

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2013

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 ANNUAL FINANCIAL REPORT  
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**INTRODUCTORY SECTION**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2013

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CITY OF MADISON LAKE, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
FOR THE YEAR DECEMBER 31, 2013

**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            |
| Carolyn Hiniker                      | Council      | 12/31/16            |
| Chuck Ries (resigned September 2013) | Council      | 12/31/16            |

**APPOINTED**

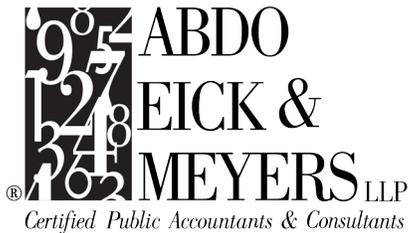
|                                       |                          |          |
|---------------------------------------|--------------------------|----------|
| Ariel Klugman                         | City Administrator/Clerk |          |
| Steve Bjerke (appointed October 2013) | Council                  | 12/31/14 |

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**FINANCIAL SECTION**  
CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2013

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Madison Lake, Minnesota

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Madison Lake, Minnesota, (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2012 financial statements and, in our report dated March 25, 2013, we expressed unmodified opinions on the respective proprietary fund financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2013, 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 - Federal and Fire special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Abdo, Eick & Meyers, LLP*

ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
March 18, 2014

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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, 2013.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$7,453,264 (net position). Of this amount, \$2,381,264 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$63,453 as compared to an increase of \$195,593 in the previous year. The governmental activities increased by \$127,854 and the business type activities decreased by \$64,401. The majority of the governmental activity increase is attributable to the decrease in public safety and streets and highways expenses. The decrease in the business type activities is due to an increase in operating expenses.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,808,840, a decrease of \$558,524 in comparison with the prior year. The majority of this decrease is due to the 2014 Construction annexation project, which had a deficit fund balance of \$634,586. This will be eliminated when the City issues the bond for this project. Approximately 70.4 percent of this total amount, \$1,273,884, is available for spending at the City's discretion, and the remaining 29.6 percent has been restricted or committed for specific purposes.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$656,594, or 133.6 percent of total General fund expenditures.
- The City's total debt decreased by \$365,005, or 10.7 percent during the current fiscal year. The key factor of this decrease was due to the City paying off the G.O. Refunding Bonds of 2003.

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

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

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

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

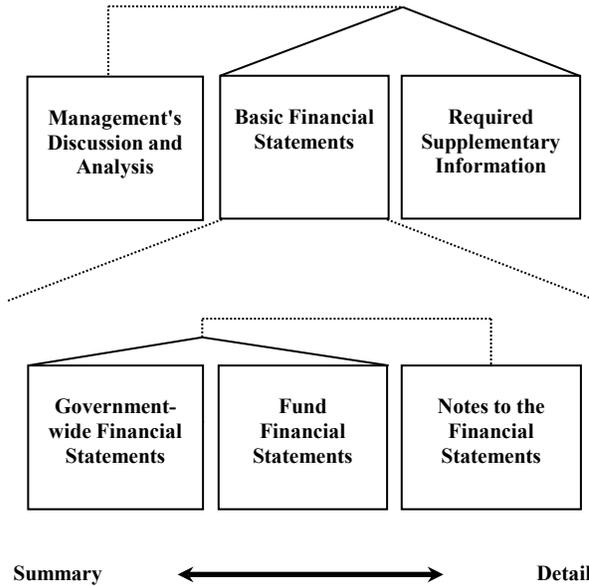


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

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

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

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

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

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

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

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

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

The City maintains 13 individual governmental funds, 4 of which are Debt Service funds, which are reported as one fund for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Economic Development Loan - Federal fund, Fire fund, Debt Service fund, the Public Improvement Revolving fund and the 2014 Construction fund all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

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

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

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

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

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

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules can be found starting on page 70 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$7,453,264 at the close of the most recent fiscal year.

A significant portion of the City's net position (56.4 percent) reflects its investment in capital assets (e.g., land, land improvements, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

|                                   | Governmental Activities |              |                        | Business-type Activities |              |                        |
|-----------------------------------|-------------------------|--------------|------------------------|--------------------------|--------------|------------------------|
|                                   | 2013                    | 2012         | Increase<br>(Decrease) | 2013                     | 2012         | Increase<br>(Decrease) |
| Current and other assets          | \$ 2,316,100            | \$ 2,723,056 | \$ (406,956)           | \$ 2,422,788             | \$ 2,522,374 | \$ (99,586)            |
| Capital assets                    | 2,507,411               | 1,916,507    | 590,904                | 3,621,036                | 3,811,620    | (190,584)              |
| Total assets                      | 4,823,511               | 4,639,563    | 183,948                | 6,043,824                | 6,333,994    | (290,170)              |
| Long-term liabilities outstanding | 232,258                 | 439,417      | (207,159)              | 2,811,704                | 2,966,709    | (155,005)              |
| Other liabilities                 | 322,847                 | 59,594       | 263,253                | 47,262                   | 118,026      | (70,764)               |
| Total liabilities                 | 555,105                 | 499,011      | 56,094                 | 2,858,966                | 3,084,735    | (225,769)              |
| Net position                      |                         |              |                        |                          |              |                        |
| Net investment in capital assets  | 2,282,411               | 1,481,507    | 800,904                | 1,914,490                | 2,013,285    | (98,795)               |
| Restricted                        | 632,475                 | 874,397      | (241,922)              | 242,624                  | 343,598      | (100,974)              |
| Unrestricted                      | 1,353,520               | 1,784,648    | (431,128)              | 1,027,744                | 892,376      | 135,368                |
| Total net position                | \$ 4,268,406            | \$ 4,140,552 | \$ 127,854             | \$ 3,184,858             | \$ 3,249,259 | \$ (64,401)            |

An additional portion of the City's net position (11.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (31.9 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

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

The City's net position increased by \$63,453 during the current fiscal year. The governmental activities increased by \$127,854 and the business type activities decreased by \$64,401. The majority of the governmental activity increase is attributable to the decrease in public safety and streets and highways expenses. The decrease in the business type activities is due to an increase in operating expenses.

**Governmental activities.** Governmental activities increased the City's net position by \$127,854. Key elements of this change can be seen in the following tables.

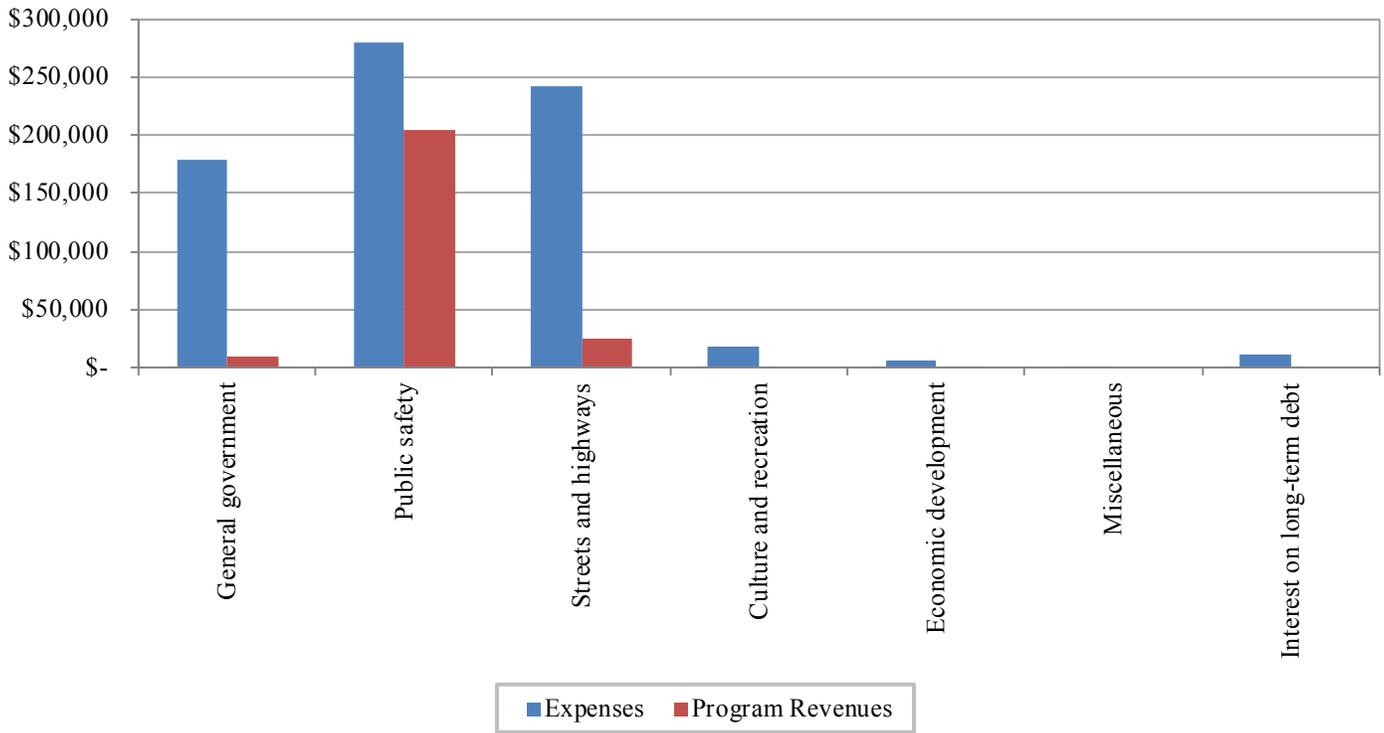
### City of Madison Lake's Changes in Net Position

|   | Governmental Activities |                     |                        | Business-type Activities |                     |                        |
|---|-------------------------|---------------------|------------------------|--------------------------|---------------------|------------------------|
|   | 2013                    | 2012                | Increase<br>(Decrease) | 2013                     | 2012                | Increase<br>(Decrease) |
| Revenues  |                         |                     |                        |                          |                     |                        |
| Program revenues  |                         |                     |                        |                          |                     |                        |
| Charges for services  | \$ 161,175              | \$ 219,878          | \$ (58,703)            | \$ 624,747               | \$ 632,986          | \$ (8,239)             |
| Operating grants<br>and contributions                           | 36,099                  | 29,510              | 6,589                  | -                        | -                   | -                      |
| Capital grants and contributions                                | 42,377                  | 7,212               | 35,165                 | 40,990                   | 39,590              | 1,400                  |
| General revenues  |                         |                     |                        |                          |                     |                        |
| Property taxes/tax increments                                   | 452,610                 | 451,734             | 876                    | -                        | -                   | -                      |
| Other taxes   | 10,895                  | 7,425               | 3,470                  | -                        | -                   | -                      |
| Grants and contributions not<br>restricted to specific programs | 119,406                 | 119,406             | -                      | -                        | -                   | -                      |
| Investment earnings   | 1,822                   | 4,509               | (2,687)                | 727                      | 4,582               | (3,855)                |
| Gain on sale of<br>capital assets                               | 10,000                  | -                   | 10,000                 | -                        | -                   | -                      |
| Other   | 6,830                   | 9,630               | (2,800)                | -                        | -                   | -                      |
| <b>Total revenues</b>   | <b>841,214</b>          | <b>849,304</b>      | <b>(8,090)</b>         | <b>666,464</b>           | <b>677,158</b>      | <b>(10,694)</b>        |
| Expenses  |                         |                     |                        |                          |                     |                        |
| General government  | 179,367                 | 165,997             | 13,370                 | -                        | -                   | -                      |
| Public safety   | 280,363                 | 295,362             | (14,999)               | -                        | -                   | -                      |
| Streets and highways  | 241,690                 | 265,469             | (23,779)               | -                        | -                   | -                      |
| Culture and recreation  | 17,871                  | 19,696              | (1,825)                | -                        | -                   | -                      |
| Economic development  | 6,782                   | 6,580               | 202                    | -                        | -                   | -                      |
| Miscellaneous   | 811                     | 772                 | 39                     | -                        | -                   | -                      |
| Interest on long-term debt                                      | 11,132                  | 16,312              | (5,180)                | -                        | -                   | -                      |
| Water utility   | -                       | -                   | -                      | 236,138                  | 185,119             | 51,019                 |
| Sewer utility   | -                       | -                   | -                      | 405,179                  | 316,585             | 88,594                 |
| Refuse  | -                       | -                   | -                      | 64,892                   | 58,977              | 5,915                  |
| <b>Total expenses</b>   | <b>738,016</b>          | <b>770,188</b>      | <b>(32,172)</b>        | <b>706,209</b>           | <b>560,681</b>      | <b>145,528</b>         |
| Increase (decrease) in net position<br>before transfers         | 103,198                 | 79,116              | 24,082                 | (39,745)                 | 116,477             | (156,222)              |
| Transfers   | 24,656                  | 40,329              | (15,673)               | (24,656)                 | (40,329)            | 15,673                 |
| Change in net position  | 127,854                 | 119,445             | 8,409                  | (64,401)                 | 76,148              | (140,549)              |
| Net position - January 1  | 4,140,552               | 4,021,107           | 119,445                | 3,249,259                | 3,173,111           | 76,148                 |
| Net position - December 31                                      | <u>\$ 4,268,406</u>     | <u>\$ 4,140,552</u> | <u>\$ 127,854</u>      | <u>\$ 3,184,858</u>      | <u>\$ 3,249,259</u> | <u>\$ (64,401)</u>     |

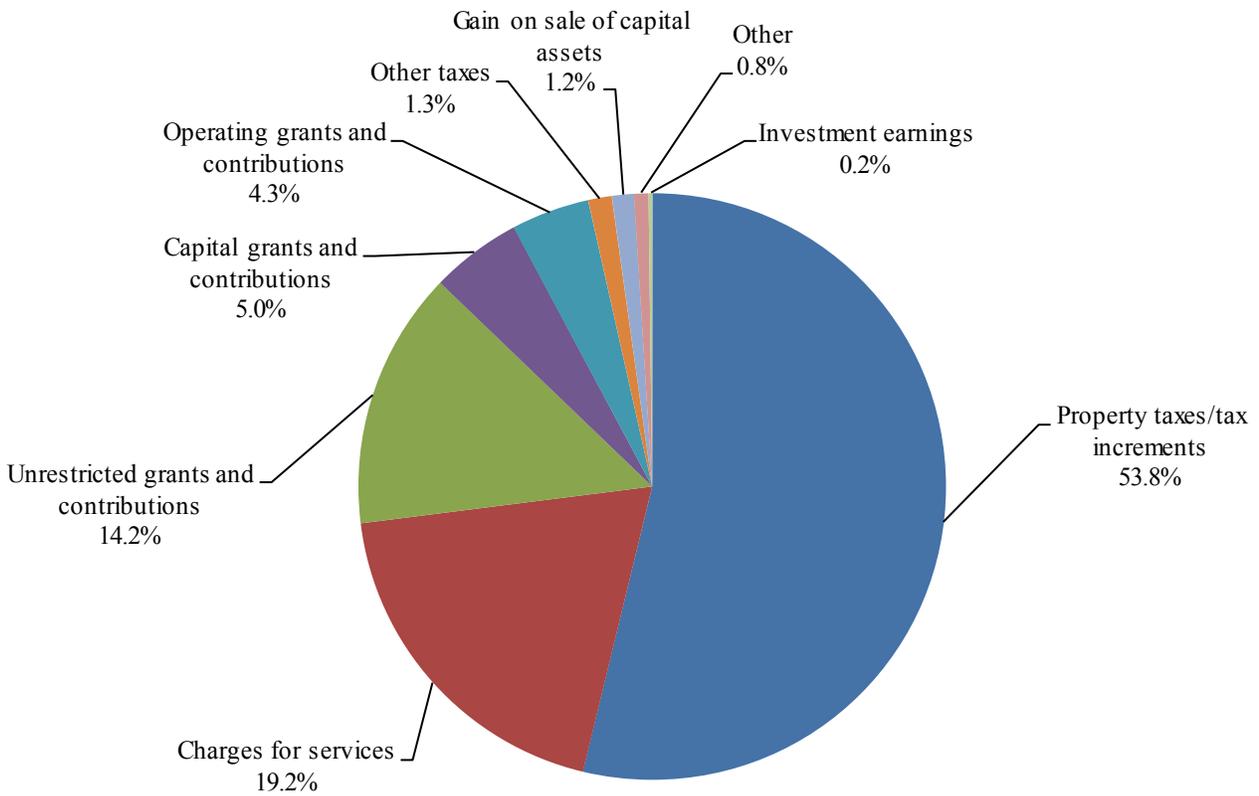
Property tax levies increased by \$22,661 (5.3 percent) during the year.

