

**ANNUAL  
FINANCIAL REPORT  
OF THE  
CITY OF  
EAST BETHEL, MINNESOTA**

**For The Year Ended December 31, 2011**

**CITY OF EAST BETHEL, MINNESOTA**  
 Annual Financial Report  
 For the Year Ended December 31, 2011

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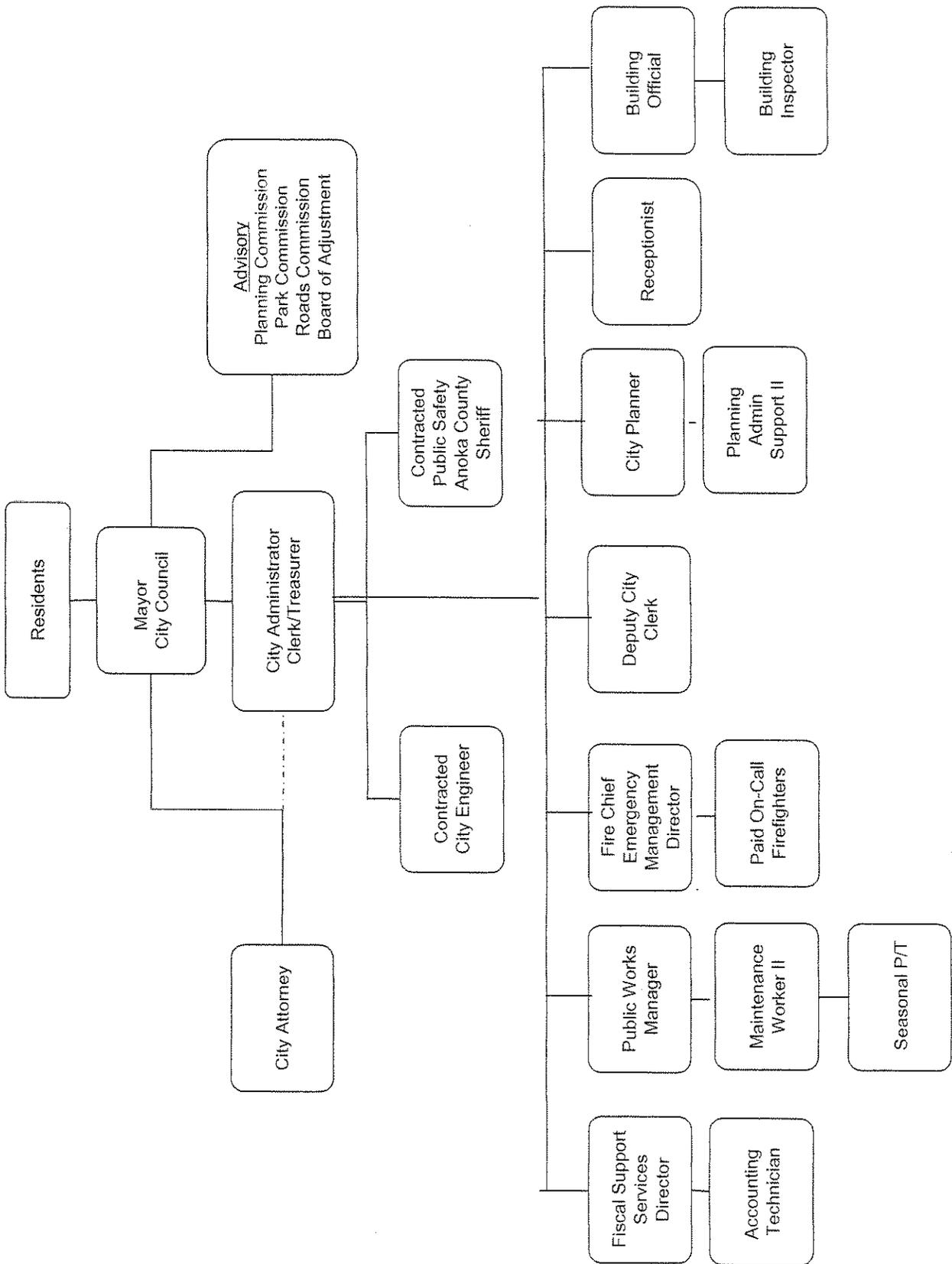
## I. INTRODUCTORY SECTION

CITY COUNCIL

	<u>Term Expires</u>
Mayor:	
Richard Lawrence	1/1/2013
Council Members:	
Bill Boyer	1/1/2013
Robert DeRouche, Jr.	1/1/2015
Heidi Moegerle	1/1/2015
Steven Voss	1/1/2013

CITY OFFICIALS

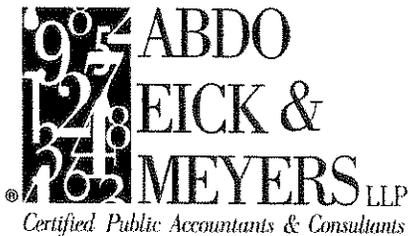
City Administrator	Jack Davis
Public Works Manager	Nate Ayshford
Fire Chief	Mark DuCharme
City Planner	Stephanie Hanson
Building Official	Larry Martin
Director of Fiscal & Support Services	Rita Pierce



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## II. FINANCIAL SECTION

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5201 Eden Avenue  
Suite 250  
Edina, MN 55436

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council  
City of East Bethel, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Bethel, Minnesota (the City), as of and for the year ended December 31, 2011, 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. The prior year comparative information has been derived from the City's 2010 financial statements and, in the prior audit dated May 23, 2011, the prior auditor expressed unqualified opinions on the respective proprietary fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 as of December 31, 2011, 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 accounting principles generally accepted in the United States of America.

As described in Note 12 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. Adoption of the provisions of this statement resulted in significant changes to the classifications of the components of fund balance.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

May 25, 2012  
Minneapolis, Minnesota

*Abdo, Eick & Meyers, LLP*

ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*

## Management's Discussion and Analysis

### MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of East Bethel, Minnesota, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2011.

#### Financial and Development Highlights

The assets of the City exceeded liabilities at the close of the most recent fiscal year by \$35,935,233 (net assets). Of this amount, \$5,913,158 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets decreased \$1,773,682. Governmental activities provided for a decrease to net assets by \$1,747,042 and the City's business-type activities provided a decrease to net assets by \$26,640.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$16,161,113, a decrease of \$4,599,031 from the prior fiscal year. Continued construction payments for water and sewer infrastructure from bond proceeds received in the prior year contributed significantly to the decrease in fund balance.

At the end of the fiscal year the General Fund had a fund balance of \$2,254,404.

#### Overview of the Financial Statements

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

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

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

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The

## Management's Discussion and Analysis

governmental activities of the City include general government, public safety, streets and highways, and parks and recreation. The business-type activities of the City include an arena, wastewater treatment and water provision.

The government-wide financial statements can be found on pages 20 and 21 of this report.

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 statement. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

For 2011, the City maintains four individual major 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 following major funds:

- General Fund
- Municipal State Aid Street Improvement Fund
- Water Infrastructure Fund
- Utility Infrastructure Fund

Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annually appropriated budget for its General Fund and many of its special revenue funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 22 through 24 of this report.

## Management's Discussion and Analysis

**Proprietary funds.** The City maintains three enterprise funds and two internal service funds of the proprietary fund type. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. Because the Internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The City uses enterprise funds to account for its water utility, sewer utility and arena 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 following funds:

Enterprise funds:

Water Utility Fund  
Sewer Utility Fund  
Ice Arena Fund

Internal Service funds:

Compensated Absences Fund  
Equipment Replacement Fund

The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 25 through 27 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 49 of this report.

**Other information.** The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary comparisons. Combining and individual fund statements and schedules can be found on pages 58 through 75 of this report.

## Management's Discussion and Analysis

### 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, assets exceeded liabilities by \$35,935,233 at the close of the most recent fiscal year.

The largest portion of the City's net assets (\$17,252,044) or 48% percent reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, sewer main lines and storm sewers, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of East Bethel, Minnesota's Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Current and other assets	\$21,395,673	\$24,781,955	\$34,072	\$31,488	\$21,429,745	\$24,813,443
Capital assets	38,351,800	35,627,606	1,488,469	1,616,075	39,840,269	37,243,681
Total assets	<u>\$59,747,473</u>	<u>\$60,409,561</u>	<u>\$1,522,541</u>	<u>\$1,647,563</u>	<u>\$61,270,014</u>	<u>\$62,057,124</u>
Long-term liabilities outstanding	\$22,684,655	\$22,935,681	\$ -	\$ -	\$22,684,655	\$22,935,681
Other liabilities	2,145,223	809,243	504,903	603,285	2,650,126	1,412,528
Total liabilities	<u>\$24,829,878</u>	<u>\$23,744,924</u>	<u>\$504,903</u>	<u>\$603,285</u>	<u>\$25,334,781</u>	<u>\$24,348,209</u>
Net assets:						
Invested in capital assets, net of related debt	\$15,763,575	\$27,845,259	\$1,488,469	\$1,616,075	\$17,252,044	\$29,461,334
Restricted	12,770,031	2,020,193	-	-	12,770,031	2,020,193
Unrestricted	6,383,989	6,799,185	(470,831)	(571,797)	5,913,158	6,227,388
Total net assets	<u>\$34,917,595</u>	<u>\$36,664,637</u>	<u>\$1,017,638</u>	<u>\$1,044,278</u>	<u>\$35,935,233</u>	<u>\$37,708,915</u>

A portion of the of the City's net assets (\$12,770,031) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$5,913,158) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for its governmental activities. The business-type activities have a deficit of unrestricted net assets.

## Management's Discussion and Analysis

### Governmental Activities

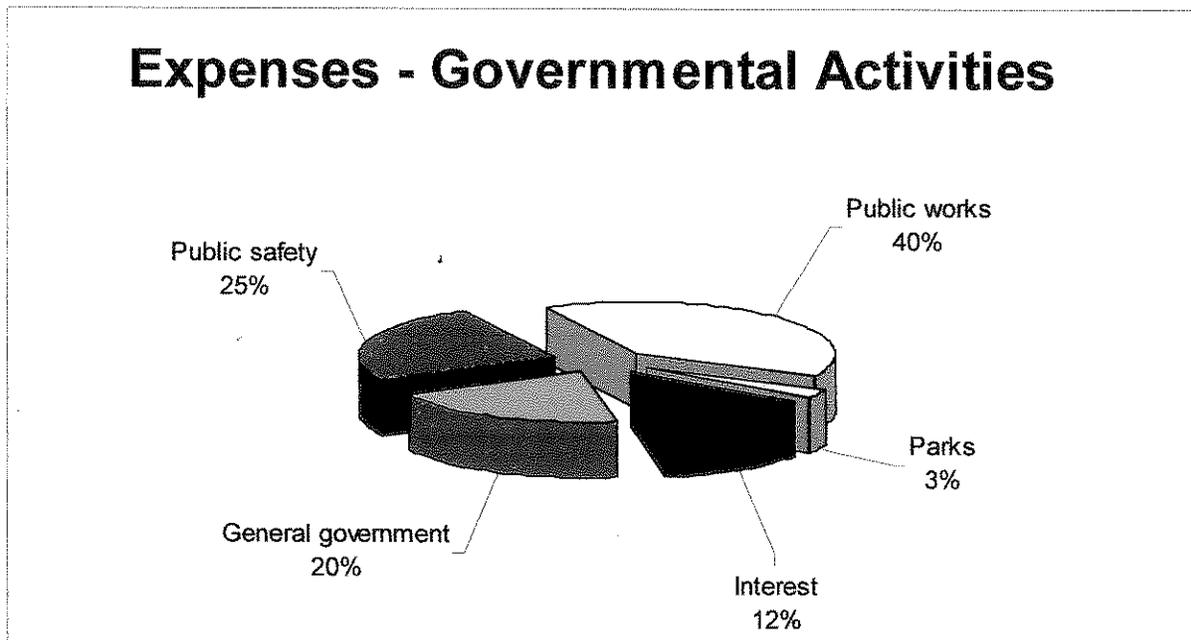
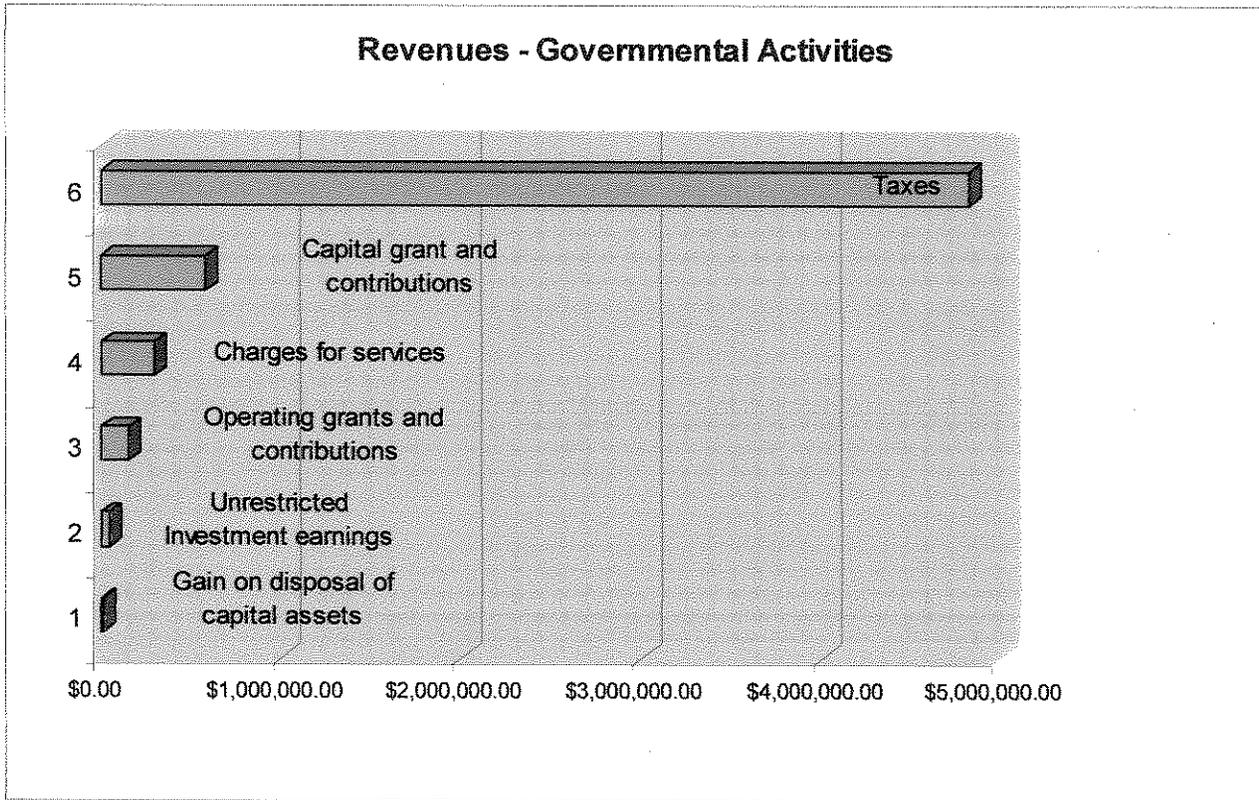
Governmental activities decreased the City's net assets by \$1,747,042. Business type net assets decreased by \$26,640. Key elements of the changes in net assets are as follows:

