

CITY OF EDEN VALLEY
Meeker and Stearns Counties, Minnesota
AUDITED FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

CITY OF EDEN VALLEY

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CITY OF EDEN VALLEY

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

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
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
<u>Administration</u>		
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 each major fund and the aggregate remaining fund information 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, which collectively comprise the regulatory basis financial statements as listed in the Table of Contents. We have also audited the additional supplementary information as listed in the Table of Contents for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with regulatory basis of accounting discussed in Note 1 to the financial statements; 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 on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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.

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 1 of the financial statements, the financial statements are prepared by the City on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting practices described in Note 1 and although no reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Eden Valley, Minnesota as of December 31, 2012, or the changes in financial position or its cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective cash balances of each major fund and the aggregate remaining fund information of the City of Eden Valley, Minnesota, as of December 31, 2012, and the respective changes in cash balances and cash flows, where applicable, thereof for the year then ended in conformity with the regulatory basis of accounting discussed in Note 1. In addition, in our opinion, the additional supplementary information referred to in the first paragraph presents fairly, in all material respects, the accounts receivable and accounts payable balances of the City’s funds as of December 31, 2012, in conformity with the regulatory basis of accounting discussed in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s regulatory financial statements. The combining and individual fund financial statements and schedules identified in the Table of Contents are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

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



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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Kern, DeWenter, Viere, Ltd.".

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

REGULATORY BASIS FINANCIAL STATEMENTS

CITY OF EDEN VALLEY

**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS -
GOVERNMENTAL FUNDS**

December 31, 2012

		<u>Debt Service</u>	<u>Capital Projects</u>
		2003	
	<u>General Fund</u>	<u>Improvement</u>	<u>HWY 22 Project</u>
	(100)	Bonds (310)	(430)
ASSETS			
Cash and Investments	\$ 416,928	\$ 110,606	\$ -
Due from Other Funds	<u>112,908</u>	<u>-</u>	<u>-</u>
Total Assets	<u><u>\$ 529,836</u></u>	<u><u>\$ 110,606</u></u>	<u><u>\$ -</u></u>
LIABILITIES AND CASH FUND BALANCES			
Liabilities			
Due to Other Funds	\$ -	\$ -	\$ 103,430
Cash Fund Balances			
Restricted	-	110,606	-
Committed	-	-	-
Assigned	33,000	-	-
Unassigned	<u>496,836</u>	<u>-</u>	<u>(103,430)</u>
Total Cash Fund Balances	<u><u>529,836</u></u>	<u><u>110,606</u></u>	<u><u>(103,430)</u></u>
Total Liabilities and Cash Fund Balances	<u><u>\$ 529,836</u></u>	<u><u>\$ 110,606</u></u>	<u><u>\$ -</u></u>

Other Governmental Funds	Total Governmental Funds
\$ 336,895	\$ 864,429
-	112,908
<u>\$ 336,895</u>	<u>\$ 977,337</u>
\$ 9,478	\$ 112,908
148,090	258,696
188,805	188,805
-	33,000
(9,478)	383,928
<u>327,417</u>	<u>864,429</u>
<u>\$ 336,895</u>	<u>\$ 977,337</u>

CITY OF EDEN VALLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General Fund (100)	Debt Service 2003 Improvement Bonds (310)	Capital Projects HWY 22 Project (430)
RECEIPTS			
General Property Taxes	\$ 396,784	\$ 4,175	\$ -
Tax Increments	-	-	-
Special Assessments	13	30,991	-
Licenses and Permits	8,085	-	-
Intergovernmental	323,835	-	-
Charges for Service	75,018	-	-
Fines and Forfeitures	2,493	-	-
Investment Earnings	9,356	1,749	-
Miscellaneous:			
Refunds and Reimbursements	34,561	-	-
Donations and Contributions	3,660	-	-
Other	32,672	-	-
Total Receipts	<u>886,477</u>	<u>36,915</u>	<u>-</u>
DISBURSEMENTS			
Current			
General Government	214,889	-	-
Public Safety	248,765	-	-
Public Works	173,690	-	103,430
Culture and Recreation	23,354	-	-
Economic Development	-	-	-
Debt Service			
Principal	45,430	35,000	-
Interest and Other Charges	18,201	10,660	-
Capital Outlay			
General Government	2,545	-	-
Public Safety	80,873	-	-
Public Works	32,528	-	-
Culture and Recreation	9,565	-	-
Total Disbursements	<u>849,840</u>	<u>45,660</u>	<u>103,430</u>
Excess of Receipts Over (Under) Disbursements	36,637	(8,745)	(103,430)
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	2,010	-	-
Insurance Proceeds	4,921	-	-
Transfers In	10,000	-	-
Transfers Out	(6,670)	-	-
Total Other Financing Sources (Uses)	<u>10,261</u>	<u>-</u>	<u>-</u>
Net Change in Cash Fund Balances	46,898	(8,745)	(103,430)
CASH FUND BALANCES			
Beginning of Year	<u>482,938</u>	<u>119,351</u>	<u>-</u>
End of Year	<u>\$ 529,836</u>	<u>\$ 110,606</u>	<u>\$ (103,430)</u>

Other Governmental Funds	Total Governmental Funds
\$ 13,724	\$ 414,683
18,406	18,406
16,749	47,753
-	8,085
-	323,835
-	75,018
-	2,493
141	11,246
24,524	59,085
125,434	129,094
61,050	93,722
<u>260,028</u>	<u>1,183,420</u>
-	214,889
17,652	266,417
97	277,217
37,555	60,909
151,418	151,418
20,000	100,430
7,715	36,576
-	2,545
112,894	193,767
-	32,528
7,630	17,195
<u>354,961</u>	<u>1,353,891</u>
(94,933)	(170,471)
-	2,010
-	4,921
46,631	56,631
(30,461)	(37,131)
<u>16,170</u>	<u>26,431</u>
(78,763)	(144,040)
<u>406,180</u>	<u>1,008,469</u>
<u>\$ 327,417</u>	<u>\$ 864,429</u>

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

CITY OF EDEN VALLEY

**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS -
PROPRIETARY FUNDS
December 31, 2012**

	Enterprise Funds			
	Water (510)	Sewer (520)	Senior Housing (530)	Total
ASSETS				
Cash and Investments	<u>\$ 287,691</u>	<u>\$ 290,205</u>	<u>\$ 17,803</u>	<u>\$ 595,699</u>
NET CASH POSITION				
Unrestricted	<u>\$ 287,691</u>	<u>\$ 290,205</u>	<u>\$ 17,803</u>	<u>\$ 595,699</u>

CITY OF EDEN VALLEY

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN NET CASH POSITION - PROPRIETARY FUNDS
December 31, 2012**

