

**CITY OF BIG LAKE**  
**Sherburne County, Minnesota**

**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2012**

**CITY OF BIG LAKE**  
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**CITY OF BIG LAKE**

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

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Lori Kampa	Mayor	December 31, 2012
Raeanne Danielowski	Council Member	December 31, 2012
Duane Langsdorf	Council Member	December 31, 2012
Mike Wallen	Council Member	December 31, 2014
Richard Backlund	Council Member	December 31, 2014
<u>Administration</u>		
Todd Bodem	City Administrator	Appointed



*Expert advice. When you need it.<sup>SM</sup>*

## **INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members  
of the City Council  
City of Big Lake  
Big Lake, Minnesota

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Big Lake, Minnesota, as of and for the year ended December 31, 2012, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Big Lake, Minnesota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Big Lake's basic financial statements. The accompanying supplementary information as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### *Implementation of GASB 63*

As discussed in Note 12 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. Our opinion is not modified with the respect to this matter.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2013 on our consideration of the City of Big Lake'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 of Big Lake internal control over financial reporting and compliance.

*Kern, Dewenter, Viere, Ltd*

KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota  
April 9, 2013

**CITY OF BIG LAKE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

As management of the City of Big Lake (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended in December 31, 2012. We encourage readers to consider the information presented here.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$ 55,085,528. Of this amount, \$ 5,146,234 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position decreased \$ 1,853,129 from the prior year. Of that decrease, 51% was attributable to governmental activities and 49% attributable to business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 11,741,162, an increase of \$ 283,051 from the previous year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 1,999,403 or 60%, of the total General Fund expenditures and transfers out.
- The City's total bonded debt increased by \$ 2,052,667 during the current fiscal year. One future refunding was done in 2012. The refunding was done to take advantage of lower interest rates, and has a present value cash flow savings of \$ 241,589. Five bonds were included in this issuance: 2004A, 2005B, 2006B, 2007D, and 2007E.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements**

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

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

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

**CITY OF BIG LAKE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets and highways, economic development, culture and recreation and interest/fiscal charges on long-term debt. The business-type activities of the City include water, sewer, storm sewer and liquor operations.

The government-wide financial statements include the City itself (known as the primary government). The Economic Development Authority (EDA), although legally separate, functions for all practical purposes as a department of the City and, therefore, has been included within the general government activities of the primary government.

The government-wide financial statements can be found on pages 16-18 of this report.

### **Fund Financial Statements**

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

### **Governmental Funds**

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 45 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund as it is considered to be a major fund. Data from the other 44 governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for its General Fund and special revenue funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with budget.



**CITY OF BIG LAKE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

The basic governmental fund financial statements can be found on pages 19-23 of this report.

**Proprietary Funds**

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, storm sewer and liquor operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, storm sewer and liquor operations, all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 27-52 of this report.

**Other Information**

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the Notes to the Financial Statements. Combining and individual fund statements and schedules can be found on pages 54-69 of this report.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$ 55,085,528 at the close of the most recent fiscal year.

Approximately 76% of the City's net position reflect its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (14.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$ 5,146,234) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of the governmental activities, as well as for its water, sanitary sewer, storm sewer and liquor enterprises separately.

**CITY OF BIG LAKE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

**City of Big Lake's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 18,705,303	\$ 19,686,310	\$ 7,254,360	\$ 4,204,662	\$ 25,959,663	\$ 23,890,972
Capital Assets	33,226,114	33,819,711	59,440,748	61,220,262	92,666,862	95,039,973
Total Assets	<u>\$ 51,931,417</u>	<u>\$ 53,506,021</u>	<u>\$ 66,695,108</u>	<u>\$ 65,424,924</u>	<u>\$ 118,626,525</u>	<u>\$ 118,930,945</u>
Noncurrent Liabilities Outstanding	\$ 21,765,727	\$ 26,581,247	\$ 31,443,588	\$ 29,519,369	\$ 53,209,315	\$ 56,100,616
Other Liabilities	7,799,666	3,611,651	2,532,016	2,280,021	10,331,682	5,891,672
Total Liabilities	<u>\$ 29,565,393</u>	<u>\$ 30,192,898</u>	<u>\$ 33,975,604</u>	<u>\$ 31,799,390</u>	<u>\$ 63,540,997</u>	<u>\$ 61,992,288</u>
<b>NET POSITION:</b>						
Net Investment in Capital Assets	\$ 12,011,455	\$ 11,330,160	\$ 29,889,090	\$ 30,287,189	\$ 41,900,545	\$ 41,617,349
Restricted	7,889,029	9,028,214	149,720	149,720	8,038,749	9,177,934
Unrestricted	2,465,540	2,954,749	2,680,694	3,188,625	5,146,234	6,143,374
Total Net Position	<u>\$ 22,366,024</u>	<u>\$ 23,313,123</u>	<u>\$ 32,719,504</u>	<u>\$ 33,625,534</u>	<u>\$ 55,085,528</u>	<u>\$ 56,938,657</u>

The City's net position decreased \$ 1,853,129 during the current fiscal year. Net position related to governmental activity decreased \$ 947,099. The remaining decrease was a result of the business-type activities decreasing net position by \$ 906,030.

**CITY OF BIG LAKE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

**Governmental Activities**

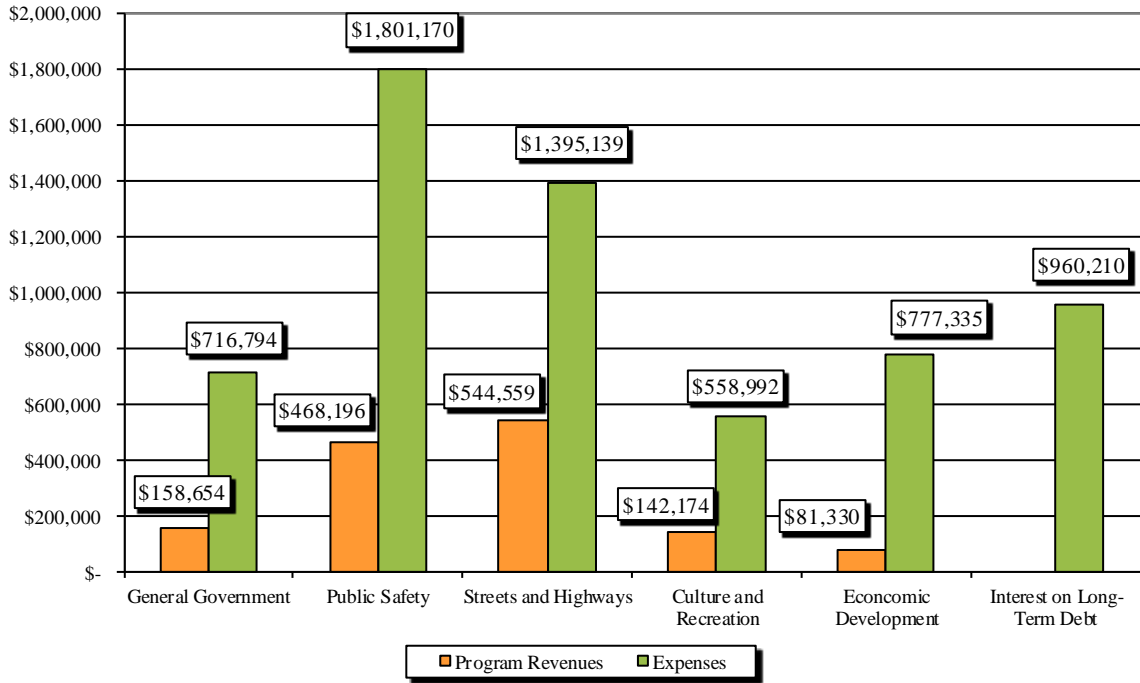
Governmental activities when including interest earnings and transfers decreased the City's net position by \$ 947,099, thereby accounting for 51% of the overall decrease in the total net position of the City.

**City of Big Lake's Change in Net Position**

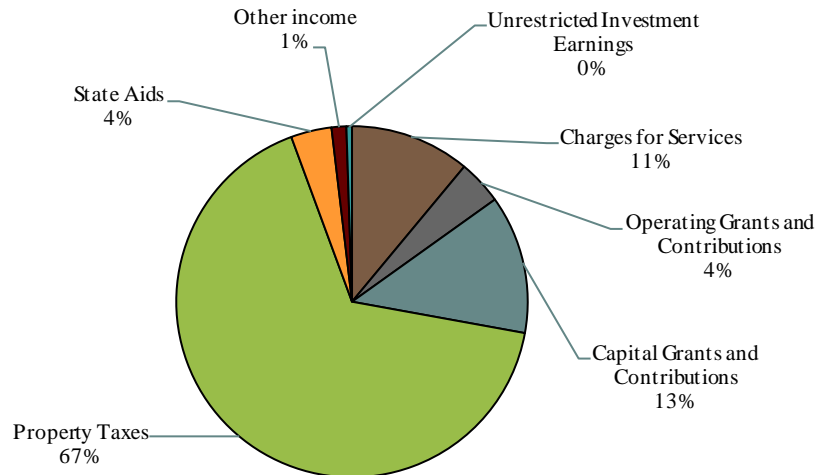
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>REVENUE:</b>						
Program Revenues:						
Charges for Services	\$ 552,204	\$ 771,869	\$ 6,538,309	\$ 5,879,684	\$ 7,090,513	\$ 6,651,553
Operating Grants and Contributions	204,374	186,634	-	-	204,374	186,634
Capital Grants and Contributions	638,335	986,622	-	-	638,335	986,622
General Revenues:						
Property Taxes and Tax Increment	3,330,551	3,148,608	-	-	3,330,551	3,148,608
State Aids	187,458	249,952	-	-	187,458	249,952
Unrestricted Investment Earnings	25,639	49,019	61,486	92,518	87,125	141,537
Other Income	67,947	333,172	-	-	67,947	333,172
Total Revenues	<u>\$ 5,006,508</u>	<u>\$ 5,725,876</u>	<u>\$ 6,599,795</u>	<u>\$ 5,972,202</u>	<u>\$ 11,606,303</u>	<u>\$ 11,698,078</u>
<b>EXPENSES:</b>						
General Government	\$ 716,794	\$ 775,482	\$ -	\$ -	\$ 716,794	\$ 775,482
Public Safety	1,801,170	1,856,149	-	-	1,801,170	1,856,149
Streets and Highways	1,395,139	1,415,625	-	-	1,395,139	1,415,625
Culture and Recreation	558,992	551,117	-	-	558,992	551,117
Economic Development	777,335	1,012,483	-	-	777,335	1,012,483
Interest on Long-Term Debt	960,210	985,612	-	-	960,210	985,612
Water	-	-	1,889,253	1,773,264	1,889,253	1,773,264
Sewer	-	-	2,008,098	1,868,823	2,008,098	1,868,823
Municipal Liquor	-	-	2,994,617	2,862,962	2,994,617	2,862,962
Storm Sewer	-	-	357,824	330,071	357,824	330,071
Total Expenses	<u>\$ 6,209,640</u>	<u>\$ 6,596,468</u>	<u>\$ 7,249,792</u>	<u>\$ 6,835,120</u>	<u>\$ 13,459,432</u>	<u>\$ 13,431,588</u>
Increase (Decrease) in Net Position before Transfers	\$ (1,203,132)	\$ (870,592)	\$ (649,997)	\$ (862,918)	\$ (1,853,129)	\$ (1,733,510)
Transfers	256,033	535,521	(256,033)	(535,521)	-	-
Increase (Decrease) in Net Position	<u>(947,099)</u>	<u>(335,071)</u>	<u>(906,030)</u>	<u>(1,398,439)</u>	<u>(1,853,129)</u>	<u>(1,733,510)</u>
Net Position - Beginning	23,313,123	23,648,194	33,625,534	35,023,973	56,938,657	58,672,167
Net Position - Ending	<u>\$ 22,366,024</u>	<u>\$ 23,313,123</u>	<u>\$ 32,719,504</u>	<u>\$ 33,625,534</u>	<u>\$ 55,085,528</u>	<u>\$ 56,938,657</u>

**CITY OF BIG LAKE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

**Expenses and Program Revenues - Governmental Activities**

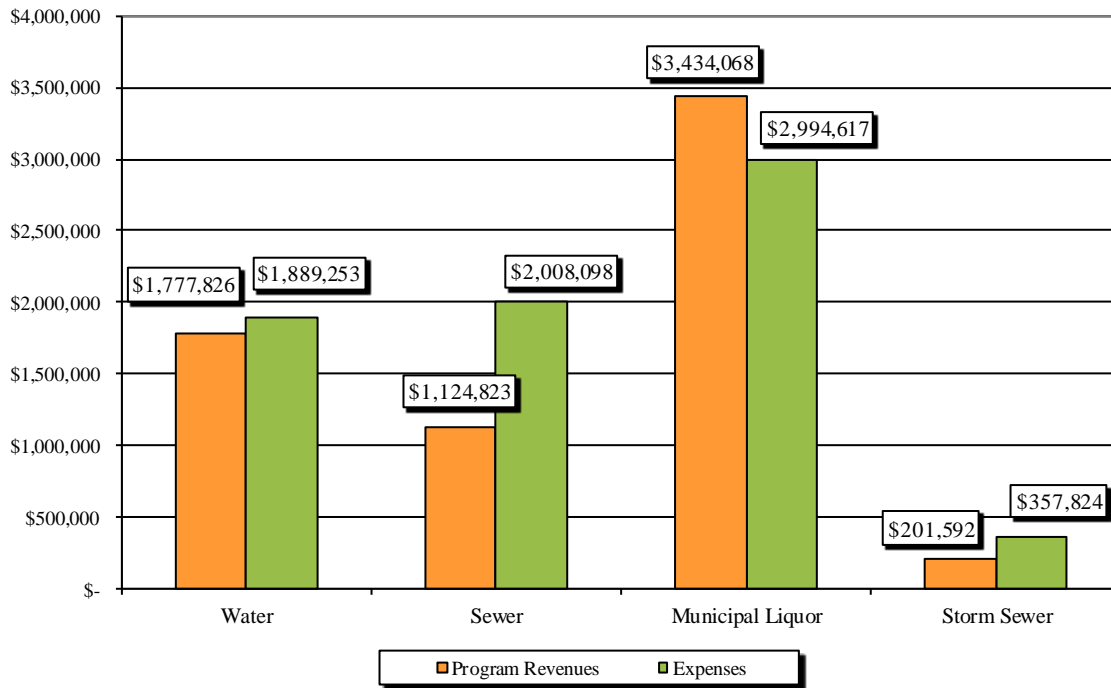


**Revenues by Source - Governmental Activities**

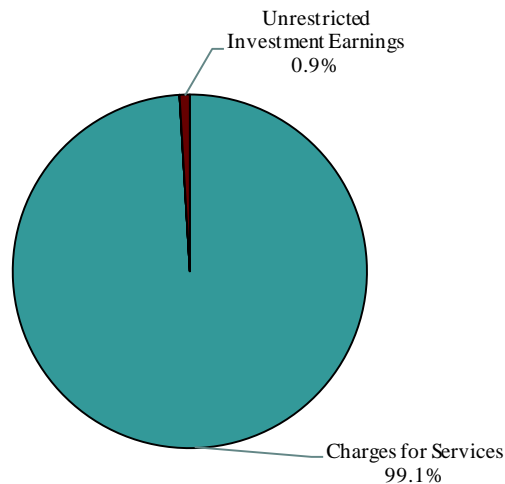


**CITY OF BIG LAKE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

**Expenses and Program Revenues - Business-Type Activities**



**Revenue by Source - Business-Type Activities**



**Business-Type Activities**

Business-type activities decreased the City's net assets by \$ 906,030, resulting in 49% of the total decrease in the government's net position.

