

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED
DECEMBER 31, 2008

CITY OF MADISON LAKE, MINNESOTA
 ANNUAL FINANCIAL REPORT
 DECEMBER 31, 2008
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INTRODUCTORY SECTION

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008

CITY OF MADISON LAKE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2008

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ken Reichel	Mayor	12/31/10
John Howard	Council	12/31/10
Pat Fasnacht	Council	12/31/10
Chuck Ries	Council	12/31/08
Steve Bjerke	Council	12/31/08

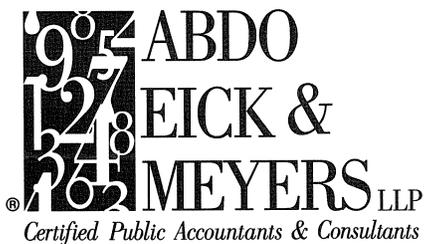
APPOINTED

Kelly Steele	City Administrator/Clerk
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FINANCIAL SECTION

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008



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, 2008, 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. The prior year comparative information has been derived from the City's 2007 financial statements and, in our report dated June 6, 2008, we expressed an unqualified opinion on the respective proprietary fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2008, 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 XV 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 4, 2009 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 important for assessing 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 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 4, 2009
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, 2008.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6,715,860 (net assets). Of this amount, \$2,157,342 (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 \$173,891. The majority of this increase is attributable to capital grants and contributions of \$57,917 and revenues exceeding expenditures in the governmental activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,776,252, an increase of \$251,958 in comparison with the prior year. Approximately 72.8 percent of this total amount, \$1,293,160, 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 \$495,146, or 115.9 percent of total General fund expenditures. Of this amount, \$211,443 is designated for capital outlay.
- The City's total debt decreased by \$366,076, or 21.3 percent during the current fiscal year. The key factor in this decrease was the retirement of \$366,076 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

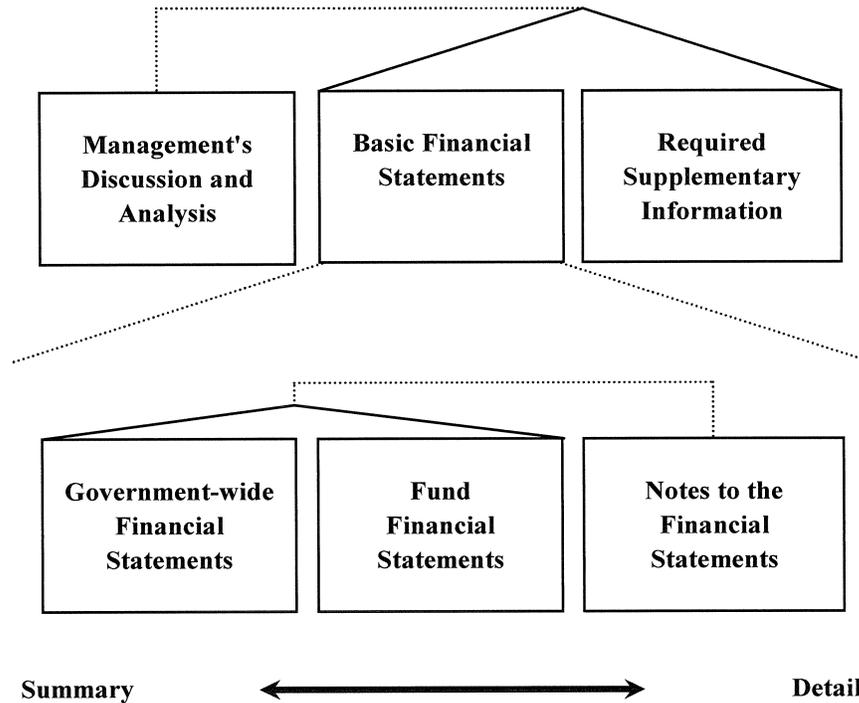


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Fund Net Assets • Statement of Cash Flows
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The City maintains 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, Economic Development Loan fund, Public Improvement Revolving fund, Fire 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, Economic Development Loan, Public Improvement Revolving and Fire special revenue funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found 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 \$6,715,860 at the close of the most recent fiscal year.

A significant portion of the City's net assets (54.5 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	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 2,486,065	\$ 2,324,890	\$ 649,957	\$ 783,465	\$ 3,136,022	\$ 3,108,355
Capital assets	2,307,970	2,429,560	2,684,817	2,811,241	4,992,787	5,240,801
Total assets	4,794,035	4,754,450	3,334,774	3,594,706	8,128,809	8,349,156
Long-term liabilities outstanding	995,907	1,096,728	363,142	628,218	1,359,049	1,724,946
Other liabilities	38,169	61,434	15,731	20,807	53,900	82,241
Total liabilities	1,034,076	1,158,162	378,873	649,025	1,412,949	1,807,187
Invested in capital assets, net of related debt	1,334,979	1,358,019	2,327,706	2,451,039	3,662,685	3,809,058
Restricted	759,297	803,899	136,536	133,469	895,833	937,368
Unrestricted	1,665,683	1,434,370	491,659	361,173	2,157,342	1,795,543
Total net assets	\$ 3,759,959	\$ 3,596,288	\$ 2,955,901	\$ 2,945,681	\$ 6,715,860	\$ 6,541,969

An additional portion of the City's net assets (13.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (32.2 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net 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 \$173,891 during the current fiscal year. The majority of this increase is attributable to capital grants and contributions of \$57,917 and revenues exceeding expenditures in the governmental activities.

Governmental activities. Governmental activities increased the City's net assets by \$163,671, thereby accounting for 94.1 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	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	\$ 170,386	\$ 137,025	\$ 411,419	\$ 410,070	\$ 581,805	\$ 547,095
Operating grants and contributions	40,484	41,822	-	-	40,484	41,822
Capital grants and contributions	20,641	156,604	37,276	42,341	57,917	198,945
General revenues:						
Property taxes/ tax increments	364,910	370,172	-	-	364,910	370,172
Other taxes	5,221	3,535	-	-	5,221	3,535
Grants and contributions not restricted to specific programs	163,904	169,597	-	-	163,904	169,597
Investment earnings	38,948	60,554	17,061	12,908	56,009	73,462
Gain on sale of capital assets	-	1,470	-	-	-	1,470
Other	2,481	6,809	-	-	2,481	6,809
Total revenues	806,975	947,588	465,756	465,319	1,272,731	1,412,907

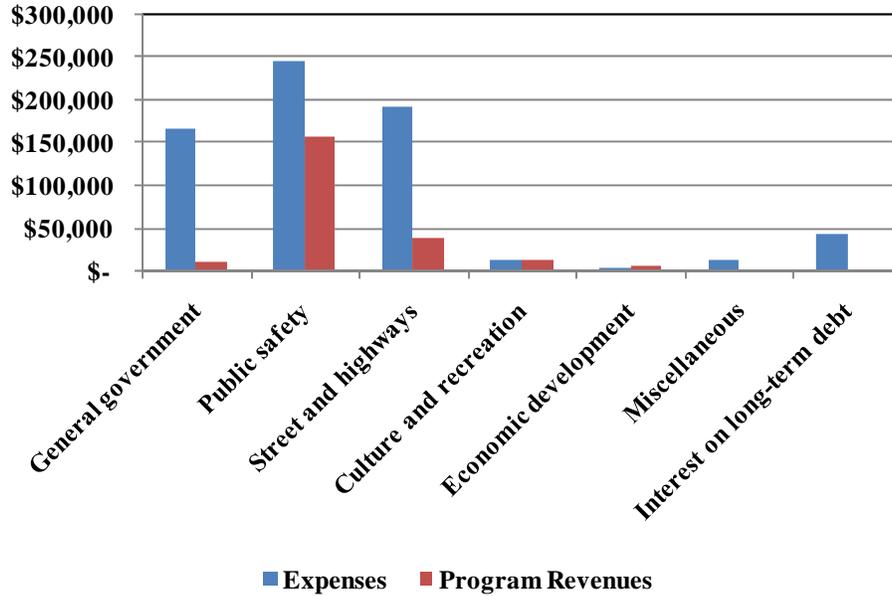
Changes in Net Assets - Continued

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Expenses						
General government	\$ 166,679	\$ 156,055	\$ -	\$ -	\$ 166,679	\$ 156,055
Public safety	246,297	314,707	-	-	246,297	314,707
Streets and highways	192,338	190,319	-	-	192,338	190,319
Culture and recreation	13,145	17,881	-	-	13,145	17,881
Economic development	4,421	27,336	-	-	4,421	27,336
Miscellaneous	13,590	6,888	-	-	13,590	6,888
Interest on long-term debt	43,886	44,171	-	-	43,886	44,171
Water utility	-	-	108,179	112,557	108,179	112,557
Sewer utility	-	-	255,360	242,401	255,360	242,401
Refuse	-	-	54,945	55,266	54,945	55,266
Total expenses	<u>680,356</u>	<u>757,357</u>	<u>418,484</u>	<u>410,224</u>	<u>1,098,840</u>	<u>1,167,581</u>
Increase in net assets before transfers	126,619	190,231	47,272	55,095	173,891	245,326
Transfers	<u>37,052</u>	<u>16,420</u>	<u>(37,052)</u>	<u>(16,420)</u>	<u>-</u>	<u>-</u>
Change in net assets	163,671	206,651	10,220	38,675	173,891	245,326
Net assets - January 1	<u>3,596,288</u>	<u>3,389,637</u>	<u>2,945,681</u>	<u>2,907,006</u>	<u>6,541,969</u>	<u>6,296,643</u>
Net assets - December 31	<u>\$ 3,759,959</u>	<u>\$ 3,596,288</u>	<u>\$ 2,955,901</u>	<u>\$ 2,945,681</u>	<u>\$ 6,715,860</u>	<u>\$ 6,541,969</u>

