



Financial Statements
December 31, 2010

City of Eagle Lake

INTRODUCTORY SECTION

Officials..... I

FINANCIAL SECTION

Independent Auditor’s Report..... II

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets 1
Statement of Activities..... 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets 4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 6
Statement of Net Assets – Proprietary Funds 7
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds..... 8
Statement of Cash Flows - Proprietary Funds..... 9
Notes to Financial Statements..... 10

Required Supplementary Information:

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – General Fund..... 28
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – EDA Revolving Fund..... 29
Notes to the Required Supplementary Information 30

Supplemental Schedules and Related Information:

Combining Balance Sheet – Nonmajor Governmental Funds 31
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Major and Nonmajor
Governmental Funds 34

MINNESOTA COMPLIANCE SECTION

Independent Auditor’s Report on Minnesota Legal Compliance 43

AUDIT OF FEDERAL AWARDS SECTION

Schedule of Expenditures of Federal Awards 44
Notes to Schedule of Expenditures of Federal Awards 45

Additional Reports and Schedule

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* 46
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and
Internal Control over Compliance in Accordance with OMB Circular A-133 48
Summary of Audit Results, Findings and Questioned Costs 50

CITY COUNCIL

Tim Auringer	Mayor
Aaron Hager	Council-member
Scot Quist	Council-member
Tina Marie	Council-member
John Ries	Council-member

ADMINISTRATION

Sack Thongvanh	City Administrator
Rick Reinbold	Public Works Director
Phillip Wills	Police Chief
Tim Rock	Fire Chief



Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eagle Lake, Eagle Lake, Minnesota (the City) as of and for the year ended December 31, 2010, which collectively comprise the City of Eagle Lake's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Eagle Lake's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2011 on our considerations of the City's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 28 and 29 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 accounting principles generally accepted in the United States of America requires 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 considers 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. 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
April 29, 2011

City of Eagle Lake
Statement of Net Assets
December 31, 2010

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 1,731,756	\$ 995,002	\$ 2,726,758
Receivables:			
Taxes	41,134	-	41,134
Special assessments	102,453	26,057	128,510
Accounts	4,131	56,904	61,035
Interest	163	-	163
Notes	32,417	-	32,417
Due from other governments	-	34,305	34,305
Prepaid items	16,611	11,213	27,824
Deferred charges	83,812	13,799	97,611
Capital assets:			
Land	1,604,612	12,000	1,616,612
Distribution and collection systems	-	1,715,497	1,715,497
Buildings and equipment	7,145,172	1,254,383	8,399,555
Less accumulated depreciation	(1,727,388)	(1,102,365)	(2,829,753)
Total assets	<u>9,034,873</u>	<u>3,016,795</u>	<u>12,051,668</u>
Liabilities			
Accounts payable	81,969	410	82,379
Due to other governments	32,417	-	32,417
Interest payable	61,445	5,582	67,027
Unearned revenue	-	7,854	7,854
Compensated absences	-	2,738	2,738
Long-term liabilities:			
Due within one year	186,256	35,000	221,256
Due in more than one year	3,947,282	295,000	4,242,282
Total liabilities	<u>4,309,369</u>	<u>346,584</u>	<u>4,655,953</u>
Net Assets			
Invested in capital assets, net of related debt	2,894,577	1,549,515	4,444,092
Restricted for:			
Debt service	87,692	-	87,692
Capital projects	63,232	-	63,232
Other purposes	96,872	-	96,872
Unrestricted	1,583,131	1,120,696	2,703,827
Total Net Assets	<u>\$ 4,725,504</u>	<u>\$ 2,670,211</u>	<u>\$ 7,395,715</u>

City of Eagle Lake
Statement of Activities
Year Ended December 31, 2010

Functions/Programs	Full Accrual Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Totals December 31, 2010
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Business-type Activities	
PRIMARY GOVERNMENT							
Governmental Activities							
General government	\$ 345,409	\$ 19,288	\$ -	\$ -	\$ (326,121)	\$ -	\$ (326,121)
Public safety	332,756	62,819	10,000	-	(259,937)	-	(259,937)
Streets and highways	286,581	-	-	-	(286,581)	-	(286,581)
Sanitation	116,086	131,449	-	-	15,363	-	15,363
Culture and recreation	63,246	5,536	768	-	(56,942)	-	(56,942)
Economic development	271,575	-	-	-	(271,575)	-	(271,575)
Interest and other charges on long-term debt	133,740	-	-	-	(133,740)	-	(133,740)
Total governmental activities	<u>1,549,393</u>	<u>219,092</u>	<u>10,768</u>	<u>-</u>	<u>(1,319,533)</u>	<u>-</u>	<u>(1,319,533)</u>
Business-Type Activities							
Water	180,312	245,610	-	-	-	65,298	65,298
Sewer	269,327	363,751	-	-	-	94,424	94,424
Total business-type activities	<u>449,639</u>	<u>609,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,722</u>	<u>159,722</u>
Total primary government	<u>\$ 1,999,032</u>	<u>\$ 828,453</u>	<u>\$ 10,768</u>	<u>\$ -</u>	<u>(1,319,533)</u>	<u>159,722</u>	<u>(1,159,811)</u>
GENERAL REVENUES							
					556,248	-	556,248
					643,243	-	643,243
					96,100	-	96,100
					4,413	3,736	8,149
					2,255	-	2,255
					100,000	(100,000)	-
					14,957	-	14,957
					70,138	-	70,138
					57,371	33,211	90,582
					<u>1,544,725</u>	<u>(63,053)</u>	<u>1,481,672</u>
					225,192	96,669	321,861
					<u>4,500,312</u>	<u>2,573,542</u>	<u>7,073,854</u>
					<u>\$ 4,725,504</u>	<u>\$ 2,670,211</u>	<u>\$ 7,395,715</u>

