402-1240.

***Investment policy***

The City will invest City funds in order to attain a market rate of return while preserving and protecting the capital of the overall portfolio.

There are three main objectives of all investment activities that are prioritized as follows:

- *Safety* - Safety of principal is the foremost objective of the City. Preserving capital and protecting investment principal shall be the primary objective of each investment transaction.
- *Liquidity* - Maintaining the necessary liquidity to match expected liabilities is the second investment objective.
- *Yield* - Obtaining a reasonable return to the third investment objective.

In accordance with Minnesota statute 118A.03 on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*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.

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

*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 2012. 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 inflow of resources 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 nonspendable 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, 2012

**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 backtrending (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 City'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 and proprietary 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. The General fund is typically used to liquidate governmental compensated absences payable.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Deferred inflows of resources*

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

*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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

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 balance*

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Council modifies or rescinds the commitment by resolution.

*Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority. The Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator.

*Unassigned* - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unrestricted fund balance of 35 percent of the next year's budgeted operating expenditures of the General fund for cash-flow timing needs.

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2012

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Net position*

Net position represents the difference between assets and liabilities. Net positions are displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consist of net position 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 position - All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

*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.

**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, Fire and Economic Development Loan - Federal 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 City Administrator/Clerk so that a budget may be prepared. Before September 15, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Administrator/Clerk. The legal level of budgetary control is the department level. Budgeted amounts are originally adopted or as amended by the Council. There were no budget amendments during 2012.

**B. Excess of expenditures over appropriations**

For the year ended December 31, 2012, expenditures exceeded appropriations in the following fund:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess of Expenditures Over Appropriations</u>
General	\$ 502,776	\$ 528,906	\$ 26,130

The excess of expenditures over appropriations in the General fund was funded by an excess of actual revenues over budget of \$69,817.

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2012

**Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**C. Deficit fund equity**

The following funds had fund equity deficits at December 31, 2012:

Fund	Amount
Capital projects	
Tax Increment District #2-8	\$ 4,198

The above fund deficit will be funded through future collections of tax increment district taxes.

**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 City'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.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$586,712 and the bank balance was \$588,266. Of the bank balance, \$250,000 was covered by federal depository insurance. Of the remaining balance, \$304,605 was collateralized with securities held by the pledging financial institution's trust department in the City's name and the remaining \$33,661 was not covered by collateral.

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2012

**Note 3: DETAILED NOTES ON ALL FUNDS**

***Investments***

As of December 31, 2012, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled investments			
Minnesota Municipal Money Market Fund (4M Fund)	Not rated	less than 6 months	\$ 2,820,993
Franklin Fund - US Government Securities	N/A	less than 6 months	140,612
Primevest Money Market	N/A	less than 6 months	<u>22,775</u>
Total investments			<u><u>\$ 2,984,380</u></u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A N/A indicates not applicable or available.

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City has adopted a formal investment policy outlining objectives and procedures for investing idle funds or to address the above risks.

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, 2012

**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 \$224.

*Cash and investments summary*

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

Petty cash	\$ 224
Deposits	586,712
Investments	<u>2,984,380</u>
Total	<u><u>\$ 3,571,316</u></u>
Cash and cash equivalents	\$ 3,100,299
Investments	<u>471,017</u>
Total	<u><u>\$ 3,571,316</u></u>

**B. Notes and contracts receivable**

The City received funds from Federal, State and 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, 2012 was \$74,222.

**C. Intangibles - sewer hookup rights**

The City entered into a Sanitary Sewer System Interconnection agreement with the City of Mankato. The City of Mankato is required to operate and maintain the interconnection and is owned by the City of Mankato. The City is making payments to the City of Mankato to help with the construction costs; total cost to the City is \$1,210,829. The City will also reimburse the City of Mankato for all costs associated with maintenance of the lift station and forcemain based on the City's flow percentage received at the lift station. The City has decided to amortize these sewer hookup rights over 20 years, amortizing \$60,541 per year.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**D. Capital assets**

Capital asset activity for the City for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 466,218	\$ -	\$ -	\$ 466,218
Capital assets being depreciated				
Land improvements	37,509	-	-	37,509
Buildings	912,675	3,500	-	916,175
Infrastructure	2,483,580	-	-	2,483,580
Machinery and equipment	339,073	20,255	-	359,328
Vehicles	564,754	33,644	-	598,398
Total capital assets being depreciated	4,337,591	57,399	-	4,394,990
Less accumulated depreciation for				
Land improvements	(6,492)	(2,499)	-	(8,991)
Buildings	(654,355)	(23,880)	-	(678,235)
Infrastructure	(1,398,213)	(80,328)	-	(1,478,541)
Machinery and equipment	(248,161)	(28,965)	-	(277,126)
Vehicles	(466,711)	(35,097)	-	(501,808)
Total accumulated depreciation	(2,773,932)	(170,769)	-	(2,944,701)
Total capital assets being depreciated, net	1,563,659	(113,370)	-	1,450,289
Governmental activities capital assets, net	\$ 2,029,877	\$ (113,370)	\$ -	\$ 1,916,507

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 47,313	\$ -	\$ -	\$ 47,313
Construction in progress	42,270	786,396	-	828,666
	<u>89,583</u>	<u>786,396</u>	<u>-</u>	<u>875,979</u>
Total capital assets not being depreciated				
Capital assets being depreciated				
Buildings	12,572	-	-	12,572
Infrastructure	6,046,600	-	-	6,046,600
Machinery and equipment	38,190	-	-	38,190
	<u>6,097,362</u>	<u>-</u>	<u>-</u>	<u>6,097,362</u>
Total capital assets being depreciated				
Less accumulated depreciation for				
Buildings	(12,572)	-	-	(12,572)
Infrastructure	(2,925,133)	(186,958)	-	(3,112,091)
Machinery and equipment	(35,011)	(2,047)	-	(37,058)
	<u>(2,972,716)</u>	<u>(189,005)</u>	<u>-</u>	<u>(3,161,721)</u>
Total accumulated depreciation				
	<u>3,124,646</u>	<u>(189,005)</u>	<u>-</u>	<u>2,935,641</u>
Total capital assets being depreciated, net				
	<u>\$ 3,214,229</u>	<u>\$ 597,391</u>	<u>\$ -</u>	<u>\$ 3,811,620</u>
Business-type activities capital assets, net				