#### City of East Bethel's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$298,257	\$305,943	\$387,337	\$406,144	\$685,594	\$712,087
Operating grants and contributions	150,080	308,962	-	-	150,080	308,962
Capital grants and contributions	606,060	880,073	-	-	606,060	880,073
General revenues:						
Taxes	4,829,697	4,783,434	-	-	4,829,697	4,783,434
Grants & contribution not restricted to specific programs	316,820	-	-	-	316,820	-
Unrestricted investment earnings	38,584	16,461	-	-	38,584	16,461
Gain on disposal of capital assets	10,827	21,665	-	-	10,827	21,665
Total revenues	6,250,325	6,316,538	387,337	406,144	6,637,662	6,722,682
Expenses:						
General government	\$1,529,890	\$1,569,287	\$ -	\$ -	\$1,529,890	\$1,569,287
Public safety	2,033,451	1,912,099	-	-	2,033,451	1,912,099
Public works	2,942,970	2,824,624	-	-	2,942,970	2,824,624
Parks and recreation	496,101	429,332	-	-	496,101	429,332
Water	-	-	50,516	55,568	50,516	55,568
Sewer	-	-	94,161	80,651	94,161	80,651
Ice arena	-	-	269,300	293,598	269,300	293,598
Interest and fees on long-term debt	994,955	187,684	-	-	994,955	187,684
Total expenses	7,997,367	6,923,026	413,977	429,817	8,411,344	7,352,843
Increase (decrease) in net assets before transfers	(1,747,042)	(606,488)	(26,640)	(23,673)	(1,773,682)	(630,161)
Transfers	-	(370,173)	-	370,173	-	-
Increase (decrease) in net assets	(1,747,042)	(976,661)	(26,640)	346,500	(1,773,682)	(630,161)
Net assets - January 1	36,664,637	37,641,298	1,044,278	697,778	37,708,915	38,339,076
Net assets - December 31	\$34,917,595	\$36,664,637	\$1,017,638	\$1,044,278	\$35,935,233	\$37,708,915

## Management's Discussion and Analysis

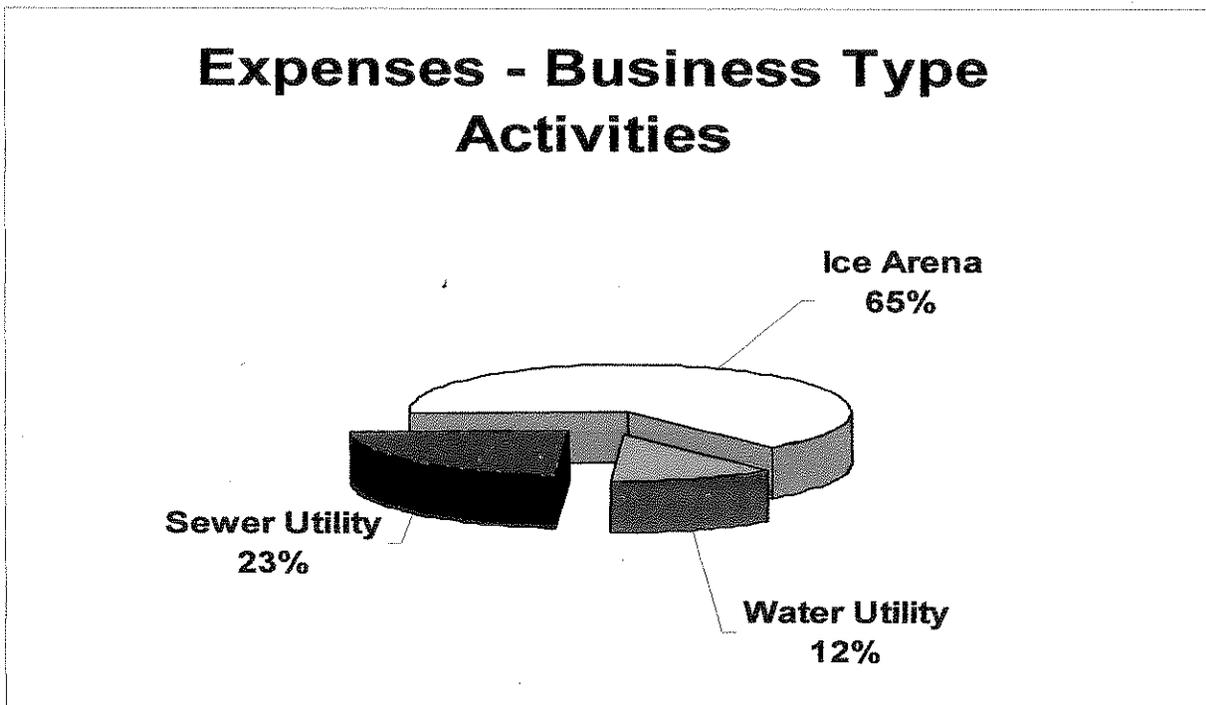
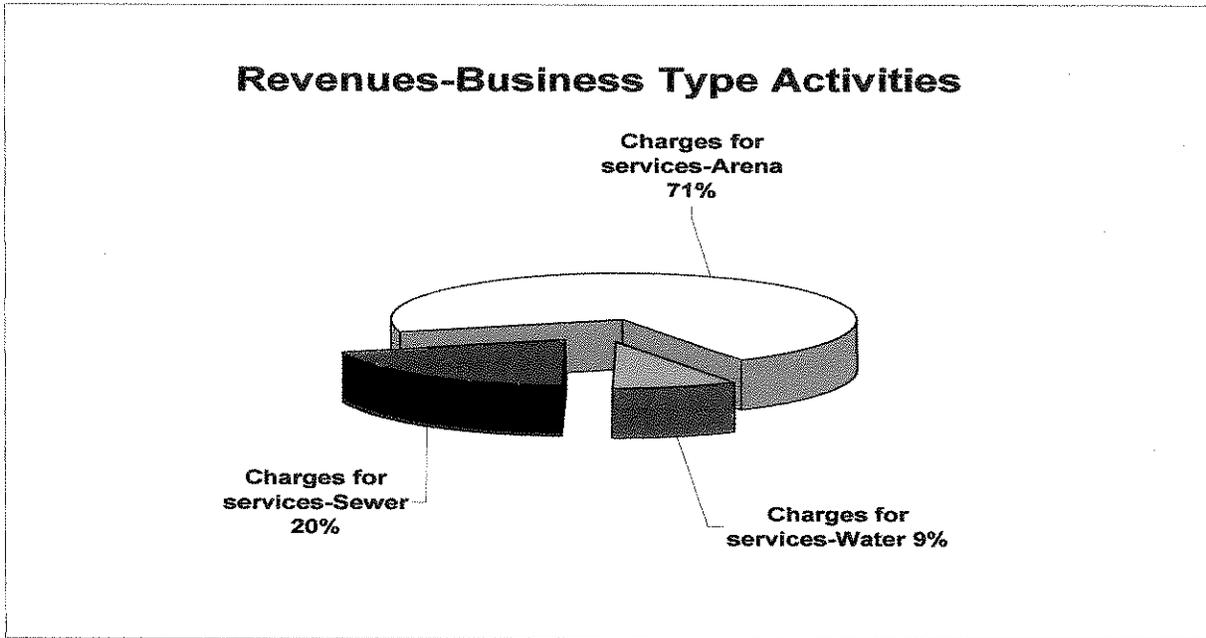
Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures:



## Management's Discussion and Analysis

### Business-Type Activities

Business-type activities decreased net assets by \$26,640 including depreciation expenses of \$127,606. The results reflect the continuing start-up mode of the City's utility services and the continuing challenges at the City's Ice Arena. Below are graphs showing the business-type activities revenue and expense comparisons:



## Management's Discussion and Analysis

### Financial Analysis of the Government's Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,161,113. Approximately 77 percent of this total amount (\$12,503,271) constitutes restricted fund balance, indicating that it is not available for new spending because it must be used only for debt retirement or other restricted purposes. The assigned fund balance (\$1,434,282) reflects the City's intended use. The unassigned fund balance is \$2,222,034.

The General Fund balance increased by \$269,655 in 2011. This was a result of the City's decision to delay any discretionary spending in light of lower revenues related to depressed building activity and lower interest earnings.

The Municipal State Aid Street Improvement Fund increased \$12,802 by receiving intergovernmental revenues that were expended in a prior year.

The Water Infrastructure Fund decreased \$2,680,018 and the Utility Construction Fund decreased \$1,953,038 due to the expending of bond proceeds received in a prior year for the construction of water and sewer infrastructure.

Nonmajor Governmental Funds decreased by \$248,432 primarily due to the interest charges on bonds.

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

The unrestricted net assets in the respective proprietary funds are water (\$109,064), sewer (\$185,188) and ice arena (\$176,579). The utility operations began in 2004; as the number of customers continue to grow, financial results will improve, as fixed costs will not increase appreciably. Unfortunately, 2011 was a year with only one new home constructed which directly affects the number of utility customers. Consequently, net assets of the utility funds did not improve. Utility rates were increased appreciably in 2010 to improve operating results. The ice arena fund had an increase in net assets in 2011 of \$5,900. The increase is due to stable revenues and the absence of major maintenance and repair charges during 2011.

### Budgetary Highlights

#### **General Fund**

The General Fund budget was amended during 2011 without any change to total expenditures or revenues. Several different areas were affected by the budget changes.

## Management's Discussion and Analysis

During the year, revenues were more than budgetary estimates by \$15,850, and expenditures were less than budgetary estimates by \$253,805. The net result was a \$269,655 increase in the General Fund. The favorable expenditure budget variance was attributable to changes in City's staffing and delaying of discretionary spending.

### Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of December 31, 2011, amounts to \$39,840,269 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, sewer main lines, water lines and wells, storm sewers, and infrastructure.

#### **East Bethel's Capital Assets (Net of Accumulated Depreciation)**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Land	\$887,546	\$887,546	\$30,000	\$30,000	\$917,546	\$917,546
Construction in progress	6,478,969	3,144,731	-	-	6,478,969	3,144,731
Buildings and structures	3,393,975	3,440,574	756,145	838,506	4,150,120	4,279,080
Machinery and equipment	1,385,402	1,332,944	-	-	1,385,402	1,332,944
Park improvements	762,908	798,486	-	-	762,908	798,486
Sewer main lines and storm sewers	1,293,154	1,358,550	-	747,569	1,293,154	2,106,119
Infrastructure	24,149,846	24,664,775	702,324	-	24,852,170	24,664,775
<b>Total capital assets</b>	<b>\$38,351,800</b>	<b>\$35,627,606</b>	<b>\$1,488,469</b>	<b>\$1,616,075</b>	<b>\$39,840,269</b>	<b>\$37,243,681</b>

Additional information on the City's capital assets can be found in Note 4.

