

CITY OF WOODLAND
WOODLAND, MINNESOTA

ANNUAL FINANCIAL REPORT

YEAR ENDED
DECEMBER 31, 2009

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CITY OF WOODLAND, MINNESOTA
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INTRODUCTORY SECTION

CITY OF WOODLAND
WOODLAND, MINNESOTA

YEAR ENDED
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CITY OF WOODLAND, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2009

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires December 31,</u>
James Doak	Mayor	2012
Sliv Carlson	Council Member	2012
Michael Jilek	Council Member	2012
Troon Dowds	Council Member	2010
Tom Newberry	Council Member	2010

APPOINTED

Shelley Souers	City Clerk
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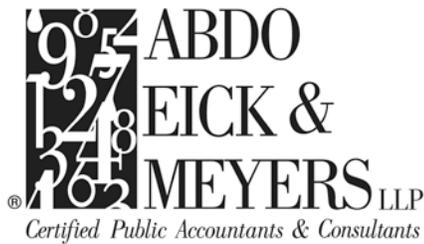
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FINANCIAL SECTION

CITY OF WOODLAND
WOODLAND, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

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5201 Eden Avenue
Suite 370
Edina, MN 55436

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council
City of Woodland, Minnesota

We have audited the accompanying financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Woodland, Minnesota (the City), as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of 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 2008 financial statements and, in our report dated February 26, 2009, we 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. 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.

As described more fully in Note 1B, the City has prepared these financial statements using practices prescribed or permitted by the State of Minnesota, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America the financial position of the City as of December 31, 2009, or changes in financial position, or where applicable, its cash flows, for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of City, as of December 31, 2009, and their respective cash receipts and disbursements, for the year then ended, on the basis of accounting described in Note 1B.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the City. The individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The unaudited schedules have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

February 11, 2010
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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**FINANCIAL STATEMENTS
REGULATORY BASIS**

CITY OF WOODLAND
WOODLAND, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

CITY OF WOODLAND, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUND
DECEMBER 31, 2009

	General	Street Improvement	Total
ASSETS			
Cash and temporary investments	\$ 211,236	\$ 24,362	\$ 235,598
CASH FUND BALANCES			
Unreserved			
Designated for street improvement	\$ -	\$ 24,362	\$ 24,362
Undesignated, reported in			
General fund	211,236	-	211,236
TOTAL CASH FUND BALANCES	\$ 211,236	\$ 24,362	\$ 235,598

The notes to the financial statements are an integral part of this statement.

CITY OF WOODLAND, MINNESOTA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	General	Street Improvement	Governmental Funds
RECEIPTS			
Taxes	\$ 291,081	\$ -	\$ 291,081
Licenses and permits	10,739	-	10,739
Intergovernmental	1,578	4,229	5,807
Charges for services	3,375	-	3,375
Fines and forfeitures	1,490	-	1,490
Interest on investments	1,064	165	1,229
Miscellaneous	1,842	-	1,842
TOTAL RECEIPTS	311,169	4,394	315,563
DISBURSEMENTS			
Current			
General government	74,693	-	74,693
Public safety	134,516	-	134,516
Public works	59,335	70,032	129,367
Miscellaneous	10,013	-	10,013
TOTAL DISBURSEMENTS	278,557	70,032	348,589
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	32,612	(65,638)	(33,026)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	50,000	50,000
Transfers out	(50,000)	-	(50,000)
TOTAL OTHER FINANCING SOURCES (USES)	(50,000)	50,000	-
NET CHANGE IN CASH FUND BALANCES	(17,388)	(15,638)	(33,026)
CASH FUND BALANCES, JANUARY 1	228,624	40,000	268,624
CASH FUND BALANCES, DECEMBER 31	\$ 211,236	\$ 24,362	\$ 235,598

The notes to the financial statements are an integral part of this statement.

