

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED  
DECEMBER 31, 2007

CITY OF MADISON LAKE, MINNESOTA  
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 DECEMBER 31, 2007  
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**INTRODUCTORY SECTION**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007

CITY OF MADISON LAKE, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2007

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ken Reichel	Mayor	12/31/11
Steve Bjerke	Council	12/31/08
Charles Ries	Council	12/31/08
John Howard	Council	12/31/11
Patrick Fasnacht	Council	12/31/11

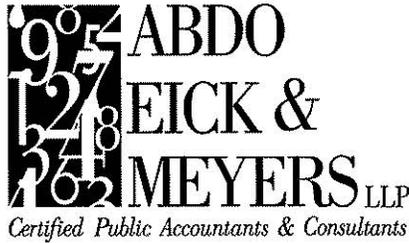
**APPOINTED**

Kelly Steele	Administrator
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**FINANCIAL SECTION**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007



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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  
Madison Lake, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Madison Lake, Minnesota, (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General fund and the Economic Development Loan, Permanent Improvement Revolving and Fire special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



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

June 6, 2008  
Mankato, Minnesota

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

## **Management's Discussion and Analysis**

As management of the City of Madison Lake, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2007.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6,541,969 (net assets). Of this amount, \$1,795,543 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$245,326. The majority of this increase is attributable to capital grants and contributions of \$198,945.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,524,294, an increase of \$95,168 in comparison with the prior year. Approximately 67.9 percent of this total amount, \$1,035,597, is available for spending at the City's discretion, but has been designated for specific purposes.
- At the end of the current fiscal year, unreserved fund balance for the General fund was \$381,578, or 104.4 percent of total General fund expenditures. Of this amount, \$154,028 is designated for capital outlay.
- The City's total debt increased by \$43,924, or 2.6 percent during the current fiscal year. The key factor in this increase was the issuance of \$235,000 in G.O. Revenue Refunding Bonds offset by the retirement of \$191,076 in bonds during the year.

### **Overview of the Financial Statements**

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

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

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

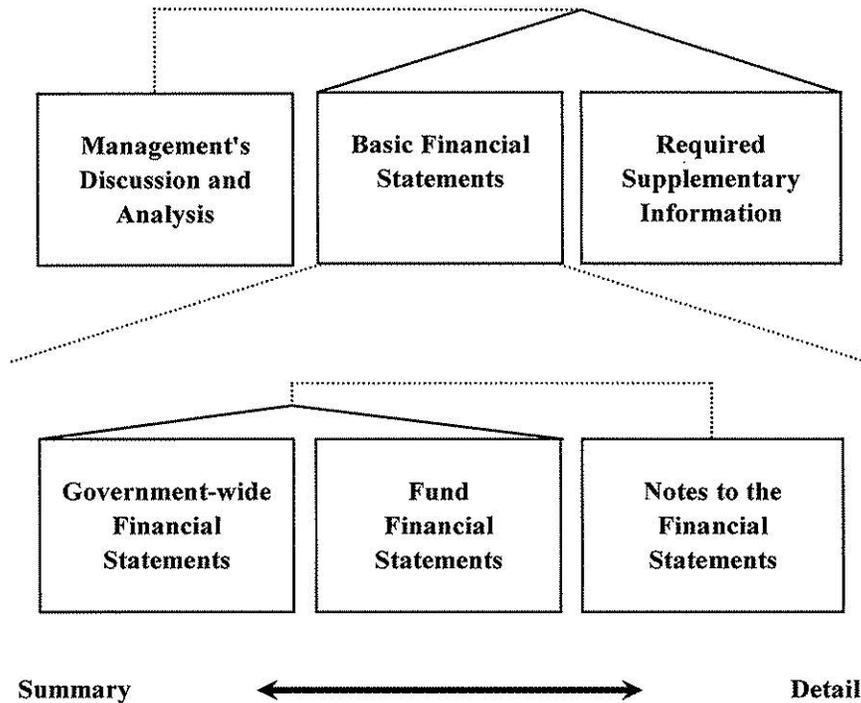


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Assets</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 Assets</li> <li>• Statement of Revenues, Expenses and Changes in Fund Net Assets</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 in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

**Government-wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highways, composting, economic development, culture and recreation, and miscellaneous. The business-type activities of the City include water utility, sewer utility, and refuse operations.

The government-wide financial statements can be found on pages 1 - 3 of this report.

## Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 20 individual governmental funds, 9 of which are Debt Service funds, which are reported as one fund for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Fire fund, Economic Development Loan fund, Public Improvement Revolving fund, Debt Service fund, Tax Increment District #2 fund, West Side Project fund and Diamond Drive Project fund, all of which are considered to be major funds. Data from the other 4 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

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

**Proprietary funds.** The City maintains one of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water utility, sewer utility and refuse operations.

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

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

## Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 41 of this report.

## Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented following the notes to financial statements. Combining and individual fund statements and schedules can be found on pages 42 -56 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$6,541,969 at the close of the most recent fiscal year.

A significant portion of the City's net assets (58.2 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Summary of Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 2,324,890	\$ 2,303,609	\$ 783,465	\$ 411,956	\$ 3,108,355	\$ 2,715,565
Capital assets	2,429,560	2,436,106	2,811,241	2,948,707	5,240,801	5,384,813
<b>Total assets</b>	<b>4,754,450</b>	<b>4,739,715</b>	<b>3,594,706</b>	<b>3,360,663</b>	<b>8,349,156</b>	<b>8,100,378</b>
Long-term liabilities outstanding	1,096,728	1,254,674	628,218	428,294	1,724,946	1,682,968
Other liabilities	61,434	95,404	20,807	25,363	82,241	120,767
<b>Total liabilities</b>	<b>1,158,162</b>	<b>1,350,078</b>	<b>649,025</b>	<b>453,657</b>	<b>1,807,187</b>	<b>1,803,735</b>
Invested in capital assets, net of related debt	1,358,019	1,266,015	2,451,039	2,532,633	3,809,058	3,798,648
Restricted	803,899	744,495	133,469	114,767	937,368	859,262
Unrestricted	1,434,370	1,379,127	361,173	259,606	1,795,543	1,638,733
<b>Total net assets</b>	<b>\$ 3,596,288</b>	<b>\$ 3,389,637</b>	<b>\$ 2,945,681</b>	<b>\$ 2,907,006</b>	<b>\$ 6,541,969</b>	<b>\$ 6,296,643</b>

An additional portion of the City's net assets (14.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (27.5 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$245,326 during the current fiscal year. The majority of this increase is attributable to capital grants and contributions of \$198,945.

**Governmental activities.** Governmental activities increased the City's net assets by \$206,651, thereby accounting for 84.2 percent of the total growth in the net assets of the City. Key elements of this change can be seen in the following tables.

**Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	\$ 137,025	\$ 161,954	\$ 410,070	\$ 365,342	\$ 547,095	\$ 527,296
Operating grants and contributions	41,822	23,036	-	-	41,822	23,036
Capital grants and contributions	156,604	66,438	42,341	66,086	198,945	132,524
General revenues:						
Property taxes/ tax increments	370,172	405,534	-	-	370,172	405,534
Other taxes	3,535	5,444	-	-	3,535	5,444
Grants and contributions not restricted to specific programs	169,597	160,295	-	-	169,597	160,295
Investment earnings	60,554	57,160	12,908	6,758	73,462	63,918
Gain on sale of capital assets	1,470	-	-	-	1,470	-
Other	6,809	2,825	-	-	6,809	2,825
<b>Total revenues</b>	<b>947,588</b>	<b>882,686</b>	<b>465,319</b>	<b>438,186</b>	<b>1,412,907</b>	<b>1,320,872</b>

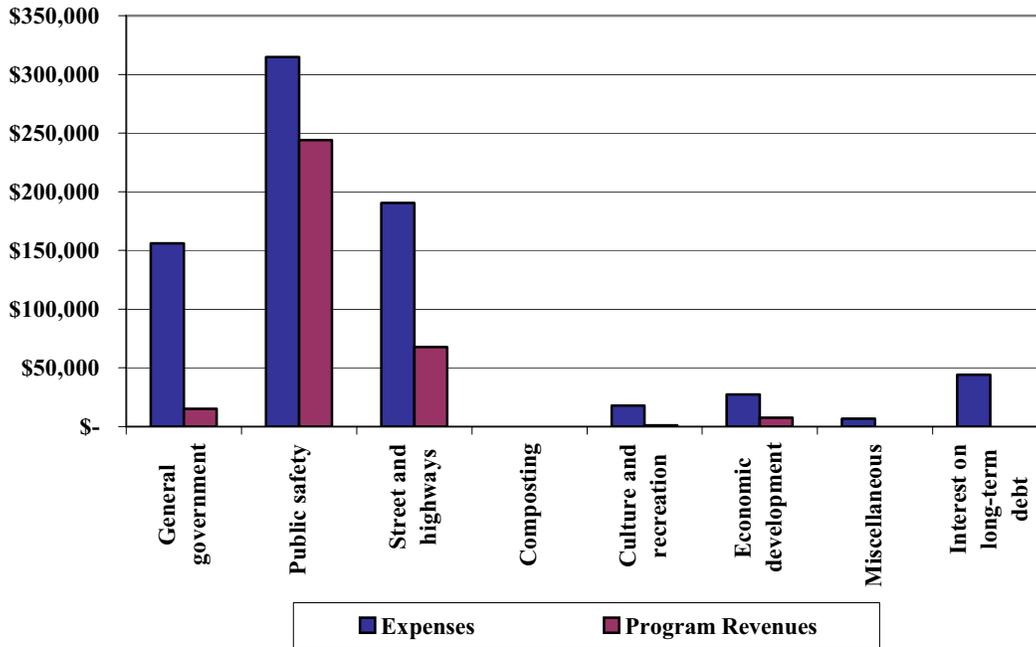
### Changes in Net Assets - Continued

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Expenses</b>						
General government	\$ 156,055	\$ 192,992	\$ -	\$ -	\$ 156,055	\$ 192,992
Public safety	314,707	217,901	-	-	314,707	217,901
Streets and highways	190,319	165,813	-	-	190,319	165,813
Composting	-	42	-	-	-	42
Culture and recreation	17,881	11,648	-	-	17,881	11,648
Economic development	27,336	38,027	-	-	27,336	38,027
Miscellaneous	6,888	5,318	-	-	6,888	5,318
Interest on long-term debt	44,171	49,407	-	-	44,171	49,407
Water utility	-	-	112,557	115,309	112,557	115,309
Sewer utility	-	-	242,401	252,802	242,401	252,802
Refuse	-	-	55,266	57,453	55,266	57,453
<b>Total expenses</b>	<b>757,357</b>	<b>681,148</b>	<b>410,224</b>	<b>425,564</b>	<b>1,167,581</b>	<b>1,106,712</b>
<b>Increase in net assets before transfers</b>	<b>190,231</b>	<b>201,538</b>	<b>55,095</b>	<b>12,622</b>	<b>245,326</b>	<b>214,160</b>
<b>Transfers</b>	<b>16,420</b>	<b>(412,235)</b>	<b>(16,420)</b>	<b>412,235</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>206,651</b>	<b>(210,697)</b>	<b>38,675</b>	<b>424,857</b>	<b>245,326</b>	<b>214,160</b>
<b>Net assets - January 1</b>	<b>3,389,637</b>	<b>3,600,334</b>	<b>2,907,006</b>	<b>2,482,149</b>	<b>6,296,643</b>	<b>6,082,483</b>
<b>Net assets - December 31</b>	<b>\$ 3,596,288</b>	<b>\$ 3,389,637</b>	<b>\$ 2,945,681</b>	<b>\$ 2,907,006</b>	<b>\$ 6,541,969</b>	<b>\$ 6,296,643</b>

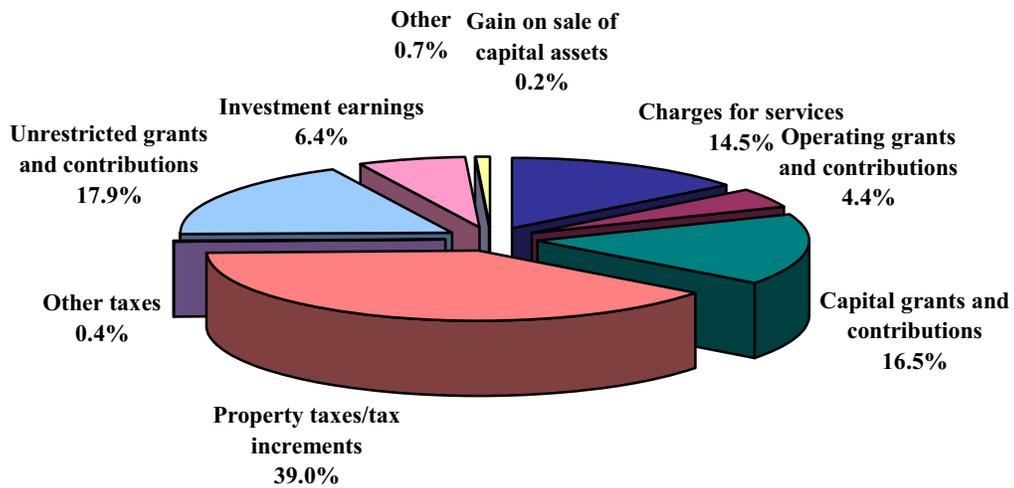
Property tax levies increased by \$33,991 (10.9 percent) during the year. The increase is a combination of increased expenses for governmental services and a tax levy for debt service.

