

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2011

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CITY OF MADISON LAKE, MINNESOTA
 ANNUAL FINANCIAL REPORT
 TABLE OF CONTENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Page No.</u>
INTRODUCTORY SECTION	
Elected and Appointed Officials	7
FINANCIAL SECTION	
Independent Auditor's Report	11
Management's Discussion and Analysis	15
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	29
Statement of Activities	30
Fund Financial Statements	
Governmental Funds	
Balance Sheet	34
Reconciliation of the Balance Sheet to the Statement of Net Assets	37
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)	38
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) to the Statement of Activities	41
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Major Special Revenue Funds	42
Proprietary Funds	
Statements of Net Assets	44
Statements of Revenues, Expenses and Changes in Fund Net Assets	46
Statements of Cash Flows	48
Notes to the Financial Statements	51
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	75
Nonmajor Capital Projects Funds	
Combining Balance Sheet	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)	77
General Fund	
Comparative Balance Sheets	79
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	80
Debt Service Funds	
Combining Balance Sheet	84
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits)	86
Summary Financial Report	
Revenues and Expenditure for General Operations - Governmental Funds	88

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CITY OF MADISON LAKE, MINNESOTA
ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Page No.</u>
OTHER REQUIRED REPORTS	
Report on Minnesota Legal Compliance	91
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	92
Schedule of Findings and Responses	94

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INTRODUCTORY SECTION

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

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CITY OF MADISON LAKE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR DECEMBER 31, 2011

ELECTED

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

APPOINTED

Kelly Steele	City Administrator/Clerk
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FINANCIAL SECTION
CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Madison Lake, Minnesota

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, 2011, 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 2010 financial statements and, in our report dated April 4, 2011 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General fund, Economic Development Loan and Fire special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the Note 7 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended December 31, 2011. Adoption of the provision of this statement results in significant changes to the classifications of the components of fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2012 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 starting on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and schedules 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 prepared 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 17, 2012
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, 2011.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$7,210,899 (net assets). Of this amount, \$2,379,494 (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 \$198,300 as compared to an increase of \$105,470 in the previous year. The majority of this increase is attributable to an increase in charges for services of \$49,286 and revenues exceeding expenses in governmental and business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,142,917, an increase of \$71,418 in comparison with the prior year. Approximately 61.6 percent of this total amount, \$1,319,524, is available for spending at the City's discretion, but has been assigned for specific purposes.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$468,081, or 95.8 percent of total General fund expenditures. Of this amount, \$105,314 is assigned for capital outlay.
- The City's total debt decreased by \$290,856, or 15.2 percent during the current fiscal year. The key factor of this decrease was the retirement of \$298,076 in bonds during the year.

Overview of the Financial Statements

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

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

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

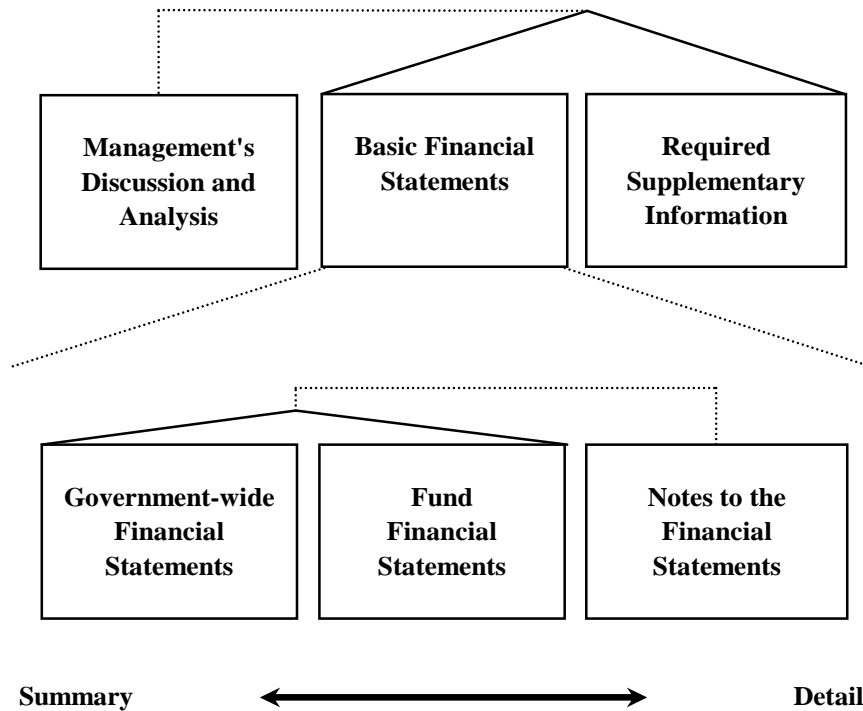


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

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

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

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

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

The government-wide financial statements can be found starting on page 29 of this report.

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

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

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

The City maintains 15 individual governmental funds, 7 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, Fire fund, Debt Service fund, the Tax Increment District #2 fund, and the Public Improvement Revolving fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 51 of this report.

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

Government-wide Financial Analysis

As noted earlier, net 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 \$7,210,899 at the close of the most recent fiscal year.

A significant portion of the City's net assets (50.5 percent) reflects its investment in capital assets (e.g., land, land improvements, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Madison Lake's Summary of Net Assets

	Governmental Activities			Business-type Activities		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Current and other assets	\$ 2,584,070	\$ 2,609,918	\$ (25,848)	\$ 1,071,981	\$ 919,879	\$ 152,102
Capital assets	2,029,877	2,145,397	(115,520)	3,214,229	3,362,212	(147,983)
Total assets	4,613,947	4,755,315	(141,368)	4,286,210	4,282,091	4,119
Long-term liabilities outstanding	545,842	763,184	(217,342)	1,082,055	1,154,911	(72,856)
Other liabilities	34,338	40,937	(6,599)	27,023	65,775	(38,752)
Total liabilities	580,180	804,121	(223,941)	1,109,078	1,220,686	(111,608)
Invested in capital assets, net						
of related debt	1,502,537	1,402,507	100,030	2,136,195	2,211,992	(75,797)
Restricted	924,325	1,055,996	(131,671)	268,348	273,736	(5,388)
Unrestricted	1,606,905	1,492,691	114,214	772,589	575,677	196,912
Total net assets	\$ 4,033,767	\$ 3,951,194	\$ 82,573	\$ 3,177,132	\$ 3,061,405	\$ 115,727

An additional portion of the City's net assets (16.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (33.0 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 \$198,300 during the current fiscal year. The majority of this increase is attributable to an increase in charges for services of \$49,286 and revenues exceeding expenses in governmental and business-type activities.

Governmental activities. Governmental activities increased the City's net assets by \$82,573, thereby accounting for 41.6 percent of the total growth in the net assets of the City. Key elements of this change can be seen in the following tables.

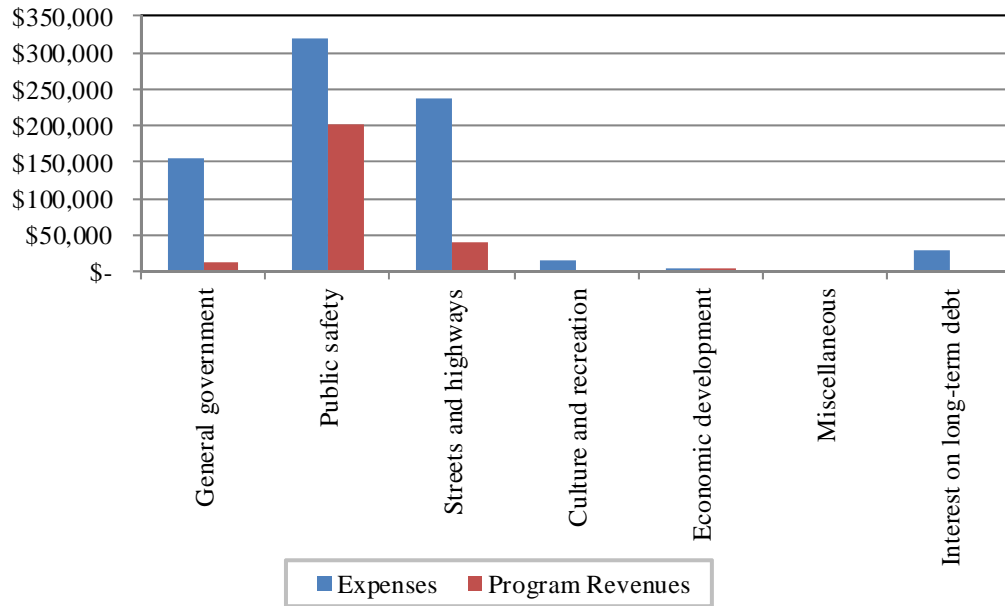
City of Madison Lake's Changes in Net Assets

