

CITY OF BIG LAKE
Sherburne County, Minnesota

Audited Financial Statements
For the Fiscal Year Ended December 31, 2006

CITY OF BIG LAKE
Sherburne County, Minnesota

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CITY OF BIG LAKE
Sherburne County, Minnesota

ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2006

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Donald Orrock	Mayor	December 31, 2008
Charles Heitz	Council Member	December 31, 2006
Duane Langsdorf	Council Member	December 31, 2006
Lori Kampa	Council Member	December 31, 2008
Patricia May	Council Member	December 31, 2008
<u>Administration</u>		
Scott Johnson	City Administrator	Appointed
Corey Boyer	Finance Director	Appointed



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INDEPENDENT AUDITORS' REPORT

April 27, 2007

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, 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, 2006, 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the 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 April 27, 2007, 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 should be considered in assessing the results of our audit.



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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 primarily of management inquiries 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, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget *OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, 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, LTD.
St. Cloud, Minnesota

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CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006

As management of the City of Big Lake, we offer readers of the City of Big Lake's financial statements this narrative overview and analysis of the financial activities of the City of Big Lake for the fiscal year ended in December 31, 2006. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the City of Big Lake exceeded its liabilities at the close of the most recent fiscal year by \$50,882,211. Of this amount \$9,414,829 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$9,056,610. Approximately 67 percent of this increase is attributable to donated assets from various residential developments throughout the City.
- As of the close of the current fiscal year, the City of Big Lake's governmental funds reported combined ending fund balances of \$9,055,981, a decrease of \$810,924 from the previous year. Approximately 15.5 percent of this total amount, \$1,399,724, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,609,292 or 66.6 percent of the total general fund expenditures.
- The City of Big Lake's total debt increased by \$2,845,846 (8.3 percent) during the current fiscal year. The key factors in this increase were the issuance of \$2,425,000 G.O. Improvement Bonds to fund the 2007 Street Improvement Project, \$1,135,000 G.O. Capital Improvement Plan Bond to fund the Fire Hall Expansion Project, and draws taken in 2006 related to the \$9,787,000 Public Facilities Authority Drinking Water Revolving Loan for the construction of the City's new water treatment facility.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Big Lake's basic financial statements. The City of Big Lake'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 of Big Lake's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Big Lake'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 of Big Lake is improving or deteriorating.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006

The *statement of activities* presents information showing how the government'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 of Big Lake 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 of Big Lake 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 of Big Lake include water, sewer, storm sewer and liquor operations.

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

The government-wide financial statements can be found on pages 16 - 17 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 of Big Lake, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006

The City of Big Lake maintains 31 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the street improvement capital project fund which are considered to be major funds. Data from the other 29 governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Big Lake 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 18 - 22 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 of Big Lake 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 of Big Lake.

The basic proprietary fund financial statements can be found on pages 23 - 25 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 26 - 52 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 54 - 66 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Big Lake, assets exceeded liabilities by \$50,882,211 at the close of the most recent fiscal year.

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Approximately 57.5% of the City of Big Lake'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 of Big Lake uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Big Lake's investment in these capital assets is reported net of related debt, it should be noted that 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 of Big Lake's net assets (24 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$9,414,829) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Big Lake is able to report positive balances in all three categories of net assets for the government as a whole, as well as for its water, sanitary sewer and storm water enterprises separately.

City of Big Lake's Net Assets						
	Governmental		Business-type		Total	
	Activities		Activities			
	2005		2005		2005	
	2006	Restated	2006	Restated	2006	Restated
Current and other assets	\$15,439,767	\$17,037,811	\$8,937,768	\$14,094,299	\$24,377,535	\$31,132,110
Capital assets	30,765,139	22,489,338	35,692,583	26,882,648	\$66,457,722	\$49,371,986
Total assets	46,204,906	39,527,149	44,630,351	40,976,947	90,835,257	80,504,096
Long-term liabilities outstanding	19,477,156	16,952,000	15,790,988	15,519,953	\$35,268,144	\$32,471,953
Other liabilities	3,471,567	4,111,608	1,213,335	2,094,934	\$4,684,902	\$6,206,542
Total liabilities	22,948,723	21,063,608	17,004,323	17,614,887	39,953,046	38,678,495
Net assets:						
Invested in capital assets, net of related debt	10,083,480	4,267,787	19,181,892	12,478,474	\$29,265,372	\$16,746,261
Restricted	12,052,290	10,057,363	149,720	149,720	\$12,202,010	\$10,207,083
Unrestricted	1,120,413	4,138,391	8,294,416	10,733,866	\$9,414,829	\$14,872,257
Total net assets	\$23,256,183	\$18,463,541	\$27,626,028	\$23,362,060	\$50,882,211	\$41,825,601

The City's net assets increased by \$9,056,610 during the current fiscal year. About 47 percent of this increase came from activity in the governmental funds, while 42.5 percent is attributable to business-type activities. The remainder of this growth (10.5%) reflects investment earnings.

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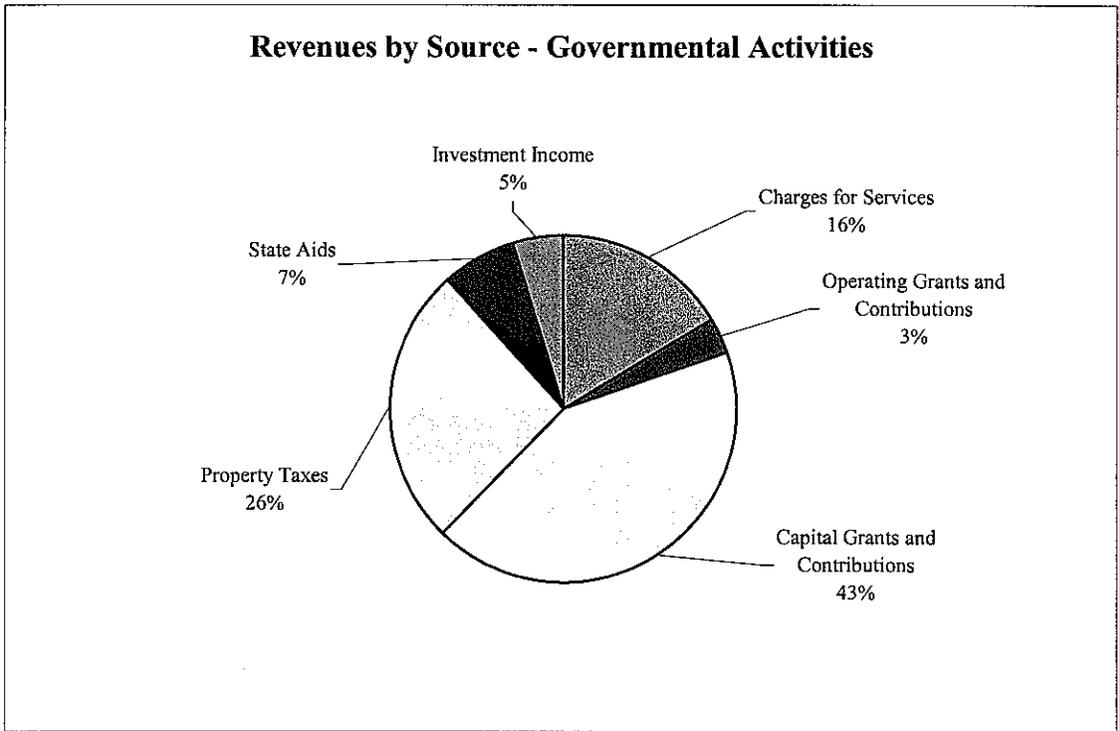
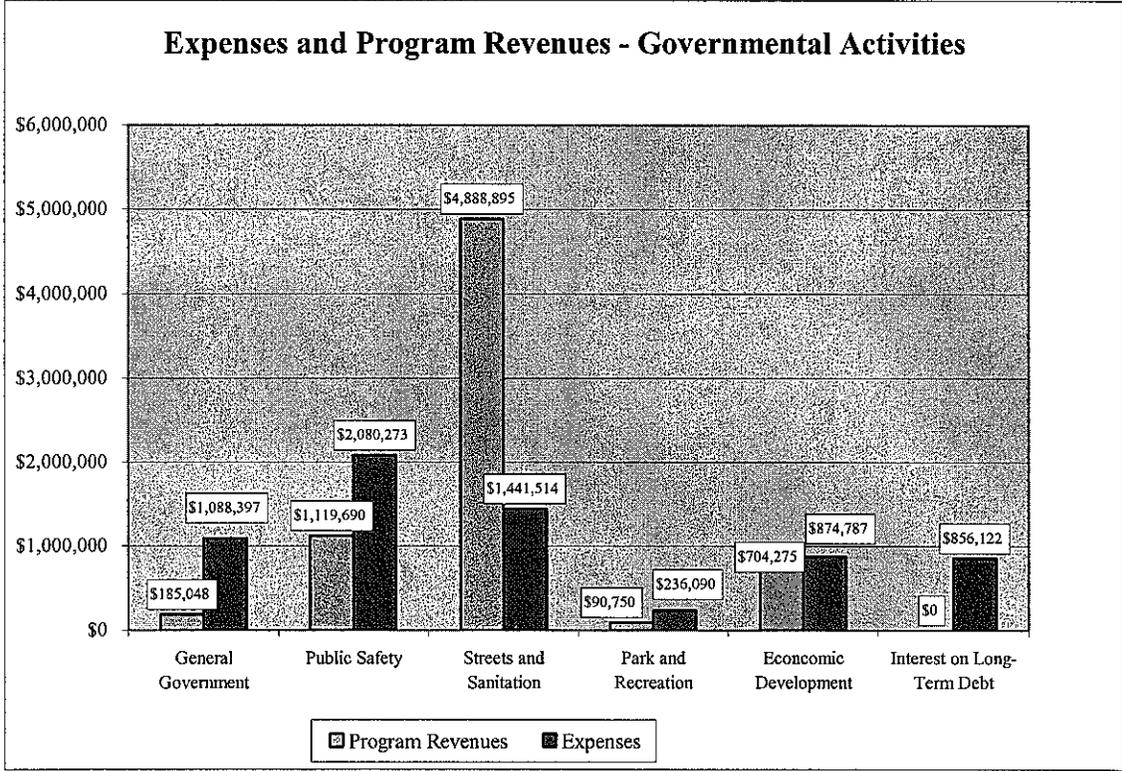
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006

Governmental activities. Governmental activities increased the City of Big Lake's net assets by \$4,792,642, thereby accounting for 52.9 percent of the total growth in the net assets of the City of Big Lake. The main element contributing to this increase was \$3,532,763 in donated capital assets to the City from various developments.

City of Big Lake's Change in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenues:						
Charges for services	\$1,846,637	\$2,606,412	\$5,184,027	\$6,225,989	\$7,030,664	\$8,832,401
Operating grants and contributions	355,507	227,218	0	0	355,507	227,218
Capital grants and contributions	4,786,514	3,492,048	3,916,052	1,070,172	8,702,566	4,562,220
General revenues:						
Property taxes	2,936,409	2,488,345	10	37	2,936,419	2,488,382
State Aids	767,405	696,646	0	0	767,405	696,646
Investment income	536,232	259,573	419,397	244,799	955,629	504,372
Total revenues	11,228,704	9,770,242	9,519,486	7,540,997	20,748,190	17,311,239
Expenses:						
General government	1,088,397	699,851			1,088,397	699,851
Public safety	2,080,273	1,860,664			2,080,273	1,860,664
Streets and Sanitation	1,441,514	1,787,120			1,441,514	1,787,120
Economic Development	874,787	1,387,488			874,787	1,387,488
Park and Recreation	236,090	381,330			236,090	381,330
Interest/Fiscal Charges	856,122	690,416			856,122	690,416
Water			1,109,207	800,197	1,109,207	800,197
Sewer			1,093,828	1,061,447	1,093,828	1,061,447
Stormwater			168,475	120,274	168,475	120,274
Liquor			2,742,887	2,219,225	2,742,887	2,219,225
Total expenses	6,577,183	6,806,869	5,114,397	4,201,143	11,691,580	11,008,012
Increase in net assets before transfers	4,651,521	2,963,373	4,405,089	3,339,854	9,056,610	6,303,227
Transfers	141,121	230,000	(141,121)	(230,000)	0	0
Increase in net assets	4,792,642	3,193,373	4,263,968	3,109,854	9,056,610	6,303,227
Net Assets - Beginning	17,921,548	16,486,960	23,652,060	18,708,221	41,573,608	35,195,181
Prior Period Adjustment	541,993	(1,758,785)	(290,000)	1,833,985	251,993	75,200
Net Assets - Beginning Restated	18,463,541	14,728,175	23,362,060	20,542,206	41,825,601	35,270,381
Net Assets - Ending	\$23,256,183	\$17,921,548	\$27,626,028	\$23,652,060	\$50,882,211	\$41,573,608

