



Financial Statements
December 31, 2012

City of Eagle Lake

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CITY COUNCIL

Tim Auringer	Mayor
Dennis Terrell	Council-member
Clete Frederick	Council-member
Ryan Short	Council-member
John Ries	Council-member

ADMINISTRATION

Sack Thongvanh	City Administrator
Rick Reinbold	Public Works Director
Phillip Wills	Police Chief
Alan Kleist	Fire Chief



Independent Auditor's Report

Honorable Mayor and City Council
City of Eagle Lake
Eagle 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 Eagle Lake as of and for the year ended December 31, 2012, 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

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 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. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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 presentation of the financial statements.

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 of Eagle Lake as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 28 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.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

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

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



Mankato, Minnesota
May 2, 2013

City of Eagle Lake
Statement of Net Position
December 31, 2012

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 1,453,434	\$ 1,483,698	\$ 2,937,132
Receivables			
Taxes	19,803	-	19,803
Special assessments	414,248	17,229	431,477
Accounts	16,051	58,412	74,463
Interest	2,451	-	2,451
Notes	23,659	-	23,659
Prepaid items	15,455	15,092	30,547
Deferred charges	76,196	10,349	86,545
Capital assets not being depreciated:			
Land	327,749	12,000	339,749
Capital assets, net of accumulated depreciation:			
Distribution plant	-	1,490,363	1,490,363
Equipment	236,244	235,267	471,511
Building	2,299,349	-	2,299,349
Road network	3,885,516	-	3,885,516
Land improvements	317,453	-	317,453
Vehicles	568,788	-	568,788
Total assets	9,656,396	3,322,410	12,978,806
Liabilities			
Accounts payable	68,595	3,303	71,898
Customer deposits	5,576	-	5,576
Due to other governments	23,659	33,261	56,920
Interest payable	59,456	4,426	63,882
Unearned revenue	-	3,436	3,436
Noncurrent liabilities:			
Compensated absences	5,236	3,475	8,711
Due within one year	208,198	40,000	248,198
Due in more than one year	3,569,000	220,000	3,789,000
Total liabilities	3,939,720	307,901	4,247,621
Net Position			
Net investment in capital assets	3,934,097	1,477,630	5,411,727
Restricted for:			
Debt service	369,790	-	369,790
Other purposes	77,814	-	77,814
Unrestricted	1,334,975	1,536,879	2,871,854
Total Net Position	\$ 5,716,676	\$ 3,014,509	\$ 8,731,185

City of Eagle Lake
Statement of Activities
Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-type	
					Governmental Activities	Activities	
Governmental Activities							
General government	\$ 100,557	\$ 29,792	\$ -	\$ -	\$ (70,765)	\$ -	\$ (70,765)
Public safety	332,857	75,537	24,300	-	(233,020)	-	(233,020)
Streets and highways	470,427	-	-	-	(470,427)	-	(470,427)
Sanitation	125,533	181,087	-	-	55,554	-	55,554
Culture and recreation	98,974	824	824	-	(97,326)	-	(97,326)
Economic development	143,750	-	-	-	(143,750)	-	(143,750)
Interest and other charges on long-term debt	192,660	-	-	-	(192,660)	-	(192,660)
Total governmental activities	<u>1,464,758</u>	<u>287,240</u>	<u>25,124</u>	<u>-</u>	<u>(1,152,394)</u>	<u>-</u>	<u>(1,152,394)</u>
Business-Type Activities							
Water	186,944	289,051	-	-	-	102,107	102,107
Sewer	259,590	428,824	-	-	-	169,234	169,234
Total business-type activities	<u>446,534</u>	<u>717,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>271,341</u>	<u>271,341</u>
Total primary government	<u>\$ 1,911,292</u>	<u>\$ 1,005,115</u>	<u>\$ 25,124</u>	<u>\$ -</u>	<u>(1,152,394)</u>	<u>271,341</u>	<u>(881,053)</u>
GENERAL REVENUES							
Property and franchise taxes					679,750	-	679,750
State aid					508,987	-	508,987
Special assessments					80,287	-	80,287
Earnings on cash and investments					5,581	-	5,581
Transfers					100,000	(100,000)	-
Fees and fines					10,506	-	10,506
Licenses and permits					49,992	-	49,992
Miscellaneous					72,617	7,155	79,772
Total general revenues					<u>1,507,720</u>	<u>(92,845)</u>	<u>1,414,875</u>
Changes in net position					355,326	178,496	533,822
Net Position - Beginning					<u>5,361,350</u>	<u>2,836,013</u>	<u>8,197,363</u>
Net Position - Ending					<u>\$ 5,716,676</u>	<u>\$ 3,014,509</u>	<u>\$ 8,731,185</u>

City of Eagle Lake
Balance Sheet – Governmental Funds
December 31, 2012

	General Fund	2010 Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,191,396	\$ 112,694	\$ 149,344	\$ 1,453,434
Receivables				
Taxes	17,268	634	1,901	19,803
Special assessments	120,116	294,132	-	414,248
Accounts	16,051	-	-	16,051
Interest	2,451	-	-	2,451
Notes	-	-	23,659	23,659
Prepaid items	15,455	-	-	15,455
Total assets	\$ 1,362,737	\$ 407,460	\$ 174,904	\$ 1,945,101
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 16,950	\$ 13,511	\$ 38,134	\$ 68,595
Customer deposits	5,576	-	-	5,576
Due to other governments	-	-	23,659	23,659
Total liabilities	22,526	13,511	61,793	97,830
Deferred inflows of resources unavailable revenue	123,000	293,432	472	416,904
Fund Balances				
Nonspendable	15,455	-	-	15,455
Restricted	-	100,517	130,596	231,113
Assigned	1,003,007	-	-	1,003,007
Unassigned	198,749	-	(17,957)	180,792
Total fund balances	1,217,211	100,517	112,639	1,430,367
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,362,737	\$ 407,460	\$ 174,904	\$ 1,945,101