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

### Expenses and Program Revenues - Governmental Activities

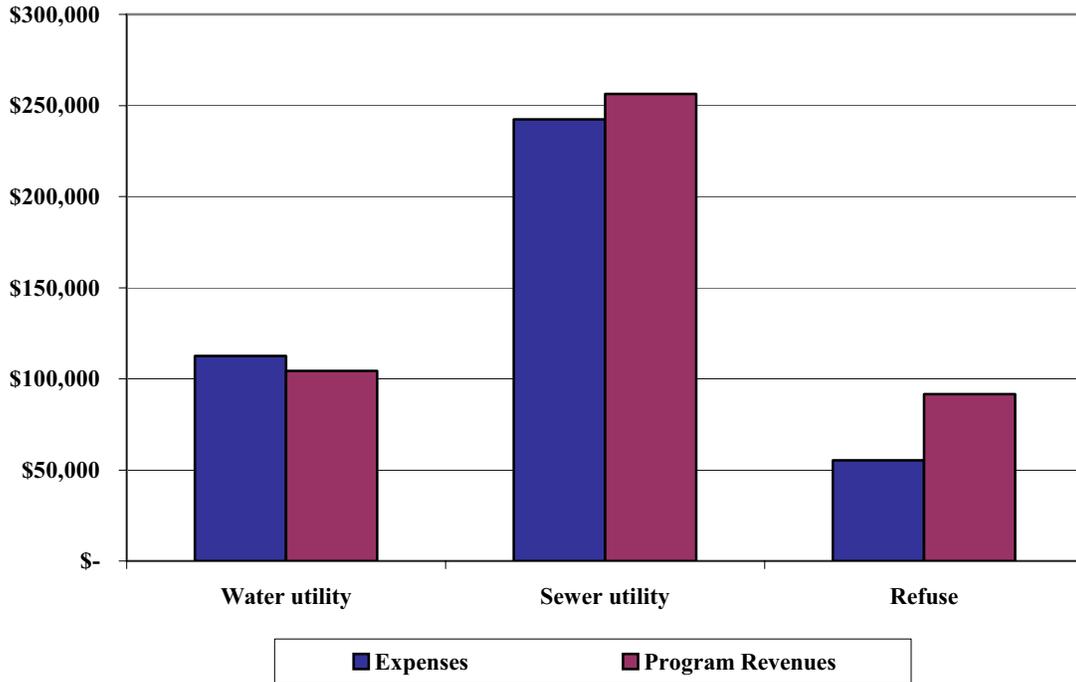


### Revenues by Source - Governmental Activities

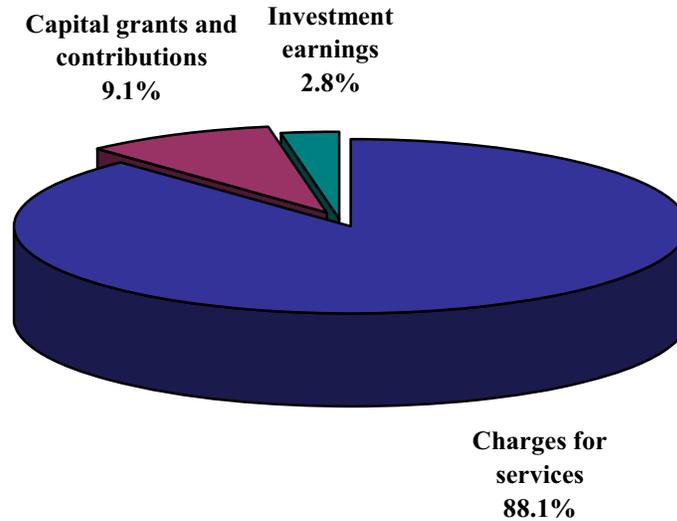


**Business-type activities.** Business-type activities increased the City's net assets by \$38,675, accounting for 15.8 percent of the total growth in the City's net assets.

### Expenses and Program Revenues - Business-type Activities



### Revenues by Source - Business-type Activities



### Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,524,294, an increase of \$95,168 in comparison with the prior year. Approximately 67.9 percent of this total amount \$1,035,597 constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service, interfund loans and prepaid items in the amount of \$304,067, \$103,447 and \$29,995, respectively. \$51,188 has also been reserved for park land dedication.

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 \$471,234. 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 129.0 percent of fund expenditures, while unreserved fund balance represents 104.4 percent of fund expenditures.

The fund balance of the City's General fund increased by \$117,364 during the current fiscal year. The key factor in this increase was decreased spending for capital outlay and increased property tax revenue. Property tax revenue in the General fund increased by \$34,466.

The Economic Development Loan fund has a total fund balance of \$164,364. The net increase in fund balance during the current year in the Economic Development Loan fund was \$49,561. The key factor in this increase was the repayment of outstanding loans.

The Public Improvement Revolving fund has a total fund balance of \$547,146. The net increase in fund balance during the current year in the Public Improvement Revolving fund was \$27,862. The key factors of this increase were transfers from the Water Utility, Sewer Utility and Tax Increment District # 2-5 funds totaling \$6,728 and investment earnings.

The Fire fund has a total fund balance of \$125,991. The net increase in fund balance during the current year in the Fire fund was \$50,117. The key factor in this change was reduced capital outlay spending during the year and FEMA grant revenue.

The Debt Service fund has a total fund balance of \$317,218, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the Debt Service fund was \$44,361. The key factor in this decrease was the retirement of debt.

The Tax Increment District # 2 fund has a total fund balance deficit of \$102,290. The net increase in fund balance during the current year in the Tax Increment District # 2 fund was \$7,138.

The West Side Project fund has total fund balance of \$237. The net decrease in fund balance during the current year in the West Side Project fund was \$857.

The Diamond Drive Project fund has total fund balance deficit of \$7,867. The net decrease in fund balance during the current year in the Diamond Drive Project fund was \$90,016.

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$361,173. The total growth in net assets for the funds was \$38,675. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

#### **General Fund Budgetary Highlights**

The City's General fund budget was not amended during the year. The budget called for a break even year. Revenues exceeded expectations by \$69,407, expenditures came in under budget by \$47,957. As a result, reserves increased during 2007 by \$117,364.

**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, 2007, amounts to \$5,240,801 (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 2.7 percent (a 0.3 percent decrease for governmental activities and a 4.7 percent decrease for business-type activities).

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

- A FEMA grant was awarded to the City and used to purchase 18 air packs costing \$38,468.
- Construction continued on the Diamond Drive project with 2007 costs totaling \$91,321.

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

**Capital Assets Net of Depreciation**

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 466,218	\$ 466,218	\$ 47,313	\$ 47,313	\$ 513,531	\$ 513,531
Buildings	338,718	361,009	-	-	338,718	361,009
Infrastructure	1,265,085	1,338,670	2,757,558	2,896,942	4,022,643	4,235,612
Machinery and equipment	224,689	226,680	6,370	4,452	231,059	231,132
Construction in progress	134,850	43,529	-	-	134,850	43,529
<b>Total</b>	<b>\$ 2,429,560</b>	<b>\$ 2,436,106</b>	<b>\$ 2,811,241</b>	<b>\$ 2,948,707</b>	<b>\$ 5,240,801</b>	<b>\$ 5,384,813</b>

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,722,218. Of this amount, \$49,000 is general obligation debt, \$1,045,000 is special assessment debt and \$628,218 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.

### Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 49,000	\$ 60,000	\$ -	\$ -	\$ 49,000	\$ 60,000
G.O. tax increment bonds	-	55,000	-	-	-	55,000
G.O. improvement bonds	1,045,000	1,135,000	-	-	1,045,000	1,135,000
General obligation revenue bonds	-	-	628,218	428,294	628,218	428,294
<b>Total</b>	<b>\$ 1,094,000</b>	<b>\$ 1,250,000</b>	<b>\$ 628,218</b>	<b>\$ 428,294</b>	<b>\$ 1,722,218</b>	<b>\$ 1,678,294</b>

The City's total debt increased by \$43,924, or 2.6 percent during the current fiscal year. The key factor in this increase was the issuance of \$235,000 in G.O. Revenue Refunding Bonds offset by the retirement of \$191,076 in bonds during the year.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 2 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$1,613,212, which is significantly in excess of the City's outstanding general obligation debt.

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

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

The unemployment rate for Blue Earth County is currently 3.8 percent, which is a slight increase from a rate of 3.3 percent a year ago. This compares favorably to the State's average unemployment rate of 4.6 percent and the national average rate of 4.6 percent.

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

All of these factors were considered in preparing the City's budget for the 2008 fiscal year.

Property taxes will increase in 2008 by approximately 9.8 percent. The tax increase will provide an additional \$33,851 for operations of our governmental services.