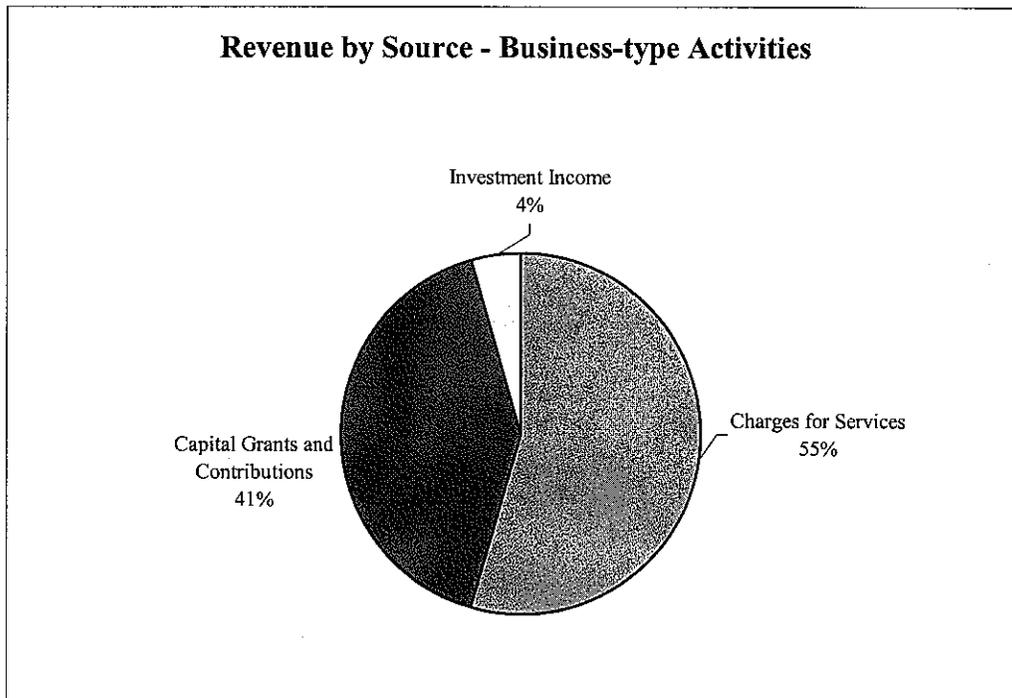
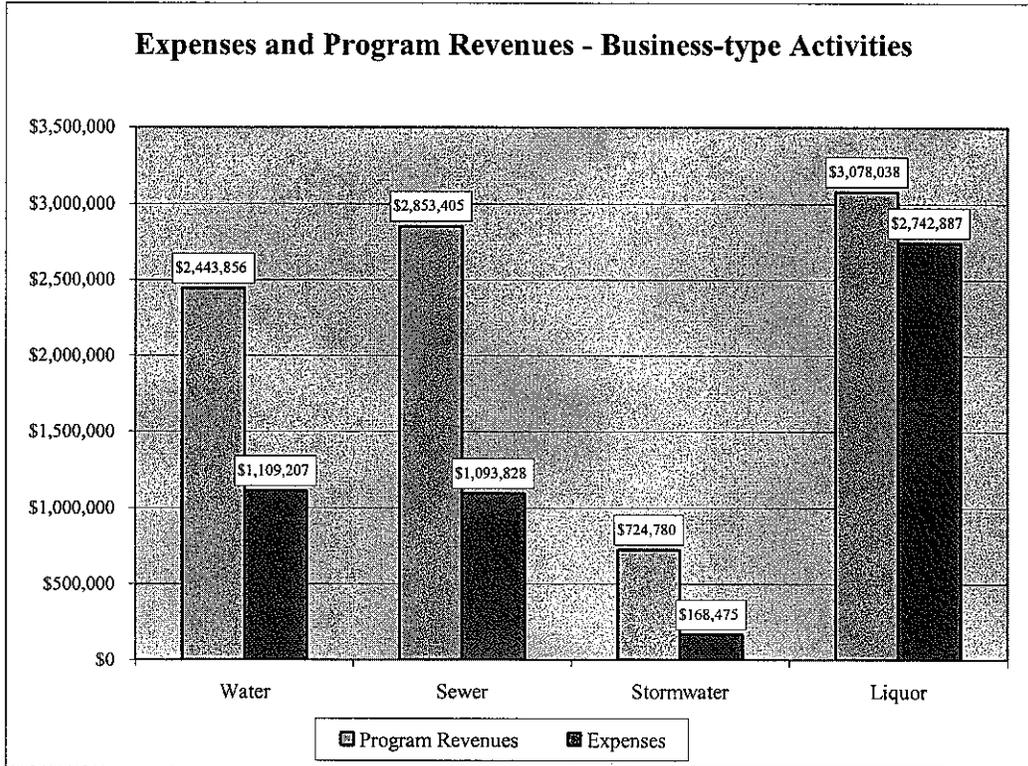
**CITY OF BIG LAKE
Sherburne County, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006**



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MANAGEMENT'S DISCUSSION AND ANALYSIS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006

Business-type activities. Business-type activities increased the City of Big Lake's net assets by \$4,263,968, accounting for 47.1 percent of the total growth in the government's net assets. The main element contributing to this increase was \$2,535,976 in water, sanitary sewer and storm water utilities installed by developers and contributed to the City.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Big Lake'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 of Big Lake's financing requirements. In particular, *unrestricted fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Big Lake's governmental funds reported combined ending fund balances of \$9,055,981, a decrease of \$810,924 from the previous year. Approximately 15.5 percent of this total amount (\$1,399,724) 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) to fund activities of the Economic Development Authority (\$1,549,217) or 2) to pay debt service (\$4,205,503) or 3) to cover future capital purchases from proceeds given to the City by a third party (\$1,901,537).

The general fund is the chief operating fund of the City of Big Lake. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,609,292, while total fund balance reached \$2,631,347. 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 66.6 percent of the total general fund expenditure, while total fund balance also represents 67.2 percent of that same amount.

The fund balance of the City of Big Lake's general fund increased by \$13,793 during the current fiscal year. Key factors in 2006 which had an impact on fund balance include:

- Building permit revenue for the year was \$620,740 or \$240,740 more than budgeted. This was due mainly to average new home values being higher than expected in 2006, along with continued permit activity from the storm damage in the fall of 2005 and increased commercial permits.
- Fire protection services revenue ended the year \$70,223 more than budget.
- Investment earnings came in \$68,212 over budget.
- During 2006, Council approved the use \$428,241 of existing general fund reserves to help fund two major projects, the Lakeside Park/Esplanade Project, and acquisition of additional land for the current Fire Hall site.

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Proprietary funds. The City of Big Lake'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 \$1,451,355, those for the sewer operations amounted to \$7,041,019, those for the storm water operations amounted to \$197,483, and those for the liquor operations amounted to \$(395,441). The total growth in net assets for each fund was \$1,465,682, \$2,080,523, \$605,014, and \$(177,253), respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Big Lake's business-type activities.

General Fund Budgetary Highlights

The original budget was amended in 2006 for \$55,492 to account for the land purchase to expand the current Fire Hall Site.

Capital Asset and Debt Administration

Capital assets. The City of Big Lake's investment in capital assets for its governmental and business type activities as of December 31, 2006, amounts to \$66,457,722 (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	
	2005	2006	2005	2006	2005	2006
Land	\$6,138,675	\$7,427,585	\$352,206	\$1,533,956	\$6,490,881	\$8,961,541
Construction in Progress	4,206,714	9,098,975	11,554,445	16,407,258	15,761,159	25,506,233
Leasehold Improvements	34,356	32,555	165,424	156,515	199,780	189,070
Infrastructure	8,600,125	10,618,251	0	0	8,600,125	10,618,251
Collection and Distribution Systems	0	0	14,870,675	17,163,596	14,870,675	17,163,596
Buildings and System	1,906,317	2,204,181	80,416	77,267	1,986,733	2,281,448
Machinery and Equipment	1,061,158	1,383,592	149,480	353,991	1,210,638	1,737,583
Total	\$21,947,345	\$30,765,139	\$27,172,646	\$35,692,583	\$49,119,991	\$66,457,722

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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 \$9,058,901.
- Construction was completed on the Martin Avenue Phase I project, as well as Highline Park Improvements. Construction began or was continued on several other projects; Martin Avenue Phase II, South Highway 10 Frontage Road, Glenwood Avenue, 172nd Avenue, and 168th/197th Street, and the 2006 Street Improvements, Channel Improvements, Lakeside Park/Esplanade, 197th Avenue, 2007 Street Improvements and the County Road 5/Highway 10 Intersection Improvements. Construction in progress at the close of the fiscal year for these projects and others reached \$9,098,975.
- Construction neared completion on the City's new Fire Hall.
- Donated capital assets for the fiscal year amounted to \$6,068,739 from various developments; Hidden River Estates, Hudson Woods 1st Addition, Sanford Select Acres.
- Construction neared completion on the City's new Municipal Liquor Store. Construction in progress at the close of the fiscal year for this project was \$1,913,233.

Additional information on the City of Big Lake's capital assets can be found in Note 5 on pages 40 - 42 of this report.

Long-term debt. At the end of the current fiscal year, the City of Big Lake had a total bonded debt outstanding of \$37,066,825. Of this amount \$1,875,000 comprises debt backed by the full faith and credit of the government and \$15,690,000 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 of Big Lake'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>	
	2006	2005	2006	2005	2005	2006
General obligation bonds/notes	1,875,000	\$1,215,000	\$0	\$0	\$1,215,000	\$1,875,000
FmHA Loan	273,000	\$400,000	0	0	\$400,000	\$273,000
General obligation tax increment bonds	1,570,000	1,735,000	0	0	\$1,735,000	\$1,570,000
General obligation special assessment bonds	15,690,000	13,935,000	0	0	\$13,935,000	\$15,690,000
EDA Lease Revenue Bonds	1,273,659	936,551	0	0	\$936,551	\$1,273,659
PFA Drinking Water Revolving Loan	0	0	8,264,813	7,474,428	\$7,474,428	\$8,264,813
General obligation revenue bonds/notes	0	0	6,800,000	6,720,000	\$6,720,000	\$6,800,000
Public Project Revenue Bonds	0	0	1,320,353	1,805,000	\$1,805,000	\$1,320,353
	<u>\$20,681,659</u>	<u>\$18,221,551</u>	<u>\$16,385,166</u>	<u>\$15,999,428</u>	<u>\$34,220,979</u>	<u>\$37,066,825</u>

The City of Big Lake's total debt increased by \$2,845,847 (8.3 percent) during the current fiscal year. The key factors in this increase were the issuance of \$2,425,000 G.O. Improvement Bonds to fund the 2006 Street Improvement Project, \$1,135,000 G.O. Capital Improvement Bonds to fund the Fire Hall Expansion Project and draws taken in 2006 related to the \$9,787,000 Public Facilities Authority Drinking Water Revolving Loan for the construction of the City's new water treatment facility.

CITY OF BIG LAKE
Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006

The City of Big Lake maintains an "A2" rating from Moody's for general obligation debt.

Additional information on the City of Big Lake's long-term debt can be found in Note 6 on pages 42 - 47 of this report.

Economic Factors and Next Year's Budgets and Rates

- The City of Big Lake continues to see strong growth with 147 building permits being issued for residential units in 2006. This compares to 197 for 2005 and 206 for 2004. It is expected the pace of new home construction will slow as the residential sales market appears to be slowing overall. The 2007 budget assumed 125 new home starts.
- Due to the growth the City of Big Lake is experiencing, the budget for the City's General Fund grew by \$149,566 for fiscal year 2007, a 3.7% increase over the amended 2006 General Fund Budget.
- Despite the increase in the General Fund Budget, the 2007 tax rate for the City decreased to 40.761 percent from 40.842 percent in 2006 due mainly to an 18.7 percent increase from the previous year in taxable market value in the City.

Water, sanitary sewer, and storm water rates were increased for the 2007 budget year. Water rates were increased to help cover increasing operating costs associated with the new water treatment facility and to cover other operating expenses. Sanitary sewer and storm water rates currently do not meet all operating expenses, including depreciation. However, sanitary sewer and storm water rates do cover operating expenditures when depreciation is not factored in.

The Municipal Liquor Store will see increased operating costs associated with their new store. The new store is over 10,000 square feet and should provide the opportunity for increased sales and increased ability to provide continued operations funding back to the City's General Fund.