City of Eagle Lake
Balance Sheet – Governmental Funds
December 31, 2010

	General Fund	EDA Revolving	North Second Street	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,382,290	\$ 43,380	\$ 91,447	\$ 214,639	\$ 1,731,756
Receivables:					
Taxes	39,787	-	-	1,347	41,134
Special assessments	89,334	-	-	13,119	102,453
Accounts	4,131	-	-	-	4,131
Interest	163	-	-	-	163
Notes	-	32,417	-	-	32,417
Prepaid items	16,611	-	-	-	16,611
Total assets	<u>\$ 1,532,316</u>	<u>\$ 75,797</u>	<u>\$ 91,447</u>	<u>\$ 229,105</u>	<u>\$ 1,928,665</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 15,510	\$ -	\$ 41,770	\$ 24,689	\$ 81,969
Due to other governments	-	32,417	-	-	32,417
Deferred revenue	125,584	-	-	13,934	139,518
Total liabilities	<u>141,094</u>	<u>32,417</u>	<u>41,770</u>	<u>38,623</u>	<u>253,904</u>
Fund Balances					
Reserved for prepaid items	16,611	-	-	-	16,611
Unreserved	-	43,380	49,677	-	93,057
Unreserved - designated	1,374,611	-	-	-	1,374,611
Unreserved reported in nonmajor:					
Special revenue funds	-	-	-	52,677	52,677
Debt service funds	-	-	-	74,573	74,573
Capital projects funds	-	-	-	63,232	63,232
Total fund balances	<u>1,391,222</u>	<u>43,380</u>	<u>49,677</u>	<u>190,482</u>	<u>1,674,761</u>
Total Liabilities and Fund Balances	<u><u>\$ 1,532,316</u></u>	<u><u>\$ 75,797</u></u>	<u><u>\$ 91,447</u></u>	<u><u>\$ 229,105</u></u>	<u><u>\$ 1,928,665</u></u>

City of Eagle Lake
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
 December 31, 2010

Total Fund Balances for Governmental Funds:	\$ 1,674,761
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$8,749,784 and the accumulated depreciation is \$1,727,388.	7,022,396
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 revenue in the funds.	139,518
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 \$61,445.	(61,445)
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 assets. Balance at year-end is:	
Bonds payable	(4,127,819)
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 \$5,719.	(5,719)
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 \$18,210.	<u>83,812</u>
Total Net Assets for Governmental Activities	<u><u>\$ 4,725,504</u></u>

City of Eagle Lake

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended December 31, 2010

	General Fund	EDA Revolving	North Second Street	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 288,858	\$ -	\$ -	\$ 249,422	\$ 538,280
Franchise taxes	17,968	-	-	-	17,968
Special assessments	82,126	-	-	13,974	96,100
Fines and forfeits	14,957	-	-	-	14,957
Licenses and permits	70,138	-	-	-	70,138
Intergovernmental	530,774	-	-	123,237	654,011
Charges for services	219,092	-	-	-	219,092
Interest earnings	4,174	146	-	93	4,413
Miscellaneous	27,436	29,868	67	-	57,371
Total revenue	<u>1,255,523</u>	<u>30,014</u>	<u>67</u>	<u>386,726</u>	<u>1,672,330</u>
Expenditures					
Current:					
General government	271,928	-	-	-	271,928
Public safety	329,545	-	-	-	329,545
Streets and highways	127,644	-	1,053,351	291,626	1,472,621
Sanitation	116,086	-	-	-	116,086
Culture and recreation	41,343	-	-	-	41,343
Economic development	-	29,867	-	241,708	271,575
Debt Services:					
Principal	-	-	-	125,000	125,000
Interest and other charges	-	-	-	120,128	120,128
Total expenditures	<u>886,546</u>	<u>29,867</u>	<u>1,053,351</u>	<u>778,462</u>	<u>2,748,226</u>
Excess (deficiency) of revenues over expenditures	<u>368,977</u>	<u>147</u>	<u>(1,053,284)</u>	<u>(391,736)</u>	<u>(1,075,896)</u>
Other Financing Sources (Uses)					
Sale of equipment	2,255	-	-	-	2,255
Bonds issued	-	-	1,102,961	354,858	1,457,819
Transfers in	-	-	-	123,163	123,163
Transfers out	(23,163)	-	-	-	(23,163)
Total other financing sources (uses)	<u>(20,908)</u>	<u>-</u>	<u>1,102,961</u>	<u>478,021</u>	<u>1,560,074</u>
Net change in fund balances	348,069	147	49,677	86,285	484,178
Fund Balances - Beginning of Year	<u>1,043,153</u>	<u>43,233</u>	<u>-</u>	<u>104,197</u>	<u>1,190,583</u>
Fund Balances - End of Year	<u>\$ 1,391,222</u>	<u>\$ 43,380</u>	<u>\$ 49,677</u>	<u>\$ 190,482</u>	<u>\$ 1,674,761</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, 2010

Total Net Change in Fund Balances - Governmental Funds	\$	484,178
Amounts reported for governmental activities in the statement of activities are different because:		
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 decreased by \$42,474, delinquent property taxes increased by \$16,605 and accounts receivable decreased by \$8,875.		(34,744)
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 \$1,368,231 exceeds depreciation \$260,951 in the current period.		1,107,280
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 \$16,215.		16,215
The governmental funds report the issuance of debt as revenue. In the statement of net assets, however, issuance of debt increases the liability.		(1,457,819)
The governmental funds report repayment of bond principal as expenditures. In the statement of net assets, however, repayment of principal reduces the liability.		125,000
The governmental funds report compensated absence costs as expenditures when paid, (\$0 paid in current year) on the other hand, the statement of activities reports compensated absence costs as expenditures as the employees earn the compensated absences, (\$1,306) earned in current year. In the statement of net assets, the payment of compensated absences results in a reduction of the liability. This amount is the net effect of these differences.		(1,306)
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 \$61,445 and \$47,833 of accrued interest at December 31, 2010 and 2009, respectively.		(13,612)
Change in Net Assets of Governmental Activities	\$	<u>225,192</u>

City of Eagle Lake
Statement of Net Assets – Proprietary Funds
December 31, 2010

	Water	Sanitary Sewer	Enterprise Fund Total
Assets			
Cash and cash equivalents	\$ 573,110	\$ 421,892	\$ 995,002
Receivables:			
Accounts	23,732	33,172	56,904
Special assessments	-	26,057	26,057
Due from other governments	-	34,305	34,305
Deferred charges	13,799	-	13,799
Prepaid items	5,954	5,259	11,213
Total current assets	<u>616,595</u>	<u>520,685</u>	<u>1,137,280</u>
Noncurrent assets:			
Capital assets			
Land	6,000	6,000	12,000
Distribution and collection systems	438,567	1,276,930	1,715,497
Buildings and equipment	718,643	535,740	1,254,383
Less accumulated depreciation	(405,478)	(696,887)	(1,102,365)
Total noncurrent assets	<u>757,732</u>	<u>1,121,783</u>	<u>1,879,515</u>
Total assets	<u>1,374,327</u>	<u>1,642,468</u>	<u>3,016,795</u>
Liabilities			
Current liabilities:			
Current portion of bonds payable	35,000	-	35,000
Accounts payable	304	106	410
Interest payable	5,582	-	5,582
Unearned revenue	-	7,854	7,854
Total current liabilities	<u>40,886</u>	<u>7,960</u>	<u>48,846</u>
Non-current liabilities:			
Compensated absences	1,369	1,369	2,738
Bonds payable, less current portion	295,000	-	295,000
Total liabilities	<u>337,255</u>	<u>9,329</u>	<u>346,584</u>
Net Assets			
Invested in capital assets, net of related debt	427,732	1,121,783	1,549,515
Unrestricted	609,340	511,356	1,120,696
Total Net Assets	<u>\$ 1,037,072</u>	<u>\$ 1,633,139</u>	<u>\$ 2,670,211</u>