	Enterprise Funds			
	Water (510)	Sewer (520)	Senior Housing (530)	Total
OPERATING RECEIPTS				
Charges for Services	\$ 304,456	\$ 120,589	\$ 114,279	\$ 539,324
Connection Fees	7,117	2,000	-	9,117
Miscellaneous Operating Revenues	2,598	5,836	-	8,434
Total Operating Receipts	<u>314,171</u>	<u>128,425</u>	<u>114,279</u>	<u>556,875</u>
OPERATING DISBURSEMENTS				
Salaries and Benefits	65,635	41,660	5,944	113,239
Operating Supplies	23,376	4,866	1,851	30,093
Repairs and Maintenance	20,286	42,439	11,438	74,163
Professional Services	24,348	21,686	15,445	61,479
Utilities	17,380	6,528	10,861	34,769
Miscellaneous Expenses	10,155	4,799	8,378	23,332
Total Operating Disbursements	<u>161,180</u>	<u>121,978</u>	<u>53,917</u>	<u>337,075</u>
Excess of Operating Receipts Over Operating Disbursements	152,991	6,447	60,362	219,800
NONOPERATING RECEIPTS (DISBURSEMENTS)				
Investment Income	11,279	3,716	20	15,015
Refunds and Reimbursements	211	41,598	-	41,809
Other	30	7,722	4,574	12,326
Interest Expense	(42,758)	(10,334)	(23,140)	(76,232)
Total Nonoperating Receipts (Disbursements)	<u>(31,238)</u>	<u>42,702</u>	<u>(18,546)</u>	<u>(7,082)</u>
Net Income before Debt	121,753	49,149	41,816	212,718
Debt Principal	(144,000)	(27,771)	(60,000)	(231,771)
Transfers Out	<u>-</u>	<u>(9,500)</u>	<u>-</u>	<u>(9,500)</u>
Change in Net Cash Position	(22,247)	11,878	(18,184)	(28,553)
NET CASH POSITION				
Beginning of Year	<u>309,938</u>	<u>278,327</u>	<u>35,987</u>	<u>624,252</u>
End of Year	<u>\$ 287,691</u>	<u>\$ 290,205</u>	<u>\$ 17,803</u>	<u>\$ 595,699</u>

CITY OF EDEN VALLEY

**STATEMENT OF CASH FLOWS - CASH BASIS -
PROPRIETARY FUNDS
December 31, 2012**

	<u>Water (510)</u>	<u>Sewer (520)</u>	<u>Senior Housing</u>	<u>Total</u>
CASH FLOWS - OPERATING ACTIVITIES				
Receipts from Customers	\$ 228,586	\$ 128,425	\$ 114,279	\$ 471,290
Payments to Suppliers	(94,549)	(80,318)	(47,973)	(222,840)
Payments to Employees	(66,631)	(41,660)	(5,944)	(114,235)
Other Receipts	241	49,320	4,574	54,135
Net Cash Flows - Operating Activities	<u>67,647</u>	<u>55,767</u>	<u>64,936</u>	<u>188,350</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES				
Transfers to Other Funds	<u>-</u>	<u>(9,500)</u>	<u>-</u>	<u>(9,500)</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES				
Loan Repayment Proceeds	65,500	-	-	65,500
Principal Paid on Capital Debt	(144,000)	(27,771)	(60,000)	(231,771)
Interest Paid on Capital Debt	<u>(22,673)</u>	<u>(10,334)</u>	<u>(23,140)</u>	<u>(56,147)</u>
Net Cash Flows - Capital and Related Financing Activities	<u>(101,173)</u>	<u>(38,105)</u>	<u>(83,140)</u>	<u>(222,418)</u>
CASH FLOWS - INVESTING ACTIVITIES				
Interest and Dividends	<u>11,279</u>	<u>3,716</u>	<u>20</u>	<u>15,015</u>
Net Change in Cash and Cash Equivalents	(22,247)	11,878	(18,184)	(28,553)
CASH AND CASH EQUIVALENTS				
Beginning of Year	<u>309,938</u>	<u>278,327</u>	<u>35,987</u>	<u>624,252</u>
End of Year	<u>\$ 287,691</u>	<u>\$ 290,205</u>	<u>\$ 17,803</u>	<u>\$ 595,699</u>

CITY OF EDEN VALLEY

**STATEMENT OF FIDUCIARY NET POSITION
December 31, 2012**

	<u>Liquor Trust</u>
ASSETS	
Current	
Cash and Investments	<u>\$ 216,811</u>
NET POSITION	
Held in Trust for Benefits and Other Purposes	<u>\$ 216,811</u>

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended December 31, 2012**

	<u>Liquor Trust</u>
ADDITIONS	
Investment Interest	<u>\$ 13,630</u>
DEDUCTIONS	
Transfers Out	<u>10,000</u>
Change in Net Position	3,630
NET POSITION	
Beginning of Year	<u>213,181</u>
End of Year	<u>\$ 216,811</u>

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CITY OF EDEN VALLEY
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 financial statements present the City and its component units. The City includes all funds, account groups, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the regulatory financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.

As a result of applying the component unit definition criteria above, the following organization has been defined and is presented in this report as follows:

Blended Component Units – Reported as if they were part of the City.

For the above category, the specific entity is identified as follows:

1. Blended Component Unit

The Eden Valley Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Eden Valley EDA is reported as if it were part of the primary government because it provides services exclusively for the City. Separate financial statements are not prepared for the Eden Valley EDA.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the City are maintained and the accompanying financial statements have been prepared, on a regulatory basis of accounting prescribed by the Minnesota Office of the State Auditor. The regulatory basis of accounting is defined in the *Reporting and Publishing Requirements for City Audited Financial Statements for Cities Under 2,500 in Population Reporting on the Cash or Regulatory Basis of Accounting* issued by the State of Minnesota Office of the State Auditor on December 17, 2004. The regulatory basis allows revenues to be recognized when received rather than when earned, and expenditures to be recognized when paid rather than when the obligations are incurred.

Major proprietary funds are reported on an accrual basis of accounting in a separate report.

CITY OF EDEN VALLEY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Funds:

Major Governmental Funds:

General Fund – This Fund is the City’s primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

2003 Improvement Bonds Fund – This Fund is a Debt Service Fund for activity related to the 2003 improvements bond repayment.

HWY 22 Project Fund – This Fund is a Capital Project Fund and accounts for all of the activity related to the Highway 22 project.

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.

Fiduciary Fund:

Liquor Trust – This Fund is used to account for the proceeds received from the sale of the municipal liquor store.

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 proprietary funds repairs and maintenance are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and 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.

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.

CITY OF EDEN VALLEY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Cash, Cash Equivalents 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 (4M Fund) 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 risk for deposits that matches *Minnesota Statutes* requirement that deposits are collateralized at 110% of excess over Federal Deposit Insurance Corporation (FDIC) insurance.

