

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED
DECEMBER 31, 2009

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CITY OF MADISON LAKE, MINNESOTA
 ANNUAL FINANCIAL REPORT
 DECEMBER 31, 2009
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INTRODUCTORY SECTION

**CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA**

**YEAR ENDED
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CITY OF MADISON LAKE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2009

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 (resigned 7/6/09)	Council	12/31/10
Chuck Ries	Council	12/31/12
Steve Bjerke	Council	12/31/12

APPOINTED

Kent Hoen (appointed 7/20/09)	Council	12/31/10
Kelly Steele	City Administrator/Clerk	

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FINANCIAL SECTION

**CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA**

**YEAR ENDED
DECEMBER 31, 2009**

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Madison Lake, Minnesota, (the City) as of and for the year ended December 31, 2009, 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 2008 financial statements and, in our report dated June 4, 2009, 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, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

May 5, 2010
Mankato, Minnesota

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

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Management's Discussion and Analysis

As management of the City of Madison Lake, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2009.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6,954,520 (net assets). Of this amount, \$2,282,003 (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 \$238,660 as compared to an increase of \$173,891 in the previous year. The majority of this increase is attributable to capital grants and contributions of \$150,681 and revenues exceeding expenses in the governmental activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,986,125, an increase of \$209,873 in comparison with the prior year. Approximately 72.8 percent of this total amount, \$1,445,140, 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 \$510,599, or 95.9 percent of total General fund expenditures. Of this amount, \$127,819 is designated for capital outlay.
- The City's total debt decreased by \$25,596, or 1.9 percent during the current fiscal year. The key factors in this decrease were the issuance of \$131,479 of new debt and the retirement of \$157,075 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

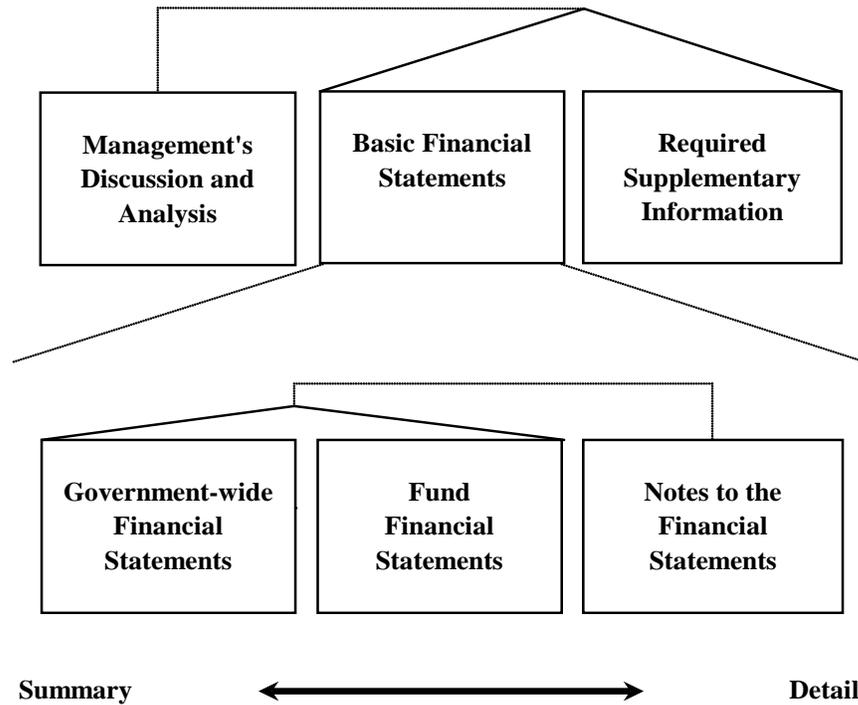


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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 21 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 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 - 40 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 41 -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 \$6,954,520 at the close of the most recent fiscal year.

A significant portion of the City's net assets (52.3 percent) reflects its investment in capital assets (e.g., land, land improvements, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,635,130	\$ 2,486,065	\$ 803,811	\$ 649,957	\$ 3,438,941	\$ 3,136,022
Capital assets	2,258,433	2,307,970	2,686,363	2,684,817	4,944,796	4,992,787
Total assets	4,893,563	4,794,035	3,490,174	3,334,774	8,383,737	8,128,809
Long-term liabilities outstanding	879,768	995,907	454,546	363,142	1,334,314	1,359,049
Other liabilities	51,621	38,169	43,282	15,731	94,903	53,900
Total liabilities	931,389	1,034,076	497,828	378,873	1,429,217	1,412,949
Invested in capital assets, net of related debt	1,399,993	1,334,979	2,237,178	2,327,706	3,637,171	3,662,685
Restricted	799,129	759,297	236,217	136,536	1,035,346	895,833
Unrestricted	1,763,052	1,665,683	518,951	491,659	2,282,003	2,157,342
Total net assets	\$ 3,962,174	\$ 3,759,959	\$ 2,992,346	\$ 2,955,901	\$ 6,954,520	\$ 6,715,860

An additional portion of the City's net assets (14.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (32.8 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 \$238,660 during the current fiscal year. The majority of this increase is attributable to capital grants and contributions of \$150,681 and revenues exceeding expenses in the governmental activities.

Governmental activities. Governmental activities increased the City's net assets by \$202,215, thereby accounting for 84.7 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	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	\$ 185,564	\$ 170,386	\$ 485,934	\$ 411,419	\$ 671,498	\$ 581,805
Operating grants and contributions	38,059	40,484	-	-	38,059	40,484
Capital grants and contributions	112,023	20,641	38,658	37,276	150,681	57,917
General revenues:						
Property taxes/ tax increments	381,028	364,910	-	-	381,028	364,910
Other taxes	7,666	5,221	-	-	7,666	5,221
Grants and contributions not restricted to specific programs	156,643	163,904	-	-	156,643	163,904
Investment earnings	11,500	38,948	10,848	17,061	22,348	56,009
Other	4,166	2,481	-	-	4,166	2,481
Total revenues	896,649	806,975	535,440	465,756	1,432,089	1,272,731

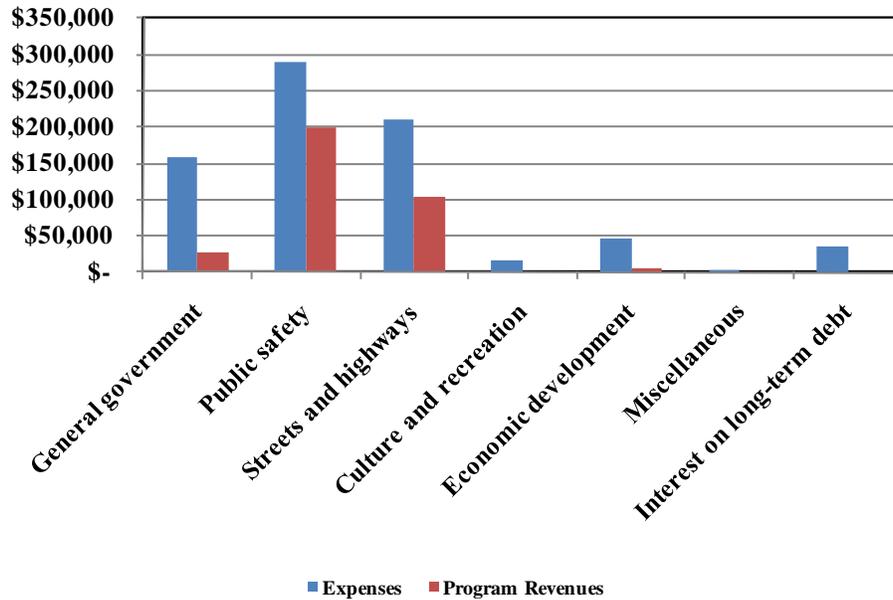
Changes in Net Assets - Continued

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Expenses						
General government	\$ 159,591	\$ 166,679	\$ -	\$ -	\$ 159,591	\$ 166,679
Public safety	290,773	246,297	-	-	290,773	246,297
Streets and highways	209,333	192,338	-	-	209,333	192,338
Culture and recreation	15,333	13,145	-	-	15,333	13,145
Economic development	45,200	4,421	-	-	45,200	4,421
Miscellaneous	3,018	13,590	-	-	3,018	13,590
Interest on long-term debt	36,883	43,886	-	-	36,883	43,886
Water utility	-	-	122,075	108,179	122,075	108,179
Sewer utility	-	-	256,631	255,360	256,631	255,360
Refuse	-	-	54,592	54,945	54,592	54,945
Total expenses	<u>760,131</u>	<u>680,356</u>	<u>433,298</u>	<u>418,484</u>	<u>1,193,429</u>	<u>1,098,840</u>
Increase in net assets before transfers	136,518	126,619	102,142	47,272	238,660	173,891
Transfers	<u>65,697</u>	<u>37,052</u>	<u>(65,697)</u>	<u>(37,052)</u>	<u>-</u>	<u>-</u>
Change in net assets	202,215	163,671	36,445	10,220	238,660	173,891
Net assets - January 1	<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>
Net assets - December 31	<u><u>\$ 3,962,174</u></u>	<u><u>\$ 3,759,959</u></u>	<u><u>\$ 2,992,346</u></u>	<u><u>\$ 2,955,901</u></u>	<u><u>\$ 6,954,520</u></u>	<u><u>\$ 6,715,860</u></u>

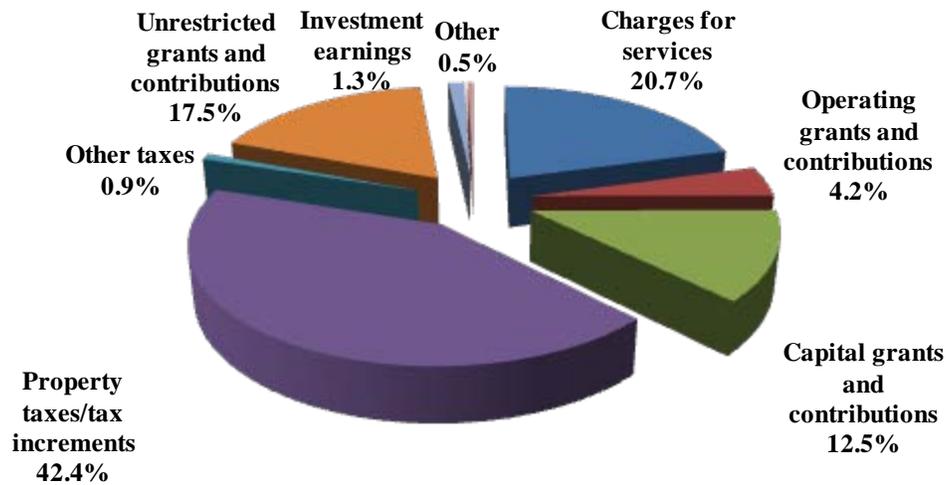
Property tax levies increased by \$15,204 (4.0 percent) during the year. The increase is a combination of increased expenses for governmental services and a tax levy for debt service.