**Long-term debt.** At the end of the current fiscal year, the City had total long-term debt outstanding of \$22,588,225 a decrease of \$254,364 from 2010.

All debt outstanding at year end is general obligation debt, which are backed by the full faith and credit of the City. Some of the general obligation bonds have specific revenue sourced pledged other than property taxes, but in the event those other sources were insufficient, the City would be required to the shortfall through property taxes.

Management's Discussion and Analysis

**City of East Bethel's Outstanding Debt**

The City's long-term debt at December 31, 2011 is as follows:

	Governmental Activities	
	12/31/2011	12/31/2010
General obligation improvement bonds	\$3,130,933	\$3,257,755
General obligation revenue bonds	19,457,292	19,584,834
Totals	<u>\$22,588,225</u>	<u>\$22,842,589</u>

Moody's Investor Services maintained the City's rating of A2 for it's most current debt issue.

State Statutes limit the amount of general obligation debt a Minnesota city may issue to 3% of total Estimated Market Value. The current debt limitation for the City is \$27,042,747. Of the City's outstanding debt, \$1,585,000 is counted within the statutory limitation.

Additional information on the City's long-term debt can be found in Note 5.

**Requests for information.** This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 2241 221<sup>st</sup> Avenue N.E., East Bethel, Minnesota 55011.

**BASIC FINANCIAL STATEMENTS**

CITY OF EAST BETHEL, MINNESOTA  
STATEMENT OF NET ASSETS  
December 31, 2011

Statement 1

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and investments	\$18,681,557	\$ -	\$18,681,557
Receivables			
Accrued Interest	19,568	-	19,568
Delinquent Taxes	272,763	-	272,763
Accounts	11,666	18,645	30,311
Special Assessments	325,868	11,747	337,615
Internal balances	455,343	(455,343)	-
Due from other governments	1,027,952	-	1,027,952
Inventory	-	3,000	3,000
Prepaid items	1,526	680	2,206
Unamortized bond issuance costs	599,430	-	599,430
Capital assets, nondepreciable	887,546	30,000	917,546
Capital assets, construction in progress	6,478,969	-	6,478,969
Capital assets, net of accumulated depreciation	30,985,285	1,458,469	32,443,754
<b>Total assets</b>	<b>59,747,473</b>	<b>1,067,198</b>	<b>60,814,671</b>
<b>Liabilities:</b>			
Accounts payable	1,817,621	27,088	1,844,709
Salaries payable	59,968	1,234	61,202
Accrued interest payable	203,314	-	203,314
Deposits payable	45,201	-	45,201
Unearned revenue	19,119	21,238	40,357
Compensated absences payable:			
Due within one year	96,430	-	96,430
Bonds payable:			
Due within one year	248,000	-	248,000
Due in more than one year	22,340,225	-	22,340,225
<b>Total liabilities</b>	<b>24,829,878</b>	<b>49,560</b>	<b>24,879,438</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	15,763,575	1,488,469	17,252,044
Restricted for:			
Water Infrastructure Construction	8,077,970	-	8,077,970
Utility Infrastructure Construction	2,349,216	-	2,349,216
Debt service	1,476,739	-	1,476,739
Recycling	20,091	-	20,091
Donations	5,556	-	5,556
Housing & Redevelopment	814,451	-	814,451
Park Development	26,008	-	26,008
Unrestricted	6,383,989	(470,831)	5,913,158
<b>Total net assets</b>	<b>\$34,917,595</b>	<b>\$1,017,638</b>	<b>\$35,935,233</b>

CITY OF EAST BETHEL, MINNESOTA  
 STATEMENT OF ACTIVITIES  
 For The Year Ended December 31, 2011

Statement 2

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
<b>Government activities:</b>							
General government	\$1,529,890	\$280,006	\$30,574	\$37,874	(\$1,181,436)	\$ -	(\$1,181,436)
Public safety	2,033,451	-	119,506	-	(1,913,945)	-	(1,913,945)
Public works	2,942,970	18,251	-	568,186	(2,356,533)	-	(2,356,533)
Parks and recreation	496,101	-	-	-	(496,101)	-	(496,101)
Interest and fees on long-term debt	994,955	-	-	-	(994,955)	-	(994,955)
Total government activities	<u>7,997,367</u>	<u>298,257</u>	<u>150,080</u>	<u>606,060</u>	<u>(6,942,970)</u>	<u>-</u>	<u>(6,942,970)</u>
<b>Business-type activities:</b>							
Water	50,516	33,014	-	-	-	(17,502)	(17,502)
Sewer	94,161	79,123	-	-	-	(15,038)	(15,038)
Ice arena	269,300	275,200	-	-	-	5,900	5,900
Total business-type activities	<u>413,977</u>	<u>387,337</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,640)</u>	<u>(26,640)</u>
Total primary government	<u>\$8,411,344</u>	<u>\$685,594</u>	<u>\$150,080</u>	<u>\$606,060</u>	<u>(6,942,970)</u>	<u>(26,640)</u>	<u>(6,969,610)</u>
<b>General revenues:</b>							
Taxes and related credits					4,829,697	-	4,829,697
Grants and contributions not restricted to specific programs					316,820	-	316,820
Unrestricted investment earnings					38,584	-	38,584
Gain on disposal of capital assets					10,827	-	10,827
Total general revenues					<u>5,195,928</u>	<u>-</u>	<u>5,195,928</u>
Change in net assets					(1,747,042)	(26,640)	(1,773,682)
Net assets - beginning					<u>36,664,637</u>	<u>1,044,278</u>	<u>37,708,915</u>
Net assets - ending					<u>\$34,917,595</u>	<u>\$1,017,638</u>	<u>\$35,935,233</u>

CITY OF EAST BETHEL, MINNESOTA  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 December 31, 2011

Statement 3

Assets	Municipal State				Other Governmental Funds	Total Governmental Funds
	General	Aid Street Improvement Fund	Water Infrastructure Fund	Utility Infrastructure Fund		
Cash and investments	\$2,426,975	\$ -	\$8,952,751	\$2,280,169	\$3,741,293	\$17,401,188
Taxes receivable	268,353	-	-	-	4,410	272,763
Special assessments receivable	5,835	-	-	-	320,033	325,868
Accounts receivable	6,496	-	-	-	1,560	8,056
Accrued interest and other receivables	205	-	12,992	4,830	1,541	19,568
Due from other funds	-	-	-	-	836	836
Due from other governments	4,105	89,248	-	854,509	80,090	1,027,952
Prepaid items	1,526	-	-	-	-	1,526
<b>Total assets</b>	<b>\$2,713,495</b>	<b>\$89,248</b>	<b>\$8,965,743</b>	<b>\$3,139,508</b>	<b>\$4,149,763</b>	<b>\$19,057,757</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts and contracts payable	\$117,508	\$1,258	\$887,773	\$790,292	\$20,790	\$1,817,621
Salaries payable	59,968	-	-	-	-	59,968
Due to other funds	-	104,947	-	-	50,555	155,502
Deposits payable	45,201	-	-	-	-	45,201
Interfund loan	-	-	-	-	240,000	240,000
Deferred revenue	236,414	-	-	-	341,938	578,352
<b>Total liabilities</b>	<b>459,091</b>	<b>106,205</b>	<b>887,773</b>	<b>790,292</b>	<b>653,283</b>	<b>2,896,644</b>
<b>Fund balances:</b>						
Nonspendable	1,526	-	-	-	-	1,526
Restricted	-	-	8,077,970	2,349,216	2,076,085	12,503,271
Assigned	-	-	-	-	1,434,282	1,434,282
Unassigned	2,252,878	(16,957)	-	-	(13,887)	2,222,034
<b>Total fund balances</b>	<b>2,254,404</b>	<b>(16,957)</b>	<b>8,077,970</b>	<b>2,349,216</b>	<b>3,496,480</b>	<b>16,161,113</b>
<b>Total liabilities and fund balances</b>	<b>\$2,713,495</b>	<b>\$89,248</b>	<b>\$8,965,743</b>	<b>\$3,139,508</b>	<b>\$4,149,763</b>	<b>\$19,057,757</b>
Fund balance reported above						\$16,161,113
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds						37,304,364
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:						
Delinquent property taxes						234,183
Special assessments not yet due or delinquent						325,050
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:						
Bonds payable						(22,300,589)
Premium on bonds						(287,636)
Unamortized bond issuance costs						599,430
Accrued interest payable						(203,314)
Internal service funds are used by management to charge the cost of compensated absences to individual funds and to set aside funds for capital equipment acquisition. The assets and liabilities are included in the governmental statement of net assets						3,084,994
<b>Net assets of governmental activities</b>						<b>\$34,917,595</b>

CITY OF EAST BETHEL, MINNESOTA  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2011

Statement 4

	General	Municipal State Aid Street Improvement Fund	Water Infrastructure Fund	Utility Infrastructure Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
General property taxes	\$4,428,762	\$ -	\$ -	\$ -	\$377,471	\$4,806,233
Special assessments	-	-	-	-	103,659	103,659
Licenses and permits	109,366	-	-	-	-	109,366
Intergovernmental	239,189	93,874	-	-	410,134	743,197
Charges for services	75,010	-	-	-	-	75,010
Fines and forfeitures	49,792	-	-	-	-	49,792
Investment income	1,586	-	18,862	7,012	6,344	33,804
Other	78,710	-	-	-	22,891	101,601
Total revenues	<u>4,982,415</u>	<u>93,874</u>	<u>18,862</u>	<u>7,012</u>	<u>920,499</u>	<u>6,022,662</u>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	1,325,655	-	-	-	76,431	1,402,086
Public safety	1,781,927	-	-	-	80,123	1,862,050
Public works	679,882	11,482	-	-	276,707	968,071
Parks and recreation	372,692	-	-	-	42,701	415,393
Capital outlay	-	69,590	2,698,880	1,960,050	125,382	4,853,902
<b>Debt service:</b>						
Principal and debt extinguishment	-	-	-	-	243,000	243,000
Interest and fiscal charges	-	-	-	-	884,827	884,827
Total expenditures	<u>4,160,156</u>	<u>81,072</u>	<u>2,698,880</u>	<u>1,960,050</u>	<u>1,729,171</u>	<u>10,629,329</u>
Revenues over (under) expenditures	<u>822,259</u>	<u>12,802</u>	<u>(2,680,018)</u>	<u>(1,953,038)</u>	<u>(808,672)</u>	<u>(4,606,667)</u>
<b>Other financing sources (uses):</b>						
Proceeds from the sale of capital assets	-	-	-	-	7,636	7,636
Transfers in	-	-	-	-	557,644	557,644
Transfers out	(552,604)	-	-	-	(5,040)	(557,644)
Total other financing sources (uses)	<u>(552,604)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>560,240</u>	<u>7,636</u>
Net change in fund balances	269,655	12,802	(2,680,018)	(1,953,038)	(248,432)	(4,599,031)
Fund balance - January 1	1,984,749	(29,759)	10,757,988	4,302,254	3,744,912	20,760,144
Fund balance - December 31	<u>\$2,254,404</u>	<u>(\$16,957)</u>	<u>\$8,077,970</u>	<u>\$2,349,216</u>	<u>\$3,496,480</u>	<u>\$16,161,113</u>

**CITY OF EAST BETHEL, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For The Year Ended December 31, 2011**

**Statement 5**

	<u>2011</u>
Amounts reported for governmental activities in the statement of activities (statement 2) are different because:	
Net changes in fund balances - total governmental funds (statement 4)	(\$4,599,031)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Depreciation	(2,230,408)
Capital outlay	4,853,902
Loss on disposal of capital assets	(3,786)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in delinquent taxes	7,980
Change in deferred and delinquent special assessments	(73,608)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
The amounts of these differences are:	
Premium on bond issued	11,364
Unamortized bond issuance costs	(25,408)
Principal payments on bonds payable	243,000
Internal service funds are used by management to charge the cost of compensated absences and certain capital assets to individual funds. The net revenue of certain activities of internal services funds are reported with governmental activities:	
Franchise fees	15,484
Investment income	4,780
Gain on sale of capital assets	4,789
Transfer - net	262,200
Consolidation of internal service fund activities with governmental activities	(122,216)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Expenses are reported in the statement of activities include the effects of the changes in these expense accruals as follows:	
Change in accrued interest payable	<u>(96,084)</u>
Change in net assets of governmental activities (statement 2)	<u><u>(\$1,747,042)</u></u>

CITY OF EAST BETHEL, MINNESOTA  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 December 31, 2011