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

### Expenses and Program Revenues - Governmental Activities

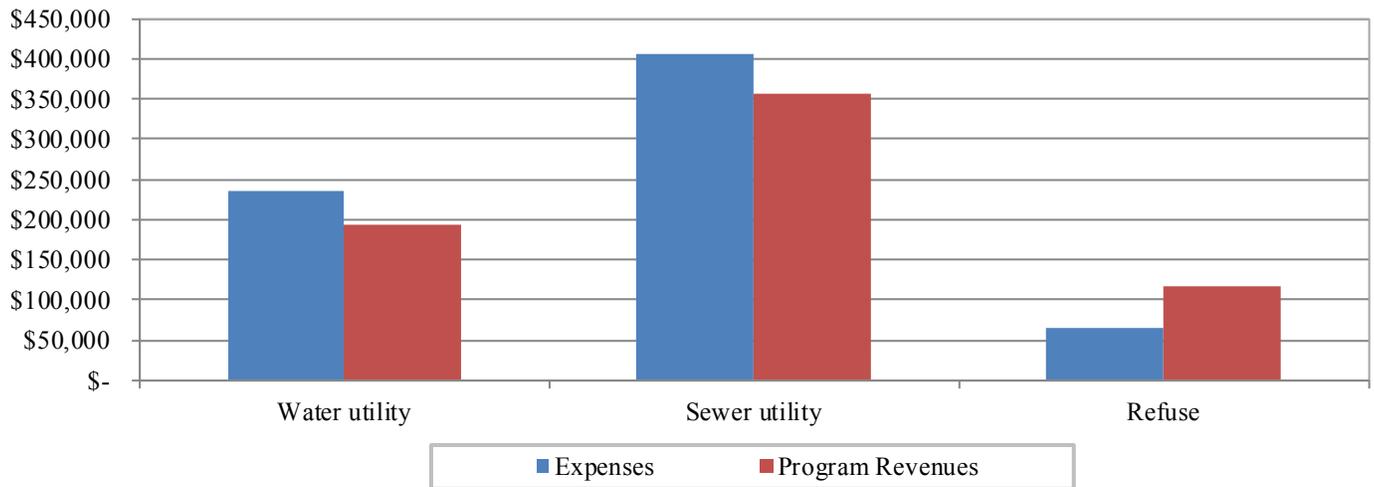


### Revenues by Source - Governmental Activities

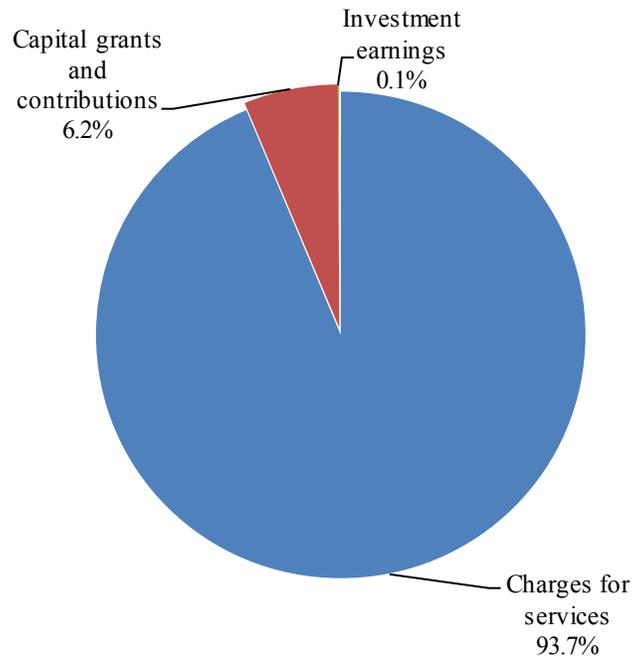


**Business-type activities.** Business-type activities decreased the City's net position by \$64,401.

### 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 \$1,808,840, a decrease of \$558,524 in comparison with the prior year. The majority of this decrease is due to the 2014 Construction annexation project. Approximately 0.0 percent of this total amount (\$22,008) 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 (\$531,616), 2) committed (\$3,340), or 3) assigned (\$1,251,876) 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 \$795,780. 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 161.9 percent of fund expenditures, while unassigned fund balance represents 133.6 percent of fund expenditures.

The fund balance of the City's General fund increased by \$123,238 during the current fiscal year. The key factor in this increase was due to a decrease in general government and public safety expenditures from the prior year and also a transfer from the 2003 G.O. Refunding Bond fund of \$100,880.

The *Economic Development Loan- Federal fund* has a total fund balance of \$385,830. The net increase in fund balance during the current year in the Economic Development Loan - Federal fund was \$72,603. The key factor in this increase was the repayment of outstanding loans.

The *Fire fund* has a total fund balance of \$443,011. The net increase in fund balance during the current year in the Fire fund was \$55,267. The key factor in this increase was increased revenues from State grants and also the sale of the fire truck for \$10,000.

The *Debt Service fund* has a total fund balance of \$100,262, 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 \$198,363. The key factor of this decrease was due to the City paying off the G.O. Refunding Bonds of 2003 and closing this fund to the General fund.

The *Public Improvement Revolving fund* has a total fund balance of \$693,566. The net increase in fund balance during the current year in the Public Improvement Revolving fund was \$27,635. The key factor for the increase was an increase in special assessment revenue.

The *2014 Construction fund* has a total fund balance deficit of \$634,586 as of year-end, all due to current year expenditures of the same amount. This deficit will be funded with a bond issuance in 2014.

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,027,744. The total decrease in net position for the funds was \$64,401. 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 \$3,967, expenditures were under budget by \$21,915.

## 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, 2013, amounts to \$6,128,447 (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 7.0 percent increase (a 30.8 percent increase for governmental activities and a 5.0 percent decrease for business-type activities).

- The 2014 construction annexation project was started during 2013 and had engineering costs of \$634,586 so far.

Additional information on the City's capital assets can be found in Note 3C starting on page 61 of this report.

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

|                          | Governmental Activities |                     |                        | Business-type Activities |                     |                        |
|--------------------------|-------------------------|---------------------|------------------------|--------------------------|---------------------|------------------------|
|                          | 2013                    | 2012                | Increase<br>(Decrease) | 2013                     | 2012                | Increase<br>(Decrease) |
| Land                     | \$ 466,218              | \$ 466,218          | \$ -                   | \$ 47,313                | \$ 47,313           | \$ -                   |
| Land improvements        | 26,020                  | 28,518              | (2,498)                | -                        | -                   | -                      |
| Buildings                | 214,064                 | 237,940             | (23,876)               | -                        | -                   | -                      |
| Infrastructure           | 927,782                 | 1,005,039           | (77,257)               | 3,555,436                | 2,934,509           | 620,927                |
| Machinery and equipment  | 239,389                 | 178,792             | 60,597                 | 542                      | 1,132               | (590)                  |
| Construction in progress | 633,938                 | -                   | 633,938                | 17,745                   | 828,666             | (810,921)              |
| <b>Total</b>             | <b>\$ 2,507,411</b>     | <b>\$ 1,916,507</b> | <b>\$ 590,904</b>      | <b>\$ 3,621,036</b>      | <b>\$ 3,811,620</b> | <b>\$ (190,584)</b>    |

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,931,545. Of this amount, \$225,000 is special assessment debt and \$1,706,545 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 |                     |                        |
|-------------------------------------|-------------------------|-------------------|------------------------|--------------------------|---------------------|------------------------|
|                                     | 2013                    | 2012              | Increase<br>(Decrease) | 2013                     | 2012                | Increase<br>(Decrease) |
| G.O. improvement bonds              | \$ 225,000              | \$ 435,000        | \$ (210,000)           | \$ -                     | \$ -                | \$ -                   |
| General obligation<br>revenue bonds | -                       | -                 | -                      | 1,706,545                | 1,798,335           | (91,790)               |
| Loans payable                       | -                       | -                 | -                      | 1,105,159                | 1,168,374           | (63,215)               |
| <b>Total</b>                        | <b>\$ 225,000</b>       | <b>\$ 435,000</b> | <b>\$ (210,000)</b>    | <b>\$ 2,811,704</b>      | <b>\$ 2,966,709</b> | <b>\$ (155,005)</b>    |

The City's total debt decreased by \$365,005, or 10.7 percent during the current fiscal year. The key factor of this decrease was due to the City paying off the G.O. Refunding Bonds of 2003.

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 \$2,442,236, 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 3E starting on page 64 of this report.

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

The unemployment rate for Blue Earth County is currently 3.6 percent, which is a decrease from a rate of 4.4 percent a year ago. This compares favorably to the State's average unemployment rate of 4.7 percent and the national average rate of 6.5 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 2014 fiscal year.

Property taxes will increase in 2014 by approximately 5.0 percent. The tax increase will provide an additional \$22,274 for debt service related to the annexation and main street projects.

Water, sewer and refuse utility rates will remain the same in 2014. Garbage and recycling fees will increase approximately 6.0 percent. These rate increases relate to recycling fee changes from providing small recycling bins to large recycling bins.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator/Clerk, City of Madison Lake, 525 Main Street, Madison Lake, Minnesota 56063.

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2013

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CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013

|  | Governmental<br>Activities | Business-type<br>Activities | Total               |
|--|----------------------------|-----------------------------|---------------------|
| <b>ASSETS</b>                                  |                            |                             |                     |
| Cash and cash equivalents                      | \$ 2,260,846               | \$ 591,793                  | \$ 2,852,639        |
| Investments                                    | 201,456                    | 271,471                     | 472,927             |
| Receivables                                    |                            |                             |                     |
| Delinquent taxes                               | 23,297                     | -                           | 23,297              |
| Accounts                                       | 9,181                      | 74,747                      | 83,928              |
| Special assessments                            | 164,481                    | 35,302                      | 199,783             |
| Intergovernmental                              | 15,910                     | 657                         | 16,567              |
| Internal balances                              | (359,071)                  | 359,071                     | -                   |
| Intangibles - sewer hookup rights              | -                          | 1,089,747                   | 1,089,747           |
| Capital assets                                 |                            |                             |                     |
| Capital assets not being depreciated           | 1,100,156                  | 65,058                      | 1,165,214           |
| Capital assets net of accumulated depreciation | 1,407,255                  | 3,555,978                   | 4,963,233           |
| <b>TOTAL ASSETS</b>                            | <b>4,823,511</b>           | <b>6,043,824</b>            | <b>10,867,335</b>   |
| <b>LIABILITIES</b>                             |                            |                             |                     |
| Accounts payable                               | 298,423                    | 22,422                      | 320,845             |
| Due to other governments                       | 3,512                      | 1,655                       | 5,167               |
| Accrued interest payable                       | 3,365                      | 20,590                      | 23,955              |
| Accrued salaries payable                       | 17,547                     | -                           | 17,547              |
| Customer deposits payable                      | -                          | 2,595                       | 2,595               |
| Noncurrent liabilities                         |                            |                             |                     |
| Due within one year                            | 82,258                     | 183,270                     | 265,528             |
| Due in more than one year                      | 150,000                    | 2,628,434                   | 2,778,434           |
| <b>TOTAL LIABILITIES</b>                       | <b>555,105</b>             | <b>2,858,966</b>            | <b>3,414,071</b>    |
| <b>NET POSITION</b>                            |                            |                             |                     |
| Net investment in capital assets               | 2,282,411                  | 1,914,490                   | 4,196,901           |
| Restricted for                                 |                            |                             |                     |
| Debt service                                   | 201,121                    | 81,854                      | 282,975             |
| Infrastructure                                 | -                          | 160,770                     | 160,770             |
| Park land dedication                           | 20,547                     | -                           | 20,547              |
| Economic development                           | 408,946                    | -                           | 408,946             |
| Community service                              | 1,861                      | -                           | 1,861               |
| Unrestricted                                   | 1,353,520                  | 1,027,744                   | 2,381,264           |
| <b>TOTAL NET POSITION</b>                      | <b>\$ 4,268,406</b>        | <b>\$ 3,184,858</b>         | <b>\$ 7,453,264</b> |

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

CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

| Functions/Programs             | Expenses            | Program Revenues     |                                    |                                  |
|--------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
|                                |                     | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government             |                     |                      |                                    |                                  |
| Governmental activities        |                     |                      |                                    |                                  |
| General government             | \$ 179,367          | \$ 8,956             | \$ -                               | \$ -                             |
| Public safety                  | 280,363             | 135,058              | 35,499                             | 34,290                           |
| Streets and highways           | 241,690             | 15,809               | 600                                | 8,087                            |
| Culture and recreation         | 17,871              | -                    | -                                  | -                                |
| Economic development           | 6,782               | 1,352                | -                                  | -                                |
| Miscellaneous                  | 811                 | -                    | -                                  | -                                |
| Interest on long-term debt     | 11,132              | -                    | -                                  | -                                |
| Total governmental activities  | <u>738,016</u>      | <u>161,175</u>       | <u>36,099</u>                      | <u>42,377</u>                    |
| Business-type activities       |                     |                      |                                    |                                  |
| Water utility                  | 236,138             | 193,747              | -                                  | -                                |
| Sewer utility                  | 405,179             | 315,286              | -                                  | 40,990                           |
| Refuse                         | 64,892              | 115,714              | -                                  | -                                |
| Total business-type activities | <u>706,209</u>      | <u>624,747</u>       | <u>-</u>                           | <u>40,990</u>                    |
| Total                          | <u>\$ 1,444,225</u> | <u>\$ 785,922</u>    | <u>\$ 36,099</u>                   | <u>\$ 83,367</u>                 |

