

CITY OF SPRING GROVE
FINANCIAL REPORT
DECEMBER 31, 2010

TABLE OF CONTENTS

		<u>Page</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		4
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>	
Government-Wide Financial Statements		
Statement of Net Assets	A	5
Statement of Activities	B	6
Governmental Fund Financial Statements		
Balance Sheet	C	7-8
Statement of Revenues, Expenditures and Changes in Fund Balances	D	9-10
Proprietary Funds		
Statement of Net Assets	E	11
Statement of Revenues, Expenses and Changes in Net Assets	F	12
Statement of Cash Flows	G	13
Notes to Financial Statements		14-30
Required Supplementary Information		
Budgetary Comparison Schedule		
Cash Basis		
General Fund		31-32
Budget to GAAP Reconciliation		33
Notes to Required Supplementary Information-Budgetary Reporting		34
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION		35
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>	
Governmental Activities		
Nonmajor Governmental Funds		
Combining Balance Sheet	1	36
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	37
Nonmajor Special Revenue Funds		
Combining Balance Sheet	3	38
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4	39
Nonmajor Debt Service Funds		
Combining Balance Sheet	5	40
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	6	41
Nonmajor Capital Projects Funds		
Combining Balance Sheet	7	42
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	8	43
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> AND THE <i>MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE</i>		44-46
MANAGEMENT LETTER		47

CITY OF SPRING GROVE

OFFICIALS

Title	Name	Term Expires
Mayor	Heather Gray	January 2011
Council Member	Steve Kemp	January 2013
Council Member	Sarah Holland	January 2011
Council Member	Nancy Nelson	January 2011
Council Member	Saundra Solum	January 2013
City Clerk/City Administrator	Theresa Coleman	

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**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

**To the Honorable Mayor and
Members of the City Council
City of Spring Grove
Spring Grove, Minnesota**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Spring Grove as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Spring Grove's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Spring Grove as of December 31, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information on pages 4 and 31 through 34, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted other post employment benefit information, that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2011, on our consideration of the City of Spring Grove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
June 14, 2011

**CITY OF SPRING GROVE
SPRING GROVE, MINNESOTA**

**Management's Discussion and Analysis
For the Fiscal Year Ending December 31, 2010**

Management of City of Spring Grove provides this Management's Discussion and Analysis of City of Spring Grove's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended December 31, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- In total, net assets increased by \$182,661. Net assets of governmental activities decreased by \$38,512, which represents 1.4% decrease from fiscal year 2009.
- General fund revenue accounted for \$931,289 in revenue or 83.99% of all revenue. General fund expenditures accounted for \$850,638 in disbursements or 76.99% of all expenditures.

USING THE BASIC FINANCIAL STATEMENTS

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand City of Spring Grove as a financial whole, or as an entire operating entity.

The government-wide financial statements consist of a statement of net assets and a statement of activities. These provide information about the activities of the City of Spring Grove as a whole and present an overall view of the City's finances and a longer-term view of those finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report City of Spring Grove's operations in more detail than the government-wide statements by providing information about the most significant funds with all other nonmajor funds presented in total in a single column. For the City of Spring Grove, the general fund, Aquatic Center-debt service fund, and Aquatic Center-capital projects fund are the most significant funds. The remaining statements provide financial information about activities for which the City of Spring Grove acts solely as an agent or custodian for the benefit of those outside of the government.

The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the City's budget for the year.

Other supplementary information provides detailed information about the nonmajor special revenue, debt service and discretely presented component units.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of net assets and the statement of activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

In the statement of net assets and statement of activities, the City is divided into two distinct kinds of activities:

Governmental Activities: Most of the City's programs and services are reported here, including public safety, public works, culture and recreation, general government, debt service and capital projects. Property tax and state aid finance most of these activities.

Business-type Activities: These services are provided on a charge for goods or services basis to recover all of the expenses for the goods or services provided. These include the City's utilities which specifically are the water system, electric system and sewer system and the Municipal Liquor Store.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial reports provide more detailed information about the City's major funds. The City uses different funds in accordance with the Minnesota City Handbooks, as required by the State of Minnesota, to record its financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund, Aquatic Center–debt service fund, and Aquatic Center–capital projects fund.

Governmental Funds

Governmental funds account for most of the City's basic services. The funds focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The City's governmental funds include the general fund, special revenue funds, capital projects funds and debt service funds.

The governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures and change in fund balances.

Proprietary Funds

Proprietary funds account for the City's electric, water and waste water treatment, sanitary sewer systems and the Municipal Liquor Store. The enterprise funds account for the charges for goods and services received to recover expenses for goods or services provided.

Services for which the City charges a fee are generally reported in the proprietary funds. Proprietary funds are reported in the same way as the governmental-wide financial statements. The proprietary funds required financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows.

A summary reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets.

	Condensed Statement of Net Assets		
	Governmental Activities		
	2010	2009	Percent Change
Current and other assets	\$ 1,640,779	\$ 1,525,139	7.58%
Capital assets	3,302,153	3,548,247	-6.94%
Total assets	\$ 4,942,932	\$ 5,073,386	-2.57%
Long-term debt outstanding	\$ 2,199,621	\$ 2,292,830	-4.07%
Other liabilities	79,253	77,986	1.62%
Total liabilities	2,278,874	2,370,816	-3.88%
Net assets			
Invested in capital assets, net of related debt	1,688,258	1,864,114	-9.43%
Restricted	52,467	41,814	25.48%
Unrestricted	923,333	796,642	15.90%
Total net assets	2,664,058	2,702,570	-1.43%
Total liabilities and net assets	\$ 4,942,932	\$ 5,073,386	-2.57%

	Business-type Activities		
	2010	2009	Percent Change
Current and other assets	\$ 946,353	\$ 797,892	18.61%
Capital assets	1,126,069	1,037,862	8.50%
Total assets	\$ 2,072,422	\$ 1,835,754	12.89%
Long-term debt outstanding	\$ 37,118	\$ 37,426	-0.82%
Other liabilities	125,322	109,518	14.43%
Total liabilities	162,440	146,944	10.55%
Net assets			
Invested in capital assets, net of related debt	1,126,070	1,037,862	8.50%
Unrestricted	783,912	650,948	20.43%
Total net assets	1,909,982	1,688,810	13.10%
Total liabilities and net assets	\$ 2,072,422	\$ 1,835,754	12.89%

The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with the sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—increased for the governmental activities approximately \$126,691 or 15.9% and increased for the business-type activities by approximately \$132,964 or 20.4%.

The following analysis shows the change in net assets for the year ending December 31, 2010:

	Changes in Net Assets		
	Governmental Activities		
	2010	2009	Percent Change
Revenues:			
Program revenue			
Charges for service	\$ 90,243	\$ 89,140	1.24%
Operating grants	27,439	21,039	30.42%
General revenue			
Property and other city taxes levied	419,178	453,370	-7.54%
Grants and contributions not restricted to specific programs	479,743	505,990	-5.19%
Investment earnings	16,551	18,667	-11.34%
Miscellaneous items	45,009	40,084	12.29%
Transfers	137,991	111,695	23.54%
Total revenues	<u>1,216,154</u>	<u>1,239,985</u>	<u>-1.92%</u>
Program expenses:			
General government	292,213	171,984	69.91%
Public safety	259,629	276,740	-6.18%
Public works	169,288	166,787	1.50%
Culture and recreation	341,436	444,327	-23.16%
Community and economic development	60,579	67,034	-9.63%
Interest on long-term debt	104,473	129,603	-19.39%
Capital outlay	27,048	30,020	-9.90%
Transfers		-	100.00%
Total expenses	<u>1,254,666</u>	<u>1,286,495</u>	<u>-2.47%</u>
Decrease in net assets	(38,512)	(46,510)	-17.20%
Net assets Beginning of Year	<u>2,702,570</u>	<u>2,749,080</u>	<u>-1.69%</u>
Net assets End of Year	<u>\$ 2,664,058</u>	<u>\$ 2,702,570</u>	<u>-1.43%</u>

	Business-type Activities		
	2010	2009	Percent Change
Revenues:			
Program revenue			
Charges for service	\$ 2,064,010	\$ 1,919,208	7.54%
General revenue			
Investment earnings	4,728	4,874	-3.00%
Miscellaneous items	21,527	16,908	27.32%
Total revenues	2,090,265	1,940,990	7.69%
Program expenses:			
Other expenses	1,731,102	1,676,552	3.25%
Transfers	137,991	111,695	0.00%
Total expenses	1,869,093	1,788,247	4.52%
Increase in net assets	221,172	152,743	-44.80%
Net assets Beginning of Year	1,688,810	1,536,067	9.94%
Net assets End of Year	\$ 1,909,982	\$ 1,688,810	13.10%

INDIVIDUAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$1,513,604, a \$141,902 increase of the 2009 fiscal year end balance of \$1,371,702.