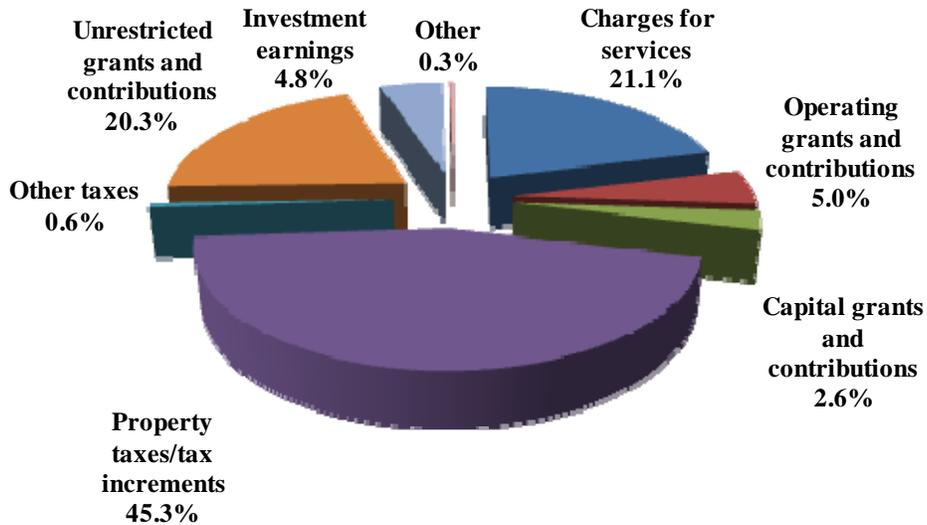
Property tax levies increased by \$33,851 (9.8 percent) during the year. The increase is a combination of increased expenses for governmental services and a tax levy for debt service.

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

Expenses and Program Revenues - Governmental Activities

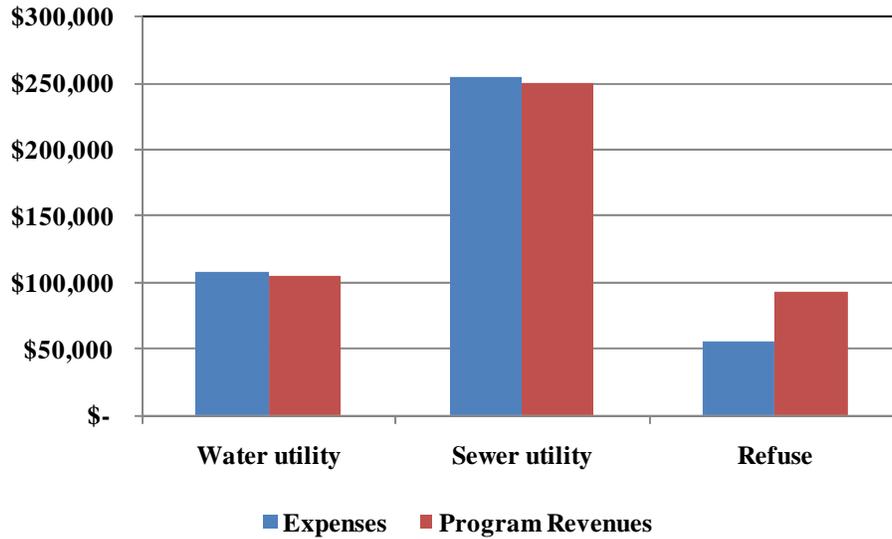


Revenues by Source - Governmental Activities

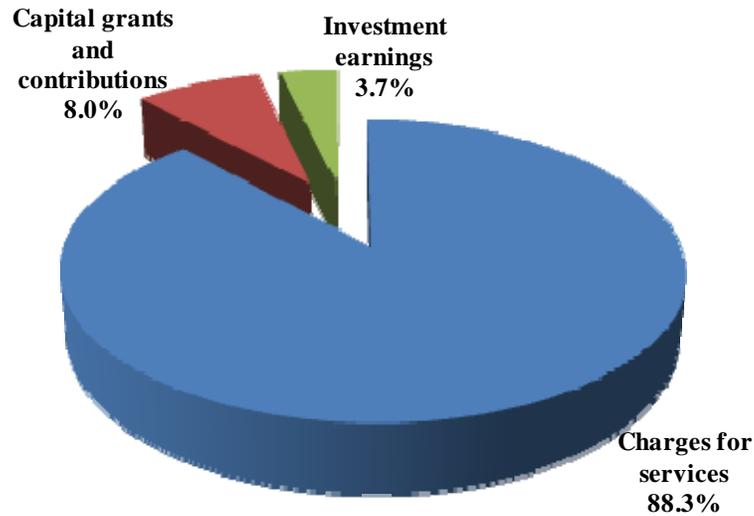


Business-type activities. Business-type activities increased the City’s net assets by \$10,220, accounting for 5.9 percent of the total growth in the City’s net assets.

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 \$1,776,252, an increase of \$251,958 in comparison with the prior year. Approximately 72.8 percent of this total amount \$1,293,160 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 and interfund loans in the amount of \$353,225 and \$97,961, respectively. A reserve for park land dedication of \$31,906 makes up the balance.

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 \$564,053. 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 132.1 percent of fund expenditures, while unreserved fund balance represents 115.9 percent of fund expenditures.

The fund balance of the City's General fund increased by \$92,819 during the current fiscal year. The key factors in this increase were increased revenues from fines and forfeits, donations, and transfers in.

The Economic Development Loan fund has a total fund balance of \$208,800. The net increase in fund balance during the current year in the Economic Development Loan fund was \$44,436. The key factor in this increase was the repayment of outstanding loans.

The Public Improvement Revolving fund has a total fund balance of \$569,149. The net increase in fund balance during the current year in the Public Improvement Revolving fund was \$22,003. The key factor for the increase was investment earnings.

The Fire fund has a total fund balance of \$199,756. The net increase in fund balance during the current year in the Fire fund was \$73,765. The key factor in this change was reduced capital outlay spending during the year.

The Debt Service fund has a total fund balance of \$331,895, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the Debt Service fund was \$14,677. The key factor in this increase was special assessment collections.

The Tax Increment District # 2 fund has a total fund balance deficit of \$97,961. The net increase in fund balance during the current year in the Tax Increment District # 2 fund was \$4,329.

The West Side Project fund has total fund balance of \$238. The net increase in fund balance during the current year in the West Side Project fund was \$1.

The Diamond Drive Project fund has total fund balance deficit of \$7,958. The net decrease in fund balance during the current year in the Diamond Drive Project fund was \$91.

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 \$491,659. The total growth in net assets for the funds was \$10,220. 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 amended during the year. The final budget called for a break-even year. Revenues exceeded expectations by \$55,616, expenditures came in under budget by \$19,092, and other financing sources exceeded budget by \$18,111. As a result, reserves increased during 2008 by \$92,819.

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, 2008, amounts to \$4,992,787 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total change in the City's investment in capital assets for the current fiscal year was a 4.7 percent decrease (a 5.0 percent decrease for governmental activities and a 4.5 percent decrease for business-type activities).

- There were no major capital asset events during the current fiscal year.

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	
	2008	2007	2008	2007	2008	2007
Land	\$ 466,218	\$ 466,218	\$ 47,313	\$ 47,313	\$ 513,531	\$ 513,531
Buildings	321,459	338,718	-	-	321,459	338,718
Infrastructure	1,191,500	1,265,085	2,628,420	2,757,558	3,819,920	4,022,643
Machinery and equipment	193,943	224,689	9,084	6,370	203,027	231,059
Construction in progress	134,850	134,850	-	-	134,850	134,850
Total	\$ 2,307,970	\$ 2,429,560	\$ 2,684,817	\$ 2,811,241	\$ 4,992,787	\$ 5,240,801

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,356,142. Of this amount, \$38,000 is general obligation debt, \$955,000 is special assessment debt and \$363,142 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	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 38,000	\$ 49,000	\$ -	\$ -	\$ 38,000	\$ 49,000
G.O. improvement bonds	955,000	1,045,000	-	-	955,000	1,045,000
General obligation revenue bonds	-	-	363,142	628,218	363,142	628,218
Total	\$ 993,000	\$ 1,094,000	\$ 363,142	\$ 628,218	\$ 1,356,142	\$ 1,722,218

The City's total debt decreased by \$366,076, or 21.3 percent during the current fiscal year. The key factor in this decrease was the retirement of \$366,076 in bonds during the year.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$2,562,096, 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 5.1 percent, which is an increase from a rate of 3.8 percent a year ago. This compares favorably to the State's average unemployment rate of 6.8 percent and the national average rate of 7.2 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 2009 fiscal year.

Property taxes will increase in 2009 by approximately 4.0 percent. The tax increase will provide an additional \$15,204 for operations of our governmental services.