	Governmental Activities			Business-type Activities		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 214,759	\$ 204,859	\$ 9,900	\$ 564,347	\$ 524,961	\$ 39,386
Operating grants and contributions	21,801	20,254	1,547	-	-	-
Capital grants and contributions	24,444	21,090	3,354	39,772	38,811	961
General revenues						
Property taxes/tax increments	407,920	395,750	12,170	-	-	-
Other taxes	7,902	6,785	1,117	-	-	-
Grants and contributions not restricted to specific programs	124,845	140,257	(15,412)	-	-	-
Investment earnings	8,970	8,390	580	10,617	11,334	(717)
Other	5,248	4,577	671	-	-	-
Total revenues	815,889	801,962	13,927	614,736	575,106	39,630
Expenses						
General government	154,388	184,006	(29,618)	-	-	-
Public safety	319,562	329,205	(9,643)	-	-	-
Streets and highways	236,063	251,759	(15,696)	-	-	-
Culture and recreation	16,177	16,630	(453)	-	-	-
Economic development	5,511	13,659	(8,148)	-	-	-
Miscellaneous	905	1,003	(98)	-	-	-
Interest on long-term debt	28,117	32,607	(4,490)	-	-	-
Water utility	-	-	-	175,155	115,597	59,558
Sewer utility	-	-	-	240,099	265,670	(25,571)
Refuse	-	-	-	56,348	61,462	(5,114)
Total expenses	760,723	828,869	(68,146)	471,602	442,729	28,873
Increase (decrease) in net assets						
before transfers	55,166	(26,907)	82,073	143,134	132,377	10,757
Transfers	27,407	63,318	(35,911)	(27,407)	(63,318)	35,911
Change in net assets	82,573	36,411	46,162	115,727	69,059	46,668
Net assets - January 1	3,951,194	3,962,174	(10,980)	3,061,405	2,992,346	69,059
Prior period adjustment (Note 7)	-	(47,391)	47,391	-	-	-
Net assets - December 31	\$ 4,033,767	\$ 3,951,194	\$ 82,573	\$ 3,177,132	\$ 3,061,405	\$ 115,727

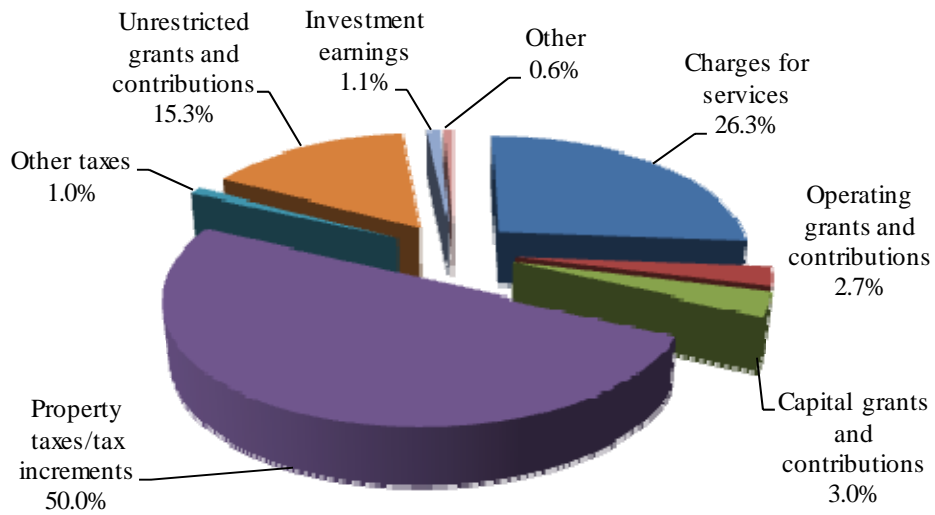
Property tax levies increased by \$12,154 (2.9 percent) during the year. The increase is a combination of increased expenditures for governmental services and a tax levy for debt service.

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

Expenses and Program Revenues - Governmental Activities

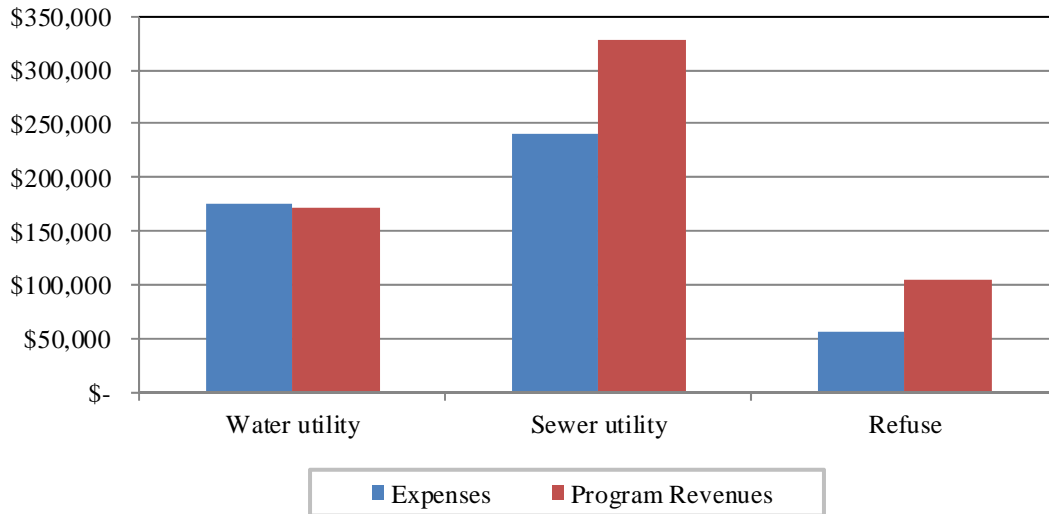


Revenues by Source - Governmental Activities

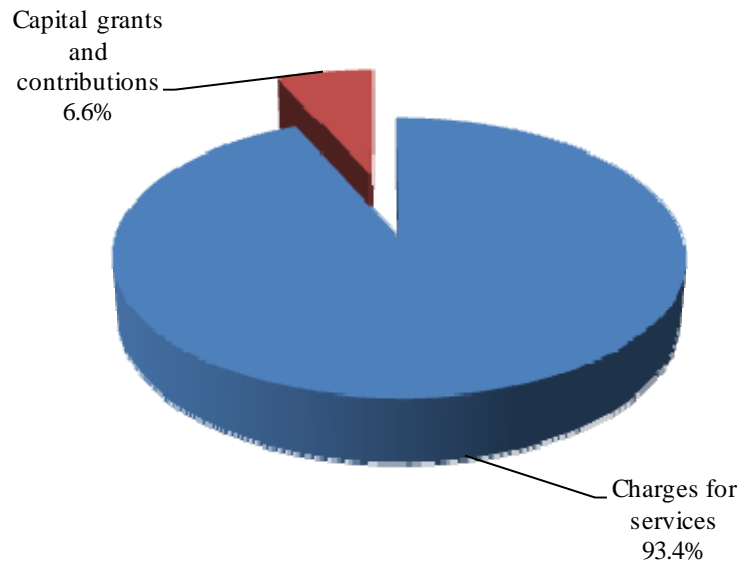


Business-type activities. Business-type activities increased the City’s net assets by \$115,727, accounting for 58.4 percent of the total growth in the City’s net assets.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,142,917, an increase of \$71,418 in comparison with the prior year. Approximately 20.0 percent of this total amount (\$463,798) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) restricted (\$579,158), 2) committed (\$244,235), or 3) assigned (\$855,726) for the purposes described in the fund balance section of each balance sheet.

The *General fund* is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$595,287. 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 121.8 percent of fund expenditures, while unassigned fund balance represents 95.8 percent of fund expenditures.

The fund balance of the City's General fund decreased by \$16,918 during the current fiscal year. The key factor in this decrease was a one-time transfer out of \$89,363 to close the Tax Increment District #2 fund.

The *Economic Development Loan fund* has a total fund balance of \$304,307. The net increase in fund balance during the current year in the Economic Development Loan fund was \$31,385. The key factor in this increase was the repayment of outstanding loans.

The *Fire fund* has a total fund balance of \$305,041. The net increase in fund balance during the current year in the Fire fund was \$8,354. The key factor in this increase was increased revenues from charges for services.

The *Debt Service fund* has a total fund balance of \$250,649, all of which is restricted for the payment of debt service. The net decrease in fund balance during the current year in the Debt Service fund was \$67,310. The key factor in this decrease was an increase in principal payments.

The *Tax Increment District # 2 fund* was closed during 2011 with a transfer from the General fund.

The *Public Improvement Revolving fund* has a total fund balance of \$680,319. The net increase in fund balance during the current year in the Public Improvement Revolving fund was \$25,618. The key factor for the increase was revenue provided from leasing the water tower.

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 \$772,589. The total growth in net assets for the funds was \$115,727. 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 \$48,130, expenditures were over budget by \$26,278 and other financing sources (uses) were under budget by \$38,770. As a result, fund balances decreased during 2011 by \$16,918.

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, 2011, amounts to \$5,244,106 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total change in the City's investment in capital assets for the current fiscal year was a 4.8 percent decrease (a 5.4 percent decrease for governmental activities and a 4.4 percent decrease for business-type activities).

- The Sewer project and the Well project were completed during 2011.
- The Water Tower project incurred cost of \$42,270 during 2011 which were added to construction in process.