**CITY OF BIG LAKE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 11,741,162, an increase of \$ 283,051 from the previous year. Approximately 3% of this total amount (\$ 326,301) constitutes assigned and unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is restricted or non-spendable to indicate that it is not available for new spending because it has external spending requirements.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unrestricted, spendable fund balance of the General Fund was \$ 2,108,547, while total fund balance reached \$ 2,233,058. As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted, unspendable fund balance represents 63% of the total General Fund expenditures and transfers out, while total fund balance represents 66% of that same amount.

The fund balance of the City's General Fund increased by \$ 255,740 during the current fiscal year. Total revenues and transfers in were \$ 365,102 over budget due to significant payments on delinquent taxes and receipt of LGA not budgeted. Expenditures and transfers out ended 2012 over budget by \$ 65,305.

**Proprietary Funds**

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

Unrestricted net position of the water operations at the end of the year amounted to \$ 242,525, those for the sewer operations amounted to \$ 3,641,931, the storm sewer operations were \$ 37,885, and those for the liquor operations amounted to \$ 446,250. The total decrease in net position for each of the utility funds was \$ (140,261), \$ (780,026), and \$ (175,035). The liquor fund saw an increase of \$ 189,292. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**CITY OF BIG LAKE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

The Municipal Liquor Store realized income before transfers of \$ 439,292. With an operating transfer of \$ 250,000 to the General Fund, the change in net position for the Liquor Fund was \$ 189,292.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The City's investment in capital assets for its governmental and business type activities as of December 31, 2012, amounts to \$ 92,666,862 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, improvements, infrastructure, collection and distribution systems, buildings and machinery and equipment.

**City of Big Lake's Capital Assets**  
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 7,973,665	\$ 7,832,585	\$ 1,533,956	\$ 1,533,956	\$ 9,507,621	\$ 9,366,541
Construction in Progress	3,649,966	3,113,806	15,408,479	18,005,605	19,058,445	21,119,411
Leasehold Improvements	52,848	56,427	122,034	128,076	174,882	184,503
Infrastructure	17,457,823	18,362,996	-	-	17,457,823	18,362,996
Collection and Distribution Systems	-	-	31,538,611	30,315,043	31,538,611	30,315,043
Buildings	3,409,550	3,567,443	10,627,851	11,031,266	14,037,401	14,598,709
Machinery and Equipment	682,262	886,454	209,817	206,316	892,079	1,092,770
Total	<u>\$ 33,226,114</u>	<u>\$ 33,819,711</u>	<u>\$ 59,440,748</u>	<u>\$ 61,220,262</u>	<u>\$ 92,666,862</u>	<u>\$ 95,039,973</u>

Additional information on the City's capital assets can be found in Note 6 on pages 40-42 of this report.

**Long-Term Debt**

At the end of the current fiscal year, the City had a total bonded debt outstanding of \$ 61,060,692. Of this amount, \$ 4,468,000 comprises debt backed by the full faith and credit of the government and \$ 19,220,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt represents bonds secured by specific revenue sources (i.e., tax increment financing [TIF] bonds, revenue bonds, lease revenue bonds).

**CITY OF BIG LAKE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

**City of Big Lake's Outstanding Bonded Debt**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
G.O. Bonds/Notes	\$ 4,468,000	\$ 4,971,165	\$ -	\$ -	\$ 4,468,000	\$ 4,971,165
G.O. Tax Increment Bonds	1,810,000	1,820,000	-	-	1,810,000	1,820,000
G.O. Special Assessment Bonds	19,220,000	19,100,000	-	-	19,220,000	19,100,000
EDA Lease Revenue Bonds	1,762,995	1,799,525	-	-	1,762,995	1,799,525
PFA Drinking Water Revolving Loan	-	-	5,935,000	6,354,000	5,935,000	6,354,000
PFA Clean Water Revolving Loan	-	-	12,734,698	12,814,500	12,734,698	12,814,500
G.O. Revenue Bonds/Notes	-	-	13,685,000	10,633,835	13,685,000	10,633,835
Public Project Revenue Bonds	386,259	405,390	1,058,740	1,109,610	1,444,999	1,515,000
<b>Total</b>	<b>\$ 27,647,254</b>	<b>\$ 28,096,080</b>	<b>\$ 33,413,438</b>	<b>\$ 30,911,945</b>	<b>\$ 61,060,692</b>	<b>\$ 59,008,025</b>

The City's total bonded debt increased by \$ 2,052,667 during the current fiscal year because an issuance for refunding was done.

The City maintains an "A+" rating from Standard & Poor's for general obligation (G.O.) debt.

Additional information on the City's long-term debt can be found in Note 7 on pages 42-48 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Budgeted spending for the City's General Fund was increased by \$ 60,188, for an overall expenditure budget of \$ 3,458,733.
- The 2013 total levy amount of \$ 3,358,249 was a 1.9% increase over the 2012 amount. This was the first levy increase since 2010.
- In 2012 the City received \$ 156,000 in Local Government Aid, or LGA, that had not been budgeted. In order to maintain a low levy increase, LGA of \$ 62,590 was budgeted for 2013. This amount is not guaranteed, but if received, the anticipated payment will be in July.
- Water rates were increased from \$ 3.05 to \$ 3.20 per 1,000 gallons of usage and sewer rates were increased from \$ 3.72 to \$ 4.65 per 1,000 gallons of usage in 2013. These increases are necessary to cover the City's upcoming debt payments relating to the water and sewer infrastructure, as well as ensuring positive cash flow for operations in future years. These rates will be monitored on an annual basis and recommended changes brought to council for approval.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Big Lake, Finance Director, 160 Lake Street North, Big Lake, Minnesota 55309



## **BASIC FINANCIAL STATEMENTS**

**CITY OF BIG LAKE**  
**Sherburne County, Minnesota**

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

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Investments (Including Cash Equivalents)	\$ 6,027,772	\$ 369,907	\$ 6,397,679
Cash with Fiscal Agent	4,360,499	3,755,432	8,115,931
Restricted Cash	-	149,720	149,720
Receivables:			
Property Tax Receivable	168,705	-	168,705
Accounts Receivable	49,183	359,825	409,008
Interest Receivable	18,781	-	18,781
Notes Receivable	1,382,903	132,262	1,515,165
Special Assessments Receivable:			
Delinquent	157,418	26,567	183,985
Deferred	3,751,383	158,147	3,909,530
Due from Other Governments	174,340	-	174,340
Advances to Other Funds (Internal Balances)			
Within One Year	(23,433)	23,433	-
After One Year	(1,691,935)	1,691,935	-
Inventories	-	526,668	526,668
Land Held for Resale	4,146,305	-	4,146,305
Prepaid Expenses	79,328	60,464	139,792
Deferred Charges	104,054	-	104,054
Capital Assets not being Depreciated:			
Land	7,973,665	1,533,956	9,507,621
Construction In Progress	3,649,966	15,408,479	19,058,445
Capital Assets being Depreciated:			
Infrastructure	32,784,898	-	32,784,898
Buildings	4,736,803	12,102,461	16,839,264
Leasehold Improvements	71,543	223,833	295,376
Machinery and Equipment	3,810,669	1,039,905	4,850,574
Collection and Distribution Systems	-	45,161,483	45,161,483
Less Accumulated Depreciation	(19,801,430)	(16,029,369)	(35,830,799)
 Total Assets	 \$ 51,931,417	 \$ 66,695,108	 \$ 118,626,525

**CITY OF BIG LAKE**  
**Sherburne County, Minnesota**

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

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES AND NET POSITION</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 128,333	\$ 97,176	\$ 225,509
Salaries and Benefits Payable	73,061	45,758	118,819
Escrow Payable	644,552	-	644,552
Contracts Payable	78,756	29,930	108,686
Due to Other Governments	524,868	35,236	560,104
Interest Payable	379,046	398,125	777,171
Unearned Revenue	-	4,627	4,627
Bond Principal Payable:			
Payable Within One Year	5,710,000	-	5,710,000
Payable After One Year	17,529,930	-	17,529,930
Revenue Bonds Payable:			
Payable Within One Year	59,774	1,863,502	1,923,276
Payable After One Year	2,089,480	31,443,588	33,533,068
Notes Payable:			
Payable Within One Year	114,000	-	114,000
Payable After One Year	2,119,000	-	2,119,000
Capital Lease Payable:			
Payable Within One Year	924	-	924
Compensated Absences Payable:			
Payable Within One Year	86,352	57,662	144,014
Severance Payable:			
Payable After One Year	27,317	-	27,317
Total Liabilities	29,565,393	33,975,604	63,540,997
<b>Net Position</b>			
Net Investment of Capital Assets	12,011,455	28,201,193	40,212,648
Restricted for:			
Debt Service	6,609,067	149,720	6,758,787
Tax Increment	608,056	-	608,056
Neighborhood Stabilization	573,432	-	573,432
Parkland Dedication	98,474	-	98,474
Unrestricted	2,465,540	4,368,591	6,834,131
Total Net Position	22,366,024	32,719,504	55,085,528
Total Liabilities and Net Position	\$ 51,931,417	\$ 66,695,108	\$ 118,626,525

**CITY OF BIG LAKE**  
Sherburne County, Minnesota

**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2012

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>						
General Government	\$ 716,794	\$ 16,197	\$ 18,970	\$ (558,140)	\$ -	\$ (558,140)
Public Safety	1,801,170	185,040	10,258	(1,332,974)	-	(1,332,974)
Streets and Highways	1,395,139	-	538,594	(850,580)	-	(850,580)
Culture and Recreation	558,992	-	-	(416,818)	-	(416,818)
Economic Development	777,335	3,137	70,513	(696,005)	-	(696,005)
Interest on Long-Term Debt	960,210	-	-	(960,210)	-	(960,210)
Total Governmental Activities	6,209,640	204,374	638,335	(4,814,727)	-	(4,814,727)
<b>Business-Type Activities</b>						
Water	1,889,253	-	-	-	(111,427)	(111,427)
Sewer	2,008,098	-	-	-	(883,275)	(883,275)
Municipal Liquor	2,994,617	-	-	-	439,451	439,451
Storm Sewer	357,824	-	-	-	(156,232)	(156,232)
Total Business-Type Activities	7,249,792	-	-	-	(711,483)	(711,483)
Total Governmental and Business-Type Activities	\$ 13,459,432	\$ 204,374	\$ 638,335	(4,814,727)	(711,483)	(5,526,210)
<b>General Revenues</b>						
Property Taxes				3,123,106	-	3,123,106
Tax Increments				207,445	-	207,445
State Aids				187,458	-	187,458
Insurance Recoveries				62,147	-	62,147
Unrestricted Investment Earnings				25,639	61,486	87,125
Gain on Sale of Assets				5,800	-	5,800
<b>Transfers</b>				256,033	(256,033)	-
Total General Revenues				3,867,628	(194,547)	3,673,081
<b>Change in Net Position</b>				(947,099)	(906,030)	(1,853,129)
<b>Net Position - Beginning</b>				23,313,123	33,625,534	56,938,657
<b>Net Position - Ending</b>				\$ 22,366,024	\$ 32,719,504	\$ 55,085,528

**CITY OF BIG LAKE**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**December 31, 2012**

	<u>General (101)</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Investments	\$ 2,513,458	\$ 3,514,314	\$ 6,027,772
Cash with Fiscal Agent	-	4,360,499	4,360,499
Taxes Receivable - Delinquent	168,705	-	168,705
Accounts Receivable	24,083	25,100	49,183
Interest Receivable	18,781	-	18,781
Due from Other Governments	109,844	64,496	174,340
Notes Receivable	-	1,382,903	1,382,903
Special Assessment Receivable:			
Delinquent	3,814	153,604	157,418
Deferred	1,937	3,749,446	3,751,383
Land Held for Resale	-	4,146,305	4,146,305
Prepaid Expenses	74,795	4,533	79,328
	<u>\$ 2,915,417</u>	<u>\$ 17,401,200</u>	<u>\$ 20,316,617</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 74,826	\$ 53,507	\$ 128,333
Salaries and Benefits Payable	73,061	-	73,061
Escrow Payable	93,550	551,002	644,552
Contracts Payable	-	78,756	78,756
Advances from Other Funds	155,432	1,559,936	1,715,368
Due to Other Governments	111,033	413,835	524,868
Deferred Revenue	174,457	5,236,060	5,410,517
Total Liabilities	<u>682,359</u>	<u>7,893,096</u>	<u>8,575,455</u>
<b>Fund Balances</b>			
Nonspendable	74,795	4,200,730	4,275,525
Restricted	49,716	7,089,620	7,139,336
Assigned	109,144	266,127	375,271
Unassigned	1,999,403	(2,048,373)	(48,970)
Total Fund Balances	<u>2,233,058</u>	<u>9,508,104</u>	<u>11,741,162</u>
	<u>\$ 2,915,417</u>	<u>\$ 17,401,200</u>	<u>\$ 20,316,617</u>

**CITY OF BIG LAKE**

**RECONCILIATION OF THE BALANCE SHEET TO  
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS  
December 31, 2012**

Total Fund Balances - Governmental Funds \$ 11,741,162

Amounts reported for governmental activities in the Statement of Net Position  
are different because:

Capital assets used in governmental activities are not current financial resources  
and, therefore, are not reported as assets in governmental funds.