Statement 6

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Utility	Sewer Utility	Ice Arena	Total	
<b>Assets:</b>					
<b>Current assets:</b>					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$1,280,369
Special assessments:					
Current	7,296	3,688	-	10,984	-
Delinquent	426	337	-	763	-
Accounts receivable	9,401	9,044	200	18,645	3,610
Inventory for resale	-	-	3,000	3,000	-
Due from other funds	-	-	-	-	610,009
Interfund loan	-	-	-	-	240,000
Prepaid items	-	300	380	680	-
Total current assets	<u>17,123</u>	<u>13,369</u>	<u>3,580</u>	<u>34,072</u>	<u>2,133,988</u>
<b>Noncurrent assets:</b>					
<b>Capital assets:</b>					
Land	-	-	30,000	30,000	-
Buildings and structures	-	-	1,480,690	1,480,690	-
Machinery and equipment	-	-	25,000	25,000	1,441,608
Utility infrastructure	665,847	691,511	-	1,357,358	-
Total capital assets	<u>665,847</u>	<u>691,511</u>	<u>1,535,690</u>	<u>2,893,048</u>	<u>1,441,608</u>
Less: accumulated depreciation	<u>(261,217)</u>	<u>(393,815)</u>	<u>(749,547)</u>	<u>(1,404,579)</u>	<u>(394,172)</u>
Net capital assets	<u>404,630</u>	<u>297,696</u>	<u>786,143</u>	<u>1,488,469</u>	<u>1,047,436</u>
Total noncurrent assets	<u>404,630</u>	<u>297,696</u>	<u>786,143</u>	<u>1,488,469</u>	<u>1,047,436</u>
Total assets	<u>421,753</u>	<u>311,065</u>	<u>789,723</u>	<u>1,522,541</u>	<u>3,181,424</u>
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Due to other funds	\$124,684	\$195,824	\$134,835	\$455,343	\$ -
Accounts payable	886	2,116	24,086	27,088	-
Salaries payable	617	617	-	1,234	-
Compensated absences - current portion	-	-	-	-	96,430
Deferred revenue	-	-	21,238	21,238	-
Total current liabilities	<u>126,187</u>	<u>198,557</u>	<u>180,159</u>	<u>504,903</u>	<u>96,430</u>
Total liabilities	<u>126,187</u>	<u>198,557</u>	<u>180,159</u>	<u>504,903</u>	<u>96,430</u>
<b>Net assets:</b>					
Invested in capital assets	404,630	297,696	786,143	1,488,469	1,047,436
Unrestricted	<u>(109,064)</u>	<u>(185,188)</u>	<u>(176,579)</u>	<u>(470,831)</u>	<u>2,037,558</u>
Total net assets	<u>\$295,566</u>	<u>\$112,508</u>	<u>\$609,564</u>	<u>\$1,017,638</u>	<u>\$3,084,994</u>

CITY OF EAST BETHEL, MINNESOTA  
 STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 For The Year Ended December 31, 2011

Statement 7

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Utility	Sewer Utility	Ice Arena	Total	
Operating revenues:					
Ice rentals and related revenue	\$ -	\$ -	\$204,332	\$204,332	\$ -
Rentals, signs, lockers and tower	-	-	43,286	43,286	-
Dry floor events	-	-	4,450	4,450	-
Concession revenue	-	-	16,480	16,480	-
Customer charges	33,014	79,123	-	112,137	295,812
Franchise Fees	-	-	-	-	15,484
Donations/refunds	-	-	6,652	6,652	-
Total operating revenues	<u>33,014</u>	<u>79,123</u>	<u>275,200</u>	<u>387,337</u>	<u>311,296</u>
Operating expenses:					
Wages and fringe benefits	18,560	19,445	-	38,005	33,612
Maintenance and repairs	1,722	12,260	19,894	33,876	-
Utilities	5,955	11,731	52,757	70,443	-
Professional services	95	10,703	86,398	97,196	-
Supplies	1,695	15,160	26,051	42,906	-
Other	80	1,471	1,489	3,040	-
Depreciation	22,195	23,050	82,361	127,606	122,216
Total operating expenses	<u>50,302</u>	<u>93,820</u>	<u>268,950</u>	<u>413,072</u>	<u>155,828</u>
Operating income (loss)	<u>(17,288)</u>	<u>(14,697)</u>	<u>6,250</u>	<u>(25,735)</u>	<u>155,468</u>
Nonoperating revenues (expenses):					
Sale of capital assets	-	-	-	-	4,788
Investment income	-	-	-	-	4,780
Interest expense	(214)	(341)	(350)	(905)	-
Total nonoperating revenues (expenses)	<u>(214)</u>	<u>(341)</u>	<u>(350)</u>	<u>(905)</u>	<u>9,568</u>
Change in net assets	(17,502)	(15,038)	5,900	(26,640)	165,036
Net assets - January 1	<u>313,068</u>	<u>127,546</u>	<u>603,664</u>	<u>1,044,278</u>	<u>2,919,958</u>
Net assets - December 31	<u>\$295,566</u>	<u>\$112,508</u>	<u>\$609,564</u>	<u>\$1,017,638</u>	<u>\$3,084,994</u>

CITY OF EAST BETHEL, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2011

Statement 8

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Utility	Sewer Utility	Ice Arena	Total	
Cash flows from operating activities:					
Receipts from customers and users	\$29,451	\$78,570	\$237,318	\$345,339	\$282,222
Payment to suppliers	(9,797)	(51,266)	(185,521)	(246,584)	(38,528)
Payment to employees	(18,581)	(19,466)	-	(38,047)	-
Payment to other funds	(859)	(7,497)	(58,099)	(66,455)	-
Miscellaneous revenue	-	-	6,652	6,652	-
Net cash flows from operating activities	<u>214</u>	<u>341</u>	<u>350</u>	<u>905</u>	<u>243,694</u>
Cash flows from noncapital financing activities:					
Due from other funds	-	-	-	-	118,672
Cash deposit with escrow agent	-	-	-	-	201,339
Internal interest expense	(214)	(341)	(350)	(905)	-
Net cash flows from noncapital financing activities	<u>(214)</u>	<u>(341)</u>	<u>(350)</u>	<u>(905)</u>	<u>320,011</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	-	-	-	-	(226,702)
Proceeds from sale of capital assets	-	-	-	-	4,788
Net cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(221,914)</u>
Cash flows from investing activities:					
Investment income	-	-	-	-	4,780
Net increase in cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>346,571</u>
Cash and cash equivalents - January 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>933,798</u>
Cash and cash equivalents - December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,280,369</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	<u>(\$17,288)</u>	<u>(\$14,697)</u>	<u>\$6,250</u>	<u>(\$25,735)</u>	<u>\$155,468</u>
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation expense	22,195	23,050	82,361	127,606	122,216
Change in assets and liabilities:					
Decrease (increase) in receivables and inventory	(3,563)	(553)	1,832	(2,284)	4,538
Increase in prepayments	-	(300)	-	(300)	-
Increase (decrease) in accounts payable	(250)	359	(642)	(533)	(38,528)
Decrease in salaries payable	(21)	(21)	-	(42)	-
Decrease in due to other funds	(859)	(7,497)	(58,099)	(66,455)	-
Decrease in deferred revenue	-	-	(31,352)	(31,352)	-
Total adjustments	<u>17,502</u>	<u>15,038</u>	<u>(5,900)</u>	<u>26,640</u>	<u>88,226</u>
Net cash provided by operating activities	<u>\$214</u>	<u>\$341</u>	<u>\$350</u>	<u>\$905</u>	<u>\$243,694</u>

**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of East Bethel was incorporated in 1958 and has operated under the State of Minnesota Statutory Plan A form of government since 1974. The governing body consists of a five-member council elected by voters of the City.

The financial statements of the City of East Bethel have been prepared in conformity with generally accepted accounting principles as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

**A. FINANCIAL REPORTING ENTITY**

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of East Bethel (the primary government) and its component units, entities which the City is considered to be financial accountable.

The City has two component units – the Housing and Redevelopment Authority (HRA) and the Economic Development Authority (EDA). The HRA is considered component unit because the governing board is the same as that of the City. Both the EDA and HRA are considered component units because the City is in a relationship of financial benefit with each of the entities.

The financial position and results of operations of the HRA and EDA component units are presented using the blended method. This blended component unit, although legally separate entity, is, in substance, part of the City's operations. The component units include Governmental Funds using the modified accrual basis of accounting, and as such are reported as a Special Revenue Fund. Separate financial statements for the HRA and EDA are not prepared.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or business-type activity. *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 business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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 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 government considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year 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, special assessments, intergovernmental revenues, charges for services 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 government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Municipal State Aid Street Improvement Fund* is maintained according to state statutes for the construction of municipal state aid street projects throughout the City.

The *Water Infrastructure Fund* is used to account for the bond proceeds that will be used to finance water infrastructure improvements.

The *Utility Infrastructure Fund* is used to account for the bond proceeds that will be used to finance water and sewer infrastructure improvements.

The government reports the following major proprietary funds:

The *Water Utility Fund* accounts for water service activities to operate the water utility system.

The *Sewer Utility Fund* accounts for sewer service activities to operate the sanitary sewer system.

The *Ice Arena Fund* accounts for operations of the City's ice arena.

Additionally, the City reports the following fund type:

Internal service funds are used to account for the costs associated with employees' compensated absences and to account for the funding of major equipment necessary for City operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary-fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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 government 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 transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 water, sewer, and arena 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 an allowable use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **D. BUDGETS**

Budgets are legally adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the General Fund and some special revenue funds. Budgeted expenditure appropriations lapse at year end. Debt service funds' financial activities are governed by bond covenants. Capital projects funds' expenditures are approved by the City Council before projects are undertaken.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the City because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

#### **E. LEGAL COMPLIANCE – BUDGETS**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget and makes appropriate changes.
3. Public meetings are conducted to obtain taxpayer comments.
4. The budget is legally enacted through passage of a resolution on a departmental basis for the General Fund and on a fund basis for other funds and can be expended by each department (or fund) based upon detailed budget estimates for individual expenditure accounts.

5. Interdepartmental, intradepartmental or interfund appropriations and deletions are authorized by the City Council with fund contingency reserves or additional revenues.

6. Formal budgetary integration is employed as a management control device during the year for all funds. Legal debt obligation indentures determine the appropriation level of debt service tax levies for the Debt Service Funds. Amounts annually budgeted for capital funds are consistent with the relevant five-year capital improvement program. A capital improvement program is reviewed annually by the City Council for the Capital Project Funds.

7. The legal level of budgetary control is at the department level for the General Fund and the fund level for other funds. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services; materials and supplies; contractual services; and capital outlay) within each program. All amounts over budget were approved by the City Council through the disbursement process.

8. The City Council may authorize transfer of budgeted amounts between City funds. The City Council made no supplemental budgetary appropriations throughout the year.

#### **F. CASH AND INVESTMENTS**

Cash and investment balances from all funds are pooled and invested to the extent available in authorized investments. Investment income (expense) is allocated to individual funds on the basis of the fund's equity in the cash and investment pool. The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund show as due from other funds in the advancing fund, and due to other funds in the fund with the deficit, until adequate resources are received. These interfund balances are eliminated on the government-wide financial statements. Investments are stated at fair value, based upon quoted market prices. Investment income is accrued at the balance sheet date.

For purposes of the statement of cash flows the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### **G. RECEIVABLES AND PAYABLES**

Property taxes and special assessments have been reported net of estimated uncollectible accounts. (See Note 1 H, J and M) Because utility bills are considered liens on property, no estimated uncollectible amounts are established. Uncollectible amounts are not material for other receivables and have not been reported.

#### **H. PROPERTY TAX REVENUE RECOGNITION**

The City Council annually adopts a tax levy and certifies it to the County in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the City on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The City has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The City recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the City in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 and remitted to the City the following January are shown as unremitted taxes. Taxes and credits not received at year end are classified as delinquent taxes receivable. The portion of delinquent taxes not collected by the City is fully offset by deferred revenue because they are not available to finance current expenditures.

**I. MARKET VALUE HOMESTEAD CREDIT**

Property taxes on residential agricultural homestead property (as defined by State Statutes) are partially reduced by the market value homestead credit (MVHC). This credit is paid to the City by the State in lieu of taxes levied against homestead property; it is remitted through two installments each year. Since these amounts received by the City from the State are for taxes levied, the credit is recognized as property tax revenue by the City at the time of collection. In past years, the State has chosen not to remit a portion of the MVHC back to the City. In effect, the State used City resources to fund a State tax reduction. Consequently, for the years 2003 through 2006, the City was precluded from collecting a portion of its levy amount. In 2007, the State remitted the full MVHC to the City. In 2008 the City received 50% of the credit; in 2009 the City received 28% of the credit and in 2010 and 2011 received nothing.

