

CITY OF WOODLAND
WOODLAND, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2012

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 ANNUAL FINANCIAL REPORT
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 FOR THE YEAR ENDED DECEMBER 31, 2012

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INTRODUCTORY SECTION

CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

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CITY OF WOODLAND, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 |
| Chris Rich | Council Member | 2014 |
| John Massie | Council Member | 2014 |

APPOINTED

| | |
|----------------|------------|
| Shelley Souers | City Clerk |
|----------------|------------|

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FINANCIAL SECTION
CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

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5201 Eden Avenue
Suite 250
Edina, MN 55436

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Woodland, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the governmental and proprietary funds of the City of Woodland, Minnesota (the City), as of and for the year ended December 31, 2012, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2011 financial statements and, in our report dated February 16, 2012, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

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Basis of Accounting

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.

Opinions

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the governmental fund 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 each major fund of the City, as of December 31, 2012 or the respective changes in financial position for the year then ended. Further, the City has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

Also, in our opinion, the governmental fund financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each major fund of the City, as of December 31, 2012, and their respective cash receipts and disbursements and budgetary comparison schedule for the year then ended, on the basis of accounting described in Note 1B. Also, in our opinion, the proprietary fund financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund information of the City as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended, on the basis of accounting described in Note 1B.

Change in Accounting Standards

As described in the Note 5 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2012. Adoption of the provisions of these statements results in changes to the classifications of the components of the financial statements and changes in terminology.

Supplementary Information in Relation to the Financial Statements as a Whole

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual fund financial schedules, and supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial 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 supplementary information have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

February 20, 2013
Minneapolis, Minnesota

Abdo, Eick & Meyers, LLP
ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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FINANCIAL STATEMENTS - REGULATORY BASIS

CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

CITY OF WOODLAND, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

| | General | Street Improvement | Total |
|---|------------|-----------------------|------------|
| ASSETS | | | |
| Cash and temporary investments | \$ 264,015 | \$ 41,218 | \$ 305,233 |
| CASH FUND BALANCES | | | |
| Assigned for street improvement | \$ - | \$ 41,218 | \$ 41,218 |
| Unassigned, reported in General fund | 264,015 | - | 264,015 |
| TOTAL CASH FUND BALANCES | \$ 264,015 | \$ 41,218 | \$ 305,233 |

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 FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

| | General | Street Improvement | Governmental Funds |
|---|--------------------------|-------------------------|--------------------------|
| RECEIPTS | | | |
| Taxes | \$ 311,770 | \$ - | \$ 311,770 |
| Licenses and permits | 5,472 | - | 5,472 |
| Intergovernmental | 5,328 | - | 5,328 |
| Charges for services | 3,775 | - | 3,775 |
| Fines and forfeitures | 7,717 | - | 7,717 |
| Interest on investments | 218 | 35 | 253 |
| Miscellaneous | 3,187 | - | 3,187 |
| TOTAL RECEIPTS | <u>337,467</u> | <u>35</u> | <u>337,502</u> |
| DISBURSEMENTS | | | |
| Current | | | |
| General government | 75,617 | - | 75,617 |
| Public safety | 122,619 | - | 122,619 |
| Public works | 49,329 | 62,533 | 111,862 |
| Miscellaneous | 10,944 | - | 10,944 |
| TOTAL DISBURSEMENTS | <u>258,509</u> | <u>62,533</u> | <u>321,042</u> |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | <u>78,958</u> | <u>(62,498)</u> | <u>16,460</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | - | 63,748 | 63,748 |
| Transfers out | (63,748) | - | (63,748) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(63,748)</u> | <u>63,748</u> | <u>-</u> |
| NET CHANGE IN CASH FUND BALANCES | 15,210 | 1,250 | 16,460 |
| CASH FUND BALANCES, JANUARY 1 | <u>248,805</u> | <u>39,968</u> | <u>288,773</u> |
| CASH FUND BALANCES, DECEMBER 31 | <u><u>\$ 264,015</u></u> | <u><u>\$ 41,218</u></u> | <u><u>\$ 305,233</u></u> |

