

CITY OF BIG LAKE
Sherburne County, Minnesota

Audited Financial Statements
For the Fiscal Year Ended December 31, 2008

CITY OF BIG LAKE
Sherburne County, Minnesota

TABLE OF CONTENTS

ELECTED OFFICIALS AND ADMINISTRATION.....	1	
INDEPENDENT AUDITOR’S REPORT	2	
MANAGEMENT’S DISCUSSION AND ANALYSIS	5	
BASIC FINANCIAL STATEMENTS:		
Government-Wide Financial Statements:		
Statement of Net Assets	18	
Statement of Activities.....	19	
Fund Financial Statements:		
Balance Sheet – Governmental Funds	20	
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds	21	
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	22	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds	23	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	24	
Statement of Net Assets – Proprietary Funds	25	
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	26	
Statement of Cash Flows – Proprietary Funds.....	27	
Notes to the Financial Statements.....	29	
SUPPLEMENTARY INFORMATION:		
Combining Balance Sheet – Nonmajor Governmental Funds	58	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	64	
Detailed Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.....	71	
Schedule of Expenditures of Federal Awards.....	74	
Notes to the Schedule of Expenditures of Federal Awards	75	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....		77

CITY OF BIG LAKE
Sherburne County, Minnesota

TABLE OF CONTENTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i>	79
SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i>	81
REPORT ON LEGAL COMPLIANCE	85
SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL COMPLIANCE.....	86

CITY OF BIG LAKE
Sherburne County, Minnesota

ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2008

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Donald Orrock	Mayor	December 31, 2008
Lori Kampa	Council Member	December 31, 2008
Patricia May	Council Member	December 31, 2008
Charles Heitz	Council Member	December 31, 2010
Richard Backlund	Council Member	December 31, 2010
<u>Administration</u>		
Scott Johnson	City Administrator	Appointed
Corey Boyer	Finance Director	Appointed



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INDEPENDENT AUDITOR'S REPORT

May 14, 2009

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Big Lake, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

KDV

The Management's Discussion and Analysis, which follows this report letter, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kern, Dewenter, Viere, C.P.A.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota

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CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

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 December 31, 2008. 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 \$ 57,312,850. Of this amount, \$ 4,254,406 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$ 2,617,653. This increase is due to investments in capital asset items, whereas unrestricted net assets decreased in 2008 versus 2007.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 9,292,337, an increase of \$ 1,097,679 from the previous year. Approximately 58.6% of this total amount, \$ 5,443,551, is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$ 2,052,832, or 41.0%, of the total General Fund expenditures. Removing one-time expenditures related to grant funded radio purchases and the new pumper truck for the fire department, the unreserved fund balance represents 49.4% of General Fund expenditures.
- The City's total debt increased by \$ 5,872,511 (13.8%) during the current fiscal year. The key factors in this increase were the issuance of \$ 3,655,000 General Obligation (G.O.) Improvement Bonds to fund the 2008 Street Improvement Projects, and \$ 3,000,000 G.O. Utility System Revenue Bonds to fund the second phase of the County Road 43 Interceptor Project as well as funding the construction of Well No. 7.
- The City's General Fund expenditures in the current fiscal exceeded amended budget by \$574,860. This variance in expenditures was due to the purchase of radios by the fire department in the amount of \$615,040, which was offset by the receipt of local and federal grants totaling \$615,769.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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 (e.g., uncollected taxes and earned but unused vacation leave).

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 18-19 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 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 City's near-term financing decisions. Both the governmental fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

The City maintains 39 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and Street Improvement Capital Project Fund, both of which are considered to be major funds. Data from the other 37 governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor 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.

The basic governmental fund financial statements can be found on pages 20-24 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 25-27 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 29-55 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the Notes to the Financial Statements. Combining and individual fund statements and schedules can be found on pages 58-73 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a city's financial position. In the case of the City, assets exceeded liabilities by \$ 57,312,850 at the close of the most recent fiscal year.

CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

Approximately 65.4% of the City's net assets 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 assets (27.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 4,254,406) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in net investments in capital assets and restricted net assets for the governmental activities, as well as for its water, sanitary sewer and storm sewer enterprises separately. Unrestricted net assets in governmental activities were negative as of the end of the fiscal year, due mainly to the investment of available unrestricted assets into capital items, as well as increased expenditures over revenues in the current fiscal year.

City of Big Lake's Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 18,168,165	\$ 16,784,757	\$ 6,851,406	\$ 8,493,555	\$ 25,019,571	\$ 25,278,312
Capital Assets	37,059,758	35,519,497	46,552,061	41,264,154	83,611,819	76,783,651
Total Assets	55,227,923	52,304,254	53,403,467	49,757,709	108,631,390	102,061,963
Long-Term Liabilities Outstanding	25,546,034	21,879,472	20,200,722	18,207,990	45,746,756	40,087,462
Other Liabilities	3,636,139	4,916,700	1,935,645	2,362,604	5,571,784	7,279,304
Total Liabilities	29,182,173	26,796,172	22,136,367	20,570,594	51,318,540	47,366,766
Net Assets:						
Invested in Capital Assets, Net of Related Debt	12,090,924	14,398,932	25,387,708	22,091,591	37,478,632	36,490,523
Restricted	15,430,092	13,106,562	149,720	149,720	15,579,812	13,256,282
Unrestricted	(1,475,266)	(1,997,412)	5,729,672	6,945,804	4,254,406	4,948,392
Total Net Assets	26,045,750	25,508,082	31,267,100	29,187,115	57,312,850	54,695,197

The City's net assets increased by \$ 2,617,653 during the current fiscal year. About 10.3% of this increase came from activity in the governmental funds, while 71.0% is attributable to business-type activities. The remainder of this growth (18.7%) reflects investment earnings.

CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

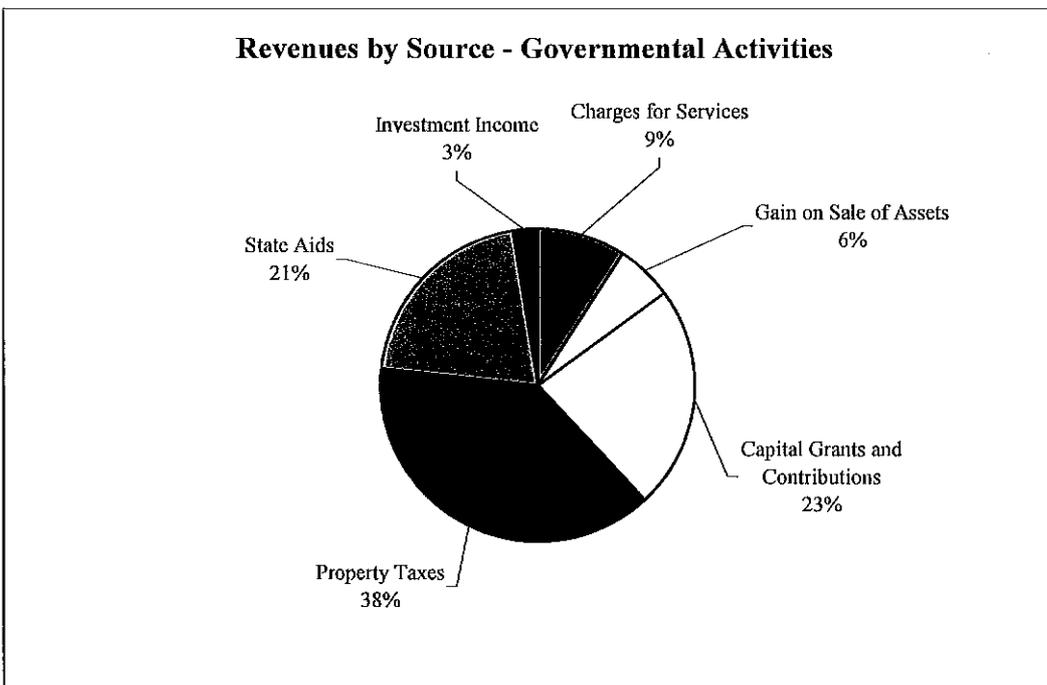
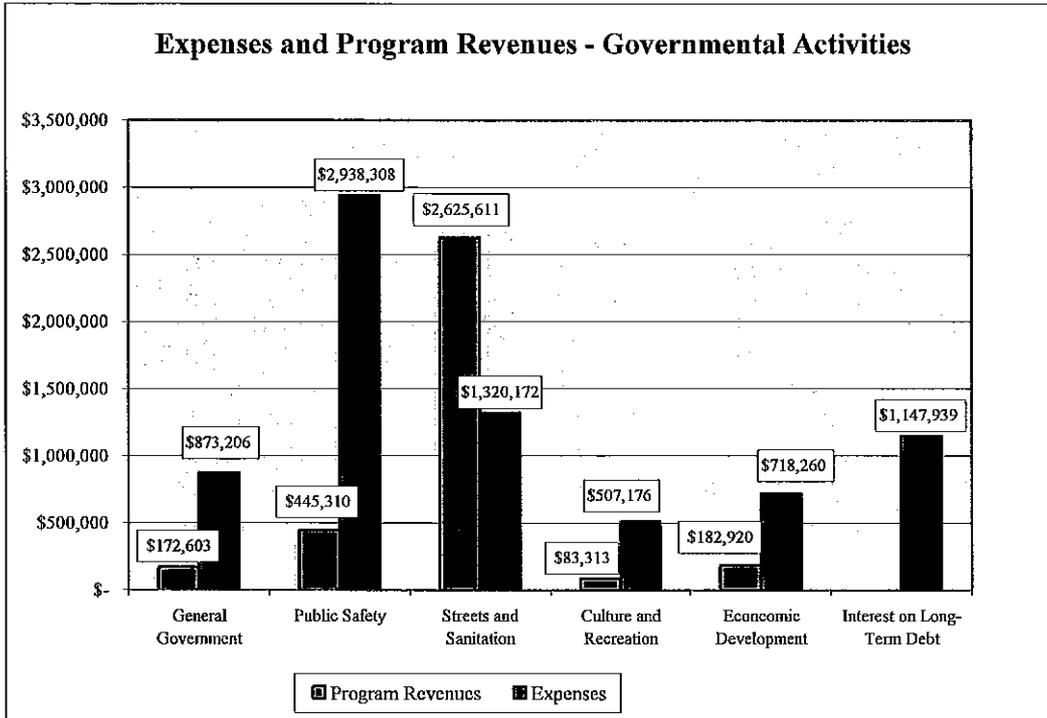
Governmental Activities

Governmental activities increased the City's net assets by \$ 537,688, thereby accounting for 20.5% of the total growth in the net assets of the City.

	City of Big Lake's Change in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
REVENUE:						
Program Revenues:						
Charges for Services	\$ 945,852	\$ 1,156,754	\$ 5,036,785	\$ 5,704,626	\$ 5,982,637	\$ 6,861,380
Operating Grants and Contributions	18,948	390,182	996	-	19,944	390,182
Capital Grants and Contributions	2,544,956	1,603,744	-	215,181	2,544,956	1,818,925
General Revenues:						
Property Taxes and Tax Increment	4,040,645	3,516,910	-	19	4,040,645	3,516,929
State Aids	2,158,258	1,499,498	-	-	2,158,258	1,499,498
Investment Income	267,363	503,466	220,403	473,368	487,766	976,834
Other Income	600,581	1,669	-	-	600,581	1,669
Total Revenues	10,576,603	8,672,223	5,258,184	6,393,194	15,834,787	15,065,417
Expenses:						
General Government	873,206	738,174	-	-	873,206	738,174
Public Safety	2,938,308	2,283,527	-	-	2,938,308	2,283,527
Streets and Sanitation	1,320,172	1,447,818	-	-	1,320,172	1,447,818
Economic Development	718,260	730,689	-	-	718,260	730,689
Culture and Recreation	507,176	426,224	-	-	507,176	426,224
Interest/Fiscal Charges	1,147,939	1,011,050	-	-	1,147,939	1,011,050
Water	-	-	1,299,782	1,149,515	1,299,782	1,149,515
Sewer	-	-	1,344,501	1,209,987	1,344,501	1,209,987
Stormwater	-	-	275,911	222,629	275,911	222,629
Liquor	-	-	2,791,879	2,600,318	2,791,879	2,600,318
Total Expenses	7,505,061	6,637,482	5,712,073	5,182,449	13,217,134	11,819,931
Increase in Net Assets Before Transfers	3,071,542	2,034,741	(453,889)	1,210,745	2,617,653	3,245,486
Transfers	(2,533,874)	(350,342)	2,533,874	350,342	-	-
Increase in Net Assets	537,668	1,684,399	2,079,985	1,561,087	2,617,653	3,245,486
Net Assets - Beginning	25,508,082	23,256,183	29,187,115	27,626,028	54,695,197	50,882,211
Prior Period Adjustment	-	567,500	-	-	-	567,500
Net Assets - Beginning Restated	25,508,082	23,823,683	29,187,115	27,626,028	54,695,197	51,449,711
Net Assets - Ending	\$ 26,045,750	\$ 25,508,082	\$ 31,267,100	\$ 29,187,115	\$ 57,312,850	\$ 54,695,197

