

**CITY OF SPRING GROVE**  
**FINANCIAL REPORT**  
**DECEMBER 31, 2012**

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CITY OF SPRING GROVE

OFFICIALS

Title	Name	Term Expires
Mayor	Saundra Solum	January 2013
Council Member	Steve Kemp	January 2013
Council Member	Lorilyn Dehning	January 2015
Council Member	Robert Vogel	January 2015
Council Member	Rachel Storlie	January 2013
City Clerk/Treasurer	Erin Konkel	

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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information on pages 4 and 32 through 35, 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Spring Grove's basic financial statements. The combining and individual nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2013, on our consideration of 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* in considering City of Spring Grove's internal control over financial reporting and compliance.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
May 23, 2013

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

**Management's Discussion and Analysis  
For the Fiscal Year Ending December 31, 2012**

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, 2012. 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 \$278,650. Net assets of governmental activities decreased by \$160,131, which represents 6.14% decrease from fiscal year 2011.
- General fund revenue accounted for \$1,013,795 in revenue or 36.26% of all revenue. General fund expenditures accounted for \$1,374,886 in disbursements or 41.87% 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.

## REPORTING THE CITY'S MOST SIGNIFICANT FUNDS (Continued)

### *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		
	2012	2011	Percent Change
Current and other assets	\$ 1,290,756	\$ 1,730,838	-25.43%
Capital assets	3,275,386	3,077,527	6.43%
Total assets	\$ 4,566,142	\$ 4,808,365	-5.04%
Long-term debt outstanding	\$ 2,037,572	\$ 2,100,431	-2.99%
Other liabilities	80,060	99,293	-19.37%
Total liabilities	2,117,632	2,199,724	-3.73%
Net assets			
Invested in capital assets, net of related debt	1,773,494	1,539,401	15.21%
Restricted	89,905	74,468	20.73%
Unrestricted	585,111	994,772	-41.18%
Total net assets	2,448,510	2,608,641	-6.14%
Total liabilities and net assets	\$ 4,566,142	\$ 4,808,365	-5.04%



**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	Business-type Activities		
	2012	2011	Percent Change
Current and other assets	\$ 1,352,520	\$ 930,085	45.42%
Capital assets	1,323,572	1,153,658	14.73%
Total assets	<u>\$ 2,676,092</u>	<u>\$ 2,083,743</u>	<u>28.43%</u>
Long-term debt outstanding	\$ 202,136	\$ 38,560	424.21%
Other liabilities	124,163	134,171	-7.46%
Total liabilities	<u>326,299</u>	<u>172,731</u>	<u>88.91%</u>
Net assets			
Invested in capital assets, net of related debt	1,160,622	1,153,659	0.60%
Unrestricted	<u>1,189,171</u>	<u>757,353</u>	<u>57.02%</u>
Total net assets	<u>2,349,793</u>	<u>1,911,012</u>	<u>22.96%</u>
Total liabilities and net assets	<u>\$ 2,676,092</u>	<u>\$ 2,083,743</u>	<u>28.43%</u>

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-decreased for the governmental activities by \$409,661 or 41.18% and increased for the business-type activities by \$431,818 or 57.02%.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

The following analysis shows the change in net assets for the year ending December 31, 2012:

	Changes in Net Assets		
	Governmental Activities		
	2012	2011	Percent Change
Revenues:			
Program revenue			
Charges for service	\$ 103,878	\$ 102,592	1.25%
Operating grants	155,201	29,358	428.65%
General revenue			
Property and other city taxes levied	556,051	435,754	27.61%
Grants and contributions not restricted to specific programs	436,954	503,815	-13.27%
Investment earnings	10,552	11,917	-11.45%
Miscellaneous items	73,936	43,988	68.08%
Transfers	83,135	76,056	9.31%
Total revenues	<u>1,419,707</u>	<u>1,203,480</u>	<u>17.97%</u>
Program expenses:			
General government	169,753	193,307	-12.18%
Public safety	206,597	274,906	-24.85%
Public works	172,296	164,452	4.77%
Culture and recreation	676,760	492,166	37.51%
Community and economic development	192,130	52,359	266.95%
Interest on long-term debt	94,188	58,558	60.85%
Capital outlay	68,114	23,149	194.24%
Total expenses	<u>1,579,838</u>	<u>1,258,897</u>	<u>25.49%</u>
Decrease in net assets	(160,131)	(55,417)	188.96%
Net assets Beginning of Year	<u>2,608,641</u>	<u>2,664,058</u>	<u>-2.08%</u>
Net assets End of Year	<u>\$ 2,448,510</u>	<u>\$ 2,608,641</u>	<u>-6.14%</u>

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	Business-type Activities		
	2012	2011	Percent Change
Revenues:			
Program revenue			
Charges for service	\$ 2,491,404	\$ 1,927,402	29.26%
General revenue			
Investment earnings	5,920	5,343	10.80%
Miscellaneous items	11,307	19,161	-40.99%
Total revenues	<u>2,508,631</u>	<u>1,951,906</u>	<u>28.52%</u>
Program expenses:			
Other expenses	1,959,615	1,809,714	8.28%
Transfers	110,235	141,162	-21.91%
Total expenses	<u>2,069,850</u>	<u>1,950,876</u>	<u>6.10%</u>
Increase in net assets	438,781	1,030	42500.10%
Net assets Beginning of Year	<u>1,911,012</u>	<u>1,909,982</u>	<u>0.05%</u>
Net assets End of Year	<u>\$ 2,349,793</u>	<u>\$ 1,911,012</u>	<u>22.96%</u>

**INDIVIDUAL FUND ANALYSIS**

As the City completed the year, its governmental funds reported a combined fund balance of \$1,214,342, a \$404,253 decrease of the 2011 fiscal year end balance of \$1,618,595.

- The general fund’s ending fund balance decreased during fiscal year 2012 through an increase in engineering fees for the upcoming highway project. The ending fund balance showed a decrease of \$388,475 from the prior year to \$655,589.
- Aquatic Center - capital projects fund balance decreased due to writing off pledges receivable that are no longer likely to be collected.
- Aquatic Center – debt service fund balance increased due to an increase in property tax revenue along with transferring monies into the fund.

**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.

**BUDGETARY HIGHLIGHTS (Continued)**

The following chart shows the original budget for fiscal 2012 as well as the actual receipts and expenses for the year:

	Budgetary Comparison Schedule		
	Actual Basis	Budget Final	Variance
<b>RECEIPTS</b>			
Local sources	\$ 604,991	\$ 522,734	\$ 82,257
State sources	415,476	391,612	23,864
<b>Total receipts</b>	<b>\$ 1,020,467</b>	<b>\$ 914,346</b>	<b>\$ 106,121</b>
<b>EXPENDITURES</b>			
General government	\$ 160,702	\$ 168,875	\$ 8,173
Public safety	272,413	316,685	44,272
Streets and highways	612,771	290,047	(322,724)
Culture and recreation	305,461	338,988	33,527
Community and economic development	27,000	27,000	-
<b>Total expenditures</b>	<b>\$ 1,378,347</b>	<b>\$ 1,141,595</b>	<b>\$ (236,752)</b>

**CAPITAL ASSETS AND DEBT ADMINISTRATION****Capital Assets**

At the end of fiscal year 2012, the City of Spring Grove had \$3,275,386 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 \$1,323,572 in land and water and sewer systems.