Water, Sewer, and Refuse Utility rates will increase in 2009. Water base and usage charges will be up approximately 3 percent. Sewer base charges will increase approximately 17% and sewer usage charges will increase approximately 42.6%. Garbage and Recycling fees will increase approximately 3 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, 2008

CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,573,266	\$ 313,638	\$ 1,886,904
Investments	179,903	235,160	415,063
Receivables:			
Delinquent taxes	29,220	-	29,220
Accounts	5,864	55,615	61,479
Notes	194,364	-	194,364
Special assessments	445,838	38,188	484,026
Intergovernmental	2,981	1,325	4,306
Prepaid items	34,620	-	34,620
Unamortized bond discount	20,009	6,031	26,040
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	321,459	-	321,459
Infrastructure	1,191,500	2,628,420	3,819,920
Machinery and equipment	193,943	9,084	203,027
	4,794,035	3,334,774	8,128,809
LIABILITIES			
Accounts payable	10,311	6,987	17,298
Due to other governments	3	770	773
Accrued interest payable	17,787	3,868	21,655
Accrued salaries payable	10,068	-	10,068
Customer deposits payable	-	4,106	4,106
Noncurrent liabilities:			
Due within one year	119,907	40,076	159,983
Due in more than one year	876,000	323,066	1,199,066
	1,034,076	378,873	1,412,949
NET ASSETS			
Invested in capital assets, net of related debt	1,334,979	2,327,706	3,662,685
Restricted for:			
Debt service	727,391	32,639	760,030
Infrastructure	-	103,897	103,897
Park land dedication	31,906	-	31,906
Unrestricted	1,665,683	491,659	2,157,342
	\$ 3,759,959	\$ 2,955,901	\$ 6,715,860

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, 2008

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 166,679	\$ 11,657	\$ -	\$ -
Public safety	246,297	132,974	24,884	-
Streets and highways	192,338	19,410	600	20,641
Culture and recreation	13,145	-	15,000	-
Economic development	4,421	6,345	-	-
Miscellaneous	13,590	-	-	-
Interest on long-term debt	43,886	-	-	-
Total governmental activities	680,356	170,386	40,484	20,641
Business-type activities:				
Water utility	108,179	105,670	-	-
Sewer utility	255,360	213,230	-	37,276
Refuse	54,945	92,519	-	-
Total business-type activities	418,484	411,419	-	37,276
Total	\$ 1,098,840	\$ 581,805	\$ 40,484	\$ 57,917

General revenues:

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

Total general revenues and transfers

Change in net assets

Net assets, January 1

Net assets, December 31

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (155,022)	\$ -	\$ (155,022)
(88,439)	-	(88,439)
(151,687)	-	(151,687)
1,855	-	1,855
1,924	-	1,924
(13,590)	-	(13,590)
(43,886)	-	(43,886)
<u>(448,845)</u>	<u>-</u>	<u>(448,845)</u>
-	(2,509)	(2,509)
-	(4,854)	(4,854)
<u>-</u>	<u>37,574</u>	<u>37,574</u>
<u>-</u>	<u>30,211</u>	<u>30,211</u>
<u>(448,845)</u>	<u>30,211</u>	<u>(418,634)</u>
296,259	-	296,259
64,630	-	64,630
4,021	-	4,021
1,640	-	1,640
3,581	-	3,581
163,904	-	163,904
38,948	17,061	56,009
2,481	-	2,481
37,052	(37,052)	-
<u>612,516</u>	<u>(19,991)</u>	<u>592,525</u>
163,671	10,220	173,891
<u>3,596,288</u>	<u>2,945,681</u>	<u>6,541,969</u>
<u>\$ 3,759,959</u>	<u>\$ 2,955,901</u>	<u>\$ 6,715,860</u>

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FUND FINANCIAL STATEMENTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008

GOVERNMENTAL FUNDS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008

CITY OF MADISON LAKE, MINNESOTA
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 DECEMBER 31, 2008

	General	Economic Development Loan	Public Improvement Revolving	Fire
ASSETS				
Cash and cash equivalents (deficit)	\$ 395,721	\$ 208,800	\$ 507,659	\$ 198,462
Investments	139,430	-	-	-
Receivables				
Loans	-	194,364	-	-
Delinquent taxes	26,216	-	-	-
Accounts	3,384	-	530	1,950
Special assessments	-	-	32,777	-
Intergovernmental	2,981	-	-	-
Due from other funds	37,001	-	60,960	-
Prepaid items	-	-	-	-
TOTAL ASSETS	<u>\$ 604,733</u>	<u>\$ 403,164</u>	<u>\$ 601,926</u>	<u>\$ 200,412</u>
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts payable	\$ 4,393	\$ -	\$ -	\$ 656
Due to other funds	-	-	-	-
Due to other governments	3	-	-	-
Accrued salaries payable	10,068	-	-	-
Deferred revenue	26,216	194,364	32,777	-
TOTAL LIABILITIES	<u>40,680</u>	<u>194,364</u>	<u>32,777</u>	<u>656</u>
FUND BALANCES (DEFICITS)				
Reserved for:				
Interfund advance	37,001	-	60,960	-
Debt service	-	-	-	-
Park land dedication	31,906	-	-	-
Unreserved, designated for:				
Economic development	-	208,800	-	-
Capital outlay	211,443	-	-	153,620
Public improvements	-	-	508,189	-
Unreserved, undesignated, reported in:				
General fund	283,703	-	-	-
Special revenue funds	-	-	-	46,136
Debt Service funds	-	-	-	-
Capital projects funds	-	-	-	-
TOTAL FUND BALANCES (DEFICITS)	<u>564,053</u>	<u>208,800</u>	<u>569,149</u>	<u>199,756</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 604,733</u>	<u>\$ 403,164</u>	<u>\$ 601,926</u>	<u>\$ 200,412</u>

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
\$ 256,802	\$ -	\$ 238	\$ (2,696)	\$ 8,280	\$ 1,573,266
40,473	-	-	-	-	179,903
-	-	-	-	-	194,364
222	2,701	-	-	-	29,139
-	-	-	-	-	5,864
413,061	-	-	-	-	445,838
-	-	-	-	-	2,981
-	-	-	-	-	97,961
34,620	-	-	-	-	34,620
<u>\$ 745,178</u>	<u>\$ 2,701</u>	<u>\$ 238</u>	<u>\$ (2,696)</u>	<u>\$ 8,280</u>	<u>\$ 2,563,936</u>
\$ -	\$ -	\$ -	\$ 5,262	\$ -	\$ 10,311
-	97,961	-	-	-	97,961
-	-	-	-	-	3
-	-	-	-	-	10,068
413,283	2,701	-	-	-	669,341
<u>413,283</u>	<u>100,662</u>	<u>-</u>	<u>5,262</u>	<u>-</u>	<u>787,684</u>
-	-	-	-	-	97,961
353,225	-	-	-	-	353,225
-	-	-	-	-	31,906
-	-	-	-	-	208,800
-	-	-	-	9,276	374,339
-	-	-	-	-	508,189
-	-	-	-	-	283,703
-	-	-	-	3,315	49,451
(21,330)	-	-	-	-	(21,330)
-	(97,961)	238	(7,958)	(4,311)	(109,992)
<u>331,895</u>	<u>(97,961)</u>	<u>238</u>	<u>(7,958)</u>	<u>8,280</u>	<u>1,776,252</u>
<u>\$ 745,178</u>	<u>\$ 2,701</u>	<u>\$ 238</u>	<u>\$ (2,696)</u>	<u>\$ 8,280</u>	<u>\$ 2,563,936</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, 2008

Total fund balances - governmental funds	\$ 1,776,252
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.	2,307,970
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	(2,907)
Bonds payable	(993,000)
Bond discounts/issue costs, net of accumulated amortization	20,009
Long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	
Delinquent property taxes receivable	29,220
Special assessments receivable	445,838
Loans receivable	194,364
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(17,787)</u>
Total net assets - governmental activities	<u><u>\$ 3,759,959</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, 2008

	General	Economic Development Loan	Public Improvement Revolving	Fire
REVENUES				
Taxes	\$ 287,064	\$ -	\$ -	\$ -
Special assessments	-	-	1,484	-
Licenses and permits	23,527	-	-	-
Intergovernmental	164,740	-	-	11,433
Charges for services	1,527	-	-	80,267
Fines and forfeits	36,364	-	-	-
Investment earnings	18,225	3,244	10,579	2,060
Miscellaneous	27,862	41,192	19,038	7,275
TOTAL REVENUES	559,309	44,436	31,101	101,035
EXPENDITURES				
Current				
General government	148,963	-	-	-
Public safety	115,912	-	-	77,246
Streets and highways	96,959	-	-	-
Culture and recreation	7,330	-	-	-
Housing and economic development	4,031	-	-	-
Miscellaneous	4,356	-	295	-
Capital outlay				
General government	15,077	-	-	-
Streets and highways	9,769	-	-	-
Culture and recreation	24,282	-	-	-
Economic development	390	-	-	-
Water and sewer	-	-	8,803	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
TOTAL EXPENDITURES	427,069	-	9,098	77,246
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	132,240	44,436	22,003	23,789
OTHER FINANCING SOURCES (USES)				
Transfers in	48,707	-	-	49,976
Transfers out	(88,128)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(39,421)	-	-	49,976
NET CHANGE IN FUND BALANCES	92,819	44,436	22,003	73,765
FUND BALANCES (DEFICITS), JANUARY 1	471,234	164,364	547,146	125,991
FUND BALANCES (DEFICITS), DECEMBER 31	\$ 564,053	\$ 208,800	\$ 569,149	\$ 199,756

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
\$ 64,630	\$ 4,021	\$ -	\$ -	\$ -	\$ 355,715
62,120	-	-	-	-	63,604
-	-	-	-	-	23,527
-	517	-	-	-	176,690
-	-	-	-	-	81,794
-	-	-	-	-	36,364
4,822	-	-	-	19	38,949
-	-	-	-	-	95,367
<u>131,572</u>	<u>4,538</u>	<u>-</u>	<u>-</u>	<u>19</u>	<u>872,010</u>
300	-	-	-	-	149,263
-	-	-	-	-	193,158
-	-	-	-	-	96,959
-	-	-	-	-	7,330
-	209	-	-	-	4,240
-	-	-	-	-	4,651
-	-	-	-	-	15,077
-	-	(1)	91	-	9,859
-	-	-	-	-	24,282
-	-	-	-	-	390
-	-	-	-	-	8,803
101,000	-	-	-	-	101,000
42,092	-	-	-	-	42,092
<u>143,392</u>	<u>209</u>	<u>(1)</u>	<u>91</u>	<u>-</u>	<u>657,104</u>
<u>(11,820)</u>	<u>4,329</u>	<u>1</u>	<u>(91)</u>	<u>19</u>	<u>214,906</u>
26,497	-	-	-	-	125,180
-	-	-	-	-	(88,128)
<u>26,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,052</u>
14,677	4,329	1	(91)	19	251,958
<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>\$ 331,895</u>	<u>\$ (97,961)</u>	<u>\$ 238</u>	<u>\$ (7,958)</u>	<u>\$ 8,280</u>	<u>\$ 1,776,252</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, 2008