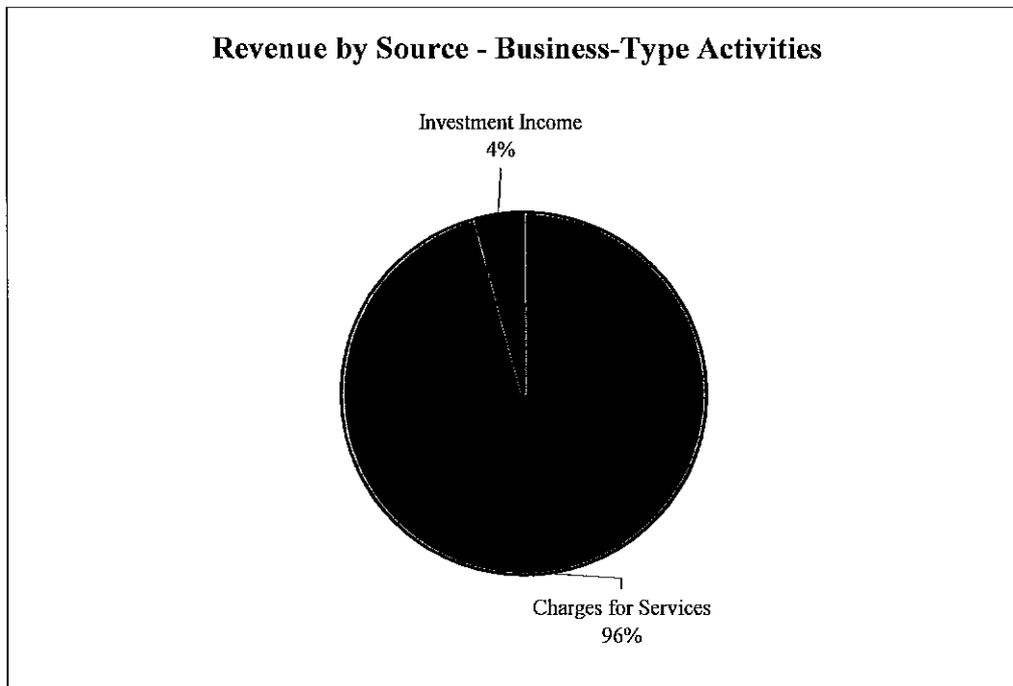
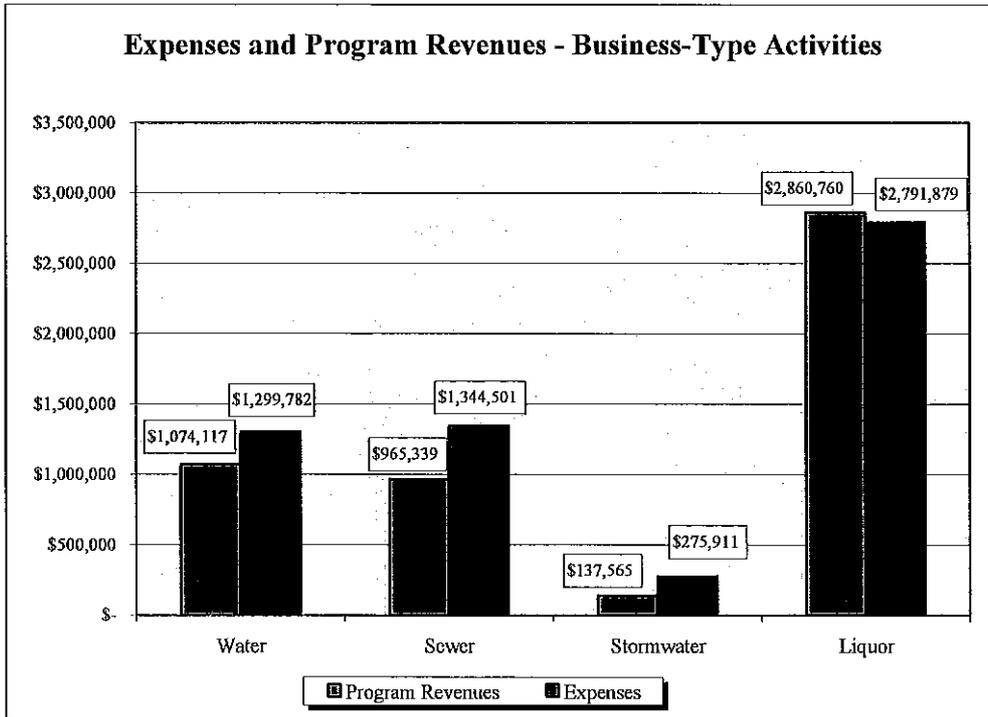
**CITY OF BIG LAKE
Sherburne County, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008**



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008**



CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

Business-Type Activities

Business-type activities increased the City's net assets by \$ 2,079,985, accounting for 79.5% of the total growth in the City's net assets.

FINANCIAL ANALYSIS OF THE CITY'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 city'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 \$ 9,292,337, an increase of \$ 1,097,679 from the previous year. Approximately 58.6% of this total amount (\$ 5,443,551) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for future capital purchases (\$ 37,123), 2) for prepaid expenses paid in 2008 (\$ 66,350), 3) to account for land that is being held for resale (\$ 3,543,508) or 4) for notes receivable (\$ 201,805).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$ 2,052,832, while total fund balance reached \$ 2,156,305. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 41.0% of the total General Fund expenditures, while total fund balance represents 43.1% of that same amount. As noted earlier, removing one-time expenditures related to grant funded radio purchases and the new pumper truck for the fire department resulted in unreserved fund balance representing 49.4% of General Fund expenditures and total fund balance representing 51.9% of this same amount.

The fund balance of the City's General Fund decreased by \$ 293,435 during the current fiscal year. Key factors in 2008 which had an impact on fund balance include:

- Building permit revenue for the year was \$ 186,500, or \$ 113,500 less than budgeted. This shortfall was due mainly to the slowdown in the housing market, with only 11 new single family home permits being issued in 2008.
- At the end of 2008, the state unallotted \$ 146,250 of the City's second half Local Government Aid (LGA) payment. This occurred in December, which did not provide the City adequate time to address the lost revenue in the current year budget.
- During 2008, Council approved the purchase of a new fire pumper truck (shared cost with Big Lake Township). The City's share of \$ 240,493 was funded from existing reserves.

CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

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 assets of the water operations at the end of the year amounted to \$ 390,384, those for the sewer operations amounted to \$ 5,512,862, those for the storm sewer operations amounted to \$ (22,829) and those for the liquor operations amounted to \$ (150,745). The total growth (reduction) in unrestricted net assets for each fund was \$ (1,320,068), \$ (206,325), \$ (62,919) and \$ 373,180, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was amended in 2008 for \$ 284,453 to account for the purchase of equipment for the fire department.

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, 2008 amounted to \$ 83,611,819 (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	
	2008	2007	2008	2007	2008	2007
Land	\$ 7,427,585	\$ 7,427,585	\$ 1,533,956	\$ 1,533,956	\$ 8,961,541	\$ 8,961,541
Construction in Progress	12,082,778	12,238,685	21,298,289	18,886,422	33,381,067	31,125,107
Leasehold Improvements	28,956	30,756	153,363	163,062	182,319	193,818
Infrastructure	13,413,781	11,273,305	-	-	13,413,781	11,273,305
Collection and Distribution Systems	-	-	21,272,472	18,245,560	21,272,472	18,245,560
Buildings and System	2,801,724	3,090,190	1,917,409	1,984,411	4,719,133	5,074,601
Machinery and Equipment	1,304,934	1,458,976	376,572	450,743	1,681,506	1,909,719
Total	\$ 37,059,758	\$ 35,519,497	\$ 46,552,061	\$ 41,264,154	\$ 83,611,819	\$ 76,783,651

Major capital asset events during the current fiscal year included the following:

- Construction neared completion on a new water treatment facility. Construction in progress at the close of the current year reached \$ 9,138,957.
- Construction was completed on 172nd Avenue, 197th Avenue and 166th and 168th Street Projects, Hill Street Area Improvements, Phase II of Martin Avenue and the 2005 Raw Water Mains Project.

CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

- Construction began or was continued on several other projects, including; 205th Street Improvements, County Road 43 Interceptor, Fire Hall Utilities Extension, Industrial Park Expansion Street and Utility Improvements, County Road 5/Highway 10 Improvements, Esplanade/Lakeside Park Improvements, Phase III of Martin Avenue, Ormsbee Street Area Improvements, Public Works Building Expansion, Water Tower No. 4, Well No. 7, West Side Trunk Utilities and preliminary design work on the Wastewater Plant Expansion. Construction in progress at the close of the fiscal year for these projects and others reached \$ 33,381,069.

Additional information on the City's capital assets can be found in Note 6 on pages 43-45 of this report.

Long-Term Debt

At the end of the current fiscal year, the City had a total bonded debt outstanding of \$ 48,567,551. Of this amount \$ 2,850,971 comprises debt backed by the full faith and credit of the government and \$ 20,295,000 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., TIF bonds, revenue bonds, lease revenue bonds).

City of Big Lake's Outstanding Debt						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds/Notes	\$ 2,850,971	\$ 2,965,000	\$ -	\$ -	\$ 2,850,971	\$ 2,965,000
FmHA Loan	-	140,000	-	-	-	140,000
General Obligation Tax Increment Bonds	1,230,000	1,400,000	-	-	1,230,000	1,400,000
General Obligation Special Assessment Bonds	20,295,000	17,850,000	-	-	20,295,000	17,850,000
EDA Lease Revenue Bonds	3,006,317	1,198,715	-	-	3,006,317	1,198,715
PFA Drinking Water Revolving Loan	-	-	7,518,550	7,925,040	7,518,550	7,925,040
General Obligation Revenue Bonds/Notes	-	-	12,419,029	9,925,000	12,419,029	9,925,000
Public Project Revenue Bonds	-	-	1,247,684	1,291,285	1,247,684	1,291,285
Total	<u>\$ 27,382,288</u>	<u>\$ 23,553,715</u>	<u>\$ 21,185,263</u>	<u>\$ 19,141,325</u>	<u>\$ 48,567,551</u>	<u>\$ 42,695,040</u>

The City's total debt increased by \$ 5,872,511 (13.8%) during the current fiscal year. The key factors in this increase were the issuance of \$ 3,655,000 G.O. Improvement Bonds to fund the 2008 Street Improvement Projects and \$ 3,000,000 G.O. Utility System Revenue Bonds to fund the second phase of the County Road 43 Interceptor Project as well as funding the construction of Well No. 7.

The City maintains an "A2" rating from Moody's for G.O. debt.

Additional information on the City's long-term debt can be found in Note 7 on pages 45-51 of this report.

CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

Economic Factors and Next Year's Budgets and Rates

- Growth slowed considerably in 2008. Eleven single family home building permits were issued in 2008. This compares to 47 for 2007 and 147 for 2006. It is expected the pace of new home construction will remain slow as the residential sales market continues to struggle. The 2009 building permit revenue budget assumes 15 new home starts and other commercial activity.
- Budgeted spending for the City's General Fund was reduced by \$ 465,718 for fiscal year 2009, a 10.5% decrease from the amended 2008 General Fund budget. The amended 2008 budget included a one-time budget adjustment of \$ 240,493 for the new fire pumper truck purchase. Removing this from the 2008 amended budget results in \$ 225,225 in budgeted spending reductions in 2009, a 5.4% decrease from the amended 2008 General Fund budget.
- The 2009 tax rate for the City decreased 8 hundredths of one percent from 41.605 in 2008 to 41.573 in 2009. The overall levy for the City increased \$ 115,848. However, of this total, special/debt levies increased over \$ 175,000 while the operating levy decreased just under \$ 60,000.

Sanitary sewer rates were increased for the 2009 budget year. Water and storm sewer rates were frozen at 2008 rates for 2009. Sanitary sewer rates were increased mainly to account for anticipated increased operating expenditures from an expansion to the waste water treatment plant, expected to begin in fall of 2009. Current water rates cover all operating costs for the enterprise. Storm sewer rates currently do not meet all operating expenses when including depreciation. However, storm sewer rates do cover operating expenditures when depreciation is not factored in.

The municipal liquor store realized income before transfers of \$ 31,745. With an operating transfer of \$ 200,290 to the General Fund and a transfer in from the EDA Special Revenue Fund for \$ 500,000, the change in net assets for the Liquor Fund was \$ 331,455.