- The general fund's ending fund balance increased during fiscal year 2010 through an increase in property taxes. The ending fund balance showed an increase from the prior year of \$147,758 to \$987,204.
- Aquatic Center - capital projects fund balance decreased due to transferring monies out of the fund.
- Aquatic Center – debt service fund balance increased due to transfers in to cover bond payments.

BUDGETARY HIGHLIGHTS

The City Council annually adopts a budget on the cash basis as required by Minnesota law. Proper public notice and a required public hearing are held before final approval of the budget. The budget document presents functional disbursements by function and the legal level of control is at the expense level by the different functions.

The following chart shows the original budget for fiscal 2010 as well as the actual receipts and expenses for the year:

	Budgetary Comparison Schedule		
	Actual Basis	Budget Final	Variance
RECEIPTS			
Local sources	\$ 499,692	\$ 511,386	\$ (11,694)
State sources	426,637	399,112	27,525
Total receipts	\$ 926,329	\$ 910,498	\$ 15,831
EXPENDITURES			
General government	\$ 166,938	\$ 173,611	\$ 6,673
Public safety	267,337	293,829	26,492
Streets and highways	111,243	158,628	47,385
Culture and recreation	284,323	324,224	39,901
Miscellaneous	-	-	-
Total expenditures	\$ 829,841	\$ 950,292	\$ 120,451

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2010, the City of Spring Grove had \$3,302,153 invested in a broad range of capital assets, including infrastructure and land for the governmental activities. For the enterprise funds, the City had investment of \$1,126,069 in land and water and sewer systems.

The City had depreciation expense of \$260,443 for fiscal year 2010 and total accumulated depreciation of \$3,982,779 as of December 31, 2010 for the governmental activities. The City had depreciation expense of \$36,417 for fiscal year 2010 and accumulated depreciation of \$3,255,050 as of December 31, 2010 for the business-type activities. More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

Debt

At year-end, the City had approximately \$2,199,621 in bonds and other debt compared to approximately \$2,292,830 last year. The business-type activities had \$37,118 of the debt at year-end compared to \$37,426 last year. More detail is presented in Note 8 to the financial statements.

The Minnesota Statutes limits the amount of long-term debt that the City can issue to two percent of the estimated market value of taxable property within the City's limits. As of December 31, 2010, the City's outstanding debt which falls under this requirement totaled \$None which is significantly below this \$1,057,002 limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the City was aware of these circumstances that will significantly affect its financial health:

- The City of Spring Grove anticipates replacement of water, sewer and storm water utilities; replacement of curbs, gutters and sidewalks; and underground electrical and street light replacement to coincide with the mill and overlay of Minnesota State Highway 44 through downtown Spring Grove in 2013. The Council has initiated planning with WHKS & CO, the Minnesota Department of Transportation, David Drown and Associates and USDA Rural Development for the implementation and financing of the Main Street project as well procurement of any potential grant or zero interest monies.
- Other future utility projects that have not been financed or planned at this time include a new water storage facility, replacement of several blocks of substandard water delivery systems, and completion of previously engineered water projects.
- The City of Spring Grove will again have a \$30,547 reduction to the Market Value Homestead Credit (MVHC) for 2011. The City has reserves to cover the reduction and the Council has the option to make an additional transfer from the electric fund to cover both the reduction and the potential delay of Local Government Aid (LGA) that may result from a state government shut down.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of City of Spring Grove's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office, City of Spring Grove, 118 1st Ave NW, P.O. Box 218, Spring Grove, MN, 55974.

CITY OF SPRING GROVE
STATEMENT OF NET ASSETS
December 31, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash	\$ 1,262,587	\$ 571,232	\$ 1,833,819	\$ 58,854
Investments	182,842	139,298	322,140	1,500
Receivables				
Accounts and unbilled usage, net	2,175	206,921	209,096	
Pledges receivable	69,908		69,908	
Accrued interest				4,061
Notes receivable, due within one year	12,161		12,161	98,227
Inventories		24,471	24,471	
Prepaid expenditures	10,755	4,431	15,186	
Notes receivable, due after one year	39,581		39,581	1,637,679
Pledges receivable, net discount	60,770		60,770	
Nondepreciable assets	37,968	41,614	79,582	81,250
Capital assets, net of accumulated depreciation	3,264,185	1,084,455	4,348,640	168,183
Total assets	\$ 4,942,932	\$ 2,072,422	\$ 7,015,354	\$ 2,049,754
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 13,104	\$ 114,188	\$ 127,292	
Accrued taxes payable		2,289	2,289	
Salaries and benefits payable	13,720	8,845	22,565	
Accrued interest payable	52,429		52,429	
Long-term liabilities				
Portion due within one year				
Bonds payable	25,000		25,000	\$ 65,000
Notes payable, bank	10,739		10,739	4,000
Leases payable	65,000		65,000	
Compensated absences	35,726	14,782	50,508	
Portion due after one year				
Bonds payable	525,000		525,000	1,538,000
Leases payable	1,460,000		1,460,000	
Pledges payable				45,000
Notes payable, bank	78,156		78,156	
Compensated absences		22,336	22,336	
Total liabilities	2,278,874	162,440	2,441,314	1,652,000
NET ASSETS				
Invested in capital assets, net of related debt	1,688,258	1,126,070	2,814,328	
Restricted for				
Other special revenue	52,467		52,467	
Unrestricted	923,333	783,912	1,707,245	397,754
Total net assets	2,664,058	1,909,982	4,574,040	397,754
Total liabilities and net assets	\$ 4,942,932	\$ 2,072,422	\$ 7,015,354	\$ 2,049,754

See Notes to Financial Statements.

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CITY OF SPRING GROVE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

Functions and Programs	Expenses	Program Revenues	
		Fees, Fines and Charges for Services	Operating Grants, Contributions and Restricted Interest
Primary Government			
Governmental activities			
General government	\$ 292,213	\$ 2,410	\$ 14,474
Public safety	259,629	4,786	12,965
Public works	169,288		
Culture and recreation	341,436	83,047	
Community and economic development	60,579		
Interest on long-term debt	104,473		
Capital outlay	27,048		
Total governmental activities	<u>1,254,666</u>	<u>90,243</u>	<u>27,439</u>
Business-type activities			
Water utilities	126,120	197,183	
Sewer utilities	190,613	190,516	
Light utilities	1,062,109	1,308,170	
Liquor store	352,260	368,141	
Total business-type activities	<u>1,731,102</u>	<u>2,064,010</u>	<u>-</u>
Total primary government	<u>\$ 2,985,768</u>	<u>\$ 2,154,253</u>	<u>\$ 27,439</u>
Component Unit			
Economic development authority	<u>\$ 185,369</u>	<u>\$ 186,393</u>	
General Revenues			
Property and other city taxes levied for			
General purposes			
Debt service			
Grants and contributions not restricted to specific programs			
Investment earnings			
Miscellaneous items			
Transfers			
Total general revenues, special item and transfers			
Change in net assets			
Net assets, beginning of year			
Net assets, end of year			