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

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

	Governmental Activities			Business-type Activities		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Land	\$ 466,218	\$ 466,218	\$ -	\$ 47,313	\$ 47,313	\$ -
Land improvements	31,017	27,237	3,780	-	-	-
Buildings	258,320	281,843	(23,523)	-	-	-
Infrastructure	1,085,367	1,165,695	(80,328)	3,121,467	2,348,777	772,690
Machinery and equipment	188,955	204,404	(15,449)	3,179	5,638	(2,459)
Construction in progress	-	-	-	42,270	960,484	(918,214)
Total	\$ 2,029,877	\$ 2,145,397	\$ (115,520)	\$ 3,214,229	\$ 3,362,212	\$ (147,983)

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,622,055. Of this amount, \$540,000 is special assessment debt, \$1,082,055 is revenue debt. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Madison Lake's Outstanding Debt

	Governmental Activities			Business-type Activities			Total	
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)	2011	2010
General obligation bonds	\$ -	\$ 13,000	\$ (13,000)	\$ -	\$ -	\$ -	\$ -	\$ 13,000
G.O. improvement bonds	540,000	745,000	(205,000)	-	-	-	540,000	745,000
General obligation revenue bonds	-	-	-	1,082,055	1,154,911	(72,856)	1,082,055	1,154,911
Total	\$ 540,000	\$ 758,000	\$ (218,000)	\$ 1,082,055	\$ 1,154,911	\$ (72,856)	\$ 1,622,055	\$ 1,912,911

The City's total debt decreased by \$290,856, or 15.2 percent during the current fiscal year. The key factors in this decrease were the retirement of \$298,076 in bonds during the year and issuance of \$7,220 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 \$2,660,702, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 3F starting on page 65 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for Blue Earth County is currently 5.4 percent, which is a decrease from a rate of 5.5 percent a year ago. This compares favorably to the State's average unemployment rate of 6.6 percent and the national average rate of 8.7 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 2012 fiscal year.

Property taxes will increase in 2012 by approximately 5.0 percent. The tax increase will provide an additional \$22,282 for operations of our governmental services.

Water and refuse utility rates will increase in 2012. Water base charges will increase approximately 3 percent and usage charges will be up approximately 5 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.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

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CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,830,294	\$ 703,509	\$ 2,533,803
Investments	200,625	263,525	464,150
Receivables			
Delinquent taxes	31,003	-	31,003
Accounts	7,700	65,575	73,275
Notes	100,537	-	100,537
Special assessments	273,604	35,302	308,906
Intergovernmental	29,172	49	29,221
Prepaid items	98,475	-	98,475
Unamortized bond discount	12,660	4,021	16,681
Capital assets			
Capital assets not being depreciated	466,218	89,583	555,801
Capital assets net of accumulated depreciation	<u>1,563,659</u>	<u>3,124,646</u>	<u>4,688,305</u>
TOTAL ASSETS	<u>4,613,947</u>	<u>4,286,210</u>	<u>8,900,157</u>
LIABILITIES			
Accounts payable	10,841	15,534	26,375
Due to other governments	35	1,088	1,123
Accrued interest payable	10,989	8,468	19,457
Accrued salaries payable	12,473	-	12,473
Customer deposits payable	-	1,933	1,933
Noncurrent liabilities			
Due within one year	110,842	81,076	191,918
Due in more than one year	<u>435,000</u>	<u>1,000,979</u>	<u>1,435,979</u>
TOTAL LIABILITIES	<u>580,180</u>	<u>1,109,078</u>	<u>1,689,258</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,502,537	2,136,195	3,638,732
Restricted for			
Debt service	495,279	127,701	622,980
Infrastructure	-	140,647	140,647
Park land dedication	21,892	-	21,892
Economic development	404,844	-	404,844
Community service	2,310	-	2,310
Unrestricted	<u>1,606,905</u>	<u>772,589</u>	<u>2,379,494</u>
TOTAL NET ASSETS	<u>\$ 4,033,767</u>	<u>\$ 3,177,132</u>	<u>\$ 7,210,899</u>

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

CITY OF MADISON LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 154,388	\$ 12,832	\$ -	\$ -
Public safety	319,562	174,103	18,610	8,400
Streets and highways	236,063	24,005	600	16,044
Culture and recreation	16,177	-	2,591	-
Economic development	5,511	3,819	-	-
Miscellaneous	905	-	-	-
Interest on long-term debt	28,117	-	-	-
Total governmental activities	<u>760,723</u>	<u>214,759</u>	<u>21,801</u>	<u>24,444</u>
Business-type activities				
Water utility	175,155	171,966	-	-
Sewer utility	240,099	288,394	-	39,772
Refuse	56,348	103,987	-	-
Total business-type activities	<u>471,602</u>	<u>564,347</u>	<u>-</u>	<u>39,772</u>
Total	<u>\$ 1,232,325</u>	<u>\$ 779,106</u>	<u>\$ 21,801</u>	<u>\$ 64,216</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
\$ (141,556)		\$ (141,556)
(118,449)		(118,449)
(195,414)		(195,414)
(13,586)		(13,586)
(1,692)		(1,692)
(905)		(905)
<u>(28,117)</u>		<u>(28,117)</u>
<u>(499,719)</u>		<u>(499,719)</u>
-	\$ (3,189)	(3,189)
-	88,067	88,067
-	47,639	47,639
<u>-</u>	<u>132,517</u>	<u>132,517</u>
<u>(499,719)</u>	<u>132,517</u>	<u>(367,202)</u>
320,469	-	320,469
87,366	-	87,366
85	-	85
4,788	-	4,788
3,114	-	3,114
124,845	-	124,845
8,970	10,617	19,587
5,248	-	5,248
<u>27,407</u>	<u>(27,407)</u>	<u>-</u>
<u>582,292</u>	<u>(16,790)</u>	<u>565,502</u>
82,573	115,727	198,300
<u>3,951,194</u>	<u>3,061,405</u>	<u>7,012,599</u>
<u>\$ 4,033,767</u>	<u>\$ 3,177,132</u>	<u>\$ 7,210,899</u>

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FUND FINANCIAL STATEMENTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

CITY OF MADISON LAKE, MINNESOTA
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 DECEMBER 31, 2011

	General	Special Revenue	
		Economic Development Loan	Fire
ASSETS			
Cash and cash equivalents	\$ 494,287	\$ 304,307	\$ 299,144
Investments	157,086	-	-
Receivables			
Notes	-	100,537	-
Delinquent taxes	31,003	-	-
Accounts	1,250	-	6,450
Special assessments	-	-	-
Intergovernmental	14,178	-	-
Advances to other funds	-	-	-
Prepaid items	-	-	-
TOTAL ASSETS	<u>\$ 697,804</u>	<u>\$ 404,844</u>	<u>\$ 305,594</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ 10,288	\$ -	\$ 553
Advances from other funds	48,718	-	-
Due to other governments	35	-	-
Accrued salaries payable	12,473	-	-
Deferred revenue	31,003	100,537	-
TOTAL LIABILITIES	<u>102,517</u>	<u>100,537</u>	<u>553</u>
FUND BALANCES (DEFICITS)			
Restricted for			
Debt service	-	-	-
Park land dedication	21,892	-	-
Economic development	-	304,307	-
Community service	-	-	-
Committed for			
Fire department operations	-	-	244,235
Assigned for			
Capital outlay	105,314	-	-
Fire department operations	-	-	60,806
Unassigned	468,081	-	-
TOTAL FUND BALANCES	<u>595,287</u>	<u>304,307</u>	<u>305,041</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 697,804</u>	<u>\$ 404,844</u>	<u>\$ 305,594</u>

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

Debt	Capital Projects				
Debt Service	Tax Increment District #2	Public Improvement Revolving	Other Governmental Funds	Total Governmental Funds	
\$ 137,180	\$ -	\$ 588,062	\$ 7,314	\$ 1,830,294	
-	-	43,539	-	200,625	
-	-	-	-	100,537	
-	-	-	-	31,003	
-	-	-	-	7,700	
255,619	-	17,985	-	273,604	
14,994	-	-	-	29,172	
-	-	48,718	-	48,718	
98,475	-	-	-	98,475	
<u>\$ 506,268</u>	<u>\$ -</u>	<u>\$ 698,304</u>	<u>\$ 7,314</u>	<u>\$ 2,620,128</u>	
\$ -	\$ -	\$ -	\$ -	\$ 10,841	
-	-	-	-	48,718	
-	-	-	-	35	
-	-	-	-	12,473	
255,619	-	17,985	-	405,144	
<u>255,619</u>	<u>-</u>	<u>17,985</u>	<u>-</u>	<u>477,211</u>	
250,649	-	-	-	250,649	
-	-	-	-	21,892	
-	-	-	-	304,307	
-	-	-	2,310	2,310	
-	-	-	-	244,235	
-	-	680,319	9,287	794,920	
-	-	-	-	60,806	
-	-	-	(4,283)	463,798	
<u>250,649</u>	<u>-</u>	<u>680,319</u>	<u>7,314</u>	<u>2,142,917</u>	
<u>\$ 506,268</u>	<u>\$ -</u>	<u>\$ 698,304</u>	<u>\$ 7,314</u>	<u>\$ 2,620,128</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, 2011