The City has a formal deposit and investment policy to address the following risks:

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 nation 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.

CITY OF EDEN VALLEY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Property Tax Collection Calendar

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditors for collection the following year. The property tax is recorded as revenue when it is available. Meeker County and Stearns County are the collecting agencies for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15.

The County Auditors prepare the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditors also collect all special assessments, except for certain prepayments paid directly to the City.

The County Auditors submit the list of taxes and special assessments to be collected on each parcel of property to the County Treasurers in January of each year.

E. Vacation Leave

The City compensates employees who either retire or terminate for 100% of their accumulated unused vacation pay. As of December 31, 2012, the total liability for unused vacation pay was approximately \$ 10,027.

F. Use of Estimates

The preparation of financial statements in conformity with the regulatory basis of accounting 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. Estimates also affect the reported amounts of revenue and disbursements during the reporting period. Actual results could differ from those estimates.

G. Cash Fund Balances

1. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- **Restricted Fund Balance** – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments or b) imposed by law through enabling legislation.
- **Committed Fund Balance** – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution.
- **Assigned Fund Balance** – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City's Clerk/Treasurer based on the City Council's direction.

CITY OF EDEN VALLEY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. Cash Fund Balances (Continued)

1. Classification (Continued)

- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order, first to last: restricted, committed, assigned and unassigned.

2. Minimum Fund Balance

The City strives to maintain a General Fund unassigned fund balance of six months of operating expenses.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. In September of each year, City staff submits to the City Council, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed disbursements and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments.
4. Budgets are adopted on a basis consistent with the regulatory basis of accounting.
5. Disbursements may not legally exceed budgeted appropriations at the fund level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a fund level, so long as the total fund budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General, Enterprise and most Special Revenue Funds.
7. Budgeted amounts are as originally adopted or as amended by the City Council. No amendments were made to the budget in 2012. Budgeted disbursement appropriations lapse at year-end.

CITY OF EDEN VALLEY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Disbursements in Excess of Appropriations

Disbursements exceeded appropriations in the following Funds for the year ended December 31, 2012:

	<u>Disbursements</u>	<u>Appropriations</u>
General Fund	\$ 849,840	\$ 797,875
Nonmajor Special Revenue Funds:		
TIF Districts	67,750	63,000
Valley Daze Celebration	15,300	15,000
Lions Park	6,969	6,000
Hawks Athletic Field	22,916	6,000

C. Fund Balance Deficits

The following Funds had deficit cash fund balances at December 31, 2012:

HWY 22 Project	\$ (103,430)
TIF Districts	(7,630)
Hawks Athletic Field	(970)
Lions Park	(878)

NOTE 3 – 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 had deposits as follows:

Checking	\$ 143,810
Savings and Money Market	<u>2,445</u>
Total Deposits and Petty Cash	<u><u>\$ 146,255</u></u>

CITY OF EDEN VALLEY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

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

Investment Type	Fair Value	Investment Maturities			Ratings
		1 Year or Less	1-2 Years	3-5 Years	
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	<u>\$ 1,530,384</u>	<u>\$ 648,825</u>	<u>\$ 208,078</u>	<u>\$ 673,481</u>	
		Maturity	Maximum Investments		
		1 Year or Less	42%		
		1-2 Years	14%		
		3-5 Years	44%		

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, and GE Capital Financial Inc UT.

C. Deposits and Investments

Cash and investments are classified in the December 31, 2012, regulatory basis financial statements as listed below and on the following page.

Petty Cash	\$ 300
Total Deposits	146,255
Total Investments	<u>1,530,384</u>
Total Deposits and Petty Cash	<u>\$ 1,676,939</u>

CITY OF EDEN VALLEY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

C. Deposits and Investments (Continued)

Statement of Balances Arising from Cash Transactions - Governmental Funds:	
Cash and Investments	\$ 864,429
Statement of Balances Arising from Cash Transactions - Proprietary Funds:	
Cash and Investments	595,699
Statement of Fiduciary Net Position:	
Cash and Investments	<u>216,811</u>
Total Cash and Investments	<u><u>\$ 1,676,939</u></u>

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

There is a \$ 10,000 interfund loan between the Water Fund and the 2012 MN HWY 22 Improvement Bond Fund to assist with project costs and is being repaid as funds become available. This loan is not reported on the regulatory basis of accounting. No principal or interest was repaid on this loan in 2012.

B. Interfund Assets/Liabilities

At December 31, 2012, due from/to other funds for the City were as follows:

<u>Fund Type and Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other</u>
General Fund	\$ 112,908	\$ -
HWY 22 Project	-	103,430
Other Governmental Funds:	-	-
TIF Districts	-	7,630
Hawks Athletic Field	-	970
Lions Park	<u>-</u>	<u>878</u>
Total	<u><u>\$ 112,908</u></u>	<u><u>\$ 112,908</u></u>

The above interfund transactions were to cover a deficit cash balance and will be repaid as funds become available.

CITY OF EDEN VALLEY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

C. Interfund Transfers

For the year ended December 31, 2012, interfund transfers were included in the following Funds:

	Transfers In		
	General Fund	Nonmajor Governmental Funds	Total
Transfers Out:			
General Fund	\$ -	\$ 6,670	\$ 6,670
Sewer Fund	-	9,500	9,500
Nonmajor Governmental Funds	-	30,461	30,461
Trust Fund	10,000	-	10,000
Total	<u>\$ 10,000</u>	<u>\$ 46,631</u>	<u>\$ 56,631</u>

The purpose of the transfers was for debt service payments, to close funds, street improvements and in accordance with fire contract agreements.

NOTE 5 – LONG-TERM PAYABLE

The City currently has a long-term payable to the Sauk River Watershed District for \$ 24,000. This payable is to pay costs for a project that was not completed at the City. The payable began in 2011 and is payable over 10 years, with annual payments of \$ 3,000. Interest is being paid at 3.5%, or an annual interest payment of \$ 105.