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

CITY OF WOODLAND, MINNESOTA
 STATEMENTS OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2012 AND 2011

| | Business-type Activities - Enterprise Funds | |
|---|--|------------|
| | 601 | |
| | Water | |
| | 2012 | 2011 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and temporary investments | \$ (3,870) | \$ (3,610) |
| Receivables | | |
| Accounts | 6,871 | 5,539 |
| Special assessments | | |
| Delinquent | 2,634 | 1,781 |
| Current | 9,000 | 9,000 |
| TOTAL CURRENT ASSETS | 14,635 | 12,710 |
| NONCURRENT ASSETS | | |
| Special assessments receivable | 40,950 | 52,650 |
| Capital assets | | |
| Infrastructure | 194,539 | 194,539 |
| Less accumulated depreciation | (73,000) | (68,100) |
| Total capital assets (net of accumulated depreciation) | 121,539 | 126,439 |
| TOTAL NONCURRENT ASSETS | 162,489 | 179,089 |
| TOTAL ASSETS | 177,124 | 191,799 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 2,087 | 2,651 |
| Accrued interest payable | 1,758 | 2,051 |
| Current portion of bonds payable | 12,500 | 12,500 |
| TOTAL CURRENT LIABILITIES | 16,345 | 17,202 |
| LONG-TERM LIABILITIES | | |
| Bonds payable | 62,500 | 75,000 |
| TOTAL LIABILITIES | 78,845 | 92,202 |
| NET POSITION | | |
| Net investment in capital assets | 46,539 | 38,939 |
| Restricted for debt service | 30,798 | 29,013 |
| Unrestricted | 20,942 | 31,645 |
| TOTAL NET POSITION | \$ 98,279 | \$ 99,597 |

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

Business-type Activities -
Enterprise Funds

| 602 | | | |
|-------------------|-------------------|-------------------|-------------------|
| Sewer | | Totals | |
| 2012 | 2011 | 2012 | 2011 |
| \$ 142,384 | \$ 161,702 | \$ 138,514 | \$ 158,092 |
| 8,302 | 7,967 | 15,173 | 13,506 |
| 2,065 | 1,550 | 4,699 | 3,331 |
| <u>3,000</u> | <u>3,000</u> | <u>12,000</u> | <u>12,000</u> |
| <u>155,751</u> | <u>174,219</u> | <u>170,386</u> | <u>186,929</u> |
| | | | |
| <u>13,650</u> | <u>17,550</u> | <u>54,600</u> | <u>70,200</u> |
| | | | |
| 697,666 | 697,666 | 892,205 | 892,205 |
| <u>(212,300)</u> | <u>(198,300)</u> | <u>(285,300)</u> | <u>(266,400)</u> |
| | | | |
| <u>485,366</u> | <u>499,366</u> | <u>606,905</u> | <u>625,805</u> |
| | | | |
| <u>499,016</u> | <u>516,916</u> | <u>661,505</u> | <u>696,005</u> |
| | | | |
| <u>654,767</u> | <u>691,135</u> | <u>831,891</u> | <u>882,934</u> |
| | | | |
| 3,212 | 3,697 | 5,299 | 6,348 |
| 1,989 | 2,293 | 3,747 | 4,344 |
| <u>33,502</u> | <u>32,654</u> | <u>46,002</u> | <u>45,154</u> |
| | | | |
| 38,703 | 38,644 | 55,048 | 55,846 |
| | | | |
| <u>179,408</u> | <u>213,660</u> | <u>241,908</u> | <u>288,660</u> |
| | | | |
| <u>218,111</u> | <u>252,304</u> | <u>296,956</u> | <u>344,506</u> |
| | | | |
| 272,456 | 253,052 | 318,995 | 291,991 |
| 69,348 | 92,754 | 100,146 | 121,767 |
| <u>94,852</u> | <u>93,025</u> | <u>115,794</u> | <u>124,670</u> |
| | | | |
| <u>\$ 436,656</u> | <u>\$ 438,831</u> | <u>\$ 534,935</u> | <u>\$ 538,428</u> |