Cost of Capital Assets	53,027,544
Less Accumulated Depreciation	(19,801,430)

Long-term liabilities, including bonds payable, are not due and payable in  
the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bond Principal Payable	(23,265,000)
Revenue Bonds Payable	(2,149,254)
Unamortized Bond Discounts and Premiums	25,070
Notes Payable	(2,233,000)
Capital Lease Payable	(924)
Compensated Absences Payable	(86,352)
Severance Payable	(27,317)

Deferred charges for issuance costs. 104,054

Delinquent receivables will be collected in subsequent years, but are not  
available soon enough to pay for the current period's expenditures and,  
therefore, are deferred in the funds.

Property Taxes	168,705
Special Assessments	157,418

Revenues in the Statement of Activities that do not provide current  
financial resources are not reported as revenues in the funds.

Deferred Special Assessments	3,751,383
Notes Receivable	1,333,011

Governmental funds do not report a liability for accrued interest on  
long-term debt until due and payable.

(379,046)

Total Net Position - Governmental Activities \$ 22,366,024

**CITY OF BIG LAKE**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012**

	General (101)	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Property Taxes	\$ 2,361,004	\$ 1,038,670	\$ 3,399,674
Tax Increments	-	207,445	207,445
Miscellaneous Taxes	14,269	-	14,269
Special Assessments	16,197	885,090	901,287
Licenses and Permits	280,050	-	280,050
Intergovernmental	428,314	400,153	828,467
Charges for Services	139,312	101,667	240,979
Fines and Forfeitures	26,600	-	26,600
Miscellaneous:			
Investment Income	(22,600)	48,239	25,639
Contributions and Donations	41,610	-	41,610
Other	16,113	27,699	43,812
Total Revenues	3,300,869	2,708,963	6,009,832
<b>EXPENDITURES</b>			
<b>Current</b>			
General Government	694,361	-	694,361
Public Safety	1,692,288	-	1,692,288
Streets and Highways	445,213	-	445,213
Culture and Recreation	401,594	96	401,690
Economic Development	84,321	156,274	240,595
<b>Debt Service</b>			
Principal	-	1,488,826	1,488,826
Interest and Other Charges	-	955,991	955,991
<b>Capital Outlay</b>			
General Government	2,337	-	2,337
Public Safety	43,481	-	43,481
Streets and Highways	-	558,085	558,085
Culture and Recreation	-	113,343	113,343
Economic Development	-	480,052	480,052
Total Expenditures	3,363,595	3,752,667	7,116,262
Excess of Revenues Under Expenditures	(62,726)	(1,043,704)	(1,106,430)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Sale of Capital Asset	5,800	-	5,800
Issuance of Debt	-	1,040,000	1,040,000
Bond Premium	-	32,008	32,008
Bond Discount	-	(6,507)	(6,507)
Insurance Recoveries	62,147	-	62,147
Transfers In	257,638	303,947	561,585
Transfers Out	(7,119)	(298,433)	(305,552)
Total Other Financing Sources (Uses)	318,466	1,071,015	1,389,481
Net Change in Fund Balances	255,740	27,311	283,051
<b>FUND BALANCES</b>			
<b>Beginning of Year</b>	1,977,318	9,480,793	11,458,111
<b>End of Year</b>	\$ 2,233,058	\$ 9,508,104	\$ 11,741,162

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

**CITY OF BIG LAKE**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE  
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012**

Total Net Change in Fund Balances - Governmental Funds	\$ 283,051
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital Outlays	714,718
Depreciation Expense	(1,308,315)
Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	10,325
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net assets in the Statement of Activities.	
Bond Principal Payments	1,488,826
Capital Lease Payments	5,287
Governmental funds report the effects of bond premiums, discounts and issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(35,188)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	5,468
Proceeds from long-term debt are recognized as another financing source in the governmental funds but have no impact on net position in the Statement of Activities.	(1,040,000)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred and Delinquent Special Assessments	(713,125)
Long-Term Notes Receivable	(81,578)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	<u>(276,568)</u>
Change in Net Position- Governmental Activities	<u>\$ (947,099)</u>



**CITY OF BIG LAKE**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended December 31, 2012**

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	<u>Original and Final</u>	<u>Actual Amounts</u>	
<b>REVENUES</b>			
Property Taxes	\$ 2,155,371	\$ 2,361,004	\$ 205,633
Miscellaneous Taxes	-	14,269	14,269
Special Assessments	6,500	16,197	9,697
Licenses and Permits	255,175	280,050	24,875
Intergovernmental	284,656	428,314	143,658
Charges for Services	205,900	139,312	(66,588)
Fines and Forfeitures	36,750	26,600	(10,150)
Miscellaneous Revenues:			
Investment Income	60,000	(22,600)	(82,600)
Contributions and Donations	7,000	41,610	34,610
Other	-	16,113	16,113
Total Revenues	<u>3,011,352</u>	<u>3,300,869</u>	<u>289,517</u>
<b>EXPENDITURES</b>			
<b>Current</b>			
General Government	646,344	694,361	48,017
Public Safety	1,627,985	1,692,288	64,303
Streets and Highways	465,060	445,213	(19,847)
Culture and Recreation	400,370	401,594	1,224
Economic Development	93,050	84,321	(8,729)
<b>Capital Outlay</b>			
General Government	6,000	2,337	(3,663)
Public Safety	57,000	43,481	(13,519)
Total Expenditures	<u>3,295,809</u>	<u>3,363,595</u>	<u>67,786</u>
Excess of Revenues Over (Under) Expenditures	(284,457)	(62,726)	221,731
<b>OTHER FINANCING</b>			
<b>SOURCES (USES)</b>			
Proceeds from Sale of Capital Asset	-	5,800	5,800
Insurance Recoveries	-	62,147	62,147
Transfers In	250,000	257,638	7,638
Transfers Out	(9,600)	(7,119)	2,481
Total Other Financing Sources (Uses)	<u>240,400</u>	<u>318,466</u>	<u>78,066</u>
Net Change in Fund Balances	<u>\$ (44,057)</u>	255,740	<u>\$ 299,797</u>
<b>FUND BALANCES</b>			
<b>Beginning of Year</b>		<u>1,977,318</u>	
<b>End of Year</b>		<u>\$ 2,233,058</u>	

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

**CITY OF BIG LAKE**  
**Sherburne County, Minnesota**

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

	Water (301)	Sewer (401)	Liquor (501)	Storm Sewer (601)	Total
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	\$ -	\$ 339,689	\$ 30,218	\$ -	\$ 369,907
Cash With Fiscal Agent	1,165,194	2,590,238	-	-	3,755,432
Accounts Receivable	182,158	149,268	-	28,399	359,825
Advances to Other Funds - Within One Year	-	23,433	-	-	23,433
Notes Receivable	132,262	-	-	-	132,262
Special Assessment Receivable:					
Delinquent	12,958	11,612	-	1,997	26,567
Deferred	75,140	70,055	-	12,952	158,147
Inventories	-	-	526,668	-	526,668
Prepaid Expenses	27,294	20,869	10,107	2,194	60,464
Total Current Assets	<u>1,595,006</u>	<u>3,205,164</u>	<u>566,993</u>	<u>45,542</u>	<u>5,412,705</u>
<b>Noncurrent Assets</b>					
Restricted Cash and Cash Equivalents	-	-	149,720	-	149,720
Advances to Other Funds - After One Year	-	3,379,832	-	-	3,379,832
Capital Assets:					
Land	277,006	1,256,950	-	-	1,533,956
Construction In Progress	-	15,408,479	-	-	15,408,479
Buildings	9,651,417	450,526	1,915,613	84,905	12,102,461
Collection and Distribution Systems	16,736,573	21,705,919	-	6,718,991	45,161,483
Leasehold Improvements	166,068	-	57,765	-	223,833
Machinery and Equipment	308,677	236,837	194,175	300,216	1,039,905
Total Capital Assets	<u>27,139,741</u>	<u>39,058,711</u>	<u>2,167,553</u>	<u>7,104,112</u>	<u>75,470,117</u>
Less Accumulated Depreciation	<u>(5,699,982)</u>	<u>(7,624,791)</u>	<u>(523,874)</u>	<u>(2,180,722)</u>	<u>(16,029,369)</u>
Net Capital Assets	<u>21,439,759</u>	<u>31,433,920</u>	<u>1,643,679</u>	<u>4,923,390</u>	<u>59,440,748</u>
Total Noncurrent Assets	<u>21,439,759</u>	<u>34,813,752</u>	<u>1,793,399</u>	<u>4,923,390</u>	<u>62,970,300</u>
Total Assets	<u>\$ 23,034,765</u>	<u>\$ 38,018,916</u>	<u>\$ 2,360,392</u>	<u>\$ 4,968,932</u>	<u>\$ 68,383,005</u>
<b>LIABILITIES AND NET POSITION</b>					
<b>Current Liabilities</b>					
Accounts Payable	\$ 20,423	\$ 33,969	\$ 41,519	\$ 1,265	\$ 97,176
Contracts Payable	14,965	14,965	-	-	29,930
Salaries and Benefits Payable	15,608	15,608	12,349	2,193	45,758
Interest Payable	114,339	261,706	22,080	-	398,125
Unearned Revenue	-	4,627	-	-	4,627
Due to Other Governments	-	-	35,236	-	35,236
Current Compensated Absences	21,952	21,952	9,559	4,199	57,662
Amount Due Within One Year	<u>561,067</u>	<u>1,247,933</u>	<u>54,502</u>	<u>-</u>	<u>1,863,502</u>
Total Current Liabilities	<u>748,354</u>	<u>1,600,760</u>	<u>175,245</u>	<u>7,657</u>	<u>2,532,016</u>
<b>Noncurrent Liabilities</b>					
Advances from Other Funds	1,503,920	-	-	183,977	1,687,897
Revenue Bonds, Net of Unamortized Discount	3,847,528	9,764,419	1,025,445	-	14,637,392
PFA G.O. Revenue Note	5,935,000	12,734,698	-	-	18,669,698
Less Amount Due Within One Year	<u>(561,067)</u>	<u>(1,247,933)</u>	<u>(54,502)</u>	<u>-</u>	<u>(1,863,502)</u>
Total Noncurrent Liabilities	<u>10,725,381</u>	<u>21,251,184</u>	<u>970,943</u>	<u>183,977</u>	<u>33,131,485</u>
Total Liabilities	<u>11,473,735</u>	<u>22,851,944</u>	<u>1,146,188</u>	<u>191,634</u>	<u>35,663,501</u>
<b>Net Position</b>					
Net Investment in Capital Assets	11,318,505	11,525,041	618,234	4,739,413	28,201,193
Restricted for Debt Service	-	-	149,720	-	149,720
Unrestricted	<u>242,525</u>	<u>3,641,931</u>	<u>446,250</u>	<u>37,885</u>	<u>4,368,591</u>
Total Net Position	<u>11,561,030</u>	<u>15,166,972</u>	<u>1,214,204</u>	<u>4,777,298</u>	<u>32,719,504</u>
Total Liabilities and Net Position	<u>\$ 23,034,765</u>	<u>\$ 38,018,916</u>	<u>\$ 2,360,392</u>	<u>\$ 4,968,932</u>	<u>\$ 68,383,005</u>

