# CITY OF EDEN VALLEY
# ENTERPRISE FUNDS
# Meeker and Stearns Counties, Minnesota

## AUDITED FINANCIAL STATEMENTS

## For the Year Ended December 31, 2012

**CITY OF EDEN VALLEY**
**ENTERPRISE FUNDS**

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**CITY OF EDEN VALLEY**
**ENTERPRISE FUNDS**

**ELECTED OFFICIALS AND ADMINISTRATION**
**December 31, 2012**

| Elected Officials | Position | Term Expires |
|---|---|---|
| Pete Korman | Mayor | December 31, 2012 |
| Peggy Bethel | Council Member | December 31, 2012 |
| Dan Thielen | Council Member | December 31, 2014 |
| Eric Reetz | Council Member | December 31, 2012 |
| Kevon Gabrelcik | Council Member | December 31, 2014 |
| **Administration** | | |
| Mona Haag | City Clerk/Treasurer | Appointed |

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# INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Eden Valley
Eden Valley, Minnesota

## Report on the Financial Statements

We have audited the accompanying financial statements of the Water, Sewer and Senior Housing Enterprise Funds (Enterprise Funds) of the City of Eden Valley, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, as listed in the Table of Contents.

As discussed in Note 1, the financial statements referred to above present only the City's Enterprise Funds and are not intended to present fairly, the financial position of the City as a whole as of December 31, 2012, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with auditing standards generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based in 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 *Governmental 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 from material misstatement.

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

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

KDV

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Funds of the City of Eden Valley, Minnesota, as of December 31, 2012, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters – Required Supplementary Information

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

## Implementation of GASB 63

As discussed in Note 8 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63. Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
March 7, 2013

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**BASIC FINANCIAL STATEMENTS**

**CITY OF EDEN VALLEY**
**ENTERPRISE FUNDS**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**
**December 31, 2012**

| | Water (510) | Sewer (520) | Senior Housing (530) | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and Investments | | | | |
| (Including Cash Equivalents) | $ 287,691 | $ 290,205 | $ 17,803 | $ 595,699 |
| Special Assessments Receivable: | | | | |
| Delinquent | 6,822 | 2,924 | - | 9,746 |
| Deferred | 62,311 | 30,877 | - | 93,188 |
| Accounts Receivable | 45,368 | 22,216 | - | 67,584 |
| Loan Receivable | 618,500 | - | - | 618,500 |
| Due from Other Governments | 8,181 | - | - | 8,181 |
| Total Current Assets | 1,028,873 | 346,222 | 17,803 | 1,392,898 |
| **Noncurrent Assets** | | | | |
| Capital Assets: | | | | |
| Land and Land Improvements | 12,399 | 230,739 | 25,666 | 268,804 |
| Buildings | 19,247 | 136,127 | 785,708 | 941,082 |
| Systems and Other Improvements | 2,194,896 | 3,737,742 | - | 5,932,638 |
| Furniture, Machinery and Equipment | 27,889 | 7,436 | 7,205 | 42,530 |
| Total Capital Assets | 2,254,431 | 4,112,044 | 818,579 | 7,185,054 |
| Less Accumulated Depreciation | (526,843) | (2,535,107) | (272,043) | (3,333,993) |
| Net Capital Assets | 1,727,588 | 1,576,937 | 546,536 | 3,851,061 |
| Total Assets | $ 2,756,461 | $ 1,923,159 | $ 564,339 | $ 5,243,959 |
| **LIABILITIES AND NET POSITION** | | | | |
| **Current Liabilities** | | | | |
| Accounts Payable | $ 6,369 | $ 970 | $ 1,814 | $ 9,153 |
| Deposits Payable | - | - | 10,876 | 10,876 |
| Interest Payable | 12,930 | 3,308 | 1,693 | 17,931 |
| Due to Other Funds | 10,000 | - | - | 10,000 |
| Compensated Absences Payable - Current | 1,435 | 1,435 | - | 2,870 |
| PFA Loans Payable - Due Within One Year | 148,000 | 29,000 | - | 177,000 |
| Bonds Payable - Due Within One Year | - | - | 65,000 | 65,000 |
| Total Current Liabilities | 178,734 | 34,713 | 79,383 | 292,830 |
| **Noncurrent Liabilities** | | | | |
| Bonds Payable - Due Within More than One Year | - | - | 400,000 | 400,000 |
| PFA Loans Payable - Due Within More than One Year | 1,337,000 | 540,000 | - | 1,877,000 |
| Total Noncurrent Liabilities | 1,337,000 | 540,000 | 400,000 | 2,277,000 |
| Total Liabilities | 1,515,734 | 574,713 | 479,383 | 2,569,830 |
| **Net Position** | | | | |
| Net Investment in Capital Assets | 861,088 | 1,007,937 | 81,536 | 1,950,561 |
| Unrestricted | 379,639 | 340,509 | 3,420 | 723,568 |
| Total Net Position | 1,240,727 | 1,348,446 | 84,956 | 2,674,129 |
| Total Liabilities and Net Position | $ 2,756,461 | $ 1,923,159 | $ 564,339 | $ 5,243,959 |