City of Eagle Lake
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds
Year Ended December 31, 2010

	Water	Sanitary Sewer	Enterprise Fund Total
Operating Revenues			
Utility sales	\$ 245,610	\$ 361,746	\$ 607,356
Special assessments	-	2,005	2,005
Total operating revenues	<u>245,610</u>	<u>363,751</u>	<u>609,361</u>
Operating Expenses			
Distribution system	126,672	227,091	353,763
General and administrative	477	-	477
Depreciation	37,804	42,236	80,040
Amortization	1,725	-	1,725
Total operating expenses	<u>166,678</u>	<u>269,327</u>	<u>436,005</u>
Operating income	<u>78,932</u>	<u>94,424</u>	<u>173,356</u>
Nonoperating Revenues (Expenses)			
Interest and investment revenue	2,048	1,688	3,736
Interest expense	(13,634)	-	(13,634)
Miscellaneous revenue	24,405	8,806	33,211
Total nonoperating revenues	<u>12,819</u>	<u>10,494</u>	<u>23,313</u>
Change in net assets	91,751	104,918	196,669
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(100,000)</u>
Change in net assets	41,751	54,918	96,669
Total Net Assets - Beginning of Year	<u>995,321</u>	<u>1,578,221</u>	<u>2,573,542</u>
Total Net Assets - End of Year	<u>\$ 1,037,072</u>	<u>\$ 1,633,139</u>	<u>\$ 2,670,211</u>

City of Eagle Lake
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2010

	Water	Sanitary Sewer	Enterprise Fund Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 247,526	\$ 334,761	\$ 582,287
Other receipts	24,405	8,806	33,211
Payments to employees	(41,795)	(40,927)	(82,722)
Payments to suppliers	(85,538)	(208,354)	(293,892)
Net cash provided by operating activities	<u>144,598</u>	<u>94,286</u>	<u>238,884</u>
Cash Flows from 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	(14,198)	-	(14,198)
Acquisition of property, plant and equipment	<u>(10,780)</u>	<u>(20,000)</u>	<u>(30,780)</u>
Net cash used by capital and related financing activities	<u>(59,978)</u>	<u>(20,000)</u>	<u>(79,978)</u>
Cash Flows from Investing Activity			
Earnings on investments and cash	<u>2,048</u>	<u>1,688</u>	<u>3,736</u>
Net increase in cash	36,668	25,974	62,642
Balances - Beginning of the Year	<u>536,442</u>	<u>395,918</u>	<u>932,360</u>
Balances - End of the Year	<u>\$ 573,110</u>	<u>\$ 421,892</u>	<u>\$ 995,002</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income	\$ 78,932	\$ 94,424	\$ 173,356
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	37,804	42,236	80,040
Amortization	1,725	-	1,725
Miscellaneous revenue and expenses	24,405	8,806	33,211
Decrease (increase) in assets:			
Accounts receivable	1,916	3,310	5,226
Due from other governments	-	(34,305)	(34,305)
Special assessments receivable	-	4,213	4,213
Prepaid items	424	338	762
Increase (decrease) in liabilities:			
Accounts payable	(684)	(22,604)	(23,288)
Unearned revenue	-	(2,208)	(2,208)
Compensated absences	76	76	152
Net Cash Provided by Operating Activities	<u>\$ 144,598</u>	<u>\$ 94,286</u>	<u>\$ 238,884</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 significant City accounting policies are described below.

A. Financial Reporting Entity

GASB Statement No. 14, "The Financial Reporting Entity" and GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", 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 assets 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 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. 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 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 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 *EDA revolving fund* was established from a grant from the State of Minnesota. These funds are available for economic development within the City.

The *North Second Street* fund accounts for the construction of general infrastructure assets.

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 interfund 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 recognize 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.

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

D. Assets, Liabilities, and Net Assets 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, 2010. 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. Uncollectible accounts are periodically charged to operations on a direct write-off method.

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 & Gutter	30
Sidewalks	30
Wells & Pump Houses	25
Water, Electric, Gas Meter	20
Office Equipment	10
Machinery, Equipment, Radios, Phones	10
Computer Equipment & 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 assets. 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. Fund Equity and Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, the difference between the City's assets and its liabilities is its net assets. Net assets are displayed in three components - invested in capital assets, net of related debt; restricted; and unrestricted.

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, 2010, 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 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 (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) 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, 2010, expenditures exceeded appropriations in the following funds: \$24,835 - EDA Revolving, \$7,859 - Tax Increment District 1-1, \$21,585 - Tax Increment District 1-2, and \$35,999 - 1995 G.O. Storm Sewer. The excess was eliminated by greater than anticipated revenues and available fund balance.

C. Deficit Fund Equity

The following fund has deficit fund equity at December 31, 2010:

Debt service funds:	
1995 G.O. Storm Sewer	\$ 9,521

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

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, 2010, 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 Assets. 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. Two notes are receivable in monthly installments of \$419 to \$459 and range from 60 payments to 120 payments with interest rates of 4.00% to 4.75%. The notes are secured by one or a combination of a mortgage, a second mortgage, equipment and fixtures. The current outstanding balance is \$32,417 as of December 31, 2010.

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

	Unavailable	Unearned
Special assessments not yet due (general fund)	\$ 32,246	\$ -
Delinquent special assessments (general fund)	57,088	-
Delinquent property taxes (general fund)	36,250	-
Delinquent property taxes (special revenue fund)	815	-
Special assessments not yet due (debt service fund)	11,025	-
Special assessments not yet due (sewer fund)	-	7,854
Delinquent special assessments (debt service fund)	2,094	-
Total deferred/unearned revenue for governmental funds	\$ 139,518	\$ 7,854

The only receivables not expected to be collectible within one year are the following: General Fund: \$30,729 of special assessments; Debt Service Funds: 2004 G.O. Improvement Greenfield Overlay - \$3,416 of special assessments and Cate Street - \$2,731 of special assessments; \$26,906 of notes receivable.