Total fund balances - governmental funds	\$ 2,142,917
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.	2,029,877
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	(5,842)
Bonds payable	(540,000)
Bond discounts, net of accumulated amortization	12,660
Long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	
Delinquent property taxes receivable	31,003
Special assessments receivable	273,604
Loans receivable	100,537
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(10,989)</u>
Total net assets - governmental activities	<u><u>\$ 4,033,767</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)
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Special Revenue	
		Economic Development Loan	Fire
REVENUES			
Taxes	\$ 336,838	\$ -	\$ -
Special assessments	-	-	-
Licenses and permits	38,349	-	-
Intergovernmental	133,335	-	18,873
Charges for services	2,296	-	112,629
Fines and forfeits	28,150	-	-
Investment earnings	7,304	2	28
Miscellaneous	14,758	31,383	160
TOTAL REVENUES	561,030	31,385	131,690
EXPENDITURES			
Current			
General government	129,018	-	-
Public safety	132,579	-	116,832
Streets and highways	112,669	-	-
Culture and recreation	10,535	-	-
Housing and economic development	5,054	-	-
Miscellaneous	905	-	-
Capital outlay			
General government	598	-	-
Public safety	8,180	-	6,504
Streets and highways	54,079	-	-
Culture and recreation	28,429	-	-
Economic development	6,539	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
TOTAL EXPENDITURES	488,585	-	123,336
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>72,445</u>	<u>31,385</u>	<u>8,354</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(89,363)	-	-
Payment to refunded bond escrow agent	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(89,363)	-	-
NET CHANGE IN FUND BALANCES	(16,918)	31,385	8,354
FUND BALANCES (DEFICITS), JANUARY 1	612,205	272,922	296,687
FUND BALANCES, DECEMBER 31	<u>\$ 595,287</u>	<u>\$ 304,307</u>	<u>\$ 305,041</u>

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

Debt	Capital Projects			
Debt Service	Tax Increment District #2	Public Improvement Revolving	Other Governmental Funds	Total Governmental Funds
\$ 87,366	\$ -	\$ -	\$ 3,734	\$ 427,938
65,761	-	1,448	-	67,209
-	-	-	-	38,349
-	-	-	-	152,208
-	-	-	-	114,925
-	-	-	-	28,150
-	-	1,633	3	8,970
-	-	22,537	-	68,838
<u>153,127</u>	<u>-</u>	<u>25,618</u>	<u>3,737</u>	<u>906,587</u>
1,696	-	-	2,811	133,525
-	-	-	-	249,411
-	-	-	-	112,669
-	-	-	-	10,535
-	-	-	-	5,054
-	-	-	-	905
-	-	-	-	598
-	-	-	-	14,684
-	-	-	-	54,079
-	-	-	-	28,429
-	-	-	-	6,539
113,000	-	-	-	113,000
28,148	-	-	-	28,148
<u>142,844</u>	<u>-</u>	<u>-</u>	<u>2,811</u>	<u>757,576</u>
<u>10,283</u>	<u>-</u>	<u>25,618</u>	<u>926</u>	<u>149,011</u>
27,407	89,363	-	-	116,770
-	-	-	-	(89,363)
<u>(105,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(105,000)</u>
<u>(77,593)</u>	<u>89,363</u>	<u>-</u>	<u>-</u>	<u>(77,593)</u>
(67,310)	89,363	25,618	926	71,418
317,959	(89,363)	654,701	6,388	2,071,499
<u>\$ 250,649</u>	<u>\$ -</u>	<u>\$ 680,319</u>	<u>\$ 7,314</u>	<u>\$ 2,142,917</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
 FOR THE YEAR ENDED DECEMBER 31, 2011

Net change in fund balances - governmental funds	\$ 71,418
<p>Amounts reported for governmental activities in the statement of activities are different because</p>	
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	67,252
Depreciation expense	(182,772)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	218,000
Discount on bonds issued, net of amortization expense	(2,450)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	2,481
<p>Certain revenues are recognized as soon as it is earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	(11,969)
Special assessments	(51,165)
Loan principal repayments	(27,564)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	(658)
	(658)
Change in net assets - governmental activities	\$ 82,573

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 (DEFICITS)
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 345,001	\$ 320,397	\$ 336,838	\$ 16,441
Licenses and permits	21,200	21,200	38,349	17,149
Intergovernmental	109,894	134,498	133,335	(1,163)
Charges for services	1,345	1,345	2,296	951
Fines and forfeits	24,000	24,000	28,150	4,150
Investment earnings	7,300	7,300	7,304	4
Miscellaneous	4,160	4,160	14,758	10,598
TOTAL REVENUES	512,900	512,900	561,030	48,130
EXPENDITURES				
Current				
General government	153,044	153,044	129,018	24,026
Public safety	122,226	122,226	132,579	(10,353)
Streets and highways	107,370	107,370	112,669	(5,299)
Culture and recreation	12,857	12,857	10,535	2,322
Housing and economic development	7,335	7,335	5,054	2,281
Miscellaneous	1,475	1,475	905	570
Capital outlay				
General government	3,500	3,500	598	2,902
Public safety	20,500	20,500	8,180	12,320
Streets and highways	25,000	25,000	54,079	(29,079)
Culture and recreation	7,000	7,000	28,429	(21,429)
Housing and economic development	2,000	2,000	6,539	(4,539)
TOTAL EXPENDITURES	462,307	462,307	488,585	(26,278)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	50,593	50,593	72,445	21,852
OTHER FINANCING SOURCES (USES)				
Transfers in	29,291	29,291	-	(29,291)
Transfers out	(79,884)	(79,884)	(89,363)	(9,479)
TOTAL OTHER FINANCING SOURCES (USES)	(50,593)	(50,593)	(89,363)	(38,770)
NET CHANGE IN FUND BALANCES	-	-	(16,918)	(16,918)
FUND BALANCES, JANUARY 1	612,205	612,205	612,205	-
FUND BALANCES, DECEMBER 31	<u>\$ 612,205</u>	<u>\$ 612,205</u>	<u>\$ 595,287</u>	<u>\$ (16,918)</u>

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

Economic Development Loan				Fire			
Budgeted Amounts		Actual Amounts	Variance with Final Budget	Budgeted Amounts		Actual Amounts	Variance with Final Budget
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	18,873	18,873
-	-	-	-	102,629	102,629	112,629	10,000
-	-	-	-	-	-	-	-
-	-	2	2	-	-	28	28
28,969	28,969	31,383	2,414	-	-	160	160
28,969	28,969	31,385	2,416	102,629	102,629	131,690	29,061
-	-	-	-	-	-	-	-
-	-	-	-	108,846	108,846	116,832	(7,986)
-	-	-	-	-	-	-	-
28,969	28,969	-	28,969	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	57,800	57,800	6,504	51,296
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
28,969	28,969	-	28,969	166,646	166,646	123,336	43,310
-	-	31,385	31,385	(64,017)	(64,017)	8,354	72,371
-	-	-	-	64,017	64,017	-	(64,017)
-	-	-	-	-	-	-	-
-	-	-	-	64,017	64,017	-	(64,017)
-	-	31,385	31,385	-	-	8,354	8,354
272,922	272,922	272,922	-	296,687	296,687	296,687	-
\$ 272,922	\$ 272,922	\$ 304,307	\$ 31,385	\$ 296,687	\$ 296,687	\$ 305,041	\$ 8,354

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF NET ASSETS
 DECEMBER 31, 2011 AND 2010

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2011	2010	2011	2010
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (deficits)	\$ (15,428)	\$ 8,454	\$ 657,468	\$ 524,259
Investments	175,606	172,824	87,919	83,723
Receivables				
Accounts	21,461	19,070	37,146	38,751
Special assessments receivable - delinquent	-	-	-	-
Intergovernmental	-	8,720	25	733
TOTAL CURRENT ASSETS	181,639	209,068	782,558	647,466
NONCURRENT ASSETS				
Deferred special assessments receivable	-	-	35,302	35,302
Unamortized bond discount	-	-	4,021	4,691
Capital assets				
Land	35,471	35,471	11,842	11,842
Construction in progress	42,270	602,455	-	358,029
Buildings	12,572	12,572	-	-
Infrastructure	2,061,481	1,459,026	3,985,119	3,627,090
Machinery and equipment	7,099	7,099	31,091	31,091
Less accumulated depreciation	(590,399)	(523,576)	(2,382,317)	(2,258,887)
Total capital assets, net of depreciation	1,568,494	1,593,047	1,645,735	1,769,165
TOTAL NONCURRENT ASSETS	1,568,494	1,593,047	1,685,058	1,809,158
TOTAL ASSETS	1,750,133	1,802,115	2,467,616	2,456,624
CURRENT LIABILITIES				
Accounts payable	7,755	15,217	3,656	31,266
Due to other governments	299	76	69	-
Accrued interest payable	3,827	4,003	4,641	5,148
Customer deposits payable	1,933	2,691	-	-
Bonds payable - current	27,000	26,000	54,076	54,076
TOTAL CURRENT LIABILITIES	40,814	47,987	62,442	90,490
NONCURRENT LIABILITIES				
Bonds payable - net of current portion	519,139	538,919	481,840	535,916
TOTAL LIABILITIES	559,953	586,906	544,282	626,406
NET ASSETS				
Invested in capital assets, net of related debt	1,022,355	1,028,128	1,113,840	1,183,864
Restricted for				
Debt service	-	-	127,701	121,604
Infrastructure	-	-	140,647	152,132
Unrestricted	167,825	187,081	541,146	372,618
TOTAL NET ASSETS	\$ 1,190,180	\$ 1,215,209	\$ 1,923,334	\$ 1,830,218