**CITY OF BIG LAKE**  
**Sherburne County, Minnesota**

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

	Water (301)	Sewer (401)	Liquor (501)	Storm Sewer (601)	Totals
<b>SALES AND COST OF SALES</b>					
Sales	\$ -	\$ -	\$ 3,420,250	\$ -	\$ 3,420,250
Cost of Sales	-	-	2,435,138	-	2,435,138
Gross Profit	-	-	985,112	-	985,112
<b>OPERATING REVENUES</b>					
Charges for Services	1,706,430	983,198	-	201,592	2,891,220
<b>OPERATING EXPENSES</b>					
Wages and Salaries	288,145	287,678	240,001	42,768	858,592
Employee Benefits	74,394	74,394	49,454	14,997	213,239
Materials and Supplies	44,964	8,495	7,585	1,337	62,381
Repairs and Maintenance	69,163	11,683	16,299	3,350	100,495
Professional Services	64,210	59,766	60,012	1,927	185,915
Insurance	36,717	27,811	18,642	2,047	85,217
Utilities and Refuse	124,102	153,084	18,940	-	296,126
Depreciation	849,167	684,365	76,986	286,842	1,897,360
Travel	11,516	15,407	476	1,800	29,199
Bad Debt Expense	21	-	24	-	45
Advertising	-	-	6,744	-	6,744
Dues, Memberships and Training	12,067	3,080	2,739	599	18,485
Telephone	2,608	2,352	5,103	1,213	11,276
Postage	3,541	3,412	233	547	7,733
Water Meters	6,508	-	-	-	6,508
Uniforms	1,544	1,870	329	-	3,743
Rental Expense and Real Estate Taxes	121	-	-	-	121
Total Operating Expenses	1,588,788	1,333,397	503,567	357,427	3,783,179
Operating Income (Loss)	117,642	(350,199)	481,545	(155,835)	93,153
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment Income (Expense)	(28,834)	96,130	(159)	(5,651)	61,486
Refunds and Reimbursements	18,000	-	-	-	18,000
Trunk and Access Charges	68,879	140,639	-	-	209,518
Interest Expense	(299,254)	(665,753)	(53,370)	(397)	(1,018,774)
Amortization Expense	(1,211)	(8,948)	(2,542)	-	(12,701)
Other Income (Expense)	(15,483)	986	13,818	-	(679)
Total Nonoperating Revenues (Expenses)	(257,903)	(436,946)	(42,253)	(6,048)	(743,150)
Income (Loss) before Capital Contributions and Transfers	(140,261)	(787,145)	439,292	(161,883)	(649,997)
Transfers In	-	7,119	-	-	7,119
Transfers Out	-	-	(250,000)	(13,152)	(263,152)
Change in Net Position	(140,261)	(780,026)	189,292	(175,035)	(906,030)
<b>NET POSITION</b>					
<b>Beginning of Year</b>	11,701,291	15,946,998	1,024,912	4,952,333	33,625,534
<b>End of Year</b>	\$ 11,561,030	\$ 15,166,972	\$ 1,214,204	\$ 4,777,298	\$ 32,719,504

**CITY OF BIG LAKE**

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

	<u>Water (301)</u>	<u>Sewer (401)</u>	<u>Liquor (501)</u>	<u>Storm Sewer (601)</u>	<u>Total</u>
<b>CASH FLOWS - OPERATING ACTIVITIES</b>					
Receipts from Customers and Users	\$ 1,649,656	\$ 1,160,288	\$ 3,434,068	\$ 199,821	\$ 6,443,833
Payments to Suppliers	(328,669)	(354,570)	(2,687,026)	(18,931)	(3,389,196)
Payments to Employees	(354,947)	(354,947)	(294,507)	(56,226)	(1,060,627)
Net Cash Flows - Operating Activities	<u>966,040</u>	<u>450,771</u>	<u>452,535</u>	<u>124,664</u>	<u>1,994,010</u>
<b>CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES</b>					
Receipt (Payment) of Advances from/to Other Funds	(33,451)	(42,134)	(66,988)	(25,449)	(168,022)
Repayment of Note Receivable	51,726	-	-	-	51,726
Refunds and Reimbursements	18,000	-	-	-	18,000
Transfer from Other Funds	-	7,119	-	-	7,119
Transfer to Other Funds	-	-	(250,000)	(13,152)	(263,152)
Net Cash Flows - Noncapital Financing Activities	<u>36,275</u>	<u>(35,015)</u>	<u>(316,988)</u>	<u>(38,601)</u>	<u>(354,329)</u>
<b>CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Trunk and Access Charges	68,879	140,639	-	-	209,518
Principal Paid on Debt	(745,500)	(734,499)	(50,870)	(78,835)	(1,609,704)
Interest Paid on Debt	(284,674)	(603,031)	(54,300)	(1,577)	(943,582)
Bond Proceeds	1,171,200	2,743,997	-	-	3,915,197
Investment in Cash with Fiscal Agent	(1,165,194)	(2,590,238)	-	-	(3,755,432)
Acquisition of Capital Assets	(18,192)	(220,026)	-	-	(238,218)
Net Cash Flows - Capital and Related Financing Activities	<u>(973,481)</u>	<u>(1,263,158)</u>	<u>(105,170)</u>	<u>(80,412)</u>	<u>(2,422,221)</u>
<b>CASH FLOWS - INVESTING ACTIVITIES</b>					
Interest and Dividends Received	(28,834)	96,130	(159)	(5,651)	61,486
<b>Net Change in Cash and Cash Equivalents</b>	<u>-</u>	<u>(751,272)</u>	<u>30,218</u>	<u>-</u>	<u>(721,054)</u>
<b>Cash and Cash Equivalents, January 1</b>	<u>-</u>	<u>1,090,961</u>	<u>149,720</u>	<u>-</u>	<u>1,240,681</u>
<b>Cash and Cash Equivalents, December 31</b>	<u>\$ -</u>	<u>\$ 339,689</u>	<u>\$ 179,938</u>	<u>\$ -</u>	<u>\$ 519,627</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES</b>					
Operating Income (Loss)	\$ 117,642	\$ (350,199)	\$ 481,545	\$ (155,835)	\$ 93,153
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:					
Other Revenues	(15,483)	986	13,818	-	(679)
Depreciation and Amortization Expense	849,167	684,365	76,986	286,842	1,897,360
Accounts Receivable	(79,474)	12,233	-	(7,484)	(74,725)
Special Assessments Receivable	38,183	72,359	-	5,713	116,255
Due from Other Governments	-	86,885	-	-	86,885
Prepaid Items	10,997	7,533	8,421	(40)	26,911
Inventory	-	-	(54,350)	-	(54,350)
Accounts Payable	37,751	(75,143)	(91,783)	(6,071)	(135,246)
Due to Other Governmental Units	(335)	-	22,950	-	22,615
Salaries Payable	4,320	3,853	(6,175)	450	2,448
Unearned Revenue	-	4,627	-	-	4,627
Compensated Absences Payable	3,272	3,272	1,123	1,089	8,756
Total Adjustments	<u>848,398</u>	<u>800,970</u>	<u>(29,010)</u>	<u>280,499</u>	<u>1,900,857</u>
Net Cash Flows - Operating Activities	<u>\$ 966,040</u>	<u>\$ 450,771</u>	<u>\$ 452,535</u>	<u>\$ 124,664</u>	<u>\$ 1,994,010</u>

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Big Lake 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 basic 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, certain organizations have been defined and are presented in this report as follows:

Blended Component Unit – Reported as if it is part of the City.

Related Organization – The relationship of the City with the entity is disclosed.

Joint Ventures and Jointly Governed Organization – The relationship of the City with the entity is disclosed.

For each of the categories above, the specific entities are identified as follows:

**1. Blended Component Unit**

The Big Lake Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Big Lake EDA is reported as if it were part of the primary government because the component unit's total debt outstanding is expected to be repaid almost entirely with resources of the primary government. Separate financial statements are not prepared for the Big Lake EDA.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity (Continued)**

**2. Related Organization**

**Big Lake Volunteer Fire Relief Association**

The Big Lake Volunteer Fire Relief Association (the “Association”) is organized as a nonprofit organization, legally separate from the City, by its members to provide pension and other benefits to such members in accordance with *Minnesota Statutes*. The Association’s Board of Trustees is appointed by the membership of the Association and not by the City Council. All funding is conducted in accordance with *Minnesota Statutes*, whereby state aid flows to the Association, tax levies are determined by the Association and are only reviewed by the City and the Association pays benefits directly to its members. The Association may certify tax levies to Sherburne County directly if the City does not carry out this function. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City’s reporting entity.

**3. Joint Ventures and Jointly Governed Organization**

**Big Lake Volunteer Fire Department**

The Big Lake Volunteer Fire Department (the “Fire Department”) was created to provide fire services to the residents of the City, the Township of Big Lake and the Town of Orrock, Minnesota. The City currently funds approximately 50% of the Fire Department’s budget.

The activity of the Fire Department is shown as part of the General Fund in the City’s financial statements. Separate financial statements for the Fire Department are not issued.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not included among program revenues, instead, they are properly reported as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**B. Government-Wide and Fund Financial Statements (Continued)**

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

**Description of Funds:**

**Major Governmental Fund:**

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.

**Proprietary Funds:**

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

Sanitary Sewer Fund – This Fund accounts for the operations of the City’s sanitary sewer utility.

Liquor Fund – This Fund accounts for the activities of the City’s liquor store operations.

Storm Sewer Fund – This Fund accounts for the operations of the City’s storm sewer utility.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Description of Funds: (Continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's sanitary sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise 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. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: committed, assigned and unassigned.

**D. Assets, Liabilities and Net Position or Equity**

**1. Cash and Investments**

The City's cash and investments are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition.

*Minnesota Statutes* require all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

*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 (4M Fund). Investments are stated at fair value.



**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Assets, Liabilities and Net Position or Equity (Continued)**

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

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.

Cash and investments at December 31, 2012 were comprised of deposits, brokered certificates of deposit, money market accounts, U.S. Treasury State and Local Government Series Time Deposits and investments in the 4M Fund.

**Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy states all deposits will be insured or collateralized in accordance with *Minnesota Statutes* 118.A.

**Interest Rate Risk:** This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City's investment policy states the City will minimize interest rate risk by diversifying the investments so potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. It also includes specific limits on investment maturities as a means of managing its exposure to fair value arising from increasing interest rates. No more than 40% of investments should extend beyond 5 years and in no circumstance should any extend beyond 10 years without specific City Council approval.

**Credit Risk:** This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits its investments to those specified in these Statutes.

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The City's investment policy states, with the exception of U.S. Treasury Securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested with a single financial institution.

**Custodial Credit Risk – Investments:** For an investment, this is the risk that in the event of the failure of the counterparty, 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 states investment securities will be held in safekeeping by a broker/dealer and they must provide asset protection of \$ 500,000 through the Securities Investor Protection Corporation (SIPC) and at least another \$ 49,500,000 supplemental insurance protection.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Assets, Liabilities and Net Position or Equity (Continued)**

**2. Restricted Assets**

Certain resources from the 2005 Public Project Revenue Bonds are set aside for their repayment, and are classified as restricted assets in the Balance Sheet because their use is limited by the Bond's document. In addition, certain resources from the 2011B G.O. Improvement Refunding Bonds are set aside for their repayment of the 2005A G.O. Improvement Bonds and the 2006A G.O. Improvement Bonds in accordance with the refunding bond documents. In addition, certain resources from the 2012A G.O. Refunding Bonds are set aside for their repayment of the 2004A G.O. Wastewater Revenue Refunding Bonds, 2005B G.O. Utility Revenue Bonds, 2006B G.O. Capital Improvement Plan Bonds, 2007D G.O. Public Utility Revenue Refunding Bonds, and the 2007E G.O. Improvement Bonds in accordance with the refunding bond documents.

**3. Receivables**

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of the property.

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 Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Sherburne County is the collecting agency 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. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares 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 Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

**4. Inventory and Prepaid Items**

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

Inventory is valued at cost using the first in, first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Assets, Liabilities and Net Position or Equity (Continued)**

**5. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life in excess of two 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.

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

Assets	Years
Buildings and Building Improvements	30
Light Vehicles	5
Machinery and Equipment	5-10
Fire Trucks	10
Utility Distribution System	30
Infrastructure	30

**6. Compensated Absences**

Employees who retire are not compensated for their unused sick leave, thus no amount of sick leave is accrued in the financial statements. After 100 days have accrued, employees can either take vacation or get paid for half of every hour earned.

In addition, employees are granted vacation based on their years of service. Employees can accrue up to 25 days of vacation. At year-end, any hours over 200 are forfeited. All employees will receive a lump sum payment for the balance of accumulated vacation leave upon a voluntary termination.

**7. Severance**

Severance benefits are paid upon termination of employment for the City Administrator. The City Administrator receives three months of salary and benefits in a lump sum payment.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Assets, Liabilities and Net Position or Equity (Continued)**

**8. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**9. Fund Equity**

**a. 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.

- **Nonspendable Fund Balance** – These are amounts that cannot be spent because they are not in spendable form.
- **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 formal action of the City Council (highest level of decision making authority).

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Assets, Liabilities and Net Position or Equity (Continued)**

**9. Fund Equity (Continued)**

**a. Classification (Continued)**

- 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 may be made by the City’s Finance Director based on the City Council’s delegation.
- 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.

**b. Minimum Fund Balance**

The City will strive to maintain an unrestricted fund balance of an amount not less than 50% of the next year’s budgeted expenditures in the General Fund.

**10. Net Position**

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

**11. Use of Estimates**

The preparation of the basic 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.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The City Council adopts an annual budget. The amounts shown in the financial statements as “budget” represent the original budgeted amounts and all revisions made during the year. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Budget requests are submitted by all department heads to the City Administrator and Finance Director. The Finance Director compiles the budget requests into an overall preliminary City budget.
2. The Finance Director presents the proposed budget to the City Council. The budget resolution adopted by the City Council sets forth the budgets at the function level for the General and Special Revenue Funds.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through G.O bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls.
4. The budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at year-end.

**B. Excess of Expenditures Over Appropriations**

For the year ended December 31, 2012, expenditures exceeded appropriations in the following Funds:

	Expenditures	Appropriations
General Fund	\$ 3,363,595	\$ 3,295,809
Nonmajor Fund:		
Economic Development Authority	133,147	61,875

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**C. Deficit Fund Balance**

The following Nonmajor funds had deficit fund balances at December 31, 2012:

Nonmajor Governmental Funds:

Debt Service:

G.O. Tax Increment Bonds of 2004C	\$ 126,411
G.O. Improvement Bonds of 2004B	89,354
2008 Tax Lease Revenue Bond	303,578

Capital Projects:

Northern Star TIF 1-7	15,170
Street Improvement	719,587
Commercial Redevelopment TIF 1-5	7,603

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by the City Council.