City of Eagle Lake
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 December 31, 2012

Total Fund Balances for Governmental Funds:	\$ 1,430,367
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 governmental funds. The cost of these assets is \$9,876,914 and the accumulated depreciation is \$2,241,815.	7,635,099
Some of the City's receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred inflows in the funds.	416,904
Interest on long-term debt is not accrued in governmental funds, but rather, is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$59,456.	(59,456)
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net position. Balance at year-end is:	
Bonds payable	(3,777,198)
Compensated absences earned by employees are not accrued in governmental funds, but are recognized as an expenditure when due. Compensated absences accrued at year end are equal to \$5,236.	(5,236)
Expenses that were paid for the issuance of long-term debt, bond issuance costs and underwriter fees are amortized over the term of the debt. The total deferred charge assets are \$102,022 and the accumulated amortization is \$25,826.	76,196
	76,196
Total Net Position for Governmental Activities	\$ <u><u>5,716,676</u></u>

City of Eagle Lake
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended December 31, 2012

	General Fund	2010 Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 322,522	\$ 74,548	\$ 262,530	\$ 659,600
Franchise taxes	20,150	-	-	20,150
Special assessments	31,037	41,349	6,712	79,098
Fines and forfeits	10,506	-	-	10,506
Licenses and permits	49,992	-	-	49,992
Intergovernmental	534,111	-	-	534,111
Charges for services	287,240	-	-	287,240
Interest earnings	5,460	-	121	5,581
Miscellaneous	64,479	3,250	6,072	73,801
Total revenue	<u>1,325,497</u>	<u>119,147</u>	<u>275,435</u>	<u>1,720,079</u>
Expenditures				
Current				
General government	326,795	-	-	326,795
Public safety	703,560	-	-	703,560
Streets and highways	355,191	-	-	355,191
Sanitation	125,533	-	-	125,533
Culture and recreation	75,517	-	-	75,517
Economic development	-	-	143,750	143,750
Debt Services				
Principal	-	40,000	165,000	205,000
Interest and other charges	-	84,996	110,182	195,178
Total expenditures	<u>1,586,596</u>	<u>124,996</u>	<u>418,932</u>	<u>2,130,524</u>
Deficiency of revenues under expenditures	<u>(261,099)</u>	<u>(5,849)</u>	<u>(143,497)</u>	<u>(410,445)</u>
Other Financing Sources				
Bonds issued	-	40,635	-	40,635
Transfers in	23,058	-	100,000	123,058
Transfers out	-	-	(23,058)	(23,058)
Total other financing sources	<u>23,058</u>	<u>40,635</u>	<u>76,942</u>	<u>140,635</u>
Net change in fund balances	(238,041)	34,786	(66,555)	(269,810)
Fund Balances - Beginning of Year	<u>1,455,252</u>	<u>65,731</u>	<u>179,194</u>	<u>1,700,177</u>
Fund Balances - End of Year	<u>\$ 1,217,211</u>	<u>\$ 100,517</u>	<u>\$ 112,639</u>	<u>\$ 1,430,367</u>

City of Eagle Lake

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended December 31, 2012

Total Net Change in Fund Balances - Governmental Funds \$ (269,810)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$770,159) exceeds depreciation (\$307,735) in the current period. 462,424

Some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred and delinquent special assessment receivables increased by \$16,112, delinquent property taxes decreased by \$13,620, and accounts receivable decreased by \$1,303. 1,189

Asset sales net proceeds are reported in governmental funds as revenues. However, in the statement of activities, the gain or loss from the disposal of these assets only is recorded. The reported loss for the period was \$1,184. (1,184)

The governmental funds report the issuance of debt as revenue. In the statement of net position, however, issuance of debt increases the liability. (40,635)

The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 205,000

The governmental funds report compensated absence costs as expenditures when paid, (\$1,357 paid in current year) on the other hand, the statement of activities reports compensated absence costs as the employees earn the compensated absences. (\$0) was earned in the current year. In the statement of net position, the payment of compensated absences results in a reduction of the liability. This amount is the net effect of these differences. 1,357

Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. There was \$59,456 and \$61,974 of accrued interest at December 31, 2012 and 2011, respectively. 2,518

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences. The current year change was \$5,533. (5,533)

Change in Net Position of Governmental Activities \$ 355,326

City of Eagle Lake
Statement of Net Position – Proprietary Funds
December 31, 2012

	Water	Sanitary Sewer	Total
Assets			
Cash and cash equivalents	\$ 690,255	\$ 793,443	\$ 1,483,698
Receivables:			
Accounts	25,233	33,179	58,412
Special assessments	-	17,229	17,229
Deferred charges	10,349	-	10,349
Prepaid items	7,546	7,546	15,092
Total current assets	<u>733,383</u>	<u>851,397</u>	<u>1,584,780</u>
Noncurrent assets:			
Capital assets not being depreciated:			
Land	6,000	6,000	12,000
Capital assets, net of accumulated depreciation:			
Distribution plant	564,025	926,338	1,490,363
Buildings and equipment	116,738	118,529	235,267
Total noncurrent assets	<u>686,763</u>	<u>1,050,867</u>	<u>1,737,630</u>
Total assets	<u>1,420,146</u>	<u>1,902,264</u>	<u>3,322,410</u>
Liabilities			
Current liabilities			
Current portion of bonds payable	40,000	-	40,000
Accounts payable	3,303	-	3,303
Due to other governments	-	33,261	33,261
Interest payable	4,426	-	4,426
Unearned revenue	-	3,436	3,436
Total current liabilities	<u>47,729</u>	<u>36,697</u>	<u>84,426</u>
Non-current liabilities			
Compensated absences	1,737	1,738	3,475
Bonds payable, less current portion	220,000	-	220,000
Total liabilities	<u>269,466</u>	<u>38,435</u>	<u>307,901</u>
Net Position			
Net investment in capital assets	426,763	1,050,867	1,477,630
Unrestricted	723,917	812,962	1,536,879
Total Net Position	<u>\$ 1,150,680</u>	<u>\$ 1,863,829</u>	<u>\$ 3,014,509</u>