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2011	2010	2011	2010
\$ 61,469	\$ 14,680	\$ 703,509	\$ 547,393
-	-	263,525	256,547
6,982	8,406	65,589	66,227
10	266	10	266
-	-	25	9,453
<u>68,461</u>	<u>23,352</u>	<u>1,032,658</u>	<u>879,886</u>
-	-	35,302	35,302
-	-	4,021	4,691
-	-	47,313	47,313
-	-	42,270	960,484
-	-	12,572	12,572
-	-	6,046,600	5,086,116
-	-	38,190	38,190
-	-	(2,972,716)	(2,782,463)
-	-	3,214,229	3,362,212
-	-	3,253,552	3,402,205
<u>68,461</u>	<u>23,352</u>	<u>4,286,210</u>	<u>4,282,091</u>
4,123	6,680	15,534	53,163
720	694	1,088	770
-	-	8,468	9,151
-	-	1,933	2,691
-	-	81,076	80,076
4,843	7,374	108,099	145,851
-	-	1,000,979	1,074,835
<u>4,843</u>	<u>7,374</u>	<u>1,109,078</u>	<u>1,220,686</u>
-	-	2,136,195	2,211,992
-	-	127,701	121,604
-	-	140,647	152,132
63,618	15,978	772,589	575,677
<u>\$ 63,618</u>	<u>\$ 15,978</u>	<u>\$ 3,177,132</u>	<u>\$ 3,061,405</u>

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2011	2010	2011	2010
OPERATING REVENUES				
Charges for services	\$ 169,149	\$ 143,966	\$ 288,394	\$ 278,934
OPERATING EXPENSES				
Salaries and benefits	40,220	41,759	32,026	41,761
Supplies	16,754	13,024	3,593	5,925
Other services and charges	25,552	10,660	54,724	85,432
Insurance	1,803	1,142	2,162	3,362
Utilities	14,187	7,564	11,605	10,933
Depreciation	66,823	36,764	123,430	105,592
TOTAL OPERATING EXPENSES	165,339	110,913	227,540	253,005
OPERATING INCOME	3,810	33,053	60,854	25,929
NONOPERATING REVENUES (EXPENSES)				
Investment income	5,567	7,491	5,049	3,839
Connection and infrastructure fees	-	-	39,772	38,811
Other income	2,817	1,974	-	-
Interest and fees	(9,816)	(4,604)	(12,559)	(12,665)
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,432)	4,861	32,262	29,985
INCOME BEFORE TRANSFERS	2,378	37,914	93,116	55,914
OTHER FINANCING USES				
TRANSFERS OUT	(27,407)	(34,240)	-	-
CHANGE IN NET ASSETS	(25,029)	3,674	93,116	55,914
NET ASSETS, JANUARY 1	1,215,209	1,211,535	1,830,218	1,774,304
NET ASSETS, DECEMBER 31	\$ 1,190,180	\$ 1,215,209	\$ 1,923,334	\$ 1,830,218

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2011	2010	2011	2010
\$ 103,987	\$ 100,007	\$ 561,530	\$ 522,907
-	-	72,246	83,520
647	345	20,994	19,294
55,701	61,117	135,977	157,209
-	-	3,965	4,504
-	-	25,792	18,497
-	-	190,253	142,356
56,348	61,462	449,227	425,380
47,639	38,545	112,303	97,527
1	4	10,617	11,334
-	-	39,772	38,811
-	-	2,817	1,974
-	-	(22,375)	(17,269)
1	4	30,831	34,850
47,640	38,549	143,134	132,377
-	(29,078)	(27,407)	(63,318)
47,640	9,471	115,727	69,059
15,978	6,507	3,061,405	2,992,346
<u>\$ 63,618</u>	<u>\$ 15,978</u>	<u>\$ 3,177,132</u>	<u>\$ 3,061,405</u>

CITY OF MADISON LAKE, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 175,478	\$ 139,305	\$ 290,707	\$ 275,428
Payments to suppliers and vendors	(65,535)	(32,590)	(99,625)	(100,750)
Payments to and on behalf of employees	(40,220)	(41,759)	(32,026)	(41,761)
Other receipts	2,817	1,974	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	72,540	66,930	159,056	132,917
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(27,407)	(34,240)	-	-
Decrease in customer deposits	(758)	(650)	-	-
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(28,165)	(34,890)	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection and infrastructure fees received	-	-	39,772	38,811
Acquisition of capital assets	(42,270)	(593,735)	-	(215,750)
Proceeds from bonds issued, net of discounts	7,220	560,891	-	189,022
Principal paid on bonds	(26,000)	(4,692)	(54,076)	(53,576)
Interest paid on bonds	(9,992)	(601)	(12,396)	(11,138)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(71,042)	(38,137)	(26,700)	(52,631)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(2,782)	(7,482)	(4,196)	(3,674)
Interest received on cash and investments	5,567	7,491	5,049	3,839
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,785	9	853	165
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,882)	(6,088)	133,209	80,451
CASH AND CASH EQUIVALENTS, JANUARY 1	8,454	14,542	524,259	443,808
CASH AND CASH EQUIVALENTS (DEFICITS), DECEMBER 31	\$ (15,428)	\$ 8,454	\$ 657,468	\$ 524,259
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 3,810	\$ 33,053	\$ 60,854	\$ 25,929
Adjustments to reconcile operating income to net cash provided by operating activities				
Other income related to operations	2,817	1,974	-	-
Depreciation	66,823	36,764	123,430	105,592
(Increase) decrease in assets				
Accounts receivable	(2,391)	(4,661)	1,605	(3,117)
Due from other governments	8,720	-	708	(389)
Special assessments receivable	-	-	-	-
Increase (decrease) in liabilities				
Accounts payable	(7,462)	(187)	(27,610)	4,902
Due to other governments	223	(13)	69	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 72,540	\$ 66,930	\$ 159,056	\$ 132,917
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Bond discount amortization	\$ -	\$ -	\$ 670	\$ 670

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

Business-type Activities - Enterprise Funds

603			
Refuse		Totals	
2011	2010	2011	2010
\$ 105,667	\$ 99,926	\$ 571,852	\$ 514,659
(58,879)	(56,601)	(224,039)	(189,941)
-	-	(72,246)	(83,520)
-	-	2,817	1,974
<u>46,788</u>	<u>43,325</u>	<u>278,384</u>	<u>243,172</u>
-	(29,078)	(27,407)	(63,318)
-	-	(758)	(650)
-	(29,078)	(28,165)	(63,968)
-	-	39,772	38,811
-	-	(42,270)	(809,485)
-	-	7,220	749,913
-	-	(80,076)	(58,268)
-	-	(22,388)	(11,739)
-	-	(97,742)	(90,768)
-	-	(6,978)	(11,156)
<u>1</u>	<u>4</u>	<u>10,617</u>	<u>11,334</u>
<u>1</u>	<u>4</u>	<u>3,639</u>	<u>178</u>
46,789	14,251	156,116	88,614
<u>14,680</u>	<u>429</u>	<u>547,393</u>	<u>458,779</u>
<u>\$ 61,469</u>	<u>\$ 14,680</u>	<u>\$ 703,509</u>	<u>\$ 547,393</u>
\$ 47,639	\$ 38,545	\$ 112,303	\$ 97,527
-	-	2,817	1,974
-	-	190,253	142,356
1,424	66	638	(7,712)
-	-	9,428	(389)
256	(147)	256	(147)
(2,557)	4,827	(37,629)	9,542
<u>26</u>	<u>34</u>	<u>318</u>	<u>21</u>
<u>\$ 46,788</u>	<u>\$ 43,325</u>	<u>\$ 278,384</u>	<u>\$ 243,172</u>
\$ -	\$ -	\$ 670	\$ 670

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CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011

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, which are restricted revenue sources for the fund.

The *Fire fund* accounts for the costs associated with the City's fire protection, which are committed revenue sources for the fund.

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

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

Investment policy

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

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

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

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

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 2011. 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 nonspendable account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Prepaid items

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

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital assets

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

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

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

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

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

Compensated absences

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

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-term obligations

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

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

Fund balance

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

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

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

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

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

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

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

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

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. There were no budget amendments during 2011.

B. Excess of expenditures over appropriations

For the year ended December 31, 2011, expenditures exceeded appropriations in the following funds:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess of Expenditures Over Appropriations</u>
General	\$ 462,307	\$ 488,585	\$ 26,278

The excess of expenditures over appropriations in the General fund was funded by an excess of revenues over budget of \$48,130.

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

C. Deficit fund equity

The following funds had fund equity deficits at December 31, 2011:

Fund	Amount
Capital projects	
Tax Increment District #2-8	\$ 4,283
Debt Service	
2005 G.O. Improvement Bonds	49,346

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, 2011

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 \$406,380 and the bank balance was \$476,764. Of the bank balance, \$250,000 was covered by federal depository insurance. Of the remaining balance, \$226,764 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

Investments

As of December 31, 2011, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled investments			
Minnesota Municipal Money Market Fund (4M fund)	P1	less than 6 months	\$ 2,430,079
Franklin Fund - US Government Securities	N/A	less than 6 months	138,499
Primevest Money Market	N/A	less than 6 months	<u>22,771</u>
Total investments			<u>\$ 2,591,349</u>

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

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

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

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

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

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

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

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Cash on hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$224.