Requests for information

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

CITY OF BIG LAKE
Sherburne County, Minnesota

STATEMENT OF NET ASSETS
December 31, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Investments (Including Cash Equivalents)	\$ 9,243,352	\$ 6,790,117	\$ 16,033,469
Cash with Fiscal Agent	159,150	-	159,150
Receivables:			
Property Tax Receivable	136,301	32	136,333
Accounts Receivable	71,272	179,548	250,820
Interest Receivable	210,224	-	210,224
Notes Receivable	208,717	234,988	443,705
Special Assessments Receivable:			
Delinquent	36,935	10,038	46,973
Deferred	4,412,489	158,796	4,571,285
Due from Other Governments	378,733	9,297	388,030
Due from Other Funds (Internal Balances)	(1,014,170)	1,014,170	-
Inventories	-	324,800	324,800
Land Held for Resale	1,549,217	-	1,549,217
Prepaid Expenses	47,547	66,262	113,809
Restricted Cash	-	149,720	149,720
Capital Assets not being Depreciated:			
Land	7,427,585	1,533,956	8,961,541
Construction In Progress	9,098,975	16,407,258	25,506,233
Capital Assets being Depreciated:			
Infrastructure	20,852,680	-	20,852,680
Buildings	2,820,612	94,450	2,915,062
Leasehold Improvements	36,006	208,047	244,053
Machinery and Equipment	3,212,743	828,740	4,041,483
Collection and Distribution Systems	-	24,210,455	24,210,455
Less Accumulated Depreciation	(12,683,462)	(7,590,323)	(20,273,785)
Total Assets	\$ 46,204,906	\$ 44,630,351	\$ 90,835,257
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts Payable	\$ 222,354	\$ 103,406	\$ 325,760
Salaries and Benefits Payable	63,305	48,802	112,107
Escrow Payable	980,919	-	980,919
Contracts Payable	291,065	104,172	395,237
Due to Other Governments	240,418	20,595	261,013
Interest Payable	324,734	216,657	541,391
Bond Principal Payable:			
Payable Within One Year	1,055,000	-	1,055,000
Payable After One Year	17,340,000	-	17,340,000
Revenue Bonds Payable:			
Payable Within One Year	74,772	719,703	794,475
Payable After One Year	1,198,887	15,304,988	16,503,875
Notes Payable:			
Payable Within One Year	133,000	-	133,000
Payable After One Year	880,000	290,000	1,170,000
Other Liabilities			
Payable After One Year	-	196,000	196,000
Compensated Absences Payable:			
Payable Within One Year	86,000	-	86,000
Payable After One Year	21,815	-	21,815
Severance Payable:			
Payable After One Year	36,454	-	36,454
Total Liabilities	22,948,723	17,004,323	39,953,046
Net Assets:			
Investment in Capital Assets, Net of Related Debt	10,083,480	19,181,892	29,265,372
Restricted for:			
Capital Projects	2,636,091	-	2,636,091
Debt Service	7,614,401	149,720	7,764,121
Tax Increment	252,581	-	252,581
Land Held for Resale	1,549,217	-	1,549,217
Unrestricted	1,120,413	8,294,416	9,414,829
Total Net Assets	23,256,183	27,626,028	50,882,211
Total Liabilities and Net Assets	\$ 46,204,906	\$ 44,630,351	\$ 90,835,257

CITY OF BIG LAKE
Sherburne County, Minnesota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

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	\$ 1,088,397	\$ 175,705	\$ -	\$ 9,343	\$ (903,349)	\$ -	\$ (903,349)
Public Safety	2,080,273	941,328	178,362	-	(960,583)	-	(960,583)
Streets and Highways	1,441,514	54,918	56,806	4,777,171	3,447,381	-	3,447,381
Culture and Recreation	236,090	90,060	690	-	(145,340)	-	(145,340)
Economic Development	874,787	584,626	119,649	-	(170,512)	-	(170,512)
Interest on Long-Term Debt	856,122	-	-	-	(856,122)	-	(856,122)
Total Governmental Activities	6,577,183	1,846,637	355,507	4,786,514	411,475	-	411,475
Business-Type Activities							
Water	1,109,207	1,155,105	-	1,288,751	-	1,334,649	1,334,649
Sewer	1,093,828	1,402,439	-	1,450,966	-	1,759,577	1,759,577
Municipal Liquor	2,742,887	2,525,489	-	552,549	-	335,151	335,151
Storm Sewer	168,475	100,994	-	623,786	-	556,305	556,305
Total Business-Type Activities	5,114,397	5,184,027	-	3,916,052	-	3,985,682	3,985,682
Total Governmental and Business-Type Activities	\$ 11,691,580	\$ 7,030,664	\$ 355,507	\$ 8,702,566	411,475	3,985,682	4,397,157
General Revenues:							
Property Taxes					2,177,233	10	2,177,243
Tax Increments					759,176	-	759,176
State Aids					767,405	-	767,405
Unrestricted Investment Earnings					536,232	419,397	955,629
Transfers					141,121	(141,121)	-
Total General Revenues					4,381,167	278,286	4,659,453
Change in Net Assets					4,792,642	4,263,968	9,056,610
Net Assets - Beginning					17,921,548	23,652,060	41,573,608
Prior Period Adjustment					541,993	(290,000)	251,993
Net Assets - Beginning Restated					18,463,541	23,362,060	41,825,601
Net Assets - Ending					\$ 23,256,183	\$ 27,626,028	\$ 50,882,211

CITY OF BIG LAKE
Sherburne County, Minnesota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2006

	<u>General (101)</u>	<u>Capital Projects Street Improvement (175)</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and Investments (Including Cash Equivalents)	\$ 2,703,523	\$ 1,364,789	\$ 5,685,608	\$ 9,753,920
Cash with Fiscal Agent	-	-	159,150	159,150
Taxes Receivable - Delinquent	114,699	-	21,602	136,301
Accounts Receivable	9,786	-	61,486	71,272
Interest Receivable	210,224	-	-	210,224
Due from Other Funds	-	-	502,006	502,006
Due from Other Governments	115,049	-	263,684	378,733
Notes Receivable	-	-	208,717	208,717
Special Assessment Receivable:				
Delinquent	7	-	36,928	36,935
Deferred	2,833	414,714	3,994,942	4,412,489
Land Held for Resale	-	-	1,549,217	1,549,217
Prepaid Expenses	47,547	-	-	47,547
Total Assets	\$ 3,203,668	\$ 1,779,503	\$ 12,483,340	\$ 17,466,511
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Cash Overdraft	\$ -	\$ -	\$ 510,568	\$ 510,568
Accounts Payable	91,277	32,694	98,383	222,354
Salaries and Benefits Payable	63,305	-	-	63,305
Escrow Payable	300,200	82,500	598,219	980,919
Contracts Payable	-	291,065	-	291,065
Due to Other Funds	-	-	1,516,176	1,516,176
Due to Other Governments	-	-	240,418	240,418
Deferred Revenue	117,539	414,714	4,053,472	4,585,725
Total Liabilities	572,321	820,973	7,017,236	8,410,530
Fund Balances:				
Reserved for:				
Debt Service	-	-	4,205,503	4,205,503
Capital Projects	22,055	958,530	920,952	1,901,537
Land Held for Resale	-	-	1,549,217	1,549,217
Unreserved, Reported in:				
General Fund - Undesignated	2,609,292	-	-	2,609,292
Special Revenue Funds - Designated	-	-	262,075	262,075
Debt Service Funds - Designated	-	-	(137,077)	(137,077)
Capital Projects Funds - Designated	-	-	309,778	309,778
Capital Projects Funds - Undesignated	-	-	(1,644,344)	(1,644,344)
Total Fund Balances	2,631,347	958,530	5,466,104	9,055,981
Total Liabilities and Fund Balance	\$ 3,203,668	\$ 1,779,503	\$ 12,483,340	\$ 17,466,511

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, 2006**

Total Fund Balances - Governmental Funds \$ 9,055,981

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	43,448,601
Less Accumulated Depreciation	(12,683,462)

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	(18,395,000)
Revenue Bonds Payable	(1,273,659)
Notes Payable	(1,013,000)
Compensated Absences Payable	(107,815)
Severance Payable	(36,454)

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	136,301
Special Assessments	36,935

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

Deferred Special Assessments	4,412,489
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Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.

(324,734)

Total Net Assets - Governmental Activities \$ 23,256,183

CITY OF BIG LAKE
Sherburne County, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2006

	General (101)	Capital Projects Street Improvement (175)	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property Taxes	\$ 1,757,186	\$ -	\$ 366,621	\$ 2,123,807
Tax Increments	-	-	759,176	759,176
Special Assessments	9,343	159,885	1,311,437	1,480,665
Licenses and Permits	757,953	-	-	757,953
Intergovernmental	897,482	-	158,189	1,055,671
Charges for Services	447,478	-	193,242	640,720
Fines and Forfeitures	72,243	-	-	72,243
Miscellaneous:				
Investment Income	122,141	89,823	324,268	536,232
Contributions and Donations	9,745	-	690	10,435
Other	32,510	13,510	386,507	432,527
Total Revenues	<u>4,106,081</u>	<u>263,218</u>	<u>3,500,130</u>	<u>7,869,429</u>
EXPENDITURES:				
Current:				
General Government	674,628	-	-	674,628
Public Safety	1,980,028	-	-	1,980,028
Streets and Highways	467,723	-	-	467,723
Culture and Recreation	337,282	-	-	337,282
Economic Development	213,920	-	555,555	769,475
Debt Service:				
Principal	-	-	1,294,539	1,294,539
Interest and Other Charges	-	-	774,389	774,389
Capital Outlay:				
General Government	9,447	-	-	9,447
Public Safety	161,036	-	1,030,620	1,191,656
Streets and Highways	71,389	3,406,689	444,194	3,922,272
Culture and Recreation	1,127	-	759,064	760,191
Economic Development	822	-	104,162	104,984
Total Expenditures	<u>3,917,402</u>	<u>3,406,689</u>	<u>4,962,523</u>	<u>12,286,614</u>
Excess of Revenues Over (Under) Expenditures	188,679	(3,143,471)	(1,462,393)	(4,417,185)
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Asset	8,985	-	65,559	74,544
Issuance of Debt	-	2,316,605	1,243,395	3,560,000
Bond Discount	-	-	(29,747)	(29,747)
Transfers In	188,878	-	1,463,296	1,652,174
Transfers Out	(372,749)	-	(1,380,061)	(1,752,810)
Total Other Financing Sources (Uses)	<u>(174,886)</u>	<u>2,316,605</u>	<u>1,362,442</u>	<u>3,504,161</u>
Net Change in Fund Balances	13,793	(826,866)	(99,951)	(913,024)
FUND BALANCES:				
Beginning of Year	2,617,554	1,620,110	5,629,241	9,866,905
Prior Period Adjustment	-	165,286	(63,186)	102,100
Beginning Balance, Restated	<u>2,617,554</u>	<u>1,785,396</u>	<u>5,566,055</u>	<u>9,969,005</u>
End of Year	<u>\$ 2,631,347</u>	<u>\$ 958,530</u>	<u>\$ 5,466,104</u>	<u>\$ 9,055,981</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
FUND BALANCES TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2006

Total Net Change in Fund Balances - Governmental Funds \$ (913,024)

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	5,755,671
Depreciation Expense	(1,057,836)
Loss on Disposal	(429,891)
Donated Assets	3,915,310

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. 13,347

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net assets in the Statement of Activities. 1,294,539

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. (51,986)

Proceeds from long-term debt are recognized as another financing source in the governmental funds but as a decrease in net assets in the Statement of Activities.

Bonds Payable	(3,560,000)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred Special Assessments	(232,651)
Delinquent Special Assessments	5,737

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. 53,426

Change in Net Assets - Governmental Activities \$ 4,792,642

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, 2006**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property Taxes	\$ 1,764,613	\$ 1,764,613	\$ 1,757,186	\$ (7,427)
Special Assessments	-	-	9,343	9,343
Licenses and Permits	481,950	481,950	757,953	276,003
Intergovernmental	902,486	902,486	897,482	(5,004)
Charges for Services	361,100	361,100	447,478	86,378
Fines and Forfeitures	61,000	61,000	72,243	11,243
Miscellaneous Revenues:				
Investment Income	50,000	50,000	122,141	72,141
Contributions and Donations	4,000	4,000	9,745	5,745
Other	51,000	51,000	32,510	(18,490)
Total Revenues	<u>3,676,149</u>	<u>3,676,149</u>	<u>4,106,081</u>	<u>429,932</u>
EXPENDITURES:				
Current:				
General Government	688,490	688,490	674,628	13,862
Public Safety	2,008,890	2,014,605	1,980,028	34,577
Streets and Highways	502,088	502,088	467,723	34,365
Culture and Recreation	349,679	349,679	337,282	12,397
Economic Development	201,102	201,102	213,920	(12,818)
Capital Outlay:				
General Government	10,000	10,000	9,447	553
Public Safety	138,000	138,000	161,036	(23,036)
Streets and Highways	25,000	80,492	71,389	9,103
Culture and Recreation	5,000	5,000	1,127	3,873
Economic Development	2,900	2,900	822	2,078
Total Expenditures	<u>3,931,149</u>	<u>3,992,356</u>	<u>3,917,402</u>	<u>74,954</u>
Excess of Revenues Over (Under) Expenditures	(255,000)	(316,207)	188,679	504,886
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	-	8,985	8,985
Transfers In	190,000	190,000	188,878	(1,122)
Transfers Out	-	(365,749)	(372,749)	(7,000)
Total Other Financing Sources (Uses)	<u>190,000</u>	<u>(175,749)</u>	<u>(174,886)</u>	<u>863</u>
Net Change in Fund Balances	<u>\$ (65,000)</u>	<u>\$ (491,956)</u>	13,793	<u>\$ 505,749</u>
FUND BALANCES:				
Beginning of Year			<u>2,617,554</u>	
End of Year			<u>\$ 2,631,347</u>	