CITY OF EDEN VALLEY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 6 – LONG-TERM DEBT

A. Bonds Payable

	Issue Year	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-Term Liabilities:						
Governmental Activities:						
General Obligation (G.O.)						
Bonds, Including Refunding Bonds:						
G.O. Improvement Bonds of 2003	2003	1.70%-4.10%	\$ 560,000	2019	\$ 245,000	\$ 35,000
G.O. Improvement Bonds of 2007	2007	4.3%	215,000	2018	135,000	20,000
Total G.O. Bonds, Including Refunding Bonds					380,000	55,000
Stearns Electric Loan	2007	0.00%	360,000	2016	144,000	36,000
USDA Rural Development Loan	2009	4.50%	400,000	2049	388,268	4,267
Total Loans					532,268	40,267
Total Governmental Activities Liabilities					912,268	95,267
Enterprise Funds:						
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 Enterprise Fund Bonds					2,519,000	242,000
Total all Long-Term Liabilities					\$ 3,431,268	\$ 337,267

The following is a summary of bonds payable transactions of the City for the year ended 2012:

	Beginning Balance	Increases	Decreases	Ending Balance
G.O. Special Assessment Bonds	\$ 435,000	\$ -	\$ (55,000)	\$ 380,000
Revenue Bonds	525,000	-	(60,000)	465,000
Stearns Electric Loan	180,000	-	(36,000)	144,000
USDA Rural Development Loan	392,352	-	(4,084)	388,268
PFA G.O. Revenue Notes	2,225,771	-	(171,771)	2,054,000
Total Long-Term Liabilities	\$ 3,758,123	\$ -	\$ (326,855)	\$ 3,431,268

CITY OF EDEN VALLEY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 6 – LONG-TERM DEBT

B. Bonds, Certificates and Loans Payable

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

Year Ending December 31,	Special Assessment Bonds			Stearns Electric Loan	USDA Rural Development Loan		
	Principal	Interest	Total	Principal	Principal	Interest	Total
2013	\$ 55,000	\$ 14,354	\$ 69,354	\$ 36,000	\$ 4,267	\$ 17,473	\$ 21,740
2014	55,000	12,198	67,198	36,000	4,459	17,281	21,740
2015	55,000	10,006	65,006	36,000	4,660	17,080	21,740
2016	60,000	7,675	67,675	36,000	4,870	16,870	21,740
2017	60,000	5,201	65,201	-	5,089	16,651	21,740
2018-2022	95,000	3,407	98,407	-	29,093	79,607	108,700
2023-2027	-	-	-	-	36,255	72,445	108,700
2028-2032	-	-	-	-	45,181	63,519	108,700
2033-2037	-	-	-	-	56,304	52,396	108,700
2038-2042	-	-	-	-	70,165	38,535	108,700
2043-2047	-	-	-	-	87,438	21,262	108,700
2048-2049	-	-	-	-	40,487	2,748	43,235
Total	<u>\$ 380,000</u>	<u>\$ 52,841</u>	<u>\$ 432,841</u>	<u>\$ 144,000</u>	<u>\$ 388,268</u>	<u>\$ 415,867</u>	<u>\$ 804,135</u>

Year Ended December 31,	Revenue Bonds			PFA Note		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 65,000	\$ 20,315	\$ 85,315	\$ 177,000	\$ 48,834	\$ 225,834
2014	70,000	17,650	87,650	183,000	44,218	227,218
2015	75,000	14,710	89,710	187,000	39,447	226,447
2016	80,000	11,485	91,485	192,000	34,560	226,560
2017	85,000	7,965	92,965	197,000	29,536	226,536
2018-2022	90,000	4,140	94,140	757,000	71,264	828,264
2023-2027	-	-	-	253,000	20,121	273,121
2028-2029	-	-	-	108,000	2,485	110,485
Total	<u>\$ 465,000</u>	<u>\$ 76,265</u>	<u>\$ 541,265</u>	<u>\$ 2,054,000</u>	<u>\$ 290,465</u>	<u>\$ 2,344,465</u>

The General Fund is responsible for the liquidation of the Stearns Electronic Loan and the USDA Rural Development Loan; and the general government Debt Service Funds will pay for the outstanding principal and interest on the special assessment bonds. The Water and Sewer Funds are responsible for payment of their respective Public Facilities Authority (PFA) loans and the Senior Housing Fund is responsible for paying the revenue bond liability.

CITY OF EDEN VALLEY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 7 – RECEIVABLES

A. Notes Receivable

Notes, loans and lease receivables at December 31, 2012 are as follows:

R.E.I. Coatings, Inc. Promissory Note:

\$ 25,000 promissory note, due in monthly installments of \$ 265 through June 2013, interest at 5.0%	\$ 1,569
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Valley Inn Promissory Note:

\$ 37,502 promissory note, due in monthly installments of \$ 530 through November 2015, interest at 5.0%	18,579
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Thielen Machine and Welding Promissory Note:

\$ 20,000 promissory note, due in monthly installments of \$ 212 through May 2015, interest at 5.0%	5,784
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Eden Lake Veterinary Services Promissory Note:

\$ 50,000 promissory note, due in monthly installments of \$ 530 through November 2013, with a balloon payment of \$ 28,103 due December 2013, interest at 5.0%	32,966
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Twice as Nice Promissory Note:

\$ 30,000 promissory note, due in monthly installments of \$ 318 through November 2013, with a balloon payment of \$ 16,861 due December 2013, interest at 5.0%	19,522
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Thielen Machine and Welding

\$ 15,000 promissory note, due in monthly installments of \$ 159 through March 2017, with a balloon payment of \$ 8,554 due April 2017, interest at 5.0%	<u>14,216</u>
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Total Notes Receivable	<u>\$ 92,636</u>
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B. Long-Term Receivable

Loans receivable at December 31, 2012, is due from the City of Watkins, Minnesota, for their share of PFA water system improvements. The receivable scheduled maturity is half of the underlying 1999 and 2000 PFA debt obligations listed in Note 6. The balance at December 31, 2012 was \$ 618,500, and \$ 65,500 was collected on the Receivable in 2012.

CITY OF EDEN VALLEY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 8 – FUND BALANCE DETAIL

Fund equity balances are classified as follows on the chart on the following page to reflect the limitations and restrictions of the respective funds.

	General	2003 Improvement Bonds	HWY 22 Project	Nonmajor Governmental Fund	Total
Restricted:					
Police Department	\$ -	\$ -	\$ -	\$ 2,614	\$ 2,614
Housing Rehabilitation	-	-	-	73,300	73,300
Park Development	-	-	-	6,149	6,149
Debt Service	-	110,606	-	66,027	176,633
Committed:					
Economic Development	-	-	-	31,451	31,451
Valley Daze Celebration	-	-	-	498	498
Community Development	-	-	-	40,334	40,334
Capital Projects	-	-	-	116,522	116,522
Assigned:					
Emergency Snow Removal	5,000	-	-	-	5,000
Police Escrow	28,000	-	-	-	28,000
Unassigned	496,836	-	(103,430)	(9,478)	383,928
Total	<u>\$529,836</u>	<u>\$ 110,606</u>	<u>\$(103,430)</u>	<u>\$ 327,417</u>	<u>\$ 864,429</u>

NOTE 9 – 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.

CITY OF EDEN VALLEY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 10 – 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.

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.

CITY OF EDEN VALLEY

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the 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.

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, 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 contribution to the PEPFF for the years ended December 31, 2012, 2011 and 2010 were \$ 7,968, \$ 7,157 and \$ 6,962, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

C. Defined Contribution Plan – PERA

Four Council Members, the Mayor of the City and 21 volunteer rescue squad members are covered by the Public Employee's Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes* Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% of the assets in each member's account annually.