Cash and investments summary

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

Petty cash	\$ 224
Deposits	406,380
Investments	<u>2,591,349</u>
Total	<u><u>\$ 2,997,953</u></u>
Cash and cash equivalents	\$ 2,533,803
Investments	<u>464,150</u>
Total	<u><u>\$ 2,997,953</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, 2011 was \$100,537.

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:

Fund	Unavailable
Delinquent taxes receivable	
General	\$ 31,003
Loans receivable	
Economic Development Loan	100,537
Special assessments receivable	
Public Improvement Revolving	17,985
Debt Service	<u>255,619</u>
Total	<u><u>\$ 405,144</u></u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Capital assets

Capital asset activity for the City for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 466,218	\$ -	\$ -	\$ 466,218
Total capital assets not being depreciated	466,218	-	-	466,218
Capital assets being depreciated				
Land improvements	31,427	6,082	-	37,509
Buildings	912,675	-	-	912,675
Infrastructure	2,483,580	-	-	2,483,580
Machinery and equipment	309,644	29,429	-	339,073
Vehicles	533,013	31,741	-	564,754
Total capital assets being depreciated	4,270,339	67,252	-	4,337,591
Less accumulated depreciation for				
Land improvements	(4,190)	(2,302)	-	(6,492)
Buildings	(630,832)	(23,523)	-	(654,355)
Infrastructure	(1,317,885)	(80,328)	-	(1,398,213)
Machinery and equipment	(216,791)	(31,370)	-	(248,161)
Vehicles	(421,462)	(45,249)	-	(466,711)
Total accumulated depreciation	(2,591,160)	(182,772)	-	(2,773,932)
Total capital assets being depreciated, net	1,679,179	(115,520)	-	1,563,659
Governmental activities capital assets, net	\$ 2,145,397	\$ (115,520)	\$ -	\$ 2,029,877

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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	960,484	42,270	(960,484)	42,270
Total capital assets not being depreciated	<u>1,007,797</u>	<u>42,270</u>	<u>(960,484)</u>	<u>89,583</u>
Capital assets being depreciated				
Buildings	12,572	-	-	12,572
Infrastructure	5,086,116	960,484	-	6,046,600
Machinery and equipment	38,190	-	-	38,190
Total capital assets being depreciated	<u>5,136,878</u>	<u>960,484</u>	<u>-</u>	<u>6,097,362</u>
Less accumulated depreciation for				
Buildings	(12,572)	-	-	(12,572)
Infrastructure	(2,737,339)	(187,794)	-	(2,925,133)
Machinery and equipment	(32,552)	(2,459)	-	(35,011)
Total accumulated depreciation	<u>(2,782,463)</u>	<u>(190,253)</u>	<u>-</u>	<u>(2,972,716)</u>
Total capital assets being depreciated, net	<u>2,354,415</u>	<u>770,231</u>	<u>-</u>	<u>3,124,646</u>
Business-type activities capital assets, net	<u>\$ 3,362,212</u>	<u>\$ 812,501</u>	<u>\$ (960,484)</u>	<u>\$ 3,214,229</u>

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

Governmental activities		
General government		\$ 19,174
Public safety		53,605
Streets and highways		103,351
Culture and recreation		6,642
Total depreciation expense - governmental activities		<u>\$ 182,772</u>
Business-type activities		
Water utility		\$ 66,823
Sewer utility		123,430
Total depreciation expense - business-type activities		<u>\$ 190,253</u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Interfund receivables, payables and transfers

The composition of interfund balances at December 31, 2011 is as follows:

Advances to/from other funds:

Receivable Fund	Payable Fund	Amount
Public Improvement Revolving	General	\$ 48,718

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

Interfund transfers:

The composition of interfund transfers at December 31, 2011 is as follows:

	Transfer in		Total
	Debt Service Fund	Tax Increment District #2 Fund	
Transfer out			
General fund	\$ -	\$ 89,363	\$ 89,363
Water Utility fund	27,407	-	27,407
Total transfers out	\$ 27,407	\$ 89,363	\$ 116,770

The City made the following transfers for the year ended December 31, 2011:

- From the Water Utility fund (\$27,407) to the Debt Service fund for operations.
- From the General fund (\$89,363) to the Tax Increment District #2 fund to close the fund.

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Long-term debt

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

G.O. Special assessment (improvement) bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. PIR					
Bonds of 1999A	\$ 635,000	4.90 - 5.70 %	12/01/99	02/01/16	\$ 165,000
G.O. PIR Refunding					
Bonds of 2004B	300,000	3.00 - 4.10	11/01/04	02/01/16	150,000
G.O. Improvement					
Bonds of 2004A	265,000	3.00 - 4.00	09/01/04	02/01/15	120,000
G.O. Improvement					
Bonds of 2006A	140,000	4.25	11/01/06	02/01/18	<u>105,000</u>
Total G.O. Special Assessment Bonds					<u>\$ 540,000</u>

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

Year Ending December 31,	G.O. Special Assessment Bonds Governmental Activities		
	Principal	Interest	Total
2012	\$ 105,000	\$ 19,519	\$ 124,519
2013	105,000	15,551	120,551
2014	110,000	11,244	121,244
2015	110,000	6,776	116,776
2016	80,000	2,909	82,909
2017 - 2018	<u>30,000</u>	<u>1,275</u>	<u>31,275</u>
Total	<u>\$ 540,000</u>	<u>\$ 57,274</u>	<u>\$ 597,274</u>

CITY OF MADISON LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

G.o. revenue bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Sewer Revenue Bonds of 1995A (PFA)	\$ 400,400	0.00 %	09/25/95	02/20/17	\$ 82,916
G.O. Sewer Revenue Refunding Bonds, 2007A	235,000	3.95	12/01/07	02/01/17	160,000
PFA Loan of 2009	320,500	1.88	06/01/09	08/20/29	293,000
PFA Loan of 2010	596,692	1.86	05/17/10	08/20/29	<u>546,139</u>
Total G.O. Revenue Bonds					<u>\$ 1,082,055</u>

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

December 31,	G.O. Revenue Bonds Business-type Activities		
	Principal	Interest	Total
2012	\$ 81,076	\$ 21,860	\$ 102,936
2013	81,076	20,107	101,183
2014	82,076	18,354	100,430
2015	83,076	16,583	99,659
2016	89,076	14,694	103,770
2017- 2018	267,536	52,669	320,205
2021 - 2025	254,000	29,715	283,715
2026 - 2029	<u>144,139</u>	<u>6,178</u>	<u>150,317</u>
Total	<u>\$ 1,082,055</u>	<u>\$ 180,160</u>	<u>\$ 1,262,215</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 13,000	\$ -	\$ (13,000)	\$ -	\$ -
General obligation special assessment bonds	<u>745,000</u>	<u>-</u>	<u>(205,000)</u>	<u>540,000</u>	<u>105,000</u>
Total bonds payable	758,000	-	(218,000)	540,000	105,000
Compensated absences payable					
	<u>5,184</u>	<u>2,994</u>	<u>(2,336)</u>	<u>5,842</u>	<u>5,842</u>
Governmental activities long-term liabilities	<u>\$ 763,184</u>	<u>\$ 2,994</u>	<u>\$ (220,336)</u>	<u>\$ 545,842</u>	<u>\$ 110,842</u>
Business-type activities					
Bonds payable					
General obligation revenue bonds	<u>\$ 1,154,911</u>	<u>\$ 7,220</u>	<u>\$ (80,076)</u>	<u>\$ 1,082,055</u>	<u>\$ 81,076</u>

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. Plan description

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

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

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

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, 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, 2011

Note 4: DEFINED BENEFIT PENSION PLAN – STATEWIDE - CONTINUED

B. Funding policy

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6 percent of their annual covered salary in 2011. In 2011, the City of Madison Lake was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERF members, 7.25 percent for Coordinated Plan GERF members, and 14.4 percent for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$9,270, \$9,127, and \$9,975, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2011, 2010, and 2009 were \$10,991, \$10,622, and \$10,576, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION

A. 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, 2011

Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION

B. 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)	924
City (required)	5,603
State aid	10,473
Actuarial valuation date	12/31/11
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
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
12/31/11	\$ 17,000	100.0 %	\$ -
12/31/10	19,200	100.0	-
12/31/09	17,000	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
12/31/11 *	\$ -	\$ -	\$ -	- %	\$ 1,100
12/31/10	257,528	234,794	22,734	109.7	1,100
12/31/09	269,375	267,654	1,721	100.6	1,100

* Information unavailable at time of audit

CITY OF MADISON LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 \$80,335,100 at December 31, 2011 for a limit of \$2,660,702 (net of debt service reserves). The City currently has no general obligation debt subject to the limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

D. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) and Market Value Homestead Credit (MVHC) programs. The amount received in 2011 was \$119,406 and \$5,292 for LGA and MVHC, respectively. This accounted for 22 percent of General fund revenues.

E. Tax increment districts

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

Note 7: ACCOUNTING CHANGE

GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The City implemented this standard for fiscal year end December 31, 2011. Changes to governmental fund type fund balance reporting is reflected in the financial statements and schedules and related disclosures are included in Note 1.