City of Eagle Lake
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
Year Ended December 31, 2012

	Water	Sanitary Sewer	Total
Operating Revenues			
Utility sales	\$ 289,051	\$ 428,693	\$ 717,744
Special assessments	-	131	131
Total operating revenues	<u>289,051</u>	<u>428,824</u>	<u>717,875</u>
Operating Expenses			
Distribution system	139,053	215,713	354,766
General and administrative	710	-	710
Depreciation	34,619	43,877	78,496
Amortization	1,725	-	1,725
Total operating expenses	<u>176,107</u>	<u>259,590</u>	<u>435,697</u>
Operating Income	<u>112,944</u>	<u>169,234</u>	<u>282,178</u>
Nonoperating Revenues (Expenses)			
Interest expense	(10,837)	-	(10,837)
Miscellaneous revenue	7,155	-	7,155
Total nonoperating revenues (expenses)	<u>(3,682)</u>	<u>-</u>	<u>(3,682)</u>
Income before transfers	109,262	169,234	278,496
Transfers Out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(100,000)</u>
Change in Net Position	59,262	119,234	178,496
Net Position - Beginning of Year	<u>1,091,418</u>	<u>1,744,595</u>	<u>2,836,013</u>
Net Position - End of Year	<u>\$ 1,150,680</u>	<u>\$ 1,863,829</u>	<u>\$ 3,014,509</u>

City of Eagle Lake
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2012

	Water	Sanitary Sewer	Enterprise Fund Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 291,369	\$ 467,346	\$ 758,715
Other receipts	7,155	-	7,155
Payments to employees	(53,027)	(49,063)	(102,090)
Payments to suppliers	(85,058)	(135,643)	(220,701)
Net cash provided by operating activities	<u>160,439</u>	<u>282,640</u>	<u>443,079</u>
Cash Flows used for Noncapital Financing Activity			
Transfers to governmental funds	<u>(50,000)</u>	<u>(50,000)</u>	<u>(100,000)</u>
Cash Flows from Capital and Related Financing Activities			
Principal paid on bonds	(35,000)	-	(35,000)
Interest paid on bonds	(11,415)	-	(11,415)
Acquisition of property, plant and equipment	-	(15,363)	(15,363)
Net cash used by capital and related financing activities	<u>(46,415)</u>	<u>(15,363)</u>	<u>(61,778)</u>
Net Increase in Cash	64,024	217,277	281,301
Balances - Beginning of the Year	<u>626,231</u>	<u>576,166</u>	<u>1,202,397</u>
Balances - End of the Year	<u>\$ 690,255</u>	<u>\$ 793,443</u>	<u>\$ 1,483,698</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Change in net position	\$ 112,944	\$ 169,234	\$ 282,178
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	34,619	43,877	78,496
Amortization	1,725	-	1,725
Miscellaneous revenue and expenses	7,155	-	7,155
Decrease (increase) in assets			
Accounts receivable	2,318	13,300	15,618
Due from other governments	-	22,948	22,948
Special assessments receivable	-	4,484	4,484
Prepaid items	(1,355)	(2,078)	(3,433)
Increase (decrease) in liabilities			
Accounts payable	3,105	33,156	36,261
Unearned revenue	-	(2,210)	(2,210)
Compensated absences	(72)	(71)	(143)
Net Cash Provided by Operating Activities	<u>\$ 160,439</u>	<u>\$ 282,640</u>	<u>\$ 443,079</u>

Note 1 - Summary of Significant Accounting Policies

The City of Eagle Lake (the City) is a municipal corporation governed by a mayor and a four member council elected by eligible voters of the City. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City applies all relevant GASB pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City has elected not to follow subsequent private-sector guidance. The significant City accounting policies are described below.

A. Financial Reporting Entity

GASB Statement No. 14, "The Financial Reporting Entity", GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units", and GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", established standards for defining and reporting on the financial reporting entity. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City is the basic level of government which has oversight responsibility and control over all activities related to the government in the City's area. The City receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by the GASB's pronouncements, since mayor and council members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended component units, although legally separate entities, are in substance part of the government's operations and so data from these units are combined with data of the primary government. The Economic Development Authority is a blended component unit and is governed by a board appointed by the City Council. The rentals and loan authorizations are approved by the government's council and the legal liability for any debt remains with the government. The Economic Development Authority is reported in one Special Revenue Fund.

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 non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (b) 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 proprietary 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 government 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 government.

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

The government reports the following major governmental funds:

The *general fund* is the government'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 *2010 debt service fund* is one of the government's debt service funds. It accounts for the sources of revenue for and the payment of the General Obligation Bonds of 2010 and the 2010 PFA loan. The primary source of revenue for the fund is property taxes and special assessments.

The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the government's water distribution operations.

The *sanitary sewer fund* accounts for the activities of the government's sewage pumping stations and collection systems.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the government. 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 water and sanitary sewer enterprise funds are charges to customers for sales and services. The enterprise funds also recognizes as operating revenue recycling charges, refunds and reimbursements, and penalties. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Cash Equivalents

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the earnings according to its average cash and investments balance. Cash and cash equivalents include amounts in demand deposits, certificates of deposit as well as amounts in the Minnesota 4M Plus Fund, an external investment pool in which funds are available on demand. For the purposes of the statement of cash flows, cash includes all of the above. There were no investing, capital, or financing activities that affect recognized assets or liabilities but do not result in cash receipts or payments for the year ended December 31, 2012. The Minnesota 4M Plus Fund is stated at cost which approximates fair value.