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Authority
\$ (275,329)		\$ (275,329)	
(241,878)		(241,878)	
(169,288)		(169,288)	
(258,389)		(258,389)	
(60,579)		(60,579)	
(104,473)		(104,473)	
(27,048)		(27,048)	
<u>(1,136,984)</u>	<u>\$ -</u>	<u>(1,136,984)</u>	<u>\$ -</u>
	71,063	71,063	
	(97)	(97)	
	246,061	246,061	
	15,881	15,881	
<u>-</u>	<u>332,908</u>	<u>332,908</u>	<u>-</u>
<u>(1,136,984)</u>	<u>332,908</u>	<u>(804,076)</u>	<u>-</u>
			<u>1,024</u>
411,016		411,016	
8,162		8,162	
479,743		479,743	
16,551	4,728	21,279	
45,009	21,527	66,536	
137,991	(137,991)		
<u>1,098,472</u>	<u>(111,736)</u>	<u>986,736</u>	<u>-</u>
(38,512)	221,172	182,660	1,024
<u>2,702,570</u>	<u>1,688,810</u>	<u>4,391,380</u>	<u>396,730</u>
<u>\$ 2,664,058</u>	<u>\$ 1,909,982</u>	<u>\$ 4,574,040</u>	<u>\$ 397,754</u>

CITY OF SPRING GROVE
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010

	General	Debt Service Aquatic Center	Capital Projects Aquatic Center	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 818,645	\$ 88,477	\$ 237,691	\$ 117,774	\$ 1,262,587
Investments	182,842				182,842
Receivables					
Accounts	2,175				2,175
Pledges receivable			69,908		69,908
Notes receivable				12,161	12,161
Due from other funds				3,600	3,600
Prepaid expenditures	9,972			783	10,755
Total assets	\$ 1,013,634	\$ 88,477	\$ 307,599	\$ 134,318	\$ 1,544,028
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 12,710			\$ 394	\$ 13,104
Due to other funds				3,600	3,600
Salaries and benefits payable	13,720				13,720
Total liabilities	26,430	\$ -	\$ -	3,994	30,424
FUND BALANCES					
Reserved for					
Insurance	9,972			783	10,755
Unreserved					
General fund	977,232				977,232
Capital projects			307,599	59,076	366,675
Debt service		88,477		17,998	106,475
Special revenue fund				52,467	52,467
Total fund balances	987,204	88,477	307,599	130,324	1,513,604
Total liabilities and fund balances	\$ 1,013,634	\$ 88,477	\$ 307,599	\$ 134,318	\$ 1,544,028

See Notes to Financial Statements.

CITY OF SPRING GROVE
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 1,513,604
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds, net of accumulated depreciation of	
\$ 3,982,779	3,302,153
Other long-term assets are not available to pay for current period expenditures	100,351
Other liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds:	
Bonds payable	(550,000)
Leases payable	(1,613,895)
Accrued interest	(52,429)
Compensated absences	(35,726)
	<hr/>
Net assets of governmental activities	<u>\$ 2,664,058</u>

See Notes to Financial Statements.

CITY OF SPRING GROVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

	General	Debt Service Aquatic Center	Capital Projects Aquatic Center	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 292,972	\$ 98,252		\$ 8,162	\$ 399,386
Special assessments				19,792	19,792
Licenses and permits	2,410				2,410
Intergovernmental	437,181				437,181
Charges for service	83,047				83,047
Fines and forfeits	4,786				4,786
Investment earnings	13,161		\$ 2,313	1,077	16,551
Contributions and donations	55,995		35,600		91,595
Miscellaneous	41,737			12,304	54,041
Total revenues	931,289	98,252	37,913	41,335	1,108,789
EXPENDITURES					
Current operating					
General government	165,953				165,953
Public safety	219,674		90		219,764
Streets and highways	111,804				111,804
Culture and recreation	311,810				311,810
Community and economic development				60,579	60,579
Capital outlay	26,397				26,397
Debt service					
Principal	9,761	60,000		32,422	102,183
Interest and other charges	5,239	74,620		26,529	106,388
Total expenditures	850,638	134,620	90	119,530	1,104,878
EXCESS REVENUES OVER (UNDER) EXPENDITURES	80,651	(36,368)	37,823	(78,195)	3,911
OTHER FINANCING SOURCES (USES)					
Transfers in	191,025	57,500		70,884	319,409
Transfers out	(123,918)		(57,500)		(181,418)
Total other financing sources (uses)	67,107	57,500	(57,500)	70,884	137,991
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	147,758	21,132	(19,677)	(7,311)	141,902
FUND BALANCES, beginning of year	839,446	67,345	327,276	137,635	1,371,702
FUND BALANCES, end of year	\$ 987,204	\$ 88,477	\$ 307,599	\$ 130,324	\$ 1,513,604

See Notes to Financial Statements.

CITY OF SPRING GROVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities		
Net change in fund balances - total governmental funds	\$	141,902
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.		
Depreciation	\$	(260,443)
Capital outlays		14,349
		<u>(246,094)</u>
Receipt of long-term receivable are included in the governmental funds but decrease long-term receivables in the statement of activities.		(30,627)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		100,001
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		3,098
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Compensated absences		<u>(6,792)</u>
Change in net assets of governmental activities	\$	<u>(38,512)</u>

See Notes to Financial Statements.

CITY OF SPRING GROVE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010

	Enterprise Funds				Total
	Water	Sewer	Light	Liquor	
ASSETS					
Cash	\$ 130,358	\$ 39,823	\$ 376,122	\$ 24,929	\$ 571,232
Investments			109,197	30,101	139,298
Receivables					
Accounts and unbilled usage, net	29,942	30,140	146,839		206,921
Inventory				24,471	24,471
Prepaid expenses	357	533	835	2,706	4,431
Total current assets	160,657	70,496	632,993	82,207	946,353
Noncurrent assets					
Land		34,114		7,500	41,614
Net capital assets	230,080	733,996	56,558	63,821	1,084,455
Total noncurrent assets	230,080	768,110	56,558	71,321	1,126,069
Total assets	\$ 390,737	\$ 838,606	\$ 689,551	\$ 153,528	\$ 2,072,422
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 5,607	\$ 23,062	\$ 81,310	\$ 4,209	\$ 114,188
Accrued taxes payable				2,289	2,289
Salaries and benefits payable	432	431	4,945	3,037	8,845
Compensated absences	163	164	13,523	932	14,782
Long-term liabilities					
Compensated absences			22,321	15	22,336
Total liabilities	6,202	23,657	122,099	10,482	162,440
Net assets					
Invested in capital assets, net of related debt	230,080	768,110	56,559	71,321	1,126,070
Unrestricted	154,455	46,839	510,893	71,725	783,912
Total net assets	384,535	814,949	567,452	143,046	1,909,982
Total liabilities and net assets	\$ 390,737	\$ 838,606	\$ 689,551	\$ 153,528	\$ 2,072,422

See Notes to Financial Statements.