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

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and cash equivalents	<u>\$ 2,310</u>	<u>\$ 5,004</u>	<u>\$ 7,314</u>
FUND BALANCES (DEFICITS)			
Restricted for			
Community service	\$ 2,310	\$ -	\$ 2,310
Assigned for			
Capital outlay	-	9,287	9,287
Unassigned	<u>-</u>	<u>(4,283)</u>	<u>(4,283)</u>
TOTAL FUND BALANCES	<u>\$ 2,310</u>	<u>\$ 5,004</u>	<u>\$ 7,314</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Taxes	\$ 3,649	\$ 85	\$ 3,734
Investment earnings	3	-	3
TOTAL REVENUES	3,652	85	3,737
EXPENDITURES			
Current			
General government	2,811	-	2,811
NET CHANGE IN FUND BALANCES	841	85	926
FUND BALANCES, JANUARY 1	1,469	4,919	6,388
FUND BALANCES, DECEMBER 31	\$ 2,310	\$ 5,004	\$ 7,314

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011

	411	430	
	Tax Increment District #2-8	Northwest Project	Total Nonmajor
ASSETS			
Cash and cash equivalents (deficits)	<u>\$ (4,283)</u>	<u>\$ 9,287</u>	<u>\$ 5,004</u>
FUND BALANCES (DEFICITS)			
Assigned for			
Capital outlay	\$ -	\$ 9,287	\$ 9,287
Unassigned	<u>(4,283)</u>	<u>-</u>	<u>(4,283)</u>
TOTAL FUND BALANCES (DEFICITS)	<u>\$ (4,283)</u>	<u>\$ 9,287</u>	<u>\$ 5,004</u>

CITY OF MADISON LAKE, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED DECEMBER 31, 2011

	411	430	
	Tax		
	Increment	Northwest	Total
	<u>District #2-8</u>	<u>Project</u>	<u>Nonmajor</u>
REVENUES			
Taxes			
Tax increments	\$ 85	\$ -	\$ 85
FUND BALANCES (DEFICITS), JANUARY 1	<u>(4,368)</u>	<u>9,287</u>	<u>4,919</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u><u>\$ (4,283)</u></u>	<u><u>\$ 9,287</u></u>	<u><u>\$ 5,004</u></u>

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CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 494,287	\$ 442,217
Investments	157,086	150,705
Receivables		
Delinquent taxes	31,003	40,353
Accounts	1,250	1,262
Intergovernmental	14,178	3,215
Advances to other funds	-	40,645
TOTAL ASSETS	\$ 697,804	\$ 678,397
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 10,288	\$ 13,053
Advances from other funds	48,718	-
Due to other governments	35	-
Accrued salaries payable	12,473	12,786
Deferred revenue	31,003	40,353
TOTAL LIABILITIES	102,517	66,192
FUND BALANCES		
Nonspendable for		
Interfund advance	-	40,645
Restricted for		
Park land dedication	21,892	44,875
Assigned for		
Capital outlay	105,314	127,820
Unassigned	468,081	398,865
TOTAL FUND BALANCES	595,287	612,205
TOTAL LIABILITIES AND FUND BALANCES	\$ 697,804	\$ 678,397

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEAR ENDED DECEMBER 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	2011		Variance with Final Budget	2010
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Taxes				
Property taxes	\$ 316,797	\$ 332,438	\$ 15,641	\$ 301,346
Franchise fees	2,600	3,114	514	3,416
Gambling taxes	1,000	1,286	286	778
Total taxes	<u>320,397</u>	<u>336,838</u>	<u>16,441</u>	<u>305,540</u>
Licenses and permits				
Business	5,000	5,635	635	5,506
Nonbusiness	16,200	32,714	16,514	22,394
Total licenses and permits	<u>21,200</u>	<u>38,349</u>	<u>17,149</u>	<u>27,900</u>
Intergovernmental				
Federal				
Other federal aids	-	990	990	9,172
State				
Local government aid	108,899	119,406	10,507	126,004
Property tax credits	24,604	5,292	(19,312)	5,356
Other state aids	395	7,047	6,652	7,013
Total State	<u>133,898</u>	<u>131,745</u>	<u>(2,153)</u>	<u>138,373</u>
County				
Highway aid	600	600	-	600
Total intergovernmental	<u>134,498</u>	<u>133,335</u>	<u>(1,163)</u>	<u>148,145</u>
Charges for services				
General government	1,100	600	(500)	928
Public safety	50	50	-	55
Streets and highways	-	1,468	1,468	1,437
Other	195	178	(17)	203
Total charges for services	<u>1,345</u>	<u>2,296</u>	<u>951</u>	<u>2,623</u>
Fines and forfeits	24,000	28,150	4,150	42,367
Investment earnings	7,300	7,304	4	6,605
Miscellaneous				
Other	-	4,534	4,534	1,806
Rent	2,660	3,045	385	3,642
Contributions and donations	-	2,591	2,591	170
Refunds and reimbursements	1,500	4,588	3,088	3,877
Total miscellaneous	<u>4,160</u>	<u>14,758</u>	<u>10,598</u>	<u>9,495</u>
TOTAL REVENUES	<u>512,900</u>	<u>561,030</u>	<u>48,130</u>	<u>542,675</u>

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	2011			2010
	Final Budget	Actual Amounts	Variance with Final Budget	Actual Amounts
EXPENDITURES				
Current				
General government				
Mayor and Council				
Personal services	\$ 8,935	\$ 7,227	\$ 1,708	\$ 8,181
Supplies	1,900	92	1,808	329
Other services and charges	7,703	5,426	2,277	7,858
Total Mayor and Council	<u>18,538</u>	<u>12,745</u>	<u>5,793</u>	<u>16,368</u>
City clerk				
Personal services	65,978	65,778	200	67,875
Supplies	3,800	3,559	241	3,962
Other services and charges	6,866	3,100	3,766	4,803
Total city clerk	<u>76,644</u>	<u>72,437</u>	<u>4,207</u>	<u>76,640</u>
Election				
Personal services	-	-	-	944
Supplies	-	-	-	124
Other services and charges	250	250	-	455
Total election	<u>250</u>	<u>250</u>	<u>-</u>	<u>1,523</u>
Legal and audit				
Other services	36,050	27,856	8,194	44,121
Planning and zoning				
Personal services	3,450	875	2,575	1,125
Supplies	300	106	194	64
Other services and charges	496	44	452	107
Total planning and zoning	<u>4,246</u>	<u>1,025</u>	<u>3,221</u>	<u>1,296</u>
Municipal building				
Personal services	1,830	1,168	662	1,292
Supplies	5,400	4,793	607	13,737
Other services and charges	10,086	8,744	1,342	7,731
Total municipal building	<u>17,316</u>	<u>14,705</u>	<u>2,611</u>	<u>22,760</u>
Total general government	<u>153,044</u>	<u>129,018</u>	<u>24,026</u>	<u>162,708</u>

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	2011		Variance with Final Budget	2010
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES - CONTINUED				
Current - continued				
Public safety				
Police				
Personal services	\$ 87,332	\$ 93,676	\$ (6,344)	\$ 95,152
Supplies	14,500	14,549	(49)	15,063
Other services and charges	6,354	8,246	(1,892)	12,004
Total police	<u>108,186</u>	<u>116,471</u>	<u>(8,285)</u>	<u>122,219</u>
Building/health inspection				
Personal services	2,084	2,060	24	2,008
Supplies	150	202	(52)	-
Other services and charges	9,158	11,390	(2,232)	14,898
Total building/health inspection	<u>11,392</u>	<u>13,652</u>	<u>(2,260)</u>	<u>16,906</u>
Civil defense				
Supplies	150	-	150	-
Other services and charges	195	216	(21)	214
Total civil defense	<u>345</u>	<u>216</u>	<u>129</u>	<u>214</u>
Animal control				
Other services and charges	303	-	303	245
Rental inspection				
Personal services	2,000	2,240	(240)	3,040
Total public safety	<u>122,226</u>	<u>132,579</u>	<u>(10,353)</u>	<u>142,624</u>
Streets and highways				
Street maintenance				
Personal services	58,652	58,562	90	44,323
Supplies	21,550	22,349	(799)	23,145
Other services and charges	10,168	10,368	(200)	2,959
Total street maintenance	<u>90,370</u>	<u>91,279</u>	<u>(909)</u>	<u>70,427</u>
Snow and ice removal				
Supplies	2,500	3,475	(975)	2,779
Street lighting				
Other services and charges	14,500	17,915	(3,415)	17,017
Total streets and highways	<u>107,370</u>	<u>112,669</u>	<u>(5,299)</u>	<u>90,223</u>