CITY OF WOODLAND, MINNESOTA
 STATEMENTS OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds	
	601	
	Water	
	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$ 20,618	\$ 34,957
Receivables		
Accounts	3,223	3,678
Special assessments		
Delinquent	444	358
Current	3,300	3,420
TOTAL CURRENT ASSETS	27,585	42,413
NONCURRENT ASSETS		
Deferred special assessments	24,750	28,050
Capital assets		
Infrastructure	194,539	194,539
Less accumulated depreciation	(58,300)	(53,400)
Total capital assets (net of accumulated depreciation)	136,239	141,139
TOTAL NONCURRENT ASSETS	160,989	169,189
TOTAL ASSETS	188,574	211,602
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	1,913	2,001
Accrued interest payable	2,637	2,930
Current portion of bonds payable	12,500	12,500
TOTAL CURRENT LIABILITIES	17,050	17,431
LONG-TERM LIABILITIES		
Bonds payable	100,000	112,500
TOTAL LIABILITIES	117,050	129,931
NET ASSETS		
Invested in capital assets, net of related debt	23,739	16,139
Restricted for		
Debt service	28,711	38,746
Unrestricted	19,074	26,786
TOTAL NET ASSETS	\$ 71,524	\$ 81,671

The notes to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds - Continued

602			
Sewer		Totals	
2009	2008	2009	2008
\$ 200,411	\$ 207,430	\$ 221,029	\$ 242,387
7,114	7,508	10,337	11,186
948	596	1,392	954
9,900	10,261	13,200	13,681
<u>218,373</u>	<u>225,795</u>	<u>245,958</u>	<u>268,208</u>
74,250	84,150	99,000	112,200
697,666	697,666	892,205	892,205
<u>(170,300)</u>	<u>(156,300)</u>	<u>(228,600)</u>	<u>(209,700)</u>
<u>527,366</u>	<u>541,366</u>	<u>663,605</u>	<u>682,505</u>
<u>601,616</u>	<u>625,516</u>	<u>762,605</u>	<u>794,705</u>
<u>819,989</u>	<u>851,311</u>	<u>1,008,563</u>	<u>1,062,913</u>
2,999	2,766	4,912	4,767
2,916	3,206	5,553	6,136
<u>31,931</u>	<u>31,123</u>	<u>44,431</u>	<u>43,623</u>
37,846	37,095	54,896	54,526
<u>281,292</u>	<u>313,223</u>	<u>381,292</u>	<u>425,723</u>
<u>319,138</u>	<u>350,318</u>	<u>436,188</u>	<u>480,249</u>
214,143	197,020	237,882	213,159
141,433	154,003	170,144	192,749
<u>145,275</u>	<u>149,970</u>	<u>164,349</u>	<u>176,756</u>
<u>\$ 500,851</u>	<u>\$ 500,993</u>	<u>\$ 572,375</u>	<u>\$ 582,664</u>

CITY OF WOODLAND, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds	
	601	
	Water	
	2009	2008
OPERATING REVENUES		
Charges for services	\$ 13,334	\$ 12,973
OPERATING EXPENSES		
Professional services	6,153	3,749
Utilities	8,119	7,697
Depreciation	4,900	4,900
TOTAL OPERATING EXPENSES	19,172	16,346
OPERATING INCOME (LOSS)	(5,838)	(3,373)
NONOPERATING REVENUES (EXPENSES)		
Other revenue	18	1,060
Special assessments	1,918	7,898
Interest income	142	762
Interest expense	(6,387)	(7,090)
TOTAL NONOPERATING REVENUES (EXPENSES)	(4,309)	2,630
CHANGE IN NET ASSETS	(10,147)	(743)
NET ASSETS, JANUARY 1	81,671	82,414
NET ASSETS, DECEMBER 31	\$ 71,524	\$ 81,671

The notes to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds - Continued

602			
Sewer		Totals	
2009	2008	2009	2008
\$ 27,860	\$ 27,149	\$ 41,194	\$ 40,122
373	4,056	6,526	7,805
11,893	10,729	20,012	18,426
14,000	14,000	18,900	18,900
26,266	28,785	45,438	45,131
1,594	(1,636)	(4,244)	(5,009)
-	-	18	1,060
5,668	23,694	7,586	31,592
991	4,145	1,133	4,907
(8,395)	(9,207)	(14,782)	(16,297)
(1,736)	18,632	(6,045)	21,262
(142)	16,996	(10,289)	16,253
500,993	483,997	582,664	566,411
<u>\$ 500,851</u>	<u>\$ 500,993</u>	<u>\$ 572,375</u>	<u>\$ 582,664</u>