CITY OF WOODLAND, MINNESOTA
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Business-type Activities - Enterprise Funds | |
|--|--|-----------|
| | 601 | |
| | Water | |
| | 2012 | 2011 |
| OPERATING REVENUES | | |
| Charges for services | \$ 23,845 | \$ 18,967 |
| OPERATING EXPENSES | | |
| Professional services | 10,446 | 10,499 |
| Utilities | 9,243 | 9,539 |
| Depreciation | 4,900 | 4,900 |
| TOTAL OPERATING EXPENSES | 24,589 | 24,938 |
| OPERATING INCOME (LOSS) | (744) | (5,971) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Special assessments | 3,703 | 4,650 |
| Interest income | - | - |
| Interest expense | (4,277) | (4,980) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | (574) | (330) |
| CHANGE IN NET POSITION | (1,318) | (6,301) |
| NET POSITION, JANUARY 1 | 99,597 | 105,898 |
| NET POSITION, DECEMBER 31 | \$ 98,279 | \$ 99,597 |

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

Business-type Activities -
Enterprise Funds

| 602 | | | |
|-------------------|-------------------|-------------------|-------------------|
| Sewer | | Totals | |
| 2012 | 2011 | 2012 | 2011 |
| \$ 32,467 | \$ 31,061 | \$ 56,312 | \$ 50,028 |
| | | | |
| 3,052 | 1,218 | 13,498 | 11,717 |
| 13,114 | 13,089 | 22,357 | 22,628 |
| 14,000 | 14,000 | 18,900 | 18,900 |
| <u>30,166</u> | <u>28,307</u> | <u>54,755</u> | <u>53,245</u> |
| | | | |
| <u>2,301</u> | <u>2,754</u> | <u>1,557</u> | <u>(3,217)</u> |
| | | | |
| 1,235 | 1,541 | 4,938 | 6,191 |
| 131 | 132 | 131 | 132 |
| (5,842) | (6,676) | (10,119) | (11,656) |
| <u>(4,476)</u> | <u>(5,003)</u> | <u>(5,050)</u> | <u>(5,333)</u> |
| | | | |
| (2,175) | (2,249) | (3,493) | (8,550) |
| <u>438,831</u> | <u>441,080</u> | <u>538,428</u> | <u>546,978</u> |
| | | | |
| <u>\$ 436,656</u> | <u>\$ 438,831</u> | <u>\$ 534,935</u> | <u>\$ 538,428</u> |

CITY OF WOODLAND, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED ON THE FOLLOWING PAGES
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Business-type Activities Enterprise Funds | |
|--|--|-------------------|
| | 601 | |
| | Water | |
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers and users | | |
| City of Minnetonka usage charges | \$ 9,200 | \$ 8,587 |
| User fee revenue | 3,943 | 3,860 |
| Maintenance fee revenue | 8,080 | 4,000 |
| Delinquent utility revenue | 928 | 1,026 |
| Payments to suppliers | | |
| Remittance to City of Minnetonka | (9,455) | (9,103) |
| Maintenance and other expenses | (10,798) | (11,783) |
| | <u>1,898</u> | <u>(3,413)</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Collection of special assessments | 14,912 | 14,100 |
| Interest paid on bonds | (4,570) | (5,273) |
| Principal paid on bonds | (12,500) | (12,500) |
| | <u>(2,158)</u> | <u>(3,673)</u> |
| NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received on investments | - | - |
| | <u>-</u> | <u>-</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (260) | (7,086) |
| CASH AND CASH EQUIVALENTS, JANUARY 1 | <u>(3,610)</u> | <u>3,476</u> |
| CASH AND CASH EQUIVALENTS, DECEMBER 31 | <u>\$ (3,870)</u> | <u>\$ (3,610)</u> |