2. Receivables and Payables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, special assessments, and state and federal aids. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. The City has reviewed receivables and determined that no allowance for uncollectible accounts is necessary.

Interest on investments and certain receivables are recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

On or before September 15th of each year, the City Council certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All cities must hold public hearings on their proposed property tax levies.

Beginning on November 29th and through December 20th of each year, the City is required by State Law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the City Council certifies its final adopted property taxes payable the following year to the county auditor. If the City has not certified its final property tax by this time, its property tax shall be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts three times a year, in January, June, and November.

3. 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.

4. 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 government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Lift station	50
Sanitary sewer mains	40
Water mains	40
Storm sewer mains	40
Sump pump lines	40
Buildings	40
Concrete curb and gutter	30
Sidewalks	30
Wells and pump houses	25
Water, electric, meters	20
Office equipment	10
Machinery, equipment, radios, phones	10
Computer equipment and software	5
Vehicles	5
Land	Not Depreciated

5. Compensated Absences

Vacation leave may be accumulated to a total of not more than 80 hours. Vacation leave is paid 100 percent at the time of separation from employment with the City, given the employee has served at least twelve consecutive months prior to separation.

6. 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, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at face value, net of bond premiums and discounts with issuance costs reported as deferred charges.

In the fund financial statements, governmental fund types recognize 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.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

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 one item that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for various sources: property taxes, special assessments, notes receivable, and land inventory. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

8. Fund Equity and Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements and proprietary fund statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City approved to maintain 50 percent of the annual budget as a minimum unassigned general fund balance. If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

E. Inter-fund Transactions

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

F. Use of Estimates

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2012, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the government's manager so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

A. Budgetary Information - Continued

The government's council reviews the budget at their regular meeting in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the government's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2012, expenditures exceeded appropriations in the following funds: \$474,754 – General Fund, \$44,223 – EDA, \$432 – Tax Increment District 1-1, \$1,450 – Tax Increment District 1-2, \$41,325 – 2010 Debt Service fund, and \$300 – Cate Street. The excess was eliminated by greater than anticipated revenues and available fund balance in the case of the General Fund and Cate Street and available fund balance in the case of Tax Increment District 1-1 and Tax Increment District 1-2. The excess in the 1995 G.O. Storm Sewer will be eliminated by future revenues or a transfer from other funds.

C. Deficit Fund Equity

The following funds has deficit fund equity at December 31, 2012:

Debt service funds:	
1995 G.O. Storm Sewer	\$ 17,957

The above deficit will be eliminated through future property tax levies or transfers from other funds.

Note 3 - Detailed Notes on All Funds

A. Cash and Cash Equivalents

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council. All such depositories 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% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

The Minnesota 4M Plus Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pools shares.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2012, none of the City's bank balances were exposed to custodial credit risk.

B. Receivables

Receivables as of the year end for the City are reported on the Statement of Net Position. There are no estimates for allowances for uncollectible receivables.

The City issues promissory notes through the Economic Development Revolving Loan Fund programs to local businesses. One note is receivable in monthly installments of \$459 with a balloon payment in 2013 and an interest rate of 4.00%. The note is secured by one or a combination of a mortgage, a second mortgage, equipment and fixtures. The current outstanding balance is \$23,659 as of December 31, 2012.

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

	Unavailable	Unearned
Special assessments not yet due (general fund)	\$ 22,977	\$ -
Delinquent special assessments (general fund)	81,499	-
Delinquent property taxes (general fund)	14,524	-
Accounts receivable (general fund)	4,000	-
Delinquent property taxes (special revenue fund)	472	-
Special assessments not yet due (debt service fund)	293,432	-
Special assessments not yet due (sewer fund)	-	3,436
Total deferred/unearned revenue for governmental funds	\$ 416,904	\$ 3,436

The only receivables not expected to be collectible within one year are the following: General Fund: \$21,288 of special assessments and Debt Service Fund special assessments in the 2010 Debt Service: \$267,368.

C. Capital Assets

Depreciation expense was charged to activities of the governmental activities as follows:

Governmental Activities:	
General government	\$ 56,132
Public safety	61,668
Highways and streets	166,478
Culture and recreation	<u>23,457</u>
Total depreciation expense – governmental activities	<u><u>\$ 307,735</u></u>

Capital asset activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 282,749	\$ 45,000	\$ -	\$ 327,749
Construction in progress	17,919	-	17,919	-
Total capital assets, not being depreciated	<u>300,668</u>	<u>45,000</u>	<u>17,919</u>	<u>327,749</u>
Capital assets, being depreciated				
Building	2,486,194	180,979	-	2,667,173
Road network	4,833,489	254,726	-	5,088,215
Equipment	579,480	33,775	36,243	577,012
Land improvements	399,756	29,377	-	429,133
Vehicles	565,173	244,221	21,762	787,632
Total capital assets, being depreciated	<u>8,864,092</u>	<u>743,078</u>	<u>58,005</u>	<u>9,549,165</u>
Less accumulated depreciation for:				
Building	282,231	85,593	-	367,824
Road network	1,079,659	123,040	-	1,202,699
Equipment	326,724	49,103	35,059	340,768
Land improvements	94,034	17,646	-	111,680
Vehicles	208,253	32,353	21,762	218,844
Total accumulated depreciation	<u>1,990,901</u>	<u>307,735</u>	<u>56,821</u>	<u>2,241,815</u>
Total capital assets, being depreciated, net	<u>6,873,191</u>	<u>435,343</u>	<u>1,184</u>	<u>7,307,350</u>
Governmental activities capital assets, net	<u><u>\$7,173,859</u></u>	<u><u>\$ 480,343</u></u>	<u><u>\$ 19,103</u></u>	<u><u>\$7,635,099</u></u>