CITY OF WOODLAND, MINNESOTA
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities Enterprise Funds	
	601	
	Water	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 13,721	\$ 13,614
Payments to suppliers	(14,360)	(11,209)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(639)	2,405
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Collection of special assessments	5,338	7,808
Interest paid on bonds	(6,680)	(7,383)
Principal paid on bonds	(12,500)	(12,500)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(13,842)	(12,075)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	142	882
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,339)	(8,788)
CASH AND CASH EQUIVALENTS, JANUARY 1	34,957	43,745
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 20,618	\$ 34,957

The note to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds - Continued

602			
Sewer		Totals	
2009	2008	2009	2008
\$ 27,902	\$ 26,787	\$ 41,623	\$ 40,401
(12,033)	(14,654)	(26,393)	(25,863)
15,869	12,133	15,230	14,538
15,929	23,422	21,267	31,230
(8,685)	(9,530)	(15,365)	(16,913)
(31,123)	(34,778)	(43,623)	(47,278)
(23,879)	(20,886)	(37,721)	(32,961)
991	4,506	1,133	5,388
(7,019)	(4,247)	(21,358)	(13,035)
207,430	211,677	242,387	255,422
<u>\$ 200,411</u>	<u>\$ 207,430</u>	<u>\$ 221,029</u>	<u>\$ 242,387</u>

CITY OF WOODLAND, MINNESOTA
 STATEMENTS OF CASH FLOWS - CONTINUED
 PROPRIETARY FUNDS
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities Enterprise Funds - Continued	
	601	
	Water	
	2009	2008
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (5,838)	\$ (3,373)
Adjustments to reconcile operating income (loss)		
to net cash provided (used) by operating activities:		
Depreciation	4,900	4,900
Other income related to operations	18	1,060
(Increase) decrease in assets:		
Receivables		
Accounts	455	(423)
Delinquent special assessments	(86)	4
Increase (decrease) in liabilities:		
Accounts payable	(88)	237
	\$ (639)	\$ 2,405
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		

The note to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds - Continued

602			
Sewer		Totals	
2009	2008	2009	2008
\$ 1,594	\$ (1,636)	\$ (4,244)	\$ (5,009)
14,000	14,000	18,900	18,900
-	-	18	1,060
394	(377)	849	(800)
(352)	15	(438)	19
<u>233</u>	<u>131</u>	<u>145</u>	<u>368</u>
<u>\$ 15,869</u>	<u>\$ 12,133</u>	<u>\$ 15,230</u>	<u>\$ 14,538</u>

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CITY OF WOODLAND, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Woodland, Minnesota (the City) operates under “Optional Plan A” form of government as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the GASB criteria.

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

The accompanying financial statements have been prepared on the regulatory basis of accounting as described in the Minnesota Office of the State Auditor’s Reporting and Publishing Requirements for Cities under 2,500 in population published on December 17, 2004. Under that basis, governmental fund receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. That basis differs from generally accepted accounting principles in the United States of America (GAAP) primarily because the City has not provided a management discussion and analysis letter, government-wide statement of net assets and government-wide statement of activities and the City does not recognize governmental fund receipts and disbursements in accordance with the modified accrual basis of accounting.

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

Preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City has the following fund types:

Governmental funds are used to account for the City’s general government activities and are accounted for using the regulatory basis of accounting. Their revenue is recognized when received in cash and expenditures are recognized when paid in cash. The regulatory basis of accounting is a comprehensive basis of accounting other than GAAP. Under GAAP, governmental funds use the modified accrual method of accounting. The difference between the regulatory basis and modified accrual basis of accounting is that under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

CITY OF WOODLAND, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City reports the following major governmental funds:

The *General fund* is the City'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 *Street Improvement fund* accounts for future street improvement projects.