The City had depreciation expense of \$243,851 for fiscal year 2012 and total accumulated depreciation of \$4,428,482 as of December 31, 2012 for the governmental activities. The City had depreciation expense of \$45,644 for fiscal year 2012 and accumulated depreciation of \$3,428,819 as of December 31, 2012 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 \$2,092,950 in bonds and other debt compared to approximately \$2,063,000 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, 2012, the City's outstanding debt which falls under this requirement totaled \$None which is significantly below this \$888,772 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 had an increase in taxable market value from \$44,238,600 for 2012 to \$44,367,200 for 2013 and a corresponding increase in net tax capacity from \$510,740 for 2012 to \$512,430 for 2013.

## **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 1<sup>st</sup> Ave NW, P.O. Box 218, Spring Grove, MN, 55974.

CITY OF SPRING GROVE  
STATEMENT OF NET ASSETS  
December 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash	\$ 1,035,940	\$ 928,745	\$ 1,964,685	\$ 142,904
Investments	174,059	143,324	317,383	1,500
Receivables				
Accounts and unbilled usage, net	15,523	239,532	255,055	
Pledges receivable	5,000		5,000	
Accrued interest				1,255
Notes receivable, due within one year	11,033		11,033	21,389
Inventories		28,051	28,051	
Prepaid expenditures	17,193	12,868	30,061	
Notes receivable, due after one year	17,138		17,138	146,809
Pledges receivable, net discount	14,870		14,870	
Nondepreciable assets	375,406	85,499	460,905	81,250
Capital assets, net of accumulated depreciation	2,899,980	1,238,073	4,138,053	157,859
<b>Total assets</b>	<b>\$ 4,566,142</b>	<b>\$ 2,676,092</b>	<b>\$ 7,242,234</b>	<b>\$ 552,966</b>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 26,560	\$ 111,965	\$ 138,525	
Accrued taxes payable	3,021	3,160	6,181	
Salaries and benefits payable	14,825	9,038	23,863	
Accrued interest payable	35,654		35,654	
Long-term liabilities				
Portion due within one year				
Bonds payable	120,000	21,950	141,950	\$ 78,000
Leases payable	11,815		11,815	
Pledges payable				5,000
Compensated absences	35,726	14,504	50,230	
Portion due after one year				
Bonds payable	1,810,000	141,000	1,951,000	
Leases payable	55,077		55,077	
Pledges payable				20,000
Compensated absences	4,954	24,682	29,636	
<b>Total liabilities</b>	<b>2,117,632</b>	<b>326,299</b>	<b>2,443,931</b>	<b>103,000</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,773,494	1,160,622	2,934,116	
Restricted for				
Other special revenue	89,905		89,905	
Unrestricted	585,111	1,189,171	1,774,282	449,966
<b>Total net assets</b>	<b>2,448,510</b>	<b>2,349,793</b>	<b>4,798,303</b>	<b>449,966</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,566,142</b>	<b>\$ 2,676,092</b>	<b>\$ 7,242,234</b>	<b>\$ 552,966</b>

See Notes to Financial Statements.

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CITY OF SPRING GROVE  
STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

Functions and Programs	Expenses	Program Revenues	
		Fees, Fines and Charges for Services	Operating Grants, Contributions and Restricted Interest
<b>Primary Government</b>			
Governmental activities			
General government	\$ 169,753	\$ 4,298	\$ 20,740
Public safety	206,597	3,449	15,188
Public works	172,296		
Culture and recreation	676,760	96,131	
Community and economic development	192,130		119,273
Interest on long-term debt	94,188		
Capital outlay	68,114		
Total governmental activities	<u>1,579,838</u>	<u>103,878</u>	<u>155,201</u>
Business-type activities			
Water utilities	145,839	305,059	
Sewer utilities	204,862	240,273	
Light utilities	1,248,711	1,571,558	
Liquor store	360,203	374,514	
Total business-type activities	<u>1,959,615</u>	<u>2,491,404</u>	<u>-</u>
Total primary government	<u>\$ 3,539,453</u>	<u>\$ 2,595,282</u>	<u>\$ 155,201</u>
<b>Component Unit</b>			
Economic development authority	<u>\$ 14,233</u>	<u>\$ 46,105</u>	
<b>General Revenues</b>			
Property and other city taxes levied for			
General purposes			
Debt service			
Grants and contributions not restricted to specific programs			
Investment earnings			
Miscellaneous items			
Gain on sale of capital asset			
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
\$ (144,715)		\$ (144,715)	
(187,960)		(187,960)	
(172,296)		(172,296)	
(580,629)		(580,629)	
(72,857)		(72,857)	
(94,188)		(94,188)	
(68,114)		(68,114)	
(1,320,759)	\$ -	(1,320,759)	\$ -
	159,220	159,220	
	35,411	35,411	
	322,847	322,847	
	14,311	14,311	
-	531,789	531,789	-
(1,320,759)	531,789	(788,970)	-
			31,872
532,007		532,007	
24,044		24,044	
436,954		436,954	
10,552	5,920	16,472	504
66,136	11,307	77,443	
7,800		7,800	
83,135	(110,235)	(27,100)	27,100
1,160,628	(93,008)	1,067,620	27,604
(160,131)	438,781	278,650	59,476
2,608,641	1,911,012	4,519,653	390,490
\$ 2,448,510	\$ 2,349,793	\$ 4,798,303	\$ 449,966

CITY OF SPRING GROVE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2012

	General	Debt Service Aquatic Center	Capital Projects Aquatic Center	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 506,243	\$ 121,450	\$ 264,114	\$ 144,133	\$ 1,035,940
Investments	174,059				174,059
Receivables					
Accounts	900			14,623	15,523
Pledges receivable			5,000		5,000
Notes receivable				11,033	11,033
Due from other funds				7,843	7,843
Prepaid expenditures	16,572			621	17,193
	<u>697,774</u>	<u>121,450</u>	<u>269,114</u>	<u>178,253</u>	<u>1,266,591</u>
<b>Total assets</b>	<b>\$ 697,774</b>	<b>\$ 121,450</b>	<b>\$ 269,114</b>	<b>\$ 178,253</b>	<b>\$ 1,266,591</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 24,339			\$ 2,221	\$ 26,560
Accrued taxes payable	3,021				3,021
Due to other funds				7,843	7,843
Salaries and benefits payable	14,825				14,825
	<u>42,185</u>	<u>\$ -</u>	<u>\$ -</u>	<u>10,064</u>	<u>52,249</u>
<b>Total liabilities</b>	<b>42,185</b>	<b>\$ -</b>	<b>\$ -</b>	<b>10,064</b>	<b>52,249</b>
<b>FUND BALANCES</b>					
<b>Nonspendable</b>					
Insurance	16,572			621	17,193
<b>Restricted</b>					
Debt service		121,450		84,072	205,522
Special revenue fund				89,905	89,905
Committed			269,114	3,600	272,714
Unassigned	639,017			(10,009)	629,008
	<u>655,589</u>	<u>121,450</u>	<u>269,114</u>	<u>168,189</u>	<u>1,214,342</u>
<b>Total fund balances</b>	<b>655,589</b>	<b>121,450</b>	<b>269,114</b>	<b>168,189</b>	<b>1,214,342</b>
<b>Total liabilities and fund balances</b>	<b>\$ 697,774</b>	<b>\$ 121,450</b>	<b>\$ 269,114</b>	<b>\$ 178,253</b>	<b>\$ 1,266,591</b>

See Notes to Financial Statements.