CITY OF SPRING GROVE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010

	Enterprise Funds				Total
	Water	Sewer	Light	Liquor	
OPERATING REVENUES					
Charges for service	\$ 196,937	\$ 153,768	\$ 1,308,170	\$ 362,628	\$ 2,021,503
Less: cost of sales			(910,761)	(217,219)	(1,127,980)
Miscellaneous	246	36,748		5,513	42,507
Total operating revenues	197,183	190,516	397,409	150,922	936,030
OPERATING EXPENSES					
Personal services	39,475	39,475	82,596	79,209	240,755
Health and life insurance contributions	9,367	11,057	14,549		34,973
Pension contributions	2,575	2,575	5,323	4,524	14,997
Utilities	35,548	48,299	862	11,621	96,330
Repairs and maintenance	10,614	5,206	8,123	2,388	26,331
Supplies	4,325	9,483	7,320	3,238	24,366
Insurance claims and expenses	3,780	3,195	8,448	16,553	31,976
Depreciation expense	10,566	24,149	1,701	5,377	41,793
Other expenses	9,870	47,174	22,426	12,131	91,601
Total operating expenses	126,120	190,613	151,348	135,041	603,122
Total operating income (loss)	71,063	(97)	246,061	15,881	332,908
NONOPERATING REVENUES (EXPENSES)					
Interest income	489	745	2,927	567	4,728
Refunds and credits			9,484	493	9,977
Deposits			11,550		11,550
Net nonoperating revenues (expenses)	489	745	23,961	1,060	26,255
Income before contributions and transfers	71,552	648	270,022	16,941	359,163
CAPITAL CONTRIBUTIONS AND TRANSFERS					
Transfers out	(5,151)	(2,500)	(130,340)		(137,991)
	(5,151)	(2,500)	(130,340)	-	(137,991)
Change in net assets	66,401	(1,852)	139,682	16,941	221,172
NET ASSETS, beginning of year (restated)	318,134	816,801	427,770	126,105	1,688,810
NET ASSETS, end of year	\$ 384,535	\$ 814,949	\$ 567,452	\$ 143,046	\$ 1,909,982

See Notes to Financial Statements.

CITY OF SPRING GROVE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010

	Business-type Activities - Enterprise Funds				Total
	Water	Sewer	Light	Liquor	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from rent				\$ 4,577	\$ 4,577
Cash received from charges for services	\$ 185,398	\$ 181,478	\$ 1,278,822	363,564	2,009,262
Cash payments to employees for services	(36,783)	(36,783)	(76,035)	(73,382)	(222,983)
Cash payments to suppliers for services	(76,676)	(105,563)	(971,680)	(252,195)	(1,406,114)
Other operating payments paid on employees' behalf	(5,315)	(5,315)	(11,121)	(20,715)	(42,466)
Net cash provided by operating activities	<u>66,624</u>	<u>33,817</u>	<u>219,986</u>	<u>21,849</u>	<u>342,276</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating transfers in (out)	(5,151)	(2,500)	(130,341)	-	(137,992)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Refunds and credits			9,484	493	9,977
Customer deposits			11,550		11,550
Acquisition of capital assets	(48,500)	(81,500)			(130,000)
Net cash (used in) provided by capital and related financing activities	<u>(48,500)</u>	<u>(81,500)</u>	<u>21,034</u>	<u>493</u>	<u>(108,473)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	489		2,927	567	3,983
Purchase of investments			(1,920)	(567)	(2,487)
Net cash provided by investing activities	<u>489</u>	<u>-</u>	<u>1,007</u>	<u>-</u>	<u>1,496</u>
Net increase (decrease) in cash and cash equivalents	13,462	(50,183)	111,686	22,342	97,307
CASH AND CASH EQUIVALENTS, beginning of year	<u>116,896</u>	<u>90,006</u>	<u>264,436</u>	<u>2,587</u>	<u>473,925</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 130,358</u>	<u>\$ 39,823</u>	<u>\$ 376,122</u>	<u>\$ 24,929</u>	<u>\$ 571,232</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 71,063	\$ (97)	\$ 246,061	\$ 15,881	\$ 332,908
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	10,566	24,149	1,701	5,377	41,793
(Increase) decrease in accounts receivable	(11,786)	(8,918)	(29,348)		(50,052)
(Increase) decrease in prepaid expense	(90)	(3)	(14)		(107)
Decrease in inventory				1,492	1,492
Increase (decrease) in accounts payable	(3,081)	18,734	823	(578)	15,898
Increase (decrease) in salaries and benefits payable	87	86	817	(308)	682
Increase (decrease) in accrued compensated absences	(135)	(134)	(54)	(15)	(338)
Net cash provided by operating activities	<u>\$ 66,624</u>	<u>\$ 33,817</u>	<u>\$ 219,986</u>	<u>\$ 21,849</u>	<u>\$ 342,276</u>

See Notes to Financial Statements.

CITY OF SPRING GROVE

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The City of Spring Grove is incorporated under Minnesota Statutes. The City operates under the statutory form of government and provides the following services: public safety, highway and streets, sanitation, public improvements, utilities (lights, water and sewer), liquor store sales, planning and zoning and general administrative services.

The financial statements of the City of Spring Grove have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

b. Significant Accounting Policies

Reporting Entity

For financial reporting purposes, City of Spring Grove has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component 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 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 City 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 City; or the organization is fiscally dependent on the primary government. Also, any other organizations that due to the nature of significance of their relationship with the City should be included in the financial statements as component units.

The City has one component unit which meets the Governmental Accounting Standards Board criteria. The City's component unit is the Economic Development Authority. The Economic Development Authority was established to assist the economic development within the City. The activities of the Economic Development Authority are reported using the discrete method.

Government-wide Financial Statements

The statement of net assets and the statement of activities report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by property tax and intergovernmental revenues, or other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Fund Financial Statements

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The City reports the following major governmental funds:

Governmental

General Fund

The general fund is the chief operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Capital Projects Funds

The capital projects funds are used to account for all resources used in the acquisition and construction of capital facilities. The major fund in this category and its purposes is as follows:

Aquatic Center

This fund is used for the City to collect funds to be used for paying off the debt for the municipal swimming pool.

Debt Service Funds

The debt service funds are utilized to account for the payment of interest and principal on the City's general long-term debt. The major fund in this category and its purpose is as follows:

Aquatic Center

This fund is used for the City to collect funds to be used for the payment of the capital lease payable.

The City reports the following major proprietary funds:

Enterprise Funds

Enterprise funds are used to account for operations and activities that are financed and operated in a manner similar to a private business enterprise and where the costs of providing goods or services to the general public on a continuing basis are expected to be financed or recovered primarily through user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City utilizes enterprise funds to account for the operation and maintenance of the electric system, water and waste water treatment, sanitary sewer systems of the City and the Municipal Liquor Store.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Measurement Focus

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements.

On the government-wide statement of net assets and the statement of activities, both governmental and business-type activities are presented using the “economic resources” measurement focus as defined below in item b.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate.

- a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available spendable resources.” Governmental fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in fund balances. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.
- b. The proprietary funds are accounted for on economic resources measurement focus. This means that all assets and all liabilities, whether current or noncurrent, associated with their activity are included on their statements of net assets. In reporting the financial activity on the proprietary fund statements, the City applies all applicable GASB pronouncements. As allowed in Section P80 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide and proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized as earned, and expenses are recognized when incurred. Property tax is recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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 City’s enterprise funds are charges to customers for sales and services. Operating expenses for the 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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the liability is incurred, if measurable, except for un-matured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

Revenues susceptible to accrual under the modified accrual basis of accounting are property tax, intergovernmental revenue (shared revenues, grants and reimbursements from other governments), and charges for service and interest revenue. Revenues from licenses and permits, fines and forfeitures, refunds and reimbursements and other miscellaneous sources are generally recognized when received in cash as they are generally not measurable until actually received.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents

The City maintains one primary demand deposit account through which the majority of the City's cash resources are processed. The funds, which have issued warrants in excess of their share of the account balance, are considered to have borrowed these amounts from other funds. Interest earned on the checking and money market accounts are recorded in the appropriate funds. Interest earned on the investments is recorded in each fund. All of the cash and investments carried in the financial statement, which consist of bank checking and savings accounts and certificates of deposit are stated at cost. Cost approximates fair value at December 31, 2010.

For purposes of the statement of cash flows, money market accounts and all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivables

Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy date, which is the date that the tax asking is certified by the County Board of Commissioners. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Property taxes attach as an enforceable lien on property as of January 1. The County bills and collects all property taxes for the City.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Accounts and Unbilled Usage

Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Notes Receivables

Notes receivables are recorded in the governmental fund for the receivables due from various local businesses to repay the money the businesses borrowed from the City to improve their place of business.