Water, Sewer, and Refuse Utility rates were increased in 2008 by five 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 Clerk-Treasurer, City of Madison Lake, 525 Main Street, Madison Lake, Minnesota 56063.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007

CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,316,430	\$ 446,135	\$ 1,762,565
Investments	170,862	224,242	395,104
Receivables:			
Delinquent taxes	16,444	-	16,444
Accounts	46,592	56,884	103,476
Notes	229,211	-	229,211
Special assessments	488,801	38,188	526,989
Intergovernmental	4,096	-	4,096
Prepaid items	29,995	-	29,995
Unamortized bond discount	22,459	18,016	40,475
Capital assets not being depreciated:			
Land	466,218	47,313	513,531
Construction in progress	134,850	-	134,850
Capital assets net of accumulated depreciation:			
Buildings	338,718	-	338,718
Infrastructure	1,265,085	2,757,558	4,022,643
Machinery and equipment	224,689	6,370	231,059
<b>TOTAL ASSETS</b>	<b>4,754,450</b>	<b>3,594,706</b>	<b>8,349,156</b>
<b>LIABILITIES</b>			
Accounts payable	32,415	14,894	47,309
Due to other governments	526	2,092	2,618
Accrued interest payable	17,753	6,019	23,772
Accrued salaries payable	10,740	-	10,740
Customer deposits payable	-	(2,198)	(2,198)
Noncurrent liabilities:			
Due within one year	103,728	265,076	368,804
Due in more than one year	993,000	363,142	1,356,142
<b>TOTAL LIABILITIES</b>	<b>1,158,162</b>	<b>649,025</b>	<b>1,807,187</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,358,019	2,451,039	3,809,058
Restricted for:			
Debt service	752,711	31,443	784,154
Infrastructure	-	102,026	102,026
Park land dedication	51,188	-	51,188
Unrestricted	1,434,370	361,173	1,795,543
<b>TOTAL NET ASSETS</b>	<b>\$ 3,596,288</b>	<b>\$ 2,945,681</b>	<b>\$ 6,541,969</b>

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

CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2007

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 156,055	\$ 15,075	\$ -	\$ -
Public safety	314,707	106,984	40,122	96,874
Streets and highways	190,319	7,395	600	59,730
Culture and recreation	17,881	-	1,100	-
Economic development	27,336	7,571	-	-
Miscellaneous	6,888	-	-	-
Interest on long-term debt	44,171	-	-	-
Total governmental activities	<u>757,357</u>	<u>137,025</u>	<u>41,822</u>	<u>156,604</u>
Business-type activities:				
Water utility	112,557	102,813	-	1,575
Sewer utility	242,401	215,665	-	40,766
Refuse	55,266	91,592	-	-
Total business-type activities	<u>410,224</u>	<u>410,070</u>	<u>-</u>	<u>42,341</u>
Total	<u>\$ 1,167,581</u>	<u>\$ 547,095</u>	<u>\$ 41,822</u>	<u>\$ 198,945</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
- Gain on sale of capital assets
- Other revenues
- Transfers

Total general revenues and transfers

Change in net assets

Net assets, January 1

Net assets, December 31

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

Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (140,980)	\$ -	\$ (140,980)
(70,727)	-	(70,727)
(122,594)	-	(122,594)
(16,781)	-	(16,781)
(19,765)	-	(19,765)
(6,888)	-	(6,888)
(44,171)	-	(44,171)
<u>(421,906)</u>	<u>-</u>	<u>(421,906)</u>
-	(8,169)	(8,169)
-	14,030	14,030
-	36,326	36,326
<u>-</u>	<u>42,187</u>	<u>42,187</u>
<u>(421,906)</u>	<u>42,187</u>	<u>(379,719)</u>
307,609	-	307,609
55,041	-	55,041
7,522	-	7,522
903	-	903
2,632	-	2,632
169,597	-	169,597
60,554	12,908	73,462
1,470	-	1,470
6,809	-	6,809
16,420	(16,420)	-
<u>628,557</u>	<u>(3,512)</u>	<u>625,045</u>
206,651	38,675	245,326
<u>3,389,637</u>	<u>2,907,006</u>	<u>6,296,643</u>
<u>\$ 3,596,288</u>	<u>\$ 2,945,681</u>	<u>\$ 6,541,969</u>

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**FUND FINANCIAL STATEMENTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007



**GOVERNMENTAL FUNDS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007

CITY OF MADISON LAKE, MINNESOTA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2007

	General	Economic Development Loan	Public Improvement Revolving	Fire
<b>ASSETS</b>				
Cash and cash equivalents	\$ 314,883	\$ 164,364	\$ 490,167	\$ 91,546
Investments	132,098	-	-	-
Receivables				
Loans	-	229,211	-	-
Delinquent taxes	15,658	-	-	-
Accounts	5,766	-	-	35,831
Special assessments	-	-	35,785	-
Intergovernmental	2,002	-	-	-
Due from other funds	38,468	-	64,979	-
Prepaid items	-	-	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 508,875</u></b>	<b><u>\$ 393,575</u></b>	<b><u>\$ 590,931</u></b>	<b><u>\$ 127,377</u></b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 10,717	\$ -	\$ 8,000	\$ 1,386
Due to other funds	-	-	-	-
Due to other governments	526	-	-	-
Accrued salaries payable	10,740	-	-	-
Deferred revenue	15,658	229,211	35,785	-
<b>TOTAL LIABILITIES</b>	<b><u>37,641</u></b>	<b><u>229,211</u></b>	<b><u>43,785</u></b>	<b><u>1,386</u></b>
<b>FUND BALANCES (DEFICITS)</b>				
Reserved for:				
Interfund advance	38,468	-	64,979	-
Prepaid items	-	-	-	-
Debt service	-	-	-	-
Park land dedication	51,188	-	-	-
Unreserved, designated for:				
Economic development	-	164,364	-	-
Capital outlay	154,028	-	-	105,590
Public improvements	-	-	482,167	-
Unreserved, undesignated, reported in:				
General fund	227,550	-	-	-
Special revenue funds	-	-	-	20,401
Debt Service funds	-	-	-	-
Capital projects funds	-	-	-	-
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<b><u>471,234</u></b>	<b><u>164,364</u></b>	<b><u>547,146</u></b>	<b><u>125,991</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 508,875</u></b>	<b><u>\$ 393,575</u></b>	<b><u>\$ 590,931</u></b>	<b><u>\$ 127,377</u></b>

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

Debt Service	Tax Increment District #2	West Side Project	Diamond Drive Project	Other Governmental Funds	Total Governmental Funds
\$ 242,527	\$ -	\$ 727	\$ 3,824	\$ 8,392	\$ 1,316,430
38,764	-	-	-	-	170,862
-	-	-	-	-	229,211
230	556	-	-	-	16,444
4,995	-	-	-	-	46,592
453,016	-	-	-	-	488,801
937	1,157	-	-	-	4,096
-	-	-	-	-	103,447
29,995	-	-	-	-	29,995
<u>\$ 770,464</u>	<u>\$ 1,713</u>	<u>\$ 727</u>	<u>\$ 3,824</u>	<u>\$ 8,392</u>	<u>\$ 2,405,878</u>
\$ -	\$ -	\$ 490	\$ 11,691	\$ 131	\$ 32,415
-	103,447	-	-	-	103,447
-	-	-	-	-	526
-	-	-	-	-	10,740
453,246	556	-	-	-	734,456
<u>453,246</u>	<u>104,003</u>	<u>490</u>	<u>11,691</u>	<u>131</u>	<u>881,584</u>
-	-	-	-	-	103,447
29,995	-	-	-	-	29,995
304,067	-	-	-	-	304,067
-	-	-	-	-	51,188
-	-	-	-	-	164,364
-	-	-	-	9,575	269,193
-	-	-	-	-	482,167
-	-	-	-	-	227,550
-	-	-	-	3,298	23,699
(16,844)	-	-	-	-	(16,844)
-	(102,290)	237	(7,867)	(4,612)	(114,532)
<u>317,218</u>	<u>(102,290)</u>	<u>237</u>	<u>(7,867)</u>	<u>8,261</u>	<u>1,524,294</u>
<u>\$ 770,464</u>	<u>\$ 1,713</u>	<u>\$ 727</u>	<u>\$ 3,824</u>	<u>\$ 8,392</u>	<u>\$ 2,405,878</u>

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CITY OF MADISON LAKE, MINNESOTA  
 GOVERNMENTAL FUNDS  
 RECONCILIATION OF THE BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2007

Total fund balances - governmental funds	\$ 1,524,294
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	2,429,560
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	(2,728)
Bonds payable	(1,094,000)
Bond discounts/issue costs, net of accumulated amortization	22,459
Long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	
Delinquent property taxes receivable	16,444
Special assessments receivable	488,801
Loans receivable	229,211
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(17,753)</u>
Total net assets - governmental activities	<u><u>\$ 3,596,288</u></u>

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

CITY OF MADISON LAKE, MINNESOTA  
 GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES (DEFICITS)  
 YEAR ENDED DECEMBER 31, 2007

	General	Economic Development Loan	Public Improvement Revolving	Fire
<b>REVENUES</b>				
Taxes	\$ 309,462	\$ -	\$ -	\$ -
Special assessments	-	-	1,297	-
Licenses and permits	21,786	-	-	-
Intergovernmental	166,758	-	-	121,559
Charges for services	4,020	-	-	76,347
Fines and forfeits	17,892	-	-	-
Investment earnings	18,740	6,147	22,748	3,989
Miscellaneous	14,250	43,414	6,905	14,715
<b>TOTAL REVENUES</b>	<b>552,908</b>	<b>49,561</b>	<b>30,950</b>	<b>216,610</b>
<b>EXPENDITURES</b>				
Current				
General government	139,679	-	-	-
Public safety	93,606	-	-	89,887
Streets and highways	99,901	-	7,929	-
Culture and recreation	7,648	-	-	-
Housing and economic development	5,632	-	-	-
Miscellaneous	6,888	-	1,887	-
Capital outlay				
General government	250	-	-	-
Public safety	-	-	-	125,586
Streets and highways	7,020	-	-	-
Culture and recreation	4,418	-	-	-
Economic development	355	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>365,397</b>	<b>-</b>	<b>9,816</b>	<b>215,473</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>187,511</b>	<b>49,561</b>	<b>21,134</b>	<b>1,137</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	25,254	-	6,728	47,510
Sale of capital assets	-	-	-	1,470
Transfers out	(95,401)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(70,147)</b>	<b>-</b>	<b>6,728</b>	<b>48,980</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>117,364</b>	<b>49,561</b>	<b>27,862</b>	<b>50,117</b>
<b>FUND BALANCES (DEFICITS), JANUARY 1</b>	<b>353,870</b>	<b>114,803</b>	<b>519,284</b>	<b>75,874</b>
<b>FUND BALANCES (DEFICITS), DECEMBER 31</b>	<b>\$ 471,234</b>	<b>\$ 164,364</b>	<b>\$ 547,146</b>	<b>\$ 125,991</b>

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

Debt Service	Tax Increment District #2	West Side Project	Diamond Drive Project	Other Governmental Funds	Total Governmental Funds
\$ 55,776	\$ 6,787	\$ -	\$ -	\$ -	\$ 372,025
64,382	-	-	-	-	65,679
-	-	-	-	-	21,786
453	774	-	-	-	289,544
-	-	-	-	-	80,367
-	-	-	-	-	17,892
7,584	-	1	1,305	40	60,554
-	-	-	-	-	79,284
<u>128,195</u>	<u>7,561</u>	<u>1</u>	<u>1,305</u>	<u>40</u>	<u>987,131</u>
400	-	-	-	16,849	156,928
-	-	-	-	-	183,493
-	-	-	-	-	107,830
-	-	-	-	-	7,648
3,218	423	-	-	4,700	13,973
-	-	-	-	-	8,775
-	-	-	-	-	250
-	-	-	-	-	125,586
-	-	858	91,321	131	99,330
-	-	-	-	-	4,418
-	-	-	-	-	355
156,000	-	-	-	-	156,000
<u>45,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,267</u>
<u>204,885</u>	<u>423</u>	<u>858</u>	<u>91,321</u>	<u>21,680</u>	<u>909,853</u>
<u>(76,690)</u>	<u>7,138</u>	<u>(857)</u>	<u>(90,016)</u>	<u>(21,640)</u>	<u>77,278</u>
32,329	-	-	-	-	111,821
-	-	-	-	-	1,470
-	-	-	-	-	(95,401)
<u>32,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,890</u>
(44,361)	7,138	(857)	(90,016)	(21,640)	95,168
<u>361,579</u>	<u>(109,428)</u>	<u>1,094</u>	<u>82,149</u>	<u>29,901</u>	<u>1,429,126</u>
<u>\$ 317,218</u>	<u>\$ (102,290)</u>	<u>\$ 237</u>	<u>\$ (7,867)</u>	<u>\$ 8,261</u>	<u>\$ 1,524,294</u>

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CITY OF MADISON LAKE, MINNESOTA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICITS)  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2007

Net change in fund balances - governmental funds	\$ 95,168
Amounts reported for governmental activities in the statement of activities are different because:	
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.	
Capital outlay	143,767
Depreciation expense	(150,313)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Principal repayments	156,000
Discount on bonds issued, net of amortization expense	(2,450)
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.	
	3,546
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	
Property taxes	779
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.	
Special assessments	(5,949)
Loan principal repayments	(35,843)
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.	
Compensated absences	1,946
Change in net assets - governmental activities	\$ 206,651