C. Capital Assets - Continued

Depreciation expense was charged to business-type activities as follows:

Business-type activities:	
Water	\$ 34,619
Sewer	<u>43,877</u>
Total depreciation expense - business-type activities	<u><u>\$ 78,496</u></u>

	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, not being depreciated				
Land	<u>\$ 12,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,000</u>
Capital assets, being depreciated				
Distribution plant	2,421,542	15,363	7,005	2,429,900
Equipment	<u>548,338</u>	<u>-</u>	<u>45,527</u>	<u>502,811</u>
Total capital assets, being depreciated	<u>2,969,880</u>	<u>15,363</u>	<u>52,532</u>	<u>2,932,711</u>
Less accumulated depreciation for:				
Distribution plant	891,934	54,608	7,005	939,537
Equipment	<u>289,183</u>	<u>23,888</u>	<u>45,527</u>	<u>267,544</u>
Total accumulated depreciation	<u>1,181,117</u>	<u>78,496</u>	<u>52,532</u>	<u>1,207,081</u>
Total capital assets, being depreciated, net	<u>1,788,763</u>	<u>(63,133)</u>	<u>-</u>	<u>1,725,630</u>
Business-type activities capital assets, net	<u><u>\$ 1,800,763</u></u>	<u><u>\$ (63,133)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,737,630</u></u>

D. Long-Term Debt

General Obligation Bonds: The City issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
G.O. Refunding bonds of 2004 of \$345,000. Due in annual installments of \$50,000 through February 1, 2013	3.75% to 4.00%	\$ 50,000
G.O. Improvement bonds of 2007 of \$50,000. Due in annual installments of \$5,000 through February 1, 2018	4.00% to 4.20%	30,000
G.O. Capital Improvement Plan Bonds of 2008 of \$2,500,000. Due in annual installments of \$90,000 to \$185,000 through February 1, 2029	3.50% to 4.90%	2,265,000
Minnesota Public Facilities Authority G.O. Improvement Note of 2010 of \$543,454. Due in annual installments of \$23,198 to \$31,000 through August 20, 2030	1.643%	492,198
G.O. Bonds of 2010A of \$955,000. Due in annual installments of \$15,000 to \$70,000 through February 20, 2031	2.00% to 4.10%	940,000
		<u>\$ 3,777,198</u>

Revenue Bonds: The City issued general obligation revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. Revenue Bonds currently outstanding are as follows.

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
G.O. Water Revenue bonds of 2007 of \$395,000. Due in annual installments of \$40,000 to \$55,000 through February 1, 2018	4.00% to 4.20%	<u>\$ 260,000</u>

D. Long-Term Debt - Continued

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 208,198	\$ 145,693	\$ 40,000	\$ 9,915
2014	164,000	138,908	40,000	8,295
2015	170,000	133,704	40,000	6,655
2016	175,000	127,857	45,000	4,912
2017	180,000	121,470	45,000	3,045
2018-2022	979,000	499,608	50,000	1,050
2023-2027	1,184,000	281,418	-	-
2028-2032	717,000	42,854	-	-
Total	\$ 3,777,198	\$ 1,491,512	\$ 260,000	\$ 33,872

Changes in Long-Term Liabilities. During the year ended December 31, 2012, the following changes occurred in long-term debt:

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities:					
Debt Payable:					
General obligation bonds	\$ 3,941,563	\$ 40,635	\$ 205,000	\$ 3,777,198	\$ 208,198
Compensated absences	6,593	-	1,357	5,236	-
Governmental activity Long-term liabilities	<u>\$ 3,948,156</u>	<u>\$ 40,635</u>	<u>\$ 206,357</u>	<u>\$ 3,782,434</u>	<u>\$ 208,198</u>
Refunding Bonds Included in Governmental Activities	<u>\$ 95,000</u>	<u>\$ -</u>	<u>\$ 45,000</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>
Business-Type Activities:					
Revenue bonds	\$ 295,000	\$ -	\$ 35,000	\$ 260,000	\$ 40,000
Compensated absences	3,618	-	143	3,475	-
Business-type activity Long-term liabilities	<u>\$ 298,618</u>	<u>\$ -</u>	<u>\$ 35,143</u>	<u>\$ 263,475</u>	<u>\$ 40,000</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$4,181,793. The computed legal debt margin as of December 31, 2012, equals \$4,181,793.

E. Inter-fund Transfers

Inter-fund transfers for the year ended December 31, 2012, consisted of the following:

<u>Transferred From</u>	<u>Transferred To</u>		
	General Fund	Other Governmental Funds	Total
Enterprise fund - water	\$ -	\$ 50,000	\$ 50,000
Enterprise fund - sewer	-	50,000	50,000
Other governmental funds	23,058	-	23,058
Total	\$ 23,058	\$ 100,000	\$ 123,058

Purpose for Inter-Fund Transfers:

The water and sewer funds each transferred \$50,000 to the 2008 Debt Service Fund to pay principal and interest on debt.

The 2004 G.O. Improvement Greenfield Overlay fund transferred its remaining fund balance to the General Fund to close the fund.

F. Fund Balances

Balances in Assigned Fund Balances as of December 31, 2012:

	<u>General Fund</u>
Assigned for general government	\$ 228,643
Assigned for street (CRP)	170,895
Assigned for police (CRP)	82,691
Assigned for fire (CRP)	410,739
Assigned for fire equipment	15,659
Assigned for park	26,251
Assigned for trails	48,129
Assigned for sidewalks	20,000
Total	\$ 1,003,007

Balances in Restricted Fund Balances as of December 31, 2012:

Restricted for 2010 Debt Service	\$ 100,517
Restricted for Debt Service	53,254
Restricted for Special Revenue	77,342
Total	\$ 231,113

Restricted special revenue funds are comprised of the following balances: EDA - \$15,776; EDA Revolving - \$47,134; Tax Increment Financing District 1-2 - \$12,491; and Small Cities - \$1,941.