Net change in fund balances - governmental funds	\$ 251,958
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	37,241
Depreciation expense	(158,831)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	101,000
Discount on bonds issued, net of amortization expense	(2,450)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	(34)
<p>Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	
Property taxes	12,776
<p>Certain revenues are recognized as soon as it is earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special assessments	(42,963)
Loan principal repayments	(34,847)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	(179)
Change in net assets - governmental activities	\$ 163,671

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, 2008

	General			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Taxes	\$ 321,516	\$ 321,516	\$ 287,064	\$ (34,452)
Special assessments	-	-	-	-
Licenses and permits	18,350	18,350	23,527	5,177
Intergovernmental	133,597	133,597	164,740	31,143
Charges for services	1,070	1,070	1,527	457
Fines and forfeits	17,000	17,000	36,364	19,364
Investment earnings	7,500	7,500	18,225	10,725
Miscellaneous	4,660	4,660	27,862	23,202
TOTAL REVENUES	503,693	503,693	559,309	55,616
EXPENDITURES				
Current				
General government	203,896	165,042	148,963	16,079
Public safety	124,659	111,741	115,912	(4,171)
Streets and highways	179,587	112,306	96,959	15,347
Culture and recreation	6,234	6,234	7,330	(1,096)
Housing and economic development	7,153	7,153	4,031	3,122
Miscellaneous	1,710	1,710	4,356	(2,646)
Capital outlay				
General government	1,500	1,500	15,077	(13,577)
Public safety	5,475	5,475	-	5,475
Streets and highways	25,000	25,000	9,769	15,231
Culture and recreation	7,500	7,500	24,282	(16,782)
Economic development	2,500	2,500	390	2,110
Water and sewer	-	-	-	-
TOTAL EXPENDITURES	565,214	446,161	427,069	19,092
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(61,521)	57,532	132,240	74,708
OTHER FINANCING SOURCES (USES)				
Transfers in	30,596	30,596	48,707	18,111
Transfers out	(30,596)	(88,128)	(88,128)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(57,532)	(39,421)	18,111
NET CHANGE IN FUND BALANCES	(61,521)	-	92,819	92,819
FUND BALANCES, JANUARY 1	471,234	471,234	471,234	-
FUND BALANCES, DECEMBER 31	<u>\$ 409,713</u>	<u>\$ 471,234</u>	<u>\$ 564,053</u>	<u>\$ 92,819</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		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	1,484	1,484
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	3,244	3,244	-	-	10,579	10,579
42,293	42,293	41,192	(1,101)	18,720	18,720	19,038	318
42,293	42,293	44,436	2,143	18,720	18,720	31,101	12,381
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	7,728	7,728	-	7,728
-	-	-	-	-	-	-	-
28,969	28,969	-	28,969	-	-	-	-
-	-	-	-	12,400	12,400	295	12,105
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	18,720	18,720	8,803	9,917
28,969	28,969	-	28,969	38,848	38,848	9,098	29,750
13,324	13,324	44,436	31,112	(20,128)	(20,128)	22,003	42,131
-	-	-	-	24,475	24,475	-	(24,475)
-	-	-	-	-	-	-	-
-	-	-	-	24,475	24,475	-	(24,475)
13,324	13,324	44,436	31,112	4,347	4,347	22,003	17,656
164,364	164,364	164,364	-	547,146	547,146	547,146	-
<u>\$ 177,688</u>	<u>\$ 177,688</u>	<u>\$ 208,800</u>	<u>\$ 31,112</u>	<u>\$ 551,493</u>	<u>\$ 551,493</u>	<u>\$ 569,149</u>	<u>\$ 17,656</u>

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	-	-	11,433	11,433
Charges for services	80,667	80,667	80,267	(400)
Fines and forfeits	-	-	-	-
Investment earnings	-	-	2,060	2,060
Miscellaneous	-	-	7,275	7,275
TOTAL REVENUES	80,667	80,667	101,035	20,368
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	77,643	77,643	77,246	397
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Housing and economic development	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay				
General government	-	-	-	-
Public safety	53,000	53,000	-	53,000
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Culture and recreation	-	-	-	-
Water and sewer	-	-	-	-
TOTAL EXPENDITURES	130,643	130,643	77,246	53,397
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(49,976)	(49,976)	23,789	73,765
OTHER FINANCING SOURCES (USES)				
Transfers in	49,976	49,976	49,976	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	49,976	49,976	49,976	-
NET CHANGE IN FUND BALANCES	-	-	73,765	73,765
FUND BALANCES, JANUARY 1	125,991	125,991	125,991	-
FUND BALANCES, DECEMBER 31	<u>\$ 125,991</u>	<u>\$ 125,991</u>	<u>\$ 199,756</u>	<u>\$ 73,765</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, 2008

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF NET ASSETS
 DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2008	2007	2008	2007
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (deficit)	\$ 11,218	\$ (16,042)	\$ 306,295	\$ 453,502
Investments	158,185	151,319	76,975	72,923
Accounts receivable	15,399	16,590	32,663	32,101
Special assessments - delinquent	-	-	-	-
TOTAL CURRENT ASSETS	184,802	151,867	415,933	558,526
NONCURRENT ASSETS				
Deferred assessments receivable	-	-	38,188	38,188
Unamortized bond discount and fees	-	-	6,031	18,016
Capital assets				
Land	35,471	35,471	11,842	11,842
Buildings	12,572	12,572	-	-
Infrastructure	1,459,026	1,448,122	3,627,090	3,627,090
Machinery and equipment	7,099	7,099	29,236	24,033
Less accumulated depreciation	(449,892)	(412,926)	(2,047,627)	(1,942,062)
Total capital assets, net of depreciation	1,064,276	1,090,338	1,620,541	1,720,903
TOTAL NONCURRENT ASSETS	1,064,276	1,090,338	1,664,760	1,777,107
TOTAL ASSETS	1,249,078	1,242,205	2,080,693	2,335,633
CURRENT LIABILITIES				
Accounts payable	841	153	1,790	10,774
Due to other governments	123	268	-	-
Accrued interest payable	-	-	3,868	6,019
Deposits payable	4,106	(2,198)	-	-
Bonds payable - current	-	-	40,076	265,076
TOTAL CURRENT LIABILITIES	5,070	(1,777)	45,734	281,869
NONCURRENT LIABILITIES				
Bonds payable - net of current portion	-	-	323,066	363,142
TOTAL LIABILITIES	5,070	(1,777)	368,800	645,011
NET ASSETS				
Invested in capital assets, net of related debt	1,064,276	1,090,338	1,263,430	1,110,701
Restricted for:				
Debt retirement	-	-	32,639	31,443
Infrastructure	-	-	103,897	102,026
Unrestricted	179,732	153,644	311,927	446,452
TOTAL NET ASSETS	\$ 1,244,008	\$ 1,243,982	\$ 1,711,893	\$ 1,690,622

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2008	2007	2008	2007
\$ (3,875)	\$ 8,675	\$ 313,638	\$ 446,135
-	-	235,160	224,242
8,720	8,193	56,782	56,884
158	-	158	-
<u>5,003</u>	<u>16,868</u>	<u>605,738</u>	<u>727,261</u>
-	-	38,188	38,188
-	-	6,031	18,016
-	-	47,313	47,313
-	-	12,572	12,572
-	-	5,086,116	5,075,212
-	-	36,335	31,132
-	-	(2,497,519)	(2,354,988)
-	-	2,684,817	2,811,241
-	-	2,729,036	2,867,445
<u>5,003</u>	<u>16,868</u>	<u>3,334,774</u>	<u>3,594,706</u>
4,356	3,967	6,987	14,894
647	1,824	770	2,092
-	-	3,868	6,019
-	-	4,106	(2,198)
-	-	40,076	265,076
<u>5,003</u>	<u>5,791</u>	<u>55,807</u>	<u>285,883</u>
-	-	323,066	363,142
<u>5,003</u>	<u>5,791</u>	<u>378,873</u>	<u>649,025</u>
-	-	2,327,706	2,201,039
-	-	32,639	31,443
-	-	103,897	102,026
-	11,077	491,659	611,173
<u>\$ -</u>	<u>\$ 11,077</u>	<u>\$ 2,955,901</u>	<u>\$ 2,945,681</u>

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 YEARS ENDED DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2008	2007	2008	2007
OPERATING REVENUES				
Charges for services	\$ 104,001	\$ 102,295	\$ 213,230	\$ 206,993
OPERATING EXPENSES				
Salaries and benefits	47,334	53,067	47,334	53,067
Supplies	7,636	9,769	7,748	11,473
Other services and charges	8,193	6,098	39,266	25,517
Insurance	1,583	1,499	2,614	2,288
Utilities	5,070	6,206	29,388	27,865
Depreciation	36,966	35,460	105,565	106,157
TOTAL OPERATING EXPENSES	106,782	112,099	231,915	226,367
OPERATING INCOME (LOSS)	(2,781)	(9,804)	(18,685)	(19,374)
NONOPERATING REVENUES (EXPENSES)				
Investment income	6,934	3,952	10,071	8,951
Connection and infrastructure fees	-	1,575	37,276	40,766
Other income	285	60	-	8,672
Interest and fees	(13)	-	(23,445)	(16,034)
TOTAL NONOPERATING REVENUES (EXPENSES)	7,206	5,587	23,902	42,355
INCOME (LOSS) BEFORE TRANSFERS	4,425	(4,217)	5,217	22,981
TRANSFERS IN	22,098	16,700	16,054	31,191
TRANSFERS OUT	(26,497)	(36,704)	-	(2,353)
CHANGE IN NET ASSETS	26	(24,221)	21,271	51,819
NET ASSETS, JANUARY 1	1,243,982	1,268,203	1,690,622	1,638,803
NET ASSETS, DECEMBER 31	<u>\$ 1,244,008</u>	<u>\$ 1,243,982</u>	<u>\$ 1,711,893</u>	<u>\$ 1,690,622</u>