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 City'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

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BASIC FINANCIAL STATEMENTS

CITY OF BIG LAKE
Sherburne County, Minnesota

STATEMENT OF NET ASSETS
December 31, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Investments (Including Cash Equivalents)	\$ 7,866,856	\$ 3,711,431	\$ 11,578,287
Cash with Fiscal Agent	78,938	-	78,938
Receivables:			
Property Taxes Receivable	290,754	2	290,756
Accounts Receivable	113,607	291,291	404,898
Interest Receivable	46,975	-	46,975
Notes Receivable	1,792,587	231,644	2,024,231
Special Assessments Receivable:			
Delinquent	209,240	30,102	239,342
Deferred	5,573,634	367,799	5,941,433
Due from Other Governments	216,251	12,166	228,417
Due from Other Funds (Internal Balances)	(1,630,535)	1,630,535	-
Inventories	-	368,615	368,615
Land Held for Resale	3,543,508	-	3,543,508
Prepaid Expenses	66,350	58,101	124,451
Restricted Cash	-	149,720	149,720
Capital Assets not being Depreciated:			
Land	7,427,585	1,533,956	8,961,541
Construction in Progress	12,082,778	21,298,289	33,381,067
Capital Assets being Depreciated:			
Infrastructure	25,230,648	-	25,230,648
Buildings	3,533,893	2,010,063	5,543,956
Leasehold Improvements	36,006	223,833	259,839
Machinery and Equipment	3,472,568	987,981	4,460,549
Collection and Distribution Systems	-	29,908,877	29,908,877
Less Accumulated Depreciation	(14,723,720)	(9,410,938)	(24,134,658)
Total Assets	\$ 55,227,923	\$ 53,403,467	\$ 108,631,390
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts Payable	\$ 243,044	\$ 207,366	\$ 450,410
Salaries and Benefits Payable	61,929	30,111	92,040
Escrow Payable	559,206	-	559,206
Contracts Payable	191,841	267,841	459,682
Due to Other Governments	122,898	104,494	227,392
Interest Payable	406,436	298,099	704,535
Other Liabilities	32,500	196,000	228,500
Bond Principal Payable:			
Payable Within One Year	1,675,000	-	1,675,000
Payable After One Year	22,040,000	-	22,040,000
Revenue Bonds Payable:			
Payable Within One Year	97,325	915,770	1,013,095
Payable After One Year	2,908,992	19,793,557	22,702,549
Notes Payable:			
Payable Within One Year	122,136	47,864	170,000
Payable After One Year	538,835	211,165	750,000
Capital Lease Payable:			
Payable Within One Year	4,131	-	4,131
Payable After One Year	15,565	-	15,565
Compensated Absences Payable:			
Payable Within One Year	119,693	64,100	183,793
Severance Payable:			
Payable After One Year	42,642	-	42,642
Total Liabilities	29,182,173	22,136,367	51,318,540
Net Assets:			
Invested in Capital Assets, Net of Related Debt	12,090,924	25,387,708	37,478,632
Restricted for:			
Debt Service	10,914,705	149,720	11,064,425
Tax Increment	971,879	-	971,879
Land Held for Resale	3,543,508	-	3,543,508
Unrestricted	(1,475,266)	5,729,672	4,254,406
Total Net Assets	26,045,750	31,267,100	57,312,850
Total Liabilities and Net Assets	\$ 55,227,923	\$ 53,403,467	\$ 108,631,390

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

CITY OF BIG LAKE
Sherburne County, Minnesota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 873,206	\$ 170,097	\$ 2,000	\$ 506	\$ (700,603)	\$ -	\$ (700,603)
Public Safety	2,938,308	434,262	11,048	-	(2,492,998)	-	(2,492,998)
Streets and Highways	1,320,172	81,160	-	2,544,450	1,305,438	-	1,305,438
Culture and Recreation	507,176	83,313	-	-	(423,863)	-	(423,863)
Economic Development	718,260	177,020	5,900	-	(535,340)	-	(535,340)
Interest on Long-Term Debt	1,147,939	-	-	-	(1,147,939)	-	(1,147,939)
Total Governmental Activities	<u>7,505,061</u>	<u>945,852</u>	<u>18,948</u>	<u>2,544,956</u>	<u>(3,995,305)</u>	<u>-</u>	<u>(3,995,305)</u>
Business-Type Activities:							
Water	1,299,782	1,074,117	-	-	-	(225,665)	(225,665)
Sewer	1,344,501	965,339	-	-	-	(379,162)	(379,162)
Municipal Liquor	2,791,879	2,860,760	-	-	-	68,881	68,881
Storm Sewer	275,911	136,569	996	-	-	(138,346)	(138,346)
Total Business-Type Activities	<u>5,712,073</u>	<u>5,036,785</u>	<u>996</u>	<u>-</u>	<u>-</u>	<u>(674,292)</u>	<u>(674,292)</u>
Total Governmental and Business-Type Activities	<u>\$ 13,217,134</u>	<u>\$ 5,982,637</u>	<u>\$ 19,944</u>	<u>\$ 2,544,956</u>	<u>(3,995,305)</u>	<u>(674,292)</u>	<u>(4,669,597)</u>
General Revenues:							
Property Taxes					3,051,140	-	3,051,140
Tax Increments					989,505	-	989,505
State Aids					2,158,258	-	2,158,258
Unrestricted Investment Earnings					267,363	220,403	487,766
Gain on Sale of Assets					600,581	-	600,581
Transfers					(2,533,874)	2,533,874	-
Total General Revenues and Transfers					<u>4,532,973</u>	<u>2,754,277</u>	<u>7,287,250</u>
Change in Net Assets					537,668	2,079,985	2,617,653
Net Assets - Beginning					25,508,082	29,187,115	54,695,197
Net Assets - Ending					<u>\$ 26,045,750</u>	<u>\$ 31,267,100</u>	<u>\$ 57,312,850</u>

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

CITY OF BIG LAKE
Sherburne County, Minnesota

BALANCE SHEET - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2008

	General (101)	Capital Project Street Improvement (175)	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and Investments (Including Cash Equivalents)	\$ 2,452,517	\$ 199,715	\$ 5,214,624	\$ 7,866,856
Cash with Fiscal Agent	-	-	78,938	78,938
Taxes Receivable - Delinquent	224,102	-	66,652	290,754
Accounts Receivable	22,735	-	90,872	113,607
Interest Receivable	46,975	-	-	46,975
Due from Other Funds	-	-	320,120	320,120
Due from Other Governments	102,381	888	112,982	216,251
Notes Receivable	-	-	1,792,587	1,792,587
Special Assessments Receivable:				
Delinquent	716	64,322	144,202	209,240
Deferred	10,786	213,507	5,349,341	5,573,634
Land Held for Resale	-	-	3,543,508	3,543,508
Prepaid Expenses	66,350	-	-	66,350
	<u>\$ 2,926,562</u>	<u>\$ 478,432</u>	<u>\$ 16,713,826</u>	<u>\$ 20,118,820</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 85,477	\$ 140,152	\$ 17,415	\$ 243,044
Salaries and Benefits Payable	61,929	-	-	61,929
Escrow Payable	134,450	10,682	414,074	559,206
Contracts Payable	-	149,261	42,580	191,841
Due to Other Funds	240,493	-	1,710,162	1,950,655
Due to Other Governments	12,304	19,669	90,925	122,898
Deferred Revenues	235,604	277,829	7,150,977	7,664,410
Other Liabilities	-	32,500	-	32,500
Total Liabilities	<u>770,257</u>	<u>630,093</u>	<u>9,426,133</u>	<u>10,826,483</u>
Fund Balances:				
Reserved for:				
Notes Receivable	-	-	201,805	201,805
Capital Projects	37,123	-	-	37,123
Prepaid Expense	66,350	-	-	66,350
Land Held for Resale	-	-	3,543,508	3,543,508
Unreserved, Reported in:				
General Fund - Designated	162,325	-	-	162,325
General Fund - Undesignated	1,890,507	-	-	1,890,507
Special Revenue Funds - Designated	-	-	64,268	64,268
Dcibt Service - Dcsignated	-	-	4,391,548	4,391,548
Debt Service - Undesignated	-	-	(271,583)	(271,583)
Capital Projects Funds - Designated	-	-	840,616	840,616
Capital Projects Funds - Undesignated	-	(151,661)	(1,482,469)	(1,634,130)
Total Fund Balances	<u>2,156,305</u>	<u>(151,661)</u>	<u>7,287,693</u>	<u>9,292,337</u>
	<u>\$ 2,926,562</u>	<u>\$ 478,432</u>	<u>\$ 16,713,826</u>	<u>\$ 20,118,820</u>

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

CITY OF BIG LAKE
Sherburne County, Minnesota

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
December 31, 2008**

Total Fund Balances - Governmental Funds	\$ 9,292,337
Amounts reported for governmental activities in the Statement of Net Assets 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	51,783,478
Less Accumulated Depreciation	(14,723,720)
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	(23,715,000)
Revenue Bonds Payable	(3,006,317)
Notes Payable	(660,971)
Capital Lease Payable	(19,696)
Compensated Absences Payable	(119,693)
Severance Payable	(42,642)
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	290,754
Special Assessments	209,240
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred Special Assessments	5,573,634
Notes Receivable	1,590,782
Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.	<u>(406,436)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 26,045,750</u></u>

CITY OF BIG LAKE
Sherburne County, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2008

	General (101)	Capital Projects Street Improvement (175)	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property Taxes	\$ 2,283,544	\$ -	\$ 709,978	\$ 2,993,522
Tax Increments	-	-	989,505	989,505
Special Assessments	506	36,545	800,785	837,836
Licenses and Permits	352,928	-	-	352,928
Intergovernmental	1,171,018	881,866	105,374	2,158,258
Charges for Services	365,254	-	135,974	501,228
Fines and Forfeitures	36,965	-	-	36,965
Miscellaneous:				
Investment Income	90,355	2,836	174,172	267,363
Contributions and Donations	13,047	-	5,900	18,947
Other	-	-	54,731	54,731
Total Revenues	<u>4,313,617</u>	<u>921,247</u>	<u>2,976,419</u>	<u>8,211,283</u>
EXPENDITURES:				
Current:				
General Government	839,714	-	-	839,714
Public Safety	2,778,867	-	-	2,778,867
Streets and Highways	484,369	-	-	484,369
Culture and Recreation	412,934	-	-	412,934
Economic Development	177,647	-	236,776	414,423
Debt Service:				
Principal	-	-	1,715,427	1,715,427
Interest and Other Charges	-	-	1,110,765	1,110,765
Capital Outlay:				
General Government	26,509	-	1,984	28,493
Public Safety	287,011	-	4,606	291,617
Streets and Highways	-	4,952,304	279,611	5,231,915
Culture and Recreation	-	-	242,721	242,721
Economic Development	-	-	242,858	242,858
Total Expenditures	<u>5,007,051</u>	<u>4,952,304</u>	<u>3,834,748</u>	<u>13,794,103</u>
Excess of Revenues Under Expenditures	(693,434)	(4,031,057)	(858,329)	(5,582,820)
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Asset	1,950	-	769,300	771,250
Issuance of Debt and Capital Lease	21,224	3,528,731	2,015,269	5,565,224
Bond Discount	-	-	(25,401)	(25,401)
Transfers In	376,825	518,935	668,558	1,564,318
Transfers Out	-	(154,032)	(1,040,860)	(1,194,892)
Total Other Financing Sources (Uses)	<u>399,999</u>	<u>3,893,634</u>	<u>2,386,866</u>	<u>6,680,499</u>
Net Change in Fund Balances	<u>(293,435)</u>	<u>(137,423)</u>	<u>1,528,537</u>	<u>1,097,679</u>
FUND BALANCES:				
Beginning of Year	<u>2,449,740</u>	<u>(14,238)</u>	<u>5,759,156</u>	<u>8,194,658</u>
End of Year	<u>\$ 2,156,305</u>	<u>\$ (151,661)</u>	<u>\$ 7,287,693</u>	<u>\$ 9,292,337</u>

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

CITY OF BIG LAKE
Sherburne County, Minnesota

**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, 2008

Net Change in Fund Balances - Governmental Funds	\$ 1,097,679
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	5,817,763
Depreciation Expense	(1,203,533)
Loss on Disposal	(170,669)
Completed CIP Transferred to Enterprise Funds	(2,903,300)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(4,969)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in net assets in the Statement of Activities.	
Bond principal payments	1,715,427
Capital Lease principal payments	1,528
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.	(11,773)
Proceeds from long-term debt and a capital lease are recognized as other financing source in the governmental funds but as a decrease in net assets in the Statement of Activities.	(5,565,224)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred Special Assessments	95,868
Delinquent Special Assessments	547,971
Long-Term Notes Receivable	1,063,282
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>57,618</u>
Change in Net Assets - Governmental Activities	<u>\$ 537,668</u>

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

CITY OF BIG LAKE
Sherburne County, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2008**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Over (Under)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property Taxes	\$ 2,208,167	\$ 2,208,167	\$ 2,283,544	\$ 75,377
Special Assessments	1,200	1,200	506	(694)
Licenses and Permits	472,400	472,400	352,928	(119,472)
Intergovernmental	716,221	716,221	1,171,018	454,797
Charges for Services	378,500	396,000	365,254	(30,746)
Fines and Forfeitures	16,750	16,750	36,965	20,215
Miscellaneous Revenues:				
Investment Income	100,000	100,000	90,355	(9,645)
Contributions and Donations	19,500	19,500	13,047	(6,453)
Total Revenues	<u>3,912,738</u>	<u>3,930,238</u>	<u>4,313,617</u>	<u>383,379</u>
EXPENDITURES:				
Current:				
General Government	799,620	799,620	839,714	40,094
Public Safety	2,232,095	2,276,055	2,778,867	502,812
Streets and Highways	491,949	491,949	484,369	(7,580)
Culture and Recreation	385,174	385,174	412,934	27,760
Economic Development	189,900	189,900	177,647	(12,253)
Capital Outlay:				
General Government	4,000	4,000	26,509	22,509
Public Safety	45,000	285,493	287,011	1,518
Total Expenditures	<u>4,147,738</u>	<u>4,432,191</u>	<u>5,007,051</u>	<u>574,860</u>
Excess of Revenues Under Expenditures	(235,000)	(501,953)	(693,434)	(191,481)
OTHER FINANCING SOURCES:				
Proceeds from Sale of Capital Asset	-	-	1,950	1,950
Issuance of Capital Lease	-	-	21,224	21,224
Transfers In	220,000	220,000	376,825	156,825
Total Other Financing Sources	<u>220,000</u>	<u>220,000</u>	<u>399,999</u>	<u>179,999</u>
Net Change in Fund Balances	<u>\$ (15,000)</u>	<u>\$ (281,953)</u>	(293,435)	<u>\$ (11,482)</u>
FUND BALANCES:				
Beginning of Year			<u>2,449,740</u>	
End of Year			<u>\$ 2,156,305</u>	