CITY OF MADISON LAKE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	2011		Variance with Final Budget	2010
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES - CONTINUED				
Current - continued				
Culture and recreation				
Parks				
Personal services	\$ 77	\$ 72	\$ 5	\$ 66
Supplies	5,500	4,493	1,007	5,895
Other services and charges	7,280	5,970	1,310	4,853
Total culture and recreation	12,857	10,535	2,322	10,814
Housing and economic development				
Economic development				
Personal services	2,153	853	1,300	1,145
Other services and charges	5,182	4,201	981	3,212
Total housing and economic development	7,335	5,054	2,281	4,357
Miscellaneous				
Unallocated				
Other services and charges	1,475	905	570	1,003
Total current	404,307	390,760	13,547	411,729
Capital outlay				
General government	3,500	598	2,902	3,383
Public safety	20,500	8,180	12,320	1,924
Streets and highways	25,000	54,079	(29,079)	65,564
Culture and recreation	7,000	28,429	(21,429)	-
Economic development	2,000	6,539	(4,539)	2,640
Total capital outlay	58,000	97,825	(39,825)	73,511
TOTAL EXPENDITURES	462,307	488,585	(26,278)	485,240
EXCESS OF REVENUES OVER EXPENDITURES	50,593	72,445	21,852	57,435
OTHER FINANCING SOURCES (USES)				
Transfers in	29,291	-	(29,291)	29,078
Transfers out	(79,884)	(89,363)	(9,479)	(59,780)
TOTAL OTHER FINANCING SOURCES (USES)	(50,593)	(89,363)	(38,770)	(30,702)
NET CHANGE IN FUND BALANCES	-	(16,918)	(16,918)	26,733
FUND BALANCES, JANUARY 1	612,205	612,205	-	585,472
FUND BALANCES, DECEMBER 31	\$ 612,205	\$ 595,287	\$ (16,918)	\$ 612,205

CITY OF MADISON LAKE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011
(With Comparative Totals for December 31, 2010)

	301 1982 Community Center Bonds	494 2003 Refunding Bonds	499 2004B PIR Refunding Bonds
ASSETS			
Cash and cash equivalents (deficits)	\$ 19,811	\$ 153,423	\$ 18,493
Receivables			
Special assessments			
Delinquent	-	-	-
Deferred	-	41,562	131,458
Intergovernmental	-	-	
Prepaid items	-	33,180	32,978
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 19,811</u>	<u>\$ 228,165</u>	<u>\$ 182,929</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Deferred revenue	-	41,562	131,458
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	-	41,562	131,458
FUND BALANCES (DEFICITS)			
Restricted for			
Debt service	19,811	186,603	51,471
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 19,811</u>	<u>\$ 228,165</u>	<u>\$ 182,929</u>

330 2004 G.O. Improvement Bonds	335 2005 G.O. Improvement Bonds	340 2006 G.O. Improvement Bonds	Totals	
			2011	2010
\$ (6,706)	\$ (64,340)	\$ 16,499	\$ 137,180	\$ 278,927
5,420	59	-	5,479	19,025
13,069	50,484	13,567	250,140	286,584
-	14,994	-	14,994	5,942
32,317	-	-	98,475	33,720
<u>\$ 44,100</u>	<u>\$ 1,197</u>	<u>\$ 30,066</u>	<u>\$ 506,268</u>	<u>\$ 624,198</u>
\$ -	\$ -	\$ -	\$ -	\$ 630
18,489	50,543	13,567	255,619	305,609
18,489	50,543	13,567	255,619	306,239
<u>25,611</u>	<u>(49,346)</u>	<u>16,499</u>	<u>250,649</u>	<u>317,959</u>
<u>\$ 44,100</u>	<u>\$ 1,197</u>	<u>\$ 30,066</u>	<u>\$ 506,268</u>	<u>\$ 624,198</u>

CITY OF MADISON LAKE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for the Year Ended December 31, 2010)

	301 1982 Community Center Bonds	494 2003 Refunding Bonds	499 2004B PIR Refunding Bonds
REVENUES			
Taxes			
Property taxes	\$ 14,405	\$ 37,636	\$ 19,867
Special assessments	-	15,549	14,092
Investment earnings	-	-	-
	<u>14,405</u>	<u>53,185</u>	<u>33,959</u>
EXPENDITURES			
Current			
General government	-	431	431
Debt service			
Principal	13,000	30,000	30,000
Interest and other	650	6,900	6,472
	<u>13,650</u>	<u>37,331</u>	<u>36,903</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>755</u>	<u>15,854</u>	<u>(2,944)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Payment to refunded bond escrow agent	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	755	15,854	(2,944)
FUND BALANCES, JANUARY 1	<u>19,056</u>	<u>170,749</u>	<u>54,415</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 19,811</u>	<u>\$ 186,603</u>	<u>\$ 51,471</u>

330 2004 G.O. Improvement Bonds	335 2005 G.O. Improvement Bonds	340 2006 G.O. Improvement Bonds	Totals	
			2011	2010
\$ -	\$ -	\$ 15,458	\$ 87,366	\$ 78,079
3,091	28,837	4,192	65,761	45,490
-	-	-	-	1,285
<u>3,091</u>	<u>28,837</u>	<u>19,650</u>	<u>153,127</u>	<u>124,854</u>
431	403	-	1,696	3,125
25,000	-	15,000	113,000	118,000
<u>5,067</u>	<u>4,278</u>	<u>4,781</u>	<u>28,148</u>	<u>32,387</u>
<u>30,498</u>	<u>4,681</u>	<u>19,781</u>	<u>142,844</u>	<u>153,512</u>
<u>(27,407)</u>	<u>24,156</u>	<u>(131)</u>	<u>10,283</u>	<u>(28,658)</u>
27,407	-	-	27,407	49,744
-	-	-	-	(98,488)
<u>-</u>	<u>(105,000)</u>	<u>-</u>	<u>(105,000)</u>	<u>-</u>
<u>27,407</u>	<u>(105,000)</u>	<u>-</u>	<u>(77,593)</u>	<u>(48,744)</u>
-	(80,844)	(131)	(67,310)	(77,402)
<u>25,611</u>	<u>31,498</u>	<u>16,630</u>	<u>317,959</u>	<u>395,361</u>
<u>\$ 25,611</u>	<u>\$ (49,346)</u>	<u>\$ 16,499</u>	<u>\$ 250,649</u>	<u>\$ 317,959</u>

CITY OF MADISON LAKE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Total 2011	Total 2010	Percent Increase (Decrease)
REVENUES			
Taxes	\$ 427,938	\$ 393,117	8.86 %
Special assessments	67,209	47,512	41.46
Licenses and permits	38,349	27,900	37.45
Intergovernmental	152,208	163,141	(6.70)
Charges for services	114,925	104,076	10.42
Fines and forfeits	28,150	42,367	(33.56)
Investment earnings	8,970	8,390	6.91
Miscellaneous	68,838	77,451	(11.12)
	<u>\$ 906,587</u>	<u>\$ 863,954</u>	4.93 %
TOTAL REVENUES	<u>\$ 906,587</u>	<u>\$ 863,954</u>	4.93 %
Per capita	\$ 891	\$ 920	(3.11) %
EXPENDITURES			
Current			
General government	\$ 133,525	\$ 170,180	(21.54) %
Public safety	249,411	245,435	1.62
Streets and highways	112,669	135,126	(16.62)
Culture and recreation	10,535	10,814	(2.58)
Housing and economic development	5,054	11,019	(54.13)
Miscellaneous	905	1,003	(9.77)
Capital outlay			
General government	598	3,383	(82.32)
Public safety	14,684	46,347	(68.32)
Streets and highways	54,079	65,564	(17.52)
Culture and recreation	28,429	-	100.00
Housing and economic development	6,539	2,640	147.69
Debt service			
Principal	113,000	118,000	(4.24)
Interest and other charges	28,148	32,387	(13.09)
	<u>\$ 757,576</u>	<u>\$ 841,898</u>	(10.02) %
TOTAL EXPENDITURES	<u>\$ 757,576</u>	<u>\$ 841,898</u>	(10.02) %
Per capita	\$ 745	\$ 897	(16.92) %
Total long-term indebtedness	\$ 540,000	\$ 758,000	(28.76) %
Per capita	531	807	(34.22)
General fund balance - December 31	\$ 595,287	\$ 612,205	(2.76) %
Per capita	585	652	(10.22)

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

OTHER REQUIRED REPORTS

CITY OF MADISON LAKE
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2011

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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, 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 17, 2012.

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 17, 2012
Mankato, Minnesota

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



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

Honorable Mayor and City Council
City of Madison Lake, Minnesota

We have audited 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 17, 2012. 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 2011-3 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 2011-1 and 2011-2 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 17, 2012.

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 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 17, 2012
Mankato, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011

Finding Description

2011-1 Segregation of duties

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

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

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

Internal control over payroll

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

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

Management response:

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

Updated progress since prior year:

There is no change in this finding.

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011

Finding Description

2011-1 Segregation of duties - Continued

Internal control over disbursements

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

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

Management response:

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

Updated progress since prior year:

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

Internal control over cash receipts

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

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

Management response:

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

Updated progress since prior year:

There is no change in this finding.

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011

Finding Description

2011-1 Segregation of duties - Continued

Internal control over utility billing

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

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

Management response:

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

Updated progress since prior year:

There is no change in this finding.

Internal control over investment transactions

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

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

Management response:

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

Updated progress since prior year:

There is no change in this finding.

CITY OF MADISON LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Finding</u>	<u>Description</u>
2011-2	Financial report preparation
<i>Condition:</i>	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.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	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.
<i>Effect:</i>	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.
<i>Recommendation:</i>	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.
<i>Management response:</i>	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
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Finding</u>	<u>Description</u>
2011-3	Material audit adjustments
<i>Condition:</i>	During our audit, adjustments were needed to record numerous accounting and audit adjustments, including some material.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.
<i>Effect:</i>	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.
<i>Recommendation:</i>	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.
<i>Updated progress since prior year:</i>	No progress has been made in addressing this finding in the current year.