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

CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL AND MAJOR SPECIAL REVENUE FUNDS  
YEAR ENDED DECEMBER 31, 2007

	General			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Taxes	\$ 296,254	\$ 296,254	\$ 309,462	\$ 13,208
Special assessments	-	-	-	-
Licenses and permits	21,185	21,185	21,786	601
Intergovernmental	140,195	140,195	166,758	26,563
Charges for services	2,057	2,057	4,020	1,963
Fines and forfeits	15,000	15,000	17,892	2,892
Investment earnings	3,000	3,000	18,740	15,740
Miscellaneous	5,810	5,810	14,250	8,440
<b>TOTAL REVENUES</b>	<b>483,501</b>	<b>483,501</b>	<b>552,908</b>	<b>69,407</b>
EXPENDITURES				
Current				
General government	133,005	133,005	139,679	(6,674)
Public safety	97,925	97,925	93,606	4,319
Streets and highways	115,786	115,786	99,901	15,885
Culture and recreation	5,765	5,765	7,648	(1,883)
Housing and economic development	9,153	9,153	5,632	3,521
Miscellaneous	2,220	2,220	6,888	(4,668)
Capital outlay				
General government	1,500	1,500	250	1,250
Public safety	5,500	5,500	-	5,500
Streets and highways	25,000	25,000	7,020	17,980
Culture and recreation	15,000	15,000	4,418	10,582
Economic development	2,500	2,500	355	2,145
Water and sewer	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>413,354</b>	<b>413,354</b>	<b>365,397</b>	<b>47,957</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	70,147	70,147	187,511	117,364
OTHER FINANCING SOURCES (USES)				
Transfers in	25,254	25,254	25,254	-
Sale of capital assets	-	-	-	-
Transfers out	(95,401)	(95,401)	(95,401)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(70,147)</b>	<b>(70,147)</b>	<b>(70,147)</b>	<b>-</b>
NET CHANGE IN FUND BALANCES	-	-	117,364	117,364
FUND BALANCES, JANUARY 1	353,870	353,870	353,870	-
FUND BALANCES, DECEMBER 31	<u>\$ 353,870</u>	<u>\$ 353,870</u>	<u>\$ 471,234</u>	<u>\$ 117,364</u>

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

Economic Development Loan				Permanent Improvement Revolving			
Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	1,297	1,297
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	6,147	6,147	-	-	22,748	22,748
42,294	42,294	43,414	1,120	5,520	5,520	6,905	1,385
42,294	42,294	49,561	7,267	5,520	5,520	30,950	25,430
-	-	-	-	100	100	-	100
-	-	-	-	-	-	-	-
-	-	-	-	3,700	3,700	7,929	(4,229)
-	-	-	-	-	-	-	-
42,294	42,294	-	42,294	-	-	-	-
-	-	-	-	23,625	23,625	1,887	21,738
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	14,270	14,270	-	14,270
42,294	42,294	-	42,294	41,695	41,695	9,816	31,879
-	-	49,561	49,561	(36,175)	(36,175)	21,134	57,309
-	-	-	-	36,175	36,175	6,728	(29,447)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	36,175	36,175	6,728	(29,447)
-	-	49,561	49,561	-	-	27,862	27,862
114,803	114,803	114,803	-	519,284	519,284	519,284	-
\$ 114,803	\$ 114,803	\$ 164,364	\$ 49,561	\$ 519,284	\$ 519,284	\$ 547,146	\$ 27,862

CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL AND MAJOR SPECIAL REVENUE FUNDS - CONTINUED  
YEAR ENDED DECEMBER 31, 2007

	Fire			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	121,559	121,559
Charges for services	76,810	76,810	76,347	(463)
Fines and forfeits	-	-	-	-
Investment earnings	-	-	3,989	3,989
Miscellaneous	-	-	14,715	14,715
<b>TOTAL REVENUES</b>	<b>76,810</b>	<b>76,810</b>	<b>216,610</b>	<b>139,800</b>
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	73,320	73,320	89,887	(16,567)
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Housing and economic development	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay				
General government	-	-	-	-
Public safety	51,000	51,000	125,586	(74,586)
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Culture and recreation	-	-	-	-
Water and sewer	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>124,320</b>	<b>124,320</b>	<b>215,473</b>	<b>(91,153)</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(47,510)	(47,510)	1,137	48,647
OTHER FINANCING SOURCES (USES)				
Transfers in	47,510	47,510	47,510	-
Sale of capital assets	-	-	1,470	1,470
Transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>47,510</b>	<b>47,510</b>	<b>48,980</b>	<b>1,470</b>
NET CHANGE IN FUND BALANCES	-	-	50,117	50,117
FUND BALANCES, JANUARY 1	75,874	75,874	75,874	-
FUND BALANCES, DECEMBER 31	<u>\$ 75,874</u>	<u>\$ 75,874</u>	<u>\$ 125,991</u>	<u>\$ 50,117</u>

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

**PROPRIETARY FUNDS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENTS OF NET ASSETS  
 DECEMBER 31, 2007 AND 2006

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2007	2006	2007	2006
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (deficit)	\$ (16,042)	\$ (12,546)	\$ 453,502	\$ 117,507
Investments	151,319	147,448	72,923	66,742
Accounts receivable	16,590	12,739	32,101	24,088
<b>TOTAL CURRENT ASSETS</b>	<b>151,867</b>	<b>147,641</b>	<b>558,526</b>	<b>208,337</b>
<b>NONCURRENT ASSETS</b>				
Deferred assessments receivable	-	-	38,188	38,188
Unamortized bond discount and fees	-	-	18,016	12,220
Capital assets				
Land	35,471	35,471	11,842	11,842
Buildings	12,572	12,572	-	-
Infrastructure	1,448,122	1,448,122	3,627,090	3,627,090
Machinery and equipment	7,099	2,948	24,033	24,033
Less accumulated depreciation	(412,926)	(377,466)	(1,942,062)	(1,835,905)
Total capital assets, net of depreciation	1,090,338	1,121,647	1,720,903	1,827,060
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,090,338</b>	<b>1,121,647</b>	<b>1,777,107</b>	<b>1,877,468</b>
<b>TOTAL ASSETS</b>	<b>1,242,205</b>	<b>1,269,288</b>	<b>2,335,633</b>	<b>2,085,805</b>
<b>CURRENT LIABILITIES</b>				
Accounts payable	153	824	10,774	12,231
Due to other governments	268	220	-	-
Accrued interest payable	-	-	6,019	6,477
Deposits payable	(2,198)	41	-	-
Bonds payable - current	-	-	265,076	35,076
<b>TOTAL CURRENT LIABILITIES</b>	<b>(1,777)</b>	<b>1,085</b>	<b>281,869</b>	<b>53,784</b>
<b>NONCURRENT LIABILITIES</b>				
Bonds payable - net of current portion	-	-	363,142	393,218
<b>TOTAL LIABILITIES</b>	<b>(1,777)</b>	<b>1,085</b>	<b>645,011</b>	<b>447,002</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,090,338	1,121,647	1,360,701	1,410,986
Restricted for:				
Debt retirement	-	-	31,443	27,741
Infrastructure	-	-	102,026	87,026
Unrestricted	153,644	146,556	196,452	113,050
<b>TOTAL NET ASSETS</b>	<b>\$ 1,243,982</b>	<b>\$ 1,268,203</b>	<b>\$ 1,690,622</b>	<b>\$ 1,638,803</b>

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2007	2006	2007	2006
\$ 8,675	\$ (1,621)	\$ 446,135	\$ 103,340
-	-	224,242	214,190
<u>8,193</u>	<u>7,191</u>	<u>56,884</u>	<u>44,018</u>
<u>16,868</u>	<u>5,570</u>	<u>727,261</u>	<u>361,548</u>
-	-	38,188	38,188
-	-	18,016	12,220
-	-	47,313	47,313
-	-	12,572	12,572
-	-	5,075,212	5,075,212
-	-	31,132	26,981
-	-	(2,354,988)	(2,213,371)
-	-	2,811,241	2,948,707
-	-	2,867,445	2,999,115
<u>16,868</u>	<u>5,570</u>	<u>3,594,706</u>	<u>3,360,663</u>
3,967	3,946	14,894	17,001
1,824	1,624	2,092	1,844
-	-	6,019	6,477
-	-	(2,198)	41
-	-	265,076	35,076
<u>5,791</u>	<u>5,570</u>	<u>285,883</u>	<u>60,439</u>
-	-	363,142	393,218
<u>5,791</u>	<u>5,570</u>	<u>649,025</u>	<u>453,657</u>
-	-	2,451,039	2,532,633
-	-	31,443	27,741
-	-	102,026	87,026
<u>11,077</u>	<u>-</u>	<u>361,173</u>	<u>259,606</u>
<u>\$ 11,077</u>	<u>\$ -</u>	<u>\$ 2,945,681</u>	<u>\$ 2,907,006</u>

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 YEARS ENDED DECEMBER 31, 2007 AND 2006

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2007	2006	2007	2006
OPERATING REVENUES				
Charges for services	\$ 102,295	\$ 90,011	\$ 206,993	\$ 189,415
OPERATING EXPENSES				
Salaries and benefits	53,067	52,845	53,067	53,565
Supplies	9,769	11,683	11,473	10,980
Other services and charges	6,098	9,425	25,517	44,723
Insurance	1,499	1,477	2,288	2,094
Utilities	6,206	6,334	27,865	23,682
Depreciation	35,460	32,863	106,157	101,545
TOTAL OPERATING EXPENSES	112,099	114,627	226,367	236,589
OPERATING INCOME (LOSS)	(9,804)	(24,616)	(19,374)	(47,174)
NONOPERATING REVENUES (EXPENSES)				
Investment income	3,952	3,814	8,951	2,918
Connection and infrastructure fees	1,575	13,875	40,766	52,211
Other income	60	30	8,672	-
Interest and fees	-	-	(16,034)	(16,213)
TOTAL NONOPERATING REVENUES (EXPENSES)	5,587	17,719	42,355	38,916
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(4,217)	(6,897)	22,981	(8,258)
CAPITAL CONTRIBUTIONS	-	253,723	-	232,713
TRANSFERS IN	16,700	19,171	31,191	3,847
TRANSFERS OUT	(36,704)	(45,165)	(2,353)	(24,277)
CHANGE IN NET ASSETS	(24,221)	220,832	51,819	204,025
NET ASSETS, JANUARY 1	1,268,203	1,047,371	1,638,803	1,434,778
NET ASSETS, DECEMBER 31	<u>\$ 1,243,982</u>	<u>\$ 1,268,203</u>	<u>\$ 1,690,622</u>	<u>\$ 1,638,803</u>

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2007	2006	2007	2006
\$ 91,592	\$ 85,204	\$ 400,880	\$ 364,630
-	-	106,134	106,410
1,355	1,176	22,597	23,839
53,911	56,277	85,526	110,425
-	-	3,787	3,571
-	-	34,071	30,016
-	-	141,617	134,408
55,266	57,453	393,732	408,669
36,326	27,751	7,148	(44,039)
5	26	12,908	6,758
-	-	42,341	66,086
-	-	8,732	30
-	-	(16,034)	(16,213)
5	26	47,947	56,661
36,331	27,777	55,095	12,622
-	-	-	486,436
-	-	47,891	23,018
(25,254)	(27,777)	(64,311)	(97,219)
11,077	-	38,675	424,857
-	-	2,907,006	2,482,149
\$ 11,077	\$ -	\$ 2,945,681	\$ 2,907,006