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

Business-type Activities -
Enterprise Funds

| 602 | | | |
|-------------------|-------------------|-------------------|-------------------|
| Sewer | | Totals | |
| 2012 | 2011 | 2012 | 2011 |
| \$ 12,524 | \$ 12,250 | \$ 21,724 | \$ 20,837 |
| 11,042 | 10,514 | 14,985 | 14,374 |
| 6,817 | 6,342 | 14,897 | 10,342 |
| 1,398 | 2,061 | 2,326 | 3,087 |
| (13,174) | (12,854) | (22,629) | (21,957) |
| <u>(3,477)</u> | <u>(793)</u> | <u>(14,275)</u> | <u>(12,576)</u> |
| | | | |
| <u>15,130</u> | <u>17,520</u> | <u>17,028</u> | <u>14,107</u> |
| | | | |
| 4,971 | 4,691 | 19,883 | 18,791 |
| (6,146) | (6,972) | (10,716) | (12,245) |
| <u>(33,404)</u> | <u>(31,828)</u> | <u>(45,904)</u> | <u>(44,328)</u> |
| | | | |
| <u>(34,579)</u> | <u>(34,109)</u> | <u>(36,737)</u> | <u>(37,782)</u> |
| | | | |
| <u>131</u> | <u>132</u> | <u>131</u> | <u>132</u> |
| | | | |
| (19,318) | (16,457) | (19,578) | (23,543) |
| <u>161,702</u> | <u>178,159</u> | <u>158,092</u> | <u>221,029</u> |
| | | | |
| <u>\$ 142,384</u> | <u>\$ 161,702</u> | <u>\$ 138,514</u> | <u>\$ 158,092</u> |

CITY OF WOODLAND, MINNESOTA
 STATEMENTS OF CASH FLOWS - CONTINUED
 PROPRIETARY FUNDS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Business-type Activities Enterprise Funds | |
|---|--|----------------|
| | 601 | |
| | Water | |
| | 2012 | 2011 |
| RECONCILIATION OF OPERATING INCOME (LOSS) | | |
| TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ (744) | \$ (5,971) |
| Adjustments to reconcile operating income (loss) | | |
| to net cash provided (used) by operating activities | | |
| Depreciation | 4,900 | 4,900 |
| (Increase) decrease in assets | | |
| Receivables | | |
| Accounts | (1,332) | (1,629) |
| Delinquent special assessments | (362) | 135 |
| Increase (decrease) in liabilities | | |
| Accounts payable | (564) | (848) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ 1,898 | \$ (3,413) |

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

Business-type Activities -
Enterprise Funds

| 602 | | | |
|------------------|------------------|------------------|------------------|
| Sewer | | Totals | |
| 2012 | 2011 | 2012 | 2011 |
| \$ 2,301 | \$ 2,754 | \$ 1,557 | \$ (3,217) |
| 14,000 | 14,000 | 18,900 | 18,900 |
| (335) | (536) | (1,667) | (2,165) |
| (351) | 642 | (713) | 777 |
| <u>(485)</u> | <u>660</u> | <u>(1,049)</u> | <u>(188)</u> |
| <u>\$ 15,130</u> | <u>\$ 17,520</u> | <u>\$ 17,028</u> | <u>\$ 14,107</u> |

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CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 City Council. The City Council exercises legislative authority and determines all matters of policy. The City 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 position 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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 ensure 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 ensure 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.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City 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 the regulatory basis, receipts from property taxes are recognized in the year the tax is collected. Receipts from grants, entitlements and donations are recognized in the year in which they are collected. For proprietary funds, 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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Assets, liabilities and net position/fund balance

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 City 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.

CITY OF WOODLAND, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

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 governmental funds.

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

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net position. The recognition of bond premiums and discounts are delayed and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as an expense in the period incurred.

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

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Clerk and Treasurer.

Unassigned - The residual classification for the General fund and also 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 has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 50 percent of budgeted operating expenditures for cash-flow timing needs.

Net position

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

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position- Consist of net position 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 position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Comparative data/reclassifications

Comparative total data for the prior year have been presented only for the individual enterprise funds 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.

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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 City Council for review. The City 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 City Council. The legal level of budgetary control is the department level. There were no budget amendments in 2012.

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 City 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 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;
- 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 City.

At year end, the City's carrying amount of deposits was \$9,102 and the bank balance was \$10,000. The bank balance was covered by federal depository insurance.

CITY OF WOODLAND, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

At December 31, 2012, 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 | N/A | < 6 months | \$ 434,595 |

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.