C. Capital Assets

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

Governmental Activities:	
General government	\$ 53,646
Public safety	49,579
Highways and streets	135,823
Culture and recreation	21,903
	<u>260,951</u>
Total depreciation expense – governmental activities	<u>\$ 260,951</u>

Capital asset activity for the year ended December 31, 2010, 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	\$ -	\$ -	\$ 282,749
Construction in progress	-	1,321,863	-	1,321,863
Total capital assets, not being depreciated	<u>282,749</u>	<u>1,321,863</u>	<u>-</u>	<u>1,604,612</u>
Capital assets, being depreciated				
Building	2,481,394	-	-	2,481,394
Road network	3,617,450	-	-	3,617,450
Equipment	497,622	23,119	-	520,741
Land improvements	170,275	-	-	170,275
Vehicles	362,572	23,249	30,509	355,312
Total capital assets, being depreciated	<u>7,129,313</u>	<u>46,368</u>	<u>30,509</u>	<u>7,145,172</u>
Less accumulated depreciation for:				
Building	114,043	84,094	-	198,137
Road network	894,398	91,001	-	985,399
Equipment	236,326	43,768	-	280,094
Land improvements	71,098	11,228	-	82,326
Vehicles	181,081	30,860	30,509	181,432
Total accumulated depreciation	<u>1,496,946</u>	<u>260,951</u>	<u>30,509</u>	<u>1,727,388</u>
Total capital assets, being depreciated, net	<u>5,632,367</u>	<u>(214,583)</u>	<u>-</u>	<u>5,417,784</u>
Governmental activities capital assets, net	<u>\$5,915,116</u>	<u>\$1,107,280</u>	<u>\$ -</u>	<u>\$7,022,396</u>

C. Capital Assets - Continued

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

Business-type activities:	
Water	\$ 37,804
Sewer	<u>42,236</u>
Total depreciation expense - business-type activities	<u><u>\$ 80,040</u></u>

	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, not being depreciated				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Capital assets, being depreciated				
Distribution plant	2,421,542	-	-	2,421,542
Equipment	517,558	30,780	-	548,338
Total capital assets, being depreciated	<u>2,939,100</u>	<u>30,780</u>	<u>-</u>	<u>2,969,880</u>
Less accumulated depreciation for:				
Distribution plant	782,718	54,608	-	837,326
Equipment	239,607	25,432	-	265,039
Total accumulated depreciation	<u>1,022,325</u>	<u>80,040</u>	<u>-</u>	<u>1,102,365</u>
Total capital assets, being depreciated, net	<u>1,916,775</u>	<u>(49,260)</u>	<u>-</u>	<u>1,867,515</u>
Business-Type activities capital assets, net	<u><u>\$ 1,928,775</u></u>	<u><u>\$ (49,260)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,879,515</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 \$30,000 to \$50,000 through February 1, 2013	2.0% to 4.0%	\$ 135,000
G.O. Improvement bonds of 2004 of \$170,000. Due in annual installments of \$20,000 to \$25,000 through February 1, 2012	4.25% to 4.3%	50,000
G.O. Improvement bonds of 2007 of \$50,000. Due in annual installments of \$5,000 to \$25,000 through February 1, 2018	3.9% to 4.2%	40,000
G.O. Capital Improvement Plan Bonds of 2008 of \$2,500,000. Due in annual installments of \$55,000 to \$185,000 through February 1, 2029	3.0% to 4.9%	2,445,000
Minnesota Public Facilities Authority Loan of 2010 of \$502,819. Due in annual installments of \$25,000 to \$33,000 through August 20, 2030	1.643%	502,819
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%	955,000
		<u>\$ 4,127,819</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 \$35,000 to \$55,000 through February 1, 2018	3.90% to 4.70%	<u>\$ 330,000</u>

E. 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
2011	\$ 186,256	\$ 153,845	\$ 35,000	\$ 12,815
2012	205,000	152,822	35,000	11,415
2013	210,000	146,248	40,000	9,915
2014	166,000	139,418	40,000	8,295
2015	171,000	134,180	40,000	6,655
2016-2020	933,000	574,152	140,000	9,008
2021-2025	1,099,000	377,013	-	-
2026-2030	1,082,563	122,539	-	-
2031-2035	75,000	1,435	-	-
Total	\$ 4,127,819	\$ 1,801,652	\$ 330,000	\$ 58,103

Changes in Long-Term Liabilities. During the year ended December 31, 2010, 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	\$ 2,795,000	\$ 1,457,819	\$ 125,000	\$ 4,127,819	\$ 186,256
Compensated absences	4,413	1,306	-	5,719	-
Governmental activity Long-term liabilities	<u>\$ 2,799,413</u>	<u>\$ 1,459,125</u>	<u>\$ 125,000</u>	<u>\$ 4,133,538</u>	<u>\$ 186,256</u>
Refunding Bonds Included in Governmental Activities	<u>\$ 175,000</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 135,000</u>	<u>\$ 40,000</u>
Business-Type Activities:					
Revenue bonds	\$ 365,000	\$ -	\$ 35,000	\$ 330,000	\$ 35,000
Compensated absences	2,586	153	-	2,739	-
Business-type activity Long-term liabilities	<u>\$ 367,586</u>	<u>\$ 153</u>	<u>\$ 35,000</u>	<u>\$ 332,739</u>	<u>\$ 35,000</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$4,598,187. The computed legal debt margin as of December 31, 2010, equals \$470,368.

F. Inter-fund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

<u>Transferred From</u>	<u>Transferred To</u>	
	Other	
	Governmental Funds	Total
General fund	\$ 23,163	\$ 23,163
Enterprise fund - water	50,000	50,000
Enterprise fund - sewer	50,000	50,000
Total	<u>\$ 123,163</u>	<u>\$ 123,163</u>

Purpose for Interfund Transfers:

The general, water and sewer funds transferred to the 2008 Debt Service Fund to pay principal and interest on debt.

G. Designated Fund Balances

Balances in Designated Fund Balances as of December 31, 2010:

	<u>General Fund</u>
Designated for general government	\$ 179,089
Designated for street (CRP)	144,576
Designated for police (CRP)	46,691
Designated for fire (CRP)	369,525
Designated for fire equipment	77,050
Designated for Park	58,916
Designated for Park land	17,608
Designated for K9	1,181
Designated for sidewalks	20,000
Designated for working capital	459,975
Total	<u>\$ 1,374,611</u>

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.

1. Plan Description - Continued

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 GERP 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 1-800-652-9026.