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENTS OF CASH FLOWS  
 YEARS ENDED DECEMBER 31, 2007 AND 2006

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2007	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 98,444	\$ 88,946	\$ 198,980	\$ 188,381
Payments to suppliers and vendors	(24,195)	(28,932)	(68,600)	(76,931)
Payments to and on behalf of employees	(53,067)	(52,845)	(53,067)	(53,565)
Other receipts	60	30	8,672	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>21,242</u>	<u>7,199</u>	<u>85,985</u>	<u>57,885</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	16,700	19,171	31,191	3,847
Transfers to other funds	(36,704)	(45,165)	(2,353)	(24,277)
Decrease in customer deposits	(2,239)	25	-	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(22,243)</u>	<u>(25,969)</u>	<u>28,838</u>	<u>(20,430)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Connection and infrastructure fees	1,575	13,875	40,766	52,211
Acquisition of capital assets	(4,151)	-	-	(2,173)
Proceeds from bonds issued, net of discounts	-	-	227,629	-
Principal paid on bonds	-	-	(35,076)	(35,076)
Interest paid on bonds	-	-	(14,917)	(16,095)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(2,576)</u>	<u>13,875</u>	<u>218,402</u>	<u>(1,133)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(3,871)	(3,772)	(6,181)	(5,343)
Interest received on cash and investments	3,952	3,814	8,951	2,918
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>81</u>	<u>42</u>	<u>2,770</u>	<u>(2,425)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(3,496)</u>	<u>(4,853)</u>	<u>335,995</u>	<u>33,897</u>
<b>CASH AND CASH EQUIVALENTS (DEFICITS), JANUARY 1</b>	<u>(12,546)</u>	<u>(7,693)</u>	<u>117,507</u>	<u>83,610</u>
<b>CASH AND CASH EQUIVALENTS (DEFICITS), DECEMBER 31</b>	<u>\$ (16,042)</u>	<u>\$ (12,546)</u>	<u>\$ 453,502</u>	<u>\$ 117,507</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (9,804)	\$ (24,616)	\$ (19,374)	\$ (47,174)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Other income related to operations	60	30	8,672	-
Depreciation	35,460	32,863	106,157	101,545
(Increase) decrease in assets:				
Accounts receivable	(3,851)	(1,065)	(8,013)	150
Increase (decrease) in liabilities:				
Accounts payable	(671)	(52)	(1,457)	4,548
Due to other governments	48	39	-	-
Deferred revenue	-	-	-	(1,184)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 21,242</u>	<u>\$ 7,199</u>	<u>\$ 85,985</u>	<u>\$ 57,885</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Bond discount amortization	\$ -	\$ -	\$ 1,575	\$ 905
Discount on bonds issued	-	-	7,371	-
Capital assets contributed by developer and other funds	-	253,723	-	232,713

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2007	2006	2007	2006
\$ 90,590	\$ 81,781	\$ 388,014	\$ 359,108
(55,045)	(75,788)	(147,840)	(181,651)
-	-	(106,134)	(106,410)
-	-	8,732	30
<u>35,545</u>	<u>5,993</u>	<u>142,772</u>	<u>71,077</u>
-	-	47,891	23,018
(25,254)	(27,777)	(64,311)	(97,219)
-	-	(2,239)	25
<u>(25,254)</u>	<u>(27,777)</u>	<u>(18,659)</u>	<u>(74,176)</u>
-	-	42,341	66,086
-	-	(4,151)	(2,173)
-	-	227,629	-
-	-	(35,076)	(35,076)
-	-	(14,917)	(16,095)
-	-	<u>215,826</u>	<u>12,742</u>
-	-	(10,052)	(9,115)
5	26	<u>12,908</u>	<u>6,758</u>
<u>5</u>	<u>26</u>	<u>2,856</u>	<u>(2,357)</u>
10,296	(21,758)	342,795	7,286
(1,621)	20,137	103,340	96,054
<u>\$ 8,675</u>	<u>\$ (1,621)</u>	<u>\$ 446,135</u>	<u>\$ 103,340</u>
\$ 36,326	\$ 27,751	\$ 7,148	\$ (44,039)
-	-	8,732	30
-	-	141,617	134,408
(1,002)	19	(12,866)	(896)
21	(18,400)	(2,107)	(13,904)
200	65	248	104
-	(3,442)	-	(4,626)
<u>\$ 35,545</u>	<u>\$ 5,993</u>	<u>\$ 142,772</u>	<u>\$ 71,077</u>
\$ -	\$ -	\$ 1,575	\$ 905
-	-	7,371	-
-	-	-	486,436

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**A. Reporting Entity**

The City of Madison Lake, (the City) operates under "Optional Plan A" as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the GASB criteria.

**B. Government-Wide and Fund Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

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

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

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

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

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

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

The City reports the following major governmental funds:

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

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

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

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

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

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

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

The *Diamond Drive Project fund* accounts for project costs associated with the Diamond Drive capital project. The project involves constructing new streets, water lines, and storm sewers in the City.

The City reports the following major proprietary funds:

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

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

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

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

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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

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 and Net Assets or Equity**

**Deposits and Investments**

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

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

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

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

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

The City has not adopted a formal investment policy as of December 31, 2007 that addresses interest rate and credit risk.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

**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.

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

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

**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 2007. All enterprise fund trade receivables are considered collectible because the City annually certifies delinquent accounts to the County for collection.

**Special Assessments**

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

**Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

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

**Capital Assets**

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

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtracking (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using the appropriate price-level index to deflate the cost to the acquisition year or estimate acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of donation. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For the financial statements purposes only, a capitalization threshold is established for each capital asset category as follows:

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

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

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

**Compensated Absences**

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide 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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**Long-term Obligations**

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

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity**

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

**Net Assets**

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

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

**Comparative Data/Reclassifications**

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

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

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

**A. Budgetary Information**

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

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

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

**B. Excess of Expenditures over Appropriations**

For the year ended December 31, 2007, expenditures exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
Special revenue			
Fire fund	\$ 124,320	\$ 215,473	\$ 91,153

These over expenditures were funded by an excess of actual revenues over budget.

**C. Deficit Fund Equity**

The following funds had fund equity deficits at December 31, 2007:

Fund	Amount
Capital Projects	
Tax Increment District #2	\$ 102,290
Diamond Drive Project	7,867
Tax Increment District #2-8	4,612
Debt Service	
Tax Increment District #2-5	15,266
2005 G.O. Improvement Bonds	1,578

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**A. Deposits and Investments**

**Deposits**

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

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

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

At year end, the City's carrying amount of deposits was \$778,193 and the bank balance was \$808,828. Of the bank balance, \$100,000 was covered by federal depository insurance. Of the remaining balance, \$228,461 was collateralized with securities held by the pledging financial institution's trust department in the City's name and \$480,367 was not collateralized.

**Investments**

As of December 31, 2007, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

<u>Types of Investments</u>	<u>Fair Value and Carrying Amount</u>	<u>Credit Quality/ Ratings (1)</u>	<u>Segmented Time Distribution (2)</u>
Pooled investments:			
Minnesota Municipal Money Market Fund (4M fund)	\$ 1,247,650	N/A	less than 6 months
Franklin Fund - US Government Securities	109,160	N/A	less than 6 months
Primevest Money Market	22,202	N/A	less than 6 months
GNMA Pool	<u>264</u>	AAA	less than 6 months
 Total investments	 <u>\$ 1,379,276</u>		

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

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

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

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

**Cash on Hand**

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

**Cash and Investments Summary**

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

Petty cash	\$ 200
Deposits	778,193
Investments	<u>1,379,276</u>
Total	<u>\$ 2,157,669</u>
Cash and cash equivalents	\$ 1,762,565
Investments	<u>395,104</u>
Total	<u>\$ 2,157,669</u>

**B. Notes and Contracts Receivable**

The City received funds from the County to be used for community development. These funds were borrowed for improvements to existing businesses and are to be paid back to the City with interest at 6.00-6.50 percent over five years. The balance on these loans at December 31, 2007 was \$229,211.

**C. Intergovernmental Receivables/Deferred Revenue**

A summary of all intergovernmental receivables as of December 31, 2007 is as follows:

Fund	County
Governmental Activities	
General	\$ 2,002
Debt Service	<u>2,094</u>
Total	<u>\$ 4,096</u>

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

	Unavailable	Unearned
Delinquent taxes receivable (General fund)	\$ 15,658	\$ -
Delinquent taxes receivable (Debt Service funds)	230	-
Delinquent taxes receivable (TIF #2 fund)	556	-
Loans receivable (Economic Development Loan fund)	229,211	-
Special assessments receivable (Public Improvement Revolving fund)	35,785	-
Special assessments receivable (Debt Service funds)	<u>453,016</u>	-
Total	<u>\$ 734,456</u>	<u>\$ -</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**D. Capital Assets**

Capital asset activity for the City for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 466,218	\$ -	\$ -	\$ 466,218
Construction in progress	43,529	91,321	-	134,850
<b>Total capital assets not being depreciated</b>	<b>509,747</b>	<b>91,321</b>	<b>-</b>	<b>601,068</b>
Capital assets being depreciated				
Buildings	900,321	-	-	900,321
Infrastructure	2,348,730	-	-	2,348,730
Machinery and equipment	207,987	39,733	-	247,720
Vehicles	432,599	12,713	-	445,312
<b>Total capital assets being depreciated</b>	<b>3,889,637</b>	<b>52,446</b>	<b>-</b>	<b>3,942,083</b>
Less accumulated depreciation for				
Buildings	(539,312)	(22,291)	-	(561,603)
Infrastructure	(1,010,060)	(73,585)	-	(1,083,645)
Machinery and equipment	(119,615)	(18,337)	-	(137,952)
Vehicles	(294,291)	(36,100)	-	(330,391)
<b>Total accumulated depreciation</b>	<b>(1,963,278)</b>	<b>(150,313)</b>	<b>-</b>	<b>(2,113,591)</b>
<b>Total capital assets being depreciated, net</b>	<b>1,926,359</b>	<b>(97,867)</b>	<b>-</b>	<b>1,828,492</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 2,436,106</b>	<b>\$ (6,546)</b>	<b>\$ -</b>	<b>\$ 2,429,560</b>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated				
Land	\$ 47,313	\$ -	\$ -	\$ 47,313
Capital assets being depreciated				
Buildings	12,572	-	-	12,572
Infrastructure	5,075,212	-	-	5,075,212
Machinery and equipment	<u>26,981</u>	<u>4,151</u>	<u>-</u>	<u>31,132</u>
Total capital assets being depreciated	<u>5,114,765</u>	<u>4,151</u>	<u>-</u>	<u>5,118,916</u>
Less accumulated depreciation for				
Buildings	(12,572)	-	-	(12,572)
Infrastructure	(2,178,270)	(139,384)	-	(2,317,654)
Machinery and equipment	<u>(22,529)</u>	<u>(2,233)</u>	<u>-</u>	<u>(24,762)</u>
Total accumulated depreciation	<u>(2,213,371)</u>	<u>(141,617)</u>	<u>-</u>	<u>(2,354,988)</u>
Total capital assets being depreciated, net	<u>2,901,394</u>	<u>(137,466)</u>	<u>-</u>	<u>2,763,928</u>
Business-type activities capital assets, net	<u>\$ 2,948,707</u>	<u>\$ (137,466)</u>	<u>\$ -</u>	<u>\$ 2,811,241</u>

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

<b>Governmental activities:</b>		
General government		\$ 13,995
Public safety		50,157
Streets and highways		80,346
Culture and recreation		<u>5,815</u>
Total depreciation expense - governmental activities		<u>\$ 150,313</u>
<b>Business-type activities:</b>		
Water utility		\$ 35,460
Sewer utility		<u>106,157</u>
Total depreciation expense - business-type activities		<u>\$ 141,617</u>

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

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

**Construction Commitments**

The City has active construction projects as of December 31, 2007. At year end the City's commitments with contractors are as follows:

Project	Spent to date	Remaining Commitment
Diamond Drive Reconstruction	<u>\$ 99,973</u>	<u>\$ 5,261</u>