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2008	2007	2008	2007
\$ 92,519	\$ 91,592	\$ 409,750	\$ 400,880
-	-	94,668	106,134
-	1,355	15,384	22,597
54,945	53,911	102,404	85,526
-	-	4,197	3,787
-	-	34,458	34,071
-	-	142,531	141,617
54,945	55,266	393,642	393,732
37,574	36,326	16,108	7,148
56	5	17,061	12,908
-	-	37,276	42,341
-	-	285	8,732
-	-	(23,458)	(16,034)
56	5	31,164	47,947
37,630	36,331	47,272	55,095
-	-	38,152	47,891
(48,707)	(25,254)	(75,204)	(64,311)
(11,077)	11,077	10,220	38,675
11,077	-	2,945,681	2,907,006
\$ -	\$ 11,077	\$ 2,955,901	\$ 2,945,681

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF CASH FLOWS
 YEARS ENDED DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 105,192	\$ 98,444	\$ 212,668	\$ 198,980
Payments to suppliers and vendors	(21,939)	(24,195)	(88,000)	(68,600)
Payments to and on behalf of employees	(47,334)	(53,067)	(47,334)	(53,067)
Other receipts	285	60	-	8,672
NET CASH PROVIDED BY OPERATING ACTIVITIES	36,204	21,242	77,334	85,985
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	22,098	16,700	16,054	31,191
Transfers to other funds	(26,497)	(36,704)	-	(2,353)
Decrease in customer deposits	6,304	(2,239)	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	1,905	(22,243)	16,054	28,838
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection and infrastructure fees	-	1,575	37,276	40,766
Acquisition of capital assets	(10,904)	(4,151)	(5,203)	-
Proceeds from bonds issued, net of discounts	-	-	-	227,629
Principal paid on bonds	-	-	(265,076)	(35,076)
Interest paid on bonds	(13)	-	(13,611)	(14,917)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(10,917)	(2,576)	(246,614)	218,402
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(6,866)	(3,871)	(4,052)	(6,181)
Interest received on cash and investments	6,934	3,952	10,071	8,951
NET CASH PROVIDED BY INVESTING ACTIVITIES	68	81	6,019	2,770
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,260	(3,496)	(147,207)	335,995
CASH AND CASH EQUIVALENTS (DEFICITS), JANUARY 1	(16,042)	(12,546)	453,502	117,507
CASH AND CASH EQUIVALENTS (DEFICITS), DECEMBER 31	\$ 11,218	\$ (16,042)	\$ 306,295	\$ 453,502
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (2,781)	\$ (9,804)	\$ (18,685)	\$ (19,374)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Other income related to operations	285	60	-	8,672
Depreciation	36,966	35,460	105,565	106,157
(Increase) decrease in assets:				
Accounts receivable	1,191	(3,851)	(562)	(8,013)
Special assessments receivable	-	-	-	-
Increase (decrease) in liabilities:				
Accounts payable	688	(671)	(8,984)	(1,457)
Due to other governments	(145)	48	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 36,204	\$ 21,242	\$ 77,334	\$ 85,985
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Bond discount amortization	\$ -	\$ -	\$ 11,985	\$ 1,575
Discount on bonds issued	-	-	-	7,371

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2008	2007	2008	2007
\$ 91,834	\$ 90,590	\$ 409,694	\$ 388,014
(55,733)	(55,045)	(165,672)	(147,840)
-	-	(94,668)	(106,134)
-	-	285	8,732
<u>36,101</u>	<u>35,545</u>	<u>149,639</u>	<u>142,772</u>
-	-	38,152	47,891
(48,707)	(25,254)	(75,204)	(64,311)
-	-	6,304	(2,239)
<u>(48,707)</u>	<u>(25,254)</u>	<u>(30,748)</u>	<u>(18,659)</u>
-	-	37,276	42,341
-	-	(16,107)	(4,151)
-	-	-	227,629
-	-	(265,076)	(35,076)
-	-	(13,624)	(14,917)
-	-	<u>(257,531)</u>	<u>215,826</u>
-	-	(10,918)	(10,052)
56	5	17,061	12,908
<u>56</u>	<u>5</u>	<u>6,143</u>	<u>2,856</u>
(12,550)	10,296	(132,497)	342,795
8,675	(1,621)	446,135	103,340
<u>\$ (3,875)</u>	<u>\$ 8,675</u>	<u>\$ 313,638</u>	<u>\$ 446,135</u>
\$ 37,574	\$ 36,326	\$ 16,108	\$ 7,148
-	-	285	8,732
-	-	142,531	141,617
(527)	(1,002)	102	(12,866)
(158)	-	(158)	-
389	21	(7,907)	(2,107)
(1,177)	200	(1,322)	248
<u>\$ 36,101</u>	<u>\$ 35,545</u>	<u>\$ 149,639</u>	<u>\$ 142,772</u>
\$ -	\$ -	\$ 11,985	\$ 1,575
-	-	-	7,371

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

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, 2008

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, 2008

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

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 ensure that user charges are sufficient to pay for those costs.

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

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

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, 2008

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, 2008 that address interest rate and credit risk.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

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 2008. 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, 2008

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

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

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, 2008

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. A budget amendment was made during the year to balance the budget in the General fund.

B. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2008:

Fund	Amount
Capital Projects	
Tax Increment District #2	\$ 97,961
Diamond Drive Project	7,958
Tax Increment District #2-8	4,612
Debt Service	
Tax Increment District #2-5	15,266
2005 G.O. Improvement Bonds	6,064

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, 2008

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was \$502,501 and the bank balance was \$531,291. Of the bank balance, \$250,000 was covered by federal depository insurance. Of the remaining balance, \$281,291 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

As of December 31, 2008, 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)	\$ 1,659,607	N/A	less than 6 months
Franklin Fund - US Government Securities	116,673	N/A	less than 6 months
Primevest Money Market	22,715	N/A	less than 6 months
GNMA Pool	<u>246</u>	AAA	less than 6 months
 Total investments	 <u>\$ 1,799,241</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.

Cash on Hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$225.

Cash and Investments Summary

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

Petty cash	\$ 225
Deposits	502,501
Investments	<u>1,799,241</u>
 Total	 <u>\$ 2,301,967</u>
 Cash and cash equivalents	 \$ 1,886,904
Investments	<u>415,063</u>
 Total	 <u>\$ 2,301,967</u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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, 2008 was \$194,364.

C. Intergovernmental Receivables/Deferred Revenue

A summary of all intergovernmental receivables as of December 31, 2008 is as follows:

Fund	County
Governmental	
General	\$ 2,981
Business-type	
Water	\$ 820
Sewer	347
Garbage	158
Total	\$ 1,325

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)	\$ 26,216	\$ -
Delinquent taxes receivable (Debt Service funds)	222	-
Delinquent taxes receivable (TIF #2 fund)	2,701	-
Loans receivable (Economic Development Loan fund)	194,364	-
Special assessments receivable (Public Improvement Revolving fund)	32,777	-
Special assessments receivable (Debt Service funds)	413,061	-
Total	\$ 669,341	\$ -

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Capital Assets

Capital asset activity for the City for the year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 466,218	\$ -	\$ -	\$ 466,218
Construction in progress	134,850	-	-	134,850
Total capital assets not being depreciated	601,068	-	-	601,068
Capital assets being depreciated				
Buildings	900,321	5,591	-	905,912
Infrastructure	2,348,730	-	-	2,348,730
Machinery and equipment	247,720	31,650	(10,011)	269,359
Vehicles	445,312	-	-	445,312
Total capital assets being depreciated	3,942,083	37,241	(10,011)	3,969,313
Less accumulated depreciation for				
Buildings	(561,603)	(22,850)	-	(584,453)
Infrastructure	(1,083,645)	(73,585)	-	(1,157,230)
Machinery and equipment	(137,952)	(23,489)	10,011	(151,430)
Vehicles	(330,391)	(38,907)	-	(369,298)
Total accumulated depreciation	(2,113,591)	(158,831)	10,011	(2,262,411)
Total capital assets being depreciated, net	1,828,492	(121,590)	-	1,706,902
Governmental activities capital assets, net	\$ 2,429,560	\$ (121,590)	\$ -	\$ 2,307,970

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 47,313	\$ -	\$ -	\$ 47,313
Capital assets being depreciated				
Buildings	12,572	-	-	12,572
Infrastructure	5,075,212	10,904	-	5,086,116
Machinery and equipment	31,132	5,203	-	36,335
Total capital assets being depreciated	<u>5,118,916</u>	<u>16,107</u>	<u>-</u>	<u>5,135,023</u>
Less accumulated depreciation for				
Buildings	(12,572)	-	-	(12,572)
Infrastructure	(2,317,654)	(140,042)	-	(2,457,696)
Machinery and equipment	<u>(24,762)</u>	<u>(2,489)</u>	<u>-</u>	<u>(27,251)</u>
Total accumulated depreciation	<u>(2,354,988)</u>	<u>(142,531)</u>	<u>-</u>	<u>(2,497,519)</u>
Total capital assets being depreciated, net	<u>2,763,928</u>	<u>(126,424)</u>	<u>-</u>	<u>2,637,504</u>
Business-type activities capital assets, net	<u>\$ 2,811,241</u>	<u>\$ (126,424)</u>	<u>\$ -</u>	<u>\$ 2,684,817</u>

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

Governmental activities:		
General government		\$ 16,028
Public safety		51,893
Streets and highways		85,095
Culture and recreation		<u>5,815</u>
Total depreciation expense - governmental activities		<u>\$ 158,831</u>
Business-type activities:		
Water utility		\$ 36,966
Sewer utility		<u>105,565</u>
Total depreciation expense - business-type activities		<u>\$ 142,531</u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Construction Commitments