CITY OF EDEN VALLEY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

C. Defined Contribution Plan – PERA (Continued)

Total contributions made by the City for elected officials during fiscal year 2012 were:

Contribution Amount		Percentage of Covered Payroll		Required Rates
Employee	Employer	Employee	Employer	
\$ 311	\$ 311	5.0%	5.0%	5.0%

Total contributions made by the City for the volunteer rescue squad during fiscal year 2012 were:

Contribution Amount		Percentage of Covered Payroll		Total Required Rate
Employee	Employer	Employee	Employer	
\$ 4,950	\$ 9,000	23.7%	43.1%	At least 7.5%

NOTE 11 – COMMITMENT

The City entered into a contract with Heiman Incorporated for the purchase of a fire truck. The project was approved for \$ 324,632 and the remaining commitment on the contract is \$ 230,142.

NOTE 12 – SUBSEQUENT EVENTS

On January 15, 2013, the City issued Taxable G.O. Equipment Certificate, Series 2013A, in the amount of \$ 175,000, interest 3.25%. This certificate was issued to fund the purchase of a fire truck.

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

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CITY OF EDEN VALLEY

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND**

For the Year Ended December 31, 2012

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
RECEIPTS			
Taxes			
Property Taxes	\$ 384,000	\$ 396,784	\$ 12,784
Special Assessments	-	13	13
Licenses and Permits	7,850	8,085	235
Intergovernmental			
State Grants and Aids:			
Local Government Aid	228,099	228,099	-
Market Value Credit	-	278	278
Police and Fire Relief Aid	21,000	21,683	683
PERA Aid	703	703	-
Other Aids and Grants	-	800	800
Federal Grant	-	72,272	72,272
Total Intergovernmental	<u>249,802</u>	<u>323,835</u>	<u>74,033</u>
Charges for Services			
General Government	8,100	8,213	113
Public Safety:			
Public Safety Fire Protection	67,000	66,605	(395)
Public Works	-	200	200
Total Charges for Services	<u>75,100</u>	<u>75,018</u>	<u>(82)</u>
Fines and Forfeitures	1,150	2,493	1,343
Investment Earnings	2,000	9,356	7,356
Miscellaneous Revenue			
Refunds and Reimbursements	31,870	34,561	2,691
Donations and Contributions	3,000	3,660	660
Other	5,050	32,672	27,622
Total Miscellaneous Revenue	<u>39,920</u>	<u>70,893</u>	<u>30,973</u>
Total Receipts	<u>759,822</u>	<u>886,477</u>	<u>126,655</u>
DISBURSEMENTS			
General Government			
Mayor and Council:			
Current	13,625	10,497	(3,128)
Clerk/Treasurer:			
Current	105,180	103,351	(1,829)

CITY OF EDEN VALLEY

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND**

For the Year Ended December 31, 2012

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
DISBURSEMENTS			
General Government (Continued)			
Elections:			
Current	\$ 5,370	\$ 3,993	\$ (1,377)
Assessor:			
Current	5,500	5,280	(220)
Audit and Accounting:			
Current	12,100	10,025	(2,075)
Legal:			
Current	10,000	3,425	(6,575)
Planning and Zoning:			
Current	19,490	17,423	(2,067)
Other General Government:			
Current	63,500	60,895	(2,605)
Capital Outlay	-	2,545	2,545
Total General Government	<u>234,765</u>	<u>217,434</u>	<u>(17,331)</u>
Public Safety			
Police Protection:			
Current	128,395	134,719	6,324
Capital Outlay	7,000	5,048	(1,952)
Fire:			
Current	114,085	113,473	(612)
Capital Outlay	-	75,825	75,825
Animal Control:			
Current	540	36	(504)
Civil Defense:			
Current	2,775	537	(2,238)
Total Public Safety	<u>252,795</u>	<u>329,638</u>	<u>76,843</u>
Public Works			
Streets and General Maintenance:			
Current	114,190	122,017	7,827
Capital Outlay	36,000	32,528	(3,472)
Snow Removal:			
Current	23,535	19,638	(3,897)
Street Lighting:			
Current	28,065	28,655	590
Sanitation:			
Current	4,340	3,380	(960)
Total Public Works	<u>206,130</u>	<u>206,218</u>	<u>88</u>

CITY OF EDEN VALLEY

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND**

For the Year Ended December 31, 2012

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
DISBURSEMENTS			
Culture and Recreation			
Parks:			
Current	\$ 31,545	\$ 23,354	\$ (8,191)
Capital Outlay	9,000	9,565	565
Total Culture and Recreation	<u>40,545</u>	<u>32,919</u>	<u>(7,626)</u>
Debt Service			
Certificate of Indebtedness Repayments:			
Loan Principal	45,090	45,430	340
Loan Interest	18,550	18,201	(349)
Total Debt Service	<u>63,640</u>	<u>63,631</u>	<u>(9)</u>
Total Disbursements	<u>797,875</u>	<u>849,840</u>	<u>51,965</u>
 Excess of Receipts Over (Under) Disbursements	 (38,053)	 36,637	 74,690
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	-	2,010	2,010
Insurance Proceeds	-	4,921	4,921
Transfers In	10,000	10,000	-
Transfers Out	<u>(6,670)</u>	<u>(6,670)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>3,330</u>	<u>10,261</u>	<u>6,931</u>
 Net Change in Cash Fund Balances	<u>\$ (34,723)</u>	46,898	<u>\$ 81,621</u>
CASH FUND BALANCES			
Beginning of Year		<u>482,938</u>	
End of Year		<u>\$ 529,836</u>	

CITY OF EDEN VALLEY

COMBINING BALANCE SHEET -

NONMAJOR GOVERNMENTAL FUNDS

December 31, 2012

	Special Revenue			
	Police Forfeiture (210)	Business Incentives (220)	Housing Rehabilitation (225)	TIF Districts (240, 245, 250 and 280)
ASSETS				
Cash and Investments	<u>\$ 2,614</u>	<u>\$ 31,451</u>	<u>\$ 73,300</u>	<u>\$ -</u>
LIABILITIES AND CASH FUND BALANCES				
Liabilities				
Due to Other Funds	\$ -	\$ -	\$ -	\$ 7,630
Cash Fund Balances				
Restricted	2,614	-	73,300	-
Committed	-	31,451	-	-
Unassigned	-	-	-	(7,630)
Total Cash Fund Balances	<u>2,614</u>	<u>31,451</u>	<u>73,300</u>	<u>(7,630)</u>
 Total Liabilities and Cash Fund Balances	<u>\$ 2,614</u>	<u>\$ 31,451</u>	<u>\$ 73,300</u>	<u>\$ -</u>