General revenues

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Gambling taxes
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Gain on sale of capital assets
- Other revenues

Transfers

Total general revenues and transfers

Change in net position

Net position, January 1

Net position, December 31

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

Net (Expense) Revenue and  
Changes in Net Position

| Governmental<br>Activities | Business-type<br>Activities | Total               |
|----------------------------|-----------------------------|---------------------|
| \$ (170,411)               |                             | \$ (170,411)        |
| (75,516)                   |                             | (75,516)            |
| (217,194)                  |                             | (217,194)           |
| (17,871)                   |                             | (17,871)            |
| (5,430)                    |                             | (5,430)             |
| (811)                      |                             | (811)               |
| <u>(11,132)</u>            |                             | <u>(11,132)</u>     |
| <u>(498,365)</u>           |                             | <u>(498,365)</u>    |
| -                          | \$ (42,391)                 | (42,391)            |
| -                          | (48,903)                    | (48,903)            |
| -                          | <u>50,822</u>               | <u>50,822</u>       |
| -                          | <u>(40,472)</u>             | <u>(40,472)</u>     |
| <u>(498,365)</u>           | <u>(40,472)</u>             | <u>(538,837)</u>    |
| 395,923                    | -                           | 395,923             |
| 56,687                     | -                           | 56,687              |
| 4,892                      | -                           | 4,892               |
| 6,003                      | -                           | 6,003               |
| 119,406                    | -                           | 119,406             |
| 1,822                      | 727                         | 2,549               |
| 10,000                     | -                           | 10,000              |
| 6,830                      | -                           | 6,830               |
| <u>24,656</u>              | <u>(24,656)</u>             | <u>-</u>            |
| <u>626,219</u>             | <u>(23,929)</u>             | <u>602,290</u>      |
| 127,854                    | (64,401)                    | 63,453              |
| <u>4,140,552</u>           | <u>3,249,259</u>            | <u>7,389,811</u>    |
| <u>\$ 4,268,406</u>        | <u>\$ 3,184,858</u>         | <u>\$ 7,453,264</u> |

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**FUND FINANCIAL STATEMENTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2013

CITY OF MADISON LAKE, MINNESOTA  
 GOVERNMENTAL FUNDS  
 BALANCE SHEET  
 DECEMBER 31, 2013

|   | General           | Special Revenue                           |                   |
|---|-------------------|---|-------------------|
|   |                   | Economic<br>Development<br>Loan - Federal | Fire              |
| <b>ASSETS</b>   |                   |   |                   |
| Cash and cash equivalents   | \$ 674,931        | \$ 385,830                                | \$ 426,199        |
| Investments   | 157,071           | -   | -                 |
| Receivables   |                   |   |                   |
| Delinquent taxes  | 23,297            | -   | -                 |
| Accounts  | 812               | -   | 7,835             |
| Special assessments   | 10,398            | -   | -                 |
| Intergovernmental   | 3,737             | -   | 12,173            |
| <b>TOTAL ASSETS</b>   | <b>\$ 870,246</b> | <b>\$ 385,830</b>                         | <b>\$ 446,207</b> |
| <b>LIABILITIES</b>  |                   |   |                   |
| Accounts payable  | \$ 19,712         | \$ -                                      | \$ 3,196          |
| Advances from other funds   | -                 | -   | -                 |
| Due to other governments  | 3,512             | -   | -                 |
| Accrued salaries payable  | 17,547            | -   | -                 |
| <b>TOTAL LIABILITIES</b>  | <b>40,771</b>     | <b>-</b>                                  | <b>3,196</b>      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                   |   |                   |
| Unavailable revenue - property taxes  | 23,297            | -   | -                 |
| Unavailable revenue - special assessments                                     | 10,398            | -   | -                 |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                    | <b>33,695</b>     | <b>-</b>                                  | <b>-</b>          |
| <b>FUND BALANCES</b>  |                   |   |                   |
| Restricted for  |                   |   |                   |
| Debt service  | -                 | -   | -                 |
| Park land dedication  | 20,547            | -   | -                 |
| Economic development  | -                 | 385,830                                   | -                 |
| Community service   | -                 | -   | -                 |
| Committed for   |                   |   |                   |
| Fire department operations  | -                 | -   | 3,340             |
| Assigned for  |                   |   |                   |
| Capital outlay  | 118,639           | -   | -                 |
| Fire department operations  | -                 | -   | 439,671           |
| Unassigned  | 656,594           | -   | -                 |
| <b>TOTAL FUND BALANCES</b>  | <b>795,780</b>    | <b>385,830</b>                            | <b>443,011</b>    |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES<br/>AND FUND BALANCES</b> | <b>\$ 870,246</b> | <b>\$ 385,830</b>                         | <b>\$ 446,207</b> |

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

| Debt Service      | Capital Projects             |                   | Other Governmental Funds | Total Governmental Funds |
|-------------------|------------------------------|-------------------|--------------------------|--------------------------|
|                   | Public Improvement Revolving | 2014 Construction |                          |                          |
| \$ 100,262        | \$ 649,181                   | \$ -              | \$ 24,443                | \$ 2,260,846             |
| -                 | 44,385                       | -                 | -                        | 201,456                  |
| -                 | -                            | -                 | -                        | 23,297                   |
| -                 | -                            | -                 | 534                      | 9,181                    |
| 104,224           | 49,859                       | -                 | -                        | 164,481                  |
| -                 | -                            | -                 | -                        | 15,910                   |
| <u>\$ 204,486</u> | <u>\$ 743,425</u>            | <u>\$ -</u>       | <u>\$ 24,977</u>         | <u>\$ 2,675,171</u>      |
| \$ -              | \$ -                         | \$ 275,515        | \$ -                     | \$ 298,423               |
| -                 | -                            | 359,071           | -                        | 359,071                  |
| -                 | -                            | -                 | -                        | 3,512                    |
| -                 | -                            | -                 | -                        | 17,547                   |
| -                 | -                            | 634,586           | -                        | 678,553                  |
| -                 | -                            | -                 | -                        | 23,297                   |
| 104,224           | 49,859                       | -                 | -                        | 164,481                  |
| 104,224           | 49,859                       | -                 | -                        | 187,778                  |
| 100,262           | -                            | -                 | -                        | 100,262                  |
| -                 | -                            | -                 | -                        | 20,547                   |
| -                 | -                            | -                 | 23,116                   | 408,946                  |
| -                 | -                            | -                 | 1,861                    | 1,861                    |
| -                 | -                            | -                 | -                        | 3,340                    |
| -                 | 693,566                      | -                 | -                        | 812,205                  |
| -                 | -                            | -                 | -                        | 439,671                  |
| -                 | -                            | (634,586)         | -                        | 22,008                   |
| 100,262           | 693,566                      | (634,586)         | 24,977                   | 1,808,840                |
| <u>\$ 204,486</u> | <u>\$ 743,425</u>            | <u>\$ -</u>       | <u>\$ 24,977</u>         | <u>\$ 2,675,171</u>      |

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CITY OF MADISON LAKE, MINNESOTA  
 GOVERNMENTAL FUNDS  
 RECONCILIATION OF THE BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 DECEMBER 31, 2013

|   |                            |
|---|----------------------------|
| Total fund balances - governmental funds  | \$ 1,808,840               |
| Amounts reported for governmental activities in the statement of net position are different because   |                            |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.                         | 2,507,411                  |
| 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  | (7,258)                    |
| Bonds payable   | (225,000)                  |
| Long-term assets are not available to pay current-period expenditures and, therefore, are unavailable in the funds.                                       |                            |
| Delinquent property taxes receivable  | 23,297                     |
| Special assessments receivable  | 164,481                    |
| Governmental funds do not report a liability for accrued interest until due and payable.  | <u>(3,365)</u>             |
| Total net position - governmental activities  | <u><u>\$ 4,268,406</u></u> |

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

CITY OF MADISON LAKE, MINNESOTA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2013

|  | General        | Special Revenue                           |                |
|--|----------------|---|----------------|
|  |                | Economic<br>Development<br>Loan - Federal | Fire           |
| REVENUES   |                |   |                |
| Taxes  | \$ 402,085     | \$ -                                      | \$ -           |
| Special assessments  | -              | -   | -              |
| Licenses and permits   | 20,458         | -   | -              |
| Intergovernmental  | 130,228        | -   | 55,221         |
| Charges for services   | 3,125          | -   | 107,095        |
| Fines and forfeits   | 11,962         | -   | -              |
| Investment earnings  | 1,169          | 52  | 75             |
| Miscellaneous  | 10,387         | 72,551                                    | 5,250          |
| <b>TOTAL REVENUES</b>  | <b>579,414</b> | <b>72,603</b>                             | <b>167,641</b> |
| EXPENDITURES   |                |   |                |
| Current  |                |   |                |
| General government   | 142,516        | -   | -              |
| Public safety  | 139,428        | -   | 92,648         |
| Streets and highways   | 103,121        | -   | -              |
| Culture and recreation                                       | 10,223         | -   | -              |
| Economic development   | 6,532          | -   | -              |
| Miscellaneous  | 811            | -   | -              |
| Capital outlay   |                |   |                |
| General government   | 8,792          | -   | -              |
| Public safety  | 7,653          | -   | 90,632         |
| Streets and highways   | 62,930         | -   | -              |
| Culture and recreation                                       | 9,352          | -   | -              |
| Economic development   | 250            | -   | -              |
| Debt service   |                |   |                |
| Principal  | -              | -   | -              |
| Interest and other   | -              | -   | -              |
| <b>TOTAL EXPENDITURES</b>                                    | <b>491,608</b> | <b>-</b>                                  | <b>183,280</b> |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER (UNDER) EXPENDITURES | 87,806         | 72,603                                    | (15,639)       |
| OTHER FINANCING SOURCES (USES)                               |                |   |                |
| Transfers in   | 143,398        | -   | 60,906         |
| Sale of capital assets                                       | -              | -   | 10,000         |
| Transfers out  | (107,966)      | -   | -              |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                  | <b>35,432</b>  | <b>-</b>                                  | <b>70,906</b>  |
| NET CHANGE IN FUND BALANCES                                  | 123,238        | 72,603                                    | 55,267         |
| FUND BALANCES, JANUARY 1                                     | 672,542        | 313,227                                   | 387,744        |
| FUND BALANCES, DECEMBER 31                                   | \$ 795,780     | \$ 385,830                                | \$ 443,011     |

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

| Debt Service      | Capital Projects             |                     | Other Governmental Funds | Total Governmental Funds |
|-------------------|------------------------------|---------------------|--------------------------|--------------------------|
|                   | Public Improvement Revolving | 2014 Construction   |                          |                          |
| \$ 56,687         | \$ -                         | \$ -                | \$ 3,749                 | \$ 462,521               |
| 38,782            | 12,171                       | -                   | -                        | 50,953                   |
| -                 | -                            | -                   | -                        | 20,458                   |
| -                 | -                            | -                   | -                        | 185,449                  |
| -                 | -                            | -                   | -                        | 110,220                  |
| -                 | -                            | -                   | -                        | 11,962                   |
| 24                | 497                          | -                   | 5                        | 1,822                    |
| -                 | 14,967                       | -                   | 3,023                    | 106,178                  |
| <u>95,493</u>     | <u>27,635</u>                | <u>-</u>            | <u>6,777</u>             | <u>949,563</u>           |
| 1,714             | -                            | -                   | 6,004                    | 150,234                  |
| -                 | -                            | -                   | -                        | 232,076                  |
| -                 | -                            | -                   | -                        | 103,121                  |
| -                 | -                            | -                   | -                        | 10,223                   |
| -                 | -                            | -                   | -                        | 6,532                    |
| -                 | -                            | -                   | -                        | 811                      |
| -                 | -                            | -                   | -                        | 8,792                    |
| -                 | -                            | -                   | -                        | 98,285                   |
| -                 | -                            | 634,586             | -                        | 697,516                  |
| -                 | -                            | -                   | -                        | 9,352                    |
| -                 | -                            | -                   | -                        | 250                      |
| 210,000           | -                            | -                   | -                        | 210,000                  |
| 15,551            | -                            | -                   | -                        | 15,551                   |
| <u>227,265</u>    | <u>-</u>                     | <u>634,586</u>      | <u>6,004</u>             | <u>1,542,743</u>         |
| <u>(131,772)</u>  | <u>27,635</u>                | <u>(634,586)</u>    | <u>773</u>               | <u>(593,180)</u>         |
| 34,289            | -                            | -                   | 4,198                    | 242,791                  |
| -                 | -                            | -                   | -                        | 10,000                   |
| <u>(100,880)</u>  | <u>-</u>                     | <u>-</u>            | <u>(9,289)</u>           | <u>(218,135)</u>         |
| <u>(66,591)</u>   | <u>-</u>                     | <u>-</u>            | <u>(5,091)</u>           | <u>34,656</u>            |
| (198,363)         | 27,635                       | (634,586)           | (4,318)                  | (558,524)                |
| 298,625           | 665,931                      | -                   | 29,295                   | 2,367,364                |
| <u>\$ 100,262</u> | <u>\$ 693,566</u>            | <u>\$ (634,586)</u> | <u>\$ 24,977</u>         | <u>\$ 1,808,840</u>      |

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CITY OF MADISON LAKE, MINNESOTA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

Net change in fund balances - governmental funds \$ (558,524)

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

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

|                      |           |
|----------------------|-----------|
| Capital outlay       | 770,436   |
| Depreciation expense | (173,532) |

The net effect of various miscellaneous transactions involving capital assets

|                                   |         |
|-----------------------------------|---------|
| Book value of capital assets sold | (6,000) |
|-----------------------------------|---------|

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

|                      |         |
|----------------------|---------|
| Principal repayments | 210,000 |
|----------------------|---------|

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.

|  |       |
|--|-------|
|  | 4,419 |
|--|-------|

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.

|                           |          |
|---------------------------|----------|
| Property taxes            | 984      |
| Special assessments       | (42,866) |
| Loan principal repayments | (74,222) |

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

|                      |         |
|----------------------|---------|
| Compensated absences | (2,841) |
|----------------------|---------|

|  |            |
|--|------------|
| Change in net position - governmental activities | \$ 127,854 |
|--|------------|