Note 4 - Pension Plans

A. Public Employees Retirement Association

1. Plan Description

All full-time and certain part-time employees of the City of Eagle 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 State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service.

For all PEPFF members and for 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 the 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.

1. Plan Description - Continued

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

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by State Statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary. The City of Eagle Lake is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 7.25% for Coordinated Plan members, and 14.40% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010, were \$16,904, \$16,648, and \$16,261, respectively. The City's contributions to the Public Police and Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$17,106, \$17,823, and \$18,044, respectively. The City's contributions were equal to the contractually required contributions for each year as set by State Statute.

B. Fire Relief Association

1. Plan Description

All volunteer fire fighters of the City of Eagle Lake are covered by a single-employer pension plan administered by the Eagle Lake Fire Department Relief Association (ELFDRA). All members must participate in the pension plan. Bylaws of the ELFDRA are the authority under which benefit provisions are established. Minnesota Statute Ch. 69 authorizes pension benefits for fire relief associations. A member of the association who has completed 20 years or more of service on the fire department will, after age 50 at retirement, be entitled to the sum of \$1,700 for each year that he served as an active member of the Eagle Lake Fire Department. A member of the association who has completed 10 years of service on the fire department will, after age 50 at retirement, be entitled to 60% of the amount per year of service which would have been earned, had the member served for 20 years. For active duty of more than 11 years, but less than 20 years, 4% of the amount per year of service which would have been earned, had the member served for 20 years or more, is added to all years of service for each additional year of service between 11 and 20 years.

ELFDRA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. That report may be obtained by contacting the City of Eagle Lake.

2. Pension Benefit Obligation

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, estimated to be payable in the future as a result of member service to date. The measure, which is the present value of credited projected benefits, is intended to help users assess ELFDRA’s funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

The pension benefit obligation as of December 31, 2012, is shown below:

	<u>ELFDRA</u>
Pension Benefit Obligation:	
Current benefit obligation	\$ 238,207
Early vested pensions	88,920
Total Pension Benefit Obligation	<u>327,127</u>
Net Assets Available for Benefits, at Market	<u>296,965</u>
Pension Benefit Obligation in Excess of Assets	<u>\$ 30,162</u>

3. Contributions Required and Contributions Made

Financial requirements of the relief association are determined at \$1,700 per year of service for all members based on their years as active fire department members. Normal cost is funded on a current basis. The City’s minimum obligation is the financial requirement for the year less anticipated contributions and state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The contribution requirement is not actuarially determined. Total required contributions to the relief association in 2012 amounted to \$12,194 from the City and \$31,773 from the State of Minnesota. The contributed amounts were determined as described above and were based on funding assumptions, benefit provision, and other significant factors used to determine pension contribution requirements in previous years.

4. Three-Year Historical Trend Information

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net Pension Benefit Obligation	\$99,585	\$73,680	\$30,162
Annual Pension Cost	0	0	0
Percentage of Annual Pension Cost	N/A	N/A	N/A

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. In accordance with Section C50 of the 1995 “Codification of Governmental Accounting and Financial Reporting Standards” of the Governmental Accounting Standards Board, the City accounts for and reports risk management activities in the General Fund within the constraints of the modified accrual basis of accounting.

The City has joined together with other governmental entities in the State of Minnesota in the League of Minnesota Cities Insurance Trust Group Self-Insured Workers’ Compensation Plan, a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to this plan for its workers’ compensation coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of this plan believe assessment to participating Cities for future losses sustained is extremely remote.

The City has joined together with other governmental entities in the State of Minnesota in the League of Minnesota Cities Insurance Trust Group Self-Insured General Property and Casualty Insurance Plan, a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to this plan for its general liability and property coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of this plan believe assessment to participating Cities for future losses sustained is extremely remote.

The City is self-insured for unemployment compensation. The State of Minnesota allows Cities to levy local taxpayers for estimated future unemployment claims. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingencies

The City participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant.

C. Subsequent Events

Subsequent to year end the City issued General Obligation Improvement and Refunding Bonds, Series 2013A in the amount of \$1,895,000 for the refunding of the General Obligation CIP Bonds of 2008A. The City estimates its present value savings on the bond issue to be approximately \$143,000.



Required Supplementary Information
December 31, 2012

City of Eagle Lake

City of Eagle Lake

Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – General Fund
Year Ended December 31, 2012

	Original	Final	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes:				
Property	\$ 299,355	\$ 299,355	\$ 322,522	\$ 23,167
Franchise tax	11,000	11,000	20,150	9,150
Special assessments	-	-	31,037	31,037
Licenses and permits	42,600	42,600	49,992	7,392
Intergovernmental revenue				
Local government aid	480,947	480,947	525,665	44,718
Other state aids and grants	-	-	8,446	8,446
Charges for services				
General government	2,800	2,800	30,616	27,816
Police and fire contracts	67,000	67,000	75,537	8,537
Garbage and recycling	158,523	158,523	181,087	22,564
Fines and forfeits	11,000	11,000	10,506	(494)
Interest earnings	2,000	2,000	5,460	3,460
Refunds and reimbursements	5,000	5,000	22,440	17,440
Miscellaneous revenue	50	50	42,039	41,989
Total revenues	<u>1,080,275</u>	<u>1,080,275</u>	<u>1,325,497</u>	<u>245,222</u>
Expenditures:				
General government				
Mayor and council	20,016	20,016	16,307	3,709
Administration and finance	110,739	110,739	110,328	411
Other general government	190,691	190,691	183,339	7,352
Capital outlay	54,719	54,719	16,821	37,898
Public safety				
Police				
Current expenditures	174,370	174,370	173,581	789
Capital outlay	20,000	20,000	65,678	(45,678)
Fire				
Current expenditures	84,461	84,461	253,838	(169,377)
Capital outlay	91,273	91,273	208,025	(116,752)
Other protection	3,625	3,625	2,438	1,187
Streets and highways				
Street maintenance	105,518	105,518	86,736	18,782
Street lighting	36,481	36,481	35,189	1,292
Street construction - capital outlay	29,400	29,400	233,266	(203,866)
Sanitation				
Garbage and other refuse collection	116,165	116,165	125,533	(9,368)
Culture and recreation				
Parks and recreation - current expenditures	70,384	70,384	56,152	14,232
Parks and recreation - capital outlay	4,000	4,000	19,365	(15,365)
Total expenditures	<u>1,111,842</u>	<u>1,111,842</u>	<u>1,586,596</u>	<u>(474,754)</u>