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

<b>Governmental activities</b>		
General government		\$ 20,524
Public safety		36,562
Streets and highways		106,437
Culture and recreation		7,246
		<u>170,769</u>
Total depreciation expense - governmental activities		<u>\$ 170,769</u>
<b>Business-type activities</b>		
Water utility		\$ 66,408
Sewer utility		122,597
		<u>189,005</u>
Total depreciation expense - business-type activities		<u>\$ 189,005</u>

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2012

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

*Construction commitments*

The City has an active project as of December 31, 2012. At year end the City's commitments with contracts are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
200,000 Gallon Elevated Water Storage Tank	<u>\$ 730,138</u>	<u>\$ 20,226</u>

**E. Interfund receivables, payables and transfers**

The composition of interfund balances at December 31, 2012 is as follows:

*Advances to/from other funds*

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Public Improvement Revolving	General	<u>\$ 48,718</u>

The above interfund balance is the result of tax increment project loan between the Public Improvement Revolving fund and the Tax Increment District #2 fund. The Tax Increment District #2 fund was closed and the balance of the advance was transferred to the General fund. The balance will be repaid as tax increments are received.

*Interfund transfers*

The composition of interfund transfers at December 31, 2012 is as follows:

	<u>Transfer in</u>				<u>Total</u>
	<u>General Fund</u>	<u>Fire Fund</u>	<u>Debt Service Fund</u>	<u>Water Utility Fund</u>	
Transfer out					
General fund	\$ -	\$ 59,824	\$ -	\$ 26,292	\$ 86,116
Public Improvement Revolving fund	-	-	40,420	-	40,420
Debt Service fund	33,568	-	-	-	33,568
Water Utility fund	-	-	28,453	-	28,453
Refuse fund	38,168	-	-	-	38,168
Total transfers out	<u>\$ 71,736</u>	<u>\$ 59,824</u>	<u>\$ 68,873</u>	<u>\$ 26,292</u>	<u>\$ 226,725</u>

The City made the following transfers for the year ended December 31, 2012:

- From the Water Utility fund (\$28,453) to the Debt Service fund for operations.
- From the Refuse fund (\$38,168) to the General fund to transfer profits. The General fund supports street maintenance; garbage trucks contribute to street breakdown.
- From the General fund (\$59,824) to the Fire fund which is the City's portion of the fire departments annual operating budget.
- From the General fund (\$26,292) to the Water Utility fund to help offset the water rate increase.
- From the Debt Service fund (\$33,568) to the General fund and from the Public Improvement Revolving fund (\$40,420) to the Debt Service fund to close Debt Service funds whose bonds have matured.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**F. Long-term debt**

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.

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. Refunding					
Bonds of 2003	\$ 370,000	2.10 - 4.00 %	07/31/03	01/01/16	\$ 135,000
G.O. PIR Refunding					
Bonds of 2004B	300,000	3.00 - 4.10	11/01/04	02/01/16	120,000
G.O. Improvement					
Bonds of 2004A	265,000	3.00 - 4.00	09/01/04	02/01/15	90,000
G.O. Improvement					
Bonds of 2006A	140,000	4.25	11/01/06	02/01/18	<u>90,000</u>
Total G.O. Special Assessment Bonds					<u><u>\$ 435,000</u></u>

The annual debt service requirements to maturity for general obligation special assessment (improvement) bonds are as follows:

Year Ending December 31,	<b>G.O. Special Assessment Bonds</b>		
	Governmental Activities		
	Principal	Interest	Total
2013	\$ 105,000	\$ 15,551	\$ 120,551
2014	110,000	11,244	121,244
2015	110,000	6,776	116,776
2016	80,000	2,909	82,909
2017	15,000	956	15,956
2018	<u>15,000</u>	<u>319</u>	<u>15,319</u>
Total	<u><u>\$ 435,000</u></u>	<u><u>\$ 37,755</u></u>	<u><u>\$ 472,755</u></u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

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 1995A (PFA)	\$ 400,400	0.00 %	09/25/95	02/20/17	\$ 67,840
G.O. Sewer Revenue					
Refunding Bonds, 2007A	235,000	3.95	12/01/07	02/01/17	135,000
G.O. Revenue Note (PFA) of 2009	320,500	1.88	06/01/09	08/20/29	279,000
G.O. Revenue Note (PFA) of 2010	596,692	1.86	05/17/10	08/20/29	539,000
G.O. Revenue Note (PFA) of 2011	849,226 *	1.91	08/08/11	08/20/31	<u>777,495</u>
 Total G.O. Revenue Bonds					 <u>\$ 1,798,335</u>

\* Includes undrawn proceeds of \$55,505

The annual debt service requirements to maturity for general obligation revenue bonds are as follows:

<u>December 31,</u>	<b>G.O. Revenue Bonds</b> Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 118,076	\$ 34,667	\$ 152,743
2014	119,076	33,574	152,650
2015	121,076	31,095	152,171
2016	128,076	28,479	156,555
2017	121,538	25,727	147,265
2018 - 2022	444,998	101,319	546,317
2023 - 2027	488,000	57,670	545,670
2028 - 2031	313,000	12,869	325,869
 Total	 <u>\$ 1,853,840</u>	 <u>\$ 325,400</u>	 <u>\$ 2,179,240</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Loans payable