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

CITY OF MADISON LAKE, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES  
GENERAL AND MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

|  | General           |                   |                   |                               |
|--|-------------------|-------------------|-------------------|-------------------------------|
|  | Budgeted Amounts  |                   | Actual<br>Amounts | Variance with<br>Final Budget |
|  | Original          | Final             |                   |                               |
| REVENUES   |                   |                   |                   |                               |
| Taxes  | \$ 398,741        | \$ 398,741        | \$ 402,085        | \$ 3,344                      |
| Licenses and permits   | 24,900            | 24,900            | 20,458            | (4,442)                       |
| Intergovernmental  | 120,401           | 120,401           | 130,228           | 9,827                         |
| Charges for services   | 1,095             | 1,095             | 3,125             | 2,030                         |
| Fines and forfeits   | 20,000            | 20,000            | 11,962            | (8,038)                       |
| Investment earnings  | 7,000             | 7,000             | 1,169             | (5,831)                       |
| Miscellaneous  | 3,310             | 3,310             | 10,387            | 7,077                         |
| <b>TOTAL REVENUES</b>  | <b>575,447</b>    | <b>575,447</b>    | <b>579,414</b>    | <b>3,967</b>                  |
| EXPENDITURES   |                   |                   |                   |                               |
| Current  |                   |                   |                   |                               |
| General government   | 156,015           | 156,015           | 142,516           | 13,499                        |
| Public safety  | 133,498           | 133,498           | 139,428           | (5,930)                       |
| Streets and highways   | 107,367           | 107,367           | 103,121           | 4,246                         |
| Culture and recreation                                       | 12,758            | 12,758            | 10,223            | 2,535                         |
| Economic development   | 7,345             | 7,345             | 6,532             | 813                           |
| Miscellaneous  | 1,040             | 1,040             | 811               | 229                           |
| Capital outlay   |                   |                   |                   |                               |
| General government   | 7,500             | 7,500             | 8,792             | (1,292)                       |
| Public safety  | 26,000            | 26,000            | 7,653             | 18,347                        |
| Streets and highways   | 55,000            | 55,000            | 62,930            | (7,930)                       |
| Culture and recreation                                       | 7,000             | 7,000             | 9,352             | (2,352)                       |
| Economic development   | -                 | -                 | 250               | (250)                         |
| <b>TOTAL EXPENDITURES</b>                                    | <b>513,523</b>    | <b>513,523</b>    | <b>491,608</b>    | <b>21,915</b>                 |
| EXCESS (DEFICIENCY) OF REVENUES OVER<br>(UNDER) EXPENDITURES | 61,924            | 61,924            | 87,806            | 25,882                        |
| OTHER FINANCING SOURCES (USES)                               |                   |                   |                   |                               |
| Transfers in   | 42,518            | 42,518            | 143,398           | 100,880                       |
| Sale of capital assets                                       | -                 | -                 | -                 | -                             |
| Transfers out  | (104,442)         | (104,442)         | (107,966)         | (3,524)                       |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                  | <b>(61,924)</b>   | <b>(61,924)</b>   | <b>35,432</b>     | <b>97,356</b>                 |
| NET CHANGE IN FUND BALANCES                                  | -                 | -                 | 123,238           | 123,238                       |
| FUND BALANCES, JANUARY 1                                     | 672,542           | 672,542           | 672,542           | -                             |
| FUND BALANCES, DECEMBER 31                                   | <u>\$ 672,542</u> | <u>\$ 672,542</u> | <u>\$ 795,780</u> | <u>\$ 123,238</u>             |

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

| Economic Development Loan - Federal |                   |                   |                            | Fire              |                   |                   |                            |
|-------------------------------------|-------------------|-------------------|----------------------------|-------------------|-------------------|-------------------|----------------------------|
| Budgeted Amounts                    |                   | Actual Amounts    | Variance with Final Budget | Budgeted Amounts  |                   | Actual Amounts    | Variance with Final Budget |
| Original                            | Final             |                   |                            | Original          | Final             |                   |                            |
| \$ -                                | \$ -              | \$ -              | \$ -                       | \$ -              | \$ -              | \$ -              | \$ -                       |
| -                                   | -                 | -                 | -                          | -                 | -                 | -                 | -                          |
| -                                   | -                 | -                 | -                          | -                 | -                 | 55,221            | 55,221                     |
| -                                   | -                 | -                 | -                          | 95,860            | 95,860            | 107,095           | 11,235                     |
| -                                   | -                 | -                 | -                          | -                 | -                 | -                 | -                          |
| -                                   | -                 | 52                | 52                         | -                 | -                 | 75                | 75                         |
| 28,969                              | 28,969            | 72,551            | 43,582                     | -                 | -                 | 5,250             | 5,250                      |
| 28,969                              | 28,969            | 72,603            | 43,634                     | 95,860            | 95,860            | 167,641           | 71,781                     |
| -                                   | -                 | -                 | -                          | -                 | -                 | -                 | -                          |
| -                                   | -                 | -                 | -                          | 98,748            | 98,748            | 92,648            | 6,100                      |
| -                                   | -                 | -                 | -                          | -                 | -                 | -                 | -                          |
| 28,969                              | 28,969            | -                 | 28,969                     | -                 | -                 | -                 | -                          |
| -                                   | -                 | -                 | -                          | -                 | -                 | -                 | -                          |
| -                                   | -                 | -                 | -                          | 56,800            | 56,800            | 90,632            | (33,832)                   |
| -                                   | -                 | -                 | -                          | -                 | -                 | -                 | -                          |
| -                                   | -                 | -                 | -                          | -                 | -                 | -                 | -                          |
| 28,969                              | 28,969            | -                 | 28,969                     | 155,548           | 155,548           | 183,280           | (27,732)                   |
| -                                   | -                 | 72,603            | 72,603                     | (59,688)          | (59,688)          | (15,639)          | 44,049                     |
| -                                   | -                 | -                 | -                          | 59,688            | 59,688            | 60,906            | 1,218                      |
| -                                   | -                 | -                 | -                          | -                 | -                 | 10,000            | 10,000                     |
| -                                   | -                 | -                 | -                          | -                 | -                 | -                 | -                          |
| -                                   | -                 | -                 | -                          | 59,688            | 59,688            | 70,906            | 11,218                     |
| -                                   | -                 | 72,603            | 72,603                     | -                 | -                 | 55,267            | 55,267                     |
| 313,227                             | 313,227           | 313,227           | -                          | 387,744           | 387,744           | 387,744           | -                          |
| <u>\$ 313,227</u>                   | <u>\$ 313,227</u> | <u>\$ 385,830</u> | <u>\$ 72,603</u>           | <u>\$ 387,744</u> | <u>\$ 387,744</u> | <u>\$ 443,011</u> | <u>\$ 55,267</u>           |

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENTS OF NET POSITION  
 DECEMBER 31, 2013 AND 2012

|   | Business-type Activities - Enterprise Funds |                     |                     |                     |
|---|---|---------------------|---------------------|---------------------|
|   | <b>601</b>                                  |                     | <b>602</b>          |                     |
|   | Water Utility                               |                     | Sewer Utility       |                     |
|   | 2013  | 2012                | 2013                | 2012                |
| <b>ASSETS</b>                             |   |                     |                     |                     |
| <b>CURRENT ASSETS</b>                     |   |                     |                     |                     |
| Cash and cash equivalents                 | \$ 66,353                                   | \$ 66,102           | \$ 446,560          | \$ 800,483          |
| Investments                               | 181,312                                     | 178,440             | 90,159              | 89,567              |
| Receivables                               |   |                     |                     |                     |
| Accounts                                  | 23,581                                      | 22,711              | 41,696              | 40,440              |
| Intergovernmental                         | 203   | 59,736              | 326                 | 621                 |
| Advances to other funds                   | -   | -                   | 359,071             | -                   |
| <b>TOTAL CURRENT ASSETS</b>               | <b>271,449</b>                              | <b>326,989</b>      | <b>937,812</b>      | <b>931,111</b>      |
| <b>NONCURRENT ASSETS</b>                  |   |                     |                     |                     |
| Noncurrent special assessments receivable | -   | -                   | 35,302              | 35,302              |
| Intangibles - sewer hookup rights         | -   | -                   | 1,089,747           | 1,150,288           |
| Capital assets                            |   |                     |                     |                     |
| Land                                      | 35,471                                      | 35,471              | 11,842              | 11,842              |
| Construction in progress                  | 17,745                                      | 828,666             | -                   | -                   |
| Buildings                                 | 12,572                                      | 12,572              | -                   | -                   |
| Infrastructure                            | 2,883,752                                   | 2,061,481           | 3,985,119           | 3,985,119           |
| Machinery and equipment                   | 7,099                                       | 7,099               | 31,091              | 31,091              |
| Less accumulated depreciation             | (738,330)                                   | (656,807)           | (2,625,325)         | (2,504,914)         |
| Total capital assets, net of depreciation | 2,218,309                                   | 2,288,482           | 1,402,727           | 1,523,138           |
| <b>TOTAL NONCURRENT ASSETS</b>            | <b>2,218,309</b>                            | <b>2,288,482</b>    | <b>2,527,776</b>    | <b>2,708,728</b>    |
| <b>TOTAL ASSETS</b>                       | <b>2,489,758</b>                            | <b>2,615,471</b>    | <b>3,465,588</b>    | <b>3,639,839</b>    |
| <b>CURRENT LIABILITIES</b>                |   |                     |                     |                     |
| Accounts payable                          | 16,055                                      | 8,574               | 1,069               | 953                 |
| Contracts payable                         | -   | 74,085              | -                   | -                   |
| Due to other governments                  | 533   | 305                 | -                   | 5,000               |
| Accrued interest payable                  | 8,298                                       | 8,951               | 12,292              | 13,296              |
| Customer deposits payable                 | 2,595                                       | 1,917               | -                   | -                   |
| Loans payable - current                   | -   | -                   | 64,412              | 63,216              |
| Bonds payable - current                   | 64,782                                      | 64,000              | 54,076              | 54,076              |
| <b>TOTAL CURRENT LIABILITIES</b>          | <b>92,263</b>                               | <b>157,832</b>      | <b>131,849</b>      | <b>136,541</b>      |
| <b>NONCURRENT LIABILITIES</b>             |   |                     |                     |                     |
| Loans payable - net of current portion    | -   | -                   | 1,040,746           | 1,105,158           |
| Bonds payable - net of current portion    | 1,213,999                                   | 1,252,495           | 373,689             | 427,764             |
| <b>TOTAL NONCURRENT LIABILITIES</b>       | <b>1,213,999</b>                            | <b>1,252,495</b>    | <b>1,414,435</b>    | <b>1,532,922</b>    |
| <b>TOTAL LIABILITIES</b>                  | <b>1,306,262</b>                            | <b>1,410,327</b>    | <b>1,546,284</b>    | <b>1,669,463</b>    |
| <b>NET POSITION</b>                       |   |                     |                     |                     |
| Net investment in capital assets          | 939,528                                     | 971,987             | 974,962             | 1,041,298           |
| Restricted for                            |   |                     |                     |                     |
| Debt service                              | -   | -                   | 81,854              | 190,701             |
| Infrastructure                            | -   | -                   | 160,770             | 152,897             |
| Unrestricted                              | 243,968                                     | 233,157             | 701,718             | 585,480             |
| <b>TOTAL NET POSITION</b>                 | <b>\$ 1,183,496</b>                         | <b>\$ 1,205,144</b> | <b>\$ 1,919,304</b> | <b>\$ 1,970,376</b> |

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

Business-type Activities - Enterprise Funds

| <b>603</b>       |                  |                     |                     |
|------------------|------------------|---------------------|---------------------|
| Refuse           |                  | Totals              |                     |
| 2013             | 2012             | 2013                | 2012                |
| \$ 78,880        | \$ 70,252        | \$ 591,793          | \$ 936,837          |
| -                | -                | 271,471             | 268,007             |
| 9,470            | 8,226            | 74,747              | 71,377              |
| 128              | 206              | 657                 | 60,563              |
| -                | -                | 359,071             | -                   |
| <u>88,478</u>    | <u>78,684</u>    | <u>1,297,739</u>    | <u>1,336,784</u>    |
| -                | -                | 35,302              | 35,302              |
| -                | -                | <u>1,089,747</u>    | <u>1,150,288</u>    |
| -                | -                | 47,313              | 47,313              |
| -                | -                | 17,745              | 828,666             |
| -                | -                | 12,572              | 12,572              |
| -                | -                | 6,868,871           | 6,046,600           |
| -                | -                | 38,190              | 38,190              |
| -                | -                | <u>(3,363,655)</u>  | <u>(3,161,721)</u>  |
| -                | -                | <u>3,621,036</u>    | <u>3,811,620</u>    |
| -                | -                | <u>4,746,085</u>    | <u>4,997,210</u>    |
| <u>88,478</u>    | <u>78,684</u>    | <u>6,043,824</u>    | <u>6,333,994</u>    |
| 5,298            | 4,198            | 22,422              | 13,725              |
| -                | -                | -                   | 74,085              |
| 1,122            | 747              | 1,655               | 6,052               |
| -                | -                | 20,590              | 22,247              |
| -                | -                | 2,595               | 1,917               |
| -                | -                | 64,412              | 63,216              |
| -                | -                | <u>118,858</u>      | <u>118,076</u>      |
| <u>6,420</u>     | <u>4,945</u>     | <u>230,532</u>      | <u>299,318</u>      |
| -                | -                | 1,040,746           | 1,105,158           |
| -                | -                | <u>1,587,688</u>    | <u>1,680,259</u>    |
| -                | -                | <u>2,628,434</u>    | <u>2,785,417</u>    |
| <u>6,420</u>     | <u>4,945</u>     | <u>2,858,966</u>    | <u>3,084,735</u>    |
| -                | -                | 1,914,490           | 2,013,285           |
| -                | -                | 81,854              | 190,701             |
| -                | -                | 160,770             | 152,897             |
| <u>82,058</u>    | <u>73,739</u>    | <u>1,027,744</u>    | <u>892,376</u>      |
| <u>\$ 82,058</u> | <u>\$ 73,739</u> | <u>\$ 3,184,858</u> | <u>\$ 3,249,259</u> |

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

|  | Business-type Activities - Enterprise Funds |              |               |              |
|--|---|--------------|---------------|--------------|
|  | <b>601</b>                                  |              | <b>602</b>    |              |
|  | Water Utility                               |              | Sewer Utility |              |
|  | 2013  | 2012         | 2013          | 2012         |
| OPERATING REVENUES                     |   |              |               |              |
| Charges for services                   | \$ 193,686                                  | \$ 199,251   | \$ 315,286    | \$ 326,328   |
| OPERATING EXPENSES                     |   |              |               |              |
| Salaries and benefits                  | 47,045                                      | 56,149       | 45,465        | 18,152       |
| Supplies                               | 32,075                                      | 16,330       | 7,847         | 2,003        |
| Other services and charges             | 34,500                                      | 22,368       | 124,560       | 80,293       |
| Insurance                              | 1,490                                       | 1,759        | 3,239         | 2,208        |
| Utilities                              | 15,972                                      | 11,251       | 12,334        | 10,792       |
| Depreciation                           | 81,523                                      | 66,408       | 120,411       | 122,597      |
| TOTAL OPERATING EXPENSES               | 212,605                                     | 174,265      | 313,856       | 236,045      |
| OPERATING INCOME (LOSS)                | (18,919)                                    | 24,986       | 1,430         | 90,283       |
| NONOPERATING REVENUES (EXPENSES)       |   |              |               |              |
| Investment income (loss)               | 2,881                                       | 2,844        | (2,169)       | 1,730        |
| Connection and infrastructure fees     | -   | -            | 40,990        | 39,590       |
| Other income                           | 61  | 149          | -             | -            |
| Amortization expense                   | -   | -            | (60,541)      | (60,541)     |
| Interest and fees                      | (23,533)                                    | (10,854)     | (30,782)      | (19,999)     |
| TOTAL NONOPERATING REVENUES (EXPENSES) | (20,591)                                    | (7,861)      | (52,502)      | (39,220)     |
| INCOME (LOSS) BEFORE TRANSFERS         | (39,510)                                    | 17,125       | (51,072)      | 51,063       |
| TRANSFERS IN                           | 42,862                                      | 26,292       | -             | -            |
| TRANSFERS OUT                          | (25,000)                                    | (28,453)     | -             | -            |
| CHANGE IN NET POSITION                 | (21,648)                                    | 14,964       | (51,072)      | 51,063       |
| NET POSITION, JANUARY 1                | 1,205,144                                   | 1,190,180    | 1,970,376     | 1,919,313    |
| NET POSITION, DECEMBER 31              | \$ 1,183,496                                | \$ 1,205,144 | \$ 1,919,304  | \$ 1,970,376 |