CITY OF BIG LAKE
Sherburne County, Minnesota

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
December 31, 2008

	Water (301)	Sewer (401)	Liquor (501)	Storm Sewer (601)	Total
ASSETS:					
Current Assets:					
Cash and Investments (Including Cash Equivalents)	\$ 322,424	\$ 3,389,007	\$ -	\$ -	\$ 3,711,431
Taxes Receivable - Delinquent	-	2	-	-	2
Accounts Receivable	149,446	122,914	242	18,689	291,291
Due from Other Funds	-	2,015,264	-	-	2,015,264
Due from Other Governments	6,083	6,083	-	-	12,166
Notes Receivable	231,644	-	-	-	231,644
Special Assessment Receivable:					
Delinquent	15,051	15,051	-	-	30,102
Deferred	142,389	207,391	-	18,019	367,799
Inventories	-	-	368,615	-	368,615
Prepaid Expenses	23,136	22,409	9,878	2,678	58,101
Total Current Assets	<u>890,173</u>	<u>5,778,121</u>	<u>378,735</u>	<u>39,386</u>	<u>7,086,415</u>
Noncurrent Assets:					
Restricted Cash	-	-	149,720	-	149,720
Capital Assets:					
Land	277,006	1,256,950	-	-	1,533,956
Buildings	47,225	47,225	1,915,613	-	2,010,063
Collection and Distribution Systems	10,716,593	14,181,402	-	5,010,882	29,908,877
Machinery and Equipment	308,677	184,913	194,175	300,216	987,981
Leasehold Improvements	166,068	-	57,765	-	223,833
Construction in Progress	13,778,150	7,257,000	-	263,139	21,298,289
Total Capital Assets	<u>25,293,719</u>	<u>22,927,490</u>	<u>2,167,553</u>	<u>5,574,237</u>	<u>55,962,999</u>
Less Accumulated Depreciation	<u>(2,737,186)</u>	<u>(5,364,190)</u>	<u>(208,679)</u>	<u>(1,100,883)</u>	<u>(9,410,938)</u>
Net Capital Assets	<u>22,556,533</u>	<u>17,563,300</u>	<u>1,958,874</u>	<u>4,473,354</u>	<u>46,552,061</u>
Total Assets	<u>\$ 23,446,706</u>	<u>\$ 23,341,421</u>	<u>\$ 2,487,329</u>	<u>\$ 4,512,740</u>	<u>\$ 53,788,196</u>
LIABILITIES AND NET ASSETS:					
Current Liabilities:					
Accounts Payable	\$ 18,910	\$ 68,755	\$ 116,838	\$ 2,866	\$ 207,369
Contracts Payable	247,802	20,039	-	-	267,841
Salaries and Benefits Payable	9,562	9,562	9,572	1,415	30,111
Interest Payable	123,258	145,603	25,461	3,777	298,099
Due to Other Funds	-	-	333,872	50,857	384,729
Due to Other Governments	78,957	-	25,537	-	104,494
Current Compensated Absences	21,300	21,300	18,200	3,300	64,100
Amount Due Within One Year	528,536	346,203	41,031	47,864	963,634
Total Current Liabilities	<u>1,028,325</u>	<u>611,462</u>	<u>570,511</u>	<u>110,079</u>	<u>2,320,377</u>
Noncurrent Liabilities:					
Notes Payable	-	-	-	259,029	259,029
Revenue Bonds, Net of Unamortized Discount	3,137,465	8,849,118	1,204,191	-	13,190,774
PFA G.O. Revenue Note	7,518,550	-	-	-	7,518,550
Other Liabilities	196,000	-	-	-	196,000
Less Amount Due Within One Year	<u>(528,536)</u>	<u>(346,203)</u>	<u>(41,031)</u>	<u>(47,864)</u>	<u>(963,634)</u>
Total Noncurrent Liabilities	<u>10,323,479</u>	<u>8,502,915</u>	<u>1,163,160</u>	<u>211,165</u>	<u>20,200,719</u>
Total Liabilities	<u>11,351,804</u>	<u>9,114,377</u>	<u>1,733,671</u>	<u>321,244</u>	<u>22,521,096</u>
Net Assets:					
Invested in Capital Assets, Net of Related Debt Restricted for Debt Service	11,704,518	8,714,182	754,683	4,214,325	25,387,708
Unrestricted	390,384	5,512,862	(150,745)	(22,829)	5,729,672
Total Net Assets	<u>12,094,902</u>	<u>14,227,044</u>	<u>753,658</u>	<u>4,191,496</u>	<u>31,267,100</u>
Total Liabilities and Net Assets	<u>\$ 23,446,706</u>	<u>\$ 23,341,421</u>	<u>\$ 2,487,329</u>	<u>\$ 4,512,740</u>	<u>\$ 53,788,196</u>

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

CITY OF BIG LAKE
Sherburne County, Minnesota

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2008

	Water (301)	Sewer (401)	Liquor (501)	Storm Sewer (601)	Total
SALES AND COST OF SALES:					
Sales	\$ -	\$ -	\$ 2,857,673	\$ -	\$ 2,857,673
Cost of Sales	-	-	2,153,908	-	2,153,908
Gross Profit	-	-	703,765	-	703,765
OPERATING REVENUES:					
Charges for Services	1,028,707	863,451	-	136,498	2,028,656
OPERATING EXPENSES:					
Wages and Salaries	275,818	275,818	286,881	32,796	871,313
Employee Benefits	64,370	64,370	69,424	6,249	204,413
Materials and Supplies	31,279	9,316	9,426	4,165	54,186
Repairs and Maintenance	14,810	14,762	11,371	1,979	42,922
Professional Services	68,097	86,665	47,616	16,662	219,040
Insurance	34,716	31,083	17,041	1,549	84,389
Utilities and Refuse	108,207	101,012	27,807	69	237,095
Depreciation	292,718	410,398	82,756	193,286	979,158
Travel	12,171	12,113	714	1,912	26,910
Bad Debt Expense	12,773	-	21	-	12,794
Equipment	214	237	998	57	1,506
Advertising	2,166	249	9,473	-	11,888
Dues, Memberships and Training	14,834	3,668	3,575	1,246	23,323
Telephone	2,179	5,458	5,976	203	13,816
Postage	9,686	9,570	710	-	19,966
Water Meters	12,649	-	-	-	12,649
Uniforms	1,384	2,055	-	-	3,439
Rental Expense and Real Estate Taxes	19,600	19,600	-	2,147	41,347
Total Operating Expenses	977,671	1,046,374	573,789	262,320	2,860,154
Operating Income (Loss)	51,036	(182,923)	129,976	(125,822)	(127,733)
NONOPERATING REVENUES (EXPENSES):					
Investment Income	55,375	203,293	(37,136)	(1,129)	220,403
Operating Grants and Contributions	-	-	-	997	997
Trunk and Access Charges	40,654	98,926	-	-	139,580
Interest Expense	(320,881)	(291,098)	(61,611)	(13,591)	(687,181)
Amortization Expense	(1,230)	(7,029)	(2,571)	-	(10,830)
Other Income	4,756	2,962	3,087	71	10,876
Total Nonoperating Revenues (Expenses)	(221,326)	7,054	(98,231)	(13,652)	(326,155)
Income (Loss) before Capital Contributions and Transfers	(170,290)	(175,869)	31,745	(139,474)	(453,888)
Capital Contributions	933,528	863,987	-	1,105,784	2,903,299
Transfers In	-	-	500,000	-	500,000
Transfers Out	(110,733)	(472,642)	(200,290)	(85,761)	(869,426)
Change in Net Assets	652,505	215,476	331,455	880,549	2,079,985
NET ASSETS:					
Beginning of Year	11,442,397	14,011,568	422,203	3,310,947	29,187,115
End of Year	\$ 12,094,902	\$ 14,227,044	\$ 753,658	\$ 4,191,496	\$ 31,267,100

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

CITY OF BIG LAKE
Sherburne County, Minnesota

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2008

	Water (301)	Sewer (401)	Liquor (501)	Storm Sewer (601)	Total
CASH FLOWS - OPERATING ACTIVITIES:					
Receipts from Customers and Users	\$ 1,035,493	\$ 933,137	\$ 2,860,518	\$ 130,416	\$ 4,959,564
Payments to Suppliers	(277,011)	(305,284)	(2,273,799)	(33,883)	(2,889,977)
Payments to Employees	(326,791)	(326,875)	(347,202)	(37,108)	(1,037,976)
Net Cash Flows - Operating Activities	<u>431,691</u>	<u>300,978</u>	<u>239,517</u>	<u>59,425</u>	<u>1,031,611</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES:					
Advance to Other Fund	-	2,062,504	-	50,857	2,113,361
Advance from Other Fund	-	-	(396,953)	-	(396,953)
Repayment of Note Receivable	77,669	-	-	-	77,669
Loan Payout	(90,000)	-	-	-	(90,000)
Transfer from Other Funds	-	-	500,000	-	500,000
Transfer to Other Funds	(110,733)	(472,642)	(200,290)	(85,761)	(869,426)
Net Cash Flows - Noncapital Financing Activities	<u>(123,064)</u>	<u>1,589,862</u>	<u>(97,243)</u>	<u>(34,904)</u>	<u>1,334,651</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal Paid on Debt	(550,000)	(340,000)	(43,602)	(30,971)	(964,573)
Interest Paid on Debt	(322,143)	(328,049)	(62,336)	(9,812)	(722,340)
Bond Proceeds	358,510	2,650,000	-	-	3,008,510
Acquisition of Capital Assets	(1,065,600)	(2,886,624)	-	-	(3,952,224)
Net Cash Flows - Capital and Related Financing Activities	<u>(1,579,233)</u>	<u>(904,673)</u>	<u>(105,938)</u>	<u>(40,783)</u>	<u>(2,630,627)</u>
CASH FLOWS - INVESTING ACTIVITIES:					
Interest and Dividends Received	55,375	203,293	(37,136)	(1,129)	220,403
Net Change in Cash and Cash Equivalents	(1,215,231)	1,189,460	(800)	(17,391)	(43,962)
CASH AND CASH EQUIVALENTS:					
January 1	1,537,655	2,199,547	150,520	17,391	3,905,113
December 31	<u>\$ 322,424</u>	<u>\$ 3,389,007</u>	<u>\$ 149,720</u>	<u>\$ -</u>	<u>\$ 3,861,151</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 51,036	\$ (182,923)	\$ 129,976	\$ (125,822)	\$ (127,733)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:					
Operating Activities:					
Trunk and Access Charges	40,654	98,926	-	-	139,580
Other Revenues	4,758	2,963	3,087	1,069	11,877
Depreciation Expense	292,718	410,398	82,756	193,286	979,158
Accounts Receivable	9,697	41,613	(242)	3,431	54,499
Taxes Receivable	-	8	-	-	8
Special Assessments Receivable	(43,672)	(67,817)	-	(10,586)	(122,075)
Due from Other Governments	(4,650)	(6,006)	-	5	(10,651)
Prepaid Items	(33)	(739)	1,504	(1,739)	(1,007)
Inventory	-	-	(26,661)	-	(26,661)
Accounts Payable	(10,363)	(8,757)	38,328	(2,155)	17,053
Due to Other Governmental Units	78,150	-	1,666	-	79,816
Salaries Payable	13,396	13,312	9,103	1,936	37,747
Total Adjustments	<u>380,655</u>	<u>483,901</u>	<u>109,541</u>	<u>185,247</u>	<u>1,159,344</u>
Net Cash Flows - Operating Activities	<u>\$ 431,691</u>	<u>\$ 300,978</u>	<u>\$ 239,517</u>	<u>\$ 59,425</u>	<u>\$ 1,031,611</u>
NONCASH CAPITAL ACTIVITIES:					
Contributions of Capital Assets from Government Capital Funds and Developers	\$ 933,528	\$ 863,987	\$ -	\$ 1,105,784	\$ 2,903,299

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CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

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 it provides services exclusively for the City. Separate financial statements are not prepared for the Big Lake EDA.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

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 Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City. The fiduciary funds are only reported in the Statement of Fiduciary Net Assets at the fund financial statement level. 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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Funds:

Major Governmental Funds:

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

Street Improvement Capital Projects Fund – This Fund accounts for costs associated with street construction and improvements within the City.

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.

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 Governmental Accounting Standards Board (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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

D. Assets, Liabilities and Net Assets 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. Investments are stated at fair value.

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

Cash and investments at December 31, 2008 were comprised of deposits, brokered certificates of deposit, U.S. government securities and investments in the 4M Fund.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Cash and Investments (Continued)

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 investments 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.

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 Bonds' documents.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5. Capital Assets (Continued)

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:

<u>Assets</u>	<u>Years</u>
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 six months of salary and benefits in a lump sum payment.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets 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 Assets. 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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Other Long-Term Liabilities

This liability of \$ 196,000 represents a future obligation in water access fees the City will pay for. The \$ 196,000 liability is a result of an exchange transaction for land, for the water treatment plant.

11. Net Assets

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

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

12. Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – 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 general obligation 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 U.S. generally accepted accounting principles. Annual appropriations lapse at year-end.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2008, expenditures exceeded appropriations in the following Fund:

	<u>Appropriations</u>	<u>Expenditures</u>
General Fund	\$ 4,432,191	\$ 5,007,051

C. Deficit Fund Balance

The following Funds had deficit fund balances at December 31, 2008:

Major Governmental Fund:

Capital Projects:

Street Improvements \$ 151,661

Nonmajor Governmental Funds:

Capital Projects:

2008 Storm Damage 13,158

Lake Street Redevelopment TIF 1-3 316,548

Industrial Park Street Assessments 38,263

Police Facility 4,361

2005 Capital Equipment 454

Debt Service:

G.O. Refunding Bonds of 1996 224,229

G.O. Tax Increment Bonds of 2004C 47,354

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.

As of December 31, 2008, the City's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name. As of December 31, 2008, the City's deposits had a book balance of \$ (198,822).

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of December 31, 2008, the City had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Rating</u>
Brokered Certificates of Deposit	\$ 5,032,764	2.91	N/A
Government Securities	801,674	3.96	AAA
Cash and Brokered Money Market Accounts	896,875	N/A	N/A
4M Fund	5,193,516	N/A	N/A
Cash with Fiscal Agent	<u>78,938</u>	N/A	N/A
 Total	 <u>\$ 12,003,767</u>		

Credit Risk: As of December 31, 2008, the City's investments were rated by Moody's and Standard and Poor's (S&P) as listed in the above table. The City's investment in the 4M Fund do not receive credit ratings.