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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.40% of their annual covered salary in 2010. The City of Eagle Lake is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7% for Coordinated Plan members, and 14.1% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008, were \$16,261, \$15,817, and \$13,275, respectively. The City's contributions to the Public Police and Fire Fund for the years ending December 31, 2010, 2009, and 2008 were \$18,044, \$17,905, and \$16,377, 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, 2009, is shown below:

	<u>ELFDRA</u>
Pension Benefit Obligation:	
Current benefit obligation	\$ 297,330
Early vested pensions	91,102
Total Pension Benefit Obligation	<u>388,432</u>
Net Assets Available for Benefits, at Market	<u>288,847</u>
Pension Benefit Obligation in Excess of Assets	<u>\$ 99,585</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 2010 amounted to \$26,412 from the City and \$24,625 from the State. 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>2007</u>	<u>2008</u>	<u>2009</u>
Net Pension Benefit Obligation	\$6,399	\$110,258	\$99,585
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. Commitment

The City has an ongoing commitment for the construction of several projects. The total estimated project cost for the projects totaled \$1,207,328 and is funded by general obligation bonds and a PFA loan. As of December 31, 2010, the City has expended \$1,048,180.

Note 6 - Issued But Non Effective Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the City. Statement No. 54 establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. This statement will be implemented by the City for the year ending December 31, 2011. The City is in the process of reviewing the above statement. Therefore, the potential effect of this new accounting pronouncement cannot be determined at this time.



Supplementary Information
December 31, 2010

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, 2010

	Original	Final	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes:				
Property	\$ 326,878	\$ 326,878	\$ 288,858	\$ (38,020)
Franchise tax	14,000	14,000	17,968	3,968
Special assessments	2,000	2,000	82,126	80,126
Licenses and permits	32,500	32,500	70,138	37,638
Intergovernmental revenue				
Local government aid	480,947	480,947	518,809	37,862
Residential market value credit	-	-	11,139	11,139
Other state aids and grants	826	826	826	-
Charges for services				
General government	2,500	2,500	24,825	22,325
Police and fire contracts	57,350	57,350	62,819	5,469
Garbage and recycling	127,990	127,990	131,448	3,458
Fines and forfeits	14,000	14,000	14,957	957
Interest earnings	10,000	10,000	4,174	(5,826)
Refunds and reimbursements	1,000	1,000	14,881	13,881
Miscellaneous revenue	100	100	12,555	12,455
Total revenues	<u>1,070,091</u>	<u>1,070,091</u>	<u>1,255,523</u>	<u>185,432</u>
Expenditures:				
General government				
Mayor and council	19,839	19,839	16,646	3,193
Administration and finance	120,470	120,470	103,331	17,139
Other general government	183,079	183,079	151,951	31,128
Capital outlay	1,500	1,500	-	1,500
Public safety				
Police				
Current expenditures	171,773	171,773	177,379	(5,606)
Capital outlay	21,000	21,000	25,686	(4,686)
Fire				
Current expenditures	100,778	100,778	94,936	5,842
Capital outlay	56,120	56,120	29,218	26,902
Other protection	3,725	3,725	2,326	1,399
Streets and highways				
Street maintenance	105,382	105,382	91,692	13,690
Street lighting	35,000	35,000	34,468	532
Street construction - capital outlay	1,500	1,500	1,484	16
Sanitation				
Garbage and other refuse collection	108,200	108,200	116,086	(7,886)
Culture and recreation				
Parks and recreation - current expenditures	67,173	67,173	41,343	25,830
Parks and recreation - capital outlay	6,300	6,300	-	6,300
Total expenditures	<u>1,001,839</u>	<u>1,001,839</u>	<u>886,546</u>	<u>115,293</u>
Excess of Revenue over Expenditures	<u>68,252</u>	<u>68,252</u>	<u>368,977</u>	<u>300,725</u>
Other Financing Sources (Uses)				
Sale of equipment	-	-	2,255	2,255
Transfers in	3,345	3,345	-	(3,345)
Transfers out	-	-	(23,163)	(23,163)
Total Other Financing Sources (Uses)	<u>3,345</u>	<u>3,345</u>	<u>(20,908)</u>	<u>(24,253)</u>
Net Change in Fund Balance	71,597	71,597	348,069	276,472
Fund Balance at Beginning of Year	<u>1,043,153</u>	<u>1,043,153</u>	<u>1,043,153</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,114,750</u>	<u>\$ 1,114,750</u>	<u>\$ 1,391,222</u>	<u>\$ 276,472</u>

City of Eagle Lake
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual – EDA Revolving Fund
Year Ended December 31, 2010

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Interest earnings	\$ 100	\$ 100	\$ 146	\$ 46
Miscellaneous revenue	<u>7,697</u>	<u>7,697</u>	<u>29,868</u>	<u>22,171</u>
Total revenues	7,797	7,797	30,014	22,217
Expenditures:				
Economic development	<u>5,033</u>	<u>5,033</u>	<u>29,867</u>	<u>(24,834)</u>
Excess of Revenue over Expenditures	2,764	2,764	147	(2,617)
Fund Balance at Beginning of Year	<u>43,233</u>	<u>43,233</u>	<u>43,233</u>	<u>-</u>
Fund Balance at End of Year	<u><u>\$ 45,997</u></u>	<u><u>\$ 45,997</u></u>	<u><u>\$ 43,380</u></u>	<u><u>\$ (2,617)</u></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, 2010, 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 (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) 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, 2010, expenditures exceeded appropriations in the EDA Revolving Fund by \$24,835. 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, 2010

	Special Revenue Funds				
	EDA	Tax Increment District 1-1	Tax Increment District 1-2	Small Cities	Total Special Revenue Funds
Assets					
Cash and cash equivalents	\$ 41,400	\$ 17,413	\$ 5,937	\$ 1,941	\$ 66,691
Property taxes receivable	851	-	-	-	851
Total Current Assets	\$ 42,251	\$ 17,413	\$ 5,937	\$ 1,941	\$ 67,542
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	\$ 14,050	\$ -	\$ -	\$ 14,050
Deferred revenue	815	-	-	-	815
Total liabilities	815	14,050	-	-	14,865
Fund balances					
Unreserved	41,436	3,363	5,937	1,941	52,677
Total fund balances	41,436	3,363	5,937	1,941	52,677
Total Liabilities and Fund Balances	\$ 42,251	\$ 17,413	\$ 5,937	\$ 1,941	\$ 67,542

City of Eagle Lake
Combining Balance Sheet – Nonmajor Governmental Funds - Continued
December 31, 2010