The City reports the following major proprietary funds:

The *Water fund* accounts for costs associated with the City's water system and insure that user charges are sufficient to pay for those costs.

The *Sewer fund* accounts for the costs associated with the City's sewer system and insure that user charges are sufficient to pay for those costs.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In accordance with the provisions of the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, the City applies all applicable GASB pronouncements plus all FASB Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

CITY OF WOODLAND, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds. Investments for the City are reported at fair value.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, 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, or certain Minnesota securities broker-dealers.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Property Taxes

The Council annually adopts a tax levy in December and certifies it to the County for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Auditor and tax settlements are made to the City during January, July and December each year.

Taxes payable on homestead property, as defined by Minnesota statutes, were partially reduced by a market value credit aid. The credit is paid to the City by the State of Minnesota (State) in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

CITY OF WOODLAND, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Account Receivable

Accounts receivable in the enterprise funds include amounts billed for services provided before year end. The City annually certifies delinquent water and sewer accounts to the County for collection. As a result there is no allowance for uncollectible accounts.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. In the proprietary funds, these assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue upon receipt in the General fund.

Capital Assets

Under the regulatory basis, the City does not account for capital assets used in governmental fund types.

Property, plant and equipment in the proprietary funds of the City are recorded at cost. Property, plant and equipment donated to these proprietary fund type operations are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized in the proprietary funds.

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

Assets	Useful Lives in Years
Buildings and structures	40
Improvements other than buildings	10 to 50
Furniture and equipment	3 to 10

Long-term Obligations

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, other than those withheld from the actual net proceeds received, are reported as debt service expenditures. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

CITY OF WOODLAND, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The City has designated the \$24,362 cash fund balance in the street improvement fund for future street improvement projects.

Net Assets

In the proprietary fund financial statements, net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net assets - Consist of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for the individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is a comprehensive basis other than GAAP for the General fund. All annual appropriations lapse at fiscal year end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Clerk so that a budget may be prepared. Before September 15, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control is the department level. There were no budget amendments.

B. Excess of Expenditures over Appropriations

For the year then ended December 31, 2009, expenditures exceeded appropriations in the General fund by \$10,057. These over expenditures were funded by available fund balance.

CITY OF WOODLAND, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, 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 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rate "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;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- 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
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

At year end, the City's carrying amount of deposits was \$9,653 and the bank balance was \$10,000. The bank balance was covered by federal depository insurance.

CITY OF WOODLAND, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

At December 31, 2009, the City's investment balances were as follows:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Government Securities			
Repurchase Investment Sweep	AAA	< 6 months	\$ 446,924

A reconciliation of cash and temporary investments as shown on the statements follows:

Deposits	\$ 9,653
Petty cash	50
Investments	<u>446,924</u>
Total cash and temporary investments	<u>\$ 456,627</u>
Governmental cash and investments	\$ 235,598
Enterprise cash and investments	<u>221,029</u>
Total cash and temporary investments	<u>\$ 456,627</u>

1. Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.
 2. Interest rate risk is disclosed using the segmented time distribution method.
- N/A Indicates not applicable or available.

Interest rate risk and concentration of credit risk. In accordance with the City's investment policy, the City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields; however, no more than 30 percent of the total investments should extend beyond five years and in no circumstance should any extend beyond twenty years.

CITY OF WOODLAND, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

B. Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets being depreciated				
Infrastructure	\$ 892,205	\$ -	\$ -	\$ 892,205
Less accumulated depreciation for				
Infrastructure	(209,700)	(18,900)	-	(228,600)
Business-type activities capital assets, net	\$ 682,505	\$ (18,900)	\$ -	\$ 663,605

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

Business-type activities	
Water	\$ 4,900
Sewer	14,000
Total depreciation expense - business-type activities	\$ 18,900

C. Interfund Transfers

The General fund transferred \$50,000 to the Street Improvement fund for future street repair projects.