Pledges Receivables

Pledges receivables are recorded in the governmental fund for the receivables due from various individual and local businesses that have pledged donations to pay for the construction of the new Aquatic Center.

Due from and Due to Other Funds

During the course of its operations, the City has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of December 31, 2010, balances of interfund amounts receivable or payable have been recorded. Interfund payables and receivables are reported on the fund financial statements.

Inventories

Inventories are valued at cost using the first-in/first-out method. Inventories in the enterprise funds consist of materials and supplies and items for resale material and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Prepaid Expenditures

Payments made for insurance for a future period beyond December 31, 2010 are recorded as prepaid insurance. The fund balances in the governmental fund types have been reserved for the prepaid expenditures recorded in those funds. This reflects the amount of net assets not currently available for expenditure.

Capital Assets

Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary fund are capitalized in the fund in which they are utilized. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Capital Assets (Continued)

Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years:

Asset Class	Amount
Building and improvements	\$ 25,000
Infrastructure	100,000
Land	50,000
Land improvements	10,000
Machinery, equipment and vehicles	5,000
Other assets	5,000

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Building and improvements	20-40
Infrastructure	20-50
Land improvements	5-20
Machinery, equipment and vehicles	5-20
Other assets	5

Compensated Absences

City employees earn paid leave at the following rates:

Years of Service	Paid Time Off Earned (Hours)		Maximum Accrual (Hours)	
	Nonexempt	Exempt	Nonexempt	Exempt
0-1	136	176	80	120
1-4	176	216	120	240
5-9	216	256	240	480
10-14	256	296	480	720
15+	296	336	720	720

Employees are not allowed to accrue paid time off beyond the defined maximum accrual and will lose it if it is not used. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. These accumulations are not recognized as expenditures by the City until used. The City's policy is to payoff accumulated hours at termination of employment at the rate of \$2 per hour to a maximum of 720 hours.

Long-term Liabilities

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities column in the statement of net assets and the proprietary fund statement of net assets.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Long-term Liabilities (Continued)

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

In the governmental fund financial statements, reservation of fund balances are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Reserved fund balances are used first when an expenditure is incurred for purposes for both reserved and unreserved fund balances.

Net Assets

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets consists of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets are used first when an expense is incurred for purposes for both restricted and unrestricted net assets.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information.

Revenues, Expenditures and Expenses

Property tax revenue recognized in the governmental funds become due and collectible in May and October of the fiscal year with a 10% and 14% per year penalty and interest for homesteads and commercial property, respectively for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period January 1, 2010 through December 31, 2010.

Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Federal and state grants, primarily capital grants, are recorded as revenue when the expenditures for the purpose of the grant have been incurred. Substantially all other shared revenues are recorded during the period when received from the collecting authority, the State of Minnesota.

Economic Dependency

Northern Engraving is a business within the City limits that uses the City's utilities. Northern Engraving's business amounts to about fifty percent of the commercial use of the utilities. The business is back to operating on a full-time basis and will cause a great impact on the revenues received in the enterprise funds.

NOTES TO FINANCIAL STATEMENTS

2. Cash and Pooled Investments

The City is authorized to deposit funds in national banks, insured state banks, credit unions and thrift institutions. The City is authorized by statute to invest public funds in obligations of the U.S. Government, its agencies and instrumentalities; shares of a registered investment company who invests in U.S. Government and agency issues; A-rated tax-exempt securities and fully collateralized by government securities; certain state and local government obligations, bankers acceptances, high quality commercial paper, guaranteed investment contracts and mortgage backed securities that are direct obligations or guaranteed or insured by the U.S. government, its agencies or instrumentalities.

The City's cash and investments are comprised of the following at December 31, 2010:

Account	Primary Government Amount	Component Unit Amount	Financial Statement Classification
Cash on hand	\$ 1,451		Cash
Cash in bank	650,550	\$ 33,375	Cash
Money market account	1,181,818	25,479	Cash
Certificates of deposit	322,140	1,500	Investments
	<u>\$ 2,155,959</u>	<u>\$ 60,354</u>	

At year end the balances of the City's deposits are:

	Carrying Amount	Bank Balance
Primary government	\$ 2,154,508	\$ 2,216,324
Component unit	60,354	60,354
	<u>\$ 2,214,862</u>	<u>\$ 2,276,678</u>

Of the bank balances, \$308,854 was covered by Federal Depository Insurance. The remaining balance was covered by collateral held in the pledging bank's trust department in the City's name.

3. Notes Receivable

Notes receivables transactions for the year ended December 31, 2010 are summarized as follows:

	Primary Government Amount	Component Unit Amount
Notes receivables, January 1, 2010	\$ 59,213	\$ 1,770,699
Advances	None	None
Payments	(7,471)	(34,793)
	<u>\$ 51,742</u>	<u>\$ 1,735,906</u>

NOTES TO FINANCIAL STATEMENTS

3. Notes Receivable (Continued)

A summary of the notes receivables as of December 31, 2010 follows:

December 31,	Primary Government		Component Unit	
	Principal	Interest	Principal	Interest
2011	\$ 12,161	\$ 1,164	\$ 98,227	\$ 84,934
2012	11,312	784	146,397	79,857
2013	10,627	583	89,570	73,607
2014	7,450	341	90,705	69,390
2015	6,604	185	93,347	65,009
2016-2020	3,588	61	475,998	257,971
2021-2025			606,662	120,306
2026-2027			135,000	3,712
	<u>\$ 51,742</u>	<u>\$ 3,118</u>	<u>\$ 1,735,906</u>	<u>\$ 754,786</u>

4. Pledges Receivable

Pledges receivable at December 31, 2010 are as follows:

Receivable in less than one year	\$ 69,908
Receivable in one to five years	<u>84,000</u>
Total unconditional promises to give	153,908
Less discounts to net present value	<u>(23,230)</u>
Net unconditional promises to give	<u>\$ 130,678</u>
Current unconditional promises to give	\$ 69,908
Long-term unconditional promises to give	<u>60,770</u>
	<u>\$ 130,678</u>

NOTES TO FINANCIAL STATEMENTS

5. Capital Assets

Capital assets activity for the year ended December 31, 2010 was as follows:

GOVERNMENTAL ACTIVITIES	Balance December 31, 2009	Additions	Deletions	Balance December 31, 2010
Capital assets not being depreciated				
Land	\$ 37,968			\$ 37,968
Total capital assets not being depreciated	37,968			37,968
Capital assets being depreciated				
Buildings and improvements	2,579,373			2,579,373
Improvements other than buildings	26,824			26,824
Equipment	1,419,262	\$ 14,349		1,433,611
Infrastructure	3,207,156			3,207,156
Total capital assets being depreciated	7,232,615	14,349		7,246,964
Less accumulated depreciation				
Buildings and improvements	801,892	62,070		863,962
Improvements other than buildings	3,779	2,132		5,911
Equipment	749,334	159,299		908,633
Infrastructure	2,167,331	36,942		2,204,273
Total accumulated depreciation	3,722,336	260,443		3,982,779
Total capital assets being depreciated, net	3,510,279	(246,094)		3,264,185
Governmental activities, capital assets, net	\$ 3,548,247	\$ (246,094)	\$ None	\$ 3,302,153
COMPONENT UNIT	Balance December 31, 2009	Additions	Deletions	Balance December 31, 2010
Capital assets not being depreciated				
Land	\$ 81,250	\$ None	\$ None	\$ 81,250
Capital assets being depreciated				
Buildings and improvements	206,471	None	None	206,471
Less accumulated depreciation				
Buildings and improvements	33,126	5,162	None	38,288
Total capital assets being depreciated, net	173,345	(5,162)	None	168,183
Component unit, capital assets, net	\$ 254,595	\$ (5,162)	\$ None	\$ 249,433