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

| | |
|--|-----------------------|
| Deposits | \$ 9,102 |
| Petty cash | 50 |
| Investments | <u>434,595</u> |
| Total cash and temporary investments | <u>\$ 443,747</u> |
| Governmental funds | \$ 305,233 |
| Proprietary funds | <u>138,514</u> |
| Total cash and temporary investments | <u>\$ 443,747</u> |

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments to the list on page 27 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. 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.
- *Interest Rate Risk.* The interest rate risk for investments is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the City's investment policy, 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 THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

B. Capital assets

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|-----------------------------------|------------------------------|--------------------|------------------|---------------------------|
| Business-type activities | | | | |
| Capital assets being depreciated | | | | |
| Infrastructure | \$ 892,205 | \$ - | \$ - | \$ 892,205 |
| Less accumulated depreciation for | | | | |
| Infrastructure | <u>(266,400)</u> | <u>(18,900)</u> | <u>-</u> | <u>(285,300)</u> |
| Business-type activities | | | | |
| capital assets, net | <u>\$ 625,805</u> | <u>\$ (18,900)</u> | <u>\$ -</u> | <u>\$ 606,905</u> |

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

C. Interfund transfers

The General fund transferred \$63,748 to the Street Improvement fund. The transfer was completed for the following reasons: \$60,000 for future street repair projects and \$3,748 was to transfer county road aid that had been received in the General fund.

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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.

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 | \$ 75,000 |
| General Obligation Revenue Bonds, Series 1997A | 698,775 | 2.580 | 04/15/97 | 08/20/18 | <u>212,910</u> |
| Total G.O. Revenue Bonds | | | | | <u>\$ 287,910</u> |

The annual requirement to amortize all bonds outstanding as of December 31, 2012 through maturity follows:

| Year Ending December 31, | Business-type Activities | | |
|-----------------------------|--------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2013 | \$ 46,002 | \$ 9,165 | \$ 55,167 |
| 2014 | 46,872 | 7,591 | 54,463 |
| 2015 | 47,765 | 5,996 | 53,761 |
| 2016 | 48,680 | 4,377 | 53,057 |
| 2017 | 49,620 | 2,735 | 52,355 |
| 2018 | <u>48,971</u> | <u>1,068</u> | <u>50,039</u> |
| Total | <u>\$ 287,910</u> | <u>\$ 30,932</u> | <u>\$ 318,842</u> |

Changes in long-term liabilities

During the year ended December 31, 2012, the following changes occurred in long-term liabilities.

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|--|----------------------|-------------|--------------------|-------------------|------------------------|
| Business-type activities | | | | | |
| General obligation improvement and revenue bonds | <u>\$ 333,814</u> | <u>\$ -</u> | <u>\$ (45,904)</u> | <u>\$ 287,910</u> | <u>\$ 46,002</u> |

CITY OF WOODLAND, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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.

Note 5: CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2012, the City implemented several new accounting pronouncements issued by the Government Accounting Standards Board (GASB), including Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" and Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". Changes related to these standards are reflected in the financial statements and schedules and related disclosures in Note 1.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL SCHEDULES**

CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

CITY OF WOODLAND, MINNESOTA
GENERAL FUND

BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEAR ENDED DECEMBER 31, 2012

(With comparative actual amounts for the year ended December 31, 2011)