CITY OF SPRING GROVE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2012

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 1,214,342
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 \$ 4,428,482	3,275,386
Other long-term assets are not available to pay for current period expenditures	32,008
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	(1,930,000)
Leases payable	(66,892)
Accrued interest	(35,654)
Compensated absences	(40,680)
Net assets of governmental activities	<u>\$ 2,448,510</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, 2012

	General	Debt Service Aquatic Center	Capital Projects Aquatic Center	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 382,998	\$ 115,172		\$ 24,044	\$ 522,214
Special assessments				33,837	33,837
Licenses and permits	4,298				4,298
Intergovernmental	402,144			122,273	524,417
Charges for service	96,131				96,131
Fines and forfeits	3,449				3,449
Investment earnings	7,708	210	\$ 1,823	811	10,552
Contributions and donations	50,585		33,185		83,770
Miscellaneous	58,682			16,100	74,782
<b>Total revenues</b>	<b>1,005,995</b>	<b>115,382</b>	<b>35,008</b>	<b>197,065</b>	<b>1,353,450</b>
<b>EXPENDITURES</b>					
<b>Current operating</b>					
General government	163,706				163,706
Public safety	173,771				173,771
Streets and highways	456,370				456,370
Culture and recreation	470,925		155,058		625,983
Community and economic development	27,000			165,130	192,130
Capital outlay	68,114				68,114
<b>Debt service</b>					
Principal	11,264	1,460,000		30,000	1,501,264
Interest and other charges	3,736	76,329		22,235	102,300
<b>Total expenditures</b>	<b>1,374,886</b>	<b>1,536,329</b>	<b>155,058</b>	<b>217,365</b>	<b>3,283,638</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(368,891)</b>	<b>(1,420,947)</b>	<b>(120,050)</b>	<b>(20,300)</b>	<b>(1,930,188)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of assets	7,800				7,800
Proceeds from bond issued		1,435,000			1,435,000
Transfers in	156,327	45,107	70,000	64,195	335,629
Transfers out	(183,711)		(45,107)	(23,676)	(252,494)
<b>Total other financing sources (uses)</b>	<b>(19,584)</b>	<b>1,480,107</b>	<b>24,893</b>	<b>40,519</b>	<b>1,525,935</b>
<b>EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(388,475)</b>	<b>59,160</b>	<b>(95,157)</b>	<b>20,219</b>	<b>(404,253)</b>
<b>FUND BALANCES, beginning of year</b>	<b>1,044,064</b>	<b>62,290</b>	<b>364,271</b>	<b>147,970</b>	<b>1,618,595</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 655,589</b>	<b>\$ 121,450</b>	<b>\$ 269,114</b>	<b>\$ 168,189</b>	<b>\$ 1,214,342</b>

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, 2012

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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	\$	(404,253)
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	\$ (243,851)	
Capital outlay	<u>441,680</u>	197,829
Receipt of long-term receivable are included in the governmental funds but decrease long-term receivables in the statement of activities.		
		(24,678)
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.		
		1,501,264
Proceeds of long-term debt issuance are included in the governmental funds but increase long-term liabilities in the statement of activities.		
		(1,435,000)
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.		
		8,112
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>(3,405)</u>
Change in net assets of governmental activities	\$	<u>(160,131)</u>

See Notes to Financial Statements.

CITY OF SPRING GROVE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2012

	Enterprise Funds				Total
	Water	Sewer	Light	Liquor	
<b>ASSETS</b>					
Cash	\$ 318,059	\$ 54,605	\$ 512,251	\$ 43,830	\$ 928,745
Investments			112,499	30,825	143,324
Receivables					
Accounts and unbilled usage, net	39,641	45,844	154,047		239,532
Inventory				28,051	28,051
Prepaid expenses	1,823	1,849	2,650	6,546	12,868
<b>Total current assets</b>	<u>359,523</u>	<u>102,298</u>	<u>781,447</u>	<u>109,252</u>	<u>1,352,520</u>
<b>Noncurrent assets</b>					
Land	6,917	34,114	36,968	7,500	85,499
Net capital assets	217,322	854,113	112,492	54,146	1,238,073
<b>Total noncurrent assets</b>	<u>224,239</u>	<u>888,227</u>	<u>149,460</u>	<u>61,646</u>	<u>1,323,572</u>
<b>Total assets</b>	<u>\$ 583,762</u>	<u>\$ 990,525</u>	<u>\$ 930,907</u>	<u>\$ 170,898</u>	<u>\$ 2,676,092</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Liabilities</b>					
Accounts payable	\$ 3,825	\$ 5,715	\$ 91,571	\$ 10,854	\$ 111,965
Accrued taxes payable				3,160	3,160
Salaries and benefits payable	440	440	5,111	3,047	9,038
Bonds payable		21,950			21,950
Compensated absences	61	61	13,197	1,185	14,504
Long-term liabilities					
Bonds payable		141,000			141,000
Compensated absences			24,682		24,682
<b>Total liabilities</b>	<u>4,326</u>	<u>169,166</u>	<u>134,561</u>	<u>18,246</u>	<u>326,299</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt	224,239	725,277	149,460	61,646	1,160,622
Unrestricted	355,197	96,082	646,886	91,006	1,189,171
<b>Total net assets</b>	<u>579,436</u>	<u>821,359</u>	<u>796,346</u>	<u>152,652</u>	<u>2,349,793</u>
<b>Total liabilities and net assets</b>	<u>\$ 583,762</u>	<u>\$ 990,525</u>	<u>\$ 930,907</u>	<u>\$ 170,898</u>	<u>\$ 2,676,092</u>

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, 2012

	Enterprise Funds				Total
	Water	Sewer	Light	Liquor	
<b>OPERATING REVENUES</b>					
Charges for service	\$ 304,459	\$ 197,003	\$ 1,571,408	\$ 370,415	\$ 2,443,285
Less: cost of sales			(1,036,868)	(231,576)	(1,268,444)
Miscellaneous	600	43,270	150	4,099	48,119
<b>Total operating revenues</b>	<b>305,059</b>	<b>240,273</b>	<b>534,690</b>	<b>142,938</b>	<b>1,222,960</b>
<b>OPERATING EXPENSES</b>					
Personal services	42,536	42,534	108,284	73,338	266,692
Health and life insurance contributions	10,169	12,256	19,638	284	42,347
Pension contributions	2,862	2,862	7,149	4,193	17,066
Utilities	37,068	65,617	3,430	13,454	119,569
Repairs and maintenance	14,770	7,082	12,907	7,432	42,191
Supplies	8,902	15,548	10,139	5,041	39,630
Insurance claims and expenses	4,743	3,263	9,682	11,289	28,977
Depreciation expense	12,223	26,762	2,361	4,298	45,644
Other expenses	12,566	28,938	38,253	9,298	89,055
<b>Total operating expenses</b>	<b>145,839</b>	<b>204,862</b>	<b>211,843</b>	<b>128,627</b>	<b>691,171</b>
<b>Total operating income</b>	<b>159,220</b>	<b>35,411</b>	<b>322,847</b>	<b>14,311</b>	<b>531,789</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	1,164	109	4,191	456	5,920
Refunds and credits			10,529	360	10,889
Deposits			418		418
<b>Net nonoperating revenues (expenses)</b>	<b>1,164</b>	<b>109</b>	<b>15,138</b>	<b>816</b>	<b>17,227</b>
<b>Income before contributions and transfers</b>	<b>160,384</b>	<b>35,520</b>	<b>337,985</b>	<b>15,127</b>	<b>549,016</b>
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>					
Transfers in			50,850		50,850
Transfers out	(3,924)	(4,625)	(152,536)		(161,085)
	(3,924)	(4,625)	(101,686)	-	(110,235)
<b>Change in net assets</b>	<b>156,460</b>	<b>30,895</b>	<b>236,299</b>	<b>15,127</b>	<b>438,781</b>
<b>NET ASSETS, beginning of year</b>	<b>422,976</b>	<b>790,464</b>	<b>560,047</b>	<b>137,525</b>	<b>1,911,012</b>
<b>NET ASSETS, end of year</b>	<b>\$ 579,436</b>	<b>\$ 821,359</b>	<b>\$ 796,346</b>	<b>\$ 152,652</b>	<b>\$ 2,349,793</b>

See Notes to Financial Statements.