NOTES TO FINANCIAL STATEMENTS

5. Capital Assets (Continued)

BUSINESS-TYPE ACTIVITIES	Balance December 31, 2009	Additions	Deletions	Balance December 31, 2010
Capital assets not being depreciated				
Land	\$ 41,614			\$ 41,614
Infrastructure in progress	None	\$ None	\$ None	None
Total capital assets not being depreciated	41,614	None	None	41,614
Capital assets being depreciated				
Buildings and improvements	3,120,512			3,120,512
Equipment	323,214			323,214
Infrastructure, water and sewer network	848,847	130,000		978,847
Total capital assets being depreciated	4,292,573	130,000	None	4,422,573
Less accumulated depreciation				
Buildings and improvements	2,675,187	9,548		2,684,735
Equipment	170,561	14,144		184,705
Infrastructure, water and sewer network	450,577	18,101		468,678
Total accumulated depreciation	3,296,325	41,793	None	3,338,118
Total capital assets being depreciated, net	996,248	88,207	None	1,084,455
Business-type activities, capital assets, net	\$ 1,037,862	\$ 88,207	\$ None	\$ 1,126,069

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

Governmental activities	
Public safety	\$ 34,157
Public works	56,563
Culture and recreation	158,524
General government	11,199
Total depreciation expense	\$ 260,443
Business-type activities	
Water	\$ 10,566
Sewer	24,149
Light	1,701
Liquor Store	5,377
Total depreciation expense	\$ 41,793

6. Fund Balance Deficit

The Tax Increment Bluff Country debt service fund has a deficit fund balance as of December 31, 2010. The City plans to eliminate this deficit through tax increment revenues.

7. Retirement System

a. Plan Description

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

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and for PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

7. Retirement System (Continued)

b. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by State Statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. PEPFF members are required to contribute 9.4% of their annual covered salary in 2010. The City of Spring Grove is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, and 6.75% for Coordinated Plan PERF members, and 14.1% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$26,400, \$28,749, and \$24,797 respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2010, 2009, and 2008 were \$13,146, \$12,965, and \$11,721, respectively. The contributions were equal to the contractually required contributions for each year as set by State Statute.

8. Long-term Debt

Bond transactions for the year ended December 31, 2010 are summarized as follows:

Bonds payable, January 1, 2010	\$	2,251,000
Bonds issued		None
Bonds retired		(94,000)
		(94,000)
 Bonds payable, December 31, 2010	 \$	 2,157,000

Interest costs incurred and charged to expenses was \$104,459 for the year ended December 31, 2010. Bonds payable at December 31, 2010 are comprised of the following individual issues:

a. General Obligation Bonds

<p>\$160,000 General Obligation Tax Increment Bond Series 2005A, due semi-annually in varying installments February 2011 through February 2022 plus interest at 4.5%. Bonds are callable on February 2011, or any date thereafter at par plus accrued interest.</p>	\$ 145,000
<p>\$430,000 General Obligation Tax Increment Bond Series 2007A, due semi-annually in varying installments February 2011 through February 2023 plus interest at 3.8%. Bonds are callable on February 2015, or any date thereafter at par plus accrued interest.</p>	405,000
<p><i>Component Unit-Economic Authority</i></p>	
<p>\$96,767 2002 Taxable Revenue Bond, due semi-annually in varying installments through September 2012 plus interest at 7.0%. Bonds are callable on any date at par plus accrued interest.</p>	82,000
<p>\$1,760,000 Public Project Revenue Bonds Series 2006A, due semi-annually in varying installments through February 2026 plus interest at 4.25 – 5.50%.</p>	1,525,000
	\$ 2,157,000

The General Obligation Tax Increment Bond Series 1999 were issued to help build a new grocery store in the City. The City has disbursed the bond proceeds to the developer, and the payments will be derived from funds from tax increment assessments on the property.

NOTES TO FINANCIAL STATEMENTS

8. Long-term Debt (Continued)

b. Notes Payable

The City entered into an agreement to help finance the new grocery store. The note with Tri-County Electric is due in monthly installments of \$636 through May 19, 2010 including interest at 5%. The store's owners are to make payments to the City to cover the payments. As of December 31, 2010 the balance was paid off.

c. Capital Leases

In March 2008, the City entered into two capital lease purchase agreements to lease the new Aquatic Center and an end loader with historical cost of \$1,760,000 and \$71,526, respectively. The leases bear varying interest rates. The following is a schedule of future minimum lease payments under the capital leases, together with the net present value of the minimum lease payments as of December 31, 2010.

Year ending December 31,		
2011	\$	157,715
2012		159,593
2013		156,225
2014		157,601
2015		158,726
2016-2020		735,719
2021-2025		699,032
2026		138,712
		<u>\$ 2,363,323</u>
Minimum lease payments	\$	2,363,323
Less amount representing interest		<u>749,428</u>
Present value of minimum lease payments	\$	<u>1,613,895</u>

d. Debt Funding Schedule

A summary of the City's long-term indebtedness (including the component unit) as of December 31, 2010 were as follows:

December 31,	Bonded	
	Principal	Interest
2011	\$ 90,000	\$ 107,334
2012	182,000	103,192
2013	100,000	92,060
2014	110,000	87,225
2015	115,000	81,900
2016-2020	685,000	319,272
2021-2025	740,000	131,910
2026	135,000	3,712
	<u>\$ 2,157,000</u>	<u>\$ 926,605</u>

8. Long-term Debt (Continued)

d. Debt Funding Schedule (Continued)

The amount of long-term debt that can be incurred by the City is limited by Minnesota Statutes. Net debt as defined by State Statutes cannot exceed 2% of the estimated market value of taxable property. For the year ended December 31, 2010, the City had not exceeded the net debt limitation.

	Percent of Legal Debt Incurred
Estimated market value	\$ 52,850,100
Legal debt percentage, allowed	2.00%
Legal debt limit	1,057,002
Amount of debt applicable to debt limit	-
Unused margin of indebtedness	\$ 1,057,002

9. Leases

The City is leasing a copier for a nominal fee over a long-term arrangement.

The City has entered into a ground lease with the Economic Development Authority – component unit for land for the Aquatic Center for a nominal fee until February 1, 2036.

10. Due to/from Other Funds

As of December 31, 2010, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
Capital projects funds		
Four Season Acres	\$ 3,600	
Debt service funds		
Tax Increment Bluff Country		\$ 3,600
	\$ 3,600	\$ 3,600

NOTES TO FINANCIAL STATEMENTS

11. Interfund Transfers

The detail of interfund transfers for the year ended December 31, 2010 is as follows:

	Transfers In	Transfers Out
Governmental activities		
General fund		
Light enterprise fund	\$ 125,874	
Water enterprise fund	5,151	
Sewer enterprise fund	2,500	
Aquatic Center	57,500	\$ 57,500
Nonmajor governmental		66,418
	191,025	123,918
Capital projects fund		
Aquatic Center	None	57,500
Debt service		
Aquatic Center	57,500	None
Nonmajor governmental	12,399	None
	69,899	None
Special revenue		
Nonmajor governmental	58,485	None
Business-type activities		
Light enterprise fund	None	130,340
Sewer enterprise fund	None	2,500
Water enterprise fund	None	5,151
	None	137,991
Total	\$ 319,409	\$ 319,409

Transfers generally were made to cover deficit balances and debt obligations.

12. Fund Equity

The amounts restricted at December 31, 2010 are as follows:

Restricted net assets	
Special revenue fund	
Nonmajor governmental funds	\$ 52,467

The amounts reserved at December 31, 2010 are as follows:

Reserved fund balances	
General fund	
Prepaid expenditures	\$ 9,972
Nonmajor governmental funds	
Prepaid expenditures	783
	\$ 10,755

13. Contingent Liabilities

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2010 significant amounts of grant expenditures have not been audited by granting authorities but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual funds or the overall financial position of the City.