| | 2012 | | | Variance with Final Budget | 2011 |
|--|------------------|------------|-------------------|-------------------------------|-------------------|
| | Budgeted Amounts | | Actual Amounts | | Actual Amounts |
| | Original | Final | | | |
| BUDGETARY FUND BALANCES, JANUARY 1 | \$ 248,805 | \$ 248,805 | \$ 248,805 | \$ - | \$ 227,906 |
| RECEIPTS | | | | | |
| Taxes | | | | | |
| Property taxes | 310,224 | 310,224 | 311,770 | 1,546 | 295,572 |
| Licenses and permits | 9,075 | 9,075 | 5,472 | (3,603) | 20,989 |
| Intergovernmental | | | | | |
| County | | | | | |
| County grants | 1,500 | 1,500 | 1,580 | 80 | 1,602 |
| Road aid | 2,661 | 2,661 | 3,748 | 1,087 | - |
| Total intergovernmental | 4,161 | 4,161 | 5,328 | 1,167 | 1,602 |
| Charges for services | | | | | |
| Zoning and other | 2,000 | 2,000 | 3,775 | 1,775 | 1,700 |
| Fines and forfeitures | 3,000 | 3,000 | 7,717 | 4,717 | 3,113 |
| Interest on investments | 1,000 | 1,000 | 218 | (782) | 187 |
| Miscellaneous | | | | | |
| Other | 1,000 | 1,000 | 3,187 | 2,187 | 4,158 |
| TOTAL RECEIPTS | 330,460 | 330,460 | 337,467 | 7,007 | 327,321 |
| AMOUNTS AVAILABLE FOR APPROPRIATION | 579,265 | 579,265 | 586,272 | 7,007 | 555,227 |

CITY OF WOODLAND, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

| | 2012 | | | | 2011 |
|----------------------------|------------------|---------|-------------------|-------------------------------|-------------------|
| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget | Actual Amounts |
| | Original | Final | | | |
| DISBURSEMENTS | | | | | |
| Current | | | | | |
| General government | | | | | |
| Mayor and Council | | | | | |
| Personal services | \$ 260 | \$ 260 | \$ 258 | \$ 2 | \$ 258 |
| Other services and charges | 400 | 400 | 249 | 151 | 372 |
| Total Mayor and Council | 660 | 660 | 507 | 153 | 630 |
| City Clerk | | | | | |
| Personal services | 46,955 | 46,955 | 47,129 | (174) | 45,280 |
| Supplies | 1,375 | 1,375 | 1,583 | (208) | 925 |
| Other services and charges | 5,875 | 5,875 | 3,714 | 2,161 | 3,557 |
| Total City Clerk | 54,205 | 54,205 | 52,426 | 1,779 | 49,762 |
| Assessor | | | | | |
| Other services and charges | 8,850 | 8,850 | 8,904 | (54) | 8,725 |
| Legal | | | | | |
| Other services and charges | 10,000 | 10,000 | 3,057 | 6,943 | 2,454 |
| Audit and accounting | | | | | |
| Other services and charges | 10,723 | 10,723 | 10,723 | - | 10,410 |
| Total general government | 84,438 | 84,438 | 75,617 | 8,821 | 71,981 |
| Public safety | | | | | |
| Police | | | | | |
| Other services and charges | 102,233 | 102,233 | 102,230 | 3 | 101,321 |
| Fire | | | | | |
| Personal services | 24,063 | 24,063 | 20,389 | 3,674 | 23,166 |
| Total public safety | 126,296 | 126,296 | 122,619 | 3,677 | 124,487 |

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CITY OF WOODLAND, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

| | 2012 | | | | 2011 |
|---|------------------|------------|-------------------|-------------------------------|-------------------|
| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget | Actual Amounts |
| | Original | Final | | | |
| DISBURSEMENTS - CONTINUED | | | | | |
| Current - continued | | | | | |
| Public works | | | | | |
| Streets and highways | | | | | |
| Supplies | \$ 1,700 | \$ 1,700 | \$ 1,670 | \$ 30 | \$ 2,006 |
| Other services and charges | 14,000 | 14,000 | 11,782 | 2,218 | 12,225 |
| Total streets and highways | 15,700 | 15,700 | 13,452 | 2,248 | 14,231 |
| Snow and ice removal | | | | | |
| Other services and charges | 35,000 | 35,000 | 17,007 | 17,993 | 34,666 |
| Sanitation and recycling | | | | | |
| Other services and charges | 15,360 | 15,360 | 14,965 | 395 | 13,474 |
| Engineering | | | | | |
| Other services and charges | 10,000 | 10,000 | 3,905 | 6,095 | 7,028 |
| Total public works | 76,060 | 76,060 | 49,329 | 26,731 | 69,399 |
| Miscellaneous | | | | | |
| Unallocated | | | | | |
| Other services and charges | 11,005 | 11,005 | 10,944 | 61 | 10,555 |
| TOTAL DISBURSEMENTS | 297,799 | 297,799 | 258,509 | 39,290 | 276,422 |
| OTHER FINANCING USES | | | | | |
| Transfers out | 32,661 | 32,661 | 63,748 | (31,087) | 30,000 |
| TOTAL DISBURSEMENTS AND OTHER FINANCING USES | 330,460 | 330,460 | 322,257 | 8,203 | 306,422 |
| BUDGETARY FUND BALANCES, DECEMBER 31 | | | | | |
| | \$ 248,805 | \$ 248,805 | \$ 264,015 | \$ 15,210 | \$ 248,805 |