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

Expenses and Program Revenues - Governmental Activities

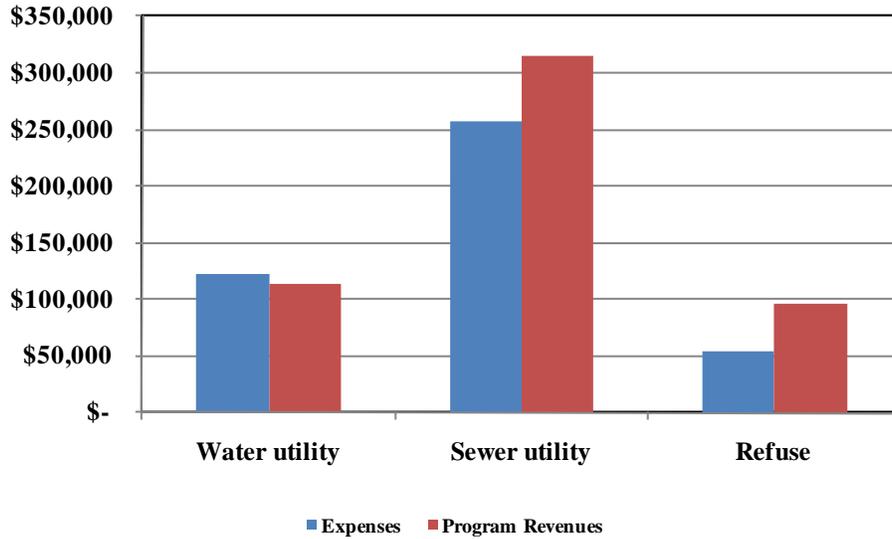


Revenues by Source - Governmental Activities

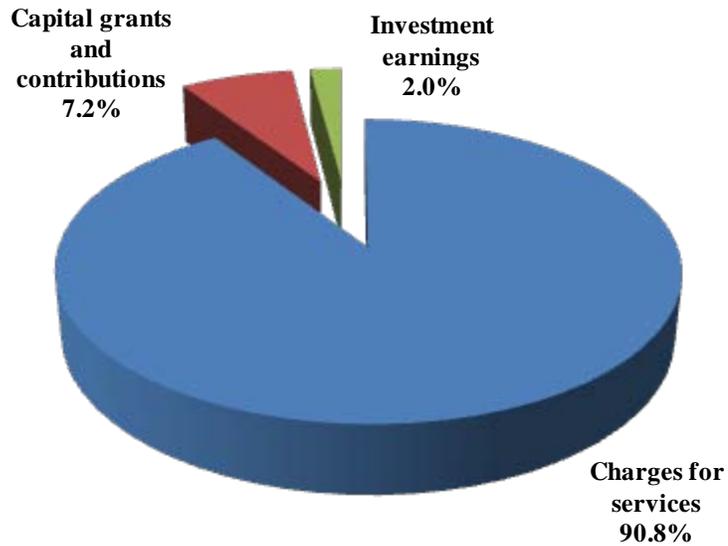


Business-type activities. Business-type activities increased the City's net assets by \$36,445, accounting for 15.3 percent of the total growth in the City's net assets.

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 \$1,986,125, an increase of \$209,873 in comparison with the prior year. Approximately 72.8 percent of this total amount \$1,445,140 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 \$410,627 and \$92,686, respectively. A reserve for park land dedication of \$37,672 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 \$585,472. 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 109.9 percent of fund expenditures, while unreserved fund balance represents 95.9 percent of fund expenditures.

The fund balance of the City's General fund increased by \$21,419 during the current fiscal year. The key factors in this increase were increased revenues from taxes and licenses and permits.

The Economic Development Loan fund has a total fund balance of \$243,853. The net increase in fund balance during the current year in the Economic Development Loan fund was \$35,053. The key factor in this increase was the repayment of outstanding loans.

The Public Improvement Revolving fund has a total fund balance of \$589,842. The net increase in fund balance during the current year in the Public Improvement Revolving fund was \$20,693. The key factor for the increase was lease payments.

The Fire fund has a total fund balance of \$264,772. The net increase in fund balance during the current year in the Fire fund was \$65,016. The key factors in this increase were increased revenues from grants and transfers in.

The Debt Service fund has a total fund balance of \$395,361, 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 \$63,466. The key factor in this increase was special assessment collections.

The Tax Increment District # 2 fund has a total fund balance deficit of \$93,651. The net decrease in fund deficit during the current year in the Tax Increment District # 2 fund was \$4,310.

The West Side Project fund has total fund balance of \$238. The fund balance had no change during the current year in the West Side Project fund.

The Diamond Drive Project fund has total fund balance deficit of \$7,958. The fund balance had no change during the current year in the Diamond Drive Project fund.

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$518,951. The total growth in net assets for the funds was \$36,445. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. The final budget called for a break-even year. Revenues exceeded expectations by \$75,890, expenditures were over budget by \$52,970, and other financing sources were under budget by \$1,501. As a result, fund balances increased during 2009 by \$21,419.

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, 2009, amounts to \$4,944,796 (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 1.0 percent decrease (a 2.1 percent decrease for governmental activities and a 0.1 percent increase for business-type activities).

- The Sewer project incurred costs of \$142,279, which was added to construction in progress.
- New radios were purchased for the fire department totaling \$31,313.
- A new skid steer was purchased for the street department totaling \$37,079.
- The Diamond Drive Project was finished and capitalized totaling \$134,850.
- A squad car was purchased totaling \$29,309.
- New city signs were purchased totaling \$25,995.

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	
	2009	2008	2009	2008	2009	2008
Land	\$ 466,218	\$ 466,218	\$ 47,313	\$ 47,313	\$ 513,531	\$ 513,531
Land improvements	29,332	-	-	-	29,332	-
Buildings	298,609	321,459	-	-	298,609	321,459
Infrastructure	1,246,022	1,191,500	2,488,547	2,628,420	3,734,569	3,819,920
Machinery and equipment	218,252	193,943	8,224	9,084	226,476	203,027
Construction in progress	-	134,850	142,279	-	142,279	134,850
Total	\$ 2,258,433	\$ 2,307,970	\$ 2,686,363	\$ 2,684,817	\$ 4,944,796	\$ 4,992,787

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,330,546. Of this amount, \$26,000 is general obligation debt, \$850,000 is special assessment debt, \$454,546 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	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 26,000	\$ 38,000	\$ -	\$ -	\$ 26,000	\$ 38,000
G.O. improvement bonds	850,000	955,000	-	-	850,000	955,000
General obligation revenue bonds	-	-	454,546	363,142	454,546	363,142
Total	\$ 876,000	\$ 993,000	\$ 454,546	\$ 363,142	\$ 1,330,546	\$ 1,356,142

The City's total debt decreased by \$25,596, or 1.9 percent during the current fiscal year. The key factor in this decrease was the retirement of \$157,075 in bonds during the year and issuance of \$131,479 in PFA loans.

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 \$2,979,771, 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 6.0 percent, which is an increase from a rate of 5.1 percent a year ago. This compares favorably to the State's average unemployment rate of 7.3 percent and the national average rate of 9.7 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 2010 fiscal year.

Property taxes will increase in 2010 by approximately 5.0 percent. The tax increase will provide an additional \$19,763 for operations of our governmental services.

Water, Sewer, and Refuse Utility rates will increase in 2010. Water base and usage charges will be up approximately 3 percent. Sewer base charges will increase approximately 17 percent and sewer usage charges will increase approximately 42.6 percent. 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, 2009

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CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,754,025	\$ 458,779	\$ 2,212,804
Investments	186,710	245,391	432,101
Receivables:			
Delinquent taxes	33,554	-	33,554
Accounts	42,578	58,375	100,953
Notes	159,428	-	159,428
Special assessments	402,542	35,302	437,844
Intergovernmental	4,563	603	5,166
Prepaid items	34,170	-	34,170
Unamortized bond discount	17,560	5,361	22,921
Capital assets not being depreciated:			
Land	466,218	47,313	513,531
Construction in progress	-	142,279	142,279
Capital assets net of accumulated depreciation:			
Land improvements	29,332	-	29,332
Buildings	298,609	-	298,609
Infrastructure	1,246,022	2,488,547	3,734,569
Machinery and equipment	218,252	8,224	226,476
TOTAL ASSETS	4,893,563	3,490,174	8,383,737
LIABILITIES			
Accounts payable	22,954	34,901	57,855
Due to other governments	35	749	784
Accrued interest payable	15,700	4,291	19,991
Accrued salaries payable	12,932	-	12,932
Customer deposits payable	-	3,341	3,341
Noncurrent liabilities:			
Due within one year	121,768	53,576	175,344
Due in more than one year	758,000	400,970	1,158,970
TOTAL LIABILITIES	931,389	497,828	1,429,217
NET ASSETS			
Invested in capital assets, net of related debt	1,399,993	2,237,178	3,637,171
Restricted for:			
Debt service	761,457	120,070	881,527
Infrastructure	-	116,147	116,147
Park land dedication	39,875	-	39,875
Unrestricted	1,760,849	518,951	2,279,800
TOTAL NET ASSETS	\$ 3,962,174	\$ 2,992,346	\$ 6,954,520