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

Business-type Activities - Enterprise Funds

| <b>603</b>       |                  |                     |                     |
|------------------|------------------|---------------------|---------------------|
| Refuse           |                  | Totals              |                     |
| 2013             | 2012             | 2013                | 2012                |
| \$ 115,714       | \$ 107,258       | \$ 624,686          | \$ 632,837          |
| -                | -                | 92,510              | 74,301              |
| 754              | 387              | 40,676              | 18,720              |
| 64,138           | 58,590           | 223,198             | 161,251             |
| -                | -                | 4,729               | 3,967               |
| -                | -                | 28,306              | 22,043              |
| -                | -                | 201,934             | 189,005             |
| 64,892           | 58,977           | 591,353             | 469,287             |
| 50,822           | 48,281           | 33,333              | 163,550             |
| 15               | 8                | 727                 | 4,582               |
| -                | -                | 40,990              | 39,590              |
| -                | -                | 61                  | 149                 |
| -                | -                | (60,541)            | (60,541)            |
| -                | -                | (54,315)            | (30,853)            |
| 15               | 8                | (73,078)            | (47,073)            |
| 50,837           | 48,289           | (39,745)            | 116,477             |
| -                | -                | 42,862              | 26,292              |
| (42,518)         | (38,168)         | (67,518)            | (66,621)            |
| 8,319            | 10,121           | (64,401)            | 76,148              |
| 73,739           | 63,618           | 3,249,259           | 3,173,111           |
| <u>\$ 82,058</u> | <u>\$ 73,739</u> | <u>\$ 3,184,858</u> | <u>\$ 3,249,259</u> |

CITY OF MADISON LAKE, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

|   | Business-type Activities - Enterprise Funds |                  |                   |                   |
|---|---|------------------|-------------------|-------------------|
|   | 601   |                  | 602               |                   |
|   | Water Utility                               |                  | Sewer Utility     |                   |
|   | 2013  | 2012             | 2013              | 2012              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |   |                  |                   |                   |
| Receipts from customers   | \$ 192,990                                  | \$ 197,624       | \$ 314,325        | \$ 322,438        |
| Payments to suppliers and vendors   | (77,588)                                    | (50,883)         | (152,864)         | (93,068)          |
| Payments to and on behalf of employees  | (47,045)                                    | (56,149)         | (45,465)          | (18,152)          |
| Other receipts  | 61  | 149              | -                 | -                 |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <b>68,418</b>                               | <b>90,741</b>    | <b>115,996</b>    | <b>211,218</b>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>  |   |                  |                   |                   |
| Increase in advance to other funds  | -   | -                | (359,071)         | -                 |
| Transfers from other funds  | 42,862                                      | 26,292           | -                 | -                 |
| Transfers to other funds  | (25,000)                                    | (28,453)         | -                 | -                 |
| Increase (decrease) in customer deposits  | 678   | (16)             | -                 | -                 |
| <b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>                            | <b>18,540</b>                               | <b>(2,177)</b>   | <b>(359,071)</b>  | <b>-</b>          |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                               |   |                  |                   |                   |
| Connection and infrastructure fees received   | -   | -                | 40,990            | 39,590            |
| Acquisition of capital assets   | (84,175)                                    | (712,311)        | -                 | -                 |
| Proceeds from bonds issued, net of discounts  | 85,645                                      | 754,223          | -                 | -                 |
| Principal paid on bonds   | (64,000)                                    | (43,226)         | (117,291)         | (96,531)          |
| Interest paid on bonds  | (24,186)                                    | (5,730)          | (31,786)          | (11,344)          |
| <b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>                   | <b>(86,716)</b>                             | <b>(7,044)</b>   | <b>(108,087)</b>  | <b>(68,285)</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |   |                  |                   |                   |
| Purchase of investments   | (2,872)                                     | (2,834)          | (3,458)           | (1,648)           |
| Interest received on cash and investments   | 2,881                                       | 2,844            | 697               | 1,730             |
| <b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>                                       | <b>9</b>                                    | <b>10</b>        | <b>(2,761)</b>    | <b>82</b>         |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                   | <b>251</b>                                  | <b>81,530</b>    | <b>(353,923)</b>  | <b>143,015</b>    |
| <b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>   | <b>66,102</b>                               | <b>(15,428)</b>  | <b>800,483</b>    | <b>657,468</b>    |
| <b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>   | <b>\$ 66,353</b>                            | <b>\$ 66,102</b> | <b>\$ 446,560</b> | <b>\$ 800,483</b> |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b> |   |                  |                   |                   |
| Operating income (loss)   | \$ (18,919)                                 | \$ 24,986        | \$ 1,430          | \$ 90,283         |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities |   |                  |                   |                   |
| Other income related to operations  | 61  | 149              | -                 | -                 |
| Depreciation  | 81,523                                      | 66,408           | 120,411           | 122,597           |
| (Increase) decrease in assets   |   |                  |                   |                   |
| Accounts receivable   | (870)                                       | (1,264)          | (1,256)           | (3,294)           |
| Due from other governments  | 174   | (363)            | 295               | (596)             |
| Special assessments receivable  | -   | -                | -                 | -                 |
| Increase (decrease) in liabilities  |   |                  |                   |                   |
| Accounts and contracts payable  | 6,221                                       | 819              | 116               | (2,703)           |
| Due to other governments  | 228   | 6                | (5,000)           | 4,931             |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <b>\$ 68,418</b>                            | <b>\$ 90,741</b> | <b>\$ 115,996</b> | <b>\$ 211,218</b> |
| <b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>                                    |   |                  |                   |                   |
| Capital assets purchased on account   | \$ 1,260                                    | \$ 74,085        | \$ -              | \$ -              |
| Sewer rights acquired through issuance of debt  | -   | -                | -                 | 1,210,829         |
| Increase (decrease) in market value of investments  | -   | -                | (2,866)           | -                 |
| Bond proceeds due from other governments  | -   | 59,359           | -                 | -                 |

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

Business-type Activities - Enterprise Funds

| 603              |                  |                   |                   |
|------------------|------------------|-------------------|-------------------|
| Refuse           |                  | Totals            |                   |
| 2013             | 2012             | 2013              | 2012              |
| \$ 114,548       | \$ 105,818       | \$ 621,863        | \$ 625,880        |
| (63,417)         | (58,875)         | (293,869)         | (202,826)         |
| -                | -                | (92,510)          | (74,301)          |
| -                | -                | 61                | 149               |
| <u>51,131</u>    | <u>46,943</u>    | <u>235,545</u>    | <u>348,902</u>    |
| -                | -                | (359,071)         | -                 |
| -                | -                | 42,862            | 26,292            |
| (42,518)         | (38,168)         | (67,518)          | (66,621)          |
| -                | -                | 678               | (16)              |
| <u>(42,518)</u>  | <u>(38,168)</u>  | <u>(383,049)</u>  | <u>(40,345)</u>   |
| -                | -                | 40,990            | 39,590            |
| -                | -                | (84,175)          | (712,311)         |
| -                | -                | 85,645            | 754,223           |
| -                | -                | (181,291)         | (139,757)         |
| -                | -                | (55,972)          | (17,074)          |
| -                | -                | (194,803)         | (75,329)          |
| -                | -                | (6,330)           | (4,482)           |
| 15               | 8                | 3,593             | 4,582             |
| 15               | 8                | (2,737)           | 100               |
| 8,628            | 8,783            | (345,044)         | 233,328           |
| 70,252           | 61,469           | 936,837           | 703,509           |
| <u>\$ 78,880</u> | <u>\$ 70,252</u> | <u>\$ 591,793</u> | <u>\$ 936,837</u> |
| \$ 50,822        | \$ 48,281        | \$ 33,333         | \$ 163,550        |
| -                | -                | 61                | 149               |
| -                | -                | 201,934           | 189,005           |
| (1,244)          | (1,244)          | (3,370)           | (5,802)           |
| -                | -                | 469               | (959)             |
| 78               | (196)            | 78                | (196)             |
| 1,100            | 75               | 7,437             | (1,809)           |
| 375              | 27               | (4,397)           | 4,964             |
| <u>\$ 51,131</u> | <u>\$ 46,943</u> | <u>\$ 235,545</u> | <u>\$ 348,902</u> |
| \$ -             | \$ -             | \$ 1,260          | \$ 74,085         |
| -                | -                | -                 | 1,210,829         |
| -                | -                | (2,866)           | -                 |
| -                | -                | -                 | 59,359            |

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CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

**A. Reporting entity**

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

**B. Government-wide and fund financial statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *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, 2013

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

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

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

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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

The City reports the following major governmental funds:

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

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

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

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

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

The *2014 Construction fund* accounts for costs associated with the annexation project.

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.

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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

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.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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

***Deposits and investments***

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

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

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.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

Investments for the City are reported at fair value. The Franklin Fund, Primevest Fund and 4M Fund investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares. Financial statements of the 4M fund can be obtained by contacting RBC Global Asset Management at 100 South Fifth Street Suite 2300, Minneapolis, MN 55402-1240.

***Investment policy***

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

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

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

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

***Property taxes***

The City Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

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

***Accounts receivable***

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2013. All enterprise fund trade receivables are considered collectible because the City annually certifies delinquent accounts to the County for collection.

***Special assessments***

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

***Interfund receivables and payables***

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

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

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2013

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

***Prepaid items***

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

***Capital assets***

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

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

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

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

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

***Compensated absences***

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

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

***Deferred inflows of resources***

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

***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, 2013

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

*Net position*

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

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

*Comparative data/reclassifications*

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

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

**A. Budgetary information**

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

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

The appropriated budget is prepared by fund, function and department. The City’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Administrator/Clerk. The legal level of budgetary control is the department level. Budgeted amounts are originally adopted or as amended by the Council. There were no budget amendments during 2013.

**B. Excess of expenditures over appropriations**

For the year ended December 31, 2013, expenditures exceeded appropriations in the following fund:

| <u>Fund</u>     | <u>Budget</u> | <u>Actual</u> | <u>Excess of<br/>Expenditures<br/>Over<br/>Appropriations</u> |
|-----------------|---------------|---------------|---|
| Special revenue |               |               |   |
| Fire            | \$ 155,548    | \$ 183,280    | \$ 27,732   |

The excess of expenditures over appropriations in the Fire fund was funded by an excess of actual revenues over budget of \$71,781.

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2013

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

**C. Deficit fund equity**

The following fund had a fund equity deficit at December 31, 2013:

| Fund              | Amount     |
|-------------------|------------|
| Capital projects  |            |
| 2014 Construction | \$ 634,586 |

The above fund deficit will be funded through future bond proceeds.

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

**A. Deposits and investments**

*Deposits*

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was \$742,878 and the bank balance was \$761,327. Of the bank balance, \$250,000 was covered by federal depository insurance. Of the remaining balance, \$511,327 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2013

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

***Investments***

As of December 31, 2013, 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/<br>Ratings (1) | Segmented Time<br>Distribution (2) | Fair Value and<br>Carrying<br>Amount |
|--|--------------------------------|------------------------------------|--------------------------------------|
| Pooled investments                                 |                                |                                    |                                      |
| Minnesota Municipal Money<br>Market Fund (4M Fund) | Not rated                      | less than 6 months                 | \$ 2,421,432                         |
| Franklin Fund - US Government<br>Securities        | N/A                            | less than 6 months                 | 138,254                              |
| Primevest Money Market                             | N/A                            | less than 6 months                 | <u>22,778</u>                        |
| Total investments                                  |                                |                                    | <u>\$ 2,582,464</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, 2013

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

*Cash on hand*

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

*Cash and investments summary*

A reconciliation of cash and investments as shown on the statement of net position for the City follows:

|                           |                     |
|---------------------------|---------------------|
| Petty cash                | \$ 224              |
| Deposits                  | 742,878             |
| Investments               | <u>2,582,464</u>    |
| Total                     | <u>\$ 3,325,566</u> |
| Cash and cash equivalents | \$ 2,852,639        |
| Investments               | <u>472,927</u>      |
| Total                     | <u>\$ 3,325,566</u> |

**B. Intangibles - sewer hookup rights**

The City entered into a Sanitary Sewer System Interconnection agreement with the City of Mankato. The City of Mankato is required to operate and maintain the interconnection and is owned by the City of Mankato. The City is making payments to the City of Mankato to help with the construction costs; total cost to the City is \$1,210,829. The City will also reimburse the City of Mankato for all costs associated with maintenance of the lift station and forcemain based on the City's flow percentage received at the lift station. The City has decided to amortize these sewer hookup rights over 20 years, amortizing \$60,541 per year. The balance of the hookup rights at December 31, 2013 was \$1,089,747.