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF EDEN VALLEY**
**ENTERPRISE FUNDS**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS**
**For the Year Ended December 31, 2012**

| | Water (510) | Sewer (520) | Senior Housing (530) | Total |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Charges for Services | $ 220,574 | $ 119,173 | $ 114,279 | $ 454,026 |
| Connection Fees | 7,117 | 2,000 | - | 9,117 |
| Special Assessments | 57,467 | 29,352 | - | 86,819 |
| Total Operating Revenues | 285,158 | 150,525 | 114,279 | 549,962 |
| **OPERATING EXPENSES** | | | | |
| Salaries and Benefits | 65,016 | 41,080 | 5,392 | 111,488 |
| Operating Supplies | 20,881 | 3,735 | 125 | 24,741 |
| Repairs and Maintenance | 20,286 | 42,439 | 11,438 | 74,163 |
| Professional Services | 26,541 | 21,809 | 15,570 | 63,920 |
| Utilities | 19,019 | 6,544 | 12,429 | 37,992 |
| Depreciation | 38,773 | 63,053 | 18,917 | 120,743 |
| Miscellaneous Expenses | 10,782 | 5,228 | 8,937 | 24,947 |
| Total Operating Expenses | 201,298 | 183,888 | 72,808 | 457,994 |
| Operating Income (Loss) | 83,860 | (33,363) | 41,471 | 91,968 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Investment Income | 11,279 | 3,716 | 20 | 15,015 |
| Miscellaneous Revenue | 30 | 7,722 | 4,574 | 12,326 |
| Interest Expense | (21,358) | (10,222) | (23,243) | (54,823) |
| Total Nonoperating Revenues (Expenses) | (10,049) | 1,216 | (18,649) | (27,482) |
| Income (Loss) before Transfers | 73,811 | (32,147) | 22,822 | 64,486 |
| Refunds and Reimbursements | 211 | 41,598 | - | 41,809 |
| Transfers Out | - | (9,500) | - | (9,500) |
| Change in Net Position | 74,022 | (49) | 22,822 | 96,795 |
| **NET POSITION** | | | | |
| **Beginning of Year** | 1,166,705 | 1,348,495 | 62,134 | 2,577,334 |
| **End of Year** | $ 1,240,727 | $ 1,348,446 | $ 84,956 | $ 2,674,129 |

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF EDEN VALLEY**
**ENTERPRISE FUNDS**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**
**For the Year Ended December 31, 2012**

| | Water (510) | Sewer (520) | Senior Housing (530) | Total |
|---|---|---|---|---|
| **CASH FLOWS - OPERATING ACTIVITIES** | | | | |
| Receipts from Customers and Users | $ 228,586 | $ 128,425 | $ 114,279 | $ 471,290 |
| Payments to Suppliers | (94,549) | (80,318) | (47,670) | (222,537) |
| Payments to Employees | (66,631) | (41,660) | (5,944) | (114,235) |
| Other Revenue | 241 | 49,320 | 4,574 | 54,135 |
| Net Cash Flows - Operating Activities | 67,647 | 55,767 | 65,239 | 188,653 |
| **CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Transfer to Other Funds | - | (9,500) | - | (9,500) |
| **CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Principal Paid on Debt | (144,000) | (27,771) | (60,000) | (231,771) |
| Loan Repayment Proceeds | 65,500 | - | - | 65,500 |
| Interest Paid on Debt | (22,673) | (10,334) | (23,443) | (56,450) |
| Net Cash Flows - Capital and Related Financing Activities | (101,173) | (38,105) | (83,443) | (222,721) |
| **CASH FLOWS - INVESTING ACTIVITIES** | | | | |
| Interest and Dividends Received | 11,279 | 3,716 | 20 | 15,015 |
| **Net Change in Cash and Cash Equivalents** | (22,247) | 11,878 | (18,184) | (28,553) |
| **CASH AND CASH EQUIVALENTS** | | | | |
| **Beginning of Year** | 309,938 | 278,327 | 35,987 | 624,252 |
| **End of Year** | $ 287,691 | $ 290,205 | $ 17,803 | $ 595,699 |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES** | | | | |
| Operating Income (Loss) | $ 83,860 | $ (33,363) | $ 41,471 | $ 91,968 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities: | | | | |
| Depreciation Expense | 38,773 | 63,053 | 18,917 | 120,743 |
| Other Revenue | 241 | 49,320 | 4,574 | 54,135 |
| Accounts Receivable | (7,400) | (3,317) | - | (10,717) |
| Special Assessments Receivable | (48,421) | (18,783) | - | (67,204) |
| Due from Other Governments | (751) | - | - | (751) |
| Accounts Payable | 2,960 | (563) | 63 | 2,460 |
| Deposit Payable | - | - | 766 | 766 |
| Salaries Payable | (1,585) | (550) | (552) | (2,687) |
| Compensated Absences Payable | (30) | (30) | - | (60) |
| Total Adjustments | (16,213) | 89,130 | 23,768 | 96,685 |
| Net Cash Flows - Operating Activities | $ 67,647 | $ 55,767 | $ 65,239 | $ 188,653 |