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, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 159,591	\$ 10,085	\$ 18,366	\$ -
Public safety	290,773	151,026	19,093	29,403
Streets and highways	209,333	19,510	600	82,620
Culture and recreation	15,333	-	-	-
Economic development	45,200	4,943	-	-
Miscellaneous	3,018	-	-	-
Interest on long-term debt	36,883	-	-	-
Total governmental activities	<u>760,131</u>	<u>185,564</u>	<u>38,059</u>	<u>112,023</u>
Business-type activities:				
Water utility	122,075	113,171	-	-
Sewer utility	256,631	276,739	-	38,658
Refuse	54,592	96,024	-	-
Total business-type activities	<u>433,298</u>	<u>485,934</u>	<u>-</u>	<u>38,658</u>
Total	<u><u>\$ 1,193,429</u></u>	<u><u>\$ 671,498</u></u>	<u><u>\$ 38,059</u></u>	<u><u>\$ 150,681</u></u>

General revenues:

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

Transfers

Total general revenues and transfers

Change in net 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
\$ (131,140)	\$ -	\$ (131,140)
(91,251)	-	(91,251)
(106,603)	-	(106,603)
(15,333)	-	(15,333)
(40,257)	-	(40,257)
(3,018)	-	(3,018)
<u>(36,883)</u>	<u>-</u>	<u>(36,883)</u>
<u>(424,485)</u>	<u>-</u>	<u>(424,485)</u>
-	(8,904)	(8,904)
-	58,766	58,766
<u>-</u>	<u>41,432</u>	<u>41,432</u>
<u>-</u>	<u>91,294</u>	<u>91,294</u>
<u>(424,485)</u>	<u>91,294</u>	<u>(333,191)</u>
310,741	-	310,741
63,625	-	63,625
6,662	-	6,662
5,127	-	5,127
2,539	-	2,539
156,643	-	156,643
11,500	10,848	22,348
4,166	-	4,166
<u>65,697</u>	<u>(65,697)</u>	<u>-</u>
<u>626,700</u>	<u>(54,849)</u>	<u>571,851</u>
202,215	36,445	238,660
<u>3,759,959</u>	<u>2,955,901</u>	<u>6,715,860</u>
<u>\$ 3,962,174</u>	<u>\$ 2,992,346</u>	<u>\$ 6,954,520</u>

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FUND FINANCIAL STATEMENTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

CITY OF MADISON LAKE, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2009

	<u>General</u>	<u>Economic Development Loan</u>	<u>Public Improvement Revolving</u>	<u>Fire</u>
ASSETS				
Cash and cash equivalents (deficits)	\$ 424,505	\$ 243,853	\$ 539,772	\$ 229,418
Investments	144,670	-	-	-
Receivables				
Notes	-	159,428	-	-
Delinquent taxes	30,769	-	-	-
Accounts	2,485	-	-	40,093
Special assessments	-	-	20,746	-
Intergovernmental	2,378	-	-	-
Advances to other funds	37,201	-	55,485	-
Prepaid items	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 642,008</u>	<u>\$ 403,281</u>	<u>\$ 616,003</u>	<u>\$ 269,511</u>
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts payable	\$ 12,834	\$ -	\$ 5,415	\$ 4,705
Advances from other funds	-	-	-	-
Due to other governments	1	-	-	34
Accrued salaries payable	12,932	-	-	-
Deferred revenue	30,769	159,428	20,746	-
	<u>56,536</u>	<u>159,428</u>	<u>26,161</u>	<u>4,739</u>
TOTAL LIABILITIES	<u>56,536</u>	<u>159,428</u>	<u>26,161</u>	<u>4,739</u>
FUND BALANCES (DEFICITS)				
Reserved for:				
Interfund advance	37,201	-	55,485	-
Debt service	-	-	-	-
Park land dedication	37,672	-	-	-
Unreserved, designated for:				
Economic development	-	243,853	-	-
Capital outlay	127,819	-	-	203,858
Public improvements	-	-	534,357	-
Unreserved, undesignated, reported in:				
General fund	382,780	-	-	-
Special revenue funds	-	-	-	60,914
Debt Service funds	-	-	-	-
Capital projects funds	-	-	-	-
	<u>585,472</u>	<u>243,853</u>	<u>589,842</u>	<u>264,772</u>
TOTAL FUND BALANCES (DEFICITS)	<u>585,472</u>	<u>243,853</u>	<u>589,842</u>	<u>264,772</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 642,008</u>	<u>\$ 403,281</u>	<u>\$ 616,003</u>	<u>\$ 269,511</u>

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

<u>Debt Service</u>	<u>Tax Increment District #2</u>	<u>West Side Project</u>	<u>Diamond Drive Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 318,268	\$ (2,267)	\$ 238	\$ (7,958)	\$ 8,196	\$ 1,754,025
42,040	-	-	-	-	186,710
-	-	-	-	-	159,428
-	2,731	-	-	42	33,542
-	-	-	-	-	42,578
381,796	-	-	-	-	402,542
883	1,302	-	-	-	4,563
-	-	-	-	-	92,686
34,170	-	-	-	-	34,170
<u>\$ 777,157</u>	<u>\$ 1,766</u>	<u>\$ 238</u>	<u>\$ (7,958)</u>	<u>\$ 8,238</u>	<u>\$ 2,710,244</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,954
-	92,686	-	-	-	92,686
-	-	-	-	-	35
-	-	-	-	-	12,932
381,796	2,731	-	-	42	595,512
<u>381,796</u>	<u>95,417</u>	<u>-</u>	<u>-</u>	<u>42</u>	<u>724,119</u>
-	-	-	-	-	92,686
410,627	-	-	-	-	410,627
-	-	-	-	-	37,672
-	-	-	-	-	243,853
-	-	-	-	9,284	340,961
-	-	-	-	-	534,357
-	-	-	-	-	382,780
-	-	-	-	3,119	64,033
(15,266)	-	-	-	-	(15,266)
-	(93,651)	238	(7,958)	(4,207)	(105,578)
<u>395,361</u>	<u>(93,651)</u>	<u>238</u>	<u>(7,958)</u>	<u>8,196</u>	<u>1,986,125</u>
<u>\$ 777,157</u>	<u>\$ 1,766</u>	<u>\$ 238</u>	<u>\$ (7,958)</u>	<u>\$ 8,238</u>	<u>\$ 2,710,244</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, 2009

Total fund balances - governmental funds	\$ 1,986,125
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.	2,258,433
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	(3,768)
Bonds payable	(876,000)
Bond discounts/issue costs, net of accumulated amortization	17,560
Long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	
Delinquent property taxes receivable	33,554
Special assessments receivable	402,542
Loans receivable	159,428
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(15,700)</u>
Total net assets - governmental activities	<u><u>\$ 3,962,174</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, 2009

	General	Economic Development Loan	Public Improvement Revolving	Fire
REVENUES				
Taxes	\$ 309,942	\$ -	\$ -	\$ -
Special assessments	-	-	3,044	-
Licenses and permits	30,408	-	-	-
Intergovernmental	163,856	-	-	38,980
Charges for services	2,177	-	-	83,696
Fines and forfeits	31,930	-	-	-
Investment earnings	7,263	474	1,328	423
Miscellaneous	26,809	39,879	19,435	11,068
	<u>572,385</u>	<u>40,353</u>	<u>23,807</u>	<u>134,167</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
General government	163,847	-	-	-
Public safety	139,858	-	-	89,679
Streets and highways	105,800	-	5,914	-
Culture and recreation	9,517	-	-	-
Housing and economic development	2,638	8,580	-	-
Miscellaneous	3,018	-	-	-
Capital outlay				
General government	9,609	-	-	-
Public safety	29,309	-	-	31,313
Streets and highways	37,079	-	-	-
Economic development	31,887	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	35	-	-
	<u>532,562</u>	<u>8,615</u>	<u>5,914</u>	<u>120,992</u>
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER EXPENDITURES	<u>39,823</u>	<u>31,738</u>	<u>17,893</u>	<u>13,175</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	34,938	3,315	2,800	51,841
Transfers out	(53,342)	-	-	-
	<u>(18,404)</u>	<u>3,315</u>	<u>2,800</u>	<u>51,841</u>
TOTAL OTHER FINANCING SOURCES (USES)				
NET CHANGE IN FUND BALANCES	21,419	35,053	20,693	65,016
FUND BALANCES (DEFICITS), JANUARY 1	<u>564,053</u>	<u>208,800</u>	<u>569,149</u>	<u>199,756</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 585,472</u>	<u>\$ 243,853</u>	<u>\$ 589,842</u>	<u>\$ 264,772</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
\$ 63,625	\$ 6,777	\$ -	\$ -	\$ 4,016	\$ 384,360
122,872	-	-	-	-	125,916
-	-	-	-	-	30,408
-	533	-	-	-	203,369
-	-	-	-	-	85,873
-	-	-	-	-	31,930
1,992	-	-	-	20	11,500
-	-	-	-	-	97,191
<u>188,489</u>	<u>7,310</u>	<u>-</u>	<u>-</u>	<u>4,036</u>	<u>970,547</u>
2,296	200	-	-	2,306	168,649
-	-	-	-	-	229,537
-	-	-	-	-	111,714
-	-	-	-	-	9,517
-	-	-	-	-	11,218
-	-	-	-	-	3,018
-	-	-	-	-	9,609
-	-	-	-	-	60,622
-	-	-	-	-	37,079
-	-	-	-	-	31,887
117,000	-	-	-	-	117,000
36,486	-	-	-	-	36,521
<u>155,782</u>	<u>200</u>	<u>-</u>	<u>-</u>	<u>2,306</u>	<u>826,371</u>
<u>32,707</u>	<u>7,110</u>	<u>-</u>	<u>-</u>	<u>1,730</u>	<u>144,176</u>
30,759	-	-	-	1,501	125,154
-	(2,800)	-	-	(3,315)	(59,457)
<u>30,759</u>	<u>(2,800)</u>	<u>-</u>	<u>-</u>	<u>(1,814)</u>	<u>65,697</u>
63,466	4,310	-	-	(84)	209,873
<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>\$ 395,361</u>	<u>\$ (93,651)</u>	<u>\$ 238</u>	<u>\$ (7,958)</u>	<u>\$ 8,196</u>	<u>\$ 1,986,125</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, 2009

Net change in fund balances - governmental funds \$ 209,873

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.

Capital outlay	133,848
Depreciation expense	(183,385)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Principal repayments	117,000
Discount on bonds issued, net of amortization expense	(2,449)

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.

2,087

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.

Property taxes	4,334
----------------	-------

Certain revenues are recognized as soon as it is earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.