**J. SPECIAL ASSESSMENT REVENUE RECOGNITION**

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with State Statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties. Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale. Proceeds of sales from tax forfeit properties are allocated first to the County's costs of administering all tax forfeit properties. Pursuant to State Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City recognizes special assessment revenue in the period that the assessment roll was adopted by the City Council. Uncollectible special assessments are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments that are collected by the County by December 31 and remitted to the City the following January (unremitted taxes) are also recognized as revenue for the current year. Special assessments due to be collected in future years are classified as deferred assessments receivable. All remaining delinquent, deferred and special deferred assessments receivable in governmental funds are completely offset by deferred revenues.

**K. 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.

**L. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets, e.g., roads, bridges, 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 government as assets with an initial, individual cost of at least \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Pursuant to GASB Statement 34, in the case of the initial capitalization of general infrastructure assets, i.e., those reported by governmental activities, the City chose to include all such items regardless of their acquisition date. These assets are reported at historical cost. The City estimated historical cost for the initial reporting of these assets through backtrending - estimating the current replacement cost and utilizing an appropriate price-level index to deflate the cost to the acquisition year. As the City constructs or acquires additional infrastructure assets each period, they will be capitalized and reported at historical cost.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is capitalized to the value of the assets constructed. For the year ended December 31, 2011, no interest was capitalized in connection with construction in progress. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives and are capitalized according to the following thresholds:

<u>Assets</u>	<u>Life</u>
Miscellaneous office equipment, copiers, computer hardware, light trucks, mowers, attachments, other light equipment	5 years
Loaders, dump trucks, graders, trailers, other heavy equipment, telephone and radio systems, pumps, generators	10 years
Fire rigs, playground equipment, irrigation systems	20 years
Buildings, park shelters, fences, paved streets, sidewalks, parking lots, signs	25 years
Water trunks, mains, towers; sewer trunks, mains, lift stations; storm drainage trunks, mains, ponds	30 years

<u>Asset Category</u>	<u>Value Threshold</u>
All assets not referenced in this schedule	\$5,000
Parking lots, sidewalks, fencing, park shelters, land improvements	\$25,000
Buildings and building improvements	\$50,000
Infrastructure improvements: water, sewer, storm drainage, streets	\$100,000

#### M. COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. At year end, each employee's accrued obligation is expensed to their home department and revenue is recognized in the compensated absences internal service fund to fund the City's obligation. The compensated absences internal service fund is typically used to liquidate governmental compensated absences payable. It is assumed that these amounts will be payable only upon employees' severance from employment. Vacation and sick leave used during employees' tenure with the City is assumed to closely match the leave earned during that year. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. A liability is recognized in the internal service fund for that portion of accumulating sick leave benefits that is vested as severance pay.

#### N. LONG-TERM OBLIGATIONS

In the government-wide financial statements and proprietary funds 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 funds statement of net assets. Bond premiums and discounts, as well as issuance costs, are immaterial and are expensed in the year of bond issuance.

In the fund financial statements, governmental funds 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.

#### O. FUND BALANCE CLASSIFICATIONS

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

*Nonspendable* – consists of amounts that are not in spendable form, such as prepaid items.

*Restricted* – consists of amounts related to externally imposed constraints established by creditors, grantors or contributions; or constraints imposed by state statutory provisions.

*Committed* – consists of internally imposed constraints. These constraints are established by Resolution of the City Council.

*Assigned* – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management. Pursuant to City Council Resolution, the City Administrator is to assign fund balance that reflects the Council's intended use of those funds and approved by motion of the City Council.

*Unassigned* – is the residual classification for the General fund and also reflects negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City's policy is to maintain a minimum assigned fund balance of 35 percent of the next year's property tax levy for cash-flow timing needs.

#### **P. INTERFUND TRANSACTIONS**

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

#### **Q. USE OF ESTIMATES**

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

#### **R. INVENTORIES**

##### GOVERNMENTAL FUNDS

The original costs of materials and supplies have been recorded as expenditures at the time of purchase. These funds do not maintain material amounts of inventories.

##### PROPRIETARY FUNDS

Inventories of the Proprietary Funds are stated at cost, which approximates market, using the first-in, first-out (FIFO) valuation methodology.

#### **Note 2 DEPOSITS AND INVESTMENTS**

##### DEPOSITS

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council, all of which are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes, treasury bonds;
- b) Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- c) General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- d) Unrated general obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- e) Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; and

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 NOTES TO FINANCIAL STATEMENTS  
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f) Time deposits that are fully insured by any federal agency.

At December 31, 2011, the carrying amount of the City's deposits with financial institutions was insured by FDIC insurance or protected by collateral provided by the financial institution.

INVESTMENTS

Minnesota Statutes authorize the City to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
  - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
  - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
  - 3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptance of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

Balances at December 31, 2011:

Investment Type	Fair Value	Investment maturities (in years)		
		less than 1 year	between 1 and 5 yrs.	Between 6 and 10 yrs.
External investment pool - 4M Fund	\$18,060,234	\$18,060,234	\$ -	\$ -
		Total investments		\$18,060,234
		Deposits		620,523
		Petty cash		800
		Total cash and investments		<u>\$18,681,557</u>

Investments for the City are reported at fair market value. The Minnesota Municipal Money Market Fund (4M) operates in accordance with appropriate state laws and regulations. The 4M fund is an external pool not registered with the Securities and Exchange Commission (SEC); however, it follows the same regulatory rules of the SEC under rule 2a7. The reported value of the pool is the same as the fair value of the pool shares. Financial statement of the 4M Fund can be obtained by contacting RBC Global Asset management (U.S.) Inc. at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

## INVESTMENT RISK

The City's investment policy is to follow Minnesota State Statutes as described above which reduces the City's exposure to credit, custodial credit, and interest rate risks. Specific risk information for the City is as follows:

Interest rate risk – The City's investment policy requires the City to diversify its investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity. The policy also states the City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

Credit risk – As of December 31, 2011, the City's external investment pool investment is with the 4M fund which is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities. The 4M fund is an unrated 2a7-like pool and the fair value of the position in the pool is the same as the value of pool shares.

Concentration of credit risk – The City places no limit on the amount the City may invest in any one issuer. 97% of the City's cash and investments are with the 4M fund.

Custodial credit risk – For investments in securities, custodial credit is the risk that in the event of a failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. As of December 31, 2011, all investments of the City were insured, registered and held by City or its agent in the City's name. Investments in mutual funds are not evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk.

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**Note 3 RECEIVABLES**

Significant receivables balances not expected to be collected within one year of December 31, 2011 are as follows:

	<u>Major Fund</u>		<u>Total</u>
	<u>General</u>	<u>Nonmajor Funds</u>	
Special assessments receivable	\$ -	\$267,077	\$267,077
Delinquent property taxes receivable	109,600	-	109,600
	<u>\$109,600</u>	<u>\$267,077</u>	<u>\$376,677</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent property taxes receivable (General Fund)	\$230,579	\$ -	\$230,579
Delinquent property taxes receivable (Nonmajor Funds)	3,605	-	3,605
Delinquent special assessments (General Fund)	44	-	-
Delinquent special assessments (Nonmajor Funds)	1,921	-	1,921
Special Assessments not yet due (General fund)	5,791	-	5,791
Special Assessments not yet due (Nonmajor Funds)	317,293	-	317,293
Unearned connection fees (Nonmajor Funds)	-	19,119	19,119
Total deferred/unearned revenue for governmental funds	<u>\$559,233</u>	<u>\$19,119</u>	<u>\$578,352</u>

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**Note 4 CAPITAL ASSETS**

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the government wide statement of net assets. Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decrease	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$887,546	\$ -	\$ -	\$887,546
Construction in progress	3,144,731	4,739,749	(1,405,511)	6,478,969
Total capital assets, not being depreciated	<u>4,032,277</u>	<u>4,739,749</u>	<u>(1,405,511)</u>	<u>7,366,515</u>
Capital assets, being depreciated:				
Buildings and improvements	5,384,775	157,980	-	5,542,755
Park improvements	1,224,101	49,092	(23,222)	1,249,971
Departmental equipment	2,902,913	226,702	-	3,129,615
Streets	46,598,594	1,312,592	-	47,911,186
Storm sewers	2,012,144	-	-	2,012,144
Total capital assets, being depreciated	<u>58,122,527</u>	<u>1,746,366</u>	<u>(23,222)</u>	<u>59,845,671</u>
Less accumulated depreciation for:				
Buildings and improvements	1,944,201	204,579	-	2,148,780
Park improvements	425,615	61,448	-	487,063
Departmental equipment	1,569,969	193,680	(19,436)	1,744,213
Streets	21,933,819	1,827,521	-	23,761,340
Storm sewers	653,594	65,396	-	718,990
Total accumulated depreciation	<u>26,527,198</u>	<u>2,352,624</u>	<u>(19,436)</u>	<u>28,860,386</u>
Total capital assets being depreciated - net	<u>31,595,329</u>	<u>(606,258)</u>	<u>(3,786)</u>	<u>30,985,285</u>
Governmental activities capital assets - net	<u>\$35,627,606</u>	<u>\$4,133,491</u>	<u>(\$1,409,297)</u>	<u>\$38,351,800</u>

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	Beginning Balance	Increases	Decrease	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$30,000	\$ -	\$ -	\$30,000
Total capital assets, not being depreciated	30,000	-	-	30,000
Capital assets, being depreciated:				
Buildings and improvements	1,480,690	-	-	1,480,690
Department equipment	25,000	-	-	25,000
Utility infrastructure	1,357,358	-	-	1,357,358
Total capital assets, being depreciated	2,492,875	-	-	2,863,048
Less accumulated depreciation for:				
Buildings and improvements	642,184	82,361	-	724,545
Department equipment	25,000	-	-	25,000
Utility infrastructure	609,789	45,245	-	655,034
Total accumulated depreciation	1,276,973	127,606	-	1,404,579
Total capital assets being depreciated - net	1,828,642	(127,606)	-	1,458,469
Business-type activities capital assets - net	\$1,488,775	(\$127,606)	\$ -	\$1,488,469

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

Governmental activities:	
General government	\$ 127,804
Public safety	133,203
Public works	1,877,288
Parks and recreation	92,113
Depreciation on capital assets held by governmental internal service activities charged to each function based on use	122,216
Total depreciation expense – governmental activities	<u>\$2,352,624</u>

Business-type activities:	
Water utility	\$ 22,195
Sewer utility	23,050
Arena	82,361
Total depreciation expense - business-type activities	<u>\$ 127,606</u>

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**Note 5 LONG-TERM DEBT**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital items. All of the reporting entity's long-term debt is to be repaid from governmental activities.

**A. GOVERNMENTAL ACTIVITIES**

	Issue Date	Maturity Date	Interest Rate	Original Issue	Payable 12/31/11
Governmental Activities:					
2005A Public Safety Bonds	9/15/2005	2/1/2026	2.95 - 4.30%	\$1,900,000	\$1,585,000
2005B GO Improvement Bonds	9/15/2005	2/1/2016	2.95 - 3.80%	495,000	275,000
2010C Taxable GO Bonds	12/15/2010	2/1/2017	3.20 - 3.45%	1,260,000	1,260,000
Total GO Improvement Bonds				3,655,000	3,120,000
2008A GO Sewer Revenue Bonds	5/1/2008	2/1/2029	3.00 - 4.70%	1,715,000	1,550,000
2010 GO Water Revenue Note	2/17/2010	8/20/2029	1.00%	69,190	65,589
2010A Taxable GO Water Revenue Bonds	12/15/2010	2/1/2040	4.50 - 7.00%	11,465,000	11,465,000
2010B Taxable GO Utility Revenue Bonds	12/15/2010	2/1/2040	3.10 - 7.00%	6,100,000	6,100,000
Total GO Revenue Bonds				19,349,190	19,180,589
Total Bonds Payables				23,004,190	22,300,589
Bond Issuance Premium				299,000	287,636
Total City Indebtedness				\$23,303,190	\$22,588,225

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities			
	GO Improvement Bonds		GO Revenue Bonds & Notes	
	Principal	Interest	Principal	Interest
2012	\$125,000	\$112,390	\$123,000	\$1,199,801
2013	135,000	107,902	148,000	1,195,615
2014	140,000	103,020	153,000	1,190,791
2015	140,000	97,910	158,000	1,185,805
2016	845,000	81,350	228,000	1,179,498
2017-2021	1,085,000	200,078	1,959,000	5,701,662
2022-2026	650,000	71,063	2,045,000	5,210,010
2027-2031	-	-	3,711,589	4,342,924
2032-2036	-	-	5,600,000	2,746,031
2037-2040	-	-	5,055,000	725,375
Total	\$3,120,000	\$773,713	\$19,180,589	\$24,677,512

**CITY OF EAST BETHEL, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**B. CHANGE IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
GO improvement bonds	\$3,245,000	\$ -	\$125,000	\$3,120,000	\$125,000
GO revenue bonds & notes	19,298,589	-	118,000	19,180,589	123,000
Deferred amount:					
Issuance premium	299,000	-	11,364	287,636	-
Total bonds payable	22,842,589	-	254,364	22,588,225	248,000
Compensated absences	134,958	72,010	110,538	96,430	96,430
Total governmental activity long-term debt	<u>\$22,977,547</u>	<u>\$72,010</u>	<u>\$364,902</u>	<u>\$22,684,655</u>	<u>\$344,430</u>