The City has active construction projects as of December 31, 2008. At year end the City's commitments with contractors are as follows:

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

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, 2008 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Tax Increment District #2	\$ 37,001
Public Improvement Revolving	Tax Increment District #2	60,960
Total		\$ 97,961

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, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Interfund transfers:

The composition of interfund transfers at December 31, 2008 is as follows:

	Transfer in:		
	General Fund	Fire Fund	Debt Service Fund
Transfer out:			
General fund	\$ -	\$ 49,976	\$ -
Water Utility fund	-	-	26,497
Refuse fund	48,707	-	-
Total transfers out	\$ 48,707	\$ 49,976	\$ 26,497

	Transfer in:		
	Water Utility Fund	Sewer Utility Fund	Total
Transfer out:			
General fund	\$ 22,098	\$ 16,054	\$ 88,128
Water Utility fund	-	-	26,497
Refuse fund	-	-	48,707
Total transfers out	\$ 22,098	\$ 16,054	\$ 163,332

The City made the following budgeted transfers for the year ended December 31, 2008:

- From the General fund to the following funds for operations: Fire fund (\$49,976), Water Utility fund (\$22,098) and the Sewer Utility fund (\$16,054).
- From the Water Utility fund (\$26,497) to the Debt Service fund for debt service.
- From the Refuse Utility fund (\$48,707) to the General fund to transfer excess net assets.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

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>\$ 38,000</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	\$ 255,000
G.O. PIR Refunding Bonds of 2004B	300,000	3.00 - 4.10	11/01/04	02/01/16	230,000
G.O. Improvement Bonds of 2004A	265,000	3.00 - 4.00	09/01/04	02/01/15	195,000
G.O. Improvement Bonds of 2005A	165,000	3.75 - 4.10	06/01/05	02/01/15	135,000
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>\$ 955,000</u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

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. Water Revenue Bonds of 1995A (PFA)	\$ 400,400	0.00 %	09/25/95	02/20/17	\$ 128,142
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>\$ 363,142</u>

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

Year Ending December 31,	General Obligation Bonds Governmental Activities		
	Principal	Interest	Total
2009	\$ 12,000	\$ 1,900	\$ 13,900
2010	13,000	1,300	14,300
2011	13,000	650	13,650
2012	-	-	-
2013	-	-	-
2014 - 2018	-	-	-
Total	<u>\$ 38,000</u>	<u>\$ 3,850</u>	<u>\$ 41,850</u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

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
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	120,000	18,319	138,319	40,076	4,839	44,915
2014 - 2018	390,000	25,895	415,895	162,762	9,085	171,847
Total	<u>\$ 955,000</u>	<u>\$ 159,978</u>	<u>\$ 1,114,978</u>	<u>\$ 363,142</u>	<u>\$ 43,154</u>	<u>\$ 406,296</u>

Year Ending December 31,	Total Governmental Activities		
	Principal	Interest	Total
2009	\$ 117,000	\$ 36,486	\$ 153,486
2010	118,000	32,386	150,386
2011	128,000	27,841	155,841
2012	120,000	22,901	142,901
2013	120,000	18,319	138,319
2014 - 2018	390,000	25,895	415,895
Total	<u>\$ 993,000</u>	<u>\$ 163,828</u>	<u>\$ 1,156,828</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 49,000	\$ -	\$ (11,000)	\$ 38,000	\$ 12,000
General obligation special assessment bonds	<u>1,045,000</u>	<u>-</u>	<u>(90,000)</u>	<u>955,000</u>	<u>105,000</u>
Total bonds payable	1,094,000	-	(101,000)	993,000	117,000
Compensated absences payable	<u>2,728</u>	<u>11,177</u>	<u>(10,998)</u>	<u>2,907</u>	<u>2,907</u>
Governmental activities long-term liabilities	<u>\$ 1,096,728</u>	<u>\$ 11,177</u>	<u>\$ (111,998)</u>	<u>\$ 995,907</u>	<u>\$ 119,907</u>
Business-type activities					
Bonds payable:					
General obligation revenue bonds	<u>\$ 628,218</u>	<u>\$ -</u>	<u>\$ (265,076)</u>	<u>\$ 363,142</u>	<u>\$ 40,076</u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

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 FB</u>	Tax Increment <u>District No. 2-8 FH</u>
Authorizing Law	M.S. 472A	M.S. 472A
Type of District	Redevelopment	Housing
Year Established	1984	2007
Duration of District	15	25
Tax Capacity		
Original	\$ 385	\$ 760
Current	<u>6,995</u>	<u>824</u>
Captured - Retained	<u>\$ 6,610</u>	<u>\$ 64</u>

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.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 4: DEFINED BENEFIT PENSION PLAN – STATEWIDE - CONTINUED

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 www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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 9.1 percent and 6.0 percent, respectively, of their annual covered salary in 2008. PEPFF members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate will increase to 9.4 percent in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members, 6.5 percent of Coordinated Plan PERF members and 12.9 percent for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.75 percent and 14.1 percent, respectively, effective January 1, 2009. The City's contributions to the PERF for the years ending December 31, 2008, 2007 and 2006 were \$9,960, \$8,930, and \$7,332, respectively. The City's contributions to the PEPFF for the years ending December 31, 2008, 2007 and 2006 were \$8,159, \$5,826, and \$4,752, 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, 2008

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	\$ 11,433
Contributions made	
City (voluntary)	6,087
State aid	11,433
Actuarial valuation date	12/31/08
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
12/31/08	\$ 11,433	100.0 %	\$ -
12/31/07	16,685	100.0	-
12/31/06	14,350	100.0	-

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
12/31/08 *	\$ -	\$ -	\$ -	- %	\$ 1,100
12/31/07	295,155	249,298	45,857	118.4	1,100
12/31/06	265,935	234,338	31,597	113.5	900

* Information unavailable at time of audit

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

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 3 percent of the estimated taxable market value of real and personal property located in the City. The taxable market value was \$85,403,200 at December 31, 2008 for a limit of \$2,562,096. 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.

D. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) and Market Value Homestead Credit (MVHC) programs. The amount received in 2008 was \$132,602 and \$25,317 for LGA and MVHC, respectively. This accounted for 28 percent of General fund revenues. The State of Minnesota has proposed adjustments to these aids in the 2009 and 2010 budgets. As of the date of this report the effect of any un-allotment on the aids is not determinable.

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

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2008

	Special Revenue Development	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,315	\$ 4,965	\$ 8,280
FUND BALANCES			
Unreserved, designated for:			
Capital outlay	\$ -	\$ 9,276	\$ 9,276
Unreserved, undesignated, reported in:			
Special revenue funds	3,315	-	3,315
Capital projects funds	-	(4,311)	(4,311)
TOTAL FUND BALANCES	3,315	4,965	8,280
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,315	\$ 4,965	\$ 8,280

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2008

	Special Revenue Development	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Investment earnings	\$ 17	\$ 2	\$ 19
NET CHANGE IN FUND BALANCES	17	2	19
FUND BALANCES, JANUARY 1	3,298	4,963	8,261
FUND BALANCES, DECEMBER 31	\$ 3,315	\$ 4,965	\$ 8,280

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2008

	408	411	430	
	Tax Increment <u>District #2-6</u>	Tax Increment <u>District #2-8</u>	Northwest Project <u>Project</u>	Total Nonmajor <u>Nonmajor</u>
ASSETS				
Cash and cash equivalents (deficit)	<u>\$ 301</u>	<u>\$ (4,612)</u>	<u>\$ 9,276</u>	<u>\$ 4,965</u>
FUND BALANCES (DEFICITS)				
Unreserved				
Designated for capital outlay	-	-	9,276	9,276
Undesignated	<u>301</u>	<u>(4,612)</u>	<u>-</u>	<u>(4,311)</u>
TOTAL FUND BALANCES (DEFICITS)	<u>301</u>	<u>(4,612)</u>	<u>9,276</u>	<u>4,965</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 301</u>	<u>\$ (4,612)</u>	<u>\$ 9,276</u>	<u>\$ 4,965</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, 2008

	408 Tax Increment District #2-6	411 Tax Increment District #2-8	430 Northwest Project	Total Nonmajor
REVENUES				
Investment earnings	\$ 1	\$ -	\$ 1	\$ 2
NET CHANGE IN FUND BALANCES	1	-	1	2
FUND BALANCES (DEFICITS), JANUARY 1	300	(4,612)	9,275	4,963
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 301</u>	<u>\$ (4,612)</u>	<u>\$ 9,276</u>	<u>\$ 4,965</u>

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 395,721	\$ 314,883
Investments	139,430	132,098
Receivables		
Delinquent taxes	26,216	15,658
Accounts	3,384	5,766
Intergovernmental	2,981	2,002
Due from other funds	37,001	38,468
 TOTAL ASSETS	 \$ 604,733	 \$ 508,875
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 4,393	\$ 10,717
Due to other governments	3	526
Accrued salaries payable	10,068	10,740
Deferred revenue	26,216	15,658
 TOTAL LIABILITIES	 40,680	 37,641
 FUND BALANCES		
Reserved for:		
Interfund advance	37,001	38,468
Park land dedication	31,906	51,188
Unreserved		
Designated for:		
Capital outlay	211,443	154,028
Undesignated	283,703	227,550
 TOTAL FUND BALANCES	 564,053	 471,234
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 604,733	 \$ 508,875

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, 2008
With Comparative Actual Amounts for Year Ended December 31, 2007