At December 31, 2012, the City’s bank balance was \$ 0 as any remaining deposits at the end of the day are swept into the 4M Fund. At December 31, 2012, the City’s deposits had a book balance of \$ (41,762).

**B. Investments**

At December 31, 2012, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity
Brokered Certificates of Deposit	\$ 2,889,498	0.87%
U.S. Treasury State and Local		
Government Series Time Deposit	8,115,931	N/A
Cash and Brokered Money Market Accounts	285,494	N/A
4M Fund	3,411,919	N/A
Total	\$ 14,702,842	

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Credit Risk: As of December 31, 2012, none of the City’s investments were rated.

Custodial Credit Risk: Some City securities held by the City’s broker-dealer are not registered to the City, but are held in an insured account. The account is insured up to \$ 500,000 SIPC insurance and the broker-dealer provides an additional aggregate insurance policy for all of its customers as a group, not individually. It is unknown what portion of this policy is applicable to the City’s portfolio.

Summary of cash, deposits and investments as of December 31, 2012:

Petty Cash	\$ 2,250
Deposits (Note 3.A.)	(41,762)
Investments (Note 3.B.)	<u>14,702,842</u>
Total Deposits and Investments	<u><u>\$ 14,663,330</u></u>

Cash, deposits and investments are presented in the December 31, 2012 basic financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 6,397,679
Cash with Fiscal Agent	8,115,931
Restricted Cash	<u>149,720</u>
Total	<u><u>\$ 14,663,330</u></u>

**NOTE 4 – NOTES RECEIVABLE**

Governmental funds notes receivable includes receivables from the Big Lake Township for their portion of debt payments on the Industrial Park Lease Revenue Bonds for \$ 886,184 and the G.O. Capital Improvement Bonds of 2006B for fire hall funding amounting to \$ 335,500. Other receivables due to the Big Lake EDA from local businesses include amounts issued through a grant from the Department of Employment and Economic Development (DEED) and totaled \$ 161,219, for a grand total of notes receivable of \$ 1,382,903.

Proprietary funds note receivable includes amounts due from local businesses totaling \$ 132,262.



**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 5 – INTERFUND BALANCES AND TRANSFERS**

**A. Advances to/from Other Funds**

The composition of advances as of December 31, 2012 was as follows:

	Advances from Sewer Fund
Advances to:	
General Fund	\$ 155,432
Other Governmental Funds	1,559,936
Water Fund	1,503,920
Storm Sewer Fund	183,977
Total	\$ 3,403,265

The amounts due to the Sewer Fund represent interfund loans to absorb temporary negative cash balances and to temporarily fund capital projects. \$ 23,433 of this balance is due within one year.

**B. Interfund Transfers**

The composition of interfund transfers as of December 31, 2012 was as follows:

	Transfers In			
	General Fund	Other Governmental Funds	Sewer Fund	Total
Transfers Out:				
General Fund	\$ -	\$ -	\$ 7,119	\$ 7,119
Other Governmental Funds	7,638	290,795	-	298,433
Liquor Fund	250,000	-	-	250,000
Storm Sewer Fund	-	13,152	-	13,152
Total	\$ 257,638	\$ 303,947	\$ 7,119	\$ 568,704

The above transfers were made for the following reasons: debt service payments, operating transfers to cover Tax Increment Financing (TIF) administrative expenditures, capital projects, to close funds and other administrative items.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 6 – CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 7,832,585	\$ 141,080	\$ -	\$ 7,973,665
Construction in Progress	3,113,806	536,160	-	3,649,966
Total Capital Assets not being Depreciated	<u>10,946,391</u>	<u>677,240</u>	<u>-</u>	<u>11,623,631</u>
Capital Assets being Depreciated:				
Infrastructure	32,784,898	-	-	32,784,898
Buildings	4,736,803	-	-	4,736,803
Leasehold Improvements	71,543	-	-	71,543
Machinery and Equipment	3,824,222	37,478	51,031	3,810,669
Total Capital Assets being Depreciated	<u>41,417,466</u>	<u>37,478</u>	<u>51,031</u>	<u>41,403,913</u>
Less Accumulated Depreciation for:				
Infrastructure	14,421,902	905,173	-	15,327,075
Buildings	1,169,360	157,893	-	1,327,253
Leasehold Improvements	15,116	3,579	-	18,695
Machinery and Equipment	2,937,768	241,670	51,031	3,128,407
Total Accumulated Depreciation	<u>18,544,146</u>	<u>1,308,315</u>	<u>51,031</u>	<u>19,801,430</u>
Total Capital Assets being Depreciated, Net	<u>22,873,320</u>	<u>(1,270,837)</u>	<u>-</u>	<u>21,602,483</u>
Governmental Activities Capital Assets, Net	<u>\$ 33,819,711</u>	<u>\$ (593,597)</u>	<u>\$ -</u>	<u>\$ 33,226,114</u>

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 6 – CAPITAL ASSETS**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,533,956	\$ -	\$ -	\$ 1,533,956
Construction in Progress	<u>18,005,605</u>	<u>115,145</u>	<u>2,712,271</u>	<u>15,408,479</u>
Total Capital Assets not being Depreciated	<u>19,539,561</u>	<u>115,145</u>	<u>2,712,271</u>	<u>16,942,435</u>
Capital Assets being Depreciated:				
Buildings	12,102,461	-	-	12,102,461
Collection and Distribution Systems	42,498,435	2,663,048	-	45,161,483
Leasehold Improvements	223,833	-	-	223,833
Machinery and Equipment	<u>987,981</u>	<u>51,924</u>	<u>-</u>	<u>1,039,905</u>
Total Capital Assets being Depreciated	<u>55,812,710</u>	<u>2,714,972</u>	<u>-</u>	<u>58,527,682</u>
Less Accumulated Depreciation for:				
Buildings	1,071,195	403,415	-	1,474,610
Collection and Distribution Systems	12,183,392	1,439,480	-	13,622,872
Leasehold Improvements	95,757	6,042	-	101,799
Machinery and Equipment	<u>781,665</u>	<u>48,423</u>	<u>-</u>	<u>830,088</u>
Total Accumulated Depreciation	<u>14,132,009</u>	<u>1,897,360</u>	<u>-</u>	<u>16,029,369</u>
Total Capital Assets being Depreciated, Net	<u>41,680,701</u>	<u>817,612</u>	<u>-</u>	<u>42,498,313</u>
Business-Type Activities Capital Assets, Net	<u>\$ 61,220,262</u>	<u>\$ 932,757</u>	<u>\$ 2,712,271</u>	<u>\$ 59,440,748</u>

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 6 – CAPITAL ASSETS**

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

Governmental Activities:	
General Government	\$ 22,386
Public Safety	150,544
Streets and Highways	927,284
Culture and Recreation	146,140
Economic Development	<u>61,961</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,308,315</u>
Business-Type Activities:	
Water	\$ 849,167
Sewer	684,365
Liquor	76,986
Storm Sewer	<u>286,842</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,897,360</u>

**NOTE 7 – LONG-TERM DEBT**

**A. G.O. Bonds**

The City issues G.O. bonds to provide for financing the construction of street improvements, tax increment projects and to refinance (refund) previous bond issues. Debt service is covered respectively by tax increments, revenue generated from projects and special assessments against benefited properties with any shortfalls being paid from general taxes.

G.O. bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 15 year serial bonds with equal debt service payments each year.

On August 29, 2011, the City issued \$ 3,415,000 G.O. Improvement Refunding Bonds, Series 2011B for the crossover refunding of \$ 2,585,000 of the G.O. Improvement Bonds, Series 2005A, and \$ 2,425,000 of the G.O. Improvement Bonds, Series 2006A. The principal balances of both the refunded and refunding bonds are reported as long-term debt of the City until the call date of the refunded bonds, at which time, the refunded bonds will be considered defeased and the related liability will be removed from the Statement of Net Position. The call dates for the 2005A and 2006A refunded bonds was February 1, 2013. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in future debt service payments of \$ 134,439. The net present value cash flow savings from the transaction was \$ 119,460.

On February 1, 2011, the City amended the 2008 EDA Lease Revenue Bonds to extend the payment terms. This lease modification will result in the City paying an additional \$ 347,876 in interest. A balloon payment will be due on the loan in February 2014.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 7 – LONG-TERM DEBT**

**A. G.O. Bonds (Continued)**

On July 10, 2012, the City issued \$ 4,785,000 G.O. Refunding Bonds, Series 2012A for the crossover refunding of the \$ 1,255,000 G.O. Wastewater Revenue Refunding Bonds, Series 2004A, \$ 2,625,000 G.O. Utility Revenue Bonds, Series 2005B, \$ 1,135,000 G.O. Capital Improvement Plan Bonds, Series 2006B, \$ 2,670,000 G.O. Public Utility Revenue Refunding Bonds, Series 2007D, and the \$ 910,000 G.O. Improvement Bonds, Series 2007E. The principal balances of both the refunded and refunding bonds are reported as long-term debt of the City until the call date of the refunded bonds, at which time, the refunded bonds will be considered defeased and the related liability will be removed from the Statement of Net Position. The call dates for the 2004A, 2005B, 2006B, 2007D and 2007E refunded bonds was February 1, 2013, February 1, 2015, February 1, 2014, February 1, 2014 and February 1, 2014, respectively. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in future debt service payments of \$ 268,249. The net present value cash flow savings from the transaction was \$ 241,589.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 7 – LONG-TERM DEBT**

**B. Components of Long-Term Liabilities**

	Issue Year	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-Term Liabilities:						
Governmental Activities:						
G.O. Bonds, Including Refunding						
Bonds:						
G.O. Improvement Bonds of 2005	2005	3.50%-4.15%	\$ 2,585,000	2021	\$ 1,750,000	\$ 1,750,000
G.O. Improvement Bonds of 2006A	2006	4.00% - 4.125%	2,425,000	2022	1,835,000	1,835,000
G.O. Capital Improvement Bonds of 2006B	2006	3.70%-4.25%	1,135,000	2023	780,000	75,000
G.O. Improvement Bonds of 2007A	2007	4.00%-4.10%	2,105,000	2023	1,745,000	130,000
G.O. Capital Improvement Plan Bonds of 2007C	2007	4.00%-4.35%	1,130,000	2028	1,005,000	45,000
G.O. Improvement Bonds of 2007E	2007	4.00%-4.10%	900,000	2018	580,000	90,000
G.O. Improvement Bonds of 2008A	2008	3.25%-4.50%	3,655,000	2024	3,390,000	220,000
G.O. Capital Improvement Bonds of 2009A	2009	1.10%-2.90%	620,000	2017	450,000	85,000
G.O. Improvement Bonds of 2010A	2010	2.00% - 3.80%	3,590,000	2026	3,505,000	195,000
G.O. Refunding Improvement Bonds of 2011A	2011	.40% - 2.45%	2,095,000	2020	1,960,000	220,000
G.O. Refunding Improvement Bonds of 2011B	2011	2.00% - 2.80%	3,415,000	2022	3,415,000	-
G.O. Refunding Bonds of 2012A	2012	2.00%-2.70%	1,040,000	2026	1,040,000	-
Revenue Bonds:						
Public Project Revenue Bonds of 2005	2005	4.00%-5.30%	484,647	2026	386,259	20,497
EDA Lease Revenue Bonds of 2008	2008	2.36%-3.26%	1,889,000	2014	1,762,995	39,277
G.O. Tax Increment Bonds:						
G.O. Tax Increment Bonds of 2004	2004	5.00%-5.90%	795,000	2030	755,000	10,000
G.O. Temporary Taxable TIF Bonds 2010B	2010	1.30%	1,055,000	2013	1,055,000	1,055,000
Other Financing:						
G.O. Transportation Revolving Loan Fund	2010	1.726%	2,465,000	2029	2,233,000	114,000
					<u>27,647,254</u>	<u>5,883,774</u>
Capital Lease	2008		21,224	2012	924	924
Discount on Bonds Payable					(92,488)	-
Premium on Bonds Payable					67,418	-
Compensated Absences					86,352	86,352
Severance					27,317	-
Total Governmental Activities					<u>27,736,777</u>	<u>5,971,050</u>
Business-Type Activities:						
G.O. Revenue Bonds, Including						
Refunding Bonds:						
G.O. Wastewater Revenue Refunding Bonds of 2004	2004	1.45%-4.00%	1,255,000	2017	570,000	570,000
Public Facility Authority Drinking Water G.O. Revenue Loan	2004	2.53%	9,787,000	2024	5,935,000	429,000
G.O. Utility Revenue Bonds 2005	2005	4.00%-4.375%	2,625,000	2026	2,070,000	110,000
Public Project Revenue Bonds of 2005	2005	4.00%-5.30%	1,320,353	2026	1,058,740	54,503
G.O. Utility System Revenue Bonds of 2007B	2007	4.00%-4.35%	2,060,000	2027	1,670,000	80,000
G.O. Public Utility Revenue Refunding Bonds of 2007D	2007	3.60%-4.00%	2,670,000	2020	1,825,000	195,000
G.O. Utility Revenue Bonds of 2007F	2007	4.00%-4.50%	1,325,000	2027	1,060,000	50,000
G.O. Utility Revenue Bonds of 2008B	2008	3.5%-4.75%	3,000,000	2029	2,745,000	100,000
Public Facility Authority Drinking Sewer Revenue Note of 2009	2009	2.41%	13,470,120	2024	12,734,698	275,000
G.O. Refunding Bonds of 2012A	2012	2.00%-2.70%	3,745,000	2026	3,745,000	-
					<u>33,413,438</u>	<u>1,863,503</u>
Discount on Bonds Payable					(106,348)	-
Compensated Absences					57,662	57,662
Total Business-Type Activities					<u>33,364,752</u>	<u>1,921,165</u>
Total all Long-Term Liabilities					<u>\$ 61,101,529</u>	<u>\$ 7,892,215</u>