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

**C. Capital assets**

Capital asset activity for the City for the year ended December 31, 2013 was as follows:

|   | Beginning<br>Balance | Increases         | Decreases         | Ending<br>Balance   |
|---|----------------------|-------------------|-------------------|---------------------|
| <b>Governmental activities</b>              |                      |                   |                   |                     |
| Capital assets not being depreciated        |                      |                   |                   |                     |
| Land  | \$ 466,218           | \$ -              | \$ -              | \$ 466,218          |
| Construction in progress                    | -                    | 633,938           | -                 | 633,938             |
| <br>  |                      |                   |                   |                     |
| Total capital assets not being depreciated  | 466,218              | 633,938           | -                 | 1,100,156           |
| Capital assets being depreciated            |                      |                   |                   |                     |
| Land improvements                           | 37,509               | -                 | -                 | 37,509              |
| Buildings                                   | 916,175              | -                 | -                 | 916,175             |
| Infrastructure                              | 2,483,580            | -                 | -                 | 2,483,580           |
| Machinery and equipment                     | 359,328              | 65,993            | -                 | 425,321             |
| Vehicles                                    | 598,398              | 70,505            | (37,955)          | 630,948             |
| <br>  |                      |                   |                   |                     |
| Total capital assets being depreciated      | 4,394,990            | 136,498           | (37,955)          | 4,493,533           |
| Less accumulated depreciation for           |                      |                   |                   |                     |
| Land improvements                           | (8,991)              | (2,498)           | -                 | (11,489)            |
| Buildings                                   | (678,235)            | (23,876)          | -                 | (702,111)           |
| Infrastructure                              | (1,478,541)          | (77,257)          | -                 | (1,555,798)         |
| Machinery and equipment                     | (277,126)            | (27,702)          | -                 | (304,828)           |
| Vehicles                                    | (501,808)            | (42,199)          | 31,955            | (512,052)           |
| <br>  |                      |                   |                   |                     |
| Total accumulated depreciation              | (2,944,701)          | (173,532)         | 31,955            | (3,086,278)         |
| <br>  |                      |                   |                   |                     |
| Total capital assets being depreciated, net | 1,450,289            | (37,034)          | (6,000)           | 1,407,255           |
| <br>  |                      |                   |                   |                     |
| Governmental activities capital assets, net | <u>\$ 1,916,507</u>  | <u>\$ 596,904</u> | <u>\$ (6,000)</u> | <u>\$ 2,507,411</u> |

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

|  | Beginning<br>Balance | Increases         | Decreases           | Ending<br>Balance   |
|--|----------------------|-------------------|---------------------|---------------------|
| <b>Business-type activities</b>              |                      |                   |                     |                     |
| Capital assets not being depreciated         |                      |                   |                     |                     |
| Land   | \$ 47,313            | \$ -              | \$ -                | \$ 47,313           |
| Construction in progress                     | 828,666              | 11,350            | (822,271)           | 17,745              |
| Total capital assets not being depreciated   | <u>875,979</u>       | <u>11,350</u>     | <u>(822,271)</u>    | <u>65,058</u>       |
| Capital assets being depreciated             |                      |                   |                     |                     |
| Buildings                                    | 12,572               | -                 | -                   | 12,572              |
| Infrastructure                               | 6,046,600            | 822,271           | -                   | 6,868,871           |
| Machinery and equipment                      | 38,190               | -                 | -                   | 38,190              |
| Total capital assets being depreciated       | <u>6,097,362</u>     | <u>822,271</u>    | <u>-</u>            | <u>6,919,633</u>    |
| Less accumulated depreciation for            |                      |                   |                     |                     |
| Buildings                                    | (12,572)             | -                 | -                   | (12,572)            |
| Infrastructure                               | (3,112,091)          | (201,344)         | -                   | (3,313,435)         |
| Machinery and equipment                      | (37,058)             | (590)             | -                   | (37,648)            |
| Total accumulated depreciation               | <u>(3,161,721)</u>   | <u>(201,934)</u>  | <u>-</u>            | <u>(3,363,655)</u>  |
| Total capital assets being depreciated, net  | <u>2,935,641</u>     | <u>620,337</u>    | <u>-</u>            | <u>3,555,978</u>    |
| Business-type activities capital assets, net | <u>\$ 3,811,620</u>  | <u>\$ 631,687</u> | <u>\$ (822,271)</u> | <u>\$ 3,621,036</u> |

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

|   |  |                   |
|---|--|-------------------|
| <b>Governmental activities</b>                        |  |                   |
| General government                                    |  | \$ 19,050         |
| Public safety   |  | 41,254            |
| Streets and highways                                  |  | 105,580           |
| Culture and recreation                                |  | 7,648             |
| Total depreciation expense - governmental activities  |  | <u>\$ 173,532</u> |
| <b>Business-type activities</b>                       |  |                   |
| Water utility   |  | \$ 81,523         |
| Sewer utility   |  | 120,411           |
| Total depreciation expense - business-type activities |  | <u>\$ 201,934</u> |

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2013

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

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

The composition of interfund balances at December 31, 2013 is as follows:

*Advances to/from other funds*

| Receivable Fund | Payable Fund      | Amount            |
|-----------------|-------------------|-------------------|
| Sewer Utility   | 2014 Construction | <u>\$ 359,071</u> |

The above interfund balance is a temporary loan from the Sewer Utility fund to the 2014 Construction fund to help fund the 2014 annexation project. The City will be issuing a bond for this project and when that is done the 2014 Construction fund will pay the Sewer Utility fund back.

*Interfund transfers*

The composition of interfund transfers at December 31, 2013 is as follows:

|                             | Transfer in       |                  |                   |                             |                    | Total             |
|-----------------------------|-------------------|------------------|-------------------|-----------------------------|--------------------|-------------------|
|                             | General Fund      | Fire Fund        | Debt Service Fund | Nonmajor Governmental Funds | Water Utility Fund |                   |
| Transfer out                |                   |                  |                   |                             |                    |                   |
| General fund                | \$ -              | \$ 60,906        | \$ -              | \$ 4,198                    | \$ 42,862          | \$ 107,966        |
| Nonmajor governmental funds | 100,880           | -                | 9,289             | -                           | -                  | 110,169           |
| Water Utility fund          | -                 | -                | 25,000            | -                           | -                  | 25,000            |
| Refuse fund                 | 42,518            | -                | -                 | -                           | -                  | 42,518            |
| Total transfers out         | <u>\$ 143,398</u> | <u>\$ 60,906</u> | <u>\$ 34,289</u>  | <u>\$ 4,198</u>             | <u>\$ 42,862</u>   | <u>\$ 285,653</u> |

The City made the following transfers for the year ended December 31, 2013:

- From the Water Utility fund (\$25,000) to the Debt Service fund for debt service.
- From the Refuse fund (\$42,518) to the General fund to transfer profits. The General fund supports street maintenance; garbage trucks contribute to street breakdown.
- From the General fund (\$60,906) to the Fire fund which is the City's portion of the fire departments annual operating budget.
- From the General fund (\$42,862) to the Water Utility fund to help supplement the water rate increase.
- From the Debt Service fund (\$100,880) to the General fund to close Debt Service funds whose bonds have matured.
- From the Northwest Project fund (\$9,289) to the 2004A G.O. Improvement Bond fund to close the fund.
- From the General fund (\$4,198) to the Tax Increment District #2-8 fund to close the fund.

CITY OF MADISON LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2013

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

**E. 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<br>and Issued | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Balance<br>at<br>Year End |
|--------------------------------------|--------------------------|------------------|---------------|------------------|---------------------------|
| G.O. PIR Refunding<br>Bonds of 2004B | \$ 300,000               | 3.00 - 4.10 %    | 11/01/04      | 02/01/16         | \$ 90,000                 |
| G.O. Improvement<br>Bonds of 2004A   | 265,000                  | 3.00 - 4.00      | 09/01/04      | 02/01/15         | 60,000                    |
| G.O. Improvement<br>Bonds of 2006A   | 140,000                  | 4.25             | 11/01/06      | 02/01/18         | <u>75,000</u>             |
| Total G.O. Special Assessment Bonds  |                          |                  |               |                  | <u>\$ 225,000</u>         |

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

| Year Ending<br>December 31, | <b>G.O. Special Assessment Bonds</b><br>Governmental Activities |                  |                   |
|-----------------------------|---|------------------|-------------------|
|                             | Principal   | Interest         | Total             |
| 2014                        | \$ 75,000   | \$ 7,744         | \$ 82,744         |
| 2015                        | 75,000  | 4,676            | 79,676            |
| 2016                        | 45,000  | 2,209            | 47,209            |
| 2017                        | 15,000  | 956              | 15,956            |
| 2018                        | 15,000  | 319              | 15,319            |
| Total                       | <u>\$ 225,000</u>   | <u>\$ 15,904</u> | <u>\$ 240,904</u> |

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

**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<br>and Issued | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Balance<br>at<br>Year End |
|---------------------------------|--------------------------|------------------|---------------|------------------|---------------------------|
| G.O. Sewer Revenue              |                          |                  |               |                  |                           |
| Bonds of 1995A (PFA)            | \$ 400,400               | 0.00 %           | 09/25/95      | 02/20/17         | \$ 52,764                 |
| G.O. Sewer Revenue              |                          |                  |               |                  |                           |
| Refunding Bonds, 2007A          | 235,000                  | 3.95             | 12/01/07      | 02/01/17         | 110,000                   |
| G.O. Revenue Note (PFA) of 2009 | 320,500                  | 1.88             | 06/01/09      | 08/20/29         | 265,000                   |
| G.O. Revenue Note (PFA) of 2010 | 596,692                  | 1.86             | 05/17/10      | 08/20/29         | 512,000                   |
| G.O. Revenue Note (PFA) of 2011 | 820,008                  | 1.91             | 08/08/11      | 08/20/31         | 766,781                   |
|                                 |                          |                  |               |                  | <u>766,781</u>            |
| Total G.O. Revenue Bonds        |                          |                  |               |                  | <u>\$ 1,706,545</u>       |

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

| December 31, | <b>G.O. Revenue Bonds</b><br>Business-type Activities |                   |                     |
|--------------|---|-------------------|---------------------|
|              | Principal   | Interest          | Total               |
| 2014         | \$ 118,858  | \$ 32,939         | \$ 151,797          |
| 2015         | 120,076   | 30,540            | 150,616             |
| 2016         | 126,076   | 27,944            | 154,020             |
| 2017         | 119,538   | 25,230            | 144,768             |
| 2018         | 84,000  | 23,090            | 107,090             |
| 2019 - 2023  | 446,000   | 91,029            | 537,029             |
| 2024 - 2028  | 489,000   | 47,328            | 536,328             |
| 2029 - 2031  | 202,997   | 6,705             | 209,702             |
|              | <u>202,997</u>  | <u>6,705</u>      | <u>209,702</u>      |
| Total        | <u>\$ 1,706,545</u>                                   | <u>\$ 284,805</u> | <u>\$ 1,991,350</u> |

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

Loans payable

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

| Description               | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|---------------------------|-----------------------|---------------|------------|---------------|---------------------|
| Loan with City of Mankato | \$ 1,210,829          | 1.88 %        | 08/01/12   | 08/01/28      | <u>\$ 1,105,159</u> |

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

| Year Ending<br>December 31, | <b>Loans</b><br>Business-type Activities |                   |                     |
|-----------------------------|--|-------------------|---------------------|
|                             | Principal                                | Interest          | Total               |
| 2014                        | \$ 64,412                                | \$ 20,497         | \$ 84,909           |
| 2015                        | 65,630                                   | 19,280            | 84,910              |
| 2016                        | 66,871                                   | 18,039            | 84,910              |
| 2017                        | 68,135                                   | 16,774            | 84,909              |
| 2018                        | 69,423                                   | 15,486            | 84,909              |
| 2019 - 2023                 | 367,311                                  | 57,235            | 424,546             |
| 2024 - 2028                 | <u>403,377</u>                           | <u>21,169</u>     | <u>424,546</u>      |
| Total                       | <u>\$ 1,105,159</u>                      | <u>\$ 168,480</u> | <u>\$ 1,273,639</u> |

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

|  | Beginning Balance   | Increases        | Decreases           | Ending Balance      | Due Within One Year |
|--|---------------------|------------------|---------------------|---------------------|---------------------|
| <b>Governmental activities</b>                 |                     |                  |                     |                     |                     |
| Bonds payable                                  |                     |                  |                     |                     |                     |
| General obligation special assessment bonds    | \$ 435,000          | \$ -             | \$ (210,000)        | \$ 225,000          | \$ 75,000           |
| Compensated absences payable                   | <u>4,417</u>        | <u>14,298</u>    | <u>(11,457)</u>     | <u>7,258</u>        | <u>7,258</u>        |
| Governmental activities long-term liabilities  | <u>\$ 439,417</u>   | <u>\$ 14,298</u> | <u>\$ (221,457)</u> | <u>\$ 232,258</u>   | <u>\$ 82,258</u>    |
| <b>Business-type activities</b>                |                     |                  |                     |                     |                     |
| Bonds payable                                  |                     |                  |                     |                     |                     |
| General obligation revenue bonds               | \$ 1,798,335        | \$ 26,286        | \$ (118,076)        | \$ 1,706,545        | \$ 118,858          |
| Loans payable                                  | <u>1,168,374</u>    | <u>-</u>         | <u>(63,215)</u>     | <u>1,105,159</u>    | <u>64,412</u>       |
| Business-type activities long-term liabilities | <u>\$ 2,966,709</u> | <u>\$ 26,286</u> | <u>\$ (181,291)</u> | <u>\$ 2,811,704</u> | <u>\$ 183,270</u>   |

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

**A. Plan description**

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

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

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

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

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

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

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

CITY OF MADISON LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

**B. Funding policy**

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The City makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.60 percent of their annual covered salary in 2013. In 2013, the City of Madison Lake was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERP members, 7.25 percent for Coordinated Plan GERP members, and 14.4 percent for PEPFF members. The City's contributions to the GERP for the years ending December 31, 2013, 2012 and 2011 were \$11,185, \$10,722, and \$9,270, respectively. The City's contributions to the PEPFF for the years ending December 31, 2013, 2012, and 2011 were \$11,657, \$11,742, and \$10,622, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**Note 5: OTHER INFORMATION**

**A. Risk management**

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

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

**B. Contingent liabilities**

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

**C. Legal debt margin**

The City's statutory debt limit is 3 percent of the estimated taxable market value of real and personal property located in the City. The taxable market value was \$78,065,800 at December 31, 2013 for a limit of \$2,442,236 (net of debt service reserves). The City currently has no general obligation debt subject to the limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

**D. Concentrations**

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2013 was \$119,406 for LGA. This accounted for 21 percent of General fund revenues.