	Debt Service Funds				Total Debt Service Funds
	2008 Debt Service	1995 G.O. Storm Sewer	2004 G.O. Improvement Greenfield Overlay	Cate Street	
Assets					
Cash and cash equivalents	\$ 24,559	\$ -	\$ 40,505	\$ 19,030	\$ 84,094
Receivables					
Property taxes	-	496	-	-	496
Special assessments	-	-	8,925	4,194	13,119
	<u>-</u>	<u>-</u>	<u>8,925</u>	<u>4,194</u>	<u>13,119</u>
Total Current Assets	<u>\$ 24,559</u>	<u>\$ 496</u>	<u>\$ 49,430</u>	<u>\$ 23,224</u>	<u>\$ 97,709</u>
Liabilities and Fund Balances					
Liabilities:					
Checks in excess of cash on deposit	\$ -	\$ 10,017	\$ -	\$ -	\$ 10,017
Deferred revenue	-	-	8,925	4,194	13,119
Total liabilities	<u>-</u>	<u>10,017</u>	<u>8,925</u>	<u>4,194</u>	<u>23,136</u>
Fund balances					
Unreserved	<u>24,559</u>	<u>(9,521)</u>	<u>40,505</u>	<u>19,030</u>	<u>74,573</u>
Total Liabilities and Fund Balances	<u>\$ 24,559</u>	<u>\$ 496</u>	<u>\$ 49,430</u>	<u>\$ 23,224</u>	<u>\$ 97,709</u>

City of Eagle Lake
Combining Balance Sheet – Nonmajor Governmental Funds - Continued
December 31, 2010

	Capital Project Funds				Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Eagle Heights Phase I	Eagle Heights North	Linda Drive Extension	Storm Sewer Improvements		
Assets						
Cash and cash equivalents	\$ -	\$ -	\$ 41,155	\$ 32,716	\$ 73,871	\$ 224,656
Receivables						
Property taxes	-	-	-	-	-	1,347
Special assessments	-	-	-	-	-	13,119
					-	
Total Current Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,155</u>	<u>\$ 32,716</u>	<u>\$ 73,871</u>	<u>\$ 239,122</u>
Liabilities and Fund Balances						
Liabilities:						
Checks in excess of cash on deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,017
Accounts payable	-	-	3,658	6,981	10,639	24,689
Deferred revenue	-	-	-	-	-	13,934
Total liabilities	<u>-</u>	<u>-</u>	<u>3,658</u>	<u>6,981</u>	<u>10,639</u>	<u>48,640</u>
Fund balances						
Unreserved	-	-	37,497	25,735	63,232	190,482
Total fund balances	<u>-</u>	<u>-</u>	<u>37,497</u>	<u>25,735</u>	<u>63,232</u>	<u>190,482</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,155</u>	<u>\$ 32,716</u>	<u>\$ 73,871</u>	<u>\$ 239,122</u>

City of Eagle Lake
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Major and Nonmajor
Governmental Funds
Year Ended December 31, 2010

	Special Revenue Funds				Total Special Revenue
	EDA	Tax Increment District 1-1	Tax Increment District 1-2	Small Cities	
Revenues					
Taxes:					
Property	\$ 5,903	\$ 6,973	\$ 87,278	\$ -	\$ 100,154
Franchise	-	-	-	-	-
Special Assessments	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Intergovernmental Revenue:					
Local government aid	-	-	-	-	-
Residential market value credit	-	-	-	-	-
State police aid	-	-	-	-	-
State fire aid	-	-	-	-	-
Agricultural market value credit	-	-	-	-	-
PERA aid	-	-	-	-	-
Other state grants and aids	-	-	-	123,237	123,237
Charges for Services:					
Police and fire contracts	-	-	-	-	-
Garbage and recycling	-	-	-	-	-
Parks and recreation	-	-	-	-	-
Other service charges	-	-	-	-	-
Fines and Forfeits	-	-	-	-	-
Investment Earnings	93	-	-	-	93
Miscellaneous	-	-	-	-	-
Total revenues	<u>5,996</u>	<u>6,973</u>	<u>87,278</u>	<u>123,237</u>	<u>223,484</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, 2010

	Special Revenue Funds				Total Special Revenue
	EDA	Tax Increment District 1-1	Tax Increment District 1-2	Small Cities	
Expenditures:					
General Government					
Mayor and council	-	-	-	-	-
Administration and finance	-	-	-	-	-
Other general government	-	-	-	-	-
Capital outlay	-	-	-	-	-
Public Safety					
Police - current expenditures	-	-	-	-	-
Police - capital outlay	-	-	-	-	-
Fire - current expenditures	-	-	-	-	-
Fire - capital outlay	-	-	-	-	-
Other protection	-	-	-	-	-
Other protection - capital outlay	-	-	-	-	-
Streets and Highways					
Street maintenance	-	-	-	-	-
Street lighting	-	-	-	-	-
Street construction - capital outlay	-	-	-	-	-
Sanitation					
Garbage and other refuse collection	-	-	-	-	-
Culture and Recreation					
Parks & Recreation - current expenditures	-	-	-	-	-
Parks & Recreation - capital outlay	-	-	-	-	-
Economic Development	52	14,529	83,393	143,734	241,708
Debt Service					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Total expenditures	<u>52</u>	<u>14,529</u>	<u>83,393</u>	<u>143,734</u>	<u>241,708</u>
Excess (Deficiency) of Revenues over Expenditures	<u>5,944</u>	<u>(7,556)</u>	<u>3,885</u>	<u>(20,497)</u>	<u>(18,224)</u>
Other Financing Sources (Uses):					
Capital lease proceeds	-	-	-	-	-
Bond proceeds	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	5,944	(7,556)	3,885	(20,497)	(18,224)
Fund Balance at Beginning of Year	<u>35,492</u>	<u>10,919</u>	<u>2,052</u>	<u>22,438</u>	<u>70,901</u>
Fund Balance at End of Year	<u>\$ 41,436</u>	<u>\$ 3,363</u>	<u>\$ 5,937</u>	<u>\$ 1,941</u>	<u>\$ 52,677</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, 2010

	Debt Service Funds				Total Debt Service
	2008 Debt Service	1995 G.O. Storm Sewer	2004 G.O. Improvement Greenfield Overlay	Cate Street	
Revenues					
Taxes:					
Property	\$ 80,885	\$ 38,600	\$ 17,219	\$ 12,564	\$ 149,268
Franchise	-	-	-	-	-
Special Assessments	-	-	4,684	9,290	13,974
Licenses and Permits	-	-	-	-	-
Intergovernmental Revenue:					
Local government aid	-	-	-	-	-
Residential market value credit	-	-	-	-	-
Agricultural market value credit	-	-	-	-	-
PERA aid	-	-	-	-	-
State police aid	-	-	-	-	-
State fire aid	-	-	-	-	-
Other state grants and aids	-	-	-	-	-
Charges for Services:					
Police and fire contracts	-	-	-	-	-
Garbage and recycling	-	-	-	-	-
Parks and recreation	-	-	-	-	-
Other service charges	-	-	-	-	-
Fines and Forfeits	-	-	-	-	-
Investment Earnings	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	<u>80,885</u>	<u>38,600</u>	<u>21,903</u>	<u>21,854</u>	<u>163,242</u>