CITY OF WOODLAND, MINNESOTA
 PROPRIETARY FUND
 COMBINING SCHEDULE OF DEBT SERVICE CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2012

| | Business-type Activities - Enterprise Funds | | |
|---|---|------------------|------------------|
| | 601 | | |
| | Water | | |
| | Prior Years | 2012 | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| User fees | \$ 50,974 | \$ 3,943 | \$ 54,917 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | | |
| Proceeds of bonds issued | 250,000 | - | 250,000 |
| Principal paid on bonds | (162,500) | (12,500) | (175,000) |
| Interest paid on bonds | (137,227) | (4,570) | (141,797) |
| Collections of special assessments | 185,867 | 14,912 | 200,779 |
| 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 | (51,846) | (2,158) | (54,004) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received on investments | 29,885 | - | 29,885 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 29,013 | 1,785 | 30,798 |
| CASH AND CASH EQUIVALENTS, JANUARY 1 | - | 29,013 | - |
| CASH AND CASH EQUIVALENTS, DECEMBER 31 | <u>\$ 29,013</u> | <u>\$ 30,798</u> | <u>\$ 30,798</u> |

Business-type Activities - Enterprise Funds

| 602 | | | | | |
|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| Sewer | | | Totals | | |
| Prior Years | 2012 | Total | Prior Years | 2012 | Total |
| \$ 144,327 | \$ 11,042 | \$ 155,369 | \$ 195,301 | \$ 14,985 | \$ 210,286 |
| 698,775 | - | 698,775 | 948,775 | - | 948,775 |
| (452,500) | (33,404) | (485,904) | (615,000) | (45,904) | (660,904) |
| (166,087) | (6,146) | (172,233) | (303,314) | (10,716) | (314,030) |
| 470,408 | 4,971 | 475,379 | 656,275 | 19,883 | 676,158 |
| 18,000 | - | 18,000 | 18,000 | - | 18,000 |
| (697,666) | - | (697,666) | (885,652) | - | (885,652) |
| (129,070) | (34,579) | (163,649) | (180,916) | (36,737) | (217,653) |
| 77,497 | 131 | 77,628 | 107,382 | 131 | 107,513 |
| 92,754 | (23,406) | 69,348 | 121,767 | (21,621) | 100,146 |
| - | 92,754 | - | - | 121,767 | - |
| <u>\$ 92,754</u> | <u>\$ 69,348</u> | <u>\$ 69,348</u> | <u>\$ 121,767</u> | <u>\$ 100,146</u> | <u>\$ 100,146</u> |

CITY OF WOODLAND, MINNESOTA
SUMMARY FINANCIAL REPORT
RECEIPTS AND DISBURSEMENTS FOR GENERAL OPERATIONS -
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Total | | Percent Increase (Decrease) |
|------------------------------------|-------------------|-------------------|-----------------------------------|
| | 2012 | 2011 | |
| RECEIPTS | | | |
| Taxes | \$ 311,770 | \$ 295,572 | 5.48 % |
| Licenses and permits | 5,472 | 20,989 | (73.93) |
| Intergovernmental | 5,328 | 1,602 | 232.58 |
| Charges for services | 3,775 | 1,700 | 122.06 |
| Fines and forfeits | 7,717 | 3,113 | 147.90 |
| Investment earnings | 253 | 215 | 17.67 |
| Miscellaneous | 3,187 | 4,158 | (23.35) |
| TOTAL RECEIPTS | \$ 337,502 | \$ 327,349 | 3.10 % |
| Per Capita | \$ 772 | \$ 749 | 3.10 % |
| DISBURSEMENTS | | | |
| Current | | | |
| General government | \$ 75,617 | \$ 71,981 | 5.05 % |
| Public safety | 122,619 | 124,487 | (1.50) |
| Public works | 111,862 | 90,303 | 23.87 |
| Miscellaneous | 10,944 | 10,555 | 3.69 |
| TOTAL DISBURSEMENTS | \$ 321,042 | \$ 297,326 | 7.98 % |
| Per Capita | \$ 735 | \$ 680 | 7.98 % |
| General Fund Balance - December 31 | \$ 264,015 | \$ 248,805 | 6.11 % |
| Per Capita | 604 | 569 | 6.11 |