The City entered into a Sanitary Sewer System Interconnection agreement with the City of Mankato. The City of Mankato is required to operate and maintain the interconnection. The City is making payments to the City of Mankato to help with the construction costs.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Loan with City of Mankato	\$ 1,210,829	1.88 %	08/01/12	08/01/28	<u>\$ 1,168,374</u>

The annual debt service requirements to maturity for loans payable are as follows:

Year Ending December 31,	<b>Loans</b>		
	Business-type Activities		
	Principal	Interest	Total
2013	\$ 63,216	\$ 21,693	\$ 84,909
2014	64,412	20,497	84,909
2015	65,630	19,280	84,910
2016	66,871	18,039	84,910
2017	68,135	16,774	84,909
2018 - 2022	360,495	64,051	424,546
2023 - 2027	395,890	28,656	424,546
2028	83,725	1,183	84,908
Total	<u>\$ 1,168,374</u>	<u>\$ 190,173</u>	<u>\$ 1,358,547</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable					
General obligation special assessment bonds	\$ 540,000	\$ -	\$ (105,000)	\$ 435,000	\$ 105,000
Compensated absences payable	5,842	11,693	(13,118)	4,417	4,417
Governmental activities long-term liabilities	<u>\$ 545,842</u>	<u>\$ 11,693</u>	<u>\$ (118,118)</u>	<u>\$ 439,417</u>	<u>\$ 109,417</u>
<b>Business-type activities</b>					
Bonds payable					
General obligation revenue bonds	\$ 1,082,055	\$ 813,582	\$ (97,302)	\$ 1,798,335	\$ 118,076
Loans payable	-	1,210,829	(42,455)	1,168,374	63,216
Business-type activities long-term liabilities	<u>\$ 1,082,055</u>	<u>\$ 2,024,411</u>	<u>\$ (139,757)</u>	<u>\$ 2,966,709</u>	<u>\$ 181,292</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE**

**A. Plan description**

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, 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 Minnesota 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 GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated 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 GERF and PEPFF. That report may be obtained on the Internet at [www.mnpera.org](http://www.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, 2012

**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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6 percent of their annual covered salary in 2011. In 2012, the City of Madison Lake was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERP members, 7.25 percent for Coordinated Plan GERP members, and 14.4 percent for PEPFF members. The City's contributions to the GERP for the years ending December 31, 2012, 2011 and 2010 were \$10,722, \$9,270, and \$9,127, respectively. The City's contributions to the PEPFF for the years ending December 31, 2012, 2011, and 2010 were \$11,742, \$10,622, and \$10,576, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**Note 5: 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.

**C. Legal debt margin**

The City's statutory debt limit is 3 percent of the estimated taxable market value of real and personal property located in the City. The taxable market value was \$79,251,700 at December 31, 2012 for a limit of \$2,669,324 (net of debt service reserves). 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.

**D. Concentrations**

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2012 was \$119,406 for LGA. This accounted for 19 percent of General fund revenues.

**E. Tax increment districts**

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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 6: ACCOUNTING CHANGE**

During fiscal year 2012, the City implemented several new accounting pronouncements issued by the Government Accounting Standards Board (GASB), including Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*” and Statement No. 65, “*Items Previously Reported as Assets and Liabilities*”. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2012 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 1.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2010 and December 31, 2011 balances to the December 31, 2012 financial statements:

Fund	December 31, 2011		
	Net Position December 31, 2010 as Previously Reported	Prior Period Restatement (1)	Net Position December 31, 2010 as Restated
Governmental activities	\$ 3,951,194	\$ (15,110)	\$ 3,936,084
Business-type activities	\$ 3,061,405	\$ (4,691)	\$ 3,056,714
Business-type activities			
Water Utility	\$ 1,215,209	\$ -	\$ 1,215,209
Sewer Utility	1,830,218	(4,691)	1,825,527
Refuse	15,978	-	15,978
Total business-type activities	\$ 3,061,405	\$ (4,691)	\$ 3,056,714

- (1) Write off of unamortized bond issuance cost balances at December 31, 2010.
- (2) Write off of any bond issuance cost activity for the year ended December 31, 2011 plus unamortized bond issuance costs at December 31, 2010.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 6: ACCOUNTING CHANGE - CONTINUED**

	December 31, 2012		
Fund	Net Position December 31, 2011 as Previously Reported	Prior Period Restatement (2)	Net Position December 31, 2011 as Restated
Governmental activities	\$ 4,033,767	\$ (12,660)	\$ 4,021,107
Business-type activities	\$ 3,177,132	\$ (4,021)	\$ 3,173,111
Business-type activities			
Water Utility	\$ 1,190,180	\$ -	\$ 1,190,180
Sewer Utility	1,923,334	(4,021)	1,919,313
Refuse	63,618	-	63,618
Total business-type activities	\$ 3,177,132	\$ (4,021)	\$ 3,173,111

- (1) Write off of unamortized bond issuance cost balances at December 31, 2010.
- (2) Write off of any bond issuance cost activity for the year ended December 31, 2011 plus unamortized bond issuance costs at December 31, 2010.

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

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2012

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2012

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 23,645	\$ 5,090	\$ 28,735
Receivables			
Accounts	560	-	560
Loans	2,969	-	2,969
	<u>2,969</u>	<u>-</u>	<u>2,969</u>
<b>TOTAL ASSETS</b>	<u>\$ 27,174</u>	<u>\$ 5,090</u>	<u>\$ 32,264</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - loans	\$ 2,969	\$ -	\$ 2,969
	<u>2,969</u>	<u>-</u>	<u>2,969</u>
<b>FUND BALANCES</b>			
Restricted for			
Community service	4,114	-	4,114
Economic development	20,091	-	20,091
Assigned for			
Capital outlay	-	9,288	9,288
Unassigned	-	(4,198)	(4,198)
	<u>-</u>	<u>(4,198)</u>	<u>(4,198)</u>
<b>TOTAL FUND BALANCES</b>	<u>24,205</u>	<u>5,090</u>	<u>29,295</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 27,174</u>	<u>\$ 5,090</u>	<u>\$ 32,264</u>