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

**E. Interfund Receivables, Payables and Transfers**

The composition of interfund balances at December 31, 2007 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Tax Increment District #2	\$ 38,468
Public Improvement Revolving	Tax Increment District #2	<u>64,979</u>
Total		<u>\$ 103,447</u>

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**Interfund transfers:**

The composition of interfund transfers at December 31, 2007 is as follows:

	Transfer in:		
	General Fund	Public Improvement Revolving Fund	Debt Service Fund
Transfer out:			
General fund	\$ -	\$ -	\$ -
Water Utility fund	-	4,375	32,329
Sewer Utility fund	-	2,353	-
Refuse fund	25,254	-	-
	<u>25,254</u>	<u>-</u>	<u>-</u>
Total transfers out	<u>\$ 25,254</u>	<u>\$ 6,728</u>	<u>\$ 32,329</u>

	Transfer in:			
	Fire Fund	Water Utility Fund	Sewer Utility Fund	Total
Transfer out:				
General fund	\$ 47,510	\$ 16,700	\$ 31,191	\$ 95,401
Water Utility fund	-	-	-	36,704
Sewer Utility fund	-	-	-	2,353
Refuse fund	-	-	-	25,254
	<u>47,510</u>	<u>16,700</u>	<u>31,191</u>	<u>159,712</u>
Total transfers out	<u>\$ 47,510</u>	<u>\$ 16,700</u>	<u>\$ 31,191</u>	<u>\$ 159,712</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the Debt Service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the Debt Service fund to establish mandatory reserve accounts, 3) move unrestricted General fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. The City made the following budgeted transfers for the year ended December 31, 2007:

- From the General fund to the following funds for operations: Fire fund (\$47,510), Water Utility fund (\$16,700) and the Sewer Utility fund (\$31,191).
- From the Water Utility fund (\$4,375) and Sewer Utility fund (\$2,353) to the Public Improvement Revolving fund for connection fees.
- From the Water Utility fund (\$32,329) to the Debt Service fund for debt service.
- From the Refuse Utility fund (\$25,254) to the General fund to transfer excess net assets.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**F. Long-term Debt**

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

**General Obligation Bonds**

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Building Bonds of 1982	\$ 210,000	5.00 %	02/01/82	01/01/12	<u>\$ 49,000</u>

**G.O. Special Assessment (Improvement) Bonds**

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. PIR Bonds of 1999A	\$ 635,000	4.90 - 5.70 %	12/01/99	02/01/16	\$ 280,000
G.O. PIR Refunding Bonds of 2004B	300,000	3.00 - 4.10	11/01/04	02/01/16	255,000
G.O. Improvement Bonds of 2004A	265,000	3.00 - 4.00	09/01/04	02/01/15	220,000
G.O. Improvement Bonds of 2005A	165,000	3.75 - 4.10	06/01/05	02/01/15	150,000
G.O. Improvement Bonds of 2006A	140,000	4.25	11/01/06	02/01/18	<u>140,000</u>
Total G.O. Special Assessment Bonds					<u>\$ 1,045,000</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

**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 2000A	\$ 325,000	5.25 - 5.95 %	07/13/00	02/01/08	\$ 250,000
G.O. Water Revenue Bonds of 1995A (PFA)	400,400	0.00	09/25/95	02/20/17	143,218
G.O. Sewer Revenue Refunding Bonds, 2007A	235,000	3.95	12/01/07	02/01/17	<u>235,000</u>
Total G.O. Revenue Bonds					<u>\$ 628,218</u>

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

Year Ending December 31,	General Obligation Bonds Governmental Activities		
	Principal	Interest	Total
2008	\$ 11,000	\$ 2,450	\$ 13,450
2009	12,000	1,900	13,900
2010	13,000	1,300	14,300
2011	13,000	650	13,650
2012	-	-	-
2013 - 2017	-	-	-
2018 - 2022	-	-	-
Total	<u>\$ 49,000</u>	<u>\$ 6,300</u>	<u>\$ 55,300</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

Year Ending December 31,	G.O. Special Assessment Bonds Governmental Activities			G.O. Revenue Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 90,000	\$ 37,686	\$ 127,686	\$ 265,076	\$ 13,411	\$ 278,487
2009	105,000	34,586	139,586	40,076	8,789	48,865
2010	105,000	31,086	136,086	40,076	7,801	47,877
2011	115,000	27,191	142,191	40,076	6,814	46,890
2012	120,000	22,901	142,901	40,076	5,826	45,902
2013 - 2017	495,000	43,895	538,895	202,838	13,924	216,762
2018 - 2022	15,000	319	15,319	-	-	-
<b>Total</b>	<b>\$ 1,045,000</b>	<b>\$ 197,664</b>	<b>\$ 1,242,664</b>	<b>\$ 628,218</b>	<b>\$ 56,565</b>	<b>\$ 684,783</b>

Year Ending December 31,	Total Governmental Activities			Total Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 101,000	\$ 40,136	\$ 141,136	\$ 265,076	\$ 13,411	\$ 278,487
2009	117,000	36,486	153,486	40,076	8,789	48,865
2010	118,000	32,386	150,386	40,076	7,801	47,877
2011	128,000	27,841	155,841	40,076	6,814	46,890
2012	120,000	22,901	142,901	40,076	5,826	45,902
2013 - 2017	495,000	43,895	538,895	202,838	13,924	216,762
2018 - 2022	15,000	319	15,319	-	-	-
<b>Total</b>	<b>\$ 1,094,000</b>	<b>\$ 203,964</b>	<b>\$ 1,297,964</b>	<b>\$ 628,218</b>	<b>\$ 56,565</b>	<b>\$ 684,783</b>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**Changes in Long-term Liabilities**

Long-term liability activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Bonds payable:					
General obligation bonds	\$ 60,000	\$ -	\$ (11,000)	\$ 49,000	\$ 11,000
General obligation tax increment bonds	55,000	-	(55,000)	-	-
General obligation special assessment bonds	<u>1,135,000</u>	<u>-</u>	<u>(90,000)</u>	<u>1,045,000</u>	<u>90,000</u>
Total bonds payable	1,250,000	-	(156,000)	1,094,000	101,000
Compensated absences payable	<u>4,674</u>	<u>5,171</u>	<u>(7,117)</u>	<u>2,728</u>	<u>2,728</u>
Governmental activities long-term liabilities	<u>\$ 1,254,674</u>	<u>\$ 5,171</u>	<u>\$ (163,117)</u>	<u>\$ 1,096,728</u>	<u>\$ 103,728</u>
<b>Business-type activities</b>					
Bonds payable:					
General obligation revenue bonds	<u>\$ 428,294</u>	<u>\$ 235,000</u>	<u>\$ (35,076)</u>	<u>\$ 628,218</u>	<u>\$ 265,076</u>

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

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

**G. Tax Increment Districts**

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

	Tax Increment <u>District No. 2</u> M.S. 472A	Tax Increment <u>District No. 2-3</u> M.S. 472A	Tax Increment <u>District No. 2-4</u> M.S. 472A	Tax Increment <u>District No. 2-6</u> M.S. 472A
Authorizing Law	Redevelopment	Redevelopment	Housing	Economic Development
Type of District				
Year Established	1984	1995	1995	1999
Duration of District	15	28	29	11
Tax Capacity				
Original	\$ 385	\$ 1,280	\$ 17	\$ 83
Current	<u>6,745</u>	<u>9,133</u>	<u>9,024</u>	<u>44,878</u>
Captured - Retained	<u>\$ 6,360</u>	<u>\$ 7,853</u>	<u>\$ 9,007</u>	<u>\$ 44,795</u>
Total General Obligation Tax Increment				
Bonds and Notes issued	\$ -	\$ 60,700	\$ 49,400	\$ -
Amounts redeemed	<u>-</u>	<u>(60,700)</u>	<u>(49,400)</u>	<u>-</u>
Outstanding at December 31, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

**A. Plan Description**

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

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

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

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the Internet at [mnpera.org](http://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, 2007

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

**B. Funding Policy**

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The City makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0 percent. The City is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members and 6.25 percent of Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.5 percent effective January 1, 2008. The City's contributions to the PERF for the years ending December 31, 2007, 2006 and 2005 were \$8,930, \$7,332, and \$6,484, respectively. The City's contributions to the PEPFF for the years ending December 31, 2007, 2006 and 2005 were \$5,826, \$4,752, and \$4,118, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION**

**Plan Description**

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

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

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

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

**Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION**

**Funding Policy**

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

Annual pension cost	\$	16,685
Contributions made		
City (voluntary)		4,432
State aid		16,685
Actuarial valuation date		
		12/31/07
Actuarial cost method		
		Entry age normal
Amortization method		
		Level dollar closed
Remaining amortization period		
Normal cost		20 years
Prior service cost		10 years
Asset valuation method		
		Market
Actuarial assumptions		
Investment rate of return		5%
Projected salary increases		N/A
Inflation rate		N/A
Cost of living adjustments		None

**Three Year Trend Information**

Year Ending	Annual Pension Cost (APC)	* Percentage of APC Contributed	Net Pension Obligation
12/31/07	\$ 16,685	126.6 %	\$ -
12/31/06	14,350	118.5	-
12/31/05	14,185	126.9	-

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

**Required Supplementary Information**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/07	\$ -	\$ -	\$ -	-	\$ 1,100
12/31/06	265,935	234,338	31,597	113.5	900
12/31/05	248,229	200,354	47,875	123.9	900

\*\* Information unavailable at time of audit

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007

**Note 6: OTHER INFORMATION**

**A. Risk Management**

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

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

**B. Contingent Liabilities**

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

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

**C. Legal Debt Margin**

The City's statutory debt limit is 2 percent of the estimated taxable market value of real and personal property located in the City. The taxable market value was \$80,660,600 at December 31, 2007 for a limit of \$1,613,212. The City currently has no general obligation debt subject to the limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

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

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2007

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2007

	Special Revenue Development	Capital Projects	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,298	\$ 5,094	\$ 8,392
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 131	\$ 131
<b>FUND BALANCES (DEFICITS)</b>			
Unreserved, designated for:			
Capital outlay	-	9,575	9,575
Unreserved, undesignated, reported in:			
Special revenue funds	3,298	-	3,298
Capital projects funds	-	(4,612)	(4,612)
<b>TOTAL FUND BALANCES (DEFICITS)</b>	3,298	4,963	8,261
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ 3,298	\$ 5,094	\$ 8,392

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES (DEFICITS)  
YEAR ENDED DECEMBER 31, 2007

	Special Revenue Development	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Investment earnings	\$ 16	\$ 24	\$ 40
EXPENDITURES			
Current			
Housing and economic development	-	4,700	4,700
Capital outlay			
Streets and highways	-	131	131
TOTAL EXPENDITURES	-	21,680	21,680
NET CHANGE IN FUND BALANCES	16	(21,656)	(21,640)
FUND BALANCES, JANUARY 1	3,282	26,619	29,901
FUND BALANCES (DEFICITS), DECEMBER 31	\$ 3,298	\$ 4,963	\$ 8,261

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2007

	408 Tax Increment District #2-6	411 Tax Increment District #2-8	430 Northwest Project	Total Nonmajor
<b>ASSETS</b>				
Cash and cash equivalents (deficit)	\$ 300	\$ (4,612)	\$ 9,406	\$ 5,094
<b>TOTAL ASSETS</b>	<u>\$ 300</u>	<u>\$ (4,612)</u>	<u>\$ 9,406</u>	<u>\$ 5,094</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ 131	\$ 131
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>131</u>	<u>131</u>
<b>FUND BALANCES (DEFICITS)</b>				
Unreserved				
Designated for capital outlay	300	-	9,275	9,575
Undesignated	-	(4,612)	-	(4,612)
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<u>300</u>	<u>(4,612)</u>	<u>9,275</u>	<u>4,963</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)</b>	<u>\$ 300</u>	<u>\$ (4,612)</u>	<u>\$ 9,406</u>	<u>\$ 5,094</u>