**C. REVENUES PLEDGED**

Bond Issue	Use of Proceeds	Revenue Pledged			Remaining Principal and Interest	Current Year	
		Type	Percent of Total Debt Service	Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
G.O. Improvement, 2005B	Street improvements	Special assessments	100%	2006-2015	\$301,070	\$60,745	\$61,498
G.O. Sewer Revenue, 2008A	Acquisition of Sewer System	Utility Revenues	86%	2009-2028	\$1,891,690	\$174,035	\$19,000
		Special assessments	14%				
G.O. Water Revenue Note, 2010	Infrastructure improvements	Utility Revenues	100%	2010-2029	\$72,145	\$3,653	\$5,040
G.O. Water Revenue, 2010A (Recovery Zone Economic Development Bonds)	Infrastructure improvements	Utility Revenues	70%	2012-2040	\$28,501,563	\$481,551	\$216,698
		Federal credit	27%				
G.O. Utility Revenue, 2010B (Build America Bonds)	Infrastructure improvements	Utility Revenues	80%	2012-2040	\$13,392,701	\$236,398	\$82,739
		Federal credit	17%				
G.O., 2010C	Infrastructure improvements	Utility Revenues	88%	2013-2017	\$1,467,288	\$26,199	\$ -

**Note 6 DEFINED BENEFIT PENSION PLANS-STATEWIDE**

**A. Plan Description**

All full-time and certain part-time employees of the City of East Bethel are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the 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, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and GERF 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 members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.60% of their annual covered salary in 2011. PECSF members are required to contribute 5.83% of their annual covered salary. In 2011, the City of East Bethel was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members, 7.25% for Coordinated Plan GERS members, and 14.40% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$79,085.52, \$85,451.77, and \$85,856.77, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**C. PENSION PLAN – EAST BETHEL FIRE DEPARTMENT RELIEF ASSOCIATION**

PLAN DESCRIPTION

The City contributes to the East Bethel Fire Department Relief Association (the Association) which is the administrator of a single employer retirement system to provide a defined benefit retirement plan (the Plan) to paid on-call firefighters of the City who are members of the Association. The Association issues a financial report which is available at City offices.

FUNDING POLICY

Minnesota Statutes Chapter 69.772 set the minimum contribution requirement for the City and State Aid on an annual basis. These statutes are established and amended by the state legislature. The Association is comprised of paid on-call City employees; therefore, members have no contribution requirements. The City receives the State aid contribution and is required by state statutes to pass this through as payment to the Association. This transaction, in the amount of \$39,383, is recorded as a revenue and an expenditure in the City's financial statements. A mandatory City contribution for \$28,315, as required by state statutes, was made in 2011. The City's annual pension cost for the current year and relation information for the plan is as follows:

Annual pension cost	\$67,698
Contributions Made:	
State Aid	\$39,383
City Contribution	\$28,315
Actuarial valuation date	12/31/2010
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period:	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market

CITY OF EAST BETHEL, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2011

Actuarial assumptions:

Investment rate of return	5%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

**Three Year Trend Information**

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2009	40,103	100%	\$ -
12/31/2010	79,206	100%	\$ -
12/31/2011	67,698	100%	\$ -

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Assets in Excess of (Unfunded) Accrued Liability</u>	<u>Funded Ratio</u>	<u>Pension Benefit Per year of Service</u>
12/31/2009	\$944,452	975,280	(30,828)	96.84%	3,400
12/31/2010	\$1,141,265	1,022,064	119,201	111.66%	3,400
12/31/2011	<i>Unavailable</i>				

**Note 7 INTERFUND RECEIVABLES, PAYABLES, TRANSFERS AND LOANS**

Interfund payables and receivables are representative of lending/borrowing arrangements to cover deficit cash balances at the end of the fiscal year. Interfund receivables and payables of the City are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Due From/Due To:		
Major Funds:		
Municipal State Aid Street Improvement	\$ -	\$104,947
Nonmajor Governmental Funds:		
Special Revenue Funds		
SAFER Grant Fund	-	36,046
Housing & Redevelopment Fund	836	-
Economic Development Fund	-	836
Capital Project Fund:		
Improvements of 2003 Fund	-	13,673
Proprietary Funds:		
Water	-	124,684
Sewer	-	195,824
Ice Arena	-	134,835
Internal Service Fund:		
Equipment Replacement	610,009	-
	<u>\$610,845</u>	<u>\$610,845</u>

Interfund transfers allow the City to allocate financial resources between funds. Interfund transfers were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Activities:		
Governmental funds		
Major Funds		
General Fund	\$ -	\$552,604
Nonmajor Funds	557,664	5,040
Total governmental funds	557,664	557,644
Total governmental activities	557,664	557,644
Total interfund transfers	<u>\$557,664</u>	<u>\$557,644</u>

On December 31, 2011, one interfund loan is outstanding. In 2010, the 2010A Revenue Bond Fund and the 2010B Utility Revenue Bond Fund borrowed \$150,361 and \$89,639, respectively from the Equipment Replacement Fund to finance bond issuance costs. In accordance with Resolution 2010-74, the loan will be paid back in 10 years with future utility revenues. No interest will be charged.

**Note 8 DEFICIT FUND BALANCES/NET ASSETS**

The City has deficit fund balances/net assets at December 31, 2011 as follows:

<u>Fund</u>	<u>Amount</u>
Governmental activities:	
Municipal State Aid Street Improvement Fund	\$16,957
Economic Development Authority Fund	956
Improvements of 2003 Fund	12,931

**Note 9 CONTINGENCIES**

**A. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. For workers compensation, the City has no deductible. The City has selected the regular premium option for its coverage. Under this option, the City's premium is calculated based on City payroll, by class. The premium is adjusted by an experience modification factor, which reflects the City's previous loss experience. This option is a "fully insured" option; premium payments are the City's only liability. Property, casualty, and automobile insurance coverage are also provided through a pooled self insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the deductible portions. These deductibles are considered immaterial to the financial statements. The City continues to carry commercial insurance for all other risks of loss, including employee health and disability insurance. 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.

**B. LITIGATION**

The City attorney has indicated that existing and pending lawsuits, claims and other actions in which the City is a defendant are either covered by insurance; of an immaterial amount; or, in the judgment of the City attorney, remotely recoverable by plaintiffs.

**C. FEDERAL AND STATE FUNDS**

The City receives financial assistance from county and state governmental agencies primarily in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the City at December 31, 2011.

**D. CONSTRUCTION COMMITMENTS**

At December 31, 2011, the City was committed under various contracts related to the construction of water and sewer infrastructure. Total contract price is approximately \$13.5 million, with the remaining commitment being approximately \$6.3 million. The project is financed by General Obligation Recovery Zone Economic Development Bonds and Build America Bonds.

**Note 10 DEFERRED AD VALOREM TAX LEVIES - BONDED DEBT**

General obligation bond issues sold by the City are financed by ad valorem tax levies and special assessment bond issues sold by the City are partially financed by ad valorem tax levies in addition to special assessments levied against the benefiting properties. When a bond issue to be financed partially or completely by ad valorem tax levies is sold, specific annual amounts of such tax levies are stated in the bond resolution and the County Auditor is notified and instructed to levy these taxes over the appropriate years. The future tax levies are subject to cancellation when and if the City has provided alternative sources of financing. The City Council is required to levy any additional taxes found necessary for full payment of principal and interest. These future scheduled tax levies are not shown as assets in the accompanying financial statements at December 31, 2011. Future scheduled tax levies for all bonds outstanding at December 31, 2011 totaled \$2,174,440.

**Note 11 POST EMPLOYMENT BENEFITS**

In accordance with State Statute, the City provides the opportunity for retired employees to maintain insurance coverage with the City until age 65. The retired employee is responsible for 100% of the cost. The City does not pool insurance costs among employees; all insurance premiums are age-rated. No cross subsidy exists between different age groupings. Consequently, the City has no liability for post employment benefits. No reporting activity is necessary for the City with regard to GASB Statement No. 43 *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* or GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension Plans*.

CITY OF EAST BETHEL, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2011

**Note 12 COMPONENTS OF FUND BALANCE**

At December 31, 2011, portions of the city's fund balance are not available for appropriation because amounts are not in spendable form (Nonspendable), are not available due to legal restrictions (Restricted), City Council policy and /or intent (Assigned). The following is a summary of the components of fund balance:

	General Fund	Water Infrastructure Fund	Utility Infrastructure Fund	Other Governmental Funds	Total
Fund Balances:					
Nonspendable:					
Prepayments	\$1,526	\$ -	\$ -	\$ -	\$1,526
Total Nonspendable	<u>\$1,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,526</u>
Restricted:					
Water Infrastructure Construction	\$ -	\$8,077,970	\$2,349,216	\$ -	\$10,427,186
Utility Infrastructure Construction	-	-	-	-	-
Debt Service Fund	-	-	-	1,213,584	1,213,584
Recycling	-	-	-	20,091	20,091
Donations	-	-	-	5,556	5,556
Housing and Redevelopment Authority	-	-	-	810,846	810,846
Park Development	-	-	-	26,008	26,008
Total Restricted	<u>\$ -</u>	<u>\$8,077,970</u>	<u>\$2,349,216</u>	<u>\$2,076,085</u>	<u>\$12,503,271</u>
Assigned to:					
Park Capital Projects	\$ -	\$ -	\$ -	\$156,792	\$156,792
Street Capital Projects	-	-	-	1,236,919	1,236,919
Other Capital Projects	-	-	-	40,571	40,571
Total Assigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,434,282</u>	<u>\$1,434,282</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF EAST BETHEL, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended December 31, 2011

Statement 9

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	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Taxes	\$4,440,848	\$4,440,848	\$4,428,762	(\$12,086)
Licenses and permits	117,550	117,550	109,366	(8,184)
Intergovernmental:				
Other aid	213,757	213,757	239,189	25,432
Charges for services	55,810	55,810	75,010	19,200
Fines and forfeitures	58,100	58,100	49,792	(8,308)
Investment income	10,000	10,000	1,586	(8,414)
Franchise fees	32,000	32,000	37,874	5,874
Refunds and reimbursements	38,500	38,500	40,836	2,336
Total revenue	<u>4,966,565</u>	<u>4,966,565</u>	<u>4,982,415</u>	<u>15,850</u>
Expenditures:				
General government:				
Mayor and council:				
Current:				
Personal services	33,516	33,516	31,701	1,815
Other charges	46,533	46,533	45,210	1,323
Total mayor and council	<u>80,049</u>	<u>80,049</u>	<u>76,911</u>	<u>3,138</u>
Elections:				
Current:				
Materials and supplies	25	25	-	25
Planning and zoning:				
Current:				
Personal services	190,065	190,065	186,251	3,814
Materials and supplies	150	150	409	(259)
Contractual services	18,393	18,393	14,858	3,535
Total planning and zoning	<u>208,608</u>	<u>208,608</u>	<u>201,518</u>	<u>7,090</u>
Administration/support:				
Current:				
Personal services	590,513	569,513	564,972	4,541
Materials and supplies	800	1,800	1,158	642
Contractual services	33,795	33,795	30,007	3,788
Total administration/support	<u>625,108</u>	<u>605,108</u>	<u>596,137</u>	<u>8,971</u>

CITY OF EAST BETHEL, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended December 31, 2011

Statement 9

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	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures: (continued)				
General government buildings:				
Current:				
Materials and supplies	\$4,200	\$4,200	\$2,972	\$1,228
Contractual services	45,200	45,200	31,091	14,109
Total general government buildings	<u>49,400</u>	<u>49,400</u>	<u>34,063</u>	<u>15,337</u>
Miscellaneous:				
Current:				
Contractual services	238,000	258,000	235,331	22,669
Total general government	<u>1,201,190</u>	<u>1,201,190</u>	<u>1,143,960</u>	<u>57,230</u>
Public safety:				
Fire protection:				
Current:				
Personal services	314,598	314,598	300,357	14,241
Materials and supplies	33,975	33,975	33,819	156
Contractual services	192,800	192,800	179,156	13,644
Total current	<u>541,373</u>	<u>541,373</u>	<u>513,332</u>	<u>28,041</u>
Capital outlay	10,000	10,000	-	10,000
Total fire protection	<u>551,373</u>	<u>551,373</u>	<u>513,332</u>	<u>38,041</u>
Police protection:				
Current:				
Contractual services	1,037,218	1,037,218	1,036,087	1,131
Building inspection:				
Current:				
Personal services	256,811	256,811	223,075	33,736
Materials and supplies	2,750	2,750	4,555	(1,805)
Contractual services	5,505	5,505	4,878	627
Total building inspection	<u>265,066</u>	<u>265,066</u>	<u>232,508</u>	<u>32,558</u>
Total public safety	<u>1,853,657</u>	<u>1,853,657</u>	<u>1,781,927</u>	<u>71,730</u>