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ 3,524	\$ 85	\$ 3,609
Investment earnings	928	1	929
Miscellaneous	1,159	-	1,159
TOTAL REVENUES	5,611	86	5,697
EXPENDITURES			
Current			
General government	2,648	-	2,648
NET CHANGE IN FUND BALANCES	2,963	86	3,049
FUND BALANCES, JANUARY 1	21,242	5,004	26,246
FUND BALANCES, DECEMBER 31	\$ 24,205	\$ 5,090	\$ 29,295

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2012

	<b>230</b>	<b>800</b>	
	Economic Development Loan - State	Gambling	Total Nonmajor
<b>ASSETS</b>			
Cash and cash equivalents	\$ 20,091	\$ 3,554	\$ 23,645
Receivables			
Loans	2,969	-	2,969
Accounts	-	560	560
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 23,060</u></u>	<u><u>\$ 4,114</u></u>	<u><u>\$ 27,174</u></u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - loans	<u>\$ 2,969</u>	<u>\$ -</u>	<u>\$ 2,969</u>
 <b>FUND BALANCES</b>			
Restricted for			
Community service	-	4,114	4,114
Economic development	<u>20,091</u>	<u>-</u>	<u>20,091</u>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL FUND BALANCES</b>	<u><u>20,091</u></u>	<u><u>4,114</u></u>	<u><u>24,205</u></u>
 <b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u><u>\$ 23,060</u></u>	<u><u>\$ 4,114</u></u>	<u><u>\$ 27,174</u></u>

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<b>231</b>	<b>800</b>	
	Economic Development Loan - State	Gambling	Total Nonmajor
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES			
Taxes	\$ -	\$ 3,524	\$ 3,524
Investment earnings	-	928	928
Miscellaneous			
Loan payments	1,159	-	1,159
	<u>1,159</u>	<u>4,452</u>	<u>5,611</u>
EXPENDITURES			
Current			
General government	-	2,648	2,648
NET CHANGE IN FUND BALANCES	1,159	1,804	2,963
FUND BALANCES, JANUARY 1	<u>18,932</u>	<u>2,310</u>	<u>21,242</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 20,091</u></u>	<u><u>\$ 4,114</u></u>	<u><u>\$ 24,205</u></u>

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2012

	<b>411</b>	<b>430</b>	
	Tax Increment District #2-8	Northwest Project	Total Nonmajor
<b>ASSETS</b>			
Cash and cash equivalents	<u>\$ (4,198)</u>	<u>\$ 9,288</u>	<u>\$ 5,090</u>
<b>FUND BALANCES</b>			
Assigned for			
Capital outlay	\$ -	\$ 9,288	\$ 9,288
Unassigned	<u>(4,198)</u>	<u>-</u>	<u>(4,198)</u>
<b>TOTAL FUND BALANCES</b>	<u>\$ (4,198)</u>	<u>\$ 9,288</u>	<u>\$ 5,090</u>

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<b>411</b>	<b>430</b>	
	Tax Increment District #2-8	Northwest Project	Total Nonmajor
REVENUES			
Taxes			
Tax increments	\$ 85	\$ -	\$ 85
Investment earnings	-	1	1
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	85	1	86
FUND BALANCES, JANUARY 1	<hr/> (4,283)	<hr/> 9,287	<hr/> 5,004
FUND BALANCES, DECEMBER 31	<hr/> <u>\$ (4,198)</u>	<hr/> <u>\$ 9,288</u>	<hr/> <u>\$ 5,090</u>

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CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
DECEMBER 31, 2012 AND 2011