CITY OF WOODLAND, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Long - term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for proprietary activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues.

General obligation bonds are direct obligations of the City and pledge the full faith and credit of the City.

Enterprise Fund Debt

General Obligation Revenue Bonds

The following bond issues will be repaid primarily from special assessments and utility revenue:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
General Obligation Improvement Bonds, Series 1997B	\$ 250,000	5.625 %	08/01/97	02/01/18	\$ 112,500
General Obligation Revenue Bonds, Series 1997A	698,775	2.580	04/15/97	08/20/18	<u>313,223</u>
Total G.O. Revenue Bonds					<u><u>\$ 425,723</u></u>

The annual requirement to amortize all bonds outstanding as of December 31, 2009 through maturity follows:

Year Ending December 31,	Business - type Activities		
	Principal	Interest	Total
2010	\$ 44,431	\$ 13,853	\$ 58,284
2011	45,261	12,321	57,582
2012	46,111	10,767	56,878
2013	46,984	9,191	56,175
2014	47,879	7,593	55,472
2015-2018	<u>195,057</u>	<u>13,910</u>	<u>208,967</u>
Total	<u><u>\$ 425,723</u></u>	<u><u>\$ 67,635</u></u>	<u><u>\$ 493,358</u></u>

CITY OF WOODLAND, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in Long-term Liabilities. During the year ended December 31, 2009, the following changes occurred in long-term liabilities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
General obligation improvement and revenue bonds	<u>\$ 469,346</u>	<u>\$ -</u>	<u>\$ (43,623)</u>	<u>\$ 425,723</u>	<u>\$ 44,431</u>

Note 4: OTHER INFORMATION

A. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The City has no debt subject to the limit.

B. 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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

**INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

CITY OF WOODLAND
WOODLAND, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

CITY OF WOODLAND, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2009			2008	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final		Positive (Negative)	
BUDGETARY FUND BALANCES, JANUARY 1	\$ 228,624	\$ 228,624	\$ 228,624	\$ -	\$ 189,050
RECEIPTS					
Taxes					
Property taxes	288,799	288,799	291,081	2,282	258,198
Licenses and permits	11,350	11,350	10,739	(611)	45,333
Intergovernmental					
State					
Local government aid	3,168	3,168	-	(3,168)	3,516
County					
County grants	1,200	1,200	1,578	378	1,591
Road aid	4,183	4,183	-	(4,183)	-
Total intergovernmental	8,551	8,551	1,578	(6,973)	5,107
Charges for services					
Zoning and other	2,000	2,000	3,375	1,375	2,050
Fines and forfeitures	1,200	1,200	1,490	290	1,995
Interest on investments	6,000	6,000	1,064	(4,936)	4,622
Miscellaneous					
Other	600	600	1,842	1,242	2,161
TOTAL RECEIPTS	318,500	318,500	311,169	(7,331)	319,466
AMOUNTS AVAILABLE FOR APPROPRIATION	547,124	547,124	539,793	(7,331)	508,516

CITY OF WOODLAND, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance with Final Budget Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
DISBURSEMENTS					
Current					
General government					
Mayor and council					
Personal services	\$ 260	\$ 260	\$ 258	\$ 2	\$ 258
Other services and charges	400	400	334	66	240
Total	660	660	592	68	498
City clerk					
Personal services	36,892	36,892	36,892	-	36,996
Supplies	850	850	1,005	(155)	1,428
Other services and charges	3,675	3,675	4,372	(697)	5,258
Total	41,417	41,417	42,269	(852)	43,682
Assessor					
Other services and charges	8,500	8,500	8,501	(1)	8,252
Legal					
Other services and charges	12,000	12,000	13,518	(1,518)	6,199
Audit and accounting					
Other services and charges	9,800	9,800	9,813	(13)	9,527
Total general government	72,377	72,377	74,693	(2,316)	68,158
Public safety					
Police					
Other services and charges	98,370	98,370	98,370	-	93,758
Fire					
Personal services	26,103	26,103	36,146	(10,043)	11,018