	2008		Variance with Final Budget - Positive (Negative)	2007
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Taxes				
Property taxes	\$ 317,016	\$ 283,483	\$ (33,533)	\$ 306,830
Franchise fees	4,500	3,581	(919)	2,632
Total taxes	<u>321,516</u>	<u>287,064</u>	<u>(34,452)</u>	<u>309,462</u>
Licenses and permits				
Business	5,000	7,244	2,244	9,185
Nonbusiness	13,350	16,283	2,933	12,601
Total licenses and permits	<u>18,350</u>	<u>23,527</u>	<u>5,177</u>	<u>21,786</u>
Intergovernmental				
State				
Local government aid	132,602	132,602	-	139,200
Property tax credits	-	25,317	25,317	26,161
Other state aids	395	6,221	5,826	797
Total State	<u>132,997</u>	<u>164,140</u>	<u>31,143</u>	<u>166,158</u>
County				
Highway aid	600	600	-	600
Total intergovernmental	<u>133,597</u>	<u>164,740</u>	<u>31,143</u>	<u>166,758</u>
Charges for services				
General government	785	930	145	3,248
Public safety	-	15	15	69
Streets and highways	75	55	(20)	371
Sanitation	-	317	317	119
Other	210	210	-	213
Total charges for services	<u>1,070</u>	<u>1,527</u>	<u>457</u>	<u>4,020</u>
Fines and forfeits	<u>17,000</u>	<u>36,364</u>	<u>19,364</u>	<u>17,892</u>
Investment earnings	<u>7,500</u>	<u>18,225</u>	<u>10,725</u>	<u>18,740</u>
Miscellaneous				
Rent	2,660	3,933	1,273	3,089
Contributions and donations	500	22,108	21,608	5,012
Refunds and reimbursements	1,500	1,821	321	6,149
Total miscellaneous	<u>4,660</u>	<u>27,862</u>	<u>23,202</u>	<u>14,250</u>
TOTAL REVENUES	<u>503,693</u>	<u>559,309</u>	<u>55,616</u>	<u>552,908</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, 2008
With Comparative Actual Amounts for Year Ended December 31, 2007

	2008		Variance with Final Budget - Positive (Negative)	2007
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES				
Current				
General government				
Mayor and Council				
Personal services	\$ 10,227	\$ 7,707	\$ 2,520	\$ 8,563
Supplies	3,500	4,082	(582)	4,296
Other services and charges	7,610	6,229	1,381	5,951
Total Mayor and Council	<u>21,337</u>	<u>18,018</u>	<u>3,319</u>	<u>18,810</u>
City clerk				
Personal services	66,784	64,619	2,165	43,555
Supplies	4,100	3,613	487	3,483
Other services and charges	5,795	4,345	1,450	6,553
Total city clerk	<u>76,679</u>	<u>72,577</u>	<u>4,102</u>	<u>53,591</u>
Election				
Personal services	1,800	1,388	412	-
Supplies	500	478	22	-
Other services and charges	200	122	78	-
Total election	<u>2,500</u>	<u>1,988</u>	<u>512</u>	<u>-</u>
Legal and audit				
Other services	42,175	37,051	5,124	42,966
Planning and zoning				
Personal services	2,625	1,325	1,300	1,425
Supplies	400	66	334	532
Other services and charges	290	130	160	4,737
Total planning and zoning	<u>3,315</u>	<u>1,521</u>	<u>1,794</u>	<u>6,694</u>
Municipal building				
Personal services	1,801	1,760	41	1,751
Supplies	7,300	6,861	439	6,489
Other services and charges	9,935	9,187	748	9,378
Total municipal building	<u>19,036</u>	<u>17,808</u>	<u>1,228</u>	<u>17,618</u>
Total general government	<u>165,042</u>	<u>148,963</u>	<u>16,079</u>	<u>139,679</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, 2008
With Comparative Actual Amounts for Year Ended December 31, 2007

	2008			2007
	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
EXPENDITURES - CONTINUED				
Current - Continued				
Public safety				
Police				
Personal services	\$ 77,653	\$ 80,642	\$ (2,989)	\$ 60,894
Supplies	13,270	13,381	(111)	14,850
Other services and charges	7,855	8,280	(425)	8,380
Total police	<u>98,778</u>	<u>102,303</u>	<u>(3,525)</u>	<u>84,124</u>
Building/health inspection				
Personal services	1,963	1,788	175	1,958
Supplies	100	27	73	55
Other services and charges	8,000	9,568	(1,568)	5,759
Total building/health inspection	<u>10,063</u>	<u>11,383</u>	<u>(1,320)</u>	<u>7,772</u>
Civil defense				
Personal services	100	-	100	-
Supplies	150	193	(43)	100
Other services and charges	500	207	293	314
Total civil defense	<u>750</u>	<u>400</u>	<u>350</u>	<u>414</u>
Animal control				
Other services and charges	<u>150</u>	<u>146</u>	<u>4</u>	<u>116</u>
Rental inspection				
Personal services	<u>2,000</u>	<u>1,680</u>	<u>320</u>	<u>1,180</u>
Total public safety	<u>111,741</u>	<u>115,912</u>	<u>(4,171)</u>	<u>93,606</u>
Streets and highways				
Street maintenance				
Personal services	70,930	62,295	8,635	59,071
Supplies	20,700	16,613	4,087	20,674
Other services and charges	3,176	2,880	296	5,068
Total street maintenance	<u>94,806</u>	<u>81,788</u>	<u>13,018</u>	<u>84,813</u>
Snow and ice removal				
Supplies	<u>3,000</u>	<u>1,650</u>	<u>1,350</u>	<u>3,314</u>
Street lighting				
Other services and charges	<u>14,500</u>	<u>13,521</u>	<u>979</u>	<u>11,774</u>
Total streets and highways	<u>112,306</u>	<u>96,959</u>	<u>15,347</u>	<u>99,901</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, 2008
With Comparative Actual Amounts for Year Ended December 31, 2007

	2008		Variance with Final Budget - Positive (Negative)	2007
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES - CONTINUED				
Current - Continued				
Culture and recreation				
Parks				
Personal services	\$ -	\$ 61	\$ (61)	\$ -
Supplies	2,200	2,026	174	2,712
Other services and charges	4,034	5,243	(1,209)	4,936
Total culture and recreation	6,234	7,330	(1,096)	7,648
Housing and economic development				
Economic development				
Personal services	2,153	1,877	276	2,291
Other services and charges	5,000	2,154	2,846	3,341
Total housing and economic development	7,153	4,031	3,122	5,632
Miscellaneous				
Unallocated				
Other services and charges	1,710	4,356	(2,646)	6,888
Total current	404,186	377,551	26,635	353,354
Capital outlay				
General government	1,500	15,077	(13,577)	250
Public safety	5,475	-	5,475	-
Streets and highways	25,000	9,769	15,231	7,020
Culture and recreation	7,500	24,282	(16,782)	4,418
Economic development	2,500	390	2,110	355
Total capital outlay	41,975	49,518	(7,543)	12,043
TOTAL EXPENDITURES	446,161	427,069	19,092	365,397
EXCESS OF REVENUES OVER EXPENDITURES	57,532	132,240	74,708	187,511
OTHER FINANCING SOURCES (USES)				
Transfers in	30,596	48,707	18,111	25,254
Transfers out	(88,128)	(88,128)	-	(95,401)
TOTAL OTHER FINANCING SOURCES (USES)	(57,532)	(39,421)	18,111	(70,147)
NET CHANGE IN FUND BALANCES	-	92,819	92,819	117,364
FUND BALANCES, JANUARY 1	471,234	471,234	-	353,870
FUND BALANCES, DECEMBER 31	<u>\$ 471,234</u>	<u>\$ 564,053</u>	<u>\$ 92,819</u>	<u>\$ 471,234</u>

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CITY OF MADISON LAKE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2008
With Comparative Totals for December 31, 2007

	301 1982 Community Center Bonds	494 2003 Refunding Bonds	499 2004B PIR Refunding Bonds	405 Tax Increment District #2-3
ASSETS				
Cash and cash equivalents (deficits)	\$ 19,936	\$ 123,568	\$ 44,103	\$ 9,912
Investments	246	-	-	40,227
Receivables				
Delinquent taxes	-	-	-	222
Accounts	-	-	-	-
Special assessments				
Delinquent	-	-	-	-
Deferred	-	78,578	143,780	-
Intergovernmental	-	-	-	-
Prepaid items	-	34,620	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 20,182</u></u>	<u><u>\$ 236,766</u></u>	<u><u>\$ 187,883</u></u>	<u><u>\$ 50,361</u></u>
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Deferred revenue	<u>\$ -</u>	<u>\$ 78,578</u>	<u>\$ 143,780</u>	<u>\$ 222</u>
FUND BALANCES (DEFICITS)				
Reserved for debt service	20,182	158,188	44,103	50,139
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCE (DEFICITS)	<u>20,182</u>	<u>158,188</u>	<u>44,103</u>	<u>50,139</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u><u>\$ 20,182</u></u>	<u><u>\$ 236,766</u></u>	<u><u>\$ 187,883</u></u>	<u><u>\$ 50,361</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	
					2008	2007
\$ 37,839	\$ (15,266)	\$ 23,701	\$ (6,064)	\$ 19,073	\$ 256,802	\$ 242,527
-	-	-	-	-	40,473	38,764
-	-	-	-	-	222	230
-	-	-	-	-	-	4,995
-	-	2,010	3,828	-	5,838	1,588
-	-	21,751	134,343	28,771	407,223	451,428
-	-	-	-	-	-	937
-	-	-	-	-	34,620	29,995
<u>\$ 37,839</u>	<u>\$ (15,266)</u>	<u>\$ 47,462</u>	<u>\$ 132,107</u>	<u>\$ 47,844</u>	<u>\$ 745,178</u>	<u>\$ 770,464</u>
\$ -	\$ -	\$ 23,761	\$ 138,171	\$ 28,771	\$ 413,283	\$ 453,246
37,839	-	23,701	-	19,073	353,225	334,062
-	(15,266)	-	(6,064)	-	(21,330)	(16,844)
<u>37,839</u>	<u>(15,266)</u>	<u>23,701</u>	<u>(6,064)</u>	<u>19,073</u>	<u>331,895</u>	<u>317,218</u>
<u>\$ 37,839</u>	<u>\$ (15,266)</u>	<u>\$ 47,462</u>	<u>\$ 132,107</u>	<u>\$ 47,844</u>	<u>\$ 745,178</u>	<u>\$ 770,464</u>