CITY OF EAST BETHEL, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended December 31, 2011

Statement 9

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	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures: (continued)				
Public works:				
Street maintenance:				
Current:				
Personal services	\$407,204	\$407,204	\$339,196	\$68,008
Materials and supplies	122,397	122,397	122,915	(518)
Contractual services	235,180	235,180	217,771	17,409
Total street maintenance	<u>764,781</u>	<u>764,781</u>	<u>679,882</u>	<u>84,899</u>
Parks and recreation:				
Current:				
Personal services	293,008	293,008	279,120	13,888
Materials and supplies	39,700	39,700	36,986	2,714
Contractual services	68,090	68,090	56,586	11,504
Total parks and recreation	<u>400,798</u>	<u>400,798</u>	<u>372,692</u>	<u>28,106</u>
Miscellaneous				
Current:				
Materials and supplies	9,500	9,500	9,759	(259)
Contractual services	184,035	184,035	171,936	12,099
Total miscellaneous expenditures	<u>193,535</u>	<u>193,535</u>	<u>181,695</u>	<u>11,840</u>
Total expenditures	<u>4,413,961</u>	<u>4,413,961</u>	<u>4,160,156</u>	<u>253,805</u>
Revenue over expenditures	552,604	552,604	822,259	269,655
Other financing uses:				
Transfers out	<u>(552,604)</u>	<u>(552,604)</u>	<u>(552,604)</u>	<u>-</u>
Net increase in fund balance	<u>\$ -</u>	<u>\$ -</u>	269,655	<u>\$269,655</u>
Fund balance - January 1			<u>1,984,749</u>	
Fund balance - December 31			<u>\$2,254,404</u>	

**Note 1 BUDGETARY REPORTING**

**A. The Schedule**

The budgetary comparison schedule presents the comparison of the original and legally amended budget with actual amounts on a departmental level for the General Fund. The departmental level budgets are adopted on a basis with generally accepted accounting principles.

**B. Summary of Significant Budget Procedures**

The City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. The City Council reviews the proposed budget and makes appropriate changes. Public meetings are conducted to obtain taxpayer comments. Minnesota State Law requires that the preliminary budget and proposed tax levy be approved by the City Council prior to September 15 of each year. State statutes require the preliminary property and proposed tax levy be certified to the County Auditor by September 15. Once the City adopts the proposed tax levy, the final tax levy can be decreased, but not increased, over the certified proposed tax levy. The City Council is required to adopt the final tax levy and submit the levy to the County Auditor by December 28. The budget is legally enacted through passage of a resolution on a departmental basis for the General Fund.

**C. Budget Amendments**

Interdepartmental, intradepartmental or interfund appropriations and deletions are authorized by the City Council with fund contingency reserves or additional revenues. The City Council may authorize transfer of budgeted amounts between City funds. The City Council made no supplemental budgetary appropriations throughout the year.

**D. Budgetary Compliance**

The legal level of budgetary control is at the department level for the General Fund. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services; materials and supplies; contractual services; and capital outlay) within each program. All amounts over budget were approved by the City Council through the disbursement process.

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**COMBINING AND INDIVIDUAL FUND STATEMENTS AND  
SCHEDULES OF NONMAJOR GOVERNMENTAL FUNDS**

CITY OF EAST BETHEL, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 December 31, 2011

Statement 10

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<b>Assets:</b>				
Cash and investments	\$811,246	\$1,452,121	\$1,477,926	\$3,741,293
Taxes receivable	4,410	-	-	4,410
Accounts receivable	-	-	1,560	1,560
Due from other funds	836	-	-	836
Due from other governments	80,090	-	-	80,090
Special assessments receivable	-	263,155	56,878	320,033
Accrued interest and other receivables	-	1,541	-	1,541
<b>Total assets</b>	<b>\$896,582</b>	<b>\$1,716,817</b>	<b>\$1,536,364</b>	<b>\$4,149,763</b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts and contracts payable	\$20,558	\$78	\$154	\$20,790
Due to other funds	36,882	-	13,673	50,555
Interfund loan	-	240,000	-	240,000
Deferred revenue	3,605	263,155	75,178	341,938
<b>Total liabilities</b>	<b>61,045</b>	<b>503,233</b>	<b>89,005</b>	<b>653,283</b>
<b>Fund balances:</b>				
Restricted	836,493	1,213,584	26,008	2,076,085
Assigned	-	-	1,434,282	1,434,282
Unassigned	(956)	-	(12,931)	(13,887)
<b>Total fund balances</b>	<b>835,537</b>	<b>1,213,584</b>	<b>1,447,359</b>	<b>3,496,480</b>
<b>Total liabilities and fund balances</b>	<b>\$896,582</b>	<b>\$1,716,817</b>	<b>\$1,536,364</b>	<b>\$4,149,763</b>

CITY OF EAST BETHEL, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 NONMAJOR GOVERNMENTAL FUNDS  
 For The Year Ended December 31, 2011

Statement 11

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
Revenues:				
General property taxes	\$123,215	\$254,256	\$ -	\$377,471
Special assessments	-	79,990	23,669	103,659
Intergovernmental	110,697	299,437	-	410,134
Investment income	1,227	2,878	2,239	6,344
Other	5,002	-	17,889	22,891
Total revenues	<u>240,141</u>	<u>636,561</u>	<u>43,797</u>	<u>920,499</u>
Expenditures:				
Current:				
General government	52,036	-	24,395	76,431
Public safety	80,123	-	-	80,123
Public works	-	-	276,707	276,707
Parks and recreation	-	-	42,701	42,701
Capital outlay	-	-	125,382	125,382
Debt service:				
Principal and debt extinguishment	-	243,000	-	243,000
Interest and fiscal charges	-	884,788	39	884,827
Total expenditures	<u>132,159</u>	<u>1,127,788</u>	<u>469,224</u>	<u>1,729,171</u>
Revenues over (under) expenditures	<u>107,982</u>	<u>(491,227)</u>	<u>(425,427)</u>	<u>(808,672)</u>
Other financing sources (uses):				
Proceeds from the sale of capital assets	-	-	7,636	7,636
Transfers in	-	5,040	552,604	557,644
Transfers out	-	-	(5,040)	(5,040)
Total other financing sources (uses)	<u>-</u>	<u>5,040</u>	<u>555,200</u>	<u>560,240</u>
Net change in fund balances	107,982	(486,187)	129,773	(248,432)
Fund balance - January 1	<u>727,555</u>	<u>1,699,771</u>	<u>1,317,586</u>	<u>3,744,912</u>
Fund balance - December 31	<u><u>\$835,537</u></u>	<u><u>\$1,213,584</u></u>	<u><u>\$1,447,359</u></u>	<u><u>\$3,496,480</u></u>

CITY OF EAST BETHEL, MINNESOTA  
 SUBCOMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 December 31, 2011

Statement 12

Assets	Recycling Fund	Miscellaneous Grants/ Donations Fund	SAFER Grant Fund	HRA Fund	EDA Fund	Totals Nonmajor Special Revenue Funds
Cash and investments	\$4,963	\$5,556	\$ -	\$800,727	\$ -	\$811,246
Taxes receivable	-	-	-	4,410	-	4,410
Due from other funds	-	-	-	836	-	836
Due from other governments	15,982	-	55,630	8,478	-	80,090
Total assets	<u>\$20,945</u>	<u>\$5,556</u>	<u>\$55,630</u>	<u>\$814,451</u>	<u>\$ -</u>	<u>\$896,582</u>
Liabilities and Fund Balance						
Liabilities:						
Accounts and contracts payable	\$854	\$ -	\$19,584	\$ -	\$120	\$20,558
Due to other funds	-	-	36,046	-	836	36,882
Deferred revenue	-	-	-	3,605	-	3,605
Total liabilities	<u>854</u>	<u>-</u>	<u>55,630</u>	<u>3,605</u>	<u>956</u>	<u>61,045</u>
Fund balances:						
Restricted	20,091	5,556	-	810,846	-	836,493
Unassigned	-	-	-	-	(956)	(956)
Total fund balances	<u>20,091</u>	<u>5,556</u>	<u>-</u>	<u>810,846</u>	<u>(956)</u>	<u>835,537</u>
Total liabilities and fund balances	<u>\$20,945</u>	<u>\$5,556</u>	<u>\$55,630</u>	<u>\$814,451</u>	<u>\$ -</u>	<u>\$896,582</u>

CITY OF EAST BETHEL, MINNESOTA  
 SUBCOMBINING STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCE  
 NONMAJOR SPECIAL REVENUE FUNDS  
 For The Year Ended December 31, 2011

Statement 13

	Recycling Fund	Miscellaneous Grants/ Donations Fund	SAFER Grant Fund	HRA Fund	EDA Fund	Totals Nonmajor Special Revenue Funds
Revenues:						
Taxes	\$ -	\$ -	\$ -	\$123,215	\$ -	\$123,215
Intergovernmental	30,574	-	80,123	-	-	110,697
Interest income	-	-	-	1,227	-	1,227
Other	3,052	1,950	-	-	-	5,002
Total revenues	<u>33,626</u>	<u>1,950</u>	<u>80,123</u>	<u>124,442</u>	<u>-</u>	<u>240,141</u>
Expenditures:						
Current:						
General government	25,428	980	-	24,672	956	52,036
Public safety	-	-	80,123	-	-	80,123
Total expenditures	<u>25,428</u>	<u>980</u>	<u>80,123</u>	<u>24,672</u>	<u>956</u>	<u>132,159</u>
Net change in fund balances	8,198	970	-	99,770	(956)	107,982
Fund balance - January 1	<u>11,893</u>	<u>4,586</u>	<u>-</u>	<u>711,076</u>	<u>-</u>	<u>727,555</u>
Fund balance - December 31	<u>\$20,091</u>	<u>\$5,556</u>	<u>\$ -</u>	<u>\$810,846</u>	<u>(\$956)</u>	<u>\$835,537</u>

CITY OF EAST BETHEL, MINNESOTA  
 SUBCOMBINING BALANCE SHEET  
 NONMAJOR DEBT SERVICE FUNDS  
 December 31, 2011

Assets:	2005 Public Safety Bonds Fund	2005B Street Improvement Debt Fund	2008A Sewer Revenue Bond Fund
Cash and investments	\$165,559	\$333,546	\$712
Special assessments receivable:			
Deferred	-	93,155	170,000
Accrued interest receivable	-	-	-
Total assets	<u>\$165,559</u>	<u>\$426,701</u>	<u>\$170,712</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ -	\$39	\$39
Internal loan	-	-	-
Deferred revenue	-	93,155	170,000
Total liabilities	<u>-</u>	<u>93,194</u>	<u>170,039</u>
Fund balances:			
Restricted	<u>165,559</u>	<u>333,507</u>	<u>673</u>
Total liabilities and fund balances	<u>\$165,559</u>	<u>\$426,701</u>	<u>\$170,712</u>

2010 Water Revenue Note	2010A Revenue Bond Fund	2010B Utility Revenue Bond	2010C Bond	Totals Debt Service Funds
\$1,406	\$492,843	\$293,438	\$164,617	\$1,452,121
-	-	-	-	263,155
-	824	488	229	1,541
<u>\$1,406</u>	<u>\$493,667</u>	<u>\$293,926</u>	<u>\$164,846</u>	<u>\$1,716,817</u>
\$ -	\$ -	\$ -	\$ -	\$78
-	150,361	89,639	-	240,000
-	-	-	-	263,155
-	150,361	89,639	-	503,233
<u>1,406</u>	<u>343,306</u>	<u>204,287</u>	<u>164,846</u>	<u>1,213,584</u>
<u>\$1,406</u>	<u>\$493,667</u>	<u>\$293,926</u>	<u>\$164,846</u>	<u>\$1,716,817</u>

CITY OF EAST BETHEL, MINNESOTA  
 SUBCOMBINING STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCE  
 NONMAJOR DEBT SERVICE FUNDS  
 For The Year Ended December 31, 2011

	2005 Public Safety Bonds Fund	2005B Street Improvement Debt Fund	2008A Sewer Revenue Bond Fund
Revenues:			
Property taxes	\$144,756	\$ -	\$109,500
Special assessments	-	60,990	19,000
Intergovernmental	-	-	-
Investment income	133	508	-
Total revenues	<u>144,889</u>	<u>61,498</u>	<u>128,500</u>
Expenditures:			
Debt service:			
Principal	75,000	50,000	115,000
Interest and fiscal charges	64,503	11,186	59,499
Total expenditures	<u>139,503</u>	<u>61,186</u>	<u>174,499</u>
Revenues over (under) expenditures	5,386	312	(45,999)
Other financing sources:			
Transfers in	-	-	-
Net change in fund balances	5,386	312	(45,999)
Fund balance - January 1	<u>160,173</u>	<u>333,195</u>	<u>46,672</u>
Fund balance - December 31	<u><u>\$165,559</u></u>	<u><u>\$333,507</u></u>	<u><u>\$673</u></u>