Special Revenue

Valley Daze Celebration (260)	Park Dedication (265)	Healthy Communities (230)	Hawks Athletic Field (290)	Lions Park (295)	Total
<u>\$ 498</u>	<u>\$ 6,149</u>	<u>\$ 40,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,346</u>
\$ -	\$ -	\$ -	\$ 970	\$ 878	\$ 9,478
-	6,149	-	-	-	82,063
498	-	40,334	-	-	72,283
-	-	-	(970)	(878)	(9,478)
<u>498</u>	<u>6,149</u>	<u>40,334</u>	<u>(970)</u>	<u>(878)</u>	<u>144,868</u>
<u>\$ 498</u>	<u>\$ 6,149</u>	<u>\$ 40,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,346</u>

CITY OF EDEN VALLEY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012

	<u>Debt Service</u>			<u>Capital Projects</u>
	2007	2012 MN		Capital
	Improvement	Improvement	Total	Improvement
	<u>Bonds (330)</u>	<u>(320)</u>		<u>(410)</u>
ASSETS				
Cash and Investments	<u>\$ 49,106</u>	<u>\$ 16,921</u>	<u>\$ 66,027</u>	<u>\$ 24,265</u>
LIABILITIES AND CASH				
FUND BALANCES				
Liabilities				
Due to Other Funds	\$ -	\$ -	\$ -	\$ -
Cash Fund Balances				
Restricted	49,106	16,921	66,027	-
Committed	-	-	-	24,265
Unassigned	-	-	-	-
Total Cash Fund Balances	<u>49,106</u>	<u>16,921</u>	<u>66,027</u>	<u>24,265</u>
 Total Liabilities and Cash Fund Balances	<u>\$ 49,106</u>	<u>\$ 16,921</u>	<u>\$ 66,027</u>	<u>\$ 24,265</u>

Capital Projects		
Rescue Equipment (470 and 475)	Total	Total Governmental Funds
<u>\$ 92,257</u>	<u>\$ 116,522</u>	<u>\$ 336,895</u>
\$ -	\$ -	\$ 9,478
-	-	148,090
92,257	116,522	188,805
-	-	(9,478)
<u>92,257</u>	<u>116,522</u>	<u>327,417</u>
<u>\$ 92,257</u>	<u>\$ 116,522</u>	<u>\$ 336,895</u>

CITY OF EDEN VALLEY

**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012**

	Special Revenue			
	Police Forfeiture (210)	Business Incentives (220)	Housing Rehabilitation (225)	TIF Districts (240, 245, 250 and 280)
RECEIPTS				
General Property Taxes	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	18,406
Special Assessments	-	-	-	-
Investment Earnings	-	6	33	19
Miscellaneous:				
Donations and Contributions	-	412	-	-
Refunds and Reimbursements	-	23,014	-	-
Other	-	-	-	-
Total Receipts	<u>-</u>	<u>23,432</u>	<u>33</u>	<u>18,425</u>
DISBURSEMENTS				
Current				
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Economic Development	-	19,016	-	67,750
Debt Service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay				
Public Safety	-	-	-	-
Culture and Recreation	-	-	-	-
Total Disbursements	<u>-</u>	<u>19,016</u>	<u>-</u>	<u>67,750</u>
Excess of Receipts Over (Under) Disbursements	-	4,416	33	(49,325)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Cash Fund Balances	-	4,416	33	(49,325)
CASH FUND BALANCES				
Beginning of Year	<u>2,614</u>	<u>27,035</u>	<u>73,267</u>	<u>41,695</u>
End of Year	<u>\$ 2,614</u>	<u>\$ 31,451</u>	<u>\$ 73,300</u>	<u>\$ (7,630)</u>

Special Revenue						Debt Service
Valley Daze Celebration (260)	Park Dedication (265)	Healthy Communities (230)	Hawks Athletic Field (290)	Lions Park (295)	Total	2004 Refunding Bond (350)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 492
-	-	-	-	-	18,406	-
-	-	-	-	-	-	190
-	2	-	-	-	60	2
14,100	-	40,405	22,000	5,450	82,367	-
1,500	-	10	-	-	24,524	-
-	-	61,050	-	-	61,050	-
<u>15,600</u>	<u>2</u>	<u>101,465</u>	<u>22,000</u>	<u>5,450</u>	<u>186,407</u>	<u>684</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
15,300	-	-	15,286	6,969	37,555	-
-	-	64,652	-	-	151,418	-
-	-	-	-	-	-	-
-	-	-	-	-	-	930
-	-	-	-	-	-	-
-	-	-	7,630	-	7,630	-
<u>15,300</u>	<u>-</u>	<u>64,652</u>	<u>22,916</u>	<u>6,969</u>	<u>196,603</u>	<u>930</u>
300	2	36,813	(916)	(1,519)	(10,196)	(246)
-	-	-	-	-	-	-
-	-	-	-	-	-	(30,461)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,461)</u>
300	2	36,813	(916)	(1,519)	(10,196)	(30,707)
198	6,147	3,521	(54)	641	155,064	30,707
<u>\$ 498</u>	<u>\$ 6,149</u>	<u>\$ 40,334</u>	<u>\$ (970)</u>	<u>\$ (878)</u>	<u>\$ 144,868</u>	<u>\$ -</u>

CITY OF EDEN VALLEY

**COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012**

	Debt Service		
	2007 Improvement Bonds (330)	2012 MN HWY 22 Improvement (320)	Total
RECEIPTS			
General Property Taxes	\$ 12,410	\$ 822	\$ 13,724
Tax Increments	-	-	-
Special Assessments	3,823	12,001	16,014
Investment Earnings	12	2	16
Miscellaneous:			
Donations and Contributions	-	-	-
Refunds and Reimbursements	-	-	-
Other	-	-	-
Total Receipts	<u>16,245</u>	<u>12,825</u>	<u>29,754</u>
DISBURSEMENTS			
Current			
Public Safety	-	-	-
Public Works	-	-	-
Culture and Recreation	-	-	-
Economic Development	-	-	-
Debt Service			
Principal	20,000	-	20,000
Interest and Other Charges	6,785	-	7,715
Capital Outlay			
Public Safety	-	-	-
Culture and Recreation	-	-	-
Total Disbursements	<u>26,785</u>	<u>-</u>	<u>27,715</u>
Excess of Receipts Over (Under) Disbursements	(10,540)	12,825	2,039
OTHER FINANCING SOURCES (USES)			
Transfers In	9,500	4,096	13,596
Transfers Out	-	-	(30,461)
Total Other Financing Sources (Uses)	<u>9,500</u>	<u>4,096</u>	<u>(16,865)</u>
Net Change in Cash Fund Balances	(1,040)	16,921	(14,826)
CASH FUND BALANCES			
Beginning of Year	<u>50,146</u>	<u>-</u>	<u>80,853</u>
End of Year	<u>\$ 49,106</u>	<u>\$ 16,921</u>	<u>\$ 66,027</u>