**CITY OF EDEN VALLEY**
**ENTERPRISE FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS**
**December 31, 2012**

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The City of Eden Valley is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The accounting policies of the enterprise funds activities conform to accounting principles generally accepted in the United States of America

### B. Basis of Reporting

These financial statements are those of the Enterprise Funds activities only. The Water, Sewer and Senior Housing Enterprise Funds are enterprises of the City.

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

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. This means that all assets, including capital assets, and all liabilities, including long-term liabilities, associated with their activity are included on their Balance Sheets. The reported fund equity is segregated into restricted, unrestricted and invested on capital assets net of related debt. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expense 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 proprietary funds are charges to customers for sales and services. 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 City's policy to use restricted resources first, then unrestricted resources as they are needed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The City has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The City's Enterprise Funds are accounted for using the accrual basis of accounting; revenues are recognized when they are earned and expenses are recognized when they are incurred.

**Description of Funds:**

Proprietary Funds:

Water Fund – This Fund accounts for the operations of the City's water utility.

Sewer Fund – This Fund accounts for the operations of the City's sewer utility.

Senior Housing – This Fund accounts for the activities and operation of the City's senior housing facility.

### D. Assets, Liabilities and Net Position

#### 1. Cash and Investments

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

*Minnesota Statutes* authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool. Investments are stated at fair value.

The Minnesota Municipal Investment Pool is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City has adopted a deposit policy to address custodial credit risk for deposits that matches *Minnesota Statutes* requirement that deposits are collateralized at 110% of excess over Federal Deposit Insurance Corporation (FDIC) insurance.

Interest Rate Risk: This is the risk that correlates with managing exposure to fair value arising from increasing interest rates. The City's policy manages this by giving guidance on the safety of investing and managing the liquidity of the portfolio.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### D. Assets, Liabilities and Net Position (Continued)

#### 1. Cash and Investments (Continued)

Interest Rate Risk: This is the risk that correlates with managing exposure to fair value arising from increasing interest rates. The City's policy manages this by giving guidance on the safety of investing and managing the liquidity of the portfolio.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to be in the top two ratings issued by nationally recognized statistical rating organizations. The City's policy limits investments to shares of the 4M Fund, direct obligations of the Department of the Treasury of the U.S Government and federal agency issues which are guaranteed by the U.S Government or its agencies as to principal and interest and general obligations of the State of Minnesota and local governments with taxing powers, which is rated A or better by a national bond rating service, provided no single issue exceeds $ 200,000 with maturities not exceeding seven years.

Concentration of Credit Risk: This is the risk that limits the amount the City may invest in any one issuer. The City's investment policy states investments shall be diversified to minimize credit risk; specifically, no more than 5% of the investment portfolio will be invested in the securities of a single issuer.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires all investments to be insured.

#### 2. Loans Receivable

Loans receivable at December 31, 2012, were due from the City of Watkins, Minnesota, for their share of Public Facilities Authority (PFA) water system improvements. The receivable scheduled maturity is half of the underlying 1999 and 2000 PFA debt obligations listed in Note 5, and totals $ 618,500 at December 31, 2012.

#### 3. Capital Assets

Capital assets, which includes property, plant and equipment, are reported only for the business-type activities in the Statement of Net Position. Capital assets are defined by the City as assets with an initial, individual cost of more than $ 2,500 and an estimated useful life in excess of three years. 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.