	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 559,575	\$ 494,287
Investments	159,033	157,086
Receivables		
Delinquent taxes	22,313	31,003
Accounts	3,374	1,250
Intergovernmental	8,632	14,178
<b>TOTAL ASSETS</b>	<b>\$ 752,927</b>	<b>\$ 697,804</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 22,963	\$ 10,288
Advances from other funds	48,718	48,718
Due to other governments	3,382	35
Accrued salaries payable	16,577	12,473
<b>TOTAL LIABILITIES</b>	<b>91,640</b>	<b>71,514</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue - property taxes	22,313	31,003
<b>FUND BALANCES</b>		
Restricted for		
Park land dedication	24,899	21,892
Assigned for		
Capital outlay	115,953	105,314
Unassigned	498,122	468,081
<b>TOTAL FUND BALANCES</b>	<b>638,974</b>	<b>595,287</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 752,927</b>	<b>\$ 697,804</b>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		Variance with Final Budget	2011
	Final Budget	Actual Amounts		Actual Amounts
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 379,064	\$ 388,354	\$ 9,290	\$ 332,438
Franchise fees	3,000	3,056	56	3,114
Gambling taxes	1,000	845	(155)	1,286
Total taxes	<u>383,064</u>	<u>392,255</u>	<u>9,191</u>	<u>336,838</u>
Licenses and permits				
Business	5,000	5,386	386	5,635
Nonbusiness	16,200	37,466	21,266	32,714
Total licenses and permits	<u>21,200</u>	<u>42,852</u>	<u>21,652</u>	<u>38,349</u>
Intergovernmental				
Federal				
Other federal aids	-	1,815	1,815	990
State				
Local government aid	112,808	119,406	6,598	119,406
Property tax credits	-	-	-	5,292
Other state aids	395	6,868	6,473	7,047
Total State	<u>113,203</u>	<u>126,274</u>	<u>13,071</u>	<u>131,745</u>
County				
Highway aid	600	600	-	600
Total intergovernmental	<u>113,803</u>	<u>128,689</u>	<u>14,886</u>	<u>133,335</u>
Charges for services				
General government	908	1,368	460	600
Public safety	49	5	(44)	50
Streets and highways	-	1,234	1,234	1,468
Other	140	85	(55)	178
Total charges for services	<u>1,097</u>	<u>2,692</u>	<u>1,595</u>	<u>2,296</u>
Fines and forfeits	20,000	29,349	9,349	28,150
Investment earnings	7,000	3,425	(3,575)	7,304
Miscellaneous				
Other	-	10,215	10,215	4,534
Rent	3,060	2,094	(966)	3,045
Contributions and donations	-	-	-	2,591
Refunds and reimbursements	1,500	8,970	7,470	4,588
Total miscellaneous	<u>4,560</u>	<u>21,279</u>	<u>16,719</u>	<u>14,758</u>
TOTAL REVENUES	<u>550,724</u>	<u>620,541</u>	<u>69,817</u>	<u>561,030</u>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012			2011
	Final Budget	Actual Amounts	Variance with Final Budget	Actual Amounts
<b>EXPENDITURES</b>				
Current				
General government				
Mayor and Council				
Personal services	\$ 8,935	\$ 7,778	\$ 1,157	\$ 7,227
Supplies	1,900	9,758	(7,858)	92
Other services and charges	7,703	6,953	750	5,426
Total Mayor and Council	<u>18,538</u>	<u>24,489</u>	<u>(5,951)</u>	<u>12,745</u>
City clerk				
Personal services	69,776	62,557	7,219	65,778
Supplies	3,900	3,574	326	3,559
Other services and charges	6,268	3,977	2,291	3,100
Total city clerk	<u>79,944</u>	<u>70,108</u>	<u>9,836</u>	<u>72,437</u>
Election				
Personal services	1,500	1,134	366	-
Supplies	400	370	30	-
Other services and charges	450	337	113	250
Total election	<u>2,350</u>	<u>1,841</u>	<u>509</u>	<u>250</u>
Legal and audit				
Other services	34,592	30,349	4,243	27,856
Planning and zoning				
Personal services	3,450	1,600	1,850	875
Supplies	300	108	192	106
Other services and charges	496	50	446	44
Total planning and zoning	<u>4,246</u>	<u>1,758</u>	<u>2,488</u>	<u>1,025</u>
Municipal building				
Personal services	2,480	1,347	1,133	1,168
Supplies	5,400	2,669	2,731	4,793
Other services and charges	10,864	10,619	245	8,744
Total municipal building	<u>18,744</u>	<u>14,635</u>	<u>4,109</u>	<u>14,705</u>
Total general government	<u>158,414</u>	<u>143,180</u>	<u>15,234</u>	<u>129,018</u>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		Variance with Final Budget	2011
	Final Budget	Actual Amounts		Actual Amounts
<b>EXPENDITURES - CONTINUED</b>				
Current - continued				
Public safety				
Police				
Personal services	\$ 94,119	\$ 104,018	\$ (9,899)	\$ 93,676
Supplies	16,225	16,560	(335)	14,549
Other services and charges	6,068	8,666	(2,598)	8,246
Total police	<u>116,412</u>	<u>129,244</u>	<u>(12,832)</u>	<u>116,471</u>
Building/health inspection				
Personal services	2,070	4,938	(2,868)	2,060
Supplies	100	133	(33)	202
Other services and charges	9,066	18,227	(9,161)	11,390
Total building/health inspection	<u>11,236</u>	<u>23,298</u>	<u>(12,062)</u>	<u>13,652</u>
Civil defense				
Supplies	150	-	150	-
Other services and charges	234	227	7	216
Total civil defense	<u>384</u>	<u>227</u>	<u>157</u>	<u>216</u>
Animal control				
Other services and charges	203	301	(98)	-
Rental inspection				
Personal services	2,000	2,340	(340)	2,240
Total public safety	<u>130,235</u>	<u>155,410</u>	<u>(25,175)</u>	<u>132,579</u>
Streets and highways				
Street maintenance				
Personal services	54,051	53,928	123	58,562
Supplies	32,050	24,368	7,682	22,349
Other services and charges	9,998	9,960	38	10,368
Total street maintenance	<u>96,099</u>	<u>88,256</u>	<u>7,843</u>	<u>91,279</u>
Snow and ice removal				
Supplies	2,500	2,657	(157)	3,475
Street lighting				
Other services and charges	18,500	16,547	1,953	17,915
Total streets and highways	<u>117,099</u>	<u>107,460</u>	<u>9,639</u>	<u>112,669</u>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012		Variance with Final Budget	2011
	Final Budget	Actual Amounts		Actual Amounts
<b>EXPENDITURES - CONTINUED</b>				
Current - continued				
Culture and recreation				
Parks				
Personal services	\$ 72	\$ 88	\$ (16)	\$ 72
Supplies	5,500	3,919	1,581	4,493
Other services and charges	6,570	6,450	120	5,970
Total culture and recreation	<u>12,142</u>	<u>10,457</u>	<u>1,685</u>	<u>10,535</u>
Housing and economic development				
Economic development				
Personal services	2,153	1,482	671	853
Other services and charges	5,144	4,898	246	4,201
Total housing and economic development	<u>7,297</u>	<u>6,380</u>	<u>917</u>	<u>5,054</u>
Miscellaneous				
Unallocated				
Other services and charges	1,089	772	317	905
Total current	<u>426,276</u>	<u>423,659</u>	<u>2,617</u>	<u>390,760</u>
Capital outlay				
General government	6,000	7,483	(1,483)	598
Public safety	11,500	42,193	(30,693)	8,180
Streets and highways	50,000	53,378	(3,378)	54,079
Culture and recreation	7,000	1,993	5,007	28,429
Economic development	2,000	200	1,800	6,539
Total capital outlay	<u>76,500</u>	<u>105,247</u>	<u>(28,747)</u>	<u>97,825</u>
<b>TOTAL EXPENDITURES</b>	<u>502,776</u>	<u>528,906</u>	<u>(26,130)</u>	<u>488,585</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>				
	<u>47,948</u>	<u>91,635</u>	<u>43,687</u>	<u>72,445</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	38,168	38,168	-	-
Transfers out	(86,116)	(86,116)	-	(89,363)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(47,948)</u>	<u>(47,948)</u>	<u>-</u>	<u>(89,363)</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	-	43,687	43,687	(16,918)
<b>FUND BALANCES, JANUARY 1</b>				
	<u>595,287</u>	<u>595,287</u>	<u>-</u>	<u>612,205</u>
<b>FUND BALANCES, DECEMBER 31</b>				
	<u>\$ 595,287</u>	<u>\$ 638,974</u>	<u>\$ 43,687</u>	<u>\$ 595,287</u>