City of Eagle Lake
Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual –
General Fund (Continued)
Year Ended December 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Deficiency of revenues under expenditures	(31,567)	(31,567)	(261,099)	(229,532)
Other Financing Sources				
Transfers in	<u>-</u>	<u>-</u>	<u>23,058</u>	<u>23,058</u>
Net Change in Fund Balance	(31,567)	(31,567)	(238,041)	(206,474)
Fund Balance at Beginning of Year	<u>1,455,252</u>	<u>1,455,252</u>	<u>1,455,252</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,423,685</u>	<u>\$ 1,423,685</u>	<u>\$ 1,217,211</u>	<u>\$ (206,474)</u>

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2012, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the government's manager so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The government's council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the government's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2012, expenditures exceeded appropriations in the General Fund by \$474,754. This over expenditure was funded by greater than anticipated revenues and available fund balance.

City of Eagle Lake
Combining Balance Sheet – Nonmajor Governmental Funds
December 31, 2012

	Special Revenue Funds					
	EDA	EDA Revolving	Tax Increment District 1-1	Tax Increment District 1-2	Small Cities	Total Special Revenue Funds
Assets						
Cash and cash equivalents	\$ 15,637	\$ 47,134	\$ -	\$ 50,625	\$ 1,941	\$ 115,337
Receivables						
Notes	-	23,659	-	-	-	23,659
Taxes	611	-	-	-	-	611
	<u>611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>611</u>
Total assets	<u>\$ 16,248</u>	<u>\$ 70,793</u>	<u>\$ -</u>	<u>\$ 50,625</u>	<u>\$ 1,941</u>	<u>\$ 139,607</u>
Liabilities and Fund Balances						
Liabilities						
Checks in excess of deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	-	38,134	-	38,134
Due to other governments	-	23,659	-	-	-	23,659
Total liabilities	<u>-</u>	<u>23,659</u>	<u>-</u>	<u>38,134</u>	<u>-</u>	<u>61,793</u>
Deferred Inflows from Resources						
Unavailable revenue	<u>472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>472</u>
Fund balances						
Restricted	<u>15,776</u>	<u>47,134</u>	<u>-</u>	<u>12,491</u>	<u>1,941</u>	<u>77,342</u>
Total Liabilities, Deferred Inflows from Resources, and Fund Balances	<u>\$ 16,248</u>	<u>\$ 70,793</u>	<u>\$ -</u>	<u>\$ 50,625</u>	<u>\$ 1,941</u>	<u>\$ 139,607</u>

City of Eagle Lake
Combining Balance Sheet – Nonmajor Governmental Funds - Continued
December 31, 2012

	Debt Service Funds				Total Debt Service Funds	Total Nonmajor Governmental Funds
	1995 G.O. Storm Sewer	2004 G.O. Improvement Greenfield Overlay	2008 Debt Service	Cate Street		
Assets						
Cash and cash equivalents	\$ -	\$ -	\$ 24,123	\$ 28,230	\$ 52,353	\$ 167,690
Receivables						
Notes	-	-	-	-	-	23,659
Taxes	389	-	860	41	1,290	1,901
Total assets	<u>\$ 389</u>	<u>\$ -</u>	<u>\$ 24,983</u>	<u>\$ 28,271</u>	<u>\$ 53,643</u>	<u>\$ 193,250</u>
Liabilities and Fund Balances						
Liabilities						
Checks in excess of cash on deposit	\$ 18,346	\$ -	\$ -	\$ -	\$ 18,346	\$ 18,346
Accounts payable	-	-	-	-	-	38,134
Due to other governments	-	-	-	-	-	23,659
Total liabilities	<u>18,346</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,346</u>	<u>80,139</u>
Deferred Inflows from Resources						
Unavailable revenue	-	-	-	-	-	472
Fund balances						
Restricted	-	-	24,983	28,271	53,254	130,596
Unassigned	(17,957)	-	-	-	(17,957)	(17,957)
Total fund balances	<u>(17,957)</u>	<u>-</u>	<u>24,983</u>	<u>28,271</u>	<u>35,297</u>	<u>112,639</u>
Total Liabilities, Deferred Inflows from Resources, and Fund Balances	<u>\$ 389</u>	<u>\$ -</u>	<u>\$ 24,983</u>	<u>\$ 28,271</u>	<u>\$ 53,643</u>	<u>\$ 193,250</u>

City of Eagle Lake
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor
Governmental Funds
Year Ended December 31, 2012