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 7 – LONG-TERM DEBT**

**C. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
<b>Bonds Payable:</b>					
G.O. Improvement Bonds	\$ 21,525,000	\$ 1,040,000	\$ 1,110,000	\$ 21,455,000	\$ 4,645,000
G.O. Revenue Bonds	2,204,915	-	55,661	2,149,254	59,774
G.O. Tax Increment Bonds	1,820,000	-	10,000	1,810,000	1,065,000
Other Financing	2,546,165	-	313,165	2,233,000	114,000
Discount on Bonds	(95,779)	(6,507)	(9,798)	(92,488)	-
Premium on Bonds	43,643	30,033	6,258	67,418	-
Total Bonds Payable	<u>28,043,944</u>	<u>1,063,526</u>	<u>1,485,286</u>	<u>27,622,184</u>	<u>5,883,774</u>
Capital Lease	6,211	-	5,287	924	924
Compensated Absences	98,789	112,165	124,602	86,352	86,352
Severance	25,205	2,112	-	27,317	-
Total Governmental Activities	<u>28,174,149</u>	<u>1,177,803</u>	<u>1,615,175</u>	<u>27,736,777</u>	<u>5,971,050</u>
<b>Business-Type Activities:</b>					
<b>Bonds Payable:</b>					
G.O. Revenue Bonds	11,664,610	3,745,000	665,870	14,743,740	1,159,503
PFA G.O. Revenue Notes	19,168,500	170,197	668,999	18,669,698	704,000
Other Financing	78,835	-	78,835	-	-
Discount on Bonds	(174,872)	55,823	(12,701)	(106,348)	-
Total Bonds Payable	<u>30,737,073</u>	<u>3,971,020</u>	<u>1,401,003</u>	<u>33,307,090</u>	<u>1,863,503</u>
Other Liabilities	196,000	-	196,000	-	-
Compensated Absences	48,906	57,661	48,905	57,662	57,662
Total Business-Type Activities	<u>30,981,979</u>	<u>4,028,681</u>	<u>1,645,908</u>	<u>33,364,752</u>	<u>1,921,165</u>
Total Long-Term Liabilities	<u>\$ 59,156,128</u>	<u>\$ 5,206,484</u>	<u>\$ 3,261,083</u>	<u>\$ 61,101,529</u>	<u>\$ 7,892,215</u>

The General Fund typically liquidates the capital lease, compensated absences and severance payable.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 7 – LONG-TERM DEBT**

**D. Minimum Debt Payments**

Minimum annual principal and interest payments required to retire non-compensated absence liabilities:

Year Ending December 31,	Governmental Activities					
	G.O. Bonds			G.O. Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 4,645,000	\$ 607,201	\$ 5,252,201	\$ 59,774	\$ 134,203	\$ 193,977
2014	1,870,000	493,231	2,363,231	1,744,216	75,424	1,819,640
2015	1,610,000	445,939	2,055,939	21,865	17,625	39,490
2016	1,650,000	403,875	2,053,875	23,230	16,588	39,818
2017	1,680,000	359,320	2,039,320	24,597	15,488	40,085
2018-2022	7,305,000	1,089,763	8,394,763	142,116	56,917	199,033
2023-2027	2,610,000	192,280	2,802,280	133,456	15,572	149,028
2028-2031	85,000	1,849	86,849	-	-	-
Total	<u>\$ 21,455,000</u>	<u>\$ 3,593,458</u>	<u>\$ 25,048,458</u>	<u>\$ 2,149,254</u>	<u>\$ 331,817</u>	<u>\$ 2,481,071</u>

Year Ending December 31,	Governmental Activities					
	G.O. Tax Increment Bonds			Other Financing		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 1,065,000	\$ 57,020	\$ 1,122,020	\$ 114,000	\$ 38,542	\$ 152,542
2014	10,000	42,780	52,780	116,000	36,574	152,574
2015	10,000	42,255	52,255	118,000	34,572	152,572
2016	15,000	41,580	56,580	120,000	32,536	152,536
2017	15,000	40,755	55,755	122,000	30,464	152,464
2018-2022	155,000	182,827	337,827	644,000	119,940	763,940
2023-2027	285,000	120,953	405,953	701,000	62,444	763,444
2028-2031	255,000	23,749	278,749	298,000	7,734	305,734
Total	<u>\$ 1,810,000</u>	<u>\$ 551,919</u>	<u>\$ 2,361,919</u>	<u>\$ 2,233,000</u>	<u>\$ 362,806</u>	<u>\$ 2,595,806</u>



**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 7 – LONG-TERM DEBT**

**D. Minimum Debt Payments (Continued)**

Year Ending December 31,	Total Governmental Activities		
	Principal	Interest	Total
2013	\$ 5,883,774	\$ 836,966	\$ 6,720,740
2014	3,740,216	648,009	4,388,225
2015	1,759,865	540,391	2,300,256
2016	1,808,230	494,579	2,302,809
2017	1,841,597	446,027	2,287,624
2018-2022	8,246,116	1,449,447	9,695,563
2026-2027	3,729,456	391,249	4,120,705
2028-2031	638,000	33,332	671,332
Total	<u>\$ 27,647,254</u>	<u>\$ 4,840,000</u>	<u>\$ 32,487,254</u>

Year Ending December 31,	Business-Type Activities					
	G.O. Revenue Bonds			Public Facility G.O. Revenue Note		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 1,159,502	\$ 531,589	\$ 1,691,091	\$ 704,000	\$ 458,062	\$ 1,162,062
2014	2,149,502	462,991	2,612,493	740,000	441,534	1,181,534
2015	2,493,136	373,286	2,866,422	1,137,000	423,160	1,560,160
2016	811,769	313,738	1,125,507	1,165,000	395,190	1,560,190
2017	830,403	290,402	1,120,805	1,194,000	366,530	1,560,530
2018-2022	3,447,884	1,099,859	4,547,743	6,426,000	1,377,246	7,803,246
2023-2027	2,981,544	502,141	3,483,685	5,471,000	591,422	6,062,422
2028-2029	870,000	41,801	911,801	1,893,000	68,824	1,961,824
Total	<u>\$ 14,743,740</u>	<u>\$ 3,615,807</u>	<u>\$ 18,359,547</u>	<u>\$ 18,730,000</u>	<u>\$ 4,121,968</u>	<u>\$ 22,851,968</u>

Year Ending December 31,	Business-Type Activities		
	Total Business-Type Activities		
	Principal	Interest	Total
2013	\$ 1,863,502	\$ 989,651	\$ 2,853,153
2014	2,889,502	904,525	3,794,027
2015	3,630,136	796,446	4,426,582
2016	1,976,769	708,928	2,685,697
2017	2,024,403	656,932	2,681,335
2018-2022	9,873,884	2,477,105	12,350,989
2023-2027	8,452,544	1,093,563	9,546,107
2028-2029	2,763,000	110,625	2,873,625
Total	<u>\$ 33,473,740</u>	<u>\$ 7,737,775</u>	<u>\$ 41,211,515</u>

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 7 – LONG-TERM DEBT**

**D. Minimum Debt Payments (Continued)**

At December 31, 2012, the City had expended \$ 13,409,818 of the total 2009 G.O. PFA Revenue Note. As of December 31, 2012, the City had made principal payments of \$ 675,120 on the 2009 Note. The amortization schedule for the 2009 Note includes the entire remaining Note liability of \$ 12,795,000, including \$ 60,302 that has not yet been drawn. The remaining balance on this Note is expected to be drawn in 2013.

**E. Capital Lease Obligations**

The City is obligated under a capital lease for a computer server. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. At December 31, 2012, this asset was valued at \$ 21,224 with accumulated depreciation of \$ 20,870.

Minimum future lease payments under the capital lease in the aggregate are as follows:

Year Ending December 31,		\$	933
2013		\$	933
Net Minimum Lease Payments			933
Less Amount Representing Interest			(9)
Present Value of Net Minimum Lease Payments		\$	924

**F. Conduit Debt**

Conduit debt obligations are certain limited-obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued a revenue bond to provide funding to a private-sector entity for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

As of December 31, 2012, the City's outstanding conduit debt balances consisted of the following:

\$ 1,950,000 Commercial Facility Revenue Note (Options, Inc. Project), Series 2005	\$ 1,022,870
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**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 8 – FUND BALANCE DETAIL**

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

	General	Nonmajor Governmental Fund	Total
Nonspendable:			
Land Held for Resale	\$ -	\$ 4,146,305	\$ 4,146,305
Prepaid Expenses	74,795	4,533	79,328
Notes Receivable	-	49,892	49,892
Total Nonspendable	<u>74,795</u>	<u>4,200,730</u>	<u>4,275,525</u>
Restricted:			
Debt Service	-	6,364,869	6,364,869
Park Development	-	98,474	98,474
Neighborhood Stabilization Program	-	18,221	18,221
TIF	-	608,056	608,056
Police Forfeiture Fund	49,716	-	49,716
Total Restricted	<u>49,716</u>	<u>7,089,620</u>	<u>7,139,336</u>
Assigned:			
Local Development	-	75,940	75,940
Industrial Park Street Assessment	-	190,187	190,187
Fire Capital Purchases	25,539	-	25,539
Police Capital Purchases	31,284	-	31,284
Streets Capital Purchases	15,321	-	15,321
Parks Capital Purchases	31,000	-	31,000
Emergency Management Capital Purchases	6,000	-	6,000
Total Assigned	<u>109,144</u>	<u>266,127</u>	<u>375,271</u>
Unassigned	<u>1,999,403</u>	<u>(2,048,373)</u>	<u>(48,970)</u>
Total	<u>\$ 2,233,058</u>	<u>\$ 9,508,104</u>	<u>\$ 11,741,162</u>

**NOTE 9 – RISK MANAGEMENT**

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. 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 amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**CITY OF BIG LAKE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 9 – RISK MANAGEMENT**

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2012 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2012, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**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 by statute are covered by the PEPFF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of 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 members and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age for unreduced Social Security benefits is 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.

**CITY OF BIG LAKE**  
**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)**

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](http://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 \$ 114,527, \$ 103,064 and \$ 112,266, respectively. The City's contributions to the PEPFF for the years ending December 31, 2012, 2011 and 2010 were \$ 96,713, \$ 97,183 and \$ 90,757 respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

Employer contributions were also made to PERA on behalf of an employee to purchase service previously not reported to PERA for \$ 149,231 in accordance with *Minnesota Statutes*.

**C. Defined Contribution Plan**

One City Council member is covered by the Public Employees' Defined Contribution Plan (PEDCP), a multi-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 the employees are tax deferred until the time of withdrawal.

**CITY OF BIG LAKE**  
**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 (Continued)**

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.

The City and the elected government official made the required 5% contribution, amounting to \$ 300 for the employee and \$ 300 for the City.

**NOTE 11 – COMMITMENTS**

	<u>Project Authorization</u>	<u>Expended Through 12/13/2012</u>	<u>Remaining Commitment</u>
Market Place Development	\$ 444,765	\$ 340,402	\$ 104,363
CR43 Trail and Road Improvement	757,971	556,003	201,968

**NOTE 12 – 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 13 – SUBSEQUENT EVENT**

The City has evaluated subsequent events through April 9, 2013, the date which the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**CITY OF BIG LAKE**

**COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2012**

	Special Revenue	Debt Service			
	Economic Development Authority (275)	G.O. Refunding Bonds of 1996 (205)	G.O. Tax Increment Bonds of 2004C (250)	G.O. Improvement Bonds of 2005A (210)	G.O. Improvement Bonds of 2006A (265)
<b>ASSETS</b>					
Cash and Investments	\$ 826	\$ 22,910	\$ -	\$ 234,148	\$ 279,583
Cash with Fiscal Agent	-	-	-	1,600,708	1,703,090
Accounts Receivable	25,100	-	-	-	-
Due from Other Governments	-	-	-	2,593	740
Notes Receivable	161,219	-	-	-	-
Special Assessment Receivable:					
Delinquent	-	1,350	-	12,657	3,057
Deferred	-	2,187	-	482,510	313,166
Land Held for Resale	491,190	-	-	-	-
Prepaid Expenses	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 678,335</b>	<b>\$ 26,447</b>	<b>\$ -</b>	<b>\$ 2,332,616</b>	<b>\$ 2,299,636</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 1,420	\$ -	\$ 97	\$ -	\$ -
Escrow Payable	-	-	-	-	-
Contracts Payable	-	-	-	-	-
Due to Other Funds	271,884	-	126,314	-	-
Due to Other Governments	-	-	-	-	-
Deferred Revenue	111,327	3,537	-	495,166	316,223
<b>Total Liabilities</b>	<b>384,631</b>	<b>3,537</b>	<b>126,411</b>	<b>495,166</b>	<b>316,223</b>
<b>Fund Balances</b>					
Nonspendable	541,082	-	-	-	-
Restricted	-	22,910	-	1,837,450	1,983,413
Assigned	-	-	-	-	-
Unassigned	(247,378)	-	(126,411)	-	-
<b>Total Fund Balances</b>	<b>293,704</b>	<b>22,910</b>	<b>(126,411)</b>	<b>1,837,450</b>	<b>1,983,413</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 678,335</b>	<b>\$ 26,447</b>	<b>\$ -</b>	<b>\$ 2,332,616</b>	<b>\$ 2,299,636</b>