CITY OF WOODLAND, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2009			2008	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final		Positive (Negative)	
DISBURSEMENTS - CONTINUED					
Current - continued					
Public safety - continued					
Total public safety	\$ 124,473	\$ 124,473	\$ 134,516	\$ (10,043)	\$ 104,776
Public works					
Streets and highways					
Supplies	200	200	125	75	826
Other services and charges	11,500	11,500	9,546	1,954	8,983
Total	11,700	11,700	9,671	2,029	9,809
Snow and ice removal					
Other services and charges	23,000	23,000	21,031	1,969	24,156
Sanitation and recycling					
Other services and charges	14,650	14,650	13,384	1,266	14,256
Engineering					
Other services and charges	10,000	10,000	15,249	(5,249)	7,462
Total public works	59,350	59,350	59,335	15	55,683
Miscellaneous					
Unallocated					
Other services and charges	12,300	12,300	10,013	2,287	11,275
TOTAL DISBURSEMENTS	268,500	268,500	278,557	(10,057)	239,892
OTHER FINANCING USES					
Transfers out	(50,000)	(50,000)	(50,000)	-	(40,000)
TOTAL DISBURSEMENTS AND OTHER FINANCING USES	318,500	318,500	328,557	(10,057)	279,892
BUDGETARY FUND BALANCES, DECEMBER 31	\$ 228,624	\$ 228,624	\$ 211,236	\$ (17,388)	\$ 228,624

CITY OF WOODLAND, MINNESOTA
SUMMARY FINANCIAL REPORT
RECEIPTS AND DISBURSEMENTS FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	Total		Percent Increase (Decrease)
	2009	2008	
RECEIPTS			
Taxes	\$ 291,081	\$ 258,198	12.74 %
Licenses and permits	10,739	45,333	(76.31)
Intergovernmental	5,807	5,107	13.71
Charges for services	3,375	2,050	64.63
Fines and forfeits	1,490	1,995	(25.31)
Investment earnings	1,229	4,622	(73.41)
Miscellaneous	1,842	2,161	(14.76)
TOTAL RECEIPTS	\$ 315,563	\$ 319,466	(1.22) %
Per Capita	622.41	651.97	(4.53)
DISBURSEMENTS			
Current			
General government	\$ 74,693	\$ 68,158	9.59 %
Public safety	134,516	104,776	28.38
Streets and highways	129,367	55,683	132.33
Miscellaneous	10,013	11,275	(11.19)
TOTAL DISBURSEMENTS	\$ 348,589	\$ 239,892	45.31 %
Per Capita	687.55	489.58	40.44
General Fund Balance - December 31	\$ 211,236	\$ 228,624	(7.61) %
Per Capita	416.64	466.58	(10.70)

The purpose of this report is to provide a summary of financial information concerning the City of Woodland to interested citizens. The complete financial statements may be examined at City Hall, 20225 Cottagewood Road, Deephaven, MN. Questions about this report should be directed to Shelley Souers, City Clerk at (952) 474-4755.

CITY OF WOODLAND, MINNESOTA
SCHEDULES OF DEBT SERVICE CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-type Activities - Enterprise Funds		
	601		
	Water		
	Prior Years	2009	Total
OPERATING ACTIVITIES			
User fees	\$ 39,921	\$ 3,665	\$ 43,586
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Proceeds of bonds issued	250,000	-	250,000
Principal paid on bonds	(125,000)	(12,500)	(137,500)
Interest paid on bonds	(119,297)	(6,680)	(125,977)
Collections of special assessments	151,379	5,338	156,717
Contributed capital from General fund	-	-	-
Purchase of and payment on property and equipment	(187,986)	-	(187,986)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(30,904)	(13,842)	(44,746)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	29,729	142	29,871
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,746	(10,035)	28,711
CASH AND CASH EQUIVALENTS, JANUARY 1	-	38,746	-
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 38,746	\$ 28,711	\$ 28,711