Capital assets of the City are depreciated using the straight-line method for 5 to 75 years depending on the classification.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### D. Assets, Liabilities and Net Position (Continued)

#### 4. Vacation Leave

The City compensates employees who either retire or terminate for their unused vacation time. As of December 31, 2012, the total liability for vacation pay was $ 2,870 in the Water and Sewer Funds.

#### 5. 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

#### 6. Net Position

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

### E. 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2 – DEPOSITS AND INVESTMENTS

### A. Deposits

As of December 31, 2012, the City's bank balance was not exposed to custodial credit risk because the balance was insured through the FDIC with collateral pledged by the depository for amounts exceeding FDIC coverage.

As of December 31, 2012, the City's Enterprise Funds had deposits as follows:

| | |
|---|---|
| Checking | $ 24,601 |

## NOTE 2 – DEPOSITS AND INVESTMENTS

### B. Investments

As of December 31, 2012, the City had the following investments:

| Investment Type | Fair Value | Investment Maturities: 1 Year or Less | 1-2 Years | 3-5 Years | Ratings |
|---|---|---|---|---|---|
| Brokered Certificate of Deposits | $ 982,355 | $ 100,796 | $ 208,078 | $ 673,481 | N/A |
| Brokered Money Market | 19,118 | 19,118 | - | - | AAAm |
| 4M Money Market | 528,911 | 528,911 | - | - | N/A |
| Total | $ 1,530,384 | $ 648,825 | $ 208,078 | $ 673,481 | |

| Maturity | Maximum Investments |
|---|---|
| 1 Year or Less | 42% |
| 1-2 Years | 14% |
| 3-5 Years | 44% |

The Enterprise Funds' portion of the investments was $ 571,098.

Concentration of Credit Risk: The City was exposed to this risk as the following certificates of deposits exceeded 5% of total investments: Ally Bank UT, Doral Bank PR, American Express Centurio UT, GE Capital Financial Inc. UT, GE Capital Retail Bank, State Bank of India IL, Midfirst Bank OK and World Financial Network Bank DE.

### C. Deposits and Investments

Total deposits and investments are as follows:

| | |
|---|---|
| Deposits | $ 24,601 |
| Investments | 571,098 |
| Total Deposits and Investments | $ 595,699 |

Deposits and investments are classified in the December 31, 2012 financial statements as follows:

| | |
|---|---|
| Statement of Net Position - Proprietary Funds: | |
| Cash and Investments (Including Cash Equivalents) | $ 595,699 |

**CITY OF EDEN VALLEY**
**ENTERPRISE FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS**
**December 31, 2012**

## NOTE 3 – CAPITAL ASSETS

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

| | Balance | Increases | Decreases | Balance |
|---|---|---|---|---|
| Capital Assets not being Depreciated: | | | | |
| Land | $ 268,804 | $ - | $ - | $ 268,804 |
| Capital Assets being Depreciated: | | | | |
| Buildings | 941,082 | - | - | 941,082 |
| Distribution Systems | 5,932,638 | | - | 5,932,638 |
| Equipment | 42,530 | - | - | 42,530 |
| Total Capital Assets being Depreciated | 6,916,250 | - | - | 6,916,250 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 370,126 | 22,198 | - | 392,324 |
| Distribution Systems | 2,816,222 | 96,614 | - | 2,912,836 |
| Equipment | 26,902 | 1,931 | - | 28,833 |
| Total Accumulated Depreciation | 3,213,250 | 120,743 | - | 3,333,993 |
| Total Capital Assets being Depreciated, Net | 3,703,000 | (120,743) | - | 3,582,257 |
| Capital Assets, Net | $ 3,971,804 | $ (120,743) | $ - | $ 3,851,061 |

Depreciation expense was charged to the following Funds:

| | |
|---|---|
| Water | $ 38,773 |
| Sewer | 63,053 |
| Senior Housing | 18,917 |
| Total Depreciation - Enterprise Funds | $ 120,743 |

## NOTE 4 – INTERFUND BALANCES

### A. Interfund Balances

A $ 10,000 interfund loan exists between the Water Fund and 2012 MN HWY 22 Improvement Bond Fund at December 31, 2012, to assist with project costs and is being repaid as funds become available with a 0% interest rate. During 2012, no payments were made.

### B. Transfers

During 2012, the Sewer Fund transferred $ 9,500 to the 2007 Improvement Bond Fund to assist with debt service payments.