CITY OF SPRING GROVE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2012

	Business-type Activities - Enterprise Funds				Total
	Water	Sewer	Light	Liquor	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from rent				\$ 3,061	\$ 3,061
Cash received from charges for services	\$ 288,979	\$ 217,255	\$ 1,526,181	371,464	2,403,879
Cash payments to employees for services	(39,480)	(39,479)	(98,608)	(68,962)	(246,529)
Cash payments to suppliers for services	(87,944)	(136,455)	(1,135,225)	(276,283)	(1,635,907)
Other operating payments paid on employees' behalf	(7,143)	(5,822)	(17,268)	(13,108)	(43,341)
Net cash provided by operating activities	<u>154,412</u>	<u>35,499</u>	<u>275,080</u>	<u>16,172</u>	<u>481,163</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating transfers in			50,850		50,850
Operating transfers out	(3,924)	(4,625)	(152,536)		(161,085)
Net cash (used in) noncapital financing activities	<u>(3,924)</u>	<u>(4,625)</u>	<u>(101,686)</u>	<u>-</u>	<u>(110,235)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Refunds and credits			10,529	360	10,889
Customer deposits			418		418
Acquisition of capital assets	(7,495)	(157,213)	(50,850)		(215,558)
Proceeds from long term debt		162,950			162,950
Net cash (used in) provided by capital and related financing activities	<u>(7,495)</u>	<u>5,737</u>	<u>(39,903)</u>	<u>360</u>	<u>(41,301)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest on investments	1,164	109	4,191	456	5,920
Purchase of investments			(1,666)	(456)	(2,122)
Net cash provided by investing activities	<u>1,164</u>	<u>109</u>	<u>2,525</u>	<u>-</u>	<u>3,798</u>
Net increase in cash and cash equivalents	144,157	36,720	136,016	16,532	333,425
CASH AND CASH EQUIVALENTS, beginning of year	<u>173,902</u>	<u>17,885</u>	<u>376,235</u>	<u>27,298</u>	<u>595,320</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 318,059</u>	<u>\$ 54,605</u>	<u>\$ 512,251</u>	<u>\$ 43,830</u>	<u>\$ 928,745</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>					
Operating income	\$ 159,220	\$ 35,411	\$ 322,847	\$ 14,311	\$ 531,789
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	12,223	26,762	2,361	4,298	45,644
Increase in accounts receivable	(16,080)	(23,018)	(45,416)		(84,514)
Decrease (increase) in prepaid expense	717	(212)	2,584	(565)	2,524
Increase in inventory				(4,898)	(4,898)
(Decrease) increase in accounts payable	(1,764)	(3,539)	(9,492)	3,923	(10,872)
Increase in salaries and benefits payable	53	53	758		864
Increase (decrease) in accrued compensated absences	43	42	1,438	(897)	626
Net cash provided by operating activities	<u>\$ 154,412</u>	<u>\$ 35,499</u>	<u>\$ 275,080</u>	<u>\$ 16,172</u>	<u>\$ 481,163</u>

See Notes to Financial Statements.



CITY OF SPRING GROVE

NOTES TO FINANCIAL STATEMENTS

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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 Clerk-Council 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 improvements to the aquatic center.

*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 interest and principal on the City's Tax Abatement Bonds.

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 matter 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, 2012.

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, 2012, 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, 2012 are recorded as prepaid insurance. The fund balances in the governmental fund types have been classified as nonspendable 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 Equity*

In the governmental fund financial statements, fund balances are classified as follows:

*Nonspendable*

Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted*

Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

*Committed*

Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changed the specified use by taking the same action it employed to commit those amounts.

*Assigned*

Amounts the City Council intend to use for specific purposes.

*Unassigned*

All amounts not included in other spendable classifications.

*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, 2012 assessed property valuations; is for the tax accrual period January 1, 2012 through December 31, 2012.

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.

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

*Assets, Liabilities and Fund Equity (Continued)*

*Revenues, Expenditures and Expenses (Continued)*

*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.

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, 2012:

Account	Primary Government Amount	Component Unit Amount	Financial Statement Classification
Cash on hand	\$ 1,450		Cash
Cash in bank	619,965	\$ 142,904	Cash
Money market account	1,343,270		Cash
Certificates of deposit	317,383	1,500	Investments
	<u>\$ 2,282,068</u>	<u>\$ 144,404</u>	

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

	Carrying Amount	Bank Balance
Primary government	\$ 2,282,068	\$ 2,317,394
Component unit	144,404	142,994
	<u>\$ 2,426,472</u>	<u>\$ 2,460,388</u>

Of the bank balances, \$392,904 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.



NOTES TO FINANCIAL STATEMENTS

3. Notes Receivable

Notes receivables transactions for the year ended December 31, 2012 are summarized as follows:

	Primary Government Amount	Component Unit Amount
Notes receivables, January 1, 2012	\$ 35,819	\$ 1,638,284
Advances	None	None
Payments	(7,648)	(1,470,086)
Notes receivables, December 31, 2012	\$ 28,171	\$ 168,198

December 31,	Primary Government		Component Unit	
	Principal	Interest	Principal	Interest
2013	\$ 11,033	\$ 856	\$ 21,389	\$ 5,362
2014	6,945	413	16,813	4,387
2015	6,604	214	28,246	3,851
2016	2,916	57	55,008	992
2017	673	4	5,112	888
2018-2022			41,630	2,661
	\$ 28,171	\$ 1,544	\$ 168,198	\$ 18,141

4. Pledges Receivable

Pledges receivable at December 31, 2012 are as follows:

Receivable in less than one year	\$ 5,000
Receivable in one to five years	20,000
Total unconditional promises to give	25,000
Less discounts to net present value	(5,130)
Net unconditional promises to give	\$ 19,870
Current unconditional promises to give	\$ 5,000
Long-term unconditional promises to give	14,870
	\$ 19,870