Concentration of Credit Risk: As of December 31, 2008, the City had more than 5% of its total investments in the 4M Fund; however, the investments in the 4M investment pool were not subject to concentration of credit risk.

Summary of cash, deposits and investments as of December 31, 2008:

Petty Cash	\$ 2,000
Deposits	(198,822)
Investments	<u>12,003,767</u>
 Total	 <u>\$ 11,806,945</u>

Cash, deposits and investments are presented in the December 31, 2008 basic financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 11,578,287
Cash with Fiscal Agent	78,938
Restricted Cash	<u>149,720</u>
 Total Deposits and Investments	 <u>\$ 11,806,945</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 4– NOTES RECEIVABLE

Governmental funds notes receivable includes receivable from the Big Lake Township for their portion of debt payments on the Industrial Park Lease Revenue Bonds for \$ 944,500 and the G.O. Capital Improvement Bonds of 2006B for fire hall funding amounting to \$ 492,500. Other receivables due to the Big Lake EDA from local businesses totaled \$ 355,587, for a grand total of \$ 1,792,587.

Proprietary funds note receivable includes amounts due from local business totaling \$ 231,644.

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

The composition of interfund balances as of December 31, 2008 was as follows:

	Due from Other Funds		
	Other Governmental Funds	Sewer Fund	Total
Due to Other Funds:			
Other Governmental Funds	\$ 320,120	\$1,390,042	\$1,710,162
General Fund	-	240,493	240,493
Storm Sewer Fund	-	50,857	50,857
Liquor Fund	-	333,872	333,872
Total	\$ 320,120	\$2,015,264	\$2,335,384

Interfund balances exist due to Tax Increment Financing (TIF) administration loans, loans related to the industrial park between the City and TIF districts, a loan between a TIF district and the Sewer Fund, a loan between the General Fund and the Sewer Fund for the acquisition of a new fire truck and a loan between the Liquor Fund, Storm Sewer Fund and various other governmental funds and the Sewer Fund to cover negative cash balances as of December 31, 2008. These will be repaid as cash is available.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2008 were as follows:

	Transfers In				Total
	General Fund	Street Improvement Capital Project Fund	Liquor Fund	Other Governmental Funds	
Transfers Out:					
Street Improvement Capital Project Fund	\$ -	\$ -	\$ -	\$ 154,032	\$ 154,032
Other Governmental Funds	176,535	-	500,000	364,325	1,040,860
Water Fund	-	51,865	-	58,868	110,733
Sewer Fund	-	444,575	-	28,067	472,642
Liquor Fund	200,290	-	-	-	200,290
Storm Sewer Fund	-	22,495	-	63,266	85,761
Total Transfers	\$ 376,825	\$ 518,935	\$ 500,000	\$ 668,558	\$ 2,064,318

The above transfers were made for the following reasons: debt service payments, operating transfers to cover TIF administrative expenditures, to close funds and for capital projects.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 7,427,585	\$ -	\$ -	\$ 7,427,585
Construction in Progress	<u>12,238,685</u>	<u>5,715,205</u>	<u>5,871,112</u>	<u>12,082,778</u>
Total Capital Assets not being Depreciated	<u>19,666,270</u>	<u>5,715,205</u>	<u>5,871,112</u>	<u>19,510,363</u>
Capital Assets being Depreciated:				
Buildings	3,803,371	-	269,478	3,533,893
Machinery and Equipment	3,410,070	112,896	50,398	3,472,568
Leasehold Improvements	36,006	-	-	36,006
Infrastructure	<u>22,273,174</u>	<u>2,957,474</u>	<u>-</u>	<u>25,230,648</u>
Total Capital Assets being Depreciated	<u>29,522,621</u>	<u>3,070,370</u>	<u>319,876</u>	<u>32,273,115</u>
Less Accumulated Depreciation for:				
Buildings	713,181	117,797	98,809	732,169
Machinery and Equipment	1,951,094	266,938	50,398	2,167,634
Leasehold Improvements	5,250	1,800	-	7,050
Infrastructure	<u>10,999,869</u>	<u>816,998</u>	<u>-</u>	<u>11,816,867</u>
Total Accumulated Depreciation	<u>13,669,394</u>	<u>1,203,533</u>	<u>149,207</u>	<u>14,723,720</u>
Total Capital Assets being Depreciated, Net	<u>15,853,227</u>	<u>1,866,837</u>	<u>170,669</u>	<u>17,549,395</u>
Governmental Activities Capital Assets, Net	<u>\$ 35,519,497</u>	<u>\$ 7,582,042</u>	<u>\$ 6,041,781</u>	<u>\$ 37,059,758</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 6 – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land and Land Improvements	\$ 1,533,956	\$ -	\$ -	\$ 1,533,956
Construction in Progress	18,886,422	3,363,769	951,902	21,298,289
Total Capital Assets not being Depreciated	<u>20,420,378</u>	<u>3,363,769</u>	<u>951,902</u>	<u>22,832,245</u>
Capital Assets being Depreciated:				
Buildings	2,010,063	-	-	2,010,063
Leasehold Improvements	223,833	-	-	223,833
Machinery and Equipment	987,981	-	-	987,981
Collection and Distribution	26,053,676	3,855,201	-	29,908,877
Total Capital Assets being Depreciated	<u>29,275,553</u>	<u>3,855,201</u>	<u>-</u>	<u>33,130,754</u>
Less Accumulated Depreciation for:				
Buildings	25,652	67,002	-	92,654
Leasehold Improvements	60,771	9,699	-	70,470
Machinery and Equipment	537,238	74,171	-	611,409
Collection and Distribution	7,808,119	828,286	-	8,636,405
Total Accumulated Depreciation	<u>8,431,780</u>	<u>979,158</u>	<u>-</u>	<u>9,410,938</u>
Total Capital Assets being Depreciated, Net	<u>20,843,773</u>	<u>2,876,043</u>	<u>-</u>	<u>23,719,816</u>
Business-Type Activities Capital Assets, Net	<u>\$ 41,264,151</u>	<u>\$ 6,239,812</u>	<u>\$ 951,902</u>	<u>\$ 46,552,061</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 6 – CAPITAL ASSETS

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

Governmental Activities:	
General Government	\$ 18,099
Public Safety	156,296
Streets and Highways	874,751
Culture and Recreation	92,426
Economic Development	<u>61,961</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,203,533</u>
Business-Type Activities:	
Water	\$ 292,718
Sewer	410,398
Liquor	82,756
Storm Sewer	<u>193,286</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 979,158</u>

NOTE 7 – LONG-TERM DEBT

A. General Obligation Bonds

The City issues General Obligation (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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

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 2002	2002	2.25%-4.40%	\$ 3,200,000	2018	\$ 2,670,000	\$ 200,000
G.O. Improvement Bonds of 2003	2003	1.25%-3.45%	5,645,000	2019	5,145,000	360,000
G.O. Improvement Bonds of 2004	2004	3.0%-3.4%	2,625,000	2010	1,095,000	540,000
G.O. Improvement Bonds of 2005	2005	3.50%-4.15%	2,585,000	2021	2,360,000	145,000
G.O. Improvement Bonds of 2006A	2006	4.00%- 4.125%	2,425,000	2022	2,365,000	110,000
G.O. Improvement Bonds of 2007A	2007	4.0%- 4.1%	2,105,000	2023	2,105,000	-
G.O. Improvement Bonds of 2007E	2007	4.0%- 4.1%	900,000	2018	900,000	75,000
G.O. Capital Improvement Bonds of 2006B	2006	3.70%-4.25%	1,135,000	2023	1,060,000	65,000
G.O. Capital Improvement Bonds of 2007C	2007	4.00%- 4.35%	1,130,000	2028	1,130,000	-
G.O. Improvement Bonds of 2008A	2008	3.25%-4.5%	3,655,000	2024	3,655,000	-
Revenue Bonds:						
Municipal Facilities Lease Revenue						
Bonds of 2000	2000	5.75%-6.25%	1,040,000	2016	660,000	65,000
Public Project Revenue Bonds of 2005	2005	4.0%-5.3%	493,307	2026	457,317	16,398
EDA Taxable Lease Revenues Bonds of 2008	2008	6.54%	1,889,000	2011	1,889,000	15,927
G.O. Tax Increment Bonds:						
G.O. Tax Increment Bonds of 1998	1998	4.10%-4.75%	340,000	2009	50,000	50,000
G.O. Tax Increment Refunding						
Bonds of 2002	2002	2.0%-3.9%	970,000	2011	400,000	125,000
G.O. Tax Increment Bonds of 2004	2004	5.0%-5.9%	795,000	2030	780,000	5,000
Other Financing:						
G.O. Capital Note of 2005	2005	3.25%-3.60%	740,000	2012	660,971	122,136
Total G.O. Bonds					<u>27,382,288</u>	<u>1,894,461</u>
Capital Lease	2008		21,224	2012	19,696	4,131
Compensated Absences					119,693	119,693
Severance					42,642	-
Total Governmental Activities					<u>27,564,319</u>	<u>2,018,285</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	940,000	85,000
Public Facility Authority Drinking						
Water G.O. Revenue Loan	2004	2.53%	9,787,000	2024	7,518,550	425,000
G.O. Utility Revenue Bonds 2005	2005	4.00%-4.375%	2,625,000	2026	2,465,000	95,000
Public Project Revenue Bonds of 2005	2005	4.0%-5.3%	1,311,694	2026	1,247,684	43,602
G.O. Utility Revenue Bonds 2007B	2007	4.00%-4.35%	2,060,000	2027	1,970,000	70,000
G.O. Utility Revenue Refunding Bonds of 2007D	2007	3.6%-4.0%	2,670,000	2020	2,535,000	165,000
G.O. Revenue Bonds of 2007F	2007	4.0%-4.5%	1,325,000	2027	1,250,000	45,000
G.O. Utility Revenue Bonds of 2008B	2008	3.5%-4.75%	3,000,000	2029	3,000,000	-
Other Financing:						
G.O. Capital Note of 2005	2005	3.25%-3.60%	290,000	2012	259,029	47,864
Discount on Bonds Payable					21,185,263	976,466
Other Liabilities					(216,910)	(12,832)
Compensated Absences					196,000	-
Total Business-Type Activities					<u>64,100</u>	<u>64,100</u>
Total all Long-Term Liabilities					<u>\$ 48,792,772</u>	<u>\$ 3,046,019</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
G.O. Improvement Bonds	\$ 20,075,000	\$ 3,655,000	\$ 1,245,000	\$ 22,485,000	\$ 1,495,000
Revenue Bonds	1,198,715	1,889,000	81,398	3,006,317	97,325
G.O. Tax Increment Bonds	1,400,000	-	170,000	1,230,000	180,000
Other Financing	880,000	-	219,029	660,971	122,136
Total Bonds Payable	<u>23,553,715</u>	<u>5,544,000</u>	<u>1,715,427</u>	<u>27,382,288</u>	<u>1,894,461</u>
Capital Lease	-	21,224	1,528	19,696	4,131
Compensated Absences	116,182	126,375	122,864	119,693	119,693
Severance	41,184	1,458	-	42,642	-
Governmental Activities Long-Term Liabilities	<u>23,711,081</u>	<u>5,693,057</u>	<u>1,839,819</u>	<u>27,564,319</u>	<u>2,018,285</u>
Business-Type Activities:					
Bonds Payable:					
G.O. Revenue Bonds	10,926,285	3,000,000	518,601	13,407,684	503,602
PFA G.O. Revenue Note	7,925,040	8,510	415,000	7,518,550	425,000
Other Financing	290,000	-	30,971	259,029	47,864
Discount on Bonds	(164,762)	(62,977)	(10,829)	(216,910)	(12,832)
Total Bonds Payable	<u>18,976,563</u>	<u>2,945,533</u>	<u>953,743</u>	<u>20,968,353</u>	<u>963,634</u>
Other Liabilities	196,000	-	-	196,000	-
Compensated Absences	11,252	64,100	11,252	64,100	64,100
Business-Type Activities Long-Term Liabilities	<u>19,183,815</u>	<u>3,009,633</u>	<u>964,995</u>	<u>21,228,453</u>	<u>1,027,734</u>
Total Long-Term Liabilities	<u><u>\$ 42,894,896</u></u>	<u><u>\$ 8,702,690</u></u>	<u><u>\$ 2,804,814</u></u>	<u><u>\$ 48,792,772</u></u>	<u><u>\$ 3,046,019</u></u>

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

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

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			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 1,495,000	\$ 815,222	\$ 2,310,222	\$ 97,325	\$ 181,953	\$ 279,278
2010	1,730,000	768,679	2,498,679	119,836	177,637	297,473
2011	1,290,000	716,339	2,006,339	1,933,143	111,433	2,044,576
2012	1,485,000	668,123	2,153,123	98,795	45,474	144,269
2013	1,565,000	614,515	2,179,515	105,138	39,584	144,722
2014-2018	9,060,000	2,119,595	11,179,595	399,114	108,442	507,556
2019-2023	5,120,000	614,172	5,734,172	146,334	48,467	194,801
2024-2028	740,000	51,305	791,305	106,632	8,752	115,384
2029-2033	-	-	-	-	-	-
Total	\$ 22,485,000	\$ 6,367,950	\$ 28,852,950	\$ 3,006,317	\$ 721,742	\$ 3,728,059