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

CITY OF BIG LAKE
Sherburne County, Minnesota

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
December 31, 2006

	<u>Water (301)</u>	<u>Sewer (401)</u>	<u>Liquor (501)</u>	<u>Storm Sewer (601)</u>	<u>Total</u>
ASSETS:					
Current Assets:					
Cash and Investments (Including Cash Equivalents)	\$ 1,342,601	\$ 5,924,472	\$ -	\$ 191,298	\$ 7,458,371
Taxes Receivable - Delinquent	-	32	-	-	32
Accounts Receivable	52,250	66,386	53,332	7,580	179,548
Due from Other Funds	-	1,014,170	-	-	1,014,170
Due from Other Governments	7,360	1,937	-	-	9,297
Notes Receivable	234,988	-	-	-	234,988
Special Assessment Receivable:					
Delinquent	5,019	5,019	-	-	10,038
Deferred	31,836	126,960	-	-	158,796
Inventories	-	-	324,800	-	324,800
Prepaid Expenses	26,588	24,431	15,223	20	66,262
Total Current Assets	<u>1,700,642</u>	<u>7,163,407</u>	<u>393,355</u>	<u>198,898</u>	<u>9,456,302</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	-	-	94,450
Collection and Distribution Systems	8,131,163	12,844,194	-	3,235,098	24,210,455
Machinery and Equipment	308,677	184,913	194,175	140,975	828,740
Leasehold Improvements	166,068	-	41,979	-	208,047
Construction In Progress	13,160,658	1,152,303	1,913,233	181,064	16,407,258
Total Capital Assets	<u>22,090,797</u>	<u>15,485,585</u>	<u>2,149,387</u>	<u>3,557,137</u>	<u>43,282,906</u>
Less Accumulated Depreciation	<u>(2,178,157)</u>	<u>(4,560,034)</u>	<u>(102,161)</u>	<u>(749,971)</u>	<u>(7,590,323)</u>
Net Capital Assets	<u>19,912,640</u>	<u>10,925,551</u>	<u>2,047,226</u>	<u>2,807,166</u>	<u>35,692,583</u>
Total Assets	<u>\$ 21,613,282</u>	<u>\$ 18,088,958</u>	<u>\$ 2,590,301</u>	<u>\$ 3,006,064</u>	<u>\$ 45,298,605</u>
LIABILITIES AND NET ASSETS:					
Current Liabilities:					
Cash Overdraft	\$ -	\$ -	\$ 668,254	\$ -	\$ 668,254
Accounts Payable	25,624	20,983	55,832	967	103,406
Contracts Payable	104,172	-	-	-	104,172
Salaries and Benefits Payable	15,323	15,323	17,708	448	48,802
Interest Payable	103,906	86,082	26,669	-	216,657
Due to Other Governments	262	-	20,333	-	20,595
Amount Due Within One Year	475,000	218,014	26,689	-	719,703
Total Current Liabilities	<u>724,287</u>	<u>340,402</u>	<u>815,485</u>	<u>1,415</u>	<u>1,881,589</u>
Noncurrent Liabilities:					
Notes Payable	-	-	-	290,000	290,000
Revenue Bonds, Net of Unamortized Discount	1,670,000	4,818,159	1,271,719	-	7,759,878
PFA G.O. Revenue Note	8,264,813	-	-	-	8,264,813
Other Liabilities	196,000	-	-	-	196,000
Less Amount Due Within One Year	<u>(475,000)</u>	<u>(218,014)</u>	<u>(26,689)</u>	<u>-</u>	<u>(719,703)</u>
Total Noncurrent Liabilities	<u>9,655,813</u>	<u>4,600,145</u>	<u>1,245,030</u>	<u>290,000</u>	<u>15,790,988</u>
Total Liabilities	<u>10,380,100</u>	<u>4,940,547</u>	<u>2,060,515</u>	<u>291,415</u>	<u>17,672,577</u>
Net Assets:					
Investment in Capital Assets, Net of Related Debt	9,781,827	6,107,392	775,507	2,517,166	19,181,892
Restricted for Debt Service	-	-	149,720	-	149,720
Unrestricted	1,451,355	7,041,019	(395,441)	197,483	8,294,416
Total Net Assets	<u>11,233,182</u>	<u>13,148,411</u>	<u>529,786</u>	<u>2,714,649</u>	<u>27,626,028</u>
Total Liabilities and Net Assets	<u>\$ 21,613,282</u>	<u>\$ 18,088,958</u>	<u>\$ 2,590,301</u>	<u>\$ 3,006,064</u>	<u>\$ 45,298,605</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 NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2006

	Water (301)	Sewer (401)	Liquor (501)	Storm Sewer (601)	Totals
SALES AND COST OF SALES:					
Sales	\$ -	\$ -	\$ 2,525,489	\$ -	\$ 2,525,489
Cost of Sales	-	-	1,902,498	-	1,902,498
Gross Profit	-	-	622,991	-	622,991
OPERATING REVENUES:					
Charges for Services	845,419	825,568	-	99,190	1,770,177
OPERATING EXPENSES:					
Wages and Salaries	194,490	194,490	233,082	18,414	640,476
Employee Benefits	51,135	51,134	47,174	3,223	152,666
Materials and Supplies	36,807	6,140	6,730	278	49,955
Repairs and Maintenance	80,375	11,596	6,641	519	99,131
Professional Services	70,725	102,369	57,652	15,772	246,518
Insurance	28,847	28,423	17,277	1,077	75,624
Utilities and Refuse	72,939	76,765	38,865	-	188,569
Depreciation and Amortization	238,467	367,146	13,999	126,601	746,213
Travel	8,589	9,025	792	-	18,406
Advertising	1,721	716	10,000	-	12,437
Dues, Memberships and Training	5,217	2,152	2,663	5	10,037
Telephone	1,731	7,383	6,448	68	15,630
Postage	2,232	1,421	367	39	4,059
Water Meters	23,694	-	-	-	23,694
Uniforms	1,327	1,380	-	-	2,707
Rental Expense and Real Estate Taxes	19,068	19,043	9,178	2,088	49,377
Miscellaneous	2,643	6,019	6,262	391	15,315
Total Operating Expenses	840,007	885,202	457,130	168,475	2,350,814
Operating Income (Loss)	5,412	(59,634)	165,861	(69,285)	42,354
NONOPERATING REVENUES (EXPENSES):					
Investment Income	104,484	309,640	145	5,128	419,397
Special Assessments	21,211	21,211	-	-	42,422
Loss on Sale of Asset	-	-	(316,141)	-	(316,141)
Property Taxes	-	10	-	-	10
Trunk and Access Charges	297,070	560,947	-	1,802	859,819
Interest Expense	(269,200)	(208,626)	(67,118)	-	(544,944)
Donations	-	-	170,000	-	170,000
Other Income	12,616	15,924	-	2	28,542
Total Nonoperating Revenue (Expenses)	166,181	699,106	(213,114)	6,932	659,105
Income before Capital Contributions and Transfers	171,593	639,472	(47,253)	(62,353)	701,459
Capital Contributions	1,319,589	1,466,551	-	675,731	3,461,871
Transfers In	-	-	50,000	290,000	340,000
Transfers Out	(25,500)	(25,500)	(180,000)	(8,364)	(239,364)
Change in Net Assets	1,465,682	2,080,523	(177,253)	895,014	4,263,966
NET ASSETS:					
Beginning of Year	9,767,500	11,067,888	707,039	2,109,635	23,652,062
Prior Period Adjustment	-	-	-	(290,000)	(290,000)
Beginning Balance, Restated	9,767,500	11,067,888	707,039	1,819,635	23,362,062
End of Year	\$ 11,233,182	\$ 13,148,411	\$ 529,786	\$ 2,714,649	\$ 27,626,028

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, 2006

	Water (301)	Sewer (401)	Liquor (501)	Storm Sewer (601)	Total
CASH FLOWS - OPERATING ACTIVITIES:					
Receipts from Customers and Users	\$ 1,170,901	\$ 1,461,759	\$ 2,472,177	\$ 99,265	\$ 5,204,102
Payments to Suppliers	(408,664)	(279,107)	(2,217,344)	(19,290)	(2,924,405)
Payments to Employees	(243,301)	(243,301)	(277,285)	(21,189)	(785,076)
Net Cash Flows - Operating Activities	<u>518,936</u>	<u>939,351</u>	<u>(22,452)</u>	<u>58,786</u>	<u>1,494,621</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES:					
Advance to Other Fund	-	(597,696)	-	-	(597,696)
Repayment of Note Receivable	11,924	-	-	-	11,924
Loan Payout	(67,267)	-	-	-	(67,267)
Transfer from Other Funds	-	-	50,000	290,000	340,000
Transfer to Other Funds	(25,500)	(25,500)	(180,000)	(8,364)	(239,364)
Net Cash Flows - Noncapital Financing Activities	<u>(80,843)</u>	<u>(623,196)</u>	<u>(130,000)</u>	<u>281,636</u>	<u>(552,403)</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal Paid on Debt	(395,000)	(210,000)	-	-	(605,000)
Interest Paid on Debt	(226,829)	(198,679)	(47,744)	-	(473,252)
Bond Proceeds	1,457,237	-	-	-	1,457,237
Proceeds from Sale of Capital Assets	-	-	582,190	-	582,190
Reimbursement for Facade Improvements	-	-	66,666	-	66,666
Donation	-	-	170,000	-	170,000
Acquisition of Capital Assets	(3,276,259)	(1,231,567)	(3,446,166)	(324,969)	(8,278,961)
Net Cash Flows - Capital and Related Financing Activities	<u>(2,440,851)</u>	<u>(1,640,246)</u>	<u>(2,675,054)</u>	<u>(324,969)</u>	<u>(7,081,120)</u>
CASH FLOWS - INVESTING ACTIVITIES:					
Interest and Dividends Received	104,484	309,640	145	5,128	419,397
Net Change in Cash and Cash Equivalents	(1,898,274)	(1,014,451)	(2,827,361)	20,581	(5,719,505)
Cash and Cash Equivalents, January 1	3,240,875	6,938,923	2,308,827	170,717	12,659,342
Cash and Cash Equivalents, December 31	<u>\$ 1,342,601</u>	<u>\$ 5,924,472</u>	<u>\$ (518,534)</u>	<u>\$ 191,298</u>	<u>\$ 6,939,837</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 5,412	\$ (59,634)	\$ 165,861	\$ (69,285)	\$ 42,354
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:					
Operating Activities:					
Property Taxes	-	10	-	-	10
Special Assessments	21,211	21,211	-	-	42,422
Trunk and Access Charges	297,070	560,947	-	1,802	859,819
Other Revenues	12,616	15,924	-	2	28,542
Depreciation and Amortization Expense	238,467	367,146	13,999	126,601	746,213
Accounts Receivable	(286)	(4,350)	(53,312)	(1,729)	(59,677)
Taxes Receivable	-	5	-	-	5
Special Assessments Receivable	(5,542)	42,031	-	-	36,489
Due from Other Governments	413	413	-	-	826
Prepaid Items	(7,842)	(5,463)	(4,567)	(20)	(17,892)
Inventory	-	-	(141,538)	-	(141,538)
Accounts Payable	(44,838)	(1,212)	(6,278)	967	(51,361)
Due to Other Governmental Units	(69)	-	412	-	343
Salaries Payable	2,324	2,323	2,971	448	8,066
Total Adjustments	<u>513,524</u>	<u>998,985</u>	<u>(188,313)</u>	<u>128,071</u>	<u>1,452,267</u>
Net Cash Flows - Operating Activities	<u>\$ 518,936</u>	<u>\$ 939,351</u>	<u>\$ (22,452)</u>	<u>\$ 58,786</u>	<u>\$ 1,494,621</u>
NONCASH CAPITAL ACTIVITIES:					
Contributions of Capital Assets from Government Capital Funds and Developers	\$ 1,319,589	\$ 1,466,551	\$ -	\$ 675,731	\$ 3,461,871
Disposal of Capital Assets	-	-	(316,414)	-	(316,414)
Transfer of Capital Assets to EDA Fund	-	-	(484,606)	-	(484,606)

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

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

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 in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 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 City of Big Lake Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the City of Big Lake EDA is reported as if it were part of the primary government because it provides services exclusively for the City of Big Lake. Separate financial statements are not prepared for the City of Big Lake EDA.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

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 of Big Lake, Township of Big Lake and the Town of Orrock. 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. No separate financial statements for the Fire Department are 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. For the most part, the effect of interfund activity has been removed from these Statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

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.

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, 2006

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.

Major 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 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, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity

1. Cash and Investments (Continued)

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

Cash and investments at December 31, 2006 are comprised of deposits, brokered certificates of deposit, U.S. government securities and investments in the 4M Fund.

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

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

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

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Cash and Investments (Continued)

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 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.

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 of the payment is 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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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	3-10
Fire Trucks	10
Utility Distribution System	30
Infrastructure	20

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

10. Other Long-Term Liabilities

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

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.

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. The City Administrator compiles the budget requests into an overall preliminary city budget.
2. The City Administrator 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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information (Continued)

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.

Encumbrances represent outstanding purchase orders and unfulfilled commitments that are issued to outside vendors and budgeted in the current year but do not include amounts that are set up as liabilities, amounts for personal services to be performed by City employees and purchase orders applicable to the subsequent year's budget. Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

B. Deficit Fund Balance

The following funds had deficit fund balances at December 31, 2006:

Nonmajor Governmental Funds:

Debt Service:

G.O. Refunding Bonds of 1996	\$ 113,311
G.O. Tax Increment Bonds of 2004C	23,766

Capital Projects:

Local Development	61,411
Industrial Park TIF 2-1	264,622
Industrial Park TIF 2-4	8,141
Industrial Park TIF 2-5	9,599
Lake Street Redevelopment TIF 1-3	274,893
Public Works Facility	58,186
Police Facility	2,982

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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits (Continued)

Minnesota Statutes require all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by FDIC insurance or corporate surety bonds.