## NOTE 5 – LONG-TERM DEBT

### A. Components of Long-Term Liabilities

The following is a summary of bonds payable transactions of the Enterprise Funds for the year ended December 31, 2012.

| | Issue Year | Interest Rate | Original Issue | Final Maturity | Principal Outstanding | Due Within One Year |
|---|---|---|---|---|---|---|
| Long-Term Liabilities: | | | | | | |
| General Obligation (G.O.) Revenue Refunding Bonds of 2005 | 2005 | 2.95%-4.60% | $ 850,000 | 2018 | $ 465,000 | $ 65,000 |
| PFA Drinking Water Revolving Loan | 1999 | 3.16% | 1,881,057 | 2020 | 906,000 | 101,000 |
| PFA Drinking Water Revolving Loan | 2000 | 2.32% | 644,890 | 2021 | 331,000 | 34,000 |
| PFA Drinking Water Revolving Loan | 2009 | 1.00% | 286,461 | 2029 | 248,000 | 13,000 |
| PFA Clean Water Revolving Loan | 2009 | 1.74% | 660,457 | 2029 | 569,000 | 29,000 |
| Total all Long-Term Liabilities | | | | | $ 2,519,000 | $ 242,000 |

The Water Fund is responsible for payment of the PFA Drinking Water Revolving Loans, the Sewer Fund is responsible for payment of the PFA Clean Water Revolving Loan and the Senior Housing Fund is responsible for paying the revenue bond liability.

The following is a summary of bonds payable transactions of the business-type activities for the year ended December 31, 2012.

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Business-Type Activities: | | | | |
| G.O. Revenue Bonds | $ 525,000 | $ - | $ (60,000) | $ 465,000 |
| PFA G.O. Revenue Notes | 2,225,771 | - | (171,771) | 2,054,000 |
| Total Long-Term Liabilities | $ 2,750,771 | $ - | $ (231,771) | $ 2,519,000 |

## NOTE 5 – LONG-TERM DEBT

### A. Components of Long-Term Liabilities (Continued)

The annual requirements to amortize all long-term debt outstanding are as follows:

| Year Ending December 31, | Revenue Bonds Principal | Revenue Bonds Interest | Revenue Bonds Total |
|---|---|---|---|
| 2013 | $ 65,000 | $ 20,315 | $ 85,315 |
| 2014 | 70,000 | 17,650 | 87,650 |
| 2015 | 75,000 | 14,710 | 89,710 |
| 2016 | 80,000 | 11,485 | 91,485 |
| 2017 | 85,000 | 7,965 | 92,965 |
| 2018 | 90,000 | 4,140 | 94,140 |
| Total | $ 465,000 | $ 76,265 | $ 541,265 |

| Year Ending December 31, | PFA Note Principal | PFA Note Interest | PFA Note Total |
|---|---|---|---|
| 2013 | $ 177,000 | $ 48,834 | $ 225,834 |
| 2014 | 183,000 | 44,218 | 227,218 |
| 2015 | 187,000 | 39,447 | 226,447 |
| 2016 | 192,000 | 34,560 | 226,560 |
| 2017 | 197,000 | 29,536 | 226,536 |
| 2018-2022 | 757,000 | 71,264 | 828,264 |
| 2023-2027 | 253,000 | 20,121 | 273,121 |
| 2028-2029 | 108,000 | 2,485 | 110,485 |
| Total | $ 2,054,000 | $ 290,465 | $ 2,344,465 |

## NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

### Public Employees' Retirement Association

### A. Plan Description

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the 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.

## NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

### Public Employees' Retirement Association (Continued)

### A. Plan Description

GERF members belong to either the Coordinated or 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, firefighters and peace officers who qualify for membership are covered by 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 a 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% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. For all GERF and PEPFF 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 and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

## NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

### Public Employees' Retirement Association (Continued)

### B. Funding Policy

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. In 2012, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members and 14.4% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were $ 15,174, $ 13,546 and $ 13,115, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

## NOTE 7 – RISK MANAGEMENT

The City is exposed to various risk of loss related to torts: theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. In order to protect against these risks of loss, the City purchases commercial insurance through the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool. This pool currently operates common risk management and insurance programs for municipal entities. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amounts of these deductibles are considered immaterial to the financial statements.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience, workers' compensation rates and salaries are known for the year. The final premium adjustment was recorded in the year the adjustment was made.

During the year ended December 31, 2012, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the City's commercial coverage in any of the past three years.

## NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2012, the City implemented GASB Statement No. 63. This action resulted in the establishment of categories outside of assets and liabilities titled deferred outflows and deferred inflows. The Statement also retitled Net Assets as Net Position.

## NOTE 9 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 7, 2013, the date which the financial statements were available to be issued.