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 55331. Questions about this report should be directed to Shelley Souers, City Clerk at (952) 474-4755.

SUPPLEMENTARY INFORMATION - UNAUDITED

CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

CITY OF WOODLAND, MINNESOTA
 SUPPLEMENTARY INFORMATION - UNAUDITED
 DECEMBER 31, 2012

SCHEDULE OF ACCOUNTS RECEIVABLE

| FUND | SOURCE OF REVENUE | PURPOSE | AMOUNT |
|---------|-------------------|-------------------------------|------------------|
| General | City of Deephaven | Building Permit (4th Quarter) | \$ 9,138 |
| General | Hennepin County | Final Tax Settlement Payment | 7,912 |
| | TOTAL | | <u>\$ 17,050</u> |

SCHEDULE OF ACCOUNTS PAYABLE AND CONTINGENT LIABILITIES

| FUND | VENDOR NAME | ITEM AND PURPOSE | AMOUNT |
|---------|--------------------|-----------------------------------|-----------------|
| General | Bolton & Menk | Engineer - General Fund | \$ 60 |
| General | City of Deephaven | Zoning | 60 |
| General | Cornerstone | Snow Plowing (December 2012) | 5,525 |
| General | Tallen & Baertschi | Prosecution Charges (4th Quarter) | 383 |
| | TOTAL | | <u>\$ 6,028</u> |

OTHER REQUIRED REPORTS

CITY OF WOODLAND
WOODLAND, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

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5201 Eden Avenue
Suite 250
Edina, MN 55436

AUDITOR'S REPORT ON LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Woodland, Minnesota

We have audited the financial statements of each major fund of the governmental and proprietary funds of the City of Woodland, Minnesota (the City), as of and for the year ended December 31, 2012, and have issued our report thereon dated February 20, 2013. 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 Political Subdivisions*, 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 Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories except that we did not test for compliance in tax increment financing because the City has not established a tax increment financing district.

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, the City Council, others within the City, 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 20, 2013
Minneapolis, Minnesota


ABDO, EICK & MEYERS, LLP
Certified Public Accountants



5201 Eden Avenue
Suite 250
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

We have audited the financial statements of each major fund of the governmental and proprietary funds of the City of Woodland, Minnesota (the City), as of and for the year ended December 31, 2012, and have issued our report thereon dated February 20, 2013. 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.

Internal Control Over Financial Reporting

Management of the City of Woodland, Minnesota, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, 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 over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to 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 2012-1 in the Schedule of Findings and Responses to be a significant deficiency in internal control over financial reporting.

We noted certain matters that we reported to management of the City in a separate letter dated February 20, 2013.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the City, 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 20, 2013
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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CITY OF WOODLAND, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012

Finding Description

2012-1 **Preparation of financial statements**

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. 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. 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 cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause: From a practical standpoint, we both prepare the statements and determine the fairness of the presentation at the same time in connection with our audit. This is not unusual for us to do with organizations of your size.

Effect: 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. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management 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.

Recommendation: Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision to accept the degree of risk associated with this condition because of cost or other considerations. Regarding the specific situations listed above, we would offer the following recommendations: 1) Utilize a disclosure checklist to ensure that all required disclosures are present and agree to work papers, and 2) Agree your accounting information from your financial software to the amounts reported in the financial statements.

Management response:

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