NOTES TO FINANCIAL STATEMENTS

5. Capital Assets

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

GOVERNMENTAL ACTIVITIES	Balance December 31, 2011	Additions	Deletions	Balance December 31, 2012
<b>Capital assets not being depreciated</b>				
Land	\$ 37,968			\$ 37,968
Construction in progress		\$ 337,438		337,438
<b>Total capital assets not being depreciated</b>	<b>37,968</b>	<b>337,438</b>		<b>375,406</b>
<b>Capital assets being depreciated</b>				
Buildings and improvements	2,584,373			2,584,373
Improvements other than buildings	26,824			26,824
Equipment	1,439,516	158,450	\$ (87,857)	1,510,109
Infrastructure	3,207,156			3,207,156
<b>Total capital assets being depreciated</b>	<b>7,257,869</b>	<b>158,450</b>	<b>(87,857)</b>	<b>7,328,462</b>
<b>Less accumulated depreciation</b>				
Buildings and improvements	926,423	62,543		988,966
Improvements other than buildings	8,043	2,131		10,174
Equipment	1,044,438	144,079	(33,649)	1,154,868
Infrastructure	2,239,376	35,098		2,274,474
<b>Total accumulated depreciation</b>	<b>4,218,280</b>	<b>243,851</b>	<b>(33,649)</b>	<b>4,428,482</b>
<b>Total capital assets being depreciated, net</b>	<b>3,039,589</b>	<b>(85,401)</b>	<b>(54,208)</b>	<b>2,899,980</b>
<b>Governmental activities, capital assets, net</b>	<b>\$ 3,077,557</b>	<b>\$ 252,037</b>	<b>\$ (54,208)</b>	<b>\$ 3,275,386</b>
<b>COMPONENT UNIT</b>				
<b>Capital assets not being depreciated</b>				
Land	\$ 81,250	\$ None	\$ None	\$ 81,250
<b>Capital assets being depreciated</b>				
Buildings and improvements	206,471	None	None	206,471
<b>Less accumulated depreciation</b>				
Buildings and improvements	43,450	5,162	None	48,612
<b>Total capital assets being depreciated, net</b>	<b>163,021</b>	<b>(5,162)</b>	<b>None</b>	<b>157,859</b>
<b>Component unit, capital assets, net</b>	<b>\$ 244,271</b>	<b>\$ (5,162)</b>	<b>\$ None</b>	<b>\$ 239,109</b>

NOTES TO FINANCIAL STATEMENTS

5. Capital Assets (Continued)

BUSINESS-TYPE ACTIVITIES	Balance December 31, 2011	Additions	Deletions	Balance December 31, 2012
<b>Capital assets not being depreciated</b>				
Land	\$ 41,614			\$ 41,614
Infrastructure in progress	43,885	\$ None	\$ None	43,885
<b>Total capital assets not being depreciated</b>	<b>85,499</b>	<b>None</b>	<b>None</b>	<b>85,499</b>
<b>Capital assets being depreciated</b>				
Buildings and improvements	3,138,776			3,138,776
Equipment	323,214	208,063		531,277
Infrastructure, water and sewer network	989,344	7,495		996,839
<b>Total capital assets being depreciated</b>	<b>4,451,334</b>	<b>215,558</b>	<b>None</b>	<b>4,666,892</b>
<b>Less accumulated depreciation</b>				
Buildings and improvements	2,694,034	9,609		2,703,643
Equipment	201,036	16,260		217,296
Infrastructure, water and sewer network	488,105	19,775		507,880
<b>Total accumulated depreciation</b>	<b>3,383,175</b>	<b>45,644</b>	<b>None</b>	<b>3,428,819</b>
<b>Total capital assets being depreciated, net</b>	<b>1,068,159</b>	<b>169,914</b>	<b>None</b>	<b>1,238,073</b>
<b>Business-type activities, capital assets, net</b>	<b>\$ 1,153,658</b>	<b>\$ 169,914</b>	<b>\$ None</b>	<b>\$ 1,323,572</b>

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

<b>Governmental activities</b>	
Public safety	\$ 30,675
Public works	52,673
Culture and recreation	154,798
General government	5,705
<b>Total depreciation expense</b>	<b>\$ 243,851</b>
<b>Business-type activities</b>	
Water	\$ 12,223
Sewer	26,762
Light	2,361
Liquor Store	4,298
<b>Total depreciation expense</b>	<b>\$ 45,644</b>

6. Fund Balance Deficit

The Community Building and 2011 Small Cities Development special revenue funds and the Tax Increment Bluff Country debt service fund had deficit fund balances as of December 31, 2012. The City plans to eliminate these deficits through tax increment revenues and transfers.

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 General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

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

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at [www.mnpera.com](http://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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. In 2012, the City of Spring Grove was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$28,802, \$28,202, and \$26,400 respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$8,063, \$13,464, and \$13,146 respectively. The City's 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, 2012 are summarized as follows:

Bonds payable, January 1, 2012	\$	2,063,000
Bonds issued		1,597,950
Bonds retired		<u>(1,568,000)</u>
 Bonds payable, December 31, 2012	 \$	 <u>2,092,950</u>

Interest costs incurred and charged to expenses was \$80,853 for the year ended December 31, 2012. Bonds payable at December 31, 2012 are comprised of the following individual issues:

a. General Obligation Bonds

\$160,000 General Obligation Tax Increment Bond Series 2005A, due semi-annually in varying installments February 2013 through February 2022 plus interest at 4.5%. Bonds are callable on February 2012, or any date thereafter at par plus accrued interest.	\$ 125,000
\$430,000 General Obligation Tax Increment Bond Series 2007A, due semi-annually in varying installments February 2013 through February 2023 plus interest at 3.8%. Bonds are callable on February 2015, or any date thereafter at par plus accrued interest.	370,000
\$1,435,000 General Obligation Tax Abatement Bond Series 2012A, due semi-annually in varying installments February 2013 through February 2026 plus interest at 2.58%. Bonds are callable on February 2018, or any date thereafter at par plus accrued interest.	1,435,000
\$162,590 Sewer Revenue Note Series 2012B, due semi-annually in varying installments March 2013 through September 2019 plus interest at 2.0%.	<u>162,950</u>
	<u>\$ 2,092,950</u>

NOTES TO FINANCIAL STATEMENTS

8. Long-term Debt (Continued)

b. Capital Leases

In March 2008, the City entered into a capital lease purchase agreement to lease an end loader with historical cost of \$71,526. The lease bears a varying interest rate. The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of December 31, 2012.

Year ending December 31,		
2013	\$	11,815
2014		12,393
2015		12,999
2016		13,634
2017		16,051
		16,051
	\$	66,892
		66,892
Minimum lease payments	\$	66,892
Less amount representing interest		9,860
		9,860
Present value of minimum lease payments	\$	57,032
		57,032

c. Debt Funding Schedule

A summary of the City's long-term indebtedness (including the component unit) as of December 31, 2012 were as follows:

December 31,	Bonded	
	Principal	Interest
2013	\$ 141,950	\$ 67,772
2014	147,000	55,985
2015	153,000	51,709
2016	158,000	47,347
2017	159,000	42,787
2018-2022	834,000	138,718
2023-2026	500,000	25,887
	500,000	25,887
	\$ 2,092,950	\$ 430,205
	2,092,950	430,205

8. Long-term Debt (Continued)

c. 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, 2012, the City had not exceeded the net debt limitation.