Debt Service

G.O. Improvement Bonds of 2006B (270)	G.O. Improvement Bonds of 2004B (245)	G.O. Improvement Bonds of 2007E (207)	G.O. Improvement Bonds of 2007A (215)	G.O. Capital Improvement Bonds 2007C (235)	G.O. Improvement Bonds of 2008A (208)	2008 Tax Lease Revenue Bond (241)
\$ 39,203	\$ -	\$ 169,573	\$ 145,676	\$ 84,162	\$ 7,107	\$ 12
643,072	-	411,164	-	-	-	-
-	-	-	-	-	-	-
-	72	40,243	584	-	-	-
335,500	-	-	-	-	-	886,184
-	64,011	-	274	-	-	-
-	-	716,807	164,199	-	1,130,515	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 1,017,775</u>	<u>\$ 64,083</u>	<u>\$ 1,337,787</u>	<u>\$ 310,733</u>	<u>\$ 84,162</u>	<u>\$ 1,137,622</u>	<u>\$ 886,196</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	89,426	-	-	-	-	303,590
-	-	-	-	-	-	-
335,500	64,011	716,807	164,473	-	1,130,515	886,184
<u>335,500</u>	<u>153,437</u>	<u>716,807</u>	<u>164,473</u>	<u>-</u>	<u>1,130,515</u>	<u>1,189,774</u>
-	-	-	-	-	-	-
682,275	-	620,980	146,260	84,162	7,107	-
-	-	-	-	-	-	-
-	(89,354)	-	-	-	-	(303,578)
<u>682,275</u>	<u>(89,354)</u>	<u>620,980</u>	<u>146,260</u>	<u>84,162</u>	<u>7,107</u>	<u>(303,578)</u>
<u>\$ 1,017,775</u>	<u>\$ 64,083</u>	<u>\$ 1,337,787</u>	<u>\$ 310,733</u>	<u>\$ 84,162</u>	<u>\$ 1,137,622</u>	<u>\$ 886,196</u>

**CITY OF BIG LAKE**

**COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2012**

	Debt Service				
	G.O. Capital Improvement Plan Bonds, Series 2009A (209)	G.O. State Aid Loan (211)	G.O. Improvement Bond 2010A (212)	Temporary Taxable Tax Increment Bond 2010B (213)	G.O. Refunding Bond of 2011A (214)
<b>ASSETS</b>					
Cash and Investments	\$ 14,835	\$ 19,807	\$ 133,929	\$ 7,593	\$ 793,531
Cash with Fiscal Agent	-	-	-	-	-
Accounts Receivable	-	-	-	-	-
Due from Other Governments	-	-	679	-	1,583
Notes Receivable	-	-	-	-	-
Special Assessment Receivable:					
Delinquent	-	-	2,959	-	11,204
Deferred	-	-	578,090	-	279,073
Land Held for Resale	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 14,835</u>	<u>\$ 19,807</u>	<u>\$ 715,657</u>	<u>\$ 7,593</u>	<u>\$ 1,085,391</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Escrow Payable	-	-	-	-	-
Contracts Payable	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Due to Other Governments	-	-	-	-	-
Deferred Revenue	-	-	581,049	-	290,277
Total Liabilities	<u>          </u>	<u>          </u>	<u>581,049</u>	<u>          </u>	<u>290,277</u>
<b>Fund Balances</b>					
Nonspendable	-	-	-	-	-
Restricted	14,835	19,807	134,608	7,593	795,114
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>14,835</u>	<u>19,807</u>	<u>134,608</u>	<u>7,593</u>	<u>795,114</u>
Total Liabilities and Fund Balances	<u>\$ 14,835</u>	<u>\$ 19,807</u>	<u>\$ 715,657</u>	<u>\$ 7,593</u>	<u>\$ 1,085,391</u>

Debt Service			Capital Projects			
G.O. Improvement Refunding Bond of 2011B (216)	GO Refunding Bonds 2012A (217)	Total	Park Development (120)	Local Development (150)	Industrial Park TIF 2-2 (160)	Industrial Park TIF 2-3 (163)
\$ 3,905	\$ 1,985	\$ 1,957,959	\$ 98,597	\$ 639,130	\$ 185,021	\$ 210,764
2,465	-	4,360,499	-	-	-	-
-	-	-	-	-	-	-
-	-	46,494	-	-	-	-
-	-	1,221,684	-	-	-	-
-	-	95,512	-	-	-	-
-	-	3,666,547	-	1,885	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 6,370</u>	<u>\$ 1,985</u>	<u>\$ 11,348,695</u>	<u>\$ 98,597</u>	<u>\$ 641,015</u>	<u>\$ 185,021</u>	<u>\$ 210,764</u>
\$ -	\$ -	\$ 97	\$ 123	\$ 4,272	\$ -	\$ -
-	-	-	-	541,002	-	-
-	-	-	-	17,916	-	-
-	-	519,330	-	-	-	-
-	-	-	-	-	-	-
-	-	4,983,742	-	1,885	-	-
-	-	<u>5,503,169</u>	<u>123</u>	<u>565,075</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-
6,370	1,985	6,364,869	98,474	-	185,021	210,764
-	-	-	-	75,940	-	-
-	-	(519,343)	-	-	-	-
<u>6,370</u>	<u>1,985</u>	<u>5,845,526</u>	<u>98,474</u>	<u>75,940</u>	<u>185,021</u>	<u>210,764</u>
<u>\$ 6,370</u>	<u>\$ 1,985</u>	<u>\$ 11,348,695</u>	<u>\$ 98,597</u>	<u>\$ 641,015</u>	<u>\$ 185,021</u>	<u>\$ 210,764</u>

**CITY OF BIG LAKE**

**COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2012**

	Capital Projects				
	Industrial Park TIF 2-4 (164)	Industrial Park TIF 2-5 (166)	TIF 1-2 (151)	Commercial Redevelopment TIF 1-4 (170)	Industrial Park Street Assessments (168)
<b>ASSETS</b>					
Cash and Investments	\$ 122,330	\$ 64,337	\$ 25,875	\$ -	\$ 184,880
Cash with Fiscal Agent	-	-	-	-	-
Accounts Receivable	-	-	-	-	-
Due from Other Governments	-	-	-	-	5,307
Notes Receivable	-	-	-	-	-
Special Assessment Receivable:					
Delinquent	-	-	-	-	7,636
Deferred	-	-	-	-	30,366
Land Held for Resale	-	-	-	1,372,338	-
Prepaid Expenses	-	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 122,330</u>	<u>\$ 64,337</u>	<u>\$ 25,875</u>	<u>\$ 1,372,338</u>	<u>\$ 228,189</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts Payable	\$ -	\$ -	\$ 271	\$ -	\$ -
Escrow Payable	-	-	-	-	-
Contracts Payable	-	-	-	-	-
Due to Other Funds	-	-	-	81,909	-
Due to Other Governments	-	-	-	-	-
Deferred Revenue	-	-	-	-	38,002
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>271</u>	<u>81,909</u>	<u>38,002</u>
<b>Fund Balances</b>					
Nonspendable	-	-	-	1,372,338	-
Restricted	122,330	64,337	25,604	-	-
Assigned	-	-	-	-	190,187
Unassigned	-	-	-	(81,909)	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>122,330</u>	<u>64,337</u>	<u>25,604</u>	<u>1,290,429</u>	<u>190,187</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balances	<u>\$ 122,330</u>	<u>\$ 64,337</u>	<u>\$ 25,875</u>	<u>\$ 1,372,338</u>	<u>\$ 228,189</u>

Capital Projects

Industrial Park Expansion Land Purchase (141)	Northern Star TIF1-7 (173)	Street Improvement (175)	Neighborhood Stabilization Program (116)	Commercial Redevelopment TIF 1-5 (171)	Total	Total Other Governmental Funds
\$ 385	\$ -	\$ -	\$ 24,210	\$ -	\$ 1,555,529	\$ 3,514,314
-	-	-	-	-	-	4,360,499
-	-	-	-	-	-	25,100
-	-	12,695	-	-	18,002	64,496
-	-	-	-	-	-	1,382,903
-	-	50,456	-	-	58,092	153,604
-	-	50,648	-	-	82,899	3,749,446
1,732,099	-	-	550,678	-	3,655,115	4,146,305
-	-	-	4,533	-	4,533	4,533
<u>\$ 1,732,484</u>	<u>\$ -</u>	<u>\$ 113,799</u>	<u>\$ 579,421</u>	<u>\$ -</u>	<u>\$ 5,374,170</u>	<u>\$ 17,401,200</u>
\$ -	\$ -	\$ 45,112	\$ 2,212	\$ -	\$ 51,990	\$ 53,507
-	-	10,000	-	-	551,002	551,002
-	-	60,840	-	-	78,756	78,756
325,000	15,170	339,040	-	7,603	768,722	1,559,936
132,768	-	277,290	3,777	-	413,835	413,835
-	-	101,104	-	-	140,991	5,236,060
<u>457,768</u>	<u>15,170</u>	<u>833,386</u>	<u>5,989</u>	<u>7,603</u>	<u>2,005,296</u>	<u>7,893,096</u>
1,732,099	-	-	555,211	-	3,659,648	4,200,730
-	-	-	18,221	-	724,751	7,089,620
-	-	-	-	-	266,127	266,127
(457,383)	(15,170)	(719,587)	-	(7,603)	(1,281,652)	(2,048,373)
<u>1,274,716</u>	<u>(15,170)</u>	<u>(719,587)</u>	<u>573,432</u>	<u>(7,603)</u>	<u>3,368,874</u>	<u>9,508,104</u>
<u>\$ 1,732,484</u>	<u>\$ -</u>	<u>\$ 113,799</u>	<u>\$ 579,421</u>	<u>\$ -</u>	<u>\$ 5,374,170</u>	<u>\$ 17,401,200</u>

**CITY OF BIG LAKE**

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

	Special Revenue			Debt Service		
	Economic Development Authority (275)	Crime Reward Fund (130)	Total	G.O. Refunding Bonds of 1996 (205)	G.O. Tax Increment Bonds of 1998B (255)	G.O. Refunding Bonds of 1995 (230)
<b>REVENUES</b>						
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-	-
Special Assessments	-	-	-	52	-	-
Intergovernmental	-	-	-	-	-	-
Charges for Services	25,667	-	25,667	-	-	-
Miscellaneous:						
Investment Income	(447)	42	(405)	558	-	134
Other	1,564	-	1,564	-	-	-
Total Revenues	<u>26,784</u>	<u>42</u>	<u>26,826</u>	<u>610</u>	<u>-</u>	<u>134</u>
<b>EXPENDITURES</b>						
<b>Current</b>						
Park and Recreation	-	-	-	-	-	-
Economic Development	92,605	-	92,605	-	-	-
<b>Debt Service</b>						
Principal	19,131	-	19,131	-	-	-
Interest and Other Charges	21,411	-	21,411	-	-	450
<b>Capital Outlay</b>						
Streets and Highways	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-
Economic Development	-	-	-	-	-	-
Total Expenditures	<u>133,147</u>	<u>-</u>	<u>133,147</u>	<u>-</u>	<u>-</u>	<u>450</u>
Excess of Revenues Over (Under) Expenditures	(106,363)	42	(106,321)	610	-	(316)
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of Debt	-	-	-	-	-	-
Bond Premium	-	-	-	-	-	-
Bond Discount	-	-	-	-	-	-
Transfers In	-	-	-	-	-	-
Transfers Out	-	(2,535)	(2,535)	-	(200)	(8,111)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(2,535)</u>	<u>(2,535)</u>	<u>-</u>	<u>(200)</u>	<u>(8,111)</u>
Net Change in Fund Balances	(106,363)	(2,493)	(108,856)	610	(200)	(8,427)
<b>FUND BALANCES</b>						
<b>Beginning Balance</b>	<u>400,067</u>	<u>2,493</u>	<u>402,560</u>	<u>22,300</u>	<u>200</u>	<u>8,427</u>
<b>End of Year</b>	<u>\$ 293,704</u>	<u>\$ -</u>	<u>\$ 293,704</u>	<u>\$ 22,910</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service

G.O. Improvement Bonds of 2002A (220)	G.O. Tax Increment Bonds of 2004C (250)	G.O. Improvement Bonds of 2005A (210)	G.O. Capital Equipment Note 2005 (240)	G.O. Improvement Bonds of 2003A (225)	G.O. Improvement Bonds of 2006A (265)	G.O. Improvement Bonds of 2006B (270)	G.O. Improvement Bonds of 2004B (245)
\$ -	\$ -	\$ 153,500	\$ -	\$ -	\$ 102,796	\$ 54,200	\$ -
-	31,664	-	-	-	-	-	-
-	-	77,827	-	3,272	51,784	-	34,923
-	-	-	-	-	-	56,769	-
-	-	-	-	-	-	-	-
33	(3,073)	2,831	(5)	(3,158)	5,104	493	(2,927)
-	-	-	-	-	-	-	-
<u>33</u>	<u>28,591</u>	<u>234,158</u>	<u>(5)</u>	<u>114</u>	<u>159,684</u>	<u>111,462</u>	<u>31,996</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	10,000	160,000	201,165	-	145,000	75,000	-
-	44,365	73,530	3,914	-	77,689	38,279	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	<u>54,365</u>	<u>233,530</u>	<u>205,079</u>	<u>-</u>	<u>222,689</u>	<u>113,279</u>	<u>-</u>
33	(25,774)	628	(205,084)	114	(63,005)	(1,817)	31,996
-	-	-	-	-	-	635,000	-
-	-	-	-	-	-	15,811	-
-	-	-	-	-	-	(3,973)	-
-	8,111	-	375	189,776	-	-	-
(1,078)	(19,143)	(33,075)	-	-	(35,831)	-	-
(1,078)	(11,032)	(33,075)	375	189,776	(35,831)	646,838	-
(1,045)	(36,806)	(32,447)	(204,709)	189,890	(98,836)	645,021	31,996
1,045	(89,605)	1,869,897	204,709	(189,890)	2,082,249	37,254	(121,350)
<u>\$ -</u>	<u>\$ (126,411)</u>	<u>\$ 1,837,450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,983,413</u>	<u>\$ 682,275</u>	<u>\$ (89,354)</u>