Year Ending December 31,	Governmental Activities					
	Tax Increment Bonds			Other Financing		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 180,000	\$ 58,720	\$ 238,720	\$ 122,136	\$ 21,169	\$ 143,305
2010	140,000	52,468	192,468	150,874	16,513	167,387
2011	145,000	46,923	191,923	186,796	10,558	197,354
2012	10,000	43,818	53,818	201,165	3,621	204,786
2013	10,000	43,305	53,305	-	-	-
2014-2018	70,000	207,162	277,162	-	-	-
2019-2023	180,000	173,455	353,455	-	-	-
2024-2028	315,000	103,360	418,360	-	-	-
2029-2033	180,000	10,915	190,915	-	-	-
Total	\$ 1,230,000	\$ 740,126	\$ 1,970,126	\$ 660,971	\$ 51,861	\$ 712,832

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 – LONG-TERM DEBT

D. Minimum Debt Payments (Continued)

Year Ending December 31,	Total Governmental Activities		
	Principal	Interest	Total
2009	\$ 1,894,461	\$ 1,077,064	\$ 2,971,525
2010	2,140,710	1,015,297	3,156,007
2011	3,554,939	885,253	4,440,192
2012	1,794,960	761,036	2,555,996
2013	1,680,138	697,404	2,377,542
2014-2018	9,529,114	2,435,199	11,964,313
2019-2023	5,446,334	836,095	6,282,429
2024-2028	1,161,632	163,417	1,325,049
2029-2033	180,000	10,915	190,915
Total	\$ 27,382,288	\$ 7,881,680	\$ 35,263,968

Year Ending December 31,	Business-Type Activities					
	G.O. Business Revenue Bonds			Other Financing		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 503,602	\$ 543,511	\$ 1,047,113	\$ 47,864	\$ 8,296	\$ 56,160
2010	607,547	529,968	1,137,515	59,126	6,472	65,598
2011	632,547	506,907	1,139,454	73,204	4,137	77,341
2012	666,205	482,447	1,148,652	78,835	1,419	80,254
2013	694,862	456,488	1,151,350	-	-	-
2014-2018	3,786,464	1,841,824	5,628,288	-	-	-
2019-2023	3,263,666	1,081,787	4,345,453	-	-	-
2024-2028	2,807,791	397,596	3,205,387	-	-	-
2029-2033	445,000	10,569	455,569	-	-	-
Total	\$ 13,407,684	\$ 5,851,097	\$ 19,258,781	\$ 259,029	\$ 20,324	\$ 279,353

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 – LONG-TERM DEBT

D. Minimum Debt Payments (Continued)

Year Ending December 31,	Business-Type Activities			Total Business-Type Activities		
	Public Facility G.O. Revenue Note			Principal	Interest	Total
	Principal	Interest	Total			
2009	\$ 425,000	\$ 209,028	\$ 634,028	\$ 976,754	\$ 760,834	\$ 1,737,588
2010	436,000	198,276	634,276	1,102,673	734,716	1,837,389
2011	447,000	187,245	634,245	1,152,751	698,289	1,851,040
2012	458,000	175,936	633,936	1,203,040	659,802	1,862,842
2013	470,000	164,349	634,349	1,164,862	620,837	1,785,699
2014-2018	2,535,000	637,231	3,172,231	6,320,886	2,479,055	8,799,941
2019-2023	2,872,000	299,906	3,171,906	6,135,666	1,381,693	7,517,359
2024-2028	619,000	15,661	634,661	3,426,791	413,257	3,840,048
2029-2033	-	-	-	445,000	10,569	455,569
Total	<u>\$ 8,262,000</u>	<u>\$ 1,887,632</u>	<u>\$ 10,149,632</u>	<u>\$ 21,928,423</u>	<u>\$ 7,759,052</u>	<u>\$ 29,687,475</u>

At December 31, 2008, the City had expended \$ 9,043,950 of the total 2004 G.O. PFA Revenue Note. As of December 31, 2008, the City has made principal payments of \$ 1,525,000 on this note. The amortization schedule includes the entire remaining note liability of \$ 8,262,000. The remaining balance is expected to be drawn in 2009.

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.

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

Year Ending December 31,	
2009	\$ 5,602
2010	5,602
2011	5,602
2012	5,602
2013	935
Net Minimum Lease Payments	<u>23,343</u>
Less Amount Representing Interest	<u>(3,647)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 19,696</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 – LONG-TERM DEBT

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 various revenue bonds to provide funding to private-sector entities 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, 2008, the City's outstanding conduit debt balances consisted of the following:

\$ 1,950,000 Commercial Facility Revenue Note (Options, Inc. Project), Series 2005	<u>\$ 1,822,373</u>
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NOTE 8 – FUND BALANCE/NET ASSETS

Reserved/Designated Fund Equity

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

A. Fund Balance

Fund balance is comprised of the following components:

	General	Street Improvement	Other Governmental Funds	Total
Reserved for:				
Capital Improvements	\$ 37,123	\$ -	\$ -	\$ 37,123
Prepays	66,350	-	-	66,350
Notes Receivable	-	-	201,805	201,805
Land Held for Resale	-	-	3,543,508	3,543,508
Unreserved:				
Designated for:				
Compensated Absences and Severance Liability	162,325	-	-	162,325
Economic Development	-	-	64,268	64,268
Capital Improvements	-	-	840,616	840,616
Debt Service	-	-	4,391,548	4,391,548
Undesignated	1,890,507	(151,661)	(1,754,052)	(15,206)
Total	\$ 2,156,305	\$ (151,661)	\$ 7,287,693	\$ 9,292,337

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

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, but 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.

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 2008 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2008, 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 Public Employees' Retirement Fund (PERF) 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.

PERF 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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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 PERF 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.

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 PERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2008. PEPFF members were required to contribute 8.6% of their annual covered salary in 2008. That rate will increase to 9.4% in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.50% for Coordinated Plan PERF members and 12.9% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.75% and 14.1%, respectively, effective January 1, 2009. The City's contributions to the PERF for the years ending December 31, 2008, 2007 and 2006 were \$ 118,940, \$ 107,148, and \$ 91,625, respectively. The City's contributions to the PEPFF for the years ending December 31, 2008, 2007 and 2006 were \$ 92,046, \$ 86,305, and \$ 67,186, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

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.

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.

The City and the elected government official made the required 5% contribution, amounting to \$ 240 for the employee and \$ 240 for the City.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 11 – COMMITMENTS

	<u>Project Authorization</u>	<u>Expended Through 12/31/08</u>	<u>Remaining Commitment</u>
Street Improvement Capital Projects Fund:			
County Road 5/Highway 10 Intersection	\$ 1,979,742	\$ 1,842,815	\$ 136,927
Industrial Park Expansion	1,243,440	1,165,203	78,237
Martin Avenue Phase III	192,690	126,460	66,230
Water Fund:			
Well No. 7	441,659	373,357	68,302
Water Treatment Plant	8,053,366	7,918,614	134,752
Sanitary Sewer Fund:			
County Road 43 Interceptor	3,869,600	3,772,822	96,778

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SUPPLEMENTARY INFORMATION

CITY OF BIG LAKE
Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2008

	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)
ASSETS:						
Cash and Investments (Including Cash Equivalents)	\$ 30,102	\$ 2,279	\$ 32,381	\$ -	\$ 7,612	\$ 145,178
Cash with Fiscal Agent	12,500	-	12,500	-	-	-
Taxes Receivable - Delinquent	-	-	-	8	-	-
Accounts Receivable	275	-	275	-	-	-
Due from Other Funds	20,120	-	20,120	-	-	300,000
Due from Other Governments	-	-	-	2,453	594	4,658
Notes Receivable	355,587	-	355,587	-	-	-
Special Assessments Receivable:						
Delinquent	-	-	-	1,126	-	-
Deferred	-	-	-	83,431	-	-
Land Held for Resale	439,071	-	439,071	-	-	-
Total Assets	\$ 857,655	\$ 2,279	\$ 859,934	\$ 87,018	\$ 8,206	\$ 449,836
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 1,008	\$ -	\$ 1,008	\$ -	\$ -	\$ -
Escrow Payable	-	-	-	-	-	-
Contracts Payable	-	-	-	-	-	-
Due to Other Funds	-	-	-	226,682	-	-
Due to Other Governments	-	-	-	-	-	-
Deferred Revenue	153,782	-	153,782	84,565	-	-
Total Liabilities	154,790	-	154,790	311,247	-	-
Fund Balances:						
Reserved for:						
Notes Receivable	201,805	-	201,805	-	-	-
Land Held for Resale	439,071	-	439,071	-	-	-
Unreserved, Reported in:						
Special Revenue - Designated	61,989	2,279	64,268	-	-	-
Debt Service - Designated	-	-	-	-	8,206	449,836
Debt Service - Undesignated	-	-	-	(224,229)	-	-
Capital Projects - Designated	-	-	-	-	-	-
Capital Projects - Undesignated	-	-	-	-	-	-
Total Fund Balances	702,865	2,279	705,144	(224,229)	8,206	449,836
Total Liabilities and Fund Balances	\$ 857,655	\$ 2,279	\$ 859,934	\$ 87,018	\$ 8,206	\$ 449,836

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. Capital Notes 2001 (260)	G.O. Improvement Bonds of 2006A (265)	G.O. Improvement Bonds of 2006B (270)	G.O. Improvement Bonds of 2003A (225)
\$ 906,871	\$ -	\$ 211,031	\$ 176,723	\$ -	\$ 254,062	\$ 25,124	\$ 1,352,716
-	-	-	-	-	-	-	-
8,030	-	11,450	11,974	2,396	4,585	3,990	19,493
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
4,335	-	8,449	3,427	-	11,290	1,164	11,552
-	-	-	-	-	-	492,500	-
7,037	-	10,541	-	-	4,616	-	268
462,043	-	740,907	-	-	491,282	-	899,116
-	-	-	-	-	-	-	-
<u>\$ 1,388,316</u>	<u>\$ -</u>	<u>\$ 982,378</u>	<u>\$ 192,124</u>	<u>\$ 2,396</u>	<u>\$ 765,835</u>	<u>\$ 522,778</u>	<u>\$ 2,283,145</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	47,354	-	-	-	-	-	-
-	-	-	-	-	-	-	-
477,109	-	762,898	11,974	2,396	500,483	496,490	918,877
<u>477,109</u>	<u>47,354</u>	<u>762,898</u>	<u>11,974</u>	<u>2,396</u>	<u>500,483</u>	<u>496,490</u>	<u>918,877</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
911,207	-	219,480	180,150	-	265,352	26,288	1,364,268
-	(47,354)	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>911,207</u>	<u>(47,354)</u>	<u>219,480</u>	<u>180,150</u>	<u>-</u>	<u>265,352</u>	<u>26,288</u>	<u>1,364,268</u>
<u>\$ 1,388,316</u>	<u>\$ -</u>	<u>\$ 982,378</u>	<u>\$ 192,124</u>	<u>\$ 2,396</u>	<u>\$ 765,835</u>	<u>\$ 522,778</u>	<u>\$ 2,283,145</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2008

	Debt Service				
	G.O. Improvement Bonds of 2004B (245)	G.O. Improvement Bonds of 2007A (215)	G.O. Improvement Bonds of 2007C (235)	G.O. Improvement Bonds of 2007E (207)	G.O. Improvement Bonds of 2008A (208)
ASSETS:					
Cash and Investments (Including Cash Equivalents)	\$ 701,624	\$ 78,929	\$ 22,472	\$ 23,009	\$ 66,345
Cash with Fiscal Agent	-	-	-	-	-
Taxes Receivable - Delinquent	-	1,461	3,265	-	-
Accounts Receivable	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Due from Other Governments	-	6,947	998	-	-
Notes Receivable	-	-	-	-	-
Special Assessments Receivable:					
Delinquent	57,359	1,925	-	55,612	-
Deferred	93,079	266,449	-	1,183,148	914,220
Land Held for Resale	-	-	-	-	-
Total Assets	<u>\$ 852,062</u>	<u>\$ 355,711</u>	<u>\$ 26,735</u>	<u>\$ 1,261,769</u>	<u>\$ 980,565</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Escrow Payable	-	-	-	-	-
Contracts Payable	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Due to Other Governments	-	-	-	-	-
Deferred Revenue	150,438	269,835	3,265	1,238,761	914,220
Total Liabilities	<u>150,438</u>	<u>269,835</u>	<u>3,265</u>	<u>1,238,761</u>	<u>914,220</u>
Fund Balances:					
Reserved for:					
Notes Receivable	-	-	-	-	-
Land Held for Resale	-	-	-	-	-
Unreserved, Reported in:					
Special Revenue - Designated	-	-	-	-	-
Debt Service - Designated	701,624	85,876	23,470	23,008	66,345
Debt Service - Undesignated	-	-	-	-	-
Capital Projects - Designated	-	-	-	-	-
Capital Projects - Undesignated	-	-	-	-	-
Total Fund Balances	<u>701,624</u>	<u>85,876</u>	<u>23,470</u>	<u>23,008</u>	<u>66,345</u>
Total Liabilities and Fund Balances	<u>\$ 852,062</u>	<u>\$ 355,711</u>	<u>\$ 26,735</u>	<u>\$ 1,261,769</u>	<u>\$ 980,565</u>