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES (DEFICITS)  
YEAR ENDED DECEMBER 31, 2007

	408 Tax Increment District #2-6	411 Tax Increment District #2-8	430 Northwest Project	Total Nonmajor
REVENUES				
Investment earnings	\$ 10	\$ -	\$ 14	\$ 24
EXPENDITURES				
Current				
General government	16,849	-	-	16,849
Economic development	200	4,500	-	4,700
Capital outlay				
Streets and highways	-	-	131	131
TOTAL EXPENDITURES	<u>17,049</u>	<u>4,500</u>	<u>131</u>	<u>21,680</u>
NET CHANGE IN FUND BALANCES	(17,039)	(4,500)	(117)	(21,656)
FUND BALANCES (DEFICITS), JANUARY 1	<u>17,339</u>	<u>(112)</u>	<u>9,392</u>	<u>26,619</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 300</u>	<u>\$ (4,612)</u>	<u>\$ 9,275</u>	<u>\$ 4,963</u>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
DECEMBER 31, 2007 AND 2006

	2007	2006
<b>ASSETS</b>		
Cash and cash equivalents	\$ 314,883	\$ 214,524
Investments	132,098	125,386
Receivables		
Delinquent taxes	15,658	13,423
Accounts	5,766	4,598
Intergovernmental	2,002	2,540
Due from other funds	38,468	32,514
Prepaid items	-	572
<b>TOTAL ASSETS</b>	<b>\$ 508,875</b>	<b>\$ 393,557</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 10,717	\$ 8,601
Due to other governments	526	5
Accrued payroll	10,740	8,914
Deferred revenue	15,658	22,167
<b>TOTAL LIABILITIES</b>	<b>37,641</b>	<b>39,687</b>
<b>FUND BALANCES</b>		
Reserved for:		
Interfund advance	38,468	32,514
Prepaid items	-	572
Park land dedication	51,188	41,188
Unreserved		
Designated for:		
Capital outlay	154,028	104,243
Undesignated	227,550	175,353
<b>TOTAL FUND BALANCES</b>	<b>471,234</b>	<b>353,870</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 508,875</b>	<b>\$ 393,557</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  
YEAR ENDED DECEMBER 31, 2007  
With Comparative Actual Amounts for Year Ended December 31, 2006

	2007		Variance with Final Budget - Positive (Negative)	2006
	Final Budget	Actual Amounts		Actual Amounts
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 292,754	\$ 306,830	\$ 14,076	\$ 272,364
Franchise fees	3,500	2,632	(868)	4,458
Total taxes	<u>296,254</u>	<u>309,462</u>	<u>13,208</u>	<u>276,822</u>
Licenses and permits				
Business	2,885	9,185	6,300	5,345
Nonbusiness	18,300	12,601	(5,699)	23,711
Total licenses and permits	<u>21,185</u>	<u>21,786</u>	<u>601</u>	<u>29,056</u>
Intergovernmental				
State				
Local government aid	139,200	139,200	-	128,204
Property tax credits	-	26,161	26,161	27,751
Other state aids	395	797	402	395
Total State	<u>139,595</u>	<u>166,158</u>	<u>26,563</u>	<u>156,350</u>
County				
Highway aid	600	600	-	600
Total intergovernmental	<u>140,195</u>	<u>166,758</u>	<u>26,563</u>	<u>156,950</u>
Charges for services				
General government	1,782	3,248	1,466	1,365
Public safety	-	69	69	28
Streets and highways	60	371	311	280
Sanitation	-	119	119	444
Other	215	213	(2)	288
Total charges for services	<u>2,057</u>	<u>4,020</u>	<u>1,963</u>	<u>2,405</u>
Fines and forfeits	<u>15,000</u>	<u>17,892</u>	<u>2,892</u>	<u>34,219</u>
Investment earnings	<u>3,000</u>	<u>18,740</u>	<u>15,740</u>	<u>13,754</u>
Miscellaneous				
Rent	3,310	3,089	(221)	3,245
Contributions and donations	500	5,012	4,512	3,885
Refunds and reimbursements	2,000	6,149	4,149	1,931
Total miscellaneous	<u>5,810</u>	<u>14,250</u>	<u>8,440</u>	<u>9,061</u>
<b>TOTAL REVENUES</b>	<u>483,501</u>	<u>552,908</u>	<u>69,407</u>	<u>522,267</u>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
YEAR ENDED DECEMBER 31, 2007  
With Comparative Actual Amounts for Year Ended December 31, 2006

	2007			2006
	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
<b>EXPENDITURES</b>				
<b>Current</b>				
General government				
Mayor and Council				
Personal services	\$ 10,227	\$ 8,563	\$ 1,664	\$ 8,749
Supplies	6,500	4,296	2,204	7,534
Other services and charges	14,485	5,951	8,534	6,669
Total Mayor and Council	<u>31,212</u>	<u>18,810</u>	<u>12,402</u>	<u>22,952</u>
City clerk				
Personal services	33,988	43,555	(9,567)	26,701
Supplies	3,850	3,483	367	3,561
Other services and charges	6,360	6,553	(193)	4,448
Total city clerk	<u>44,198</u>	<u>53,591</u>	<u>(9,393)</u>	<u>34,710</u>
Election				
Personal services	200	-	200	1,509
Supplies	40	-	40	498
Other services and charges	25	-	25	118
Total election	<u>265</u>	<u>-</u>	<u>265</u>	<u>2,125</u>
Legal and audit				
Other services	34,500	42,966	(8,466)	33,863
Planning and zoning				
Personal services	3,000	1,425	1,575	2,075
Supplies	400	532	(132)	408
Other services and charges	1,290	4,737	(3,447)	1,548
Total planning and zoning	<u>4,690</u>	<u>6,694</u>	<u>(2,004)</u>	<u>4,031</u>
Municipal building				
Personal services	1,625	1,751	(126)	1,809
Supplies	6,875	6,489	386	6,463
Other services and charges	9,640	9,378	262	7,030
Total municipal building	<u>18,140</u>	<u>17,618</u>	<u>522</u>	<u>15,302</u>
Total general government	<u>133,005</u>	<u>139,679</u>	<u>(6,674)</u>	<u>112,983</u>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
YEAR ENDED DECEMBER 31, 2007  
With Comparative Actual Amounts for Year Ended December 31, 2006

	2007		Variance with Final Budget - Positive (Negative)	2006
	Final Budget	Actual Amounts		Actual Amounts
<b>EXPENDITURES - CONTINUED</b>				
Current - Continued				
Public safety				
Police				
Personal services	\$ 63,270	\$ 60,894	\$ 2,376	\$ 55,708
Supplies	12,150	14,850	(2,700)	12,934
Other services and charges	6,395	8,380	(1,985)	8,827
Total police	<u>81,815</u>	<u>84,124</u>	<u>(2,309)</u>	<u>77,469</u>
Building/health inspection				
Personal services	1,960	1,958	2	1,988
Supplies	100	55	45	109
Other services and charges	12,150	5,759	6,391	16,596
Total building/health inspection	<u>14,210</u>	<u>7,772</u>	<u>6,438</u>	<u>18,693</u>
Civil defense				
Personal services	100	-	100	-
Supplies	150	100	50	-
Other services and charges	500	314	186	1,006
Total civil defense	<u>750</u>	<u>414</u>	<u>336</u>	<u>1,006</u>
Animal control				
Other services and charges	150	116	34	128
Rental inspection				
Personal services	1,000	1,180	(180)	1,780
Total public safety	<u>97,925</u>	<u>93,606</u>	<u>4,319</u>	<u>99,076</u>
Streets and highways				
Street maintenance				
Personal services	67,226	59,071	8,155	42,871
Supplies	18,500	20,674	(2,174)	19,566
Other services and charges	13,060	5,068	7,992	5,377
Total street maintenance	<u>98,786</u>	<u>84,813</u>	<u>13,973</u>	<u>67,814</u>
Snow and ice removal				
Supplies	2,500	3,314	(814)	426
Street lighting				
Other services and charges	14,500	11,774	2,726	13,273
Total streets and highways	<u>115,786</u>	<u>99,901</u>	<u>15,885</u>	<u>81,513</u>

CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
YEAR ENDED DECEMBER 31, 2007  
With Comparative Actual Amounts for Year Ended December 31, 2006

	2007		Variance with Final Budget - Positive (Negative)	2006
	Final Budget	Actual Amounts		Actual Amounts
<b>EXPENDITURES - CONTINUED</b>				
Current - Continued				
Sanitation and waste removal				
Refuse/recycle				
Other services and charges	\$ -	\$ -	\$ -	\$ 42
Culture and recreation				
Parks				
Personal services	-	-	-	95
Supplies	1,900	2,712	(812)	3,247
Other services and charges	3,865	4,936	(1,071)	3,708
Total culture and recreation	5,765	7,648	(1,883)	7,050
Housing and economic development				
Economic development				
Personal services	2,153	2,291	(138)	1,827
Other services and charges	7,000	3,341	3,659	4,406
Total housing and economic development	9,153	5,632	3,521	6,233
Miscellaneous				
Unallocated				
Other services and charges	2,220	6,888	(4,668)	5,318
Total current	363,854	353,354	10,500	312,215
Capital outlay				
General government	1,500	250	1,250	-
Public safety	5,500	-	5,500	9,722
Streets and highways	25,000	7,020	17,980	1,407
Culture and recreation	15,000	4,418	10,582	26,955
Economic development	2,500	355	2,145	-
Total capital outlay	49,500	12,043	37,457	38,084
TOTAL EXPENDITURES	413,354	365,397	47,957	350,299
EXCESS OF REVENUES OVER EXPENDITURES	70,147	187,511	117,364	171,968
OTHER FINANCING SOURCES (USES)				
Transfers in	25,254	25,254	-	27,777
Transfers out	(95,401)	(95,401)	-	(85,305)
TOTAL OTHER FINANCING SOURCES (USES)	(70,147)	(70,147)	-	(57,528)
NET CHANGE IN FUND BALANCES	-	117,364	117,364	114,440
FUND BALANCES, JANUARY 1	353,870	353,870	-	239,430
FUND BALANCES, DECEMBER 31	\$ 353,870	\$ 471,234	\$ 117,364	\$ 353,870

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CITY OF MADISON LAKE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2007  
With Comparative Totals for December 31, 2006

	<u>301</u> 1982 Community Center Bonds	<u>494</u> 2003 Refunding Bonds	<u>499</u> 2004B PIR Refunding Bonds	<u>405</u> Tax Increment District #2-3
<b>ASSETS</b>				
Cash and cash equivalents (deficits)	\$ 19,407	\$ 115,144	\$ 48,138	\$ 9,900
Investments	264	-	-	38,500
Receivables				
Delinquent taxes	-	-	-	230
Accounts	-	4,995	-	-
Special assessments				
Delinquent	-	-	-	-
Deferred	-	88,919	152,918	-
Intergovernmental	-	651	-	-
Prepaid items	-	29,995	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 19,671</u></u>	<u><u>\$ 239,704</u></u>	<u><u>\$ 201,056</u></u>	<u><u>\$ 48,630</u></u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>				
<b>LIABILITIES</b>				
Accrued interest payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	88,919	152,918	230
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES</b>	-	88,919	152,918	230
<b>FUND BALANCES (DEFICITS)</b>				
Reserved for debt service	19,671	120,790	48,138	48,400
Reserved for prepaid items	-	29,995	-	-
Unreserved, undesignated	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL FUND BALANCE (DEFICITS)</b>	<u>19,671</u>	<u>150,785</u>	<u>48,138</u>	<u>48,400</u>
	<u><u>\$ 19,671</u></u>	<u><u>\$ 239,704</u></u>	<u><u>\$ 201,056</u></u>	<u><u>\$ 48,630</u></u>