Special assessments	(43,296)
Loan principal repayments	(34,936)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	<u>(861)</u>
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Change in net assets - governmental activities	<u><u>\$ 202,215</u></u>
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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, 2009

	General			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Taxes	\$ 339,225	\$ 339,225	\$ 309,942	\$ (29,283)
Special assessments	-	-	-	-
Licenses and permits	17,190	17,190	30,408	13,218
Intergovernmental	100,265	100,265	163,856	63,591
Charges for services	1,255	1,255	2,177	922
Fines and forfeits	25,000	25,000	31,930	6,930
Investment earnings	8,000	8,000	7,263	(737)
Miscellaneous	5,560	5,560	26,809	21,249
TOTAL REVENUES	<u>496,495</u>	<u>496,495</u>	<u>572,385</u>	<u>75,890</u>
EXPENDITURES				
Current				
General government	172,358	172,358	163,847	8,511
Public safety	121,697	121,697	139,858	(18,161)
Streets and highways	106,242	106,242	105,800	442
Culture and recreation	14,172	14,172	9,517	4,655
Housing and economic development	5,653	5,653	2,638	3,015
Miscellaneous	1,370	1,370	3,018	(1,648)
Capital outlay				
General government	7,600	7,600	9,609	(2,009)
Public safety	15,500	15,500	29,309	(13,809)
Streets and highways	25,000	25,000	37,079	(12,079)
Culture and recreation	5,000	5,000	-	5,000
Housing and economic development	5,000	5,000	31,887	(26,887)
Water and sewer	-	-	-	-
Debt service				
Interest and other	-	-	-	-
TOTAL EXPENDITURES	<u>479,592</u>	<u>479,592</u>	<u>532,562</u>	<u>(52,970)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>16,903</u>	<u>16,903</u>	<u>39,823</u>	<u>22,920</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	34,938	34,938	34,938	-
Transfers out	(51,841)	(51,841)	(53,342)	(1,501)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(16,903)</u>	<u>(16,903)</u>	<u>(18,404)</u>	<u>(1,501)</u>
NET CHANGE IN FUND BALANCES	-	-	21,419	21,419
FUND BALANCES, JANUARY 1	<u>564,053</u>	<u>564,053</u>	<u>564,053</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u>\$ 564,053</u>	<u>\$ 564,053</u>	<u>\$ 585,472</u>	<u>\$ 21,419</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		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	3,044	3,044
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	474	474	-	-	1,328	1,328
42,294	42,294	39,879	(2,415)	18,000	18,000	19,435	1,435
42,294	42,294	40,353	(1,941)	18,000	18,000	23,807	5,807
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	5,914	(5,914)
-	-	-	-	-	-	-	-
42,294	42,294	8,580	33,714	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	18,000	18,000	-	18,000
-	-	35	(35)	-	-	-	-
42,294	42,294	8,615	33,679	18,000	18,000	5,914	12,086
-	-	31,738	31,738	-	-	17,893	17,893
-	-	3,315	3,315	-	-	2,800	2,800
-	-	-	-	-	-	-	-
-	-	3,315	3,315	-	-	2,800	2,800
-	-	35,053	35,053	-	-	20,693	20,693
208,800	208,800	208,800	-	569,149	569,149	569,149	-
<u>\$ 208,800</u>	<u>\$ 208,800</u>	<u>\$ 243,853</u>	<u>\$ 35,053</u>	<u>\$ 569,149</u>	<u>\$ 569,149</u>	<u>\$ 589,842</u>	<u>\$ 20,693</u>

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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, 2009

	Fire			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	38,980	38,980
Charges for services	83,584	83,584	83,696	112
Fines and forfeits	-	-	-	-
Investment earnings	-	-	423	423
Miscellaneous	-	-	11,068	11,068
TOTAL REVENUES	83,584	83,584	134,167	50,583
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	82,425	82,425	89,679	(7,254)
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Housing and economic development	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay				
General government	-	-	-	-
Public safety	53,000	53,000	31,313	21,687
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Housing and economic development	-	-	-	-
Water and sewer	-	-	-	-
Debt service				
Interest and other	-	-	-	-
TOTAL EXPENDITURES	135,425	135,425	120,992	14,433
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(51,841)	(51,841)	13,175	65,016
OTHER FINANCING SOURCES (USES)				
Transfers in	51,841	51,841	51,841	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	51,841	51,841	51,841	-
NET CHANGE IN FUND BALANCES	-	-	65,016	65,016
FUND BALANCES, JANUARY 1	199,756	199,756	199,756	-
FUND BALANCES, DECEMBER 31	<u>\$ 199,756</u>	<u>\$ 199,756</u>	<u>\$ 264,772</u>	<u>\$ 65,016</u>

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

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF NET ASSETS
 DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2009	2008	2009	2008
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (deficit)	\$ 14,542	\$ 11,218	\$ 443,808	\$ 306,295
Investments	165,342	158,185	80,049	76,975
Accounts receivable	14,409	15,399	35,978	32,663
Special assessments receivable - delinquent	-	-	-	-
TOTAL CURRENT ASSETS	194,293	184,802	559,835	415,933
NONCURRENT ASSETS				
Deferred assessments receivable	-	-	35,302	38,188
Unamortized bond discount	-	-	5,361	6,031
Capital assets				
Land	35,471	35,471	11,842	11,842
Construction in progress	-	-	142,279	-
Buildings	12,572	12,572	-	-
Infrastructure	1,459,026	1,459,026	3,627,090	3,627,090
Machinery and equipment	7,099	7,099	31,091	29,236
Less accumulated depreciation	(486,812)	(449,892)	(2,153,295)	(2,047,627)
Total capital assets, net of depreciation	1,027,356	1,064,276	1,659,007	1,620,541
TOTAL NONCURRENT ASSETS	1,027,356	1,064,276	1,699,670	1,664,760
TOTAL ASSETS	1,221,649	1,249,078	2,259,505	2,080,693
CURRENT LIABILITIES				
Accounts payable	6,684	841	26,364	1,790
Due to other governments	89	123	-	-
Accrued interest payable	-	-	4,291	3,868
Customer deposits payable	3,341	4,106	-	-
Bonds payable - current	-	-	53,576	40,076
TOTAL CURRENT LIABILITIES	10,114	5,070	84,231	45,734
NONCURRENT LIABILITIES				
Bonds payable - net of current portion	-	-	400,970	323,066
TOTAL LIABILITIES	10,114	5,070	485,201	368,800
NET ASSETS				
Invested in capital assets, net of related debt	1,027,356	1,064,276	1,209,822	1,263,430
Restricted for:				
Future replacements	-	-	120,070	35,203
Infrastructure	-	-	116,147	103,897
Unrestricted	184,179	179,732	328,265	309,363
TOTAL NET ASSETS	\$ 1,211,535	\$ 1,244,008	\$ 1,774,304	\$ 1,711,893

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
\$ 429	\$ (3,875)	\$ 458,779	\$ 313,638
-	-	245,391	235,160
8,472	8,720	58,859	56,782
<u>119</u>	<u>158</u>	<u>119</u>	<u>158</u>
<u>9,020</u>	<u>5,003</u>	<u>763,148</u>	<u>605,738</u>
-	-	<u>35,302</u>	<u>38,188</u>
-	-	<u>5,361</u>	<u>6,031</u>
-	-	47,313	47,313
-	-	142,279	-
-	-	12,572	12,572
-	-	5,086,116	5,086,116
-	-	38,190	36,335
-	-	<u>(2,640,107)</u>	<u>(2,497,519)</u>
-	-	<u>2,686,363</u>	<u>2,684,817</u>
-	-	<u>2,727,026</u>	<u>2,729,036</u>
<u>9,020</u>	<u>5,003</u>	<u>3,490,174</u>	<u>3,334,774</u>
1,853	4,356	34,901	6,987
660	647	749	770
-	-	4,291	3,868
-	-	3,341	4,106
-	-	<u>53,576</u>	<u>40,076</u>
<u>2,513</u>	<u>5,003</u>	<u>96,858</u>	<u>55,807</u>
-	-	<u>400,970</u>	<u>323,066</u>
<u>2,513</u>	<u>5,003</u>	<u>497,828</u>	<u>378,873</u>
-	-	2,237,178	2,327,706
-	-	120,070	35,203
-	-	116,147	103,897
<u>6,507</u>	-	<u>518,951</u>	<u>489,095</u>
<u>\$ 6,507</u>	<u>\$ -</u>	<u>\$ 2,992,346</u>	<u>\$ 2,955,901</u>

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2009	2008	2009	2008
OPERATING REVENUES				
Charges for services	\$ 111,925	\$ 104,001	\$ 276,739	\$ 213,230
OPERATING EXPENSES				
Salaries and benefits	36,551	47,334	37,108	47,334
Supplies	12,126	7,636	21,520	7,748
Other services and charges	28,570	8,193	52,368	39,266
Insurance	1,237	1,583	2,154	2,614
Utilities	6,591	5,070	27,930	29,388
Depreciation	36,920	36,966	105,668	105,565
TOTAL OPERATING EXPENSES	121,995	106,782	246,748	231,915
OPERATING INCOME (LOSS)	(10,070)	(2,781)	29,991	(18,685)
NONOPERATING REVENUES (EXPENSES)				
Investment income	7,190	6,934	3,645	10,071
Connection and infrastructure fees	-	-	38,658	37,276
Other income	1,166	285	-	-
Interest and fees	-	(13)	(9,883)	(23,445)
TOTAL NONOPERATING REVENUES (EXPENSES)	8,356	7,206	32,420	23,902
INCOME (LOSS) BEFORE TRANSFERS	(1,714)	4,425	62,411	5,217
TRANSFERS IN	-	22,098	-	16,054
TRANSFERS OUT	(30,759)	(26,497)	-	-
CHANGE IN NET ASSETS	(32,473)	26	62,411	21,271
NET ASSETS, JANUARY 1	1,244,008	1,243,982	1,711,893	1,690,622
NET ASSETS, DECEMBER 31	\$ 1,211,535	\$ 1,244,008	\$ 1,774,304	\$ 1,711,893