2010 Water Revenue Note	2010A Revenue Bond Fund	2010B Utility Revenue Bond	2010C Bond	Totals Debt Service Funds
\$ -	\$ -	\$ -	\$ -	\$254,256
-	-	-	-	79,990
-	216,698	82,739	-	299,437
-	1,196	708	333	2,878
-	217,894	83,447	333	636,561
3,000	-	-	-	243,000
654	483,318	237,913	27,715	884,788
3,654	483,318	237,913	27,715	1,127,788
(3,654)	(265,424)	(154,466)	(27,382)	(491,227)
5,040	-	-	-	5,040
1,386	(265,424)	(154,466)	(27,382)	(486,187)
20	608,730	358,753	192,228	1,699,771
\$1,406	\$343,306	\$204,287	\$164,846	\$1,213,584

CITY OF EAST BETHEL, MINNESOTA  
 SUBCOMBINING BALANCE SHEET  
 NONMAJOR CAPITAL PROJECTS FUNDS  
 December 31, 2011

	Park Acquisition Fund	Park Trails Fund	Minard Street Fund	Improvements of 2003 Fund
<b>Assets</b>				
Cash and investments	\$26,008	\$141,516	\$19,667	\$ -
Accounts receivable	-	-	-	-
Special assessments receivable:				
Unremitted	-	-	-	819
Delinquent	-	-	-	155
Deferred	-	-	-	28,950
<b>Total assets</b>	<u>\$26,008</u>	<u>\$141,516</u>	<u>\$19,667</u>	<u>\$29,924</u>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts payable	-	-	-	77
Due to other funds	-	-	-	13,673
Deferred revenue	-	-	-	29,105
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,855</u>
<b>Fund balances:</b>				
Restricted	26,008	-	-	-
Assigned	-	141,516	19,667	-
Unassigned	-	-	-	(12,931)
<b>Total fund balances</b>	<u>26,008</u>	<u>141,516</u>	<u>19,667</u>	<u>(12,931)</u>
<b>Total liabilities and fund balances</b>	<u>\$26,008</u>	<u>\$141,516</u>	<u>\$19,667</u>	<u>\$29,924</u>

Street Capital Fund	Park Capital Fund	Utility Improvement Fund	Building Fund	Lunde/Jewell Street Fund	Totals Nonmajor Capital Project Funds
\$1,182,392	\$15,276	\$18,520	\$39,610	\$34,937	\$1,477,926
-	-	1,560	-	-	1,560
-	-	-	-	-	819
1,921	-	875	-	-	2,951
12,468	-	-	-	11,690	53,108
<u>\$1,196,781</u>	<u>\$15,276</u>	<u>\$20,955</u>	<u>\$39,610</u>	<u>\$46,627</u>	<u>\$1,536,364</u>
39	-	-	-	38	154
-	-	-	-	-	13,673
14,389	-	19,994	-	11,690	75,178
<u>14,428</u>	<u>-</u>	<u>19,994</u>	<u>-</u>	<u>11,728</u>	<u>89,005</u>
-	-	-	-	-	26,008
1,182,353	15,276	961	39,610	34,899	1,434,282
-	-	-	-	-	(12,931)
<u>1,182,353</u>	<u>15,276</u>	<u>961</u>	<u>39,610</u>	<u>34,899</u>	<u>1,447,359</u>
<u>\$1,196,781</u>	<u>\$15,276</u>	<u>\$20,955</u>	<u>\$39,610</u>	<u>\$46,627</u>	<u>\$1,536,364</u>

CITY OF EAST BETHEL, MINNESOTA  
 SUBCOMBINING STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCE  
 NONMAJOR CAPITAL PROJECTS FUNDS  
 For The Year Ended December 31, 2011

	Park Acquisition Fund	Park Trails Fund	Minard Street Fund	Improvements of 2003 Fund
Revenues:				
Special assessments	\$ -	\$ -	\$ -	\$12,331
Investment income	51	198	30	-
Other	-	-	2,000	-
Total revenues	<u>51</u>	<u>198</u>	<u>2,030</u>	<u>12,331</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public works	-	-	-	76
Parks and recreation	5,732	-	-	-
Capital outlay	759	41,585	-	-
Debt service:				
Interest and fiscal charges	-	-	-	39
Total expenditures	<u>6,491</u>	<u>41,585</u>	<u>-</u>	<u>115</u>
Revenues over (under) expenditures	<u>(6,440)</u>	<u>(41,387)</u>	<u>2,030</u>	<u>12,216</u>
Other financing sources (uses):				
Proceeds from the sale of capital assets	-	-	-	-
Transfers in	-	58,484	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>58,484</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(6,440)	17,097	2,030	12,216
Fund balance - January 1	<u>32,448</u>	<u>124,419</u>	<u>17,637</u>	<u>(25,147)</u>
Fund balance - December 31	<u>\$26,008</u>	<u>\$141,516</u>	<u>\$19,667</u>	<u>(\$12,931)</u>

Street Capital Fund	Park Capital Fund	Utility Improvement Fund	Building Fund	Lunde/Jewell Street Fund	Totals Nonmajor Capital Project Funds
\$6,754	\$ -	\$ -	\$ -	\$4,584	\$23,669
1,760	34	41	72	53	2,239
4,800	-	11,089	-	-	17,889
<u>13,314</u>	<u>34</u>	<u>11,130</u>	<u>72</u>	<u>4,637</u>	<u>43,797</u>
-	-	-	24,395	-	24,395
247,158	-	29,435	-	38	276,707
-	36,969	-	-	-	42,701
25,185	57,853	-	-	-	125,382
-	-	-	-	-	39
<u>272,343</u>	<u>94,822</u>	<u>29,435</u>	<u>24,395</u>	<u>38</u>	<u>469,224</u>
<u>(259,029)</u>	<u>(94,788)</u>	<u>(18,305)</u>	<u>(24,323)</u>	<u>4,599</u>	<u>(425,427)</u>
-	-	-	7,636	-	7,636
400,000	94,120	-	-	-	552,604
-	-	(5,040)	-	-	(5,040)
<u>400,000</u>	<u>94,120</u>	<u>(5,040)</u>	<u>7,636</u>	<u>-</u>	<u>555,200</u>
140,971	(668)	(23,345)	(16,687)	4,599	129,773
<u>1,041,382</u>	<u>15,944</u>	<u>24,306</u>	<u>56,297</u>	<u>30,300</u>	<u>1,317,586</u>
<u>\$1,182,353</u>	<u>\$15,276</u>	<u>\$961</u>	<u>\$39,610</u>	<u>\$34,899</u>	<u>\$1,447,359</u>

CITY OF EAST BETHEL, MINNESOTA  
SPECIAL REVENUE FUND - RECYCLING FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
For The Year Ended December 31, 2011

Statement 18

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$30,721	\$30,721	\$30,574	(\$147)
Miscellaneous revenues	10,000	10,000	3,052	(6,948)
Total revenue	<u>40,721</u>	<u>40,721</u>	<u>33,626</u>	<u>(7,095)</u>
Expenditures:				
Current:				
General government	<u>35,735</u>	<u>35,735</u>	<u>25,428</u>	<u>10,307</u>
Net change in fund balance	<u>\$4,986</u>	<u>\$4,986</u>	8,198	<u>\$3,212</u>
Fund balance - January 1			<u>11,893</u>	
Fund balance - December 31			<u>\$20,091</u>	

CITY OF EAST BETHEL, MINNESOTA  
 SPECIAL REVENUE FUND - SAFER GRANT FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 For The Year Ended December 31, 2011

Statement 19

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Intergovernmental	\$83,000	\$83,000	\$80,123	(\$2,877)
Expenditures:				
Current:				
Public safety	83,000	83,000	80,123	2,877
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance - January 1			-	
Fund balance - December 31			<u>\$ -</u>	

CITY OF EAST BETHEL, MINNESOTA  
 SPECIAL REVENUE FUND - HRA FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 For The Year Ended December 31, 2011

Statement 20

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Taxes	\$126,058	\$126,058	\$123,215	(\$2,843)
Interest Income	-	-	1,227	1,227
Total revenue	<u>126,058</u>	<u>126,058</u>	<u>124,442</u>	<u>(1,616)</u>
Expenditures:				
Current:				
General Government	<u>78,500</u>	<u>78,500</u>	<u>24,672</u>	<u>53,828</u>
Net change in fund balance	<u>\$47,558</u>	<u>\$47,558</u>	<u>99,770</u>	<u>\$52,212</u>
Fund balance - January 1			<u>711,076</u>	
Fund balance - December 31			<u>\$810,846</u>	

CITY OF EAST BETHEL, MINNESOTA  
 COMBINING STATEMENT OF NET ASSETS  
 INTERNAL SERVICE FUNDS  
 December 31, 2011

Statement 21

	Compensated Absences	Equipment Replacement	Total Internal Service Funds
Assets:			
Current assets:			
Cash and cash equivalents	\$93,198	\$1,187,171	\$1,280,369
Accounts receivable	3,232	378	3,610
Due from other funds	-	610,009	610,009
Interfund loan	-	240,000	240,000
Total current assets	<u>96,430</u>	<u>2,037,558</u>	<u>2,133,988</u>
Noncurrent assets:			
Capital assets:			
Machinery and equipment	-	1,441,608	1,441,608
Less: accumulated depreciation	-	(394,172)	(394,172)
Net capital assets	<u>-</u>	<u>1,047,436</u>	<u>1,047,436</u>
Total assets	<u>96,430</u>	<u>3,084,994</u>	<u>3,181,424</u>
Liabilities:			
Current liabilities:			
Compensated absences - current portion	<u>96,430</u>	<u>-</u>	<u>96,430</u>
Net assets:			
Invested in capital assets	-	1,047,436	1,047,436
Unrestricted	-	2,037,558	2,037,558
Total net assets	<u>\$ -</u>	<u>\$3,084,994</u>	<u>\$3,084,994</u>

**CITY OF EAST BETHEL, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**For The Year Ended December 31, 2011**

**Statement 22**

	Compensated Absences	Equipment Replacement	Totals Internal Service Funds
Operating revenues:			
Departmental billings	\$33,612	\$262,200	\$295,812
Franchise Fees	-	15,484	15,484
Total operating revenues	<u>33,612</u>	<u>277,684</u>	<u>311,296</u>
Operating expenses:			
Wages and fringe benefits	33,612	-	33,612
Depreciation	-	122,216	122,216
Total operating expenses	<u>33,612</u>	<u>122,216</u>	<u>155,828</u>
Operating income	<u>-</u>	<u>155,468</u>	<u>155,468</u>
Nonoperating revenues:			
Sale of capital assets	-	4,788	4,788
Investment income	-	4,780	4,780
Total nonoperating revenues	<u>-</u>	<u>9,568</u>	<u>9,568</u>
Change in net assets	-	165,036	165,036
Net assets - January 1	<u>-</u>	<u>2,919,958</u>	<u>2,919,958</u>
Net assets - December 31	<u>\$ -</u>	<u>\$3,084,994</u>	<u>\$3,084,994</u>

CITY OF EAST BETHEL, MINNESOTA  
 COMBINING STATEMENT OF CASH FLOWS  
 INTERNAL SERVICE FUNDS  
 For The Year Ended December 31, 2011

Statement 23

	Compensated Absences	Equipment Replacement	Total Internal Service Funds
Cash flows from operating activities:			
Receipts from customers and users	\$4,916	\$277,306	\$282,222
Payment to suppliers	(38,528)	-	(38,528)
Net cash flows from operating activities	(33,612)	277,306	243,694
Cash flows from noncapital financing activities:			
Decrease in due from other funds	-	118,672	118,672
Cash deposit with escrow agent	-	201,339	201,339
Net cash flows from noncapital financing activities	-	320,011	320,011
Cash flows from capital and related financing activities:			
Proceeds from capital equipment sales	-	4,788	4,788
Capital equipment purchase	-	(226,702)	(226,702)
Net cash flows from capital and related financing activities	-	(221,914)	(221,914)
Cash flows from investing activities:			
Investment income	-	4,780	4,780
Net increase (decrease) in cash and cash equivalents	(33,612)	380,183	346,571
Cash and cash equivalents - January 1	126,810	806,988	933,798
Cash and cash equivalents - December 31	\$93,198	\$1,187,171	\$1,280,369
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ -	\$155,468	\$155,468
Adjustments to reconcile operating income to net cash flows from operating activities:			
Depreciation expense	-	122,216	122,216
Change in assets and liabilities:			
Decrease (increase) in receivables	4,916	(378)	4,538
Decrease in accounts payable	(38,528)	-	(38,528)
Total adjustments	(33,612)	121,838	88,226
Net cash provided by (used) operating activities	(\$33,612)	\$277,306	\$243,694

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