406 Tax Increment District #2-4	407 Tax Increment District #2-5	330 2004 G.O. Improvement Bonds	335 2005 G.O. Improvement Bonds	340 2006 G.O. Improvement Bonds	Totals	
					2007	2006
\$ 37,780	\$ (15,266)	\$ 25,564	\$ (1,578)	\$ 3,438	\$ 242,527	\$ 293,299
-	-	-	-	-	38,764	37,422
-	-	-	-	-	230	965
-	-	-	-	-	4,995	-
-	-	1,588	-	-	1,588	992
-	-	24,817	147,683	37,091	451,428	457,258
-	-	286	-	-	937	669
-	-	-	-	-	29,995	30,520
<u>\$ 37,780</u>	<u>\$ (15,266)</u>	<u>\$ 52,255</u>	<u>\$ 146,105</u>	<u>\$ 40,529</u>	<u>\$ 770,464</u>	<u>\$ 821,125</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 331
-	-	26,405	147,683	37,091	453,246	459,215
-	-	26,405	147,683	37,091	453,246	459,546
37,780	-	25,850	-	3,438	304,067	331,414
-	-	-	-	-	29,995	30,520
-	(15,266)	-	(1,578)	-	(16,844)	(355)
<u>37,780</u>	<u>(15,266)</u>	<u>25,850</u>	<u>(1,578)</u>	<u>3,438</u>	<u>317,218</u>	<u>361,579</u>
<u>\$ 37,780</u>	<u>\$ (15,266)</u>	<u>\$ 52,255</u>	<u>\$ 146,105</u>	<u>\$ 40,529</u>	<u>\$ 770,464</u>	<u>\$ 821,125</u>

CITY OF MADISON LAKE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES (DEFICITS)  
YEAR ENDED DECEMBER 31, 2007  
With Comparative Totals for Year Ended December 31, 2006

	301 1982 Community Center Bonds	494 2003 Refunding Bonds	499 2004B PIR Refunding Bonds	405 Tax Increment District #2-3
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 14,000	\$ 41,041	\$ -	\$ -
Tax increments	-	-	-	735
Special assessments	-	15,688	15,410	-
Intergovernmental				
State property tax credits	-	-	-	-
Investment earnings	57	5,163	895	1,374
<b>TOTAL REVENUES</b>	<u>14,057</u>	<u>61,892</u>	<u>16,305</u>	<u>2,109</u>
<b>EXPENDITURES</b>				
Current				
General government	100	100	-	-
Economic development	-	-	-	2,510
Debt service				
Principal	11,000	25,000	25,000	22,000
Interest and other	3,000	11,146	10,159	616
<b>TOTAL EXPENDITURES</b>	<u>14,100</u>	<u>36,246</u>	<u>35,159</u>	<u>25,126</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(43)</u>	<u>25,646</u>	<u>(18,854)</u>	<u>(23,017)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	7,000	-
Bonds issued	-	-	-	-
Transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>7,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(43)	25,646	(11,854)	(23,017)
<b>FUND BALANCES (DEFICITS), JANUARY 1</b>	<u>19,714</u>	<u>125,139</u>	<u>59,992</u>	<u>71,417</u>
<b>FUND BALANCES (DEFICITS), DECEMBER 31</b>	<u>\$ 19,671</u>	<u>\$ 150,785</u>	<u>\$ 48,138</u>	<u>\$ 48,400</u>

406 Tax Increment District #2-4	407 Tax Increment District #2-5	330 2004 G.O. Improvement Bonds	335 2005 G.O. Improvement Bonds	340 2006 G.O. Improvement Bonds	Totals	
					2007	2006
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,041	\$ 48,145
-	-	-	-	-	735	18,648
-	-	11,993	20,501	790	64,382	59,665
453	-	-	-	-	453	670
55	-	36	-	4	7,584	8,013
<u>508</u>	<u>-</u>	<u>12,029</u>	<u>20,501</u>	<u>794</u>	<u>128,195</u>	<u>135,141</u>
-	-	100	100	-	400	500
708	-	-	-	-	3,218	5,223
18,150	14,850	25,000	15,000	-	156,000	85,000
508	416	8,666	6,624	4,132	45,267	46,608
<u>19,366</u>	<u>15,266</u>	<u>33,766</u>	<u>21,724</u>	<u>4,132</u>	<u>204,885</u>	<u>137,331</u>
<u>(18,858)</u>	<u>(15,266)</u>	<u>(21,737)</u>	<u>(1,223)</u>	<u>(3,338)</u>	<u>(76,690)</u>	<u>(2,190)</u>
-	-	25,329	-	-	32,329	29,665
-	-	-	-	-	-	7,107
-	-	-	-	-	-	(810)
-	-	25,329	-	-	32,329	35,962
(18,858)	(15,266)	3,592	(1,223)	(3,338)	(44,361)	33,772
56,638	-	22,258	(355)	6,776	361,579	327,807
<u>\$ 37,780</u>	<u>\$ (15,266)</u>	<u>\$ 25,850</u>	<u>\$ (1,578)</u>	<u>\$ 3,438</u>	<u>\$ 317,218</u>	<u>\$ 361,579</u>

CITY OF MADISON LAKE, MINNESOTA  
SUMMARY FINANCIAL REPORT  
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS  
GOVERNMENTAL FUNDS  
YEARS ENDED DECEMBER 31, 2007 AND 2006

	Total 2007	Total 2006	Percent Increase (Decrease)
<b>REVENUES</b>			
Taxes	\$ 372,025	\$ 409,772	(9.21) %
Special assessments	65,679	75,846	(13.40)
Licenses and permits	21,786	29,056	(25.02)
Intergovernmental	289,544	172,741	67.62
Charges for services	80,367	92,703	(13.31)
Fines and forfeits	17,892	34,219	(47.71)
Investment earnings	60,554	57,160	5.94
Miscellaneous	79,284	120,926	(34.44)
<b>TOTAL REVENUES</b>	<b>\$ 987,131</b>	<b>\$ 992,423</b>	<b>(0.53) %</b>
Per Capita	1,063.72	1,090.57	(2.46) %
<b>EXPENDITURES</b>			
Current			
General government	\$ 156,928	\$ 114,783	36.72 %
Public safety	183,493	175,023	4.84
Streets and highways	107,830	82,176	31.22
Sanitation and waste removal	-	42	(100.00)
Culture and recreation	7,648	7,050	8.48
Housing and economic development	13,973	103,370	(86.48)
Miscellaneous	8,775	6,630	32.35
Capital outlay			
General government	250	-	N/A
Public safety	125,586	149,192	(15.82)
Streets and highways	99,330	64,217	54.68
Culture and recreation	4,418	26,955	(83.61)
Housing and economic development	355	-	N/A
Water and sewer	-	35,471	(100.00)
Debt service			
Principal	156,000	94,563	64.97
Interest and other charges	45,267	55,563	(18.53)
<b>TOTAL EXPENDITURES</b>	<b>\$ 909,853</b>	<b>\$ 915,035</b>	<b>(0.57) %</b>
Per Capita	980.45	1,005.53	(2.49)
Total Long-term Indebtedness	\$ 1,094,000	\$ 1,250,000	(12.48) %
Per Capita	1,178.88	1,373.63	(14.18)
General Fund Balance - December 31	\$ 471,234	\$ 353,870	33.17 %
Per Capita	507.80	388.87	30.58

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

YEAR ENDED  
DECEMBER 31, 2007



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

REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Madison Lake, Minnesota (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 6, 2008.

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

The *Minnesota Legal Compliance Audit Guide for Local Government* covers 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 and response as items 2007-4 and 2007-5.

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

June 6, 2008  
Mankato, Minnesota

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

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Madison Lake, Minnesota (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis of designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2007-1 through 2007-3 to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe that the deficiency described in the accompanying schedule of findings and responses as finding 2007-3 is a material weakness.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the schedule of findings and responses as items 2007-4 and 2007-5.

We also noted certain matters that we reported to management of the City in a separate letter dated June 6, 2008.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

June 6, 2008  
Mankato, Minnesota

*Aldo Eick & Meyers, LLP*  
ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*

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CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2007

**2007-1 Segregation of Duties**

- Condition: During our audit, we reviewed internal control procedures over payroll, disbursements, cash receipts 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 staff, the Clerk/Treasurer controls and maintains the check stock, sets up employee records, approves payroll run, posts activity to general ledger, prepares payroll tax returns, and maintains the payroll records.
- Recommendation: 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.

**Internal Control over Disbursements**

- Cause: As a result of the small staff, the Clerk/Treasurer controls and maintains the check stock, sets up vendors, opens the mail, approves vouchers for payment, prepares checks, maintains the purchase journal and accounts payable records, and posts transactions to the general ledger.
- Recommendation: While we recognize staff is not large enough to eliminate this deficiency, we recommend that an individual separate from the Clerk/Treasurer 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.

**Internal Control over Cash Receipts**

- Cause: As a result of the small staff, the Clerk/Treasurer sets up customers, maintains receipts journal and accounts receivable records, posts transactions to the general ledger, receives and endorses checks and currency, prepares the deposit and takes it to the bank.
- 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.

**Internal Control over Utility Billing**

- Cause: As a result of the small staff, the Utility Billing Clerk approves new accounts, sets up customers and rates in the billing system, generates statements, enters readings, opens mail, prepares the deposit and takes it to the bank, makes adjustments to accounts, and reconciles the bank account.
- Recommendation: While we recognize staff is not large enough to eliminate this deficiency, we recommend the Council review exception reports from meter reading software and review any adjustments to utility billing. It is important that the Council is aware of this condition and monitor all financial information.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
DECEMBER 31, 2007

**2007-1 Segregation of Duties - Continued**

**Internal Control over Investment Transactions**

Cause: As a result of the small staff, the Clerk/Treasurer receives investment statements in the mail, initiates transactions, maintains investment sub ledgers, maintains and posts activity to the general ledger, 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 Clerk/Treasurer.

*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.

**2007-2 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 can not 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: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.

*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.

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
DECEMBER 31, 2007

**2007-3 Material Audit Adjustments**

- Condition: During our audit, adjustments were needed to record numerous accounting and audit adjustments, including some material.
- 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 can not 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.

**2007-4 Collateral Shortage**

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

*Management Response*

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

**2007-5 Administrative Penalties**

Minnesota statute 169.022 dictates that if a City has established administrative penalties, the City must refrain from establishing administrative penalties for traffic regulation, including speeding, DWI, missing plates or tabs, not wearing seatbelts and other similar state traffic offenses. During 2007 the City Council approved resolution 2007-384 adopting a Schedule of Offenses and Voluntary Administrative Penalties which included provisions for many of the items described above. The Office of the State Auditor has issued a Statement of Position on this issue stating that "a state law may "preempt" a local regulation. In other words, a state law may so fully occupy a particular field that there is no room for local regulation. The Minnesota Attorney General concluded that, by enacting chapter 169, the State preempted the field with respect to traffic offenses. Consequently neither cities nor counties are authorized to change the nature of penalties for traffic offenses specified by chapter 169."

*Management Response*

Madison Lake City Council approved resolution 2007-384 and amended City Code Title VII: Traffic Code on December 17, 2007 as drafted by the City Attorney. The administrative penalty procedures are intended to provide the public and the city with an informal, cost-effective, and expeditious alternative to traditional criminal charges for violations of certain provision of City Code. The procedures are intended to be voluntary on the part of those who have been charged with those offenses.

Once again during the 2008 legislative session, the League of Minnesota Cities has argued administrative penalties are legal for municipalities to issue because of ambiguity in the law. The issuance of administrative penalties is rooted in legislative actions that have increased state surcharges. The surcharge is deposited into the state's general fund with a very minimum amount going back to the jurisdiction that issued the violation. The lopsided distribution of revenues collected is alarming at the local level. The surcharges imposed by the state make the cost of violations excessive for residents and the cost of prosecuting the violations is excessive for taxpayers.

The Madison Lake City Council has been informed of both the Office of the State Auditor and Abdo, Eick & Meyers' statement of position of administrative penalties.