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2009	2008	2009	2008
\$ 96,024	\$ 92,519	\$ 484,688	\$ 409,750
-	-	73,659	94,668
160	-	33,806	15,384
54,432	54,945	135,370	102,404
-	-	3,391	4,197
-	-	34,521	34,458
-	-	142,588	142,531
54,592	54,945	423,335	393,642
41,432	37,574	61,353	16,108
13	56	10,848	17,061
-	-	38,658	37,276
-	-	1,166	285
-	-	(9,883)	(23,458)
13	56	40,789	31,164
41,445	37,630	102,142	47,272
-	-	-	38,152
(34,938)	(48,707)	(65,697)	(75,204)
6,507	(11,077)	36,445	10,220
-	11,077	2,955,901	2,945,681
<u>\$ 6,507</u>	<u>\$ -</u>	<u>\$ 2,992,346</u>	<u>\$ 2,955,901</u>

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF CASH FLOWS
 YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2009	2008	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 112,915	\$ 105,192	\$ 276,310	\$ 212,668
Payments to suppliers and vendors	(42,715)	(21,939)	(79,398)	(88,000)
Payments to and on behalf of employees	(36,551)	(47,334)	(37,108)	(47,334)
Other receipts	1,166	285	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	34,815	36,204	159,804	77,334
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	22,098	-	16,054
Transfers to other funds	(30,759)	(26,497)	-	-
Increase (decrease) in customer deposits	(765)	6,304	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(31,524)	1,905	-	16,054
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection and infrastructure fees received	-	-	38,658	37,276
Acquisition of capital assets	-	(10,904)	(144,134)	(5,203)
Proceeds from bonds issued, net of discounts	-	-	131,479	-
Principal paid on bonds	-	-	(40,075)	(265,076)
Interest paid on bonds	-	(13)	(8,790)	(13,611)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(10,917)	(22,862)	(246,614)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(7,157)	(6,866)	(3,074)	(4,052)
Interest received on cash and investments	7,190	6,934	3,645	10,071
NET CASH PROVIDED BY INVESTING ACTIVITIES	33	68	571	6,019
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,324	27,260	137,513	(147,207)
CASH AND CASH EQUIVALENTS (DEFICITS), JANUARY 1	11,218	(16,042)	306,295	453,502
CASH AND CASH EQUIVALENTS (DEFICITS), DECEMBER 31	\$ 14,542	\$ 11,218	\$ 443,808	\$ 306,295
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (10,070)	\$ (2,781)	\$ 29,991	\$ (18,685)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Other income related to operations	1,166	285	-	-
Depreciation	36,920	36,966	105,668	105,565
(Increase) decrease in assets:				
Accounts receivable	990	1,191	(3,315)	(562)
Special assessments receivable	-	-	2,886	-
Increase (decrease) in liabilities:				
Accounts payable	5,843	688	24,574	(8,984)
Due to other governments	(34)	(145)	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 34,815	\$ 36,204	\$ 159,804	\$ 77,334

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2009	2008	2009	2008
\$ 96,311	\$ 91,834	\$ 485,536	\$ 409,694
(57,082)	(55,733)	(179,195)	(165,672)
-	-	(73,659)	(94,668)
-	-	1,166	285
<u>39,229</u>	<u>36,101</u>	<u>233,848</u>	<u>149,639</u>
-	-	-	38,152
(34,938)	(48,707)	(65,697)	(75,204)
-	-	(765)	6,304
<u>(34,938)</u>	<u>(48,707)</u>	<u>(66,462)</u>	<u>(30,748)</u>
-	-	38,658	37,276
-	-	(144,134)	(16,107)
-	-	131,479	-
-	-	(40,075)	(265,076)
-	-	(8,790)	(13,624)
-	-	<u>(22,862)</u>	<u>(257,531)</u>
-	-	(10,231)	(10,918)
13	56	10,848	17,061
<u>13</u>	<u>56</u>	<u>617</u>	<u>6,143</u>
4,304	(12,550)	145,141	(132,497)
<u>(3,875)</u>	<u>8,675</u>	<u>313,638</u>	<u>446,135</u>
<u>\$ 429</u>	<u>\$ (3,875)</u>	<u>\$ 458,779</u>	<u>\$ 313,638</u>
\$ 41,432	\$ 37,574	\$ 61,353	\$ 16,108
-	-	1,166	285
-	-	142,588	142,531
248	(527)	(2,077)	102
39	(158)	2,925	(158)
(2,503)	389	27,914	(7,907)
13	(1,177)	(21)	(1,322)
<u>\$ 39,229</u>	<u>\$ 36,101</u>	<u>\$ 233,848</u>	<u>\$ 149,639</u>

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CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

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

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

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

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

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

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

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

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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.

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.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments for the City are reported at fair value. The 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.

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

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

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

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

The City has adopted GASB No. 31: Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This statement requires the City to report their investments at fair value on the balance sheet rather than historical cost.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

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 2009. 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.

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.

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

<u>Assets</u>	<u>Years</u>
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. The General fund is typically used to liquidate governmental compensated absences payable.

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.

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2009, expenditures exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 479,592	\$ 532,562	\$ 52,970

These over expenditures were funded by an excess of revenues over budget of \$75,890.

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2009:

Fund	Amount
Capital Projects	
Tax Increment District #2	\$ 93,651
Diamond Drive Project	7,958
Tax Increment District #2-8	4,508
Debt Service	
Tax Increment District #2-5	15,266

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

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS

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

At year end, the City's carrying amount of deposits was \$515,144 and the bank balance was \$526,358. Of the bank balance, \$463,623 was covered by federal depository insurance. Of the remaining balance, \$62,735 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

Investments

As of December 31, 2009, 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)	\$ 1,984,285	P1	less than 6 months
Franklin Fund - US Government Securities	122,242	N/A	less than 6 months
Primevest Money Market	22,766	N/A	less than 6 months
GNMA Pool	<u>244</u>	AAA	less than 6 months
Total investments	<u>\$ 2,129,537</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 \$224.

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Cash and Investments Summary

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

Petty cash	\$	224
Deposits		515,144
Investments		<u>2,129,537</u>
 Total	 \$	 <u><u>2,644,905</u></u>
 Cash and cash equivalents	 \$	 2,212,804
Investments		<u>432,101</u>
 Total	 \$	 <u><u>2,644,905</u></u>

B. Notes and Contracts Receivable

The City received funds from the County to be used for community development. These funds were borrowed for improvements to existing businesses and are to be paid back to the City with interest at 6.00 - 6.50 percent over five years. The balance on these loans at December 31, 2009 was \$159,428.

C. Deferred Revenue

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)	\$ 30,769	\$ -
Delinquent taxes receivable (TIF #2 fund)	2,731	-
Delinquent taxes receivable (Other governmental funds)	42	-
Loans receivable (Economic Development Loan fund)	159,428	-
Special assessments receivable (Public Improvement Revolving fund)	20,746	-
Special assessments receivable (Debt Service funds)	<u>381,796</u>	<u>-</u>
 Total	 <u><u>\$ 595,512</u></u>	 <u><u>\$ -</u></u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Capital Assets

Capital asset activity for the City for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 466,218	\$ -	\$ -	\$ 466,218
Construction in progress	134,850	-	(134,850)	-
	<u>601,068</u>	<u>-</u>	<u>(134,850)</u>	<u>466,218</u>
Total capital assets not being depreciated				
	<u>601,068</u>	<u>-</u>	<u>(134,850)</u>	<u>466,218</u>
Capital assets being depreciated				
Land Improvements	-	31,427	-	31,427
Buildings	905,912	-	-	905,912
Infrastructure	2,348,730	134,850	-	2,483,580
Machinery and equipment	269,359	36,033	(4,750)	300,642
Vehicles	445,312	66,388	(42,704)	468,996
	<u>3,969,313</u>	<u>268,698</u>	<u>(47,454)</u>	<u>4,190,557</u>
Total capital assets being depreciated				
	<u>3,969,313</u>	<u>268,698</u>	<u>(47,454)</u>	<u>4,190,557</u>
Less accumulated depreciation for				
Land Improvements	-	(2,095)	-	(2,095)
Buildings	(584,453)	(22,850)	-	(607,303)
Infrastructure	(1,157,230)	(80,328)	-	(1,237,558)
Machinery and equipment	(161,440)	(28,802)	4,750	(185,492)
Vehicles	(359,288)	(49,310)	42,704	(365,894)
	<u>(2,262,411)</u>	<u>(183,385)</u>	<u>47,454</u>	<u>(2,398,342)</u>
Total accumulated depreciation				
	<u>(2,262,411)</u>	<u>(183,385)</u>	<u>47,454</u>	<u>(2,398,342)</u>
Total capital assets being depreciated, net				
	<u>1,706,902</u>	<u>85,313</u>	<u>-</u>	<u>1,792,215</u>
Governmental activities capital assets, net				
	<u>\$ 2,307,970</u>	<u>\$ 85,313</u>	<u>\$ (134,850)</u>	<u>\$ 2,258,433</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 47,313	\$ -	\$ -	\$ 47,313
Construction in progress	-	142,279	-	142,279
Total capital assets not being depreciated	47,313	142,279	-	189,592
Capital assets being depreciated				
Buildings	12,572	-	-	12,572
Infrastructure	5,086,116	-	-	5,086,116
Machinery and equipment	36,335	1,855	-	38,190
Total capital assets being depreciated	5,135,023	1,855	-	5,136,878
Less accumulated depreciation for				
Buildings	(12,572)	-	-	(12,572)
Infrastructure	(2,457,696)	(139,873)	-	(2,597,569)
Machinery and equipment	(27,251)	(2,715)	-	(29,966)
Total accumulated depreciation	(2,497,519)	(142,588)	-	(2,640,107)
Total capital assets being depreciated, net	2,637,504	(140,733)	-	2,496,771
Business-type activities capital assets, net	\$ 2,684,817	\$ 1,546	\$ -	\$ 2,686,363

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

Governmental activities:	
General government	\$ 16,767
Public safety	62,468
Streets and highways	96,239
Culture and recreation	5,816
Economic development	2,095
Total depreciation expense - governmental activities	\$ 183,385
Business-type activities:	
Water utility	\$ 36,920
Sewer utility	105,668
Total depreciation expense - business-type activities	\$ 142,588

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Construction Commitments

The City has active construction projects as of December 31, 2009. At year end the City's commitments with contractors are as follows:

Project	Spent to date	Remaining Commitment
Wastewater Connection Project	\$ 84,454	\$ 153,498

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances at December 31, 2009 is as follows:

Advances to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Tax Increment District #2	\$ 37,201
Public Improvement Revolving	Tax Increment District #2	55,485
Total		\$ 92,686

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, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Interfund transfers:

The composition of interfund transfers at December 31, 2009 is as follows:

	Transfer in:			
	General Fund	Economic Development Loan Fund	Public Improvement Revolving Fund	Debt Service Fund
Transfer out:				
General fund	\$ -	\$ -	\$ -	\$ -
Tax Increment District #2	-	-	2,800	-
Nonmajor governmental funds	-	3,315	-	-
Water Utility fund	-	-	-	30,759
Refuse fund	34,938	-	-	-
	<u>34,938</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total transfers out	<u>\$ 34,938</u>	<u>\$ 3,315</u>	<u>\$ 2,800</u>	<u>\$ 30,759</u>

	Transfer in:		
	Nonmajor Governmental Funds	Fire Fund	Total
Transfer out:			
General fund	\$ 1,501	\$ 51,841	\$ 53,342
Tax Increment District #2	-	-	2,800
Nonmajor governmental funds	-	-	3,315
Water Utility fund	-	-	30,759
Refuse fund	-	-	34,938
	<u>-</u>	<u>-</u>	<u>34,938</u>
Total transfers out	<u>\$ 1,501</u>	<u>\$ 51,841</u>	<u>\$ 125,154</u>

The City made the following transfers for the year ended December 31, 2009:

- From the Refuse Utility fund (\$34,938) to the General fund for operations.
- From the Tax Increment District #2 fund (\$2,800) to the Revolving fund for operations.
- From the Water Utility fund (\$30,759) to the Debt Service fund for debt service operations.
- From the General fund (\$1,501) to the Gambling fund to set up new fund.
- From the Development fund (\$3,315) to the Economic Development fund to close fund.
- From the General fund (\$51,841) to the Fire fund for operations.

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

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>\$ 26,000</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	\$ 225,000
G.O. PIR Refunding Bonds of 2004B	300,000	3.00 - 4.10	11/01/04	02/01/16	205,000
G.O. Improvement Bonds of 2004A	265,000	3.00 - 4.00	09/01/04	02/01/15	170,000
G.O. Improvement Bonds of 2005A	165,000	3.75 - 4.10	06/01/05	02/01/15	120,000
G.O. Improvement Bonds of 2006A	140,000	4.25	11/01/06	02/01/18	<u>130,000</u>
Total G.O. Special Assessment Bonds					<u>\$ 850,000</u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

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	\$ 113,067
G.O. Sewer Revenue					
Refunding Bonds, 2007A	235,000	3.95	12/01/07	02/01/17	210,000
PFA Loan of 2009	* 320,500	1.88	06/01/09	08/20/29	131,479
Total G.O. Revenue Bonds					<u>\$ 454,546</u>

* Includes undrawn amounts of \$189,021

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

Year Ending December 31,	General Obligation Bonds Governmental Activities			G.O. Special Assessment Bonds Governmental Activities		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 13,000	\$ 1,300	\$ 14,300	\$ 105,000	\$ 31,086	\$ 136,086
2011	13,000	650	13,650	115,000	27,191	142,191
2012	-	-	-	120,000	22,901	142,901
2013	-	-	-	120,000	18,319	138,319
2014	-	-	-	130,000	13,294	143,294
2015 - 2019	-	-	-	260,000	12,600	272,600
2020 - 2024	-	-	-	-	-	-
2025 - 2029	-	-	-	-	-	-
Total	<u>\$ 26,000</u>	<u>\$ 1,950</u>	<u>\$ 27,950</u>	<u>\$ 850,000</u>	<u>\$ 125,391</u>	<u>\$ 975,391</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Year Ending December 31,	G.O. Revenue Bonds		
	Business-type Activities		
	Principal	Interest	Total
2010	\$ 53,576	\$ 9,317	\$ 62,893
2011	54,076	12,595	66,671
2012	54,076	11,343	65,419
2013	54,076	10,092	64,168
2014	54,076	8,841	62,917
2015 - 2019	198,687	26,041	224,728
2020 - 2024	83,000	13,407	96,407
2025 - 2029	92,000	5,254	97,254
Total	\$ 643,567	\$ 96,890	\$ 740,457

Year Ending December 31,	Total			Total		
	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 118,000	\$ 32,386	\$ 150,386	\$ 53,576	\$ 9,317	\$ 62,893
2011	128,000	27,841	155,841	54,076	12,595	66,671
2012	120,000	22,901	142,901	54,076	11,343	65,419
2013	120,000	18,319	138,319	54,076	10,092	64,168
2014	130,000	13,294	143,294	54,076	8,841	62,917
2015 - 2019	260,000	12,600	272,600	198,687	26,041	224,728
2020 - 2024	-	-	-	83,000	13,407	96,407
2025 - 2029	-	-	-	92,000	5,254	97,254
Total	\$ 876,000	\$ 127,341	\$ 1,003,341	\$ 643,567	\$ 96,890	\$ 740,457

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 38,000	\$ -	\$ (12,000)	\$ 26,000	\$ 13,000
General obligation special assessment bonds	<u>955,000</u>	<u>-</u>	<u>(105,000)</u>	<u>850,000</u>	<u>105,000</u>
Total bonds payable	993,000	-	(117,000)	876,000	118,000
Compensated absences payable					
	<u>2,907</u>	<u>7,628</u>	<u>(6,767)</u>	<u>3,768</u>	<u>3,768</u>
Governmental activities long-term liabilities	<u>\$ 995,907</u>	<u>\$ 7,628</u>	<u>\$ (123,767)</u>	<u>\$ 879,768</u>	<u>\$ 121,768</u>
Business-type activities					
Bonds payable:					
General obligation revenue bonds	<u>\$ 363,142</u>	<u>\$ 131,479</u>	<u>\$ (40,075)</u>	<u>\$ 454,546</u>	<u>\$ 53,576</u>
Business-type activities long-term liabilities	<u>\$ 363,142</u>	<u>\$ 131,479</u>	<u>\$ (40,075)</u>	<u>\$ 454,546</u>	<u>\$ 53,576</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. Plan Description

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

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

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

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 4: DEFINED BENEFIT PENSION PLAN – STATEWIDE - CONTINUED

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2009. PEPFF members were required to contribute 9.4% of their annual covered salary in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.75% for Coordinated Plan PERF members, and 14.1% for PEPFF members. Employer contribution rates in the Coordinated Plan increased to 7.00 percent, effective January 1, 2010. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2009, 2008 and 2007 were \$9,975, \$9,960, and \$8,930, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2009, 2008, and 2007 were \$10,576, \$8,159, and \$5,826, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state 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, 2009

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	\$ 17,000
Contributions made	
City (voluntary)	7,423
State aid	9,577
Actuarial valuation date	12/31/09
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
12/31/09	\$ 17,000	100.0 %	\$ -
12/31/08	17,105	100.0	-
12/31/07	17,660	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
12/31/09	\$ -	\$ -	\$ -	- %	\$ 1,100
12/31/08	206,978	249,298	(42,320)	83.0	1,100
12/31/07	295,155	231,962	63,193	127.2	1,100

* Information unavailable at time of audit

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

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.

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 \$86,147,000 at December 31, 2009 for a limit of \$2,979,771 (net of debt service reserves). The City currently has no general obligation debt subject to the limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

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 2009 was \$132,602 and \$23,508 for LGA and MVHC, respectively. This accounted for 28 percent of General fund revenues. The State of Minnesota has proposed unallotments calculated as a percent of the total pay 2009 revenue base. For cities, the revenue base is equal to the certified levy plus certified local government aid (LGA) plus taconite aid. Cities with populations under 1,000 are exempt if their adjusted net tax capacity per capita is below the statewide average. The proposed unallotments for cities has been limited to \$22 per capita in pay 2009 and \$55 per capita in pay 2010. The proposed unallotment percentages for 2010 are equal to 7.644 percent of the 2009 revenue base for cities.

E. Tax Increment Districts

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

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

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,119	\$ 5,077	\$ 8,196
Receivables			
Delinquent taxes	-	42	42
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 3,119</u></u>	<u><u>\$ 5,119</u></u>	<u><u>\$ 8,238</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Deferred revenue	\$ -	\$ 42	\$ 42
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES (DEFICITS)			
Unreserved, designated for:			
Capital outlay	-	9,284	9,284
Unreserved, undesignated, reported in:			
Special revenue funds	3,119	-	3,119
Capital projects funds	-	(4,207)	(4,207)
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u><u>3,119</u></u>	<u><u>5,077</u></u>	<u><u>8,196</u></u>
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 3,119</u></u>	<u><u>\$ 5,119</u></u>	<u><u>\$ 8,238</u></u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2009

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ 3,912	\$ 104	\$ 4,016
Investment earnings	12	8	20
TOTAL REVENUES	3,924	112	4,036
EXPENDITURES			
Current			
General government	2,306	-	2,306
EXCESS OF REVENUES OVER EXPENDITURES	1,618	112	1,730
OTHER FINANCING SOURCES (USES)			
Transfers in	1,501	-	1,501
Transfers out	(3,315)	-	(3,315)
TOTAL OTHER FINANCING SOURCES (USES)	(1,814)	-	(1,814)
NET CHANGE IN FUND BALANCES	(196)	112	(84)
FUND BALANCES, JANUARY 1	3,315	4,965	8,280
FUND BALANCES, DECEMBER 31	\$ 3,119	\$ 5,077	\$ 8,196

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	250	800	Total
	<u>Development</u>	<u>Gambling</u>	<u>Nonmajor</u>
ASSETS			
Cash and cash equivalents	<u>\$ -</u>	<u>\$ 3,119</u>	<u>\$ 3,119</u>
FUND BALANCES			
Unreserved			
Undesignated	<u>\$ -</u>	<u>\$ 3,119</u>	<u>\$ 3,119</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2009