As of December 31, 2006, 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, 2006, the City's deposits had a book balance of \$ 1,903,421.

B. Investments

As of December 31, 2006, the City had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Rating</u>
Brokered Certificates of Deposit	\$ 1,891,222	3.98	N/A
Government Securities	5,758,906	5.9	AAA
Cash and Brokered Money Market Accounts	56,579	N/A	N/A
4M Fund	6,571,461	N/A	N/A
Cash with Fiscal Agent	159,150	N/A	N/A
	<u>\$14,437,318</u>		
Total			

The City had an investment policy in place as of December 31, 2006.

Interest Rate Risk: The City was not exposed to interest rate risk at December 31, 2006 due to the fact that their investments were not exposed to highly sensitive changes in interest rates.

Credit Risk: As of December 31, 2006, the City's investments are rated in the above table. The City's investment in 4M and brokered certificates of deposit do not receive credit ratings.

Concentration of Credit Risk: As of December 31, 2006, the City has more than 5% of its total investments in the 4M Fund; however, those investments were not subject to concentration of credit risk.

Custodial Credit Risk – Investments: The City's investments were not exposed to custodial credit risk as the investments are insured, registered and held by the counterparty's trust department in the name of the City as of December 31, 2006.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Summary of cash, deposits and investments as of December 31, 2006:

Petty Cash	\$ 1,600
Deposits	1,903,421
Investments	<u>14,437,318</u>
 Total	 <u>\$ 16,342,339</u>

Cash, deposits and investments are presented in the December 31, 2006 basic financial statements as follows:

Statement of Net Assets:

Cash and Investments	\$ 16,033,469
Cash with Fiscal Agent	159,150
Restricted Cash	<u>149,720</u>
 Total Deposits and Investments	 <u>\$ 16,342,339</u>

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

The composition of interfund balances as of December 31, 2006 follows.

	Due from Other Funds		
	Other Governmental Funds	Sewer Fund	Total
Due to Other Funds:			
Other Governmental Funds	<u>\$ 502,006</u>	<u>\$ 1,014,170</u>	<u>\$ 1,516,176</u>

Interfund balances exist due to TIF administration loans, loans related to the industrial park between Big Lake and TIF districts and a loan between a TIF district and the Sewer Fund. These will be repaid as cash is available.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2006 follows:

	Transfers In				Total
	General Fund	Other Governmental Funds	Liquor Fund	Storm Sewer	
Transfers Out:					
General Fund	\$ -	\$ 372,749	\$ -	\$ -	\$ 372,749
Other Governmental Funds	8,878	1,031,183	50,000	290,000	1,380,061
Water Fund	-	25,500	-	-	25,500
Sewer Fund	-	25,500	-	-	25,500
Liquor Fund	180,000	-	-	-	180,000
Storm Sewer	-	8,364	-	-	8,364
 Total Transfers	 <u>\$ 188,878</u>	 <u>\$ 1,463,296</u>	 <u>\$ 50,000</u>	 <u>\$ 290,000</u>	 <u>\$ 1,992,174</u>

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

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 follows:

	Beginning Balance, Restated	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 6,138,675	\$ 1,288,910	\$ -	\$ 7,427,585
Construction in Progress	4,841,254	4,684,882	427,161	9,098,975
Total Capital Assets not being Depreciated	<u>10,979,929</u>	<u>5,973,792</u>	<u>427,161</u>	<u>16,526,560</u>
Capital Assets being Depreciated				
Buildings	2,484,852	382,547	46,787	2,820,612
Machinery and Equipment	2,681,983	615,585	84,825	3,212,743
Leasehold Improvements	36,006	-	-	36,006
Infrastructure	18,153,623	2,699,057	-	20,852,680
Total Capital Assets being Depreciated	<u>23,356,464</u>	<u>3,697,189</u>	<u>131,612</u>	<u>26,922,041</u>
Less Accumulated Depreciation for:				
Buildings	578,535	81,953	44,057	616,431
Machinery and Equipment	1,620,825	293,153	84,825	1,829,153
Leasehold Improvements	1,650	1,800	-	3,450
Infrastructure	9,553,498	680,930	-	10,234,428
Total Accumulated Depreciation	<u>11,754,508</u>	<u>1,057,836</u>	<u>128,882</u>	<u>12,683,462</u>
Total Capital Assets being Depreciated, Net	<u>11,601,956</u>	<u>2,639,353</u>	<u>2,730</u>	<u>14,238,579</u>
Governmental Activities Capital Assets, Net	<u>\$ 22,581,885</u>	<u>\$ 8,613,145</u>	<u>\$ 429,891</u>	<u>\$ 30,765,139</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 5 – CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land and Land Improvements	\$ 352,206	\$ 1,181,750	\$ -	\$ 1,533,956
Construction in Progress	<u>11,554,445</u>	<u>6,432,570</u>	<u>1,579,757</u>	<u>16,407,258</u>
Total Capital Assets not being Depreciated	<u>11,906,651</u>	<u>7,614,320</u>	<u>1,579,757</u>	<u>17,941,214</u>
Capital Assets being Depreciated:				
Buildings	94,450	-	-	94,450
Leasehold Improvements	208,047	-	-	208,047
Machinery and Equipment	564,331	264,409	-	828,740
Collection and Distribution	<u>21,245,265</u>	<u>2,965,190</u>	<u>-</u>	<u>24,210,455</u>
Total Capital Assets being Depreciated	<u>22,112,093</u>	<u>3,229,599</u>	<u>-</u>	<u>25,341,692</u>
Less Accumulated Depreciation for:				
Buildings	14,034	3,148	-	17,182
Leasehold Improvements	42,623	8,910	-	51,533
Machinery and Equipment	414,851	59,899	-	474,750
Collection and Distribution	<u>6,374,587</u>	<u>672,271</u>	<u>-</u>	<u>7,046,858</u>
Total Accumulated Depreciation	<u>6,846,095</u>	<u>744,228</u>	<u>-</u>	<u>7,590,323</u>
Total Capital Assets being Depreciated, Net	<u>15,265,998</u>	<u>2,485,371</u>	<u>-</u>	<u>17,751,369</u>
Business-Type Activities Capital Assets, Net	<u>\$ 27,172,649</u>	<u>\$ 10,099,691</u>	<u>\$ 1,579,757</u>	<u>\$ 35,692,583</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 5 – CAPITAL ASSETS

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

Governmental Activities:	
General Government	\$ 68,914
Public Safety	114,394
Streets and Highways	810,772
Culture and Recreation	<u>63,756</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,057,836</u>
Business-Type Activities:	
Water	\$ 238,468
Sewer	365,160
Liquor	13,999
Storm Sewer	<u>126,601</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 744,228</u>

NOTE 6 – 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, 2006

NOTE 6 – 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	\$ 3,045,000	\$ 180,000
G.O. Improvement Bonds of 2003	2003	1.25%-3.45%	5,645,000	2019	5,505,000	70,000
G.O. Improvement Bonds of 2004	2004	3.00%-3.40%	2,625,000	2010	2,130,000	510,000
G.O. Improvement Bonds of 2005	2005	3.50%-4.15%	2,585,000	2021	2,585,000	85,000
G.O. Improvement Bonds of 2006A	2006	4.00%- 4.125%	2,425,000	2022	2,425,000	-
G.O. Capital Improvement Bonds of 2006B	2006	3.70%-4.25%	1,135,000	2023	1,135,000	40,000
Revenue Bonds:						
Taxable Municipal Facilities Lease Municipal Facilities Lease Revenue Bonds of 2000	1997	8.10%	250,000	2007	4,012	4,012
Public Project Revenue Bonds of 2005	2005	4.00%-5.30%	484,647	2026	484,647	10,760
G.O. Tax Increment Bonds:						
G.O. Tax Increment Bonds of 1998	1998	4.10%-4.75%	340,000	2009	140,000	45,000
G.O. Tax Increment Refunding Bonds of 2002	2002	2.00%-3.90%	970,000	2011	640,000	120,000
G.O. Tax Increment Bonds of 2004	2004	5.00%-5.90%	795,000	2030	790,000	5,000
Other Financing:						
G.O. Capital Note of 2005	2005	3.25%-3.60%	740,000	2012	740,000	-
FmHA Loan	2002	5.00%	2,736,000	2008	273,000	133,000
Total G.O. Bonds					20,681,659	1,262,772
Compensated Absences					107,815	86,000
Severance					36,454	-
Total Governmental Activities					20,825,928	1,348,772
Business-Type Activities:						
G.O. Revenue Bonds, Including						
Refunding Bonds:						
G.O. Public Utility Revenue Bonds of 1998	1998	4.70%	3,500,000	2020	2,780,000	140,000
G.O. Wastewater Revenue Refunding Bonds of 2004	2004	1.45%-4.00%	1,255,000	2017	1,105,000	80,000
Public Facility Authority Drinking Water G.O. Revenue Loan	2004	2.53%	1,933,023	2024	8,264,813	405,000
G.O. Utility Revenue Bonds 2005	2005	4.00%-4.375%	2,625,000	2026	2,625,000	70,000
Public Project Revenue Bonds of 2005	2005	4.00%-5.30%	1,320,353	2026	1,320,353	29,260
Other Financing:						
G.O. Capital Note of 2005	2005	3.25%-3.60%	290,000	2012	290,000	-
					16,385,166	724,260
Discount on Bonds Payable					(70,475)	(4,557)
Other Liabilities					196,000	-
Total Business-Type Activities					16,510,691	719,703
Total all Long-Term Liabilities					\$ 37,336,619	\$ 2,068,475

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 6 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006 follows:

	Beginning Balance	Adjustment	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:						
Bonds Payable:						
G.O. Improvement Bonds	\$ 13,935,000	\$ -	\$ 3,560,000	\$ 670,000	\$ 16,825,000	\$ 885,000
Revenue Bonds	1,421,198	484,647	-	147,539	1,273,659	74,772
G.O. Tax Increment Bonds	1,735,000	-	-	165,000	1,570,000	170,000
Other Financing	1,325,000	(290,000)	-	312,000	1,013,000	133,000
Total Bonds Payable	<u>18,221,551</u>	<u>194,647</u>	<u>3,560,000</u>	<u>1,294,539</u>	<u>20,681,659</u>	<u>1,262,772</u>
Compensated Absences	110,057	-	139,828	142,070	107,815	86,000
Severance	47,559	-	40,154	51,259	36,454	-
	<u>157,616</u>	<u>-</u>	<u>179,982</u>	<u>193,329</u>	<u>144,269</u>	<u>86,000</u>
Governmental Activities Long-Term Liabilities	<u>18,379,167</u>	<u>194,647</u>	<u>3,739,982</u>	<u>1,487,868</u>	<u>20,825,928</u>	<u>1,348,772</u>
Business-Type Activities:						
Bonds Payable:						
G.O. Revenue Bonds	8,525,000	(484,647)	-	210,000	7,830,353	319,260
PFA G.O. Revenue Note	7,474,428	-	1,185,385	395,000	8,264,813	405,000
Other Financing	-	290,000	-	-	290,000	-
Other Liabilities	196,000	-	-	-	196,000	-
Discount on Bonds	(75,032)	-	-	(4,557)	(70,475)	(4,557)
Business-Type Activities Long-Term Liabilities	<u>16,120,396</u>	<u>(194,647)</u>	<u>1,185,385</u>	<u>600,443</u>	<u>16,510,691</u>	<u>719,703</u>
Total Long-Term Liabilities	<u>\$ 34,499,563</u>	<u>\$ -</u>	<u>\$ 4,925,367</u>	<u>\$ 2,088,311</u>	<u>\$ 37,336,619</u>	<u>\$ 2,068,475</u>

Amounts in the adjustment column are to move parts of two types of debt from governmental activities to business-type activities and vice versa so the debt is recorded where the assets that were acquired from the debt issuances were paid from.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 6 – LONG-TERM DEBT

D. Minimum Debt Payments

Minimum annual principal and interest payments required to retire noncompensated absence liabilities follows:

Year Ended December 31,	Governmental Activities			
	G.O. Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 885,000	\$ 601,095	74,753	69,585
2008	1,245,000	550,380	81,110	65,344
2009	1,420,000	508,375	81,110	60,816
2010	1,495,000	460,203	87,453	56,062
2011	970,000	418,662	92,453	50,961
2012-2016	5,720,000	1,531,442	553,373	164,287
2017-2021	4,770,000	431,864	132,909	62,932
2022-2026	320,000	8,784	170,499	22,505
Total	<u>\$ 16,825,000</u>	<u>\$ 4,510,805</u>	<u>\$ 1,273,659</u>	<u>\$ 552,492</u>

Year Ended December 31,	Governmental Activities			
	Tax Increment Bonds		Other Financing	
	Principal	Interest	Principal	Interest
2007	\$ 170,000	\$ 71,568	\$ 133,000	\$ 39,403
2008	170,000	65,445	219,029	31,468
2009	180,000	58,720	122,136	21,169
2010	140,000	52,468	150,874	16,513
2011	145,000	46,923	186,796	10,558
2012-2016	55,000	213,738	201,165	3,621
2017-2021	130,000	190,713	-	-
2022-2026	255,000	136,709	-	-
2027-2031	325,000	40,858	-	-
Total	<u>\$ 1,570,000</u>	<u>\$ 877,139</u>	<u>\$ 1,013,000</u>	<u>\$ 122,732</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 6 – LONG-TERM DEBT