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Major and Nonmajor Governmental Funds - Continued
 Year Ended December 31, 2010

	Debt Service Funds				Total Debt Service
	2008 Debt Service	1995 G.O. Storm Sewer	2004 G.O. Improvement Greenfield Overlay	Cate Street	
Expenditures:					
General Government					
Mayor and council	-	-	-	-	-
Administration and finance	-	-	-	-	-
Other general government	-	-	-	-	-
Capital outlay	-	-	-	-	-
Public Safety					
Police - current expenditures	-	-	-	-	-
Police - capital outlay	-	-	-	-	-
Fire - current expenditures	-	-	-	-	-
Fire - capital outlay	-	-	-	-	-
Other protection	-	-	-	-	-
Other protection - capital outlay	-	-	-	-	-
Streets and Highways					
Street maintenance	-	-	-	-	-
Street lighting	-	-	-	-	-
Street construction - capital outlay	-	-	-	-	-
Sanitation					
Garbage and other refuse collection	-	-	-	-	-
Culture and Recreation					
Parks & Recreation - current expenditures	-	-	-	-	-
Parks & Recreation - capital outlay	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service					
Principal	55,000	40,000	25,000	5,000	125,000
Interest and other charges	108,940	6,818	2,637	1,733	120,128
Total expenditures	<u>163,940</u>	<u>46,818</u>	<u>27,637</u>	<u>6,733</u>	<u>245,128</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(83,055)</u>	<u>(8,218)</u>	<u>(5,734)</u>	<u>15,121</u>	<u>(81,886)</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, 2010

	Debt Service Funds				Total Debt Service
	2008 Debt Service	1995 G.O. Storm Sewer	2004 G.O. Improvement Greenfield Overlay	Cate Street	
Other Financing Sources (Uses):					
Sale of equipment	-	-	-	-	-
Bond proceeds	-	-	-	-	-
Transfers in	109,728	-	-	-	109,728
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>109,728</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,728</u>
Net Change in Fund Balances	26,673	(8,218)	(5,734)	15,121	27,842
Fund Balance at Beginning of Year	<u>(2,114)</u>	<u>(1,303)</u>	<u>46,239</u>	<u>3,909</u>	<u>46,731</u>
Fund Balance at End of Year	<u>\$ 24,559</u>	<u>\$ (9,521)</u>	<u>\$ 40,505</u>	<u>\$ 19,030</u>	<u>\$ 74,573</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, 2010

	Capital Project Funds				
	Eagle Heights Phase I	Eagle Heights North	Linda Drive Extension	Storm Sewer Improvements	Total Capital Projects
Revenues					
Taxes					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Franchise	-	-	-	-	-
Special Assessments	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Intergovernmental Revenue:					
Local government aid	-	-	-	-	-
Residential market value credit	-	-	-	-	-
Agricultural market value credit	-	-	-	-	-
PERA aid	-	-	-	-	-
State police aid	-	-	-	-	-
State fire aid	-	-	-	-	-
Other state grants and aids	-	-	-	-	-
Charges for Services:					
Police and fire contracts	-	-	-	-	-
Garbage and recycling	-	-	-	-	-
Parks and recreation	-	-	-	-	-
Other service charges	-	-	-	-	-
Fines and Forfeits	-	-	-	-	-
Investment Earnings	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<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, 2010

	Capital Project Funds				
	Eagle Heights Phase I	Eagle Heights North	Linda Drive Extension	Storm Sewer Improvements	Total Capital Projects
Expenditures:					
General Government					
Mayor and council	-	-	-	-	-
Administration and finance	-	-	-	-	-
Other general government	-	-	-	-	-
Capital outlay	-	-	-	-	-
Public Safety					
Police - current expenditures	-	-	-	-	-
Police - capital outlay	-	-	-	-	-
Fire - current expenditures	-	-	-	-	-
Fire - capital outlay	-	-	-	-	-
Other protection	-	-	-	-	-
Other protection - capital outlay	-	-	-	-	-
Streets and Highways					
Street maintenance	-	-	-	-	-
Street lighting	-	-	-	-	-
Street construction - capital outlay	-	-	77,339	214,287	291,626
Sanitation					
Garbage and other refuse collection	-	-	-	-	-
Culture and Recreation					
Parks & Recreation - current expenditures	-	-	-	-	-
Parks & Recreation - capital outlay	-	-	-	-	-
Economic Development					
-	-	-	-	-	-
Debt Service					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>77,339</u>	<u>214,287</u>	<u>291,626</u>
Excess (Deficiency) of Revenues over Expenditures					
	<u>-</u>	<u>-</u>	<u>(77,339)</u>	<u>(214,287)</u>	<u>(291,626)</u>
Other Financing Sources (Uses):					
Sale of Equipment	-	-	-	-	-
Bond proceeds	-	-	114,836	240,022	354,858
Transfers in	12,657	778	-	-	13,435
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>12,657</u>	<u>778</u>	<u>114,836</u>	<u>240,022</u>	<u>368,293</u>
Net Change in Fund Balances	12,657	778	37,497	25,735	76,667
Fund Balance at Beginning of Year	<u>(12,657)</u>	<u>(778)</u>	<u>-</u>	<u>-</u>	<u>(13,435)</u>
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,497</u>	<u>\$ 25,735</u>	<u>\$ 63,232</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, 2010

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Property	\$ 249,422	\$ 288,858	\$ 538,280
Franchise	-	17,968	17,968
Special Assessments	13,974	82,126	96,100
Licenses and Permits	-	70,138	70,138
Intergovernmental Revenue:			
Local government aid	-	480,947	480,947
Residential market value credit	-	11,139	11,139
PERA aid	-	826	826
State police aid	-	13,237	13,237
State fire aid	-	24,625	24,625
Other state grants and aids	123,237	-	123,237
Charges for Services:			
Police and fire contracts	-	62,819	62,819
Garbage and recycling	-	131,448	131,448
Parks and recreation	-	5,536	5,536
Other service charges	-	19,289	19,289
Fines and Forfeits	-	14,957	14,957
Investment Earnings	93	4,320	4,413
Miscellaneous	-	57,371	57,371
Total revenues	<u>386,726</u>	<u>1,285,604</u>	<u>1,672,330</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, 2010