	Percent of Legal Debt Incurred
Estimated market value	\$ 44,438,600
Legal debt percentage, allowed	2.00%
Legal debt limit	888,772
Amount of debt applicable to debt limit	-
Unused margin of indebtedness	\$ 888,772

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, 2012, 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		
Bender Tax Increment	4,243	
Tax Increment Bluff Country		\$ 7,843
	\$ 7,843	\$ 7,843

NOTES TO FINANCIAL STATEMENTS

11. Interfund Transfers

The detail of interfund transfers for the year ended December 31, 2012 is as follows:

	Transfers In	Transfers Out
<b>Governmental activities</b>		
<b>General fund</b>		
Aquatic Center capital projects fund	\$ None	\$ 70,000
Light enterprise fund	147,778	50,850
Water enterprise fund	3,924	None
Sewer enterprise fund	4,625	None
Nonmajor governmental	None	35,761
Economic Development Authority	None	27,100
	156,327	183,711
<b>Capital projects fund</b>		
<b>General fund</b>		
Aquatic Center	70,000	None
	None	45,107
	70,000	45,107
<b>Debt service</b>		
Aquatic Center	45,107	None
	45,107	None
<b>Nonmajor governmental</b>		
<b>General fund</b>		
Light enterprise fund	35,761	None
Nonmajor governmental	4,758	None
	23,676	23,676
	64,195	23,676
<b>Business-type activities</b>		
<b>Light enterprise fund</b>		
Sewer enterprise fund	50,850	152,536
Water enterprise fund	None	4,625
	None	3,924
	50,850	161,085
<b>Component Unit</b>		
Economic Development Authority	27,100	None
	27,100	None
<b>Total</b>	\$ 413,579	\$ 413,579

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

12. Fund Equity

The amounts restricted at December 31, 2012 are as follows:

<b>Restricted fund balances</b>	
<b>Special revenue fund</b>	
Nonmajor governmental funds	\$ 89,905
<b>Debt service fund</b>	
Aquatic Center	121,450
Nonmajor governmental funds	84,072
	84,072
	\$ 295,427



12. **Fund Equity (Continued)**

The amounts committed at December 31, 2012 are as follows:

Committed fund balances		
Capital projects fund		
Aquatic Center	\$	269,114
Nonmajor governmental funds		3,600
	\$	272,714

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, 2012 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. **New Governmental Accounting Standards Board (GASB) Standards**

The Governmental Accounting Standards Board (GASB) has issued six statements not yet implemented by the City. The statements which might impact the City are as follows:

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*; issued November 2010, will be effective for the year ending December 31, 2013. The objective of this statement is to improve financial reporting for a governmental financial reporting entity.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; issued December 2010, will be effective for the year ending December 31, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011, will be effective for the year ending December 31, 2013. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65, *Items Previously Classified as Assets and Liabilities*, issued March 2012, will be effective for the year ending December 31, 2014. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflow of resources, and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

15. New Governmental Accounting Standards Board (GASB) Standards (Continued)

GASB Statement 66, *Technical Corrections – 2012*, an amendment of GASB Statements 10 and 62, issued March 2012, effective for the year ending December 31, 2014. The objective of this statement is to improve accounting and financial reporting for governmental entities by resolving conflicting guidance in GASB Statements 54 and 62, on risk financing activities and operating leases.

GASB Statement 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, issued June 2012, will be effective for the year ended December 31, 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions which are provided by other entities.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

16. Subsequent Events

In May of 2013, the City authorized the issuance of \$2,725,000 general obligation bonds to finance the Main Street project. The bid opening will be June 2013.

CITY OF SPRING GROVE  
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS  
 GENERAL FUND  
 For the Year Ended December 31, 2012

	<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>
Beginning budgetary fund balance - January 1	\$ 891,507	\$ 891,507	\$ -
<b>RECEIPTS (resources, inflows)</b>			
Taxes			
General property tax			
Current, delinquent, penalties and interest	367,221	382,692	15,471
Total taxes	<u>367,221</u>	<u>382,692</u>	<u>15,471</u>
Licenses and permits			
Business (liquor, cigarette, etc.)	1,000	1,290	290
Non-business (building permits, etc.)	1,450	3,008	1,558
Total licenses and permits	<u>2,450</u>	<u>4,298</u>	<u>1,848</u>
Intergovernmental			
State grants			
Local government aid	377,822	367,822	(10,000)
Market value credit		104	104
State police aid	12,500	12,406	(94)
Other	1,290	35,144	33,854
Total intergovernmental	<u>391,612</u>	<u>415,476</u>	<u>23,864</u>
Charges for services			
Parks and recreation	66,500	74,797	8,297
Other	17,500	21,463	3,963
Total charges for services	<u>84,000</u>	<u>96,260</u>	<u>12,260</u>
Fines and forfeits			
County court	4,000	3,449	(551)
Miscellaneous			
Investment earnings	6,500	4,861	(1,639)
Donations	20,000	50,247	30,247
Refunds received	8,500	23,570	15,070
Other	30,063	39,614	9,551
Total miscellaneous	<u>65,063</u>	<u>118,292</u>	<u>53,229</u>
Total receipts	<u>914,346</u>	<u>1,020,467</u>	<u>106,121</u>
<b>OTHER FINANCING SOURCES:</b>			
Transfers from			
Light Enterprise Fund	224,457	147,778	(76,679)
Sewer Enterprise Fund		4,625	4,625
Water Enterprise Fund		3,924	3,924
Total other financing sources	<u>224,457</u>	<u>156,327</u>	<u>(68,130)</u>
Total receipts, other financing sources	<u>1,138,803</u>	<u>1,176,794</u>	<u>37,991</u>
Amounts available for appropriation	<u>\$ 2,030,310</u>	<u>\$ 2,068,301</u>	<u>\$ 37,991</u>

See Notes to Required Supplementary Information.

CITY OF SPRING GROVE  
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS  
 GENERAL FUND  
 For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Neg)
	Original Final			
<b>DISBURSEMENTS</b>				
General government				
Mayor and Council				
Current	\$ 31,307		\$ 25,362	\$ 5,945
Finance-Municipal Clerk/Treasurer				
Current	127,776		132,575	(4,799)
Capital outlay	7,400		727	6,673
Elections				
Current	2,392		2,038	354
Total general government	<u>168,875</u>		<u>160,702</u>	<u>8,173</u>
Public safety				
Police protection				
Current	211,713		127,413	84,300
Capital outlay	2,000		2,840	(840)
Fire protection				
Current	71,292		55,585	15,707
Capital outlay	23,700		78,751	(55,051)
Ambulance				
Current	7,980		7,824	156
Total public safety	<u>316,685</u>		<u>272,413</u>	<u>44,272</u>
Streets and highways				
Streets maintenance and storm sewers				
Current	227,547		484,586	(257,039)
Capital outlay - equipment, buildings, etc.	62,500		128,185	(65,685)
Total streets and highways	<u>290,047</u>		<u>612,771</u>	<u>(322,724)</u>
Culture and recreation				
Library				
Current	119,400		102,440	16,960
Capital outlay	15,000		13,031	1,969
Recreational activities, facilities, community buildings				
Current	162,875		155,336	7,539
Parks and boulevards				
Current	41,713		34,654	7,059
Total culture and recreation	<u>338,988</u>		<u>305,461</u>	<u>33,527</u>
Community and economic development				
EDA				
Current	27,000		27,000	-
<b>OTHER FINANCING USES:</b>				
Transfers to:				
Light Enterprise Fund			50,850	(50,850)
Community Building Special Revenue Fund			24,400	(24,400)
Tax Abatement			11,361	(11,361)
Aquatic Center Capital Projects Fund			70,000	(70,000)
Economic Development Authority			27,100	(27,100)
Total other financing uses	<u>-</u>		<u>183,711</u>	<u>(183,711)</u>
Total disbursements and other financing uses	<u>1,141,595</u>		<u>1,562,058</u>	<u>(420,463)</u>
<b>BUDGETARY FUND BALANCE - December 31</b>	<u>\$ 888,715</u>		<u>\$ 506,243</u>	<u>\$ (382,472)</u>

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, 2012

	Cash Basis	Accrual Adjustments	Modified Accrual Basis
REVENUES	\$ 1,020,467	\$ (14,472)	\$ 1,005,995
EXPENDITURES	1,378,347	(3,461)	1,374,886
Net	(357,880)	(11,011)	(368,891)
OTHER FINANCING SOURCES, NET	(27,384)	7,800	(19,584)
BEGINNING FUND BALANCE	891,507	152,557	1,044,064
ENDING FUND BALANCE	\$ 506,243	\$ 149,346	\$ 655,589

See Notes to Required Supplementary Information.