	<u>250</u> Development	<u>800</u> Gambling	Total Nonmajor
REVENUES			
Gambling taxes	\$ -	\$ 3,912	\$ 3,912
Investment earnings	-	12	12
TOTAL REVENUES	-	3,924	3,924
EXPENDITURES			
Current			
General government	-	2,306	2,306
EXCESS OF REVENUES OVER EXPENDITURES	-	1,618	1,618
OTHER FINANCING SOURCES (USES)			
Transfers in	-	1,501	1,501
Transfers out	(3,315)	-	(3,315)
TOTAL OTHER FINANCING SOURCES (USES)	(3,315)	1,501	(1,814)
NET CHANGE IN FUND BALANCES	(3,315)	3,119	(196)
FUND BALANCES, JANUARY 1	3,315	-	3,315
FUND BALANCES, DECEMBER 31	<u>\$ -</u>	<u>\$ 3,119</u>	<u>\$ 3,119</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	408	411	430	
	Tax	Tax		Total
	Increment	Increment	Northwest	Nonmajor
	District #2-6	District #2-8	Project	
ASSETS				
Cash and cash equivalents (deficits)	\$ 301	\$ (4,508)	\$ 9,284	\$ 5,077
Receivables				
Delinquent taxes	-	42	-	42
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 301</u></u>	<u><u>\$ (4,466)</u></u>	<u><u>\$ 9,284</u></u>	<u><u>\$ 5,119</u></u>
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Deferred revenue	\$ -	\$ 42	\$ -	\$ 42
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES (DEFICITS)				
Unreserved				
Designated for capital outlay	-	-	9,284	9,284
Undesignated	301	(4,508)	-	(4,207)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES (DEFICITS)	<u>301</u>	<u>(4,508)</u>	<u>9,284</u>	<u>5,077</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND				
BALANCES (DEFICITS)	<u><u>\$ 301</u></u>	<u><u>\$ (4,466)</u></u>	<u><u>\$ 9,284</u></u>	<u><u>\$ 5,119</u></u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
YEAR ENDED DECEMBER 31, 2009

	408 Tax Increment District #2-6	411 Tax Increment District #2-8	430 Northwest Project	Total Nonmajor
REVENUES				
Taxes				
Tax increments	\$ -	\$ 104	\$ -	\$ 104
Investment earnings	-	-	8	8
TOTAL REVENUES	-	104	8	112
NET CHANGE IN FUND BALANCES	-	104	8	112
FUND BALANCES (DEFICITS), JANUARY 1	301	(4,612)	9,276	4,965
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 301</u>	<u>\$ (4,508)</u>	<u>\$ 9,284</u>	<u>\$ 5,077</u>

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 424,505	\$ 395,721
Investments	144,670	139,430
Receivables		
Delinquent taxes	30,769	26,216
Accounts	2,485	3,384
Intergovernmental	2,378	2,981
Advances to other funds	37,201	37,001
 TOTAL ASSETS	 \$ 642,008	 \$ 604,733
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 12,834	\$ 4,393
Due to other governments	1	3
Accrued salaries payable	12,932	10,068
Deferred revenue	30,769	26,216
 TOTAL LIABILITIES	 56,536	 40,680
FUND BALANCES		
Reserved for:		
Interfund advance	37,201	37,001
Park land dedication	37,672	31,906
Unreserved		
Designated for:		
Capital outlay	127,819	163,043
Undesignated	382,780	332,103
 TOTAL FUND BALANCES	 585,472	 564,053
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 642,008	 \$ 604,733

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, 2009
With Comparative Actual Amounts for Year Ended December 31, 2008

	2009		Variance with Final Budget - Positive (Negative)	2008
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Taxes				
Property taxes	\$ 333,225	\$ 306,188	\$ (27,037)	\$ 283,483
Franchise fees	5,000	2,539	(2,461)	3,581
Gambling taxes	1,000	1,215	215	7,108
Total taxes	<u>339,225</u>	<u>309,942</u>	<u>(29,283)</u>	<u>294,172</u>
Licenses and permits				
Business	5,000	5,363	363	7,244
Nonbusiness	12,190	25,045	12,855	16,283
Total licenses and permits	<u>17,190</u>	<u>30,408</u>	<u>13,218</u>	<u>23,527</u>
Intergovernmental				
State				
Local government aid	99,270	132,602	33,332	132,602
Property tax credits	-	23,508	23,508	25,317
Other state aids	395	7,146	6,751	6,221
Total State	<u>99,665</u>	<u>163,256</u>	<u>63,591</u>	<u>164,140</u>
County				
Highway aid	600	600	-	600
Total intergovernmental	<u>100,265</u>	<u>163,856</u>	<u>63,591</u>	<u>164,740</u>
Charges for services				
General government	1,010	1,731	721	930
Public safety	-	57	57	15
Streets and highways	75	75	-	55
Sanitation	-	-	-	317
Other	170	314	144	210
Total charges for services	<u>1,255</u>	<u>2,177</u>	<u>922</u>	<u>1,527</u>
Fines and forfeits	<u>25,000</u>	<u>31,930</u>	<u>6,930</u>	<u>36,364</u>
Investment earnings	<u>8,000</u>	<u>7,263</u>	<u>(737)</u>	<u>18,225</u>
Miscellaneous				
Rent	4,060	3,337	(723)	3,933
Contributions and donations	-	19,966	19,966	15,000
Refunds and reimbursements	1,500	3,506	2,006	1,821
Total miscellaneous	<u>5,560</u>	<u>26,809</u>	<u>21,249</u>	<u>20,754</u>
TOTAL REVENUES	<u>496,495</u>	<u>572,385</u>	<u>75,890</u>	<u>559,309</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, 2009
With Comparative Actual Amounts for Year Ended December 31, 2008

	2009			2008
	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
EXPENDITURES				
Current				
General government				
Mayor and Council				
Personal services	\$ 9,473	\$ 7,011	\$ 2,462	\$ 7,707
Supplies	2,900	264	2,636	4,082
Other services and charges	7,939	6,005	1,934	6,229
Total Mayor and Council	<u>20,312</u>	<u>13,280</u>	<u>7,032</u>	<u>18,018</u>
City clerk				
Personal services	75,886	85,155	(9,269)	64,619
Supplies	5,900	4,828	1,072	3,613
Other services and charges	6,120	4,206	1,914	4,345
Total city clerk	<u>87,906</u>	<u>94,189</u>	<u>(6,283)</u>	<u>72,577</u>
Election				
Personal services	-	-	-	1,388
Supplies	-	-	-	478
Other services and charges	500	250	250	122
Total election	<u>500</u>	<u>250</u>	<u>250</u>	<u>1,988</u>
Legal and audit				
Other services	42,000	40,921	1,079	37,051
Planning and zoning				
Personal services	2,625	975	1,650	1,325
Supplies	400	77	323	66
Other services and charges	295	76	219	130
Total planning and zoning	<u>3,320</u>	<u>1,128</u>	<u>2,192</u>	<u>1,521</u>
Municipal building				
Personal services	1,859	1,470	389	1,760
Supplies	4,575	4,028	547	6,861
Other services and charges	11,886	8,581	3,305	9,187
Total municipal building	<u>18,320</u>	<u>14,079</u>	<u>4,241</u>	<u>17,808</u>
Total general government	<u>172,358</u>	<u>163,847</u>	<u>8,511</u>	<u>148,963</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, 2009
With Comparative Actual Amounts for Year Ended December 31, 2008

	2009		Variance with Final Budget - Positive (Negative)	2008
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES - CONTINUED				
Current - Continued				
Public safety				
Police				
Personal services	\$ 88,429	\$ 94,665	\$ (6,236)	\$ 80,642
Supplies	13,700	16,388	(2,688)	13,381
Other services and charges	8,523	8,799	(276)	8,280
Total police	<u>110,652</u>	<u>119,852</u>	<u>(9,200)</u>	<u>102,303</u>
Building/health inspection				
Personal services	2,020	2,014	6	1,788
Supplies	100	99	1	27
Other services and charges	6,300	15,263	(8,963)	9,568
Total building/health inspection	<u>8,420</u>	<u>17,376</u>	<u>(8,956)</u>	<u>11,383</u>
Civil defense				
Supplies	150	140	10	193
Other services and charges	225	224	1	207
Total civil defense	<u>375</u>	<u>364</u>	<u>11</u>	<u>400</u>
Animal control				
Other services and charges	250	66	184	146
Rental inspection				
Personal services	2,000	2,200	(200)	1,680
Total public safety	<u>121,697</u>	<u>139,858</u>	<u>(18,161)</u>	<u>115,912</u>
Streets and highways				
Street maintenance				
Personal services	56,445	49,418	7,027	62,295
Supplies	21,500	27,145	(5,645)	16,613
Other services and charges	10,297	10,469	(172)	2,880
Total street maintenance	<u>88,242</u>	<u>87,032</u>	<u>1,210</u>	<u>81,788</u>
Snow and ice removal				
Supplies	3,500	2,410	1,090	1,650
Street lighting				
Other services and charges	14,500	16,358	(1,858)	13,521
Total streets and highways	<u>106,242</u>	<u>105,800</u>	<u>442</u>	<u>96,959</u>

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CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
YEAR ENDED DECEMBER 31, 2009
With Comparative Actual Amounts for Year Ended December 31, 2008

	2009		Variance with Final Budget - Positive (Negative)	2008
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES - CONTINUED				
Current - Continued				
Culture and recreation				
Parks				
Personal services	\$ 61	\$ 53	\$ 8	\$ 61
Supplies	2,700	3,097	(397)	2,026
Other services and charges	11,411	6,367	5,044	5,243
Total culture and recreation	14,172	9,517	4,655	7,330
Housing and economic development				
Economic development				
Personal services	2,153	1,113	1,040	1,877
Other services and charges	3,500	1,525	1,975	2,154
Total housing and economic development	5,653	2,638	3,015	4,031
Miscellaneous				
Unallocated				
Other services and charges	1,370	3,018	(1,648)	4,356
Total current	421,492	424,678	(3,186)	377,551
Capital outlay				
General government	7,600	9,609	(2,009)	15,077
Public safety	15,500	29,309	(13,809)	-
Streets and highways	25,000	37,079	(12,079)	9,769
Culture and recreation	5,000	-	5,000	24,282
Economic development	5,000	31,887	(26,887)	390
Total capital outlay	58,100	107,884	(49,784)	49,518
TOTAL EXPENDITURES	479,592	532,562	(52,970)	427,069
EXCESS OF REVENUES OVER EXPENDITURES	16,903	39,823	22,920	132,240
OTHER FINANCING SOURCES (USES)				
Transfers in	34,938	34,938	-	48,707
Transfers out	(51,841)	(53,342)	(1,501)	(88,128)
TOTAL OTHER FINANCING SOURCES (USES)	(16,903)	(18,404)	(1,501)	(39,421)
NET CHANGE IN FUND BALANCES	-	21,419	21,419	92,819
FUND BALANCES, JANUARY 1	564,053	564,053	-	471,234
FUND BALANCES, DECEMBER 31	<u>\$ 564,053</u>	<u>\$ 585,472</u>	<u>\$ 21,419</u>	<u>\$ 564,053</u>