Debt Service		Capital Projects					
2008 Tax Lease Revenue Bonds (241)	Total	Park Development (120)	Lakeside Park Improvements (125)	2008 Storm Damage (135)	Industrial Park Expansion Land Purchase (141)	Local Development (150)	Fire Hall Expansion (195)
\$ -	\$ 3,971,696	\$ 110,787	\$ 34,049	\$ -	\$ 5,331	\$ 364,889	\$ -
66,438	66,438	-	-	-	-	-	-
-	66,652	-	-	-	-	-	-
-	-	-	-	-	-	90,597	-
-	300,000	-	-	-	-	-	-
-	55,867	-	-	-	-	125	-
944,500	1,437,000	-	-	-	-	-	-
-	138,484	-	-	-	-	708	-
-	5,133,675	-	-	-	-	1,885	-
-	-	-	-	-	1,732,099	-	-
<u>\$ 1,010,938</u>	<u>\$ 11,169,812</u>	<u>\$ 110,787</u>	<u>\$ 34,049</u>	<u>\$ -</u>	<u>\$ 1,737,430</u>	<u>\$ 458,204</u>	<u>\$ -</u>
\$ -	\$ -	\$ 290	\$ -	\$ 11,175	\$ -	\$ 4,877	\$ -
-	-	-	-	-	-	413,074	-
-	-	-	\$ 32,580	-	-	-	-
-	274,036	-	-	1,983	30,000	-	-
-	-	-	-	-	23,676	360	-
944,500	6,775,811	-	-	-	-	2,593	-
<u>944,500</u>	<u>7,049,847</u>	<u>290</u>	<u>32,580</u>	<u>13,158</u>	<u>53,676</u>	<u>420,904</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	1,732,099	-	-
-	-	-	-	-	-	-	-
66,438	4,391,548	-	-	-	-	-	-
-	(271,583)	-	-	-	-	-	-
-	-	110,497	1,469	-	-	37,300	-
-	-	-	-	(13,158)	(48,345)	-	-
<u>66,438</u>	<u>4,119,965</u>	<u>110,497</u>	<u>1,469</u>	<u>(13,158)</u>	<u>1,683,754</u>	<u>37,300</u>	<u>-</u>
<u>\$ 1,010,938</u>	<u>\$ 11,169,812</u>	<u>\$ 110,787</u>	<u>\$ 34,049</u>	<u>\$ -</u>	<u>\$ 1,737,430</u>	<u>\$ 458,204</u>	<u>\$ -</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2008

	Capital Projects					
	Industrial Park TIF 2-1 (155)	Industrial Park TIF 2-2 (160)	Industrial Park TIF 2-3 (163)	Industrial Park TIF 2-4 (164)	Industrial Park TIF 2-5 (166)	TIF 1-2 (151)
ASSETS:						
Cash and Investments (Including Cash Equivalents)	\$ 161,057	\$ 314,603	\$ 72,367	\$ 24,929	\$ 19,703	\$ 22,110
Cash with Fiscal Agent	-	-	-	-	-	-
Taxes Receivable - Delinquent	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-
Due from Other Governments	-	28,432	-	18,680	-	-
Notes Receivable	-	-	-	-	-	-
Special Assessments Receivable:						
Delinquent	-	-	-	-	-	-
Deferred	-	-	-	-	-	-
Land Held for Resale	-	-	-	-	-	-
Total Assets	\$ 161,057	\$ 343,035	\$ 72,367	\$ 43,609	\$ 19,703	\$ 22,110
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Escrow Payable	-	-	1,000	-	-	-
Contracts Payable	-	-	-	-	-	-
Due to Other Funds	-	-	-	-	-	-
Due to Other Governments	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-
Total Liabilities	-	-	1,000	-	-	-
Fund Balances:						
Reserved for:						
Notes Receivable	-	-	-	-	-	-
Land Held for Resale	-	-	-	-	-	-
Unreserved, Reported in:						
Special Revenue - Designated	-	-	-	-	-	-
Debt Service - Designated	-	-	-	-	-	-
Debt Service - Undesignated	-	-	-	-	-	-
Capital Projects - Designated	161,057	343,035	71,367	43,609	19,703	22,110
Capital Projects - Undesignated	-	-	-	-	-	-
Total Fund Balances	161,057	343,035	71,367	43,609	19,703	22,110
Total Liabilities and Fund Balances	\$ 161,057	\$ 343,035	\$ 72,367	\$ 43,609	\$ 19,703	\$ 22,110

Capital Projects

Lake Street Redevelopment TIF 1-3 (165)	Commercial Redevelopment TIF 1-4 (170)	Industrial Park Street Assessments (168)	Public Works Building Expansion (180)	Police Facility (185)	2005 Capital Equipment (140)	Total	Total Other Governmental Funds
\$ -	\$ -	\$ 40,188	\$ 40,534	\$ -	\$ -	\$ 1,210,547	\$ 5,214,624
-	-	-	-	-	-	-	78,938
-	-	-	-	-	-	-	66,652
-	-	-	-	-	-	90,597	90,872
-	-	-	-	-	-	-	320,120
-	1,320	8,558	-	-	-	57,115	112,982
-	-	-	-	-	-	-	1,792,587
-	-	5,010	-	-	-	5,718	144,202
-	-	213,781	-	-	-	215,666	5,349,341
-	1,372,338	-	-	-	-	3,104,437	3,543,508
<u>\$ -</u>	<u>\$ 1,373,658</u>	<u>\$ 267,537</u>	<u>\$ 40,534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,684,080</u>	<u>\$ 16,713,826</u>
\$ -	\$ -	\$ -	\$ 65	\$ -	\$ -	\$ 16,407	\$ 17,415
-	-	-	-	-	-	414,074	414,074
-	-	-	10,000	-	-	42,580	42,580
316,548	1,062,660	20,120	-	4,361	454	1,436,126	1,710,162
-	-	66,889	-	-	-	90,925	90,925
-	-	218,791	-	-	-	221,384	7,150,977
<u>316,548</u>	<u>1,062,660</u>	<u>305,800</u>	<u>10,065</u>	<u>4,361</u>	<u>454</u>	<u>2,221,496</u>	<u>9,426,133</u>
-	-	-	-	-	-	-	\$ 201,805
-	1,372,338	-	-	-	-	3,104,437	3,543,508
-	-	-	-	-	-	-	64,268
-	-	-	-	-	-	-	4,391,548
-	-	-	-	-	-	-	(271,583)
-	-	-	30,469	-	-	840,616	840,616
(316,548)	(1,061,340)	(38,263)	-	(4,361)	(454)	(1,482,469)	(1,482,469)
<u>(316,548)</u>	<u>310,998</u>	<u>(38,263)</u>	<u>30,469</u>	<u>(4,361)</u>	<u>(454)</u>	<u>2,462,584</u>	<u>7,287,693</u>
<u>\$ -</u>	<u>\$ 1,373,658</u>	<u>\$ 267,537</u>	<u>\$ 40,534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,684,080</u>	<u>\$ 16,713,826</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2008

	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)
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	51,524	-
Intergovernmental	-	-	-	-	-
Charges for Services	133,474	-	133,474	-	-
Miscellaneous:					
Investment Income	1,002	101	1,103	(13,679)	(646)
Contributions and Donations	5,900	-	5,900	-	-
Other	9,930	-	9,930	-	-
Total Revenues	150,306	101	150,407	37,845	(646)
EXPENDITURES:					
Current:					
Economic Development	200,390	-	200,390	-	-
Debt Service:					
Principal	81,398	-	81,398	140,000	45,000
Interest and Other Charges	66,410	-	66,410	7,000	3,270
Capital Outlay:					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Streets and Highways	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	25,263
Total Expenditures	348,198	-	348,198	147,000	73,533
Excess of Revenues Over (Under) Expenditures	(197,892)	101	(197,791)	(109,155)	(74,179)
OTHER FINANCING SOURCES (USES):					
Proceeds from Sale of Capital Asset	769,300	-	769,300	-	-
Issuance of Debt	-	-	-	-	-
Bond Discount	-	-	-	-	-
Transfers In	-	-	-	53,000	48,433
Transfers Out	(600,000)	-	(600,000)	-	-
Total Other Financing Sources (Uses)	169,300	-	169,300	53,000	48,433
Net Change in Fund Balances	(28,592)	101	(28,491)	(56,155)	(25,746)
FUND BALANCES:					
Beginning Balance	731,457	2,178	733,635	(168,074)	33,952
End of Year	\$ 702,865	\$ 2,279	\$ 705,144	\$ (224,229)	\$ 8,206

Debt Service

G.O. Refunding Bonds of 1995 (230)	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. Capital Notes 2001 (260)	G.O. Improvement Bonds of 2006A (265)	G.O. Improvement Bonds of 2006B (270)
\$ -	\$ 61,133	\$ -	\$ 122,082	\$ 141,841	\$ -	\$ 45,086	\$ 48,914
405,000	-	39,342	-	-	-	-	-
-	102,721	-	142,520	-	-	99,969	-
5,313	3,113	2,854	7,064	8,388	-	2,484	58,790
-	-	-	-	-	-	-	-
19,958	36,413	(2,948)	1,402	1,188	1,378	6,580	(485)
-	-	-	-	-	-	-	-
-	10,000	-	-	-	-	-	-
<u>430,271</u>	<u>213,380</u>	<u>39,248</u>	<u>273,068</u>	<u>151,417</u>	<u>1,378</u>	<u>154,119</u>	<u>107,219</u>
-	-	-	-	-	-	-	-
120,000	195,000	5,000	140,000	79,029	-	60,000	35,000
17,542	110,616	45,393	93,630	24,694	-	96,739	44,419
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>137,542</u>	<u>305,616</u>	<u>50,393</u>	<u>233,630</u>	<u>103,723</u>	<u>-</u>	<u>156,739</u>	<u>79,419</u>
292,729	(92,236)	(11,145)	39,438	47,694	1,378	(2,620)	27,800
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	58,465	-	42,319	3,922
(207,503)	-	-	-	-	(38,766)	-	-
<u>(207,503)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,465</u>	<u>(38,766)</u>	<u>42,319</u>	<u>3,922</u>
85,226	(92,236)	(11,145)	39,438	106,159	(37,388)	39,699	31,722
364,610	1,003,443	(36,209)	180,042	73,991	37,388	225,653	(5,434)
<u>\$ 449,836</u>	<u>\$ 911,207</u>	<u>\$ (47,354)</u>	<u>\$ 219,480</u>	<u>\$ 180,150</u>	<u>\$ -</u>	<u>\$ 265,352</u>	<u>\$ 26,288</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2008

	Debt Service			
	G.O. Improvement Bonds of 2003A (225)	G.O. Improvement Bonds of 2004B (245)	G.O. Improvement Bonds of 2007A (215)	G.O. Improvement Bonds of 2007C (235)
REVENUES:				
Property Taxes	\$ 228,085	\$ -	\$ 19,383	\$ 43,454
Tax Increments	-	-	-	-
Special Assessments	150,742	49,893	82,328	-
Intergovernmental	13,431	-	1,190	2,661
Charges for Services	-	-	-	-
Miscellaneous:				
Investment Income	43,577	30,155	833	87
Contributions and Donations	-	-	-	-
Other	-	-	-	-
Total Revenues	435,835	80,048	103,734	46,202
EXPENDITURES:				
Current:				
Economic Development	-	-	-	-
Debt Service:				
Principal	290,000	525,000	-	-
Interest and Other Charges	162,003	43,755	100,761	55,723
Capital Outlay:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Streets and Highways	-	-	-	-
Culture and Recreation	-	-	-	-
Economic Development	-	-	-	-
Total Expenditures	452,003	568,755	100,761	55,723
Excess of Revenues Over (Under) Expenditures	(16,168)	(488,707)	2,973	(9,521)
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Asset	-	-	-	-
Issuance of Debt	-	-	-	-
Bond Discount	-	-	-	-
Transfers In	154,032	-	22,883	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	154,032	-	22,883	-
Net Change in Fund Balances	137,864	(488,707)	25,856	(9,521)
FUND BALANCES:				
Beginning Balance	1,226,404	1,190,331	60,020	32,991
End of Year	\$ 1,364,268	\$ 701,624	\$ 85,876	\$ 23,470

Debt Service				Capital Projects			
G.O. Improvement Bonds of 2007E (207)	G.O. Improvement Bonds of 2008A (208)	2008 Tax Lease Revenue Bonds (241)	Total	Park Development (120)	Lakeside Park Improvements (125)	2008 Storm Damage (135)	Industrial Park Expansion Land Purchase (141)
\$ -	\$ -	\$ -	\$ 709,978	\$ -	\$ -	\$ -	\$ -
-	-	-	444,342	-	-	-	-
41,458	-	-	721,155	-	-	-	-
-	-	-	105,288	-	-	-	-
-	-	-	-	2,500	-	-	-
(148)	-	-	123,665	8,041	(3,817)	-	2,034
-	-	-	-	-	-	-	-
-	-	-	10,000	-	(640)	-	-
<u>41,310</u>	<u>-</u>	<u>-</u>	<u>2,114,428</u>	<u>10,541</u>	<u>(4,457)</u>	<u>-</u>	<u>2,034</u>
-	-	-	-	-	-	-	-
-	-	-	1,634,029	-	-	-	-
32,082	34,523	94,562	966,712	-	-	-	16,443
-	-	-	-	-	-	1,984	-
-	-	-	-	-	-	4,606	-
-	-	-	-	-	-	6,568	-
-	-	-	-	22,871	219,850	-	-
-	-	-	25,263	-	-	-	25,780
<u>32,082</u>	<u>34,523</u>	<u>94,562</u>	<u>2,626,004</u>	<u>22,871</u>	<u>219,850</u>	<u>13,158</u>	<u>42,223</u>
9,228	(34,523)	(94,562)	(511,576)	(12,330)	(224,307)	(13,158)	(40,189)
-	-	-	-	-	-	-	-
-	126,269	161,000	287,269	-	-	-	1,728,000
-	(25,401)	-	(25,401)	-	-	-	-
-	-	-	383,054	-	285,504	-	-
-	-	-	(246,269)	(52,309)	-	-	-
<u>-</u>	<u>100,868</u>	<u>161,000</u>	<u>398,653</u>	<u>(52,309)</u>	<u>285,504</u>	<u>-</u>	<u>1,728,000</u>
9,228	66,345	66,438	(112,923)	(64,639)	61,197	(13,158)	1,687,811
13,780	-	-	4,232,888	175,136	(59,728)	-	(4,057)
<u>\$ 23,008</u>	<u>\$ 66,345</u>	<u>\$ 66,438</u>	<u>\$ 4,119,965</u>	<u>\$ 110,497</u>	<u>\$ 1,469</u>	<u>\$ (13,158)</u>	<u>\$ 1,683,754</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2008