D. Minimum Debt Payments (Continued)

Year Ended December 31,	Total Governmental Activities	
	Principal	Interest
2007	\$ 1,262,753	\$ 781,650
2008	1,715,139	712,637
2009	1,803,246	649,080
2010	1,873,327	585,246
2011	1,394,248	527,103
2012-2016	6,529,538	1,913,088
2017-2021	5,032,909	685,508
2022-2026	745,499	167,998
2027-2031	<u>325,000</u>	<u>40,858</u>
Total	<u>\$ 20,681,659</u>	<u>\$ 6,063,168</u>

Year Ended December 31,	Business-Type Activities			
	G.O. Business Revenue Bonds		Other Financing	
	Principal	Interest	Principal	Interest
2007	\$ 319,260	\$ 334,354	\$ -	\$ 10,092
2008	368,890	321,056	30,971	9,589
2009	378,890	306,222	47,864	8,296
2010	397,547	290,484	59,126	6,472
2011	412,547	273,749	73,204	4,137
2012-2016	2,401,627	1,079,290	78,835	1,419
2017-2021	2,192,091	538,923	-	-
2022-2026	<u>1,359,501</u>	<u>164,171</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,830,353</u>	<u>\$ 3,308,249</u>	<u>\$ 290,000</u>	<u>\$ 40,005</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 6 – LONG-TERM DEBT

D. Minimum Debt Payments (Continued)

<u>Year Ended</u> <u>December 31,</u>	<u>Business-Type Activities</u>		<u>Total Business-Type Activities</u>	
	<u>Public Facility</u>	<u>G.O. Revenue Note</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 405,000	\$ 229,775	\$ 724,260	\$ 574,221
2008	415,000	219,528	814,861	550,173
2009	425,000	209,029	851,754	523,547
2010	436,000	198,276	892,673	495,232
2011	447,000	187,245	932,751	415,131
2012-2016	2,411,000	760,771	4,891,462	1,841,480
2017-2021	2,732,000	439,916	4,924,091	978,839
2022-2026	1,811,000	92,396	3,170,501	256,567
Total	<u>\$ 9,082,000</u>	<u>\$ 2,336,936</u>	<u>\$ 17,202,353</u>	<u>\$ 5,635,190</u>

At December 31, 2006, the City had only expended \$ 8,264,813 of the total PFA G.O. Revenue Note. The amortization schedule represents the entire note liability.

E. 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, 2006, the City's outstanding conduit debt balances consisted of the following:

\$ 1,950,000 Commercial Facility Revenue Note (Options, Inc. Project), Series 2005	<u>\$ 1,950,000</u>
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CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 7 – RESERVED 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. Reserved Fund Balance

	<u>General</u>	<u>Street Improvement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Reserved for:				
Capital Improvements	\$ 22,055	\$ 958,530	\$ 920,952	\$ 1,901,537
Debt Service	-	-	4,205,503	4,205,503
Land Held for Resale	-	-	1,549,217	1,549,217
Unreserved:				
Designated for:				
Economic Development	-	-	514,656	514,656
Capital Improvements	-	-	57,197	57,197
Undesignated	<u>2,609,292</u>	<u>-</u>	<u>(1,781,421)</u>	<u>827,871</u>
Total	<u>\$ 2,631,347</u>	<u>\$ 958,530</u>	<u>\$ 5,466,104</u>	<u>\$ 9,055,981</u>

NOTE 8 – RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust 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 League for its insurance coverage. The League 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 2006 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 8 – RISK MANAGEMENT

At December 31, 2006, 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 that 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 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City of Big Lake 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 Funds (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 Plan 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 and firefighters who qualify for membership by statute are covered by the PEPFF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. For all 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.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for 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.

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 9.1% and 5.5%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. PEPFF members were required to contribute 7.0% of their annual covered salary in 2006. That rate will increase to 7.8% in 2007. The City of Big Lake is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.00% for Coordinated Plan PERF members and 10.5% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.25% and 11.7%, respectively, effective January 1, 2007. The City's contributions to the PERF for the years ending December 31, 2006, 2005 and 2004 were \$ 91,625, \$ 78,680 and \$ 69,777, respectively. The City's contributions to the PEPFF for the years ending December 31, 2006, 2005 and 2004 were \$ 67,186 \$ 52,705 and \$ 47,767, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 10 – COMMITMENTS

	<u>Project Authorization</u>	<u>Expended Through 12/31/06</u>	<u>Remaining Commitment</u>
Street Improvement Capital Projects Fund:			
172nd Street	\$ 1,073,210	\$ 1,067,341	\$ 5,869
168th Street/197th Avenue	867,798	745,588	122,210
South Highway 10 Frontage Road	578,860	518,112	60,748
Glenwood Avenue Improvements	2,397,499	2,195,010	202,489
Martin Avenue Phase II	329,968	242,441	87,527
2006 Street Improvements (Hill St. Area)	1,662,965	1,322,402	340,563
297th Avenue Improvements	624,841	513,048	111,793
Water Fund:			
Water Treatment Plant	8,053,366	7,918,614	134,752
West Side Trunk Utilities	851,138	822,360	28,778
Water Tower No. 4	1,702,276	1,644,719	57,557
Sewer Fund:			
West Side Trunk Utilities	851,138	822,360	28,778

NOTE 11 – PRIOR PERIOD ADJUSTMENTS

During the year ended December 31, 2006, a prior period adjustment was required in the governmental funds due to prepaid special assessments in 2005 being coded to the Debt Fund, rather than the first 20% (as in City practice) getting coded to the Capital Projects Fund. The amount of this adjustment was \$ 165,286.

A prior period adjustment was also needed for the Public Project Revenue Bonds of 2005. The City's liquor store acquired more area of the mall than needed when they relocated, so the Big Lake EDA is keeping a portion to lease out, therefore moving the debt into the EDA Fund. The amount of the outstanding debt was \$ 484,647. This resulted in an adjustment of \$ 102,100 for the governmental funds and \$ 382,547 for governmental activities in the government-wide statements.

The third prior period adjustment was for the G.O. Capital Note of 2005. In 2005, the note was established in Fund 140 for the purchases of equipment. In 2006, a street sweeper was purchased in the Storm Sewer Fund, an enterprise fund, from this note therefore, the corresponding debt should be in the fund where the items were purchased from. The amount of this adjustment was \$ 290,000 in the enterprise fund and in the government activities on the government-wide statements.

A prior period adjustment was also made to increase governmental activities construction in progress for \$ 634,540.

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 12 – SUBSEQUENT EVENT

A. G.O. Bonds

On April 25, 2007, the City Council approved the issuance of the following bonds:

- G.O. Improvement Bonds, Series 2007A, in the amount of \$ 2,105,000
- G.O. Utility System Revenue Bonds, Series 2007B, in the amount of \$ 2,060,000
- G.O. Capital Improvement Plan Bonds, Series 2007C, in the amount of \$ 1,130,000
- G.O. Public Utility Revenue Refunding Bonds, Series 2007D, in the amount of \$ 2,670,000.

SUPPLEMENTARY INFORMATION

CITY OF BIG LAKE
Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2006

	Special Revenue			Debt Service	
	Economic Development Authority (275)	Crime Reward Fund (130)	Total Special Revenue	G.O. Refunding Bonds of 1996 (205)	G.O. Tax Increment Bonds of 1998B (255)
ASSETS:					
Cash and Investments (Including Cash Equivalents)	\$ -	\$ 2,056	\$ 2,056	\$ -	\$ 8,920
Cash with Fiscal Agent	12,500	-	12,500	146,650	-
Taxes Receivable - Delinquent	-	-	-	44	-
Accounts Receivable	558	-	558	-	-
Due from Other Funds	202,006	-	202,006	-	-
Due from Other Governments	-	-	-	4,709	-
Notes Receivable	208,717	-	208,717	-	-
Special Assessment Receivable:					
Delinquent	-	-	-	3,629	-
Deferred	-	-	-	167,673	-
Land Held for Resale	439,071	-	439,071	-	-
	<u>\$ 862,852</u>	<u>\$ 2,056</u>	<u>\$ 864,908</u>	<u>\$ 322,705</u>	<u>\$ 8,920</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Cash Overdraft	\$ 160,964	\$ -	\$ 160,964	\$ 264,670	\$ -
Accounts Payable	2,798	-	2,798	-	-
Escrow Payable	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Due to Other Governments	-	-	-	-	-
Deferred Revenue	-	-	-	171,346	-
Total Liabilities	<u>163,762</u>	<u>-</u>	<u>163,762</u>	<u>436,016</u>	<u>-</u>
Fund Balances:					
Reserved for:					
Debt Service	-	-	-	-	8,920
Capital Projects	-	-	-	-	-
Land Held for Resale	439,071	-	439,071	-	-
Unreserved, Reported in:					
Special Revenue - Designated	260,019	2,056	262,075	-	-
Debt Service - Undesignated	-	-	-	(113,311)	-
Capital Projects - Designated	-	-	-	-	-
Capital Projects - Undesignated	-	-	-	-	-
Total Fund Balances	<u>699,090</u>	<u>2,056</u>	<u>701,146</u>	<u>(113,311)</u>	<u>8,920</u>
	<u>\$ 862,852</u>	<u>\$ 2,056</u>	<u>\$ 864,908</u>	<u>\$ 322,705</u>	<u>\$ 8,920</u>
Total Liabilities and Fund Balances	<u>\$ 862,852</u>	<u>\$ 2,056</u>	<u>\$ 864,908</u>	<u>\$ 322,705</u>	<u>\$ 8,920</u>

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 2003A (225)
\$ 55,860	\$ 846,601	\$ -	\$ 128,220	\$ 3,382	\$ 22,983	\$ 110,561	\$ 916,592
-	-	-	-	-	-	-	-
-	6,761	-	3,482	-	11,315	-	-
-	-	-	-	-	-	-	-
300,000	-	-	-	-	-	-	-
9,168	34,880	-	9,117	-	5,461	-	102,584
-	-	-	-	-	-	-	-
-	5,698	-	6,795	-	-	-	14,075
-	589,332	-	884,688	-	-	632,497	1,129,148
-	-	-	-	-	-	-	-
<u>\$ 365,028</u>	<u>\$ 1,483,272</u>	<u>\$ -</u>	<u>\$ 1,032,302</u>	<u>\$ 3,382</u>	<u>\$ 39,759</u>	<u>\$ 743,058</u>	<u>\$ 2,162,399</u>
\$ -	\$ -	\$ 23,766	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	601,791	-	894,965	-	11,315	632,497	1,143,223
-	601,791	23,766	894,965	-	11,315	632,497	1,143,223
365,028	881,481	-	137,337	3,382	28,444	110,561	1,019,176
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	(23,766)	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>365,028</u>	<u>881,481</u>	<u>(23,766)</u>	<u>137,337</u>	<u>3,382</u>	<u>28,444</u>	<u>110,561</u>	<u>1,019,176</u>
<u>\$ 365,028</u>	<u>\$ 1,483,272</u>	<u>\$ -</u>	<u>\$ 1,032,302</u>	<u>\$ 3,382</u>	<u>\$ 39,759</u>	<u>\$ 743,058</u>	<u>\$ 2,162,399</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2006

	Debt Service		Capital Projects		
	G.O. Improvement Bonds of 2004B (245)	Total Debt Service	Park Development (120)	Lakeside Park Improvements (125)	Local Development (150)
ASSETS:					
Cash and Investments (Including Cash Equivalents)	\$ 1,582,378	\$ 3,675,497	\$ 404,745	\$ 418,727	\$ 499,335
Cash with Fiscal Agent	-	146,650	-	-	-
Taxes Receivable - Delinquent	-	21,602	-	-	-
Accounts Receivable	-	-	-	-	60,928
Due from Other Funds	-	300,000	-	-	-
Due from Other Governments	68,796	234,715	-	-	-
Notes Receivable	-	-	-	-	-
Special Assessment Receivable:					
Delinquent	660	30,857	-	-	1,061
Deferred	277,834	3,681,172	-	-	1,885
Land Held for Resale	-	-	-	-	-
Total Assets	\$ 1,929,668	\$ 8,090,493	\$ 404,745	\$ 418,727	\$ 563,209
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Cash Overdraft	\$ -	\$ 288,436	\$ -	\$ -	\$ -
Accounts Payable	-	-	58,164	9,855	24,455
Escrow Payable	-	-	-	-	597,219
Due to Other Funds	-	-	-	-	-
Due to Other Governments	-	-	-	-	-
Deferred Revenue	278,494	3,733,631	-	-	2,946
Total Liabilities	278,494	4,022,067	58,164	9,855	624,620
Fund Balances:					
Reserved for:					
Debt Service	1,651,174	4,205,503	-	-	-
Capital Projects	-	-	346,581	408,872	-
Land Held for Resale	-	-	-	-	-
Unreserved, Reported in:					
Special Revenue - Designated	-	-	-	-	-
Debt Service - Undesignated	-	(137,077)	-	-	-
Capital Projects - Designated	-	-	-	-	-
Capital Projects - Undesignated	-	-	-	-	(61,411)
Total Fund Balances	1,651,174	4,068,426	346,581	408,872	(61,411)
Total Liabilities and Fund Balances	\$ 1,929,668	\$ 8,090,493	\$ 404,745	\$ 418,727	\$ 563,209