CITY OF MADISON LAKE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009
With Comparative Totals for December 31, 2008

	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)	\$ 19,410	\$ 121,713	\$ 50,990	\$ 9,920
Investments	244	-	-	41,796
Receivables				
Delinquent taxes	-	-	-	-
Special assessments				
Delinquent	-	-	-	-
Deferred	-	65,496	151,158	-
Intergovernmental	-	-	-	-
Prepaid items	-	34,170	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 19,654</u>	<u>\$ 221,379</u>	<u>\$ 202,148</u>	<u>\$ 51,716</u>
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Deferred revenue	<u>\$ -</u>	<u>\$ 65,496</u>	<u>\$ 151,158</u>	<u>\$ -</u>
FUND BALANCES (DEFICITS)				
Reserved for debt service	19,654	155,883	50,990	51,716
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCE (DEFICITS)	<u>19,654</u>	<u>155,883</u>	<u>50,990</u>	<u>51,716</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 19,654</u>	<u>\$ 221,379</u>	<u>\$ 202,148</u>	<u>\$ 51,716</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	
					2009	2008
\$ 37,872	\$ (15,266)	\$ 24,697	\$ 50,090	\$ 18,842	\$ 318,268	\$ 256,802
-	-	-	-	-	42,040	40,473
-	-	-	-	-	-	222
-	-	2,832	7,655	-	10,487	5,838
-	-	20,846	108,235	25,574	371,309	407,223
-	-	883	-	-	883	-
-	-	-	-	-	34,170	34,620
<u>\$ 37,872</u>	<u>\$ (15,266)</u>	<u>\$ 49,258</u>	<u>\$ 165,980</u>	<u>\$ 44,416</u>	<u>\$ 777,157</u>	<u>\$ 745,178</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,678</u>	<u>\$ 115,890</u>	<u>\$ 25,574</u>	<u>\$ 381,796</u>	<u>\$ 413,283</u>
37,872	-	25,580	50,090	18,842	410,627	353,225
-	(15,266)	-	-	-	(15,266)	(21,330)
<u>37,872</u>	<u>(15,266)</u>	<u>25,580</u>	<u>50,090</u>	<u>18,842</u>	<u>395,361</u>	<u>331,895</u>
<u>\$ 37,872</u>	<u>\$ (15,266)</u>	<u>\$ 49,258</u>	<u>\$ 165,980</u>	<u>\$ 44,416</u>	<u>\$ 777,157</u>	<u>\$ 745,178</u>

CITY OF MADISON LAKE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
YEAR ENDED DECEMBER 31, 2009
With Comparative Totals for Year Ended December 31, 2008

	301 1982 Community Center Bonds	494 2003 Refunding Bonds	499 2004B PIR Refunding Bonds	405 Tax Increment District #2-3
REVENUES				
Taxes				
Property taxes	\$ 13,450	\$ 21,131	\$ 18,222	\$ -
Special assessments	-	15,549	15,410	-
Investment earnings	22	336	14	1,577
	<u>13,472</u>	<u>37,016</u>	<u>33,646</u>	<u>1,577</u>
TOTAL REVENUES	<u>13,472</u>	<u>37,016</u>	<u>33,646</u>	<u>1,577</u>
EXPENDITURES				
Current				
General government	100	531	531	-
Debt service				
Principal	12,000	30,000	25,000	-
Interest and other	1,900	8,790	8,228	-
	<u>14,000</u>	<u>39,321</u>	<u>33,759</u>	<u>-</u>
TOTAL EXPENDITURES	<u>14,000</u>	<u>39,321</u>	<u>33,759</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(528)	(2,305)	(113)	1,577
OTHER FINANCING SOURCES				
Transfers in	-	-	7,000	-
	<u>-</u>	<u>-</u>	<u>7,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(528)	(2,305)	6,887	1,577
FUND BALANCES (DEFICITS), JANUARY 1	<u>20,182</u>	<u>158,188</u>	<u>44,103</u>	<u>50,139</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 19,654</u>	<u>\$ 155,883</u>	<u>\$ 50,990</u>	<u>\$ 51,716</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	
					2009	2008
\$ -	\$ -	\$ -	\$ -	\$ 10,822	\$ 63,625	\$ 64,630
-	-	10,386	76,748	4,779	122,872	62,120
<u>33</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>5</u>	<u>1,992</u>	<u>4,822</u>
<u>33</u>	<u>-</u>	<u>10,386</u>	<u>76,753</u>	<u>15,606</u>	<u>188,489</u>	<u>131,572</u>
-	-	531	503	100	2,296	300
-	-	25,000	15,000	10,000	117,000	101,000
<u>-</u>	<u>-</u>	<u>6,735</u>	<u>5,096</u>	<u>5,737</u>	<u>36,486</u>	<u>42,092</u>
<u>-</u>	<u>-</u>	<u>32,266</u>	<u>20,599</u>	<u>15,837</u>	<u>155,782</u>	<u>143,392</u>
33	-	(21,880)	56,154	(231)	32,707	(11,820)
-	-	23,759	-	-	30,759	26,497
33	-	1,879	56,154	(231)	63,466	14,677
<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>\$ 37,872</u>	<u>\$ (15,266)</u>	<u>\$ 25,580</u>	<u>\$ 50,090</u>	<u>\$ 18,842</u>	<u>\$ 395,361</u>	<u>\$ 331,895</u>

CITY OF MADISON LAKE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>Total 2009</u>	<u>Total 2008</u>	<u>Percent Increase (Decrease)</u>
REVENUES			
Taxes	\$ 384,360	\$ 355,715	8.05 %
Special assessments	125,916	63,604	97.97
Licenses and permits	30,408	23,527	29.25
Intergovernmental	203,369	176,690	15.10
Charges for services	85,873	81,794	4.99
Fines and forfeits	31,930	36,364	(12.19)
Investment earnings	11,500	38,949	(70.47)
Miscellaneous	<u>97,191</u>	<u>95,367</u>	1.91
 TOTAL REVENUES	 <u>\$ 970,547</u>	 <u>\$ 872,010</u>	 11.30
 Per Capita	 \$ 1,038	 \$ 940	 10.47
EXPENDITURES			
Current			
General government	\$ 168,649	\$ 149,263	12.99
Public safety	229,537	193,158	18.83
Streets and highways	111,714	96,959	15.22
Culture and recreation	9,517	7,330	29.84
Housing and economic development	11,218	4,240	164.58
Miscellaneous	3,018	4,651	(35.11)
Capital outlay			
General government	9,609	15,077	(36.27)
Public safety	60,622	-	N/A
Streets and highways	37,079	9,859	276.09
Culture and recreation	-	24,282	(100.00)
Housing and economic development	31,887	390	8,076.15
Water and sewer	-	8,803	(100.00)
Debt service			
Principal	117,000	101,000	15.84
Interest and other charges	<u>36,521</u>	<u>42,092</u>	(13.24)
 TOTAL EXPENDITURES	 <u>\$ 826,371</u>	 <u>\$ 657,104</u>	 25.76
 Per Capita	 \$ 884	 \$ 708	 24.82
Total Long-term Indebtedness	\$ 876,000	\$ 993,000	(11.78)
Per Capita	937	1,070	(12.44)
 General Fund Balance - December 31	 \$ 585,472	 \$ 564,053	 3.80
Per Capita	626	608	3.02

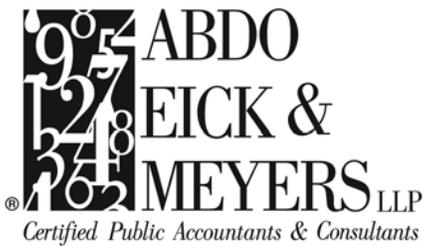
The purpose of this report is to provide a summary of financial information concerning the City of Madison Lake to interested citizens. The complete financial statements may be examined at City Hall, 525 Main Street, PO Box 225, Madison Lake, MN, 56063. Questions about this report should be directed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

OTHER REQUIRED REPORTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

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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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 5, 2010.

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.

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

May 5, 2010
Mankato, Minnesota

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



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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Madison Lake, Minnesota (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 5, 2010. 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 for 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiency described in the accompanying schedule of findings and responses as finding 2009-3 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2009-1 and 2009-2 to be significant deficiencies.



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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the City in a separate letter dated May 5, 2010.

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.

May 5, 2010
Mankato, Minnesota

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

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009

Finding

Description

2009-1

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 number of staff, the Deputy Clerk controls and maintains the check stock, sets up employee records, posts activity to the general ledger, prepares payroll tax returns, and maintains the payroll records.

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

Management Response

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

Updated Progress since Prior Year

The City Administrator reviews 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, 2009

Finding

Description

2009-1

Segregation of Duties (Finding Since 2007) - Continued

Internal Control over Disbursements

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

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

Management Response

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

Updated Progress since Prior Year

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

Internal Control over Cash Receipts

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

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

Management Response

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

Updated Progress since Prior Year

The City Administrator 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, 2009

Finding

Description

2009-1

Segregation of Duties (Finding Since 2007) - Continued

Internal Control over Utility Billing

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

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

Management Response

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

Updated Progress since Prior Year

The City Administrator 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 number of staff, the City Administrator receives investment statements in the mail, initiates transactions, maintains investment sub ledgers, and reconciles investment accounts.

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

Management Response

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

Updated Progress since Prior Year

The City adopted an investment policy during 2009.

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2009

Finding

Description

2009-2

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.

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CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2009

Finding

Description

2009-3

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 cannot serve as a compensating control over this deficiency.

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

Updated Progress since Prior Year

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