	Capital Projects				
	Local Development (150)	Fire Hall Expansion (195)	Industrial Park TIF 2-1 (155)	Industrial Park TIF 2-2 (160)	Industrial Park TIF 2-3 (163)
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	136,955	225,203	71,671
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	16,403	140	4,141	8,163	1,597
Contributions and Donations	-	-	-	-	-
Other	34,441	-	-	-	-
Total Revenues	<u>50,844</u>	<u>140</u>	<u>141,096</u>	<u>233,366</u>	<u>73,268</u>
EXPENDITURES:					
Current:					
Economic Development	36,345	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Capital Outlay:					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Streets and Highways	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Economic Development	-	-	26,894	65,466	46,104
Total Expenditures	<u>36,345</u>	<u>-</u>	<u>26,894</u>	<u>65,466</u>	<u>46,104</u>
Excess of Revenues Over (Under) Expenditures	14,499	140	114,202	167,900	27,164
OTHER FINANCING SOURCES (USES):					
Proceeds from Sale of Capital Asset	-	-	-	-	-
Issuance of Debt	-	-	-	-	-
Bond Discount	-	-	-	-	-
Transfers In	-	-	-	-	-
Transfers Out	-	(3,922)	(62,034)	(8,539)	(7,126)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(3,922)</u>	<u>(62,034)</u>	<u>(8,539)</u>	<u>(7,126)</u>
Net Change in Fund Balances	14,499	(3,782)	52,168	159,361	20,038
FUND BALANCES:					
Beginning Balance	<u>22,801</u>	<u>3,782</u>	<u>108,889</u>	<u>183,674</u>	<u>51,329</u>
End of Year	<u>\$ 37,300</u>	<u>\$ -</u>	<u>\$ 161,057</u>	<u>\$ 343,035</u>	<u>\$ 71,367</u>

Capital Projects

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)	Public Works Building Expansion (180)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
37,359	19,801	15,936	-	38,238	-	-
-	-	-	-	-	79,630	-
-	-	-	-	86	-	-
-	-	-	-	-	-	-
776	602	634	788	(739)	4,116	5,095
-	-	-	-	-	-	-
-	-	-	-	1,000	-	-
<u>38,135</u>	<u>20,403</u>	<u>16,570</u>	<u>788</u>	<u>38,585</u>	<u>83,746</u>	<u>5,095</u>
-	-	-	41	-	-	-
-	-	-	-	-	-	-
-	200	-	21,000	40,000	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	273,043
-	-	-	-	-	-	-
15,005	6,312	7,213	-	24,821	-	-
<u>15,005</u>	<u>6,512</u>	<u>7,213</u>	<u>21,041</u>	<u>64,821</u>	<u>-</u>	<u>273,043</u>
23,130	13,891	9,357	(20,253)	(26,236)	83,746	(267,948)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	(270)	(1,926)	-	-	-
-	-	<u>(270)</u>	<u>(1,926)</u>	<u>-</u>	<u>-</u>	<u>-</u>
23,130	13,891	9,087	(22,179)	(26,236)	83,746	(267,948)
20,479	5,812	13,023	(294,369)	337,234	(122,009)	298,417
<u>\$ 43,609</u>	<u>\$ 19,703</u>	<u>\$ 22,110</u>	<u>\$ (316,548)</u>	<u>\$ 310,998</u>	<u>\$ (38,263)</u>	<u>\$ 30,469</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2008

	Capital Projects			
	Police Facility (185)	2005 Capital Equipment (140)	Total	Total Other Governmental Funds
REVENUES:				
Property Taxes	\$ -	\$ -	\$ -	\$ 709,978
Tax Increments	-	-	545,163	989,505
Special Assessments	-	-	79,630	800,785
Intergovernmental	-	-	86	105,374
Charges for Services	-	-	2,500	135,974
Miscellaneous:				
Investment Income	(194)	1,624	49,404	174,172
Contributions and Donations	-	-	-	5,900
Other	-	-	34,801	54,731
Total Revenues	(194)	1,624	711,584	2,976,419
EXPENDITURES:				
Current:				
Economic Development	-	-	36,386	236,776
Debt Service:				
Principal	-	-	-	1,715,427
Interest and Other Charges	-	-	77,643	1,110,765
Capital Outlay:				
General Government	-	-	1,984	1,984
Public Safety	-	-	4,606	4,606
Streets and Highways	-	-	279,611	279,611
Culture and Recreation	-	-	242,721	242,721
Economic Development	-	-	217,595	242,858
Total Expenditures	-	-	860,546	3,834,748
Excess of Revenues Over (Under) Expenditures	(194)	1,624	(148,962)	(858,329)
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Asset	-	-	-	769,300
Issuance of Debt	-	-	1,728,000	2,015,269
Bond Discount	-	-	-	(25,401)
Transfers In	-	-	285,504	668,558
Transfers Out	-	(58,465)	(194,591)	(1,040,860)
Total Other Financing Sources (Uses)	-	(58,465)	1,818,913	2,386,866
Net Change in Fund Balances	(194)	(56,841)	1,669,951	1,528,537
FUND BALANCES:				
Beginning Balance	(4,167)	56,387	792,633	5,759,156
End of Year	\$ (4,361)	\$ (454)	\$ 2,462,584	\$ 7,287,693

CITY OF BIG LAKE
Sherburne County, Minnesota

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property Taxes	\$ 2,208,167	\$ 2,208,167	\$ 2,283,544	\$ 75,377
Special Assessments	1,200	1,200	506	(694)
Licenses and Permits	472,400	472,400	352,928	(119,472)
Intergovernmental Revenue:				
Local Government Aid	337,115	337,115	190,865	(146,250)
Market Value Credit	150,000	150,000	134,008	(15,992)
PERA Aid	3,106	3,106	3,106	-
Fire Aid	92,000	92,000	62,612	(29,388)
Police Aid	72,000	72,000	87,345	15,345
Other Grants and Aids	62,000	62,000	693,082	631,082
Total Intergovernmental Revenue	<u>716,221</u>	<u>716,221</u>	<u>1,171,018</u>	<u>454,797</u>
Charges for Services:				
General Government	116,500	116,500	122,695	6,195
Public Safety	254,250	271,750	228,325	(43,425)
Streets and Highways	5,500	5,500	10,392	4,892
Park and Recreation	2,250	2,250	3,842	1,592
Total Charges for Services	<u>378,500</u>	<u>396,000</u>	<u>365,254</u>	<u>(30,746)</u>
Fines and Forfeitures	16,750	16,750	36,965	20,215
Miscellaneous Revenues:				
Investment Income	100,000	100,000	90,355	(9,645)
Contributions and Donations	19,500	19,500	13,047	(6,453)
Total Miscellaneous Revenues	<u>119,500</u>	<u>119,500</u>	<u>103,402</u>	<u>(16,098)</u>
Total Revenues	<u>3,912,738</u>	<u>3,930,238</u>	<u>4,313,617</u>	<u>383,379</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES:				
General Government:				
Mayor and Council	\$ 41,120	\$ 41,120	\$ 44,048	\$ 2,928
Administrative and Finance	547,650	547,650	608,325	60,675
Other General Government	210,850	210,850	187,341	(23,509)
Capital Outlay	4,000	4,000	26,509	22,509
Total General Government	<u>803,620</u>	<u>803,620</u>	<u>866,223</u>	<u>62,603</u>
Public Safety:				
Police:				
Current	1,396,775	1,396,775	1,355,489	(41,286)
Capital Outlay	45,000	45,000	21,169	(23,831)
Fire:				
Current	392,250	436,210	1,026,621	590,411
Capital Outlay	-	240,493	265,842	25,349
Other:				
Current	443,070	443,070	396,757	(46,313)
Total Public Safety	<u>2,277,095</u>	<u>2,561,548</u>	<u>3,065,878</u>	<u>504,330</u>
Public Works:				
Streets and Highways:				
Street Maintenance and Storm Sewers	416,824	416,824	379,216	(37,608)
Street Engineering	12,500	12,500	19,828	7,328
Street Lighting	62,625	62,625	85,325	22,700
Total Public Works	<u>491,949</u>	<u>491,949</u>	<u>484,369</u>	<u>(7,580)</u>
Culture and Recreation:				
Libraries:				
Current	14,525	14,525	16,387	1,862
Parks and Recreation:				
Current Expenditures	370,649	370,649	396,547	25,898
Total Culture and Recreation	<u>385,174</u>	<u>385,174</u>	<u>412,934</u>	<u>27,760</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES:				
Economic Development:				
Current	\$ 189,900	\$ 189,900	\$ 177,647	\$ (12,253)
Total Expenditures	4,147,738	4,432,191	5,007,051	574,860
Excess of Revenues Under Expenditures	(235,000)	(501,953)	(693,434)	(191,481)
OTHER FINANCING SOURCES:				
Proceeds from Sale of Capital Asset	-	-	1,950	1,950
Issuance of Capital Lease	-	-	21,224	21,224
Transfers In	220,000	220,000	376,825	156,825
Total Other Financing Sources	220,000	220,000	399,999	179,999
Net Change in Fund Balances	\$ (15,000)	\$ (281,953)	(293,435)	\$ (11,482)
FUND BALANCES:				
Beginning of Year			2,449,740	
End of Year			\$ 2,156,305	

CITY OF BIG LAKE
Sherburne County, Minnesota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2008

<u>Federal Assistance Number and Funding Source</u>	<u>Administering Department</u>	<u>Grant Name/Program</u>	<u>2008 Expenditures</u>
CFDA No. 20.205 Federal Highway Administration	MnDot	SAFETEA Grant	\$ 880,000
CFDA No. 97.044 Federal Emergency Management Agency	FEMA	Assistance to Firefighters Grant	492,033
CFDA No. 66.468 U.S. Environmental Protection Agency	Minnesota Public Facilities Authority	Capitalization Grant for Drinking Water	<u>8,510</u>
Total			<u><u>\$ 1,380,543</u></u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2008

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City, and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 – SAFETEA GRANT

On October 15, 2008, the City entered into an agreement with the Mn/DOT, for federal dollars, for the Highway Ten/County Road 5 intersection project for a grant of \$ 880,000. The City received these funds on a reimbursement basis.

NOTE 3 – ASSISTANCE TO FIREFIGHTERS GRANT

The City was awarded on behalf of the Department of Homeland Security \$ 494,944 for firefighter equipment purchased for the entire county. The City received \$ 492,033 of these funds on a reimbursement basis.

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

May 14, 2009

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, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 14, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course or performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 04-01 to be a significant deficiency in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described on the previous page is a material weakness.

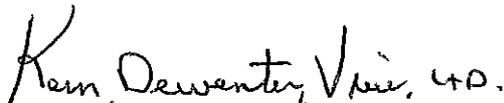
COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to management of the City in a separate letter dated May 14, 2009.

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. We did not audit the City's response and, accordingly, we express no opinion on it.

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


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St. Cloud, Minnesota



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133***

May 14, 2009

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

COMPLIANCE

We have audited the compliance of City of Big Lake, Minnesota, with the types of compliance requirements described in the U.S. Office of Management and Budget OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, City of Big Lake, Minnesota, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.



INTERNAL CONTROL OVER COMPLIANCE

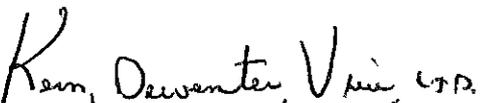
The management of City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance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

A control deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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


KERN, DEWENTER, VIÉRE, LTD.
St. Cloud, Minnesota

CITY OF BIG LAKE
Sherburne County, Minnesota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2008

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 04-01
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	No

Identification of Major Programs

CFDA No.:	20.205
Name of Federal Program or Cluster:	SAFETEA Grant
CFDA No.:	97.044
Name of Federal Program or Cluster:	Assistance to Firefighters Grant
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low risk auditee?	No

CITY OF BIG LAKE
Sherburne County, Minnesota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2008

SECTION II – FINANCIAL STATEMENT FINDING

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

Criteria or Specific Requirement:

Internal control that supports the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

During the year ended December 31, 2008, the City had a lack of segregation of accounting duties due to a limited number of office employees.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation but due to the small staff needed to handle all of the accounting duties, the costs of obtaining desirable segregation of accounting duties often exceeds benefits which could be derived. However, management must remain aware of this situation and should continually monitor the accounting system, including changes that occur. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all inclusive list:

- The Finance Assistant prepares and posts the accounts payable.
- The Finance Assistant prepares checks, handles the blank check stock and signature plate and posts disbursements to general ledger.
- The Accounting Clerk receipts and records all payroll data and posts to the general ledger.
- The Finance Director has read/write access to the general ledger

Questioned Costs:

None

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2008**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 04-01 – Lack of Segregation of Accounting Duties (Continued)

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Management's Response:

The City follows standard operating procedures which attempt to limit internal control deficiencies. With limitations on staff size, full segregation of accounting duties is not possible at this time. Staff will monitor our procedures and continually look for ways to improve the City's control environment.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

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REPORT ON LEGAL COMPLIANCE

May 14, 2009

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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 14, 2009.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, 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 Local Government* covers seven main 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.


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St. Cloud, Minnesota

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

**SCHEDULE OF FINDINGS AND RESPONSES
ON LEGAL COMPLIANCE
December 31, 2008**

CURRENT YEAR LEGAL COMPLIANCE FINDING:

None