Business-type Activities - Enterprise Funds - Continued

602					
Sewer			Totals		
Prior Years	2009	Total	Prior Years	2009	Total
\$ 113,617	\$ 10,318	\$ 123,935	\$ 153,538	\$ 13,983	\$ 167,521
698,775	-	698,775	948,775	-	948,775
(354,468)	(31,123)	(385,591)	(479,468)	(43,623)	(523,091)
(142,553)	(8,685)	(151,238)	(261,850)	(15,365)	(277,215)
442,141	15,929	458,070	593,520	21,267	614,787
18,000	-	18,000	18,000	-	18,000
(697,666)	-	(697,666)	(885,652)	-	(885,652)
(35,771)	(23,879)	(59,650)	(66,675)	(37,721)	(104,396)
76,157	991	77,148	105,886	1,133	107,019
154,003	(12,570)	141,433	192,749	(22,605)	170,144
-	154,003	-	-	192,749	-
<u>\$ 154,003</u>	<u>\$ 141,433</u>	<u>\$ 141,433</u>	<u>\$ 192,749</u>	<u>\$ 170,144</u>	<u>\$ 170,144</u>

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UNAUDITED SCHEDULES

CITY OF WOODLAND
WOODLAND, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

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CITY OF WOODLAND, MINNESOTA
 UNAUDITED SCHEDULES
 FOR THE YEAR ENDED DECEMBER 31, 2009

SCHEDULE OF ACCOUNTS RECEIVABLE

FUND	SOURCE OF REVENUE	PURPOSE	AMOUNT
General	City of Deephaven	Building Permits	\$ 318
General	Hennepin County	Tax Settlement	3,085
General	Jim Hornig	False Alarm Charge	250
	TOTAL		<u>\$ 3,653</u>

SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES

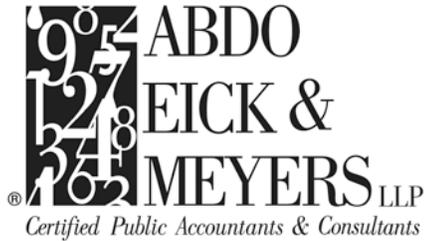
FUND	VENDOR NAME	ITEM AND PURPOSE	AMOUNT
General	Cornerstone	Snowplowing	\$ 7,995
General	City of Deephaven	Zoning Administration and Public Works	282
General	Campbell Knutson	Legal Services	658
General	Bolton and Menk	Engineer	30
General	Hennepin County Treasurer	Mailing Notices	43
General	Sun Sailor	Legal Notices	315
	TOTAL		<u>\$ 9,323</u>

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OTHER REPORTS

CITY OF WOODLAND
WOODLAND, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009



5201 Eden Avenue
Suite 370
Edina, MN 55436

REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Council
City of Woodland, Minnesota

We have audited the financial statements of each major fund and aggregate remaining information of the City of Woodland, Minnesota (the City), as of and for the year ended December 31, 2009, and have issued our report thereon dated February 11, 2010. In our report, our opinion was modified because the City prepares its governmental fund financial statements on the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

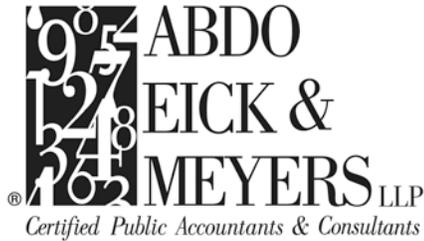
The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions.

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

February 11, 2010
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants



5201 Eden Avenue
Suite 370
Edina, MN 55436

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS

Honorable Mayor and City Council
City of Woodland, Minnesota

In planning and performing our audit of the financial statements of the City of Woodland, Minnesota (the City), for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we consider the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency presented as finding 2009-1 in the schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

In addition, we noted other matters involving the internal control and its operation that we have reported to management of the City in a separate letter dated February 11, 2010.

The City's written responses to the significant deficiency identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

February 11, 2010
Minneapolis, Minnesota

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CITY OF WOODLAND, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009

<u>Finding</u>	<u>Description</u>
2009-1	Preparation of Financial Statements (Finding since 2007)
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors can not be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail, to ensure their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.