Capital Projects				
Capital Improvement (410)	Fire and Rescue Equipment (470 and 475)	2008 Street and Utility Improvements (480)	Total	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 13,724
-	-	-	-	18,406
-	-	735	735	16,749
9	56	-	65	141
-	43,067	-	43,067	125,434
-	-	-	-	24,524
-	-	-	-	61,050
9	43,123	735	43,867	260,028
-	17,652	-	17,652	17,652
-	-	97	97	97
-	-	-	-	37,555
-	-	-	-	151,418
-	-	-	-	20,000
-	-	-	-	7,715
-	112,894	-	112,894	112,894
-	-	-	-	7,630
-	130,546	97	130,643	354,961
9	(87,423)	638	(86,776)	(94,933)
-	6,670	26,365	33,035	46,631
-	-	-	-	(30,461)
-	6,670	26,365	33,035	16,170
9	(80,753)	27,003	(53,741)	(78,763)
24,256	173,010	(27,003)	170,263	406,180
\$ 24,265	\$ 92,257	\$ -	\$ 116,522	\$ 327,417

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SUPPLEMENTARY INFORMATION

CITY OF EDEN VALLEY

SCHEDULE OF ACCOUNTS RECEIVABLE

December 31, 2012

<u>Fund</u>	<u>Source of Revenue</u>	<u>Purpose</u>	<u>Amount</u>
2003 Improvement Bonds	Stearns County	January Tax Settlement	\$ 14
2003 Improvement Bonds	Meeker County	January Tax Settlement	2,105
2012 MN HWY 22 Improvement	Stearns County	January Tax Settlement	21
2012 MN HWY 22 Improvement	Meeker County	January Tax Settlement	494
2007B Improvements Bonds	Meeker County	January Tax Settlement	4,830
TIF District 33	Meeker County	January Tax Settlement	564
Business Incentives	CS Sports Bar	Loan Receivable	39,677
Business Incentives	CK Companies, Inc.	Loan Receivable	25,999
Business Incentives	Eden Valley Properties	Loan Receivable	1,061
Capital Improvement	DiversiCom	Franchise Fees	3,715
General	Stearns County	January Tax Settlement	1,008
General	Meeker County	January Tax Settlement	5,991
General	Title Professionals & Abstract	Special Assess Searches	20
General	Home Town Title, Co.	Special Assess Searches	20
Sewer	Meeker County	January Tax Settlement	2,060
Sewer	Various	Utility Billing	19,772
Sewer	City Utilities	Sewer	384
Water	City Utilities	Water	755
Water	City of Watkins	Water Sales	8,181
Water	Meeker County	January Tax Settlement	5,070
Water	Various	Utility Billing	39,543
Total			<u><u>\$ 161,284</u></u>

CITY OF EDEN VALLEY

SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES
December 31, 2012

<u>Fund</u>	<u>Vendor Name</u>	<u>Item and Purpose</u>	<u>Amount</u>
General Fund	AmeriPride	Uniform Rental	\$ 28
General Fund	Bob Peschon	Service	200
General Fund	DiversiCOM	Service	808
General Fund	Business Forms & Accounting	Supplies	156
General Fund	Central McGowan, Inc	Rental	4
General Fund	ComData	Supplies & Service	229
General Fund	EV Lumber Yard	Supplies	135
General Fund	Granite Electronics	Minor Equipment	1,622
General Fund	Heartland Security	Service	63
General Fund	Hedlund Plumbing & Heating	Service	185
General Fund	Hutchinson Leader	Advertising	116
General Fund	Jim Rademacher	Maintenance/Repair	35
General Fund	Meeker County Auditor	Dispatch Fees	900
General Fund	Meeker County Sheriff	Programming Pagers	363
General Fund	Mikes Standard	Gas/Supplies/Oil/ Rep	1,312
General Fund	T-Mobile	Phone Service	128
General Fund	Office Depot	Supplies	31
General Fund	Voss Plumbing & Heating	Maintenance/Repair	690
General Fund	Resource Training & Solutions	Dues	90
General Fund	Rinke Noonan	Legal	1,136
General Fund	VMG	Supplies	31
General Fund	Thielen Excavating	Service	662
General Fund	Thielen Machine & Welding	Supplies/Service	50
General Fund	Toshiba Financial Services	Copier Maintenance	135
General Fund	Tri-County News	Advertising	323
General Fund	West Central Sanitation	Service	68
General Fund	Minnesota Revenue	Sales Tax and Supplies	26
General Fund	CenterPoint Energy	Natural Gas	1,181
General Fund	Xcel Energy	Electric	3,162
General Fund	Meeker Cooperative	Electric	125
General Fund	Verizon	Phone Service	26
General Fund	City Utilities - Water/Sewer	City Utilities	422
Fire and Rescue Equipment	Heiman Fire Equipment	Fire Truck Supplies	405
Fire and Rescue Equipment	Heiman Fire Equipment	Fire Truck Supplies	567

CITY OF EDEN VALLEY

**SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES
December 31, 2012**

<u>Fund</u>	<u>Vendor Name</u>	<u>Item and Purpose</u>	<u>Amount</u>
Business Incentives	Frauenshuh & Spooner	Legal	\$ 223
Business Incentives	Doug Klein	Service	1,236
Hawks Athletic Field	DiversiCOM	Phone Service	41
Hawks Athletic Field	CenterPoint Energy	Natural Gas	163
Hawks Athletic Field	Xcel Energy	Electric	64
Hawks Athletic Field	City Utilities - Water/Sewer	City Utilities	33
Lions Park	DiversiCOM	Phone Service	39
Lions Park	Xcel Energy	Electric	329
Lions Park	City Utilities - Water/Sewer	City Utilities	29
HWY 22 Project	Bolton & Menk	Engineering	66,332
HWY 22 Project	Braun Intertec	Service	739
Healthy Communities	ComData	Supplies & Service	55
Healthy Communities	EV Lumber Yard	Supplies	167
Healthy Communities	James Schutz	Service	231
Healthy Communities	Tri-County News	Advertising	44
Healthy Communities	MN Revenue	Sale Tax & Use Tax	9
Healthy Communities	Paynesville Press	Advertising and Printing	41
Healthy Communities	VMG	Supplies	8
Senior Housing	DiversiCOM	Phone Service	125
Senior Housing	EMC Publishers	Advertising	64
Senior Housing	Tri-County News	Advertising	32
Senior Housing	CenterPoint Energy	Natural Gas	596
Senior Housing	Xcel Energy	Electric	355
Senior Housing	City Utilities - Water/Sewer	City Utilities	531
Senior Housing	VMG	Supplies	25
Senior Housing	West Central Sanitation	Service	86
Sewer	City Utilities - Water/Sewer	City Utilities	14
Sewer	Flexible Pipe Tool Co.	Supplies	306
Sewer	DiversiCOM	Phone Service	119
Sewer	Business Forums & Accounting	Supplies	97
Sewer	Gopher State One-Call	Service	10
Sewer	Utility Consultants	Service	113
Sewer	Xcel Energy	Electric	311