Capital Projects

Fire Hall Expansion (195)	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)	Lake Street Redevelopment TIF 1-3 (165)
\$ 168,555	\$ 88,788	\$ 232,205	\$ 62,529	\$ 3,006	\$ 2,618	\$ 10,889	\$ 24,362
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	27,833	-	-	-	-	745
-	-	-	-	-	-	-	-
-	-	5,010	-	-	-	-	-
-	-	311,885	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 168,555</u>	<u>\$ 88,788</u>	<u>\$ 576,933</u>	<u>\$ 62,529</u>	<u>\$ 3,006</u>	<u>\$ 2,618</u>	<u>\$ 10,889</u>	<u>\$ 25,107</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3,056	-	55	-	-	-	-	-
-	-	-	1,000	-	-	-	-
-	173,498	14,432	12,624	7,569	8,053	-	300,000
-	179,912	40,062	12,702	3,578	4,164	-	-
-	-	316,895	-	-	-	-	-
<u>3,056</u>	<u>353,410</u>	<u>371,444</u>	<u>26,326</u>	<u>11,147</u>	<u>12,217</u>	<u>-</u>	<u>300,000</u>
-	-	-	-	-	-	-	-
165,499	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	205,489	36,203	-	-	10,889	-
-	(264,622)	-	-	(8,141)	(9,599)	-	(274,893)
<u>165,499</u>	<u>(264,622)</u>	<u>205,489</u>	<u>36,203</u>	<u>(8,141)</u>	<u>(9,599)</u>	<u>10,889</u>	<u>(274,893)</u>
<u>\$ 168,555</u>	<u>\$ 88,788</u>	<u>\$ 576,933</u>	<u>\$ 62,529</u>	<u>\$ 3,006</u>	<u>\$ 2,618</u>	<u>\$ 10,889</u>	<u>\$ 25,107</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2006

Capital Projects

	Commercial Redevelopment TIF 1-4 (170)	Public Works Facility (180)	Police Facility (185)	2005 Capital Equipment (140)	Total Capital Projects	Total Other Governmental Funds
ASSETS:						
Cash and Investments (Including Cash Equivalents)	\$ 35,099	\$ -	\$ -	\$ 57,197	\$ 2,008,055	\$ 5,685,608
Cash with Fiscal Agent	-	-	-	-	-	159,150
Taxes Receivable - Delinquent	-	-	-	-	-	21,602
Accounts Receivable	-	-	-	-	60,928	61,486
Due from Other Funds	-	-	-	-	-	502,006
Due from Other Governments	391	-	-	-	28,969	263,684
Notes Receivable	-	-	-	-	-	208,717
Special Assessment Receivable:						
Delinquent	-	-	-	-	6,071	36,928
Deferred	-	-	-	-	313,770	3,994,942
Land Held for Resale	1,110,146	-	-	-	1,110,146	1,549,217
Total Assets	\$ 1,145,636	\$ -	\$ -	\$ 57,197	\$ 3,527,939	\$ 12,483,340
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Cash Overdraft	\$ -	\$ 58,186	\$ 2,982	\$ -	\$ 61,168	\$ 510,568
Accounts Payable	-	-	-	-	95,585	98,383
Escrow Payable	-	-	-	-	598,219	598,219
Due to Other Funds	1,000,000	-	-	-	1,516,176	1,516,176
Due to Other Governments	-	-	-	-	240,418	240,418
Deferred Revenue	-	-	-	-	319,841	4,053,472
Total Liabilities	1,000,000	58,186	2,982	-	2,831,407	7,017,236
Fund Balances:						
Reserved for:						
Debt Service	-	-	-	-	-	4,205,503
Capital Projects	-	-	-	-	920,952	920,952
Land Held for Resale	1,110,146	-	-	-	1,110,146	1,549,217
Unreserved, Reported in:						
Special Revenue - Designated	-	-	-	-	-	262,075
Debt Service - Undesignated	-	-	-	-	-	(137,077)
Capital Projects - Designated	-	-	-	57,197	309,778	309,778
Capital Projects - Undesignated	(964,510)	(58,186)	(2,982)	-	(1,644,344)	(1,644,344)
Total Fund Balances	145,636	(58,186)	(2,982)	57,197	696,532	5,466,104
Total Liabilities and Fund Balances	\$ 1,145,636	\$ -	\$ -	\$ 57,197	\$ 3,527,939	\$ 12,483,340

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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, 2006**

	Special Revenue			Debt Service	
	Economic Development Authority (275)	Crime Reward Fund (130)	Total Special Revenue	G.O. Refunding Bonds of 1996 (205)	G.O. Tax Increment Bonds of 1998B (255)
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ 22	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	62,520	-
Intergovernmental	119,649	-	119,649	-	-
Charges for Services	192,242	-	192,242	-	-
Miscellaneous:					
Investment Income	1,086	56	1,142	(10,003)	(100)
Contributions and Donations	-	-	-	-	-
Other	12,500	-	12,500	-	-
Total Revenues	<u>325,477</u>	<u>56</u>	<u>325,533</u>	<u>52,539</u>	<u>(100)</u>
EXPENDITURES:					
Current:					
Economic Development	127,003	-	127,003	-	-
Debt Service:					
Principal	147,539	-	147,539	135,000	45,000
Interest and Other Charges	67,856	-	67,856	20,874	8,003
Capital Outlay:					
Public Safety	-	-	-	-	-
Streets and Highways	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>342,398</u>	<u>-</u>	<u>342,398</u>	<u>155,874</u>	<u>53,003</u>
Excess of Revenues Over (Under) Expenditures	(16,921)	56	(16,865)	(103,335)	(53,103)
OTHER FINANCING SOURCES (USES):					
Proceeds from Sale of Capital Asset	-	-	-	-	-
Issuance of Debt	-	-	-	-	-
Bond Discount	-	-	-	-	-
Transfers In	-	2,000	2,000	51,000	52,573
Transfers Out	(50,000)	-	(50,000)	-	-
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>2,000</u>	<u>(48,000)</u>	<u>51,000</u>	<u>52,573</u>
Net Change in Fund Balances	(66,921)	2,056	(64,865)	(52,335)	(530)
FUND BALANCES:					
Beginning Balance as Previously Reported	663,911	-	663,911	(60,976)	9,450
Prior Period Adjustment	102,100	-	102,100	-	-
Beginning Balance, Restated	<u>766,011</u>	<u>-</u>	<u>766,011</u>	<u>(60,976)</u>	<u>9,450</u>
End of Year	<u>\$ 699,090</u>	<u>\$ 2,056</u>	<u>\$ 701,146</u>	<u>\$ (113,311)</u>	<u>\$ 8,920</u>

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)
\$ -	\$ 116,573	\$ -	\$ 67,415	\$ -	\$ 182,611	\$ -	\$ -
273,558	-	-	-	-	-	-	-
-	185,646	-	100,876	-	-	46,183	-
6,163	9,545	-	5,621	-	14,833	-	-
-	-	-	-	-	-	-	-
31,363	33,295	(1,231)	12,057	489	408	2,895	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>311,084</u>	<u>345,059</u>	<u>(1,231)</u>	<u>185,969</u>	<u>489</u>	<u>197,852</u>	<u>49,078</u>	<u>-</u>
257	-	-	-	-	-	-	-
132,000	80,000	5,000	-	-	185,000	-	-
25,747	119,837	45,892	116,014	24,347	6,906	27,754	19,718
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>158,004</u>	<u>199,837</u>	<u>50,892</u>	<u>116,014</u>	<u>24,347</u>	<u>191,906</u>	<u>27,754</u>	<u>19,718</u>
153,080	145,222	(52,123)	69,955	(23,858)	5,946	21,324	(19,718)
8,476	-	-	-	-	-	-	-
-	-	-	-	-	-	108,395	30,307
-	-	-	-	-	-	(19,158)	(10,589)
-	-	59,053	-	8,364	-	-	-
<u>(386,415)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(377,939)</u>	<u>-</u>	<u>59,053</u>	<u>-</u>	<u>8,364</u>	<u>-</u>	<u>89,237</u>	<u>19,718</u>
(224,859)	145,222	6,930	69,955	(15,494)	5,946	110,561	-
589,887	736,259	(30,696)	232,668	18,876	22,498	-	-
-	-	-	(165,286)	-	-	-	-
<u>589,887</u>	<u>736,259</u>	<u>(30,696)</u>	<u>67,382</u>	<u>18,876</u>	<u>22,498</u>	<u>-</u>	<u>-</u>
<u>\$ 365,028</u>	<u>\$ 881,481</u>	<u>\$ (23,766)</u>	<u>\$ 137,337</u>	<u>\$ 3,382</u>	<u>\$ 28,444</u>	<u>\$ 110,561</u>	<u>\$ -</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, 2006

	Debt Service			Capital Projects	
	G.O. Improvement Bonds of 2003A (225)	G.O. Improvement Bonds of 2004B (245)	Total Debt Service	Park Development (120)	Lakeside Park Improvements (125)
REVENUES:					
Property Taxes	\$ -	\$ -	\$ 366,621	\$ -	\$ -
Tax Increments	-	-	273,558	-	-
Special Assessments	289,513	555,799	1,240,537	-	-
Intergovernmental	-	-	36,162	-	-
Charges for Services	-	-	-	1,000	-
Miscellaneous:					
Investment Income	38,850	60,067	168,090	30,305	21,703
Contributions and Donations	-	-	-	690	-
Other	-	-	-	-	-
Total Revenues	<u>328,363</u>	<u>615,866</u>	<u>2,084,968</u>	<u>31,995</u>	<u>21,703</u>
EXPENDITURES:					
Current:					
Economic Development	-	-	257	-	-
Debt Service:					
Principal	70,000	495,000	1,147,000	-	-
Interest and Other Charges	168,083	74,805	657,980	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Streets and Highways	-	-	-	-	-
Culture and Recreation	-	-	-	114,851	601,519
Economic Development	-	-	-	-	-
Total Expenditures	<u>238,083</u>	<u>569,805</u>	<u>1,805,237</u>	<u>114,851</u>	<u>601,519</u>
Excess of Revenues Over (Under) Expenditures	90,280	46,061	279,731	(82,856)	(579,816)
OTHER FINANCING SOURCES (USES):					
Proceeds from Sale of Capital Asset	-	-	8,476	-	-
Issuance of Debt	-	-	138,702	-	-
Bond Discount	-	-	(29,747)	-	-
Transfers In	-	-	170,990	-	988,688
Transfers Out	-	-	(386,415)	(533,067)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(97,994)</u>	<u>(533,067)</u>	<u>988,688</u>
Net Change in Fund Balances	90,280	46,061	181,737	(615,923)	408,872
FUND BALANCES:					
Beginning Balance as Previously Reported	928,896	1,605,113	4,051,975	962,504	-
Prior Period Adjustment	-	-	(165,286)	-	-
Beginning Balance, Restated	<u>928,896</u>	<u>1,605,113</u>	<u>3,886,689</u>	<u>962,504</u>	<u>-</u>
End of Year	<u>\$ 1,019,176</u>	<u>\$ 1,651,174</u>	<u>\$ 4,068,426</u>	<u>\$ 346,581</u>	<u>\$ 408,872</u>

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)	Industrial Park TIF 2-4 (164)	Industrial Park TIF 2-5 (166)	TIF 1-2 (151)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	131,085	208,122	63,462	-	-	13,973
5,171	-	-	65,729	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
49,190	25,479	491	6,316	1,045	354	453	466
-	-	-	-	-	-	-	-
371,975	-	-	-	-	-	-	-
<u>426,336</u>	<u>25,479</u>	<u>131,576</u>	<u>280,167</u>	<u>64,507</u>	<u>354</u>	<u>453</u>	<u>14,439</u>
428,295	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	1,153	-	200	200	-
-	964,673	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	2,443	50,377	10,053	38	168	21,952
<u>428,295</u>	<u>964,673</u>	<u>2,443</u>	<u>51,530</u>	<u>10,053</u>	<u>238</u>	<u>368</u>	<u>21,952</u>
(1,959)	(939,194)	129,133	228,637	54,454	116	85	(7,513)
-	-	-	-	-	-	-	-
-	1,104,693	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	1,618	-	-	-	-	-
-	-	(55,443)	(5,523)	-	-	-	(560)
-	<u>1,104,693</u>	<u>(53,825)</u>	<u>(5,523)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(560)</u>
(1,959)	165,499	75,308	223,114	54,454	116	85	(8,073)
(59,452)	-	(339,930)	(17,625)	(18,251)	(8,257)	(9,684)	18,962
-	-	-	-	-	-	-	-
<u>(59,452)</u>	<u>-</u>	<u>(339,930)</u>	<u>(17,625)</u>	<u>(18,251)</u>	<u>(8,257)</u>	<u>(9,684)</u>	<u>18,962</u>
<u>\$ (61,411)</u>	<u>\$ 165,499</u>	<u>\$ (264,622)</u>	<u>\$ 205,489</u>	<u>\$ 36,203</u>	<u>\$ (8,141)</u>	<u>\$ (9,599)</u>	<u>\$ 10,889</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, 2006