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

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2013

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2013

|                            | Special<br>Revenue | Capital<br>Projects | Total<br>Nonmajor<br>Governmental<br>Funds |
|----------------------------|--------------------|---------------------|--|
| <b>ASSETS</b>              |                    |                     |  |
| Cash and cash equivalents  | \$ 24,443          | \$ -                | \$ 24,443                                  |
| Receivables                |                    |                     |  |
| Accounts                   | 534                | -                   | 534  |
| <b>TOTAL ASSETS</b>        | <b>\$ 24,977</b>   | <b>\$ -</b>         | <b>\$ 24,977</b>                           |
| <b>FUND BALANCES</b>       |                    |                     |  |
| Restricted for             |                    |                     |  |
| Community service          | \$ 1,861           | \$ -                | \$ 1,861                                   |
| Economic development       | 23,116             | -                   | 23,116                                     |
| <b>TOTAL FUND BALANCES</b> | <b>\$ 24,977</b>   | <b>\$ -</b>         | <b>\$ 24,977</b>                           |

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2013

|   | Special<br>Revenue | Capital<br>Projects | Total<br>Nonmajor<br>Governmental<br>Funds |
|---|--------------------|---------------------|--|
| REVENUES                                |                    |                     |  |
| Taxes                                   | \$ 3,749           | \$ -                | \$ 3,749                                   |
| Investment earnings                     | 4                  | 1                   | 5  |
| Miscellaneous                           | 3,023              | -                   | 3,023                                      |
| TOTAL REVENUES                          | 6,776              | 1                   | 6,777                                      |
| EXPENDITURES                            |                    |                     |  |
| Current                                 |                    |                     |  |
| General government                      | 6,004              | -                   | 6,004                                      |
| EXCESS OF REVENUES<br>OVER EXPENDITURES | 772                | 1                   | 773  |
| OTHER FINANCING SOURCES (USES)          |                    |                     |  |
| Transfers in                            | -                  | 4,198               | 4,198                                      |
| Transfers out                           | -                  | (9,289)             | (9,289)                                    |
| TOTAL OTHER FINANCING SOURCES (USES)    | -                  | (5,091)             | (5,091)                                    |
| NET CHANGE IN FUND BALANCES             | 772                | (5,090)             | (4,318)                                    |
| FUND BALANCES, JANUARY 1                | 24,205             | 5,090               | 29,295                                     |
| FUND BALANCES, DECEMBER 31              | \$ 24,977          | \$ -                | \$ 24,977                                  |

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2013

|                            | <b>230</b>                              | <b>800</b>        |                   |
|----------------------------|---|-------------------|-------------------|
|                            | Economic<br>Development<br>Loan - State | Gambling          | Total<br>Nonmajor |
| <b>ASSETS</b>              |   |                   |                   |
| Cash and cash equivalents  | \$ 23,116                               | \$ 1,327          | \$ 24,443         |
| Receivables                |   |                   |                   |
| Accounts                   | -                                       | 534               | 534               |
|                            | <u>          </u>                       | <u>          </u> | <u>          </u> |
| <b>TOTAL ASSETS</b>        | <u>\$ 23,116</u>                        | <u>\$ 1,861</u>   | <u>\$ 24,977</u>  |
| <b>FUND BALANCES</b>       |   |                   |                   |
| Restricted for             |   |                   |                   |
| Community service          | \$ -                                    | \$ 1,861          | \$ 1,861          |
| Economic development       | 23,116                                  | -                 | 23,116            |
|                            | <u>          </u>                       | <u>          </u> | <u>          </u> |
| <b>TOTAL FUND BALANCES</b> | <u>\$ 23,116</u>                        | <u>\$ 1,861</u>   | <u>\$ 24,977</u>  |

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2013

|                             | <b>231</b>              |                        |                         |
|-----------------------------|-------------------------|------------------------|-------------------------|
|                             | Economic                |                        | Total                   |
|                             | Development             | <b>800</b>             | Nonmajor                |
|                             | Loan - State            | Gambling               |                         |
| REVENUES                    |                         |                        |                         |
| Taxes                       | \$ -                    | \$ 3,749               | \$ 3,749                |
| Investment earnings         | 2                       | 2                      | 4                       |
| Miscellaneous               |                         |                        |                         |
| Loan payments               | <u>3,023</u>            | <u>-</u>               | <u>3,023</u>            |
|                             | 3,025                   | 3,751                  | 6,776                   |
| EXPENDITURES                |                         |                        |                         |
| Current                     |                         |                        |                         |
| General government          | <u>-</u>                | <u>6,004</u>           | <u>6,004</u>            |
| NET CHANGE IN FUND BALANCES | 3,025                   | (2,253)                | 772                     |
| FUND BALANCES, JANUARY 1    | <u>20,091</u>           | <u>4,114</u>           | <u>24,205</u>           |
| FUND BALANCES, DECEMBER 31  | <u><u>\$ 23,116</u></u> | <u><u>\$ 1,861</u></u> | <u><u>\$ 24,977</u></u> |

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2013

|                     | <b>411</b>                        | <b>430</b>           |                   |
|---------------------|-----------------------------------|----------------------|-------------------|
|                     | Tax<br>Increment<br>District #2-8 | Northwest<br>Project | Total<br>Nonmajor |
|                     | <u>          </u>                 | <u>          </u>    | <u>          </u> |
| ASSETS              |                                   |                      |                   |
| TOTAL ASSETS        | \$ -                              | \$ -                 | \$ -              |
| FUND BALANCES       |                                   |                      |                   |
| TOTAL FUND BALANCES | <u>\$ -</u>                       | <u>\$ -</u>          | <u>\$ -</u>       |

CITY OF MADISON LAKE, MINNESOTA  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2013

|                                      | <b>411</b>           | <b>430</b>         |                    |
|--------------------------------------|----------------------|--------------------|--------------------|
|                                      | Tax                  |                    |                    |
|                                      | Increment            | Northwest          | Total              |
|                                      | <u>District #2-8</u> | <u>Project</u>     | <u>Nonmajor</u>    |
| REVENUES                             |                      |                    |                    |
| Investment earnings                  | \$ -                 | \$ 1               | \$ 1               |
| OTHER FINANCING SOURCES (USES)       |                      |                    |                    |
| Transfers in                         | 4,198                | -                  | 4,198              |
| Transfers out                        | <u>-</u>             | <u>(9,289)</u>     | <u>(9,289)</u>     |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>4,198</u>         | <u>(9,289)</u>     | <u>(5,091)</u>     |
| NET CHANGE IN FUND BALANCES          | 4,198                | (9,288)            | (5,090)            |
| FUND BALANCES, JANUARY 1             | <u>(4,198)</u>       | <u>9,288</u>       | <u>5,090</u>       |
| FUND BALANCES, DECEMBER 31           | <u><u>\$ -</u></u>   | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

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CITY OF MADISON LAKE, MINNESOTA  
GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
DECEMBER 31, 2013 AND 2012

|   | 2013       | 2012       |
|---|------------|------------|
| <b>ASSETS</b>   |            |            |
| Cash and cash equivalents   | \$ 674,931 | \$ 593,143 |
| Investments   | 157,071    | 159,033    |
| Receivables   |            |            |
| Delinquent taxes  | 23,297     | 22,313     |
| Special assessments   | 10,398     | -          |
| Accounts  | 812        | 3,374      |
| Intergovernmental   | 3,737      | 8,632      |
| TOTAL ASSETS  | \$ 870,246 | \$ 786,495 |
| <b>LIABILITIES</b>  |            |            |
| Accounts payable  | \$ 19,712  | \$ 22,963  |
| Advances from other funds   | -          | 48,718     |
| Due to other governments  | 3,512      | 3,382      |
| Accrued salaries payable  | 17,547     | 16,577     |
| TOTAL LIABILITIES   | 40,771     | 91,640     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                  |            |            |
| Unavailable revenue - property taxes                                  | 23,297     | 22,313     |
| Unavailable revenue - special assessments                             | 10,398     | -          |
| TOTAL DEFERRED INFLOWS OF RESOURCES                                   | 33,695     | 22,313     |
| <b>FUND BALANCES</b>  |            |            |
| Restricted for  |            |            |
| Park land dedication  | 20,547     | 24,899     |
| Assigned for  |            |            |
| Capital outlay  | 118,639    | 149,521    |
| Unassigned  | 656,594    | 498,122    |
| TOTAL FUND BALANCES   | 795,780    | 672,542    |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF<br>RESOURCES AND FUND BALANCES | \$ 870,246 | \$ 786,495 |

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, 2013  
(With Comparative Actual Amounts for the Year Ended December 31, 2012)

|                            | 2013            |                   | Variance with<br>Final Budget | 2012              |
|----------------------------|-----------------|-------------------|-------------------------------|-------------------|
|                            | Final<br>Budget | Actual<br>Amounts |                               | Actual<br>Amounts |
| REVENUES                   |                 |                   |                               |                   |
| Taxes                      |                 |                   |                               |                   |
| Property taxes             | \$ 394,741      | \$ 394,939        | \$ 198                        | \$ 388,354        |
| Franchise fees             | 3,000           | 6,003             | 3,003                         | 3,056             |
| Gambling taxes             | 1,000           | 1,143             | 143                           | 845               |
| Total taxes                | <u>398,741</u>  | <u>402,085</u>    | <u>3,344</u>                  | <u>392,255</u>    |
| Licenses and permits       |                 |                   |                               |                   |
| Business                   | 5,000           | 5,377             | 377                           | 5,386             |
| Nonbusiness                | 19,900          | 15,081            | (4,819)                       | 37,466            |
| Total licenses and permits | <u>24,900</u>   | <u>20,458</u>     | <u>(4,442)</u>                | <u>42,852</u>     |
| Intergovernmental          |                 |                   |                               |                   |
| Federal                    |                 |                   |                               |                   |
| Other federal aids         | -               | 2,588             | 2,588                         | 1,815             |
| State                      |                 |                   |                               |                   |
| Local government aid       | 119,406         | 119,406           | -                             | 119,406           |
| Other state aids           | 395             | 7,634             | 7,239                         | 6,868             |
| Total State                | <u>119,801</u>  | <u>127,040</u>    | <u>7,239</u>                  | <u>126,274</u>    |
| County                     |                 |                   |                               |                   |
| Highway aid                | 600             | 600               | -                             | 600               |
| Total intergovernmental    | <u>120,401</u>  | <u>130,228</u>    | <u>9,827</u>                  | <u>128,689</u>    |
| Charges for services       |                 |                   |                               |                   |
| General government         | 1,000           | 2,180             | 1,180                         | 1,368             |
| Public safety              | 35              | -                 | (35)                          | 5                 |
| Streets and highways       | -               | 842               | 842                           | 1,234             |
| Other                      | 60              | 103               | 43                            | 85                |
| Total charges for services | <u>1,095</u>    | <u>3,125</u>      | <u>2,030</u>                  | <u>2,692</u>      |
| Fines and forfeits         | 20,000          | 11,962            | (8,038)                       | 29,349            |
| Investment earnings        | 7,000           | 1,169             | (5,831)                       | 3,425             |
| Miscellaneous              |                 |                   |                               |                   |
| Other                      | (1,450)         | 2,321             | 3,771                         | 10,215            |
| Rent                       | 2,060           | 1,896             | (164)                         | 2,094             |
| Refunds and reimbursements | 2,700           | 6,170             | 3,470                         | 8,970             |
| Total miscellaneous        | <u>3,310</u>    | <u>10,387</u>     | <u>7,077</u>                  | <u>21,279</u>     |
| TOTAL REVENUES             | <u>575,447</u>  | <u>579,414</u>    | <u>3,967</u>                  | <u>620,541</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, 2013  
(With Comparative Actual Amounts for the Year Ended December 31, 2012)

|                            | 2013            |                   |                               | 2012              |
|----------------------------|-----------------|-------------------|-------------------------------|-------------------|
|                            | Final<br>Budget | Actual<br>Amounts | Variance with<br>Final Budget | Actual<br>Amounts |
| <b>EXPENDITURES</b>        |                 |                   |                               |                   |
| Current                    |                 |                   |                               |                   |
| General government         |                 |                   |                               |                   |
| Mayor and Council          |                 |                   |                               |                   |
| Personal services          | \$ 8,935        | \$ 8,235          | \$ 700                        | \$ 7,778          |
| Supplies                   | 1,900           | 14,543            | (12,643)                      | 9,758             |
| Other services and charges | 8,253           | 3,961             | 4,292                         | 6,953             |
| Total Mayor and Council    | <u>19,088</u>   | <u>26,739</u>     | <u>(7,651)</u>                | <u>24,489</u>     |
| City clerk                 |                 |                   |                               |                   |
| Personal services          | 69,739          | 60,339            | 9,400                         | 62,557            |
| Supplies                   | 3,954           | 3,652             | 302                           | 3,574             |
| Other services and charges | 6,150           | 7,869             | (1,719)                       | 3,977             |
| Total city clerk           | <u>79,843</u>   | <u>71,860</u>     | <u>7,983</u>                  | <u>70,108</u>     |
| Election                   |                 |                   |                               |                   |
| Personal services          | -               | -                 | -                             | 1,134             |
| Supplies                   | -               | -                 | -                             | 370               |
| Other services and charges | 250             | 250               | -                             | 337               |
| Total election             | <u>250</u>      | <u>250</u>        | <u>-</u>                      | <u>1,841</u>      |
| Legal and audit            |                 |                   |                               |                   |
| Other services             | 33,149          | 25,606            | 7,543                         | 30,349            |
| Planning and zoning        |                 |                   |                               |                   |
| Personal services          | 3,450           | 1,450             | 2,000                         | 1,600             |
| Supplies                   | 300             | 279               | 21                            | 108               |
| Other services and charges | 496             | 46                | 450                           | 50                |
| Total planning and zoning  | <u>4,246</u>    | <u>1,775</u>      | <u>2,471</u>                  | <u>1,758</u>      |
| Municipal building         |                 |                   |                               |                   |
| Personal services          | 2,518           | 1,283             | 1,235                         | 1,347             |
| Supplies                   | 5,400           | 4,406             | 994                           | 2,669             |
| Other services and charges | 11,521          | 10,597            | 924                           | 10,619            |
| Total municipal building   | <u>19,439</u>   | <u>16,286</u>     | <u>3,153</u>                  | <u>14,635</u>     |
| Total general government   | <u>156,015</u>  | <u>142,516</u>    | <u>13,499</u>                 | <u>143,180</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, 2013  
(With Comparative Actual Amounts for the Year Ended December 31, 2012)

|                                  | 2013            |                   |                               | 2012              |
|----------------------------------|-----------------|-------------------|-------------------------------|-------------------|
|                                  | Final<br>Budget | Actual<br>Amounts | Variance with<br>Final Budget | Actual<br>Amounts |
| <b>EXPENDITURES - CONTINUED</b>  |                 |                   |                               |                   |
| Current - continued              |                 |                   |                               |                   |
| Public safety                    |                 |                   |                               |                   |
| Police                           |                 |                   |                               |                   |
| Personal services                | \$ 96,846       | \$ 103,642        | \$ (6,796)                    | \$ 104,018        |
| Supplies                         | 14,425          | 13,878            | 547                           | 16,560            |
| Other services and charges       | 5,447           | 9,643             | (4,196)                       | 8,666             |
| Total police                     | <u>116,718</u>  | <u>127,163</u>    | <u>(10,445)</u>               | <u>129,244</u>    |
| Building/health inspection       |                 |                   |                               |                   |
| Personal services                | 2,120           | 1,919             | 201                           | 4,938             |
| Supplies                         | 150             | 9                 | 141                           | 133               |
| Other services and charges       | 11,750          | 6,557             | 5,193                         | 18,227            |
| Total building/health inspection | <u>14,020</u>   | <u>8,485</u>      | <u>5,535</u>                  | <u>23,298</u>     |
| Civil defense                    |                 |                   |                               |                   |
| Supplies                         | 150             | 1,064             | (914)                         | -                 |
| Other services and charges       | 210             | 270               | (60)                          | 227               |
| Total civil defense              | <u>360</u>      | <u>1,334</u>      | <u>(974)</u>                  | <u>227</u>        |
| Animal control                   |                 |                   |                               |                   |
| Other services and charges       | 400             | 66                | 334                           | 301               |
| Rental inspection                |                 |                   |                               |                   |
| Personal services                | 2,000           | 2,380             | (380)                         | 2,340             |
| Total public safety              | <u>133,498</u>  | <u>139,428</u>    | <u>(5,930)</u>                | <u>155,410</u>    |
| Streets and highways             |                 |                   |                               |                   |
| Street maintenance               |                 |                   |                               |                   |
| Personal services                | 45,389          | 45,464            | (75)                          | 53,928            |
| Supplies                         | 29,900          | 25,783            | 4,117                         | 24,368            |
| Other services and charges       | 10,523          | 10,031            | 492                           | 9,960             |
| Total street maintenance         | <u>85,812</u>   | <u>81,278</u>     | <u>4,534</u>                  | <u>88,256</u>     |
| Snow and ice removal             |                 |                   |                               |                   |
| Supplies                         | 2,500           | 3,831             | (1,331)                       | 2,657             |
| Street lighting                  |                 |                   |                               |                   |
| Other services and charges       | 19,055          | 18,012            | 1,043                         | 16,547            |
| Total streets and highways       | <u>107,367</u>  | <u>103,121</u>    | <u>4,246</u>                  | <u>107,460</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, 2013  
(With Comparative Actual Amounts for the Year Ended December 31, 2012)