CITY OF MADISON LAKE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2012  
(With Comparative Totals for December 31, 2011)

	<b>301</b>	<b>330</b>	<b>335</b>
	1982	2004A G.O.	2005 G.O.
	Community	Improvement	Improvement
	Center Bonds	Bonds	Bonds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 25,611	\$ -
Cash with fiscal agent	-	-	-
Receivables			
Special assessments			
Delinquent	-	4,920	-
Noncurrent	-	8,894	-
Intergovernmental	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><u>\$ -</u></u>	<u><u>\$ 39,425</u></u>	<u><u>\$ -</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - special assessments	\$ -	\$ 13,814	\$ -
<b>FUND BALANCES</b>			
Restricted for			
Debt service	<u>-</u>	<u>25,611</u>	<u>-</u>
<b>TOTAL DEFERRED INFLOWS OF</b>			
<b>RESOURCES AND FUND BALANCES</b>	<u><u>\$ -</u></u>	<u><u>\$ 39,425</u></u>	<u><u>\$ -</u></u>

<b>340</b> 2006 G.O. Improvement Bonds	<b>494</b> 2003 G.O. Refunding Bonds	<b>499</b> 2004B G.O. PIR Refunding Bonds	Totals	
			2012	2011
\$ 15,812	\$ 172,863	\$ 51,699	\$ 265,985	\$ 137,180
-	32,640	-	32,640	98,475
-	-	-	4,920	5,479
11,306	24,813	97,070	142,083	250,140
-	-	-	-	14,994
<u>\$ 27,118</u>	<u>\$ 230,316</u>	<u>\$ 148,769</u>	<u>\$ 445,628</u>	<u>\$ 506,268</u>
\$ 11,306	\$ 24,813	\$ 97,070	\$ 147,003	\$ 255,619
15,812	205,503	51,699	298,625	250,649
<u>\$ 27,118</u>	<u>\$ 230,316</u>	<u>\$ 148,769</u>	<u>\$ 445,628</u>	<u>\$ 506,268</u>

CITY OF MADISON LAKE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(With Comparative Totals for the Year Ended December 31, 2011)

	<b>301</b> 1982 Community Center Bonds	<b>330</b> 2004A G.O. Improvement Bonds	<b>335</b> 2005 G.O. Improvement Bonds
<b>REVENUES</b>			
Taxes			
Property taxes	\$ 13,755	\$ -	\$ -
Special assessments	-	6,094	8,926
Investment earnings	<u>2</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>13,757</u>	<u>6,094</u>	<u>8,926</u>
<b>EXPENDITURES</b>			
Current			
General government	-	431	-
Debt service			
Principal	-	30,000	-
Interest and fees	<u>-</u>	<u>4,116</u>	<u>-</u>
TOTAL EXPENDITURES	<u>-</u>	<u>34,547</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>13,757</u>	<u>(28,453)</u>	<u>8,926</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	28,453	40,420
Transfers out	(33,568)	-	-
Payment to refunded bond escrow agent	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(33,568)</u>	<u>28,453</u>	<u>40,420</u>
NET CHANGE IN FUND BALANCES	(19,811)	-	49,346
FUND BALANCES, JANUARY 1	<u>19,811</u>	<u>25,611</u>	<u>(49,346)</u>
FUND BALANCES, DECEMBER 31	<u>\$ -</u>	<u>\$ 25,611</u>	<u>\$ -</u>

340 2006 G.O. Improvement Bonds	494 2003 G.O. Refunding Bonds	499 2004B G.O. PIR Refunding Bonds	Totals	
			2012	2011
\$ 15,449	\$ 20,807	\$ 21,974	\$ 71,985	\$ 87,366
3,007	34,318	14,121	66,466	65,761
-	26	2	30	-
<u>18,456</u>	<u>55,151</u>	<u>36,097</u>	<u>138,481</u>	<u>153,127</u>
-	431	431	1,293	1,696
15,000	30,000	30,000	105,000	113,000
<u>4,143</u>	<u>5,820</u>	<u>5,438</u>	<u>19,517</u>	<u>28,148</u>
<u>19,143</u>	<u>36,251</u>	<u>35,869</u>	<u>125,810</u>	<u>142,844</u>
<u>(687)</u>	<u>18,900</u>	<u>228</u>	<u>12,671</u>	<u>10,283</u>
-	-	-	68,873	27,407
-	-	-	(33,568)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(105,000)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>35,305</u>	<u>(77,593)</u>
(687)	18,900	228	47,976	(67,310)
<u>16,499</u>	<u>186,603</u>	<u>51,471</u>	<u>250,649</u>	<u>317,959</u>
<u>\$ 15,812</u>	<u>\$ 205,503</u>	<u>\$ 51,699</u>	<u>\$ 298,625</u>	<u>\$ 250,649</u>