	Special Revenue Funds					Total Special Revenue
	EDA	EDA Revolving	Tax Increment District 1-1	Tax Increment District 1-2	Small Cities	
Revenues						
Property taxes	\$ 16,523	\$ -	\$ -	\$ 80,281	\$ -	\$ 96,804
Investment Earnings	49	72	-	-	-	121
Miscellaneous	-	5,511	561	-	-	6,072
Total revenues	<u>16,572</u>	<u>5,583</u>	<u>561</u>	<u>80,281</u>	<u>-</u>	<u>102,997</u>
Expenditures	<u>50,223</u>	<u>5,511</u>	<u>10,689</u>	<u>77,327</u>	<u>-</u>	<u>143,750</u>
Net change in fund balance	<u>(33,651)</u>	<u>72</u>	<u>(10,128)</u>	<u>2,954</u>	<u>-</u>	<u>(40,753)</u>
Fund Balance at Beginning of Year	<u>49,427</u>	<u>47,062</u>	<u>10,128</u>	<u>9,537</u>	<u>1,941</u>	<u>118,095</u>
Fund Balance at End of Year	<u><u>\$ 15,776</u></u>	<u><u>\$ 47,134</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,491</u></u>	<u><u>\$ 1,941</u></u>	<u><u>\$ 77,342</u></u>

City of Eagle Lake
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor
Governmental Funds - Continued
Year Ended December 31, 2012

	Debt Service Funds				Total Debt Service
	1995 G.O. Storm Sewer	2004 G.O. Improvement Greenfield Overlay	2008 Debt Service	Cate Street	
Revenues					
Property taxes	\$ 45,693	\$ 14,306	\$ 101,003	\$ 4,724	\$ 165,726
Special assessments	-	3,307	-	3,405	6,712
Total revenues	<u>45,693</u>	<u>17,613</u>	<u>101,003</u>	<u>8,129</u>	<u>172,438</u>
Expenditures					
Debt Service					
Principal	45,000	25,000	90,000	5,000	165,000
Interest and other charges	4,119	538	104,190	1,335	110,182
Total expenditures	<u>49,119</u>	<u>25,538</u>	<u>194,190</u>	<u>6,335</u>	<u>275,182</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,426)</u>	<u>(7,925)</u>	<u>(93,187)</u>	<u>1,794</u>	<u>(102,744)</u>
Other Financing (Uses):					
Transfers in	-	-	100,000	-	100,000
Transfers out	-	(23,058)	-	-	(23,058)
Total other financing sources (uses)	<u>-</u>	<u>(23,058)</u>	<u>100,000</u>	<u>-</u>	<u>76,942</u>
Net Change in Fund Balances	(3,426)	(30,983)	6,813	1,794	(25,802)
Fund Balance at Beginning of Year	<u>(14,531)</u>	<u>30,983</u>	<u>18,170</u>	<u>26,477</u>	<u>61,099</u>
Fund Balance at End of Year	<u>\$ (17,957)</u>	<u>\$ -</u>	<u>\$ 24,983</u>	<u>\$ 28,271</u>	<u>\$ 35,297</u>

City of Eagle Lake
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Major and Nonmajor
Governmental Funds - Continued
Year Ended December 31, 2012

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Property	\$ 262,530	\$ 397,070	\$ 659,600
Franchise	-	20,150	20,150
Special assessments	6,712	72,386	79,098
Licenses and Permits	-	49,992	49,992
Intergovernmental Revenue:			
Local government aid	-	480,947	480,947
PERA aid	-	826	826
State police aid	-	12,945	12,945
State fire aid	-	31,773	31,773
Other state grants and aids	-	7,620	7,620
Charges for Services:			
Police and fire contracts	-	75,537	75,537
Garbage and recycling	-	181,087	181,087
Parks and recreation	-	824	824
Other service charges	-	29,792	29,792
Fines and Forfeits	-	10,506	10,506
Investment Earnings	121	5,460	5,581
Miscellaneous	6,072	67,729	73,801
Total revenues	<u>275,435</u>	<u>1,444,644</u>	<u>1,720,079</u>

City of Eagle Lake
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Major and Nonmajor
Governmental Funds - Continued
Year Ended December 31, 2012

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Expenditures			
General Government			
Mayor and council	-	16,307	16,307
Administration and finance	-	110,328	110,328
Other general government	-	183,339	183,339
Capital outlay	-	16,821	16,821
Public Safety			
Police - current expenditures	-	173,581	173,581
Police - capital outlay	-	65,678	65,678
Fire - current expenditures	-	253,838	253,838
Fire - capital outlay	-	208,025	208,025
Other protection	-	2,438	2,438
Streets and Highways			
Street maintenance	-	86,736	86,736
Street lighting	-	35,189	35,189
Street construction - capital outlay	-	233,266	233,266
Sanitation			
Garbage and other refuse collection	-	125,533	125,533
Culture and Recreation			
Parks & Recreation - current expenditures	-	56,152	56,152
Parks & Recreation - capital outlay	-	19,365	19,365
Economic Development	143,750	-	143,750
Debt Service			
Principal	165,000	40,000	205,000
Interest and other charges	110,182	84,996	195,178
Total expenditures	<u>418,932</u>	<u>1,711,592</u>	<u>2,130,524</u>
Deficiency of revenues under expenditures	<u>(143,497)</u>	<u>(266,948)</u>	<u>(410,445)</u>
Other Financing Sources (Uses)			
Bond proceeds	-	40,635	40,635
Transfers in	100,000	23,058	123,058
Transfers out	(23,058)	-	(23,058)
Total Other Financing Sources (Uses)	<u>76,942</u>	<u>63,693</u>	<u>140,635</u>
Net Change in Fund Balances	(66,555)	(203,255)	(269,810)
Fund Balance - Beginning of Year	<u>179,194</u>	<u>1,520,983</u>	<u>1,700,177</u>
Fund Balance - End of Year	<u>\$ 112,639</u>	<u>\$ 1,317,728</u>	<u>\$ 1,430,367</u>



Independent Auditor's Report on Minnesota Legal Compliance

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eagle Lake, as of and for the year ended December 31, 2012, and have issued our report thereon dated May 2, 2013.

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

The Minnesota Legal Compliance Audit Guide for Political Subdivisions covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicated that for the items tested, the City of Eagle Lake complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the City of Eagle Lake and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota
May 2, 2013