|   | 2013              |                   |                               | 2012              |
|---|-------------------|-------------------|-------------------------------|-------------------|
|   | Final<br>Budget   | Actual<br>Amounts | Variance with<br>Final Budget | Actual<br>Amounts |
| <b>EXPENDITURES - CONTINUED</b>                 |                   |                   |                               |                   |
| Current - continued                             |                   |                   |                               |                   |
| Culture and recreation                          |                   |                   |                               |                   |
| Parks   |                   |                   |                               |                   |
| Personal services                               | \$ 88             | \$ 72             | \$ 16                         | \$ 88             |
| Supplies  | 5,300             | 4,648             | 652                           | 3,919             |
| Other services and charges                      | 7,370             | 5,503             | 1,867                         | 6,450             |
| Total culture and recreation                    | <u>12,758</u>     | <u>10,223</u>     | <u>2,535</u>                  | <u>10,457</u>     |
| Housing and economic development                |                   |                   |                               |                   |
| Economic development                            |                   |                   |                               |                   |
| Personal services                               | 2,183             | 1,688             | 495                           | 1,482             |
| Other services and charges                      | 5,162             | 4,844             | 318                           | 4,898             |
| Total housing and economic development          | <u>7,345</u>      | <u>6,532</u>      | <u>813</u>                    | <u>6,380</u>      |
| Miscellaneous                                   |                   |                   |                               |                   |
| Unallocated                                     |                   |                   |                               |                   |
| Other services and charges                      | 1,040             | 811               | 229                           | 772               |
| Total current                                   | <u>418,023</u>    | <u>402,631</u>    | <u>15,392</u>                 | <u>423,659</u>    |
| Capital outlay                                  |                   |                   |                               |                   |
| General government                              | 7,500             | 8,792             | (1,292)                       | 7,483             |
| Public safety                                   | 26,000            | 7,653             | 18,347                        | 42,193            |
| Streets and highways                            | 55,000            | 62,930            | (7,930)                       | 53,378            |
| Culture and recreation                          | 7,000             | 9,352             | (2,352)                       | 1,993             |
| Economic development                            | -                 | 250               | (250)                         | 200               |
| Total capital outlay                            | <u>95,500</u>     | <u>88,977</u>     | <u>6,523</u>                  | <u>105,247</u>    |
| <b>TOTAL EXPENDITURES</b>                       | <u>513,523</u>    | <u>491,608</u>    | <u>21,915</u>                 | <u>528,906</u>    |
| <b>EXCESS OF REVENUES<br/>OVER EXPENDITURES</b> | <u>61,924</u>     | <u>87,806</u>     | <u>25,882</u>                 | <u>91,635</u>     |
| <b>OTHER FINANCING SOURCES (USES)</b>           |                   |                   |                               |                   |
| Transfers in                                    | 42,518            | 143,398           | 100,880                       | 71,736            |
| Transfers out                                   | (104,442)         | (107,966)         | (3,524)                       | (86,116)          |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>     | <u>(61,924)</u>   | <u>35,432</u>     | <u>97,356</u>                 | <u>(14,380)</u>   |
| <b>NET CHANGE IN FUND BALANCES</b>              | -                 | 123,238           | 123,238                       | 77,255            |
| <b>FUND BALANCES, JANUARY 1</b>                 | <u>672,542</u>    | <u>672,542</u>    | -                             | <u>595,287</u>    |
| <b>FUND BALANCES, DECEMBER 31</b>               | <u>\$ 672,542</u> | <u>\$ 795,780</u> | <u>\$ 123,238</u>             | <u>\$ 672,542</u> |

CITY OF MADISON LAKE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2013  
(With Comparative Totals for December 31, 2012)

|  | <b>330</b>                         | <b>340</b>                        | <b>494</b>                      |
|--|------------------------------------|-----------------------------------|---------------------------------|
|  | 2004A G.O.<br>Improvement<br>Bonds | 2006 G.O.<br>Improvement<br>Bonds | 2003 G.O.<br>Refunding<br>Bonds |
|  | <u>          </u>                  | <u>          </u>                 | <u>          </u>               |
| <b>ASSETS</b>  |                                    |                                   |                                 |
| Cash and cash equivalents  | \$ 32,265                          | \$ 16,203                         | \$ -                            |
| Cash with fiscal agent   | -                                  | -                                 | -                               |
| Receivables  |                                    |                                   |                                 |
| Special assessments  |                                    |                                   |                                 |
| Delinquent   | 5,185                              | -                                 | -                               |
| Noncurrent   | <u>4,515</u>                       | <u>9,045</u>                      | <u>-</u>                        |
| <b>TOTAL ASSETS</b>  | <u><u>\$ 41,965</u></u>            | <u><u>\$ 25,248</u></u>           | <u><u>\$ -</u></u>              |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                             |                                    |                                   |                                 |
| Unavailable revenue - special assessments                        | \$ 9,700                           | \$ 9,045                          | \$ -                            |
| <b>FUND BALANCES</b>   |                                    |                                   |                                 |
| Restricted for   |                                    |                                   |                                 |
| Debt service   | <u>32,265</u>                      | <u>16,203</u>                     | <u>-</u>                        |
| <b>TOTAL DEFERRED INFLOWS OF<br/>RESOURCES AND FUND BALANCES</b> | <u><u>\$ 41,965</u></u>            | <u><u>\$ 25,248</u></u>           | <u><u>\$ -</u></u>              |

| 499<br>2004B G.O.<br>PIR Refunding<br>Bonds | Totals                   |                          |
|---|--------------------------|--------------------------|
|   | 2013                     | 2012                     |
| \$ 51,794                                   | \$ 100,262               | \$ 265,985               |
| -   | -                        | 32,640                   |
| -   | 5,185                    | 4,920                    |
| <u>85,479</u>                               | <u>99,039</u>            | <u>142,083</u>           |
| <u>\$ 137,273</u>                           | <u>\$ 204,486</u>        | <u>\$ 445,628</u>        |
| \$ 85,479                                   | \$ 104,224               | \$ 147,003               |
| <u>51,794</u>                               | <u>100,262</u>           | <u>298,625</u>           |
| <u><u>\$ 137,273</u></u>                    | <u><u>\$ 204,486</u></u> | <u><u>\$ 445,628</u></u> |

CITY OF MADISON LAKE, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(With Comparative Totals for the Year Ended December 31, 2012)

|  | <b>330</b>        | <b>340</b>        | <b>494</b>        |
|--|-------------------|-------------------|-------------------|
|  | 2004A G.O.        | 2006 G.O.         | 2003 G.O.         |
|  | Improvement       | Improvement       | Refunding         |
|  | Bonds             | Bonds             | Bonds             |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| REVENUES   |                   |                   |                   |
| Taxes  |                   |                   |                   |
| Property taxes   | \$ -              | \$ 16,119         | \$ 19,727         |
| Special assessments  | 5,902             | 2,883             | 15,904            |
| Investment earnings  | <u>-</u>          | <u>-</u>          | <u>22</u>         |
| TOTAL REVENUES   | <u>5,902</u>      | <u>19,002</u>     | <u>35,653</u>     |
| EXPENDITURES   |                   |                   |                   |
| Current  |                   |                   |                   |
| General government   | 537               | 105               | 536               |
| Debt service   |                   |                   |                   |
| Principal  | 30,000            | 15,000            | 135,000           |
| Interest and fees  | <u>3,000</u>      | <u>3,506</u>      | <u>4,740</u>      |
| TOTAL EXPENDITURES   | <u>33,537</u>     | <u>18,611</u>     | <u>140,276</u>    |
| EXCESS (DEFICIENCY) OF REVENUES OVER<br>(UNDER) EXPENDITURES | <u>(27,635)</u>   | <u>391</u>        | <u>(104,623)</u>  |
| OTHER FINANCING SOURCES (USES)                               |                   |                   |                   |
| Transfers in   | 34,289            | -                 | -                 |
| Transfers out  | <u>-</u>          | <u>-</u>          | <u>(100,880)</u>  |
| TOTAL OTHER FINANCING SOURCES<br>(USES)                      | <u>34,289</u>     | <u>-</u>          | <u>(100,880)</u>  |
| NET CHANGE IN FUND BALANCES                                  | 6,654             | 391               | (205,503)         |
| FUND BALANCES, JANUARY 1                                     | <u>25,611</u>     | <u>15,812</u>     | <u>205,503</u>    |
| FUND BALANCES, DECEMBER 31                                   | <u>\$ 32,265</u>  | <u>\$ 16,203</u>  | <u>\$ -</u>       |

| 499<br>2004B G.O.<br>PIR Refunding<br>Bonds | Totals            |                   |
|---|-------------------|-------------------|
|   | 2013              | 2012              |
| \$ 20,841                                   | \$ 56,687         | \$ 71,985         |
| 14,093                                      | 38,782            | 66,466            |
| <u>2</u>                                    | <u>24</u>         | <u>30</u>         |
| 34,936                                      | 95,493            | 138,481           |
| 536   | 1,714             | 1,293             |
| 30,000                                      | 210,000           | 105,000           |
| <u>4,305</u>                                | <u>15,551</u>     | <u>19,517</u>     |
| 34,841                                      | 227,265           | 125,810           |
| <u>95</u>                                   | <u>(131,772)</u>  | <u>12,671</u>     |
| -   | 34,289            | 68,873            |
| <u>-</u>                                    | <u>(100,880)</u>  | <u>(33,568)</u>   |
| -   | (66,591)          | 35,305            |
| 95  | (198,363)         | 47,976            |
| <u>51,699</u>                               | <u>298,625</u>    | <u>250,649</u>    |
| <u>\$ 51,794</u>                            | <u>\$ 100,262</u> | <u>\$ 298,625</u> |

CITY OF MADISON LAKE, MINNESOTA  
SUMMARY FINANCIAL REPORT  
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS -  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

|                                    | Total               |                   | Percent<br>Increase<br>(Decrease) |
|------------------------------------|---------------------|-------------------|-----------------------------------|
|                                    | 2013                | 2012              |                                   |
| <b>REVENUES</b>                    |                     |                   |                                   |
| Taxes                              | \$ 462,521          | \$ 467,849        | (1.14) %                          |
| Special assessments                | 50,953              | 67,769            | (24.81)                           |
| Licenses and permits               | 20,458              | 42,852            | (52.26)                           |
| Intergovernmental                  | 185,449             | 145,489           | 27.47                             |
| Charges for services               | 110,220             | 107,762           | 2.28                              |
| Fines and forfeits                 | 11,962              | 29,349            | (59.24)                           |
| Investment earnings                | 1,822               | 4,509             | (59.59)                           |
| Miscellaneous                      | 106,178             | 84,987            | 24.93                             |
| <b>TOTAL REVENUES</b>              | <b>\$ 949,563</b>   | <b>\$ 950,566</b> | <b>(0.11) %</b>                   |
| Per Capita                         | \$ 902              | \$ 920            | (2.00) %                          |
| <b>EXPENDITURES</b>                |                     |                   |                                   |
| Current                            |                     |                   |                                   |
| General government                 | \$ 150,234          | \$ 147,121        | 2.12 %                            |
| Public safety                      | 232,076             | 250,466           | (7.34)                            |
| Streets and highways               | 103,121             | 108,283           | (4.77)                            |
| Culture and recreation             | 10,223              | 10,457            | (2.24)                            |
| Economic development               | 6,532               | 6,380             | 2.38                              |
| Miscellaneous                      | 811                 | 772               | 5.05                              |
| Capital outlay                     |                     |                   |                                   |
| General government                 | 8,792               | 7,483             | 17.49                             |
| Public safety                      | 98,285              | 55,398            | 77.42                             |
| Streets and highways               | 697,516             | 53,378            | 1,206.75                          |
| Culture and recreation             | 9,352               | 1,993             | 369.24                            |
| Economic development               | 250                 | 200               | 25.00                             |
| Debt service                       |                     |                   |                                   |
| Principal                          | 210,000             | 105,000           | 100.00                            |
| Interest and other charges         | 15,551              | 19,517            | (20.32)                           |
| <b>TOTAL EXPENDITURES</b>          | <b>\$ 1,542,743</b> | <b>\$ 766,448</b> | <b>101.28 %</b>                   |
| Per Capita                         | \$ 1,465            | \$ 742            | 97.46 %                           |
| Total long-term indebtedness       | \$ 225,000          | \$ 435,000        | (48.28) %                         |
| Per Capita                         | 214                 | 421               | (49.26)                           |
| General fund balance - December 31 | \$ 795,780          | \$ 672,542        | 18.32 %                           |
| Per Capita                         | 756                 | 651               | 16.08                             |

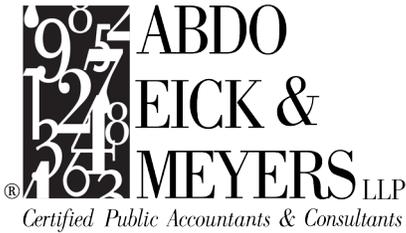
The purpose of this report is to provide a summary of financial information concerning the City of Madison Lake to interested citizens. The complete financial statements may be examined at City Hall, 525 Main Street, PO Box 225, Madison Lake, MN, 56063. Questions about this report should be directed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

**OTHER REQUIRED REPORTS**

CITY OF MADISON LAKE  
MADISON LAKE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT ON  
MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Madison Lake, Minnesota

We have audited, 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 the financial statements of 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, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2014.

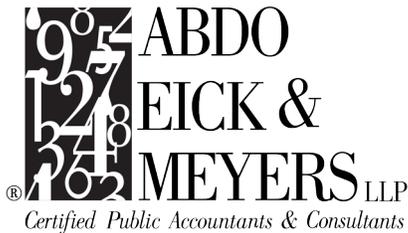
The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the City no longer has any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

This report is intended solely for the information and use those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Abdo, Eick & Meyers, LLP*

ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
March 18, 2014



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

Honorable Mayor and City Council  
City of Madison Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Madison Lake, Minnesota (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 18, 2014.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2013-001 and 2013-002 to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## The City's Responses to Findings

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

## Purpose of this Report

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

*Abdo, Eick & Meyers, LLP*

ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
March 18, 2014

CITY OF MADISON LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding

Description

**2013-001**

**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, 2013

Finding

Description

2013-001

**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.

*Updated progress since prior year:*

There is no change in this finding.

**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.

*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, 2013

Finding

Description

2013-001

**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 is in the process of implementing online utility bill pay which will reduce the risk to the City.

*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, 2013

Finding

Description

**2013-002**

**Financial report preparation**

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

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

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

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

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

*Management response:*

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