CITY OF MADISON LAKE, MINNESOTA  
SUMMARY FINANCIAL REPORT  
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS -  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Total 2012	Total 2011	Percent Increase (Decrease)
<b>REVENUES</b>			
Taxes	\$ 467,849	\$ 427,938	9.33 %
Special assessments	67,769	67,209	0.83
Licenses and permits	42,852	38,349	11.74
Intergovernmental	145,489	152,208	(4.41)
Charges for services	107,762	114,925	(6.23)
Fines and forfeits	29,349	28,150	4.26
Investment earnings	4,509	8,970	(49.73)
Miscellaneous	84,987	68,838	23.46
 TOTAL REVENUES	 \$ 950,566	 \$ 906,587	 4.85 %
Per Capita	\$ 920	\$ 891	3.23 %
 <b>EXPENDITURES</b>			
Current			
General government	\$ 147,121	\$ 133,525	10.18 %
Public safety	250,466	249,411	0.42
Streets and highways	108,283	112,669	(3.89)
Culture and recreation	10,457	10,535	(0.74)
Economic development	6,380	5,054	26.24
Miscellaneous	772	905	(14.70)
Capital outlay			
General government	7,483	598	1,151.34
Public safety	55,398	14,684	277.27
Streets and highways	53,378	54,079	(1.30)
Culture and recreation	1,993	28,429	(92.99)
Economic development	200	6,539	(96.94)
Debt service			
Principal	105,000	113,000	(7.08)
Interest and other charges	19,517	28,148	(30.66)
 TOTAL EXPENDITURES	 \$ 766,448	 \$ 757,576	 1.17 %
Per Capita	\$ 742	\$ 745	(0.40) %
 Total long-term indebtedness	 \$ 435,000	 \$ 540,000	 (19.44) %
Per Capita	421	531	(20.69)
 General fund balance - December 31	 \$ 672,542	 \$ 595,287	 12.98 %
Per Capita	651	585	11.23

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 Kelly Steele at (507) 243-3011.

**OTHER REQUIRED REPORTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2012

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

## AUDITOR'S REPORT ON LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 25, 2013.

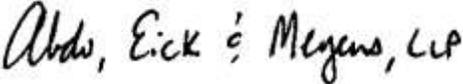
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute 6.65. Accordingly, 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 Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our study included all of the listed categories.

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, Responses and Questioned Costs as finding 2012-4.

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, and the result of that testing, and not to provide an opinion on the City's compliance with those provisions. Accordingly, this report is not suitable for any other purpose.

March 25, 2013  
Mankato, Minnesota

  
ABDO, EICK & MEYERS, LLP  
Certified Public Accountants



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

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

Honorable Mayor and City Council  
City of Madison Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 25, 2013.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings, Responses and Questioned Costs as item 2012-3 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings, Responses and Questioned Costs as items 2012-1 and 2012-2 to be significant deficiencies.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings, Responses and Questioned Costs as item 2012-4.

## The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Responses and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

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

March 25, 2013  
Mankato, Minnesota

ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY *OMB CIRCULAR A-133*

Honorable Mayor and City Council  
City of Madison Lake, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited the City of Madison Lake's, Minnesota (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.



### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs for the year ended December 31, 2012.

### **Report on Internal Control Over Compliance**

Management of City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

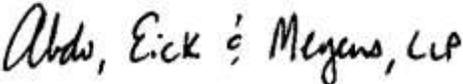
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings, Responses and Questioned Costs as item 2012-3 to be a material weakness.

The City's response to the internal control over compliance finding identified in our audit are described in the accompanying Schedule of Findings, Responses and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

March 25, 2013  
Mankato, Minnesota

  
ABDO, EICK & MEYERS, LLP  
Certified Public Accountants

CITY OF MADISON LAKE, MINNESOTA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Funding Source	Administering Department	Program Name	Catalog of Federal Domestic Assistance Number	State or Other Contract Number	Expended Directly
U.S. Department of Environmental Protection Agency	Minnesota Public Facilities Authority	Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-11-0053-R-FY12	<u>\$ 743,798</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**1. General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal award programs of the City of Madison Lake, Minnesota (the City). The City's reporting entity is defined in Note 1A to the City's financial statements. All Federal awards received directly for Federal agencies as well as Federal awards passed through other government agencies are included in the schedule.

**2. Basis of accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting for the major programs, which are described in Note 1B to the City's financial statements.

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CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**A. Summary of Auditor's Results**

**Financial Statements**

1. The independent auditor's report expresses an unqualified opinion on the financial statements of the City of Madison Lake, Minnesota (the City).
2. Significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Finding 2012-3 is considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.

**Federal Awards**

1. A significant deficiency relating to the audit of the major federal award programs is reported in the Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by *OMB Circular A-133*. Finding 2012-3 is considered to be a material weakness.
2. The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
3. Audit findings relative to the major federal awards programs were noted for the City in section C below.
4. The program tested as major programs included:

Capitalization Grants for Drinking Water State Revolving

CFDA
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66.468

5. The threshold for distinguishing between Types A and B programs was \$300,000.
6. The City did not qualify as a low-risk auditee.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012

**B. Findings - Financial Statement Audit**

Finding   Description

**2012-1   Segregation of duties**

*Condition:*                      During our audit, we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investment transactions and found the City to have limited segregation of duties in these areas.

*Criteria:*                         There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

*Effect:*                             The existence of this limited segregation of duties increases the risk of fraud.

**Internal control over payroll**

*Cause:*                             As a result of the small number of staff, the Deputy Clerk controls and maintains the check stock, sets up employee records, posts activity to the general ledger, prepares payroll tax returns, and maintains the payroll records.

*Recommendation:*            While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitor all financial information. We recommend that in addition to approving payroll disbursements and wage rates, the City Council review amounts earned and accrued for compensated absences on an annual basis to compensate for control deficiencies with respect to payroll accruals. Additional controls might include review of payroll registers, earnings records, payroll reports, etc.

*Management response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes review of payroll registers, earnings records and payroll reports by the City Administrator.

*Updated progress since prior year:*

There is no change in this finding.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012

Finding    Description

**2012-1    Segregation of duties - Continued**

**Internal control over disbursements**

*Cause:*                    As a result of the small number of staff, the Deputy Clerk controls and maintains the check stock, sets up vendors, opens the mail, prepares checks, maintains the purchase journal and accounts payable records, and posts transactions to the general ledger.

