

**CITY OF SPRING GROVE**  
**FINANCIAL REPORT**  
**DECEMBER 31, 2011**

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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/City Administrator	Theresa Coleman	

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Spring Grove, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Spring Grove's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Spring Grove as of December 31, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2012, 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* and should be considered in assessing the results of our audit.

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

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

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

Decorah, Iowa  
June 21, 2012

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

**Management's Discussion and Analysis  
For the Fiscal Year Ending December 31, 2011**

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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**FINANCIAL HIGHLIGHTS**

- In total, net assets decreased by \$54,387. Net assets of governmental activities decreased by \$55,417, which represents 2.1% decrease from fiscal year 2010.
- General fund revenue accounted for \$922,891 in revenue or 78.81% of all revenue. General fund expenditures accounted for \$936,835 in disbursements or 82.02% 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		
	2011	2010	Percent Change
Current and other assets	\$ 1,730,838	\$ 1,640,779	5.49%
Capital assets	3,077,527	3,302,153	-6.80%
Total assets	<u>\$ 4,808,365</u>	<u>\$ 4,942,932</u>	<u>-2.72%</u>
Long-term debt outstanding	\$ 2,100,431	\$ 2,199,621	-4.51%
Other liabilities	99,293	79,253	25.29%
Total liabilities	<u>2,199,724</u>	<u>2,278,874</u>	<u>-3.47%</u>
Net assets			
Invested in capital assets, net of related debt	1,539,401	1,688,258	-8.82%
Restricted	74,468	52,467	41.93%
Unrestricted	994,772	923,333	7.74%
Total net assets	<u>2,608,641</u>	<u>2,664,058</u>	<u>-2.08%</u>
Total liabilities and net assets	<u>\$ 4,808,365</u>	<u>\$ 4,942,932</u>	<u>-2.72%</u>



GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Business-type Activities		
	2011	2010	Percent Change
Current and other assets	\$ 930,085	\$ 946,353	-1.72%
Capital assets	1,153,658	1,126,069	2.45%
Total assets	<u>\$ 2,083,743</u>	<u>\$ 2,072,422</u>	0.55%
Long-term debt outstanding	\$ 38,560	\$ 37,118	3.88%
Other liabilities	134,171	125,322	7.06%
Total liabilities	<u>172,731</u>	<u>162,440</u>	6.34%
Net assets			
Invested in capital assets, net of related debt	1,153,659	1,126,070	2.45%
Unrestricted	<u>757,353</u>	<u>783,912</u>	-3.39%
Total net assets	<u>1,911,012</u>	<u>1,909,982</u>	0.05%
Total liabilities and net assets	<u>\$ 2,083,743</u>	<u>\$ 2,072,422</u>	0.55%

The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with the sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements-increased for the governmental activities approximately \$71,439 or 7.7% and decreased for the business-type activities by approximately \$26,559 or 3.5%.

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

The following analysis shows the change in net assets for the year ending December 31, 2011:

	Changes in Net Assets		
	Governmental Activities		
	2011	2010	Percent Change
Revenues:			
Program revenue			
Charges for service	\$ 102,592	\$ 90,243	13.68%
Operating grants	29,358	27,439	6.99%
General revenue			
Property and other city taxes levied	435,754	419,178	3.95%
Grants and contributions not restricted to specific programs	503,815	479,743	5.02%
Investment earnings	11,917	16,551	-28.00%
Miscellaneous items	43,988	45,009	-2.27%
Transfers	76,056	137,991	-44.88%
Total revenues	<u>1,203,480</u>	<u>1,216,154</u>	<u>-1.04%</u>
Program expenses:			
General government	193,307	292,213	-33.85%
Public safety	274,906	259,629	5.88%
Public works	164,452	169,288	-2.86%
Culture and recreation	492,166	341,436	44.15%
Community and economic development	52,359	60,579	-13.57%
Interest on long-term debt	58,558	104,473	-43.95%
Capital outlay	23,149	27,048	-14.42%
Total expenses	<u>1,258,897</u>	<u>1,254,666</u>	<u>0.34%</u>
Decrease in net assets	(55,417)	(38,512)	43.90%
Net assets Beginning of Year	<u>2,664,058</u>	<u>2,702,570</u>	<u>-1.43%</u>
Net assets End of Year	<u>\$ 2,608,641</u>	<u>\$ 2,664,058</u>	<u>-2.08%</u>