14. Risk Management

The City of Spring Grove is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of insurance coverage. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City's health insurance coverage is a fully funded plan. The City charges its full cost to its general and enterprise funds. Employees may also elect dependent coverage. If they make this election, they are charged the full cost of the dependent coverage.

15. Restatement

The water and sewer enterprise fund's net assets beginning of year was restated due to correcting prior year depreciation expense adjustment. This was an increase of \$13,177 to the water fund and a decrease of \$13,177 to the sewer fund.

CITY OF SPRING GROVE
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS
 GENERAL FUND
 For the Year Ended December 31, 2010

	Budgeted Amounts Original Final	Actual Amounts	Variance with Final Budget Positive (Neg)
Beginning budgetary fund balance - January 1	\$ 655,049	\$ 655,049	\$ -
RECEIPTS (resources, inflows)			
Taxes			
General property tax			
Current, delinquent, penalties and interest	340,536	292,972	(47,564)
Total taxes	340,536	292,972	(47,564)
Licenses and permits			
Business (liquor, cigarette, etc.)	900	1,000	100
Non-business (building permits, etc.)	2,760	1,410	(1,350)
Total licenses and permits	3,660	2,410	(1,250)
Intergovernmental			
State grants			
Local government aid	377,822	369,112	(8,710)
Market value credit		40,630	40,630
State police aid	10,500	12,965	2,465
Other	10,790	3,930	(6,860)
Total intergovernmental	399,112	426,637	27,525
Charges for services			
Parks and recreation	68,800	66,615	(2,185)
Other	27,390	26,708	(682)
Total charges for services	96,190	93,323	(2,867)
Fines and forfeits			
County court	3,250	4,116	866
Miscellaneous			
Investment earnings	10,000	6,628	(3,372)
Donations	28,000	49,023	21,023
Refunds received	12,500	16,260	3,760
Other	17,250	34,960	17,710
Total miscellaneous	67,750	106,871	39,121
Total receipts	910,498	926,329	15,831
OTHER FINANCING SOURCES:			
Transfers from			
Light Enterprise Fund	115,000	125,875	10,875
Sewer Enterprise Fund		2,500	2,500
Water Enterprise Fund		5,151	5,151
Swimming Pool Capital Projects Fund		57,500	57,500
Total other financing sources	115,000	191,026	76,026
Total receipts, other financing sources	1,025,498	1,117,355	91,857
Amounts available for appropriation	\$ 1,680,547	\$ 1,772,404	\$ 91,857

See Notes to Required Supplementary Information.

CITY OF SPRING GROVE
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS
 GENERAL FUND
 For the Year Ended December 31, 2010

	<u>Budgeted Amounts</u>		<u>Variance with</u>
	<u>Original</u>	<u>Actual</u>	<u>Final Budget</u>
	<u>Final</u>	<u>Amounts</u>	<u>Positive (Neg)</u>
DISBURSEMENTS			
General government			
Mayor and Council			
Current	\$ 15,724	\$ 15,749	\$ (25)
Finance-Municipal Clerk/Treasurer			
Current	153,160	147,512	5,648
Capital outlay	3,300	1,834	1,466
Elections			
Current	1,427	1,843	(416)
Total general government	<u>173,611</u>	<u>166,938</u>	<u>6,673</u>
Public safety			
Police protection			
Current	210,383	188,687	21,696
Fire protection			
Current	59,746	39,820	19,926
Capital outlay	23,700	31,006	(7,306)
Ambulance			
Current	7,824	7,824	-
Total public safety	<u>301,653</u>	<u>267,337</u>	<u>34,316</u>
Streets and highways			
Streets maintenance and storm sewers			
Current	150,128	108,251	41,877
Capital outlay - equipment, buildings, etc.	8,500	2,992	5,508
Total streets and highways	<u>158,628</u>	<u>111,243</u>	<u>47,385</u>
Culture and recreation			
Library			
Current	115,019	105,172	9,847
Capital outlay		17,920	(17,920)
Recreational activities, facilities, community buildings			
Current	161,819	113,287	48,532
Parks and boulevards			
Current	42,886	47,944	(5,058)
Total culture and recreation	<u>319,724</u>	<u>284,323</u>	<u>35,401</u>
OTHER FINANCING USES:			
Transfers to:			
Community Building Special Revenue Fund		27,019	(27,019)
Industrial Development Special Revenue Fund		27,000	(27,000)
Tax Abatement		8,506	(8,506)
TIF 1		3,893	(3,893)
Swimming Pool Capital Projects Fund		57,500	(57,500)
Total other financing uses	<u>-</u>	<u>123,918</u>	<u>(123,918)</u>
Total disbursements and other financing uses	<u>953,616</u>	<u>953,759</u>	<u>(143)</u>
BUDGETARY FUND BALANCE - December 31	\$ 726,931	\$ 818,645	\$ 91,714

See Notes to Required Supplementary Information.

CITY OF SPRING GROVE
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET TO GAAP RECONCILIATION
 GENERAL FUND
 For the Year Ended December 31, 2010

	Cash Basis	Accrual Adjustments	Modified Accrual Basis
REVENUES	\$ 926,329	\$ 4,960	\$ 931,289
EXPENDITURES	829,841	20,797	850,638
Net	96,488	(15,837)	80,651
OTHER FINANCING SOURCES, NET	67,108	(1)	67,107
BEGINNING FUND BALANCE	655,049	184,397	839,446
ENDING FUND BALANCE	\$ 818,645	\$ 168,559	\$ 987,204

See Notes to Required Supplementary Information.

CITY OF SPRING GROVE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
December 31, 2010

The City Council adopts and approves a budget on an annual basis. The budget is prepared by management on a cash basis. Spending control over the City's monies is exercised by the Council. The City budgets for all its governmental and business-type activities.

The City did not exceed its budget during the year ended December 31, 2010.

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**INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION**

**To the Honorable Mayor and
Members of the City Council
City of Spring Grove
Spring Grove, Minnesota**

Our report on our audit of the financial statements of City of Spring Grove as of and for the year ended December 31, 2010 appears on pages 2-3. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Spring Grove's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
June 14, 2011

CITY OF SPRING GROVE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2010

	Special Revenue	Debt Service	Capital Projects	Total
ASSETS				
Cash	\$ 40,700	\$ 21,598	\$ 55,476	\$ 117,774
Note receivable	12,161			12,161
Due from other funds			3,600	3,600
Prepaid expenses	783			783
Total assets	\$ 53,644	\$ 21,598	\$ 59,076	\$ 134,318
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 394			\$ 394
Due to other funds		\$ 3,600		3,600
Total liabilities	394	3,600	\$ -	3,994
FUND BALANCES				
Reserved for				
Insurance	783			783
Unreserved	52,467	17,998	59,076	129,541
Total fund balances	53,250	17,998	59,076	130,324
Total liabilities and fund balances	\$ 53,644	\$ 21,598	\$ 59,076	\$ 134,318

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended December 31, 2010

	Special Revenue	Debt Service	Capital Projects	Total
REVENUES				
Property taxes		\$ 8,162		\$ 8,162
Special assessments		19,792		19,792
Investment earnings	\$ 410		\$ 667	1,077
Miscellaneous	12,304			12,304
Total revenues	12,714	27,954	667	41,335
EXPENDITURES				
Community and economic development				
Current	60,579			60,579
Debt service				
Principal		32,422		32,422
Interest		26,529		26,529
Total expenditures	60,579	58,951	-	119,530
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(47,865)	(30,997)	667	(78,195)
OTHER FINANCING SOURCES (USES)				
Transfers in	58,485	12,399		70,884
Total other financing sources (uses)	58,485	12,399	-	70,884
NET CHANGE IN FUND BALANCES	10,620	(18,598)	667	(7,311)
FUND BALANCES, beginning of year	42,630	36,596	58,409	137,635
FUND BALANCES, end of year	\$ 53,250	\$ 17,998	\$ 59,076	\$ 130,324