CITY OF MADISON LAKE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
YEAR ENDED DECEMBER 31, 2008
With Comparative Totals for Year Ended December 31, 2007

	301 1982 Community Center Bonds	494 2003 Refunding Bonds	499 2004B PIR Refunding Bonds	405 Tax Increment District #2-3
REVENUES				
Taxes				
Property taxes	\$ 14,000	\$ 24,128	\$ 15,198	\$ -
Tax increments	-	-	-	-
Special assessments	-	15,549	15,410	-
Intergovernmental				
State property tax credits	-	-	-	-
Investment earnings	61	2,872	25	1,739
TOTAL REVENUES	14,061	42,549	30,633	1,739
EXPENDITURES				
Current				
General government	100	100	-	-
Economic development	-	-	-	-
Debt service				
Principal	11,000	25,000	25,000	-
Interest and other	2,450	10,046	9,668	-
TOTAL EXPENDITURES	13,550	35,146	34,668	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	511	7,403	(4,035)	1,739
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-
NET CHANGE IN FUND BALANCES	511	7,403	(4,035)	1,739
FUND BALANCES (DEFICITS), JANUARY 1	19,671	150,785	48,138	48,400
FUND BALANCES (DEFICITS), DECEMBER 31	\$ 20,182	\$ 158,188	\$ 44,103	\$ 50,139

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	
					2008	2007
\$ -	\$ -	\$ -	\$ -	\$ 11,304	\$ 64,630	\$ 55,041
-	-	-	-	-	-	735
-	-	4,211	16,673	10,277	62,120	64,382
-	-	-	-	-	-	453
59	-	59	3	4	4,822	7,584
59	-	4,270	16,676	21,585	131,572	128,195
-	-	-	100	-	300	400
-	-	-	-	-	-	3,218
-	-	25,000	15,000	-	101,000	156,000
-	-	7,916	6,062	5,950	42,092	45,267
-	-	32,916	21,162	5,950	143,392	204,885
59	-	(28,646)	(4,486)	15,635	(11,820)	(76,690)
-	-	26,497	-	-	26,497	32,329
59	-	(2,149)	(4,486)	15,635	14,677	(44,361)
37,780	(15,266)	25,850	(1,578)	3,438	317,218	361,579
<u>\$ 37,839</u>	<u>\$ (15,266)</u>	<u>\$ 23,701</u>	<u>\$ (6,064)</u>	<u>\$ 19,073</u>	<u>\$ 331,895</u>	<u>\$ 317,218</u>

CITY OF MADISON LAKE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
YEARS ENDED DECEMBER 31, 2008 AND 2007

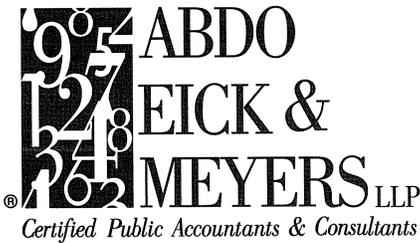
	<u>Total 2008</u>	<u>Total 2007</u>	<u>Percent Increase (Decrease)</u>
REVENUES			
Taxes	\$ 355,715	\$ 372,025	(4.38) %
Special assessments	63,604	65,679	(3.16)
Licenses and permits	23,527	21,786	7.99
Intergovernmental	176,690	289,544	(38.98)
Charges for services	81,794	80,367	1.78
Fines and forfeits	36,364	17,892	103.24
Investment earnings	38,949	60,554	(35.68)
Miscellaneous	<u>95,367</u>	<u>79,284</u>	<u>20.29</u>
TOTAL REVENUES	<u>\$ 872,010</u>	<u>\$ 987,131</u>	<u>(11.66) %</u>
Per Capita	\$ 940	\$ 1,064	(11.66) %
 EXPENDITURES			
Current			
General government	\$ 149,263	\$ 156,928	(4.88) %
Public safety	193,158	183,493	5.27
Streets and highways	96,959	107,830	(10.08)
Culture and recreation	7,330	7,648	(4.16)
Housing and economic development	4,240	13,973	(69.66)
Miscellaneous	4,651	8,775	(47.00)
Capital outlay			
General government	15,077	250	5,930.80
Public safety	-	125,586	(100.00)
Streets and highways	9,859	99,330	(90.07)
Culture and recreation	24,282	4,418	449.62
Housing and economic development	390	355	9.86
Water and sewer	8,803	-	N/A
Debt service			
Principal	101,000	156,000	(35.26)
Interest and other charges	<u>42,092</u>	<u>45,267</u>	<u>(7.01)</u>
TOTAL EXPENDITURES	<u>\$ 657,104</u>	<u>\$ 909,853</u>	<u>(27.78) %</u>
Per Capita	\$ 708	\$ 980	(27.78) %
Total Long-term Indebtedness	\$ 993,000	\$ 1,094,000	(9.23) %
Per Capita	1,070	1,179	(9.23)
General Fund Balance - December 31	\$ 564,053	\$ 471,234	19.70 %
Per Capita	608	508	19.70

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, 2008



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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 4, 2009.

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.

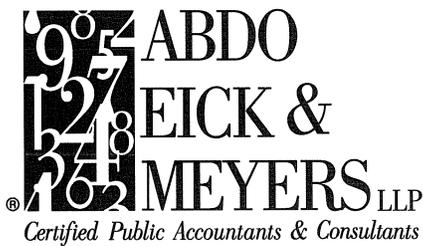
The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our 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 2008-4 and 2008-5.

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 4, 2009
Mankato, Minnesota


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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 4, 2009. 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 2008-1 through 2008-3 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.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are considered to be material weaknesses. We believe that the deficiency described in the accompanying schedule of findings and responses as finding 2008-3 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 2008-4 and 2008-5.

We also noted certain matters that we reported to management of the City in a separate letter dated June 4, 2009.

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.

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

June 4, 2009
 Mankato, Minnesota

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CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2008

2008-1 Segregation of Duties (Finding Since 2007)

- Condition: During our audit, we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investment transactions and found the City to have limited segregation of duties in these areas.
- Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
- Effect: The existence of this limited segregation of duties increases the risk of fraud.

Internal Control over Payroll

- Cause: As a result of the small staff, the Deputy Clerk controls and maintains the check stock, sets up employee records, approves payroll run, posts activity to the general ledger, prepares payroll tax returns, and maintains the payroll records.
- 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 that in addition to approving payroll disbursements and wage rates, the City Council review amounts earned and accrued for compensated absences on an annual basis to compensate for control deficiencies with respect to payroll accruals. Additional controls might include review of payroll registers, earnings records, payroll reports, etc.

Management Response

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

Updated Progress since Prior Year

During the current year the City Administrator began reviewing payroll registers, earnings records and other payroll reports on a regular basis.

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2008

2008-1 Segregation of Duties (Finding Since 2007) - Continued

Internal Control over Disbursements

Cause: As a result of the small staff, the Deputy Clerk 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 Deputy Clerk review cancelled checks received with the bank statement and investigate items such as; void checks, inconsistencies in check sequence, possible alterations, and unusual payees. This individual should also review bank reconciliations for accuracy and timeliness of preparation. It is important that the Council is aware of this condition and monitor all financial information.

Management Response

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

Updated Progress since Prior Year

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

Internal Control over Cash Receipts

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

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

Management Response

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

Updated Progress since Prior Year

The City Administrator now performs the monthly bank reconciliation process which includes reviewing the bank statement deposit activity.

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2008

2008-1 Segregation of Duties (Finding Since 2007) - Continued

Internal Control over Utility Billing

Cause: As a result of the small staff, the Deputy Clerk approves new accounts, sets up customers and rates in the billing system, generates statements, enters readings, opens mail, prepares the deposit and makes adjustments to 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 monitors all financial information. Additional controls might include reviewing billing registers, exception reports, adjustments to accounts and employee billing records.

Management Response

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

Updated Progress since Prior Year

The City Administrator now performs the monthly bank reconciliation process which includes reviewing the bank statement deposit activity.

Internal Control over Investment Transactions

Cause: As a result of the small staff, the City Administrator 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 City Administrator.

Management Response

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

Updated Progress since Prior Year

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

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2008

2008-2 Financial Report Preparation (Finding since 2007)

- Condition:** As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
- Criteria:** Internal controls should be in place to provide reasonable assurance over financial reporting.
- Cause:** From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.
- Effect:** The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
- Recommendation:** Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your Banyon receipt and disbursement information to the amount reported in the financial statements plus or minus any applicable accruals.

Management Response:

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

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2008

2008-3 Material Audit Adjustments (Finding Since 2007)

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.

Updated Progress since Prior Year

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

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2008

2008-4 Administrative Penalties (Finding Since 2007)

- Condition: During our audit, we noted that the City had a policy implemented for issuing administrative penalties for traffic violations.
- Criteria: 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. 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.”
- Cause: 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.
- Effect: The City is not in compliance with State statutes.
- Recommendation: This issue is currently being addressed by the state legislature. The Statement of Position issued by the Office of the State Auditor dictates that the City should refrain from issuing these penalties.

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 the Office of the State Auditor’s statement of position on administrative penalties.

Updated Progress since Prior Year

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

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2008

2008-5 Out of State Travel Policy

Condition: During our audit, we noted that the City did not have an out-of-state travel policy, which is now required by State statutes.

Criteria: Minnesota statute § 471.661 requires that Cities adopt an out-of-state travel policy. This policy should specify when travel outside the state is appropriate, applicable expense limits, and procedures for approval. The policy also must be reviewed annually and made available for public inspection.

Cause: The Statute is new and the City was not aware of the statute.

Effect: The City is not in compliance with State statutes.

Recommendation: The City should adopt a policy addressing these issues to avoid future legal compliance findings in this area.

Management Response:

The City will adopt an out of state travel policy during 2009.