CITY OF EDEN VALLEY

SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES

December 31, 2012

<u>Fund</u>	<u>Vendor Name</u>	<u>Item and Purpose</u>	<u>Amount</u>
Water	MN Revenue	Sale Tax & Use Tax	\$ 476
Water	Meeker Cooperative	Electric	511
Water	HACH	Supplies	228
Water	City of Watkins	Salary	997
Water	DiversiCOM	Phone Service	151
Water	Business Forums & Accounting	Supplies	97
Water	DCP Industries Inc	Supplies	589
Water	Gopher State One-Call	Service	10
Water	Xcel Energy	Electric	841
Water	Nohner Electric	Service	2,182
Water	CenterPoint Energy	Natural Gas	287
Total			<u><u>\$ 94,350</u></u>

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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund, and the aggregate remaining fund information of the City of Eden Valley as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Eden Valley's regulatory basic financial statements, and have issued our report thereon dated March 7, 2013.

The City prepares its financial statements in accordance with the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As a result, we have issued an adverse opinion on accounting principles generally accepted in the United States of America, but an unqualified opinion on the regulatory basis.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses on Internal Controls and Legal Compliance, we identified certain deficiencies in internal control 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 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 Responses on Internal Controls and Legal Compliance to be material weaknesses, listed as Audit Findings 06-01, 07-01 and 07-02.



Compliance and Other Matters

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

City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses on Internal Controls and Legal Compliance. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Kern, Dewenter, Viere, Ltd.".

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



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REPORT ON LEGAL COMPLIANCE

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

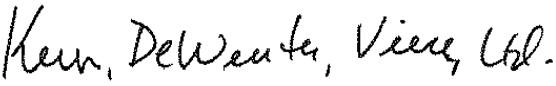
We have audited the financial statements of each major fund and aggregate remaining fund information of the City of Eden Valley, Minnesota, for the year ended December 31, 2012, which collectively comprise the regulatory basis financial statements and have issued our report thereon dated March 7, 2013. The City prepares its financial statements in accordance with the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As a result, we have issued an adverse opinion on accounting principles generally accepted in the United States of America, but an unqualified opinion on the regulatory basis.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor, pursuant to *Minnesota Statutes* Sec. 6.65. Accordingly, 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 Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and Tax Increment Financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Responses on Legal Compliance and Internal Control.

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


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

CITY OF EDEN VALLEY
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL AND LEGAL COMPLIANCE
December 31, 2012

CURRENT YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses:

Audit Finding 06-01 – Lack of Segregation of Accounting Duties

During the year ended December 31, 2012, the City had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Management and the City Council are aware of this condition and have taken certain steps to compensate for the lack of segregation, but due to the small staff needed to handle all of the accounting duties, the costs of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. However, management and the City Council must remain aware of this situation and should continually monitor the accounting system, including changes that occur. Examples of lack of segregation of accounting duties are as follows, the list is not all inclusive.

Revenue Cycle

The four areas of segregation in the revenue cycle include: mail custody, Treasurer custody, accounts receivable and accounting. We noted there are overlapping duties. Both the City Clerk/Treasurer and Deputy Clerk open mail, receipt cash, prepare bank deposits and record receipts.

As a compensating control, random spot checks can be implemented for review of receipts, as well as additional procedures to ensure that bank reconciliations are being performed and reviewed on a timely basis.

Payroll Cycle

Areas of segregation include human resources authorization, immediate supervisor authorization, payroll recording, paymaster custody and accounting.

Both the City Clerk/Treasurer and Deputy Clerk can take responsibility for the entire payroll cycle.

Disbursement Cycle

Areas of segregation include payment authorization, check custody, accounts payable and accounting.

Invoices are to be approved by department heads and reviewed by the City Clerk/Treasurer. These are then provided to the Deputy Clerk for entry into the fund accounting system. An accounts payable register is then printed by the Deputy Clerk for approval by City Council and City Clerk/Treasurer. The Deputy Clerk prints checks which are then signed by two of the three authorized signers and then mailed. Finally, the City Clerk/Treasurer reconciles the bank statements monthly.

CITY OF EDEN VALLEY
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL AND LEGAL COMPLIANCE
December 31, 2012

CURRENT YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses: (Continued)

Audit Finding 06-01 – Lack of Segregation of Accounting Duties (Continued)

Disbursement Cycle (Continued)

There is overlap in duties causing a lack of segregation in accounting duties in the following area: The City Clerk/Treasurer approves invoices for the general government function, is an authorized signer of checks and will prepare the payments and accounts payable posting in the Deputy Clerk's absence. The Deputy Clerk is responsible for entering the accounts payable listing, posting of payments and mailing of checks and invoices.

City's Response:

Management will continue to evaluate segregation of accounting duties and implement changes as deemed practical.

Audit Finding 07-01 – Preparation of Financial Statements

As a function of the audit process, auditors are required to gain an understanding of the City's internal control, including the financial reporting process.

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements. This circumstance is not unusual in a city of your size.

This condition increases the risk that errors could occur which would not be detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the City's management and approval of the financial statements lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

City's Response:

Management will review the financial statements and take responsibility for them.

CITY OF EDEN VALLEY
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL AND LEGAL COMPLIANCE
December 31, 2012

CURRENT YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses: (Continued)

Audit Finding 07-02 – Material Audit Adjustment

The separate financial statements of the City's Enterprise Funds are prepared in accordance with the U.S. generally accepted accounting principles, primarily applying the accrual basis of accounting. Those financial statements take into consideration accounts receivable and accrued revenues, accounts payable and accrued expenses, capital assets and depreciation and the related long-term liabilities. While the source documentation was provided by the City, we proposed all of the reporting adjustments necessary to convert the regulatory basis financial statements to accrual (GAAP) basis financial statements. This condition could affect the City's ability to report financial data consistent with the assertions of management in the accrual basis financial statements.

City's Response:

Management will review the financial statements and take responsibility for them.

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Obtain Performance and Payment Bonds for Service Contracts over \$ 75,000

Minnesota Statutes 574.26 requires that contractors doing public work pledge a performance and payment bond in an amount not less than the contract price if the contract is in excess of \$ 75,000.

During our audit as of December 31, 2012, the City failed to obtain a performance and payment bond for the fire truck purchase that exceeded \$ 75,000.

City's Response:

The City will obtain performance and payment bonds on future projects.