**CITY OF BIG LAKE**

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

	Debt Service				
	G.O. Improvement Bonds of 2007E (207)	G.O. Improvement Bonds of 2007A (215)	G.O. Capital Improvement Bonds 2007C (235)	G.O. Improvement Bonds of 2008A (208)	2008 Tax Lease Revenue Bond (241)
<b>REVENUES</b>					
Property Taxes	\$ -	\$ 58,660	\$ 91,300	\$ 169,877	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	321,913	43,164	-	92,728	-
Intergovernmental	-	-	-	-	76,979
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	(1,436)	2,698	1,333	(2,409)	(4,307)
Other	-	-	-	-	-
Total Revenues	<u>320,477</u>	<u>104,522</u>	<u>92,633</u>	<u>260,196</u>	<u>72,672</u>
<b>EXPENDITURES</b>					
<b>Current</b>					
Park and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
<b>Debt Service</b>					
Principal	85,000	125,000	45,000	185,000	36,530
Interest and Other Charges	31,079	73,303	42,770	143,193	124,970
<b>Capital Outlay</b>					
Streets and Highways	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>116,079</u>	<u>198,303</u>	<u>87,770</u>	<u>328,193</u>	<u>161,500</u>
Excess of Revenues Over (Under) Expenditures	204,398	(93,781)	4,863	(67,997)	(88,828)
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of Debt	405,000	-	-	-	-
Bond Premium	14,222	-	-	-	-
Bond Discount	(2,534)	-	-	-	-
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>416,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	621,086	(93,781)	4,863	(67,997)	(88,828)
<b>FUND BALANCES</b>					
<b>Beginning Balance</b>	<u>(106)</u>	<u>240,041</u>	<u>79,299</u>	<u>75,104</u>	<u>(214,750)</u>
<b>End of Year</b>	<u>\$ 620,980</u>	<u>\$ 146,260</u>	<u>\$ 84,162</u>	<u>\$ 7,107</u>	<u>\$ (303,578)</u>



Debt Service

G.O. Capital Improvement Plan Bonds, Series 2009A (209)	G.O. State Aid Loan (211)	G.O. Improvement Bond 2010A (212)	G.O. Temporary Taxable Tax Increment Bond 2010B (213)	G.O. Refunding Bond of 2011A (214)	G.O. Improvement Refunding Bond of 2011B (216)	GO Refunding Bonds 2012A (217)	Total
\$ 69,330	\$ -	\$ 181,759	\$ -	\$ 157,248	\$ -	\$ -	\$ 1,038,670
-	-	-	-	-	-	-	31,664
-	-	132,804	-	55,975	-	-	814,442
-	171,745	-	-	-	-	-	305,493
-	-	-	-	-	-	-	-
(401)	534	4,153	383	16,913	2,561	10	20,022
-	-	-	-	-	-	-	-
<u>68,929</u>	<u>172,279</u>	<u>318,716</u>	<u>383</u>	<u>230,136</u>	<u>2,561</u>	<u>10</u>	<u>2,210,291</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
70,000	112,000	85,000	-	135,000	-	-	1,469,695
12,005	40,475	101,638	13,715	35,459	68,906	-	925,740
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>82,005</u>	<u>152,475</u>	<u>186,638</u>	<u>13,715</u>	<u>170,459</u>	<u>68,906</u>	<u>-</u>	<u>2,395,435</u>
(13,076)	19,804	132,078	(13,332)	59,677	(66,345)	10	(185,144)
-	-	-	-	-	-	-	1,040,000
-	-	-	-	-	-	1,975	32,008
-	-	-	-	-	-	-	(6,507)
3,781	-	-	-	1,078	68,906	-	272,027
-	-	(189,776)	-	-	-	-	(287,214)
<u>3,781</u>	<u>-</u>	<u>(189,776)</u>	<u>-</u>	<u>1,078</u>	<u>68,906</u>	<u>1,975</u>	<u>1,050,314</u>
(9,295)	19,804	(57,698)	(13,332)	60,755	2,561	1,985	865,170
24,130	3	192,306	20,925	734,359	3,809	-	4,980,356
<u>\$ 14,835</u>	<u>\$ 19,807</u>	<u>\$ 134,608</u>	<u>\$ 7,593</u>	<u>\$ 795,114</u>	<u>\$ 6,370</u>	<u>\$ 1,985</u>	<u>\$ 5,845,526</u>

**CITY OF BIG LAKE**

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

Capital Projects

	Park Development (120)	Lakeside Park Improvements (125)	Local Development (150)	Food Shelf / Senior Center Project (195)	Industrial Park TIF 2-1 (155)	Industrial Park TIF 2-2 (160)
<b>REVENUES</b>						
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-	-
Special Assessments	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for Services	76,000	-	-	-	-	-
Miscellaneous:						
Investment Income	1,998	-	20,414	-	-	4,517
Other	-	-	22,956	-	-	-
Total Revenues	<u>77,998</u>	<u>-</u>	<u>43,370</u>	<u>-</u>	<u>-</u>	<u>4,517</u>
<b>EXPENDITURES</b>						
<b>Current</b>						
Park and Recreation	96	-	-	-	-	-
Economic Development	-	-	48,610	-	-	-
<b>Debt Service</b>						
Principal	-	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-	-
<b>Capital Outlay</b>						
Streets and Highways	-	-	-	-	-	-
Culture and Recreation	113,343	-	-	-	-	-
Economic Development	-	-	-	-	-	6,196
Total Expenditures	<u>113,439</u>	<u>-</u>	<u>48,610</u>	<u>-</u>	<u>-</u>	<u>6,196</u>
Excess of Revenues Over (Under) Expenditures	(35,441)	-	(5,240)	-	-	(1,679)
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of Debt	-	-	-	-	-	-
Bond Premium	-	-	-	-	-	-
Bond Discount	-	-	-	-	-	-
Transfers In	-	12,777	-	-	-	-
Transfers Out	-	-	-	(153)	(507)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>12,777</u>	<u>-</u>	<u>(153)</u>	<u>(507)</u>	<u>-</u>
Net Change in Fund Balances	(35,441)	12,777	(5,240)	(153)	(507)	(1,679)
<b>FUND BALANCES</b>						
<b>Beginning Balance</b>	<u>133,915</u>	<u>(12,777)</u>	<u>81,180</u>	<u>153</u>	<u>507</u>	<u>186,700</u>
<b>End of Year</b>	<u>\$ 98,474</u>	<u>\$ -</u>	<u>\$ 75,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,021</u>

Capital Projects

Industrial Park TIF 2-3 (163)	Industrial Park TIF 2-4 (164)	Industrial Park TIF 2-5 (166)	TIF 1-2 (151)	Lake Street Redevelopment TIF 1-3 (165)	Commercial Redevelopment TIF 1-4 (170)	Industrial Park Street Assessments (168)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
86,333	38,312	21,234	15,937	-	13,965	-
-	-	-	-	-	-	26,221
-	-	-	-	-	-	-
-	-	-	-	-	-	-
4,110	2,439	1,206	544	(318)	(2,293)	4,157
-	-	-	-	-	-	-
<u>90,443</u>	<u>40,751</u>	<u>22,440</u>	<u>16,481</u>	<u>(318)</u>	<u>11,672</u>	<u>30,378</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
62,271	29,830	7,002	14,614	-	-	-
<u>62,271</u>	<u>29,830</u>	<u>7,002</u>	<u>14,614</u>	<u>-</u>	<u>-</u>	<u>-</u>
28,172	10,921	15,438	1,867	(318)	11,672	30,378
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	19,143	-	-
-	-	-	(4,243)	-	-	-
-	-	-	(4,243)	19,143	-	-
28,172	10,921	15,438	(2,376)	18,825	11,672	30,378
182,592	111,409	48,899	27,980	(18,825)	1,278,757	159,809
<u>\$ 210,764</u>	<u>\$ 122,330</u>	<u>\$ 64,337</u>	<u>\$ 25,604</u>	<u>\$ -</u>	<u>\$ 1,290,429</u>	<u>\$ 190,187</u>

**CITY OF BIG LAKE**

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

	Capital Projects				
	Industrial Park Expansion Land Purchase (141)	Northern Star TIF1-7 (173)	Street Improvement (175)	Public Works Facility (180)	Neighborhood Stabilization Program (116)
<b>REVENUES</b>					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	44,427	-	-
Intergovernmental	-	-	82,861	-	11,799
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	(2,854)	(111)	(5,064)	63	-
Other	-	-	-	-	3,179
Total Revenues	<u>(2,854)</u>	<u>(111)</u>	<u>122,224</u>	<u>63</u>	<u>14,978</u>
<b>EXPENDITURES</b>					
<b>Current</b>					
Park and Recreation	-	-	-	-	-
Economic Development	-	15,059	-	-	-
<b>Debt Service</b>					
Principal	-	-	-	-	-
Interest and Other Charges	8,840	-	-	-	-
<b>Capital Outlay</b>					
Streets and Highways	-	-	558,085	-	-
Culture and Recreation	-	-	-	-	-
Economic Development	92,727	-	-	-	267,412
Total Expenditures	<u>101,567</u>	<u>15,059</u>	<u>558,085</u>	<u>-</u>	<u>267,412</u>
Excess of Revenues Over (Under) Expenditures	(104,421)	(15,170)	(435,861)	63	(252,434)
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of Debt	-	-	-	-	-
Bond Premium	-	-	-	-	-
Bond Discount	-	-	-	-	-
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	(3,781)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,781)</u>	<u>-</u>
Net Change in Fund Balances	(104,421)	(15,170)	(435,861)	(3,718)	(252,434)
<b>FUND BALANCES</b>					
<b>Beginning Balance</b>	<u>1,379,137</u>	<u>-</u>	<u>(283,726)</u>	<u>3,718</u>	<u>825,866</u>
<b>End of Year</b>	<u>\$ 1,274,716</u>	<u>\$ (15,170)</u>	<u>\$ (719,587)</u>	<u>\$ -</u>	<u>\$ 573,432</u>

Capital Projects

Commercial Redevelopment TIF 1-5 (171)	Total	Total Other Governmental Funds
\$ -	\$ -	\$ 1,038,670
-	175,781	207,445
-	70,648	885,090
-	94,660	400,153
-	76,000	101,667
(186)	28,622	48,239
-	26,135	27,699
<u>(186)</u>	<u>471,846</u>	<u>2,708,963</u>
-	96	96
-	63,669	156,274
-	-	1,488,826
-	8,840	955,991
-	558,085	558,085
-	113,343	113,343
-	480,052	480,052
-	<u>1,224,085</u>	<u>3,752,667</u>
(186)	(752,239)	(1,043,704)
-	-	1,040,000
-	-	32,008
-	-	(6,507)
-	31,920	303,947
-	(8,684)	(298,433)
-	<u>23,236</u>	<u>1,071,015</u>
(186)	(729,003)	27,311
(7,417)	4,097,877	9,480,793
<u>\$ (7,603)</u>	<u>\$ 3,368,874</u>	<u>\$ 9,508,104</u>



*Expert advice. When you need it.<sup>SM</sup>*

**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 Big Lake  
Big Lake, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Big Lake, Minnesota as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 9, 2013.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses on Internal Controls and Legal Compliance that we consider to be significant deficiencies, Audit Findings 04-01 and 11-01 and 12-01.

### **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.

*Kern, Dewenter, Viere, Ltd*

KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota  
April 9, 2013



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## **REPORT ON LEGAL COMPLIANCE**

Honorable Mayor and Members  
of the City Council  
City of Big Lake  
Big Lake, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Big Lake, Minnesota, for the year ended December 31, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 9, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for 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.

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 those specified parties.

*Kern, Dewenter, Viere, Ltd*

KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota  
April 9, 2013



## **CITY OF BIG LAKE**

### **SCHEDULE OF FINDINGS AND RESPONSES ON INTERNAL CONTROL AND LEGAL COMPLIANCE December 31, 2012**

#### **CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:**

##### **Significant Deficiencies:**

###### **Audit Finding 04-01 – Lack of Segregation of Accounting Duties**

During the year ended December 31, 2012, the City had a lack of segregation of accounting duties. In order to have appropriate segregation of duties; the performance of the following duties would need to be completed by a different employee: initiation and authorization of transactions, recording and processing of transactions, reconciliation and reporting of transactions and financial information and custody of assets. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

##### **City's Response:**

The City will continue to monitor various accounting activities and look for areas where functions can be allocated to different staff to minimize potential control risks.

###### **Audit Finding 11-01 – 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 prevented or 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:**

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

## **CITY OF BIG LAKE**

### **SCHEDULE OF FINDINGS AND RESPONSES ON INTERNAL CONTROL AND LEGAL COMPLIANCE December 31, 2012**

#### **CURRENT YEAR INTERNAL CONTROL FINDING:**

##### **Significant Deficiency:**

##### **Audit Finding 12-01 – Improve General Controls over Liquor Store Inventory**

During the course of our audit, we tested samples of inventory at the City's liquor store. 20% of the items we selected in March, 2013 had differences in what was on hand at the liquor store compared to the store's inventory reports resulting in a projected error that was more than trivial, but less than material. Additionally, we were unable to obtain a listing of adjustments made to the liquor store inventory balance throughout the year in response to inventory counts performed by the City. This condition increases the risk that errors could occur which would not be detected and corrected in a timely manner.

##### **City's Response:**

The City currently has several processes in place to assure the liquor store inventory is accurate at all times. In 2012, these processes included liquor store staff doing an inventory count weekly on 5 randomly selected items, beer was fully inventoried twice, and a full physical inventory count was done once. Finally, finance staff did random sampling of inventory twice throughout the year.

To ensure a higher level of accuracy for 2013, the following additional processes have been implemented: beer will be included in the weekly inventory counts by liquor store staff, beer deliveries will be checked in upon receiving from the distributors, finance department staff will be doing monthly inventory sampling, and variance reports will be printed and turned into the finance director on a weekly basis.