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
December 31, 2010

	Small Cities Development	Industrial Development	Community Building	Total
ASSETS				
Cash	\$ 21,327	\$ 19,373		\$ 40,700
Note receivable	12,161			12,161
Prepaid expenses		182	\$ 601	783
Total assets	\$ 33,488	\$ 19,555	\$ 601	\$ 53,644
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable			\$ 394	\$ 394
Total liabilities	\$ -	\$ -	394	394
FUND BALANCES				
Reserved for				
Insurance		182	601	783
Unreserved	33,488	19,373	(394)	52,467
Total fund balances	33,488	19,555	207	53,250
Total liabilities and fund balances	\$ 33,488	\$ 19,555	\$ 601	\$ 53,644

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended December 31, 2010

	Small Cities Development	Industrial Development	Community Building	Total
REVENUES				
Investment earnings	\$ 188	\$ 222		\$ 410
Miscellaneous	5,650		\$ 6,654	12,304
Total revenues	5,838	222	6,654	12,714
EXPENDITURES				
Community and economic development				
Current	750	26,361	33,468	60,579
Total expenditures	750	26,361	33,468	60,579
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,088	(26,139)	(26,814)	(47,865)
OTHER FINANCING SOURCES (USES)				
Transfers in	4,466	27,000	27,019	58,485
Total other financing sources (uses)	4,466	27,000	27,019	58,485
NET CHANGE IN FUND BALANCES	9,554	861	205	10,620
FUND BALANCES, beginning of year	23,934	18,694	2	42,630
FUND BALANCES, end of year	\$ 33,488	\$ 19,555	\$ 207	\$ 53,250

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 December 31, 2010

	Tax Increment #1	Curb and Gutter 2nd Avenue	1997-99 Division Ave	Tax Increment Bluff Country	2007 Tax Increment	Total
ASSETS						
Cash		\$ 235	\$ 27	\$ (3,004)	\$ 24,340	\$ 21,598
Total assets	\$ -	\$ 235	\$ 27	\$ (3,004)	\$ 24,340	\$ 21,598
LIABILITIES AND FUND BALANCES						
Liabilities						
Due to other funds				\$ 3,600		\$ 3,600
Total liabilities	\$ -	\$ -	\$ -	3,600	\$ -	3,600
FUND BALANCES						
Unreserved	-	235	27	(6,604)	24,340	17,998
Total fund balances	-	235	27	(6,604)	24,340	17,998
Total liabilities and fund balances	\$ -	\$ 235	\$ 27	\$ (3,004)	\$ 24,340	\$ 21,598

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 For the Year Ended December 31, 2010

	Tax Increment #1	Curb and Gutter 2nd Avenue	1997-99 Division Ave	Tax Increment Bluff Country	Tax Abatement	2007 Tax Increment	Total
REVENUES							
Property taxes				\$ 8,162			\$ 8,162
Special assessments						\$ 19,792	19,792
Total revenues	\$ -	\$ -	\$ -	8,162	\$ -	19,792	27,954
EXPENDITURES							
Debt service							
Principal	6,000			5,000	6,422	15,000	32,422
Interest	202			6,637	2,084	17,606	26,529
Total expenditures	6,202	-	-	11,637	8,506	32,606	58,951
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,202)	-	-	(3,475)	(8,506)	(12,814)	(30,997)
OTHER FINANCING SOURCES (USES)							
Transfers in	3,893				8,506		12,399
Total other financing sources (uses)	3,893	-	-	-	8,506	-	12,399
NET CHANGE IN FUND BALANCES	(2,309)	-	-	(3,475)	-	(12,814)	(18,598)
FUND BALANCES, beginning of year	2,309	235	27	(3,129)	-	37,154	36,596
FUND BALANCES, end of year	\$ -	\$ 235	\$ 27	\$ (6,604)	\$ -	\$ 24,340	\$ 17,998

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 December 31, 2010

	<u>Bender Edition</u>	<u>Four Season Acres</u>	<u>Total</u>
ASSETS			
Cash	\$ 55,476		\$ 55,476
Due from other funds		\$ 3,600	3,600
Total assets	\$ 55,476	\$ 3,600	\$ 59,076
LIABILITIES AND FUND BALANCES			
Liabilities			
Total liabilities	\$ -	\$ -	\$ -
FUND BALANCES			
Unreserved	55,476	3,600	59,076
Total fund balances	55,476	3,600	59,076
Total liabilities and fund balances	\$ 55,476	\$ 3,600	\$ 59,076

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUNDS
 For the Year Ended December 31, 2010

	<u>Bender Edition</u>	<u>Four Season Acres</u>	<u>Total</u>
REVENUES			
Investment earnings	\$ 667		\$ 667
Total revenues	<u>667</u>	<u>\$ -</u>	<u>667</u>
EXPENDITURES			
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>667</u>	<u>-</u>	<u>667</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	842		842
Transfers out	<u>(842)</u>		<u>(842)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	667	-	667
FUND BALANCES, beginning of year	<u>54,809</u>	<u>3,600</u>	<u>58,409</u>
FUND BALANCES, end of year	<u>\$ 55,476</u>	<u>\$ 3,600</u>	<u>\$ 59,076</u>

See Independent Auditor's Report on the Supplementary Information.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
AND THE MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE

To the Honorable Mayor and
Members of the City Council
City of Spring Grove
Spring Grove, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Spring Grove as of and for the year ended December 31, 2010, which collectively comprise the City of Spring Grove's basic financial statements and have issued our report thereon dated June 14, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Legal Compliance Task Force pursuant to Minnesota Statute §6.65.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Spring Grove's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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.

A *deficiency in internal control* 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

1. Financial Report Preparation

Reporting financial data reliably in accordance with U.S. generally accepted accounting principles requires management to possess expertise in preparing year-end financial statements, including footnote disclosures. As is common in small entities, management has the knowledge of accounting principles and the ability to review the financial statements and footnote disclosures for errors, they presently lack the training to prepare the year-end financial statements and footnote disclosures on their own.

Obtaining additional U.S. generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable U.S. generally accepted accounting principles financial statements.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

2. Overlapping Duties

The City's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize the City is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the Council be aware that this condition does exist.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Spring Grove in a separate letter dated June 14, 2011.

City of Spring Grove's responses to the findings identified in our audit is described above. We did not audit City of Spring Grove's responses and, accordingly, we express no opinion on them.

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

The results of our tests indicate that for the items tested, the City of Spring Grove complied with the material terms and conditions of applicable legal provisions, except as reported to management of the City of Spring Grove in a separate letter dated June 14, 2011.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
June 14, 2011

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MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Spring Grove
Spring Grove, Minnesota

In planning and performing our audit of the financial statements of the City of Spring Grove for the year ended December 31, 2010, we considered the City's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening compliance with the Code of Minnesota and internal controls. The following summarizes our comments and suggestions regarding those matters. A separate report dated June 14, 2011 contains our report on significant deficiencies in the City's internal controls. This letter does not affect our report dated June 14, 2011, on the financial statements of the City of Spring Grove. Comment 1 is unresolved from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the City's responses and, accordingly, we express no opinion on them.

1. Fund Balance

The Tax Increment Bluff Country debt service fund had a negative fund balance at year end.

Recommendation

We recommend the Council review this situation to ensure enough revenue is generated to cover the debt payments.

Response

On recommendation from Mike Bubany, Consultant with David Drown Associates, the negative fund balance informs management, Council and the public on the progress of development and thereby, tax increment received for the district in relation to the corresponding debt. Anticipated tax increment should increase sufficiently to cover the initial shortfall and ongoing debt service before decertification of the district on December 31, 2032.

Conclusion

Response accepted.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Spring Grove during the course of our examination.

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
June 14, 2011