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

	Business-type Activities		
	2011	2010	Percent Change
Revenues:			
Program revenue			
Charges for service	\$ 1,927,402	\$ 2,064,010	-6.62%
General revenue			
Investment earnings	5,343	4,728	13.01%
Miscellaneous items	19,161	21,527	-10.99%
Total revenues	<u>1,951,906</u>	<u>2,090,265</u>	<u>-6.62%</u>
Program expenses:			
Other expenses	1,809,714	1,731,102	4.54%
Transfers	141,162	137,991	0.00%
Total expenses	<u>1,950,876</u>	<u>1,869,093</u>	<u>4.38%</u>
Increase in net assets	1,030	221,172	-99.53%
Net assets Beginning of Year	<u>1,909,982</u>	<u>1,688,810</u>	<u>13.10%</u>
Net assets End of Year	<u>\$ 1,911,012</u>	<u>\$ 1,909,982</u>	<u>0.05%</u>

**INDIVIDUAL FUND ANALYSIS**

As the City completed the year, its governmental funds reported a combined fund balance of \$1,618,597, a \$104,993 increase of the 2010 fiscal year end balance of \$1,513,604.

- The general fund’s ending fund balance increased during fiscal year 2011 through an increase in property taxes and charges for services. The ending fund balance showed an increase from the prior year of \$56,861 to \$1,044,065.
- Aquatic Center - capital projects fund balance increased due to an increase in contributions and donations.
- Aquatic Center – debt service fund balance decreased due to transferring monies out of 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 2011 as well as the actual receipts and expenses for the year:

	Budgetary Comparison Schedule		
	Actual Basis	Budget Final	Variance
<b>RECEIPTS</b>			
Local sources	\$ 486,406	\$ 503,810	\$ (17,404)
State sources	435,901	455,072	(19,171)
<b>Total receipts</b>	<b>\$ 922,307</b>	<b>\$ 958,882</b>	<b>\$ (36,575)</b>
<b>EXPENDITURES</b>			
General government	\$ 179,567	\$ 180,717	\$ 1,150
Public safety	298,291	317,942	19,651
Streets and highways	140,316	199,700	59,384
Culture and recreation	302,076	311,170	9,094
<b>Total expenditures</b>	<b>\$ 920,250</b>	<b>\$ 1,009,529</b>	<b>\$ 89,279</b>

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

At the end of fiscal year 2011, the City of Spring Grove had \$3,077,557 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 \$1,153,658 in land and water and sewer systems.

The City had depreciation expense of \$247,256 for fiscal year 2011 and total accumulated depreciation of \$4,218,280 as of December 31, 2011 for the governmental activities. The City had depreciation expense of \$45,057 for fiscal year 2011 and accumulated depreciation of \$3,383,175 as of December 31, 2011 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 \$2,063,000 in bonds and other debt compared to approximately \$2,157,000 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, 2011, the City's outstanding debt which falls under this requirement totaled \$None which is significantly below this \$1,111,828 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 Minnesota Market Value Homestead Credit was replaced by the 2012 Market Value Exclusion. The City of Spring Grove had a decrease in tax capacity from \$55,591,400 in 2011 to an estimated \$44,438,600 for 2012 and a corresponding decrease in taxable tax base from \$623,446 in 2011 to an estimated \$512,748 for 2012. Local Government Aid was decreased by \$54,700 for 2012.
- The City of Spring Grove bonded for the purchase of the Swim Center from the Spring Grove Economic Development Authority in 2012 with repayment scheduled to begin in 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, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash	\$ 1,377,552	\$ 595,320	\$ 1,972,872	\$ 91,114
Investments	185,059	141,201	326,260	1,500
Receivables				
Accounts and unbilled usage, net	567	155,019	155,586	
Pledges receivable	82,058		82,058	
Accrued interest				718
Notes receivable, due within one year	10,037		10,037	135,321
Inventories		23,153	23,153	
Prepaid expenditures	18,851	15,392	34,243	
Notes receivable, due after one year	25,782		25,782	1,502,963
Pledges receivable, net discount	30,902		30,902	
Nondepreciable assets	37,968	85,499	123,467	81,250
Capital assets, net of accumulated depreciation	3,039,589	1,068,159	4,107,748	163,021
<b>Total assets</b>	<b>\$ 4,808,365</b>	<b>\$ 2,083,743</b>	<b>\$ 6,892,108</b>	<b>\$ 1,975,887</b>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 40,629	\$ 123,002	\$ 163,631	\$ 2,397
Accrued taxes payable	3,239	3,005	6,244	
Salaries and benefits payable	11,659	8,164	19,823	
Accrued interest payable	43,766		43,766	
Long-term liabilities				
Portion due within one year				
Bonds payable	30,000		30,000	148,000
Leases payable	80,739		80,739	
Compensated absences	35,726	15,316	51,042	
Portion due after one year				
Bonds payable	495,000		495,000	1,390,000
Leases payable	1,457,417		1,457,417	