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Mayor and council	-	16,646	16,646
Administration and finance	-	103,330	103,330
Other general government	-	151,952	151,952
Public Safety			
Police - current expenditures	-	177,379	177,379
Police - capital outlay	-	25,686	25,686
Fire - current expenditures	-	94,936	94,936
Fire - capital outlay	-	29,218	29,218
Other protection	-	2,326	2,326
Streets and Highways			
Street maintenance	-	91,692	91,692
Street lighting	-	34,468	34,468
Street construction - capital outlay	291,626	1,054,835	1,346,461
Sanitation			
Garbage and other refuse collection	-	116,086	116,086
Culture and Recreation			
Parks & Recreation - current expenditures	-	41,343	41,343
Economic Development	241,708	29,867	271,575
Debt Service			
Principal	125,000	-	125,000
Interest and other charges	120,128	-	120,128
Total expenditures	<u>778,462</u>	<u>1,969,764</u>	<u>2,748,226</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(391,736)</u>	<u>(684,160)</u>	<u>(1,075,896)</u>
Other Financing Sources (Uses):			
Sale of equipment	-	2,255	2,255
Bond proceeds	354,858	1,102,961	1,457,819
Transfers in	123,163	-	123,163
Transfers out	-	(23,163)	(23,163)
Total Other Financing Sources (Uses)	<u>478,021</u>	<u>1,082,053</u>	<u>1,560,074</u>
Net Change in Fund Balances	86,285	397,893	484,178
Fund Balance at Beginning of Year	<u>104,197</u>	<u>1,086,386</u>	<u>1,190,583</u>
Fund Balance at End of Year	<u>\$ 190,482</u>	<u>\$ 1,484,279</u>	<u>\$ 1,674,761</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, 2010, and have issued our report thereon dated April 29, 2011.

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

The Minnesota Legal Compliance Audit Guide for Local Government covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, 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
April 29, 2011

City of Eagle Lake
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2010

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<u>Environmental Protection Agency</u>		
Passed Through the State of Minnesota:		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 502,819
<u>Department of Housing and Urban Development</u>		
Passed Through the State of Minnesota:		
Community Development Block Grant/States program and Non-Entitlement Grants	14.228	95,220
<u>Department of Transportation</u>		
Passed Through the State of Minnesota:		
Maximum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>174</u>
Total Expenditures of Federal Awards		<u>\$ 598,213</u>

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting.

NOTE B – AGENCY OR PASS-THROUGH NUMBER

The pass-through entity has not provided identifying numbers; therefore, they are not included in this schedule.



**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 Eagle Lake
Eagle Lake, Minnesota

We have audited the financial statements of the governmental activities and 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, 2010, which collectively comprise the City of Eagle Lake's basic financial statements and have issued our report thereon dated April 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Eagle Lake's internal control over financial reporting as a basis for designing our auditing procedures 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 of Eagle Lake's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Eagle Lake's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 control 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 2010-1, 2010-2, and 2010-3.

Honorable Mayor and City Council
City of Eagle Lake

Compliance and Other Matters

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

The City's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, city council, others within the organization, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Mankato, Minnesota
April 29, 2011



Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the City of Eagle Lake's (the City) compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2010. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on the major federal program in order to determine our auditing procedures for the propose of expressing our opinion on compliance and to test and report on internal control over compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Honorable Mayor and City Council
City of Eagle Lake

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, and other state agencies, the federal cognizant audit agency and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Mankato, Minnesota
April 29, 2011

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion of the basic financial statements of the City of Eagle Lake.
2. Three significant deficiencies were disclosed during the audit of the financial statements reported in the 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*. All three of the significant deficiencies identified were considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of Eagle Lake were disclosed during the audit.
4. No deficiencies were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Controls over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Eagle Lake expresses an unqualified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for the City of Eagle Lake are reported in Part C of this schedule.
7. The program tested as major programs included: Capitalization Grants for Drinking Water State Revolving Funds CFDA #66.468.
8. The threshold for distinguishing a Type A program was \$300,000.
9. The City of Eagle Lake was determined to be a high-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weakness – previously reported items not resolved

2010-1 Segregation of Duties

Condition: The City has a lack of segregation of duties in certain areas due to limited staff. The City has limited segregation of duties in many accounting and financial reporting internal control areas. The areas involved are receipts and receivables, disbursements and payables, payroll, deposits, and reconciliations of these areas.

Criteria: A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Cause: The City does not have the economic resources to hire additional qualified accounting staff in order to segregate duties.

Effect: Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. City Council oversight will mitigate some of the effect.

Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the City.

Response: Due to cost constraints, there will be no further administrative employees added.

Corrective Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* No action is planned on the finding. The City feels that the additional costs to the City would not be significantly beneficial. The City does mitigate this situation through the Council's review of the draft financial statements, accompanying notes and review and approval of the monthly expenses.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* None. See #1 above.
4. *Planned Completion Date for the Corrective Action:* None. See #1 above.
5. *Plan to Monitor Completion of Corrective Action:* None. See #1 above.

2010-2 Preparation of Financial Statements

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements, accompanying notes to the financial statements, and required supplementary budgetary comparison information.

Criteria: A good system of internal control contemplates an adequate system for drafting of the financial statements.

Cause: The City does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: This control deficiency is not unusual in a City of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response: Due to cost constraints, the City will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

Corrective Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* No action is planned on the finding. The City feels that the additional costs to the City would not be significantly beneficial. The City does mitigate this situation through the review of the draft financial statements and accompanying notes to the financial statements by management.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* None. See #1 above.
4. *Planned Completion Date for the Corrective Action:* None. See #1 above.
5. *Plan to Monitor Completion of Corrective Action:* None. See #1 above.

2010-3 Significant Journal Entries

Condition: During the course of our engagement, we proposed material audit adjustments to the trial balance as a result of the City's existing internal controls.

Criteria: A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Cause: The City does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to make all of the necessary year end adjustments to the trial balance.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Response: Due to cost constraints, the City will continue to have the auditors propose material audit adjustments to the trial balance.

Corrective Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* No action is planned on the finding. The City feels that the additional costs to the City would not be significantly beneficial. The City does mitigate this situation through the review of the draft financial statements and accompanying notes to the financial statements by management.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* None. See #1 above.
4. *Planned Completion Date for the Corrective Action:* None. See #1 above.
5. *Plan to Monitor Completion of Corrective Action:* None. See #1 above.

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.