	Capital Projects			
	Lake Street Redevelopment TIF 1-3 (165)	Commercial Redevelopment TIF 1-4 (170)	Public Works Facility (180)	Police Facility (185)
REVENUES:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Tax Increments	35,229	33,747	-	-
Special Assessments	-	-	-	-
Intergovernmental	2,045	333	-	-
Charges for Services	-	-	-	-
Miscellaneous:				
Investment Income	1,718	(1,689)	(1,579)	(105)
Contributions and Donations	-	-	-	-
Other	-	2,032	-	-
Total Revenues	<u>38,992</u>	<u>34,423</u>	<u>(1,579)</u>	<u>(105)</u>
EXPENDITURES:				
Current:				
Economic Development	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and Other Charges	21,000	26,000	-	-
Capital Outlay:				
Public Safety	-	-	-	880
Streets and Highways	-	-	52,734	-
Culture and Recreation	-	-	-	-
Economic Development	245	18,886	-	-
Total Expenditures	<u>21,245</u>	<u>44,886</u>	<u>52,734</u>	<u>880</u>
Excess of Revenues Over (Under) Expenditures	17,747	(10,463)	(54,313)	(985)
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Asset	57,083	-	-	-
Issuance of Debt	-	-	-	-
Bond Discount	-	-	-	-
Transfers In	-	300,000	-	-
Transfers Out	(59,053)	-	-	-
Total Other Financing Sources (Uses)	<u>(1,970)</u>	<u>300,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	15,777	289,537	(54,313)	(985)
FUND BALANCES:				
Beginning Balance as Previously Reported	(290,670)	(143,901)	(3,873)	(1,997)
Prior Period Adjustment	-	-	-	-
Beginning Balance, Restated	<u>(290,670)</u>	<u>(143,901)</u>	<u>(3,873)</u>	<u>(1,997)</u>
End of Year	<u>\$ (274,893)</u>	<u>\$ 145,636</u>	<u>\$ (58,186)</u>	<u>\$ (2,982)</u>

Capital Projects

2005 Capital Equipment (140)	Total Capital Projects	Total Other Governmental Funds
\$ -	\$ -	\$ 366,621
-	485,618	759,176
-	70,900	1,311,437
-	2,378	158,189
-	1,000	193,242
20,889	155,036	324,268
-	690	690
-	374,007	386,507
<u>20,889</u>	<u>1,089,629</u>	<u>3,500,130</u>
-	428,295	555,555
-	-	1,294,539
-	48,553	774,389
65,067	1,030,620	1,030,620
391,460	444,194	444,194
42,694	759,064	759,064
-	104,162	104,162
<u>499,221</u>	<u>2,814,888</u>	<u>4,962,523</u>
(478,332)	(1,725,259)	(1,462,393)
-	57,083	65,559
-	1,104,693	1,243,395
-	-	(29,747)
-	1,290,306	1,463,296
<u>(290,000)</u>	<u>(943,646)</u>	<u>(1,380,061)</u>
<u>(290,000)</u>	<u>1,508,436</u>	<u>1,362,442</u>
(768,332)	(216,823)	(99,951)
825,529	913,355	5,629,241
-	-	(63,186)
<u>825,529</u>	<u>913,355</u>	<u>5,566,055</u>
<u>\$ 57,197</u>	<u>\$ 696,532</u>	<u>\$ 5,466,104</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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property Taxes	\$ 1,764,613	\$ 1,764,613	\$ 1,757,186	\$ (7,427)
Special Assessments	-	-	9,343	9,343
Licenses and Permits	481,950	481,950	757,953	276,003
Intergovernmental Revenue:				
Local Government Aid	579,880	579,880	579,880	-
Market Value Credit	175,000	175,000	145,879	(29,121)
PERA Aid	3,106	3,106	3,106	-
Fire Aid	90,000	90,000	83,721	(6,279)
Police Aid	54,500	54,500	84,506	30,006
Other Grants and Aids	-	-	390	390
Total Intergovernmental Revenue	<u>902,486</u>	<u>902,486</u>	<u>897,482</u>	<u>(5,004)</u>
Charges for Services:				
General Government	93,600	93,600	110,149	16,549
Public Safety	152,000	152,000	223,096	71,096
Public Works	61,500	61,500	62,595	1,095
Park and Recreation	5,000	5,000	-	(5,000)
Garbage and Recycling	46,000	46,000	47,761	1,761
Economic Development	3,000	3,000	3,877	877
Total Charges for Services	<u>361,100</u>	<u>361,100</u>	<u>447,478</u>	<u>86,378</u>
Fines and Forfeitures	61,000	61,000	72,243	11,243
Miscellaneous Revenues:				
Investment Income	50,000	50,000	122,141	72,141
Contributions and Donations	4,000	4,000	9,745	5,745
Other	51,000	51,000	32,510	(18,490)
Total Miscellaneous	<u>105,000</u>	<u>105,000</u>	<u>164,396</u>	<u>59,396</u>
Total Revenues	<u>3,676,149</u>	<u>3,676,149</u>	<u>4,106,081</u>	<u>429,932</u>
EXPENDITURES:				
General Government:				
Mayor and Council	34,775	34,775	38,545	(3,770)
Administrative and Finance	512,765	512,765	494,025	18,740
Other General Government	140,950	140,950	142,058	(1,108)
Capital Outlay	10,000	10,000	9,447	553
Total General Government	<u>698,490</u>	<u>698,490</u>	<u>684,075</u>	<u>14,415</u>
Public Safety:				
Police:				
Current	1,206,398	1,206,398	1,130,545	75,853
Capital Outlay	120,000	120,000	145,491	(25,491)
Total Police	<u>1,326,398</u>	<u>1,326,398</u>	<u>1,276,036</u>	<u>50,362</u>
Fire:				
Current	345,800	351,515	342,579	8,936
Capital Outlay	8,000	8,000	12,404	(4,404)
Total Fire	<u>353,800</u>	<u>359,515</u>	<u>354,983</u>	<u>4,532</u>
Other:				
Current	456,692	456,692	506,904	(50,212)
Capital Outlay	10,000	10,000	3,141	6,859
Total Other	<u>466,692</u>	<u>466,692</u>	<u>510,045</u>	<u>(43,353)</u>
Total Public Safety	<u>2,146,890</u>	<u>2,152,605</u>	<u>2,141,064</u>	<u>11,541</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, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES: (CONTINUED)				
Public Works:				
Streets and Highways:				
Street Maintenance and Storm Sewers	365,168	365,168	333,448	31,720
Street Engineering	25,000	25,000	10,945	14,055
Street Lighting	60,000	60,000	77,011	(17,011)
Street Construction Capital Outlay	20,000	75,492	70,846	4,646
Street - Other Capital Outlay	5,000	5,000	543	4,457
Total Streets and Highways	475,168	530,660	492,793	37,867
Sanitation:				
Garbage and Other Refuse				
Collection and Disposal	51,920	51,920	46,319	5,601
Total Sanitation	51,920	51,920	46,319	5,601
Total Public Works	527,088	582,580	539,112	43,468
Culture and Recreation:				
Parks and Recreation Current Expenditures	349,679	349,679	337,282	12,397
Parks and Recreation Capital Outlay	5,000	5,000	1,127	3,873
Total Park and Recreation	354,679	354,679	338,409	16,270
Economic Development:				
Economic Development Current Expenditures	201,102	201,102	213,920	(12,818)
Economic Development Capital Outlay	2,900	2,900	822	2,078
Total Economic Development	204,002	204,002	214,742	(10,740)
Total Expenditures	3,931,149	3,992,356	3,917,402	74,954
Excess of Revenues Over Expenditures	(255,000)	(316,207)	188,679	504,886
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	-	8,985	8,985
Transfers In	190,000	190,000	188,878	(1,122)
Transfers Out	-	(365,749)	(372,749)	(7,000)
Total Other Financing Sources (Uses)	190,000	(175,749)	(174,886)	863
Net Change in Fund Balances	\$ (65,000)	\$ (491,956)	13,793	\$ 505,749
FUND BALANCES:				
Beginning of Year			2,617,554	
End of Year			\$ 2,631,347	

CITY OF BIG LAKE
Sherburne County, Minnesota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2006

<u>Federal Funding Source</u>	<u>Federal CFDA Number</u>	<u>Grant Name</u>	<u>2006 Expenditures</u>
<i>Through Public Facilities Authority:</i>			
Environmental Protection Agency	66.468	Capitalization Grant for Clean Water	\$ 1,457,237
<i>Through Minnesota Department of Transportation:</i>			
National Highway Traffic Safety Administration	20.600 and 20.601	State and Community Highway Safety/Alcohol Traffic Safety and Drunk Driving Prevention	<u>26,250</u>
Total Federal Expenditures			<u>\$ 1,483,487</u>

CITY OF BIG LAKE
Sherburne County, Minnesota

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2006

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Big Lake, Minnesota, 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 general purpose financial statements.

NOTE 2 – PUBLIC FACILITIES AUTHORITY

On November 4, 2004, the City entered into an agreement with the Minnesota Public Facilities Authority for a project loan for \$ 9,787,000. The expenditures listed on the Schedule were incurred during 2006.



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

April 27, 2007

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, 2006, and have issued our report thereon dated April 27, 2007. 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 on the following page, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.



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A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings on Internal Controls as Audit Finding 04-01 and 06-01 to be significant deficiencies 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.

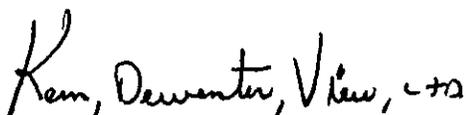
Our consideration of the internal control over financial reporting for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-01 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

We also noted certain additional matters that we reported to management of the City in a separate letter dated April 27, 2007.

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


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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**

April 27, 2007

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

COMPLIANCE

We have audited the compliance of the 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 its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the summary of auditors' 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 its major federal program 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, the City of Big Lake, Minnesota, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.



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INTERNAL CONTROL OVER COMPLIANCE

The management of the City of Big Lake, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with 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 and to test and report on the internal control over compliance in accordance with *OMB Circular A-133*.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a significant deficiency. Significant deficiencies involve matters coming to our attention related to the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grant agreements. This significant deficiency is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with *OMB Circular A-133* as item 04-1.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the City Council, 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, Viers, CTO.
KERN, DEWENTER, VIERS, 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, 2006

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 06-01
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes, Audit Finding 04-01
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes, Audit Finding 04-01
Type of auditors’ report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of <i>OMB Circular A-133</i> ?	No

Identification of Major Programs

CFDA No.:	66.468
Name of Federal Program or Cluster:	Capitalization Grants for Drinking Water State Revolving Funds
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, 2006

**SECTION II AND III – FINANCIAL STATEMENT FINDINGS AND FEDERAL
AWARD FINDINGS AND QUESTIONED COSTS**

Audit Finding 04-1

Information on the Federal Program:

CFDA No.:	66.468
Name of Federal Program or Cluster:	Capitalization Grants for State Revolving Funds

Federal Funding Source:	Environmental Protection Agency
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Pass-Through Entity:	Minnesota Department of Trade and Economic Development
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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:

The City does not have adequate segregation of accounting duties.

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.



KERN · DEWENTER · VIERE

REPORT ON LEGAL COMPLIANCE

April 27, 2007

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, 2006, and have issued our report thereon dated April 27, 2007.

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, other provisions and tax increment financing. Our study included all of the listed categories and other statutes as we considered necessary in the circumstances.

The results of our tests indicate that for the items tested, the City of Big Lake, Minnesota, 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, City Administration and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.


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

CITY OF BIG LAKE
Sherburne County, Minnesota

SCHEDULE OF FINDINGS ON INTERNAL CONTROLS
December 31, 2006

CURRENT YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiencies

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

During the year ended December 31, 2006, 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 can be demonstrated in the following areas, which is not intended to be an all inclusive list:

- The Finance Director records the entries to cash and reconciles the bank statements to the general ledger. An additional person does not review the bank reconciliation.
- The Finance Assistant enters data for payroll, posts to the general ledger and distributes payroll checks.
- The Finance Director 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.

CITY OF BIG LAKE
Sherburne County, Minnesota

SCHEDULE OF FINDINGS ON INTERNAL CONTROLS
December 31, 2006

CURRENT YEAR INTERNAL CONTROL FINDINGS:

Material Weakness

Auditing Finding 06-01 – Prior Period Adjustments

Prior period adjustments were proposed to correct prior financial statements. There were prepaid special assessments in 2005 coded to the Debt Service Fund for the project when they should have been coded to the Capital Projects Fund as it is the City's policy to record the first 20% of prepaid special assessments in the Capital Projects Fund.

There was also an adjustment needed in the Liquor Fund because the City's liquor store acquired more area of the mall than needed in 2005 so the Big Lake EDA kept a portion of the mall to lease out. The debt for that portion of the mall needed to be adjusted out of the Liquor Fund.

A debt adjustment was also needed in the Storm Sewer Fund because equipment was purchased in this Fund using proceeds from a capital equipment note that was recorded in governmental funds. The amount of debt required to pay for the equipment purchased out of the Storm Sewer Fund needed to be added to that Fund. A prior period adjustment was also made to increase governmental activities construction in progress.

The financial statements are the responsibility of the City; therefore, the City should have controls in place to properly code revenues when they are received and to properly allocate debt proceeds.