CITY OF SPRING GROVE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
December 31, 2012

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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 exceeded its budget in the streets and highways budget category for the year ended December 31, 2012. However, no action was required by the City Council as a result of the budget being exceeded.

CITY OF SPRING GROVE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2012

	Special Revenue	Debt Service	Capital Projects	Total
<b>ASSETS</b>				
Cash	\$ 78,927	\$ 65,206		\$ 144,133
Receivables				
Accounts		14,623		14,623
Note receivable	11,033			11,033
Due from other funds		4,243	\$ 3,600	7,843
Prepaid expenses	621			621
Total assets	<u>\$ 90,581</u>	<u>\$ 84,072</u>	<u>\$ 3,600</u>	<u>\$ 178,253</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,221			\$ 2,221
Due to other funds		\$ 7,843		7,843
Total liabilities	<u>2,221</u>	<u>7,843</u>	<u>\$ -</u>	<u>10,064</u>
<b>FUND BALANCES</b>				
<b>Nonspendable</b>				
Prepaid insurance	621			621
Restricted	89,905	84,072		173,977
Committed			3,600	3,600
Unassigned	(2,166)	(7,843)		(10,009)
Total fund balances	<u>88,360</u>	<u>76,229</u>	<u>3,600</u>	<u>168,189</u>
Total liabilities and fund balances	<u>\$ 90,581</u>	<u>\$ 84,072</u>	<u>\$ 3,600</u>	<u>\$ 178,253</u>

See Independent Auditor's Report.

CITY OF SPRING GROVE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Year Ended December 31, 2012

	Special Revenue	Debt Service	Capital Projects	Total
<b>REVENUES</b>				
Property taxes		\$ 24,044		\$ 24,044
Special assessments		33,837		33,837
Intergovernmental	\$ 122,273			122,273
Investment earnings	461	350		811
Miscellaneous	15,990	110		16,100
<b>Total revenues</b>	<b>138,724</b>	<b>58,341</b>	<b>\$ -</b>	<b>197,065</b>
<b>EXPENDITURES</b>				
Community and economic development				
Current	153,769	11,361		165,130
Debt service				
Principal		30,000		30,000
Interest		22,235		22,235
<b>Total expenditures</b>	<b>153,769</b>	<b>63,596</b>	<b>-</b>	<b>217,365</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(15,045)</b>	<b>(5,255)</b>	<b>-</b>	<b>(20,300)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	29,158	35,037		64,195
Transfers out		(23,676)		(23,676)
<b>Total other financing sources (uses)</b>	<b>29,158</b>	<b>11,361</b>	<b>-</b>	<b>40,519</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>14,113</b>	<b>6,106</b>	<b>-</b>	<b>20,219</b>
<b>FUND BALANCES, beginning of year</b>	<b>74,247</b>	<b>70,123</b>	<b>3,600</b>	<b>147,970</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 88,360</b>	<b>\$ 76,229</b>	<b>\$ 3,600</b>	<b>\$ 168,189</b>

See Independent Auditor's Report.



CITY OF SPRING GROVE  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 December 31, 2012

	<u>Small Cities Development</u>	<u>2011 Small Cities Development</u>	<u>Community Development</u>	<u>Industrial Development</u>	<u>Community Building</u>	<u>Total</u>
<b>ASSETS</b>						
Cash	\$ 56,488	\$ 4	\$ 2,458	\$ 19,977		\$ 78,927
Note receivable	11,033					11,033
Prepaid expenses					\$ 621	621
<b>Total assets</b>	<b>\$ 67,521</b>	<b>\$ 4</b>	<b>\$ 2,458</b>	<b>\$ 19,977</b>	<b>\$ 621</b>	<b>\$ 90,581</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable		\$ 1,250	\$ 51		\$ 920	\$ 2,221
<b>Total liabilities</b>	<b>\$ -</b>	<b>1,250</b>	<b>51</b>	<b>\$ -</b>	<b>920</b>	<b>2,221</b>
<b>FUND BALANCES</b>						
<b>Nonspendable</b>						
Prepaid insurance					621	621
Restricted	67,521		2,407	19,977		89,905
Unassigned		(1,246)			(920)	(2,166)
<b>Total fund balances</b>	<b>67,521</b>	<b>(1,246)</b>	<b>2,407</b>	<b>19,977</b>	<b>(299)</b>	<b>88,360</b>
<b>Total liabilities and fund balances</b>	<b>\$ 67,521</b>	<b>\$ 4</b>	<b>\$ 2,458</b>	<b>\$ 19,977</b>	<b>\$ 621</b>	<b>\$ 90,581</b>

See Independent Auditor's Report.

CITY OF SPRING GROVE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 For the Year Ended December 31, 2012

	<u>Small Cities Development</u>	<u>2011 Small Cities Development</u>	<u>Community Development</u>	<u>Industrial Development</u>	<u>Community Building</u>	<u>Total</u>
<b>REVENUES</b>						
Intergovernmental		\$ 119,273	\$ 3,000			\$ 122,273
Investment earnings	\$ 315	1		\$ 145		461
Miscellaneous	9,315				\$ 6,675	15,990
<b>Total revenues</b>	<u>9,630</u>	<u>119,274</u>	<u>3,000</u>	<u>145</u>	<u>6,675</u>	<u>138,724</u>
<b>EXPENDITURES</b>						
Community and economic development						
Current	1,500	120,522	593	178	30,976	153,769
<b>Total expenditures</b>	<u>1,500</u>	<u>120,522</u>	<u>593</u>	<u>178</u>	<u>30,976</u>	<u>153,769</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>8,130</u>	<u>(1,248)</u>	<u>2,407</u>	<u>(33)</u>	<u>(24,301)</u>	<u>(15,045)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	4,758				24,400	29,158
<b>Total other financing sources (uses)</b>	<u>4,758</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,400</u>	<u>29,158</u>
<b>NET CHANGE IN FUND BALANCES</b>	12,888	(1,248)	2,407	(33)	99	14,113
<b>FUND BALANCES, beginning of year</b>	<u>54,633</u>	<u>2</u>	<u></u>	<u>20,010</u>	<u>(398)</u>	<u>74,247</u>
<b>FUND BALANCES, end of year</b>	<u>\$ 67,521</u>	<u>\$ (1,246)</u>	<u>\$ 2,407</u>	<u>\$ 19,977</u>	<u>\$ (299)</u>	<u>\$ 88,360</u>

See Independent Auditor's Report.