*Recommendation:*    While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend that an individual separate from the Deputy Clerk review cancelled checks received with the bank statement and investigate items such as; void checks, inconsistencies in check sequence, possible alterations, and unusual payees. This individual should also review bank reconciliations for accuracy and timeliness of preparation. It is important that the Council is aware of this condition and monitor all financial information.

*Management response:*

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons. The City Administrator performs the monthly bank reconciliation and reviews the bank statements and cancelled checks for items such as void checks, inconsistencies in check sequence and possible alterations.

*Updated progress since prior year:*

The City Administrator performs the monthly bank reconciliation process which includes reviewing the bank statements and cancelled checks for items such as void checks, inconsistencies in check sequence and possible alterations.

**Internal control over cash receipts**

*Cause:*                    As a result of the small number of staff, the Deputy Clerk sets up customers, maintains receipts journal and accounts receivable records, posts transactions to the general ledger, receives and endorses checks and currency, and prepares the deposit.

*Recommendation:*    While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitor all financial information. Additional controls might include obtaining and reviewing monthly receipt information.

*Management response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes review of deposits and regular review of financial statements and budget comparisons. The City Administrator performs the monthly bank reconciliation and reviews the bank statements deposit activity.

*Updated progress since prior year:*

There is no change in this finding.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND QUESITONED COSTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012

3

Finding    Description

**2012-1    Segregation of duties - Continued**

**Internal control over utility billing**

*Cause:*                    As a result of the small number of staff, the Deputy Clerk approves new accounts, sets up customers and rates in the billing system, generates statements, enters readings, prepares the deposit and makes adjustments to accounts.

*Recommendation:*    While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitors all financial information. Additional controls might include reviewing billing registers, exception reports, adjustments to accounts and employee billing records.

*Management response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons. The City Administrator performs the monthly bank reconciliation and reviews the bank statements deposit activity.

*Updated progress since prior year:*

There is no change in this finding.

**Internal control over investment transactions**

*Cause:*                    As a result of the small number of staff, the City Administrator receives investment statements in the mail, initiates transactions, maintains investment sub ledgers, and reconciles investment accounts.

*Recommendation:*    While we recognize staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitor all financial information. We recommend the City adopt an investment policy which outlines procedures for investment transactions that can be followed by the City Administrator.

*Management response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

*Updated progress since prior year:*

There is no change in this finding.

**Corrective Action Plan (CAP):**

**Explanation of Disagreements with Audit Finding:**

There is no disagreement with the audit finding.

**Action Planned in Response to Finding:**

The City Council is taking an active role in management of City functions.

**Official Responsible for Ensuring CAP:**

Kelly Steele, City Administrator/Clerk, is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

Continual

**Plan to Monitor Completion of CAP:**

The Council will be monitoring the corrective action plan.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012

Finding    Description

**2012-2    Financial report preparation**

*Condition:*            As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

*Criteria:*            Internal controls should be in place to provide reasonable assurance over financial reporting.

*Cause:*                From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.

*Effect:*                The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

*Recommendation:* Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your Banyon receipt and disbursement information to the amount reported in the financial statements plus or minus any applicable accruals.

*Management response:*

For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

**Corrective Action Plan (CAP):**

**Explanation of Disagreements with Audit Finding:**

There is no disagreement with the audit finding.

**Action Planned in Response to Finding:**

Continue training of accounting staff in financial reporting to gain competencies in this area for future preparation and review of financial statements. The City's goal is to better understand the financial statements and related footnote disclosures.

**Official Responsible for Ensuring CAP:**

Kelly Steele, City Administrator/Clerk, is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

Continual

**Plan to Monitor Completion of CAP:**

The Council will be monitoring the corrective action plan.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012

Finding   Description

**2012-3   Material audit adjustments**

*Condition:*            During our audit, adjustments were needed to record numerous accounting and audit adjustments, including some material and a receivable from PFA.

*Criteria:*             The financial statements are the responsibility of the City's management.

*Cause:*                City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.

*Effect:*                This indicates that it would be likely that a misstatement may occur and not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

*Recommendation:*   We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

*Updated progress since prior year:*

No progress has been made in addressing this finding in the current year.

**Corrective Action Plan (CAP):**

**Explanation of Disagreements with Audit Finding:**

There is no disagreement with the audit finding.

**Action Planned in Response to Finding:**

The City will review the prior year journal entries to determine training needs with the intent to prepare as many journal entries for the upcoming audit as possible. The City's goal is to minimize the reliance upon the audit firm in proposing audit adjustments.

**Official Responsible for Ensuring CAP:**

Kelly Steele, City Administrator/Clerk, is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

Continual

**Plan to Monitor Completion of CAP:**

The Council will be monitoring the corrective action plan.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012

Finding   Description

**2012-4   Collateral shortage**

*Condition:*            The City had \$33,661 of deposits uncollateralized as of December 31, 2012.

*Criteria:*             In accordance with Minnesota statute, section 118A.03, the City is required to have pledged collateral equal to 110 percent of the deposit not covered with insurance.

*Cause:*                The City received \$60,000 of LGA on December 26, 2012.

*Effect:*                At year end, the City did not have sufficient collateral causing incompliance with the statute.

*Recommendation:*   We recommend that the City review collateral coverage each month to ensure that the City complies with the statute.

**Corrective Action Plan (CAP):**

**Explanation of Disagreements with Audit Finding:**

There is no disagreement with the audit finding.

**Action Planned in Response to Finding:**

The City Administrator will continue to monitor this.

**Official Responsible for Ensuring CAP:**

Kelly Steele, City Administrator/Clerk, is the official responsible for ensuring corrective action of the deficiency.

**Planned Completion Date for CAP:**

Continual

**Plan to Monitor Completion of CAP:**

The Council will be monitoring the corrective action plan.

**C.   Findings – Federal Award Programs**

See Finding 2012-3 above.