CITY OF SPRING GROVE  
COMBINING BALANCE SHEET  
NONMAJOR DEBT SERVICE FUNDS  
December 31, 2012

	Bender Tax Increment	Tax Increment Bluff Country	2007 Tax Increment	Total
<b>ASSETS</b>				
Cash	\$ 38,213		\$ 26,993	\$ 65,206
Receivables				
Accounts			14,623	14,623
Due from other funds	4,243			4,243
<b>Total assets</b>	<b>\$ 42,456</b>	<b>\$ -</b>	<b>\$ 41,616</b>	<b>\$ 84,072</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Due to other funds		7,843		7,843
<b>Total liabilities</b>	<b>\$ -</b>	<b>7,843</b>	<b>\$ -</b>	<b>7,843</b>
<b>FUND BALANCES</b>				
Restricted	42,456		41,616	84,072
Unassigned		(7,843)		(7,843)
<b>Total fund balances</b>	<b>42,456</b>	<b>(7,843)</b>	<b>41,616</b>	<b>76,229</b>
<b>Total liabilities and fund balances</b>	<b>\$ 42,456</b>	<b>\$ -</b>	<b>\$ 41,616</b>	<b>\$ 84,072</b>

See Independent Auditor's Report.

CITY OF SPRING GROVE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR DEBT SERVICE FUNDS  
 For the Year Ended December 31, 2012

	Bender Tax Increment	Tax Increment Bluff Country	Tax Abatement	2007 Tax Increment	Total
<b>REVENUES</b>					
Property taxes	\$ 1,240	\$ 15,025		\$ 7,779	\$ 24,044
Special assessments				33,837	33,837
Investment earnings	350				350
Miscellaneous		110			110
<b>Total revenues</b>	<b>1,590</b>	<b>15,135</b>	<b>\$ -</b>	<b>41,616</b>	<b>58,341</b>
<b>EXPENDITURES</b>					
<b>Current</b>					
Community and economic development			11,361		11,361
Debt service					
Principal		10,000		20,000	30,000
Interest		5,850		16,385	22,235
<b>Total expenditures</b>	<b>-</b>	<b>15,850</b>	<b>11,361</b>	<b>36,385</b>	<b>63,596</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,590</b>	<b>(715)</b>	<b>(11,361)</b>	<b>5,231</b>	<b>(5,255)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in			11,361	23,676	35,037
Transfers out	(23,676)				(23,676)
<b>Total other financing sources (uses)</b>	<b>(23,676)</b>	<b>-</b>	<b>11,361</b>	<b>23,676</b>	<b>11,361</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(22,086)</b>	<b>(715)</b>	<b>-</b>	<b>28,907</b>	<b>6,106</b>
<b>FUND BALANCES, beginning of year</b>	<b>64,542</b>	<b>(7,128)</b>	<b>-</b>	<b>12,709</b>	<b>70,123</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 42,456</b>	<b>\$ (7,843)</b>	<b>\$ -</b>	<b>\$ 41,616</b>	<b>\$ 76,229</b>

See Independent Auditor's Report.

CITY OF SPRING GROVE  
COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECTS FUNDS  
December 31, 2012

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	<u>Four Season Acres</u>
<b>ASSETS</b>	
Due from other funds	\$ 3,600
Total assets	<u>\$ 3,600</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	
Total liabilities	\$ -
<b>FUND BALANCES</b>	
Committed	<u>3,600</u>
Total fund balances	<u>3,600</u>
Total liabilities and fund balances	<u>\$ 3,600</u>

See Independent Auditor's Report.

CITY OF SPRING GROVE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR CAPITAL PROJECTS FUNDS  
 For the Year Ended December 31, 2012

	Four Season Acres
REVENUES	\$ -
EXPENDITURES	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-
OTHER FINANCING SOURCES (USES)	-
NET CHANGE IN FUND BALANCES	-
FUND BALANCES, beginning of year	3,600
FUND BALANCES, end of year	\$ 3,600

See Independent Auditor's Report.

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 *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, 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, 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, 2012, and the related notes to the financial statements, which collectively comprise City of Spring Grove's basic financial statements and have issued our report thereon dated May 23, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Spring Grove's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Spring Grove's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Spring Grove's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, as described below that we consider to be significant deficiencies in internal control over financial reporting.

1. Financial Report Preparation

We noted that while management is capable of preparing accurate financial statements that provide information sufficient to make management decisions, reporting financial data reliably in accordance with generally accepted accounting principles (GAAP) requires management to possess expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management has the knowledge of accounting principles and the ability to review the financial statements and footnote disclosures for errors, they presently lack the qualifications and training to prepare the year-end financial statements and footnote disclosures on their own. This circumstance is not unusual for a governmental entity similar in population to the City of Spring Grove. It is the responsibility of management to accept the degree of risk associated with this condition.

Obtaining additional 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 generally accepted accounting principles financial statements.

Recommendation

The City office personnel should continue to obtain training in governmental accounting and reporting when possible.

Response

Management is cognizant of this limitation.

Conclusion

Response accepted.

2. Overlapping Duties

One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation

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 accepted.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Spring Grove's financial statements are free from 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 May 23, 2013.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.



In connection with our audit, other than the compliance issue regarding debt proceeds noted as Comment 1 in the management letter, nothing came to our attention that caused us to believe that City of Spring Grove failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Spring Grove's noncompliance with the above referenced provisions.

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.

City of Spring Grove's Response to Findings

City of Spring Grove's responses to the findings identified in our audit is described above. City of Spring Grove's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
May 23, 2013

## 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, 2012, 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 May 23, 2013 contains our report on significant deficiencies in the City's internal controls. This letter does not affect our report dated May 23, 2013, on the financial statements of the City of Spring Grove. Comment 2 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. Debt Proceeds

Debt proceeds were not reported as income pursuant to Minnesota Statute §475.65. Proceeds were netted with the payment and recorded in the expense account.

Recommendation

We recommend that debt proceeds and payments be reported at the gross amount in revenues and expenses to reflect the true receipts and expenses.

Response

The City will implement the reporting of gross amounts in revenues and expenses from debt proceeds and payments to reflect the true receipts in the 2013 reporting year.

Conclusion

Response accepted.

2. Fund Balance

The Tax Increment Bluff Country debt service fund and Community Building and 2011 Small Cities Development special revenue funds had negative fund balances at year end.

Recommendation

We recommend the Council review their situation to ensure enough revenue is generated to cover the debt payments and operating costs.

2. Fund Balance (Continued)

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. The City of Spring Grove budgets tax levy dollars to cover operating losses at the Community Center with the understanding that the building provides a service that benefits all of the citizens.

Conclusion

Response accepted.

3. Disbursements

During the testing of disbursements, it was noted that payments are made on the City's credit card and at the local grocery store for purchases without any backup documentation to support the credit card statements.

Recommendation

The City should require receipts for all purchases with proper signatures noting approval for payment.

Response

The City will immediately require a signed receipt for all purchases made by credit card or store credit.

Conclusion

Response accepted.

4. Internal Control Procedures

During our audit, it was noted that the City's internal control procedures mentions that duties are to be segregated among a staff of three persons including the City Administrator. The City currently only has two individuals on staff and no one with the title City Administrator.

Recommendation

We recommend the City update their internal control procedures to accurately reflect its operations.

Response

The City will review and update their internal control procedures so that duties are to be segregated among a staff of two people including the City Clerk/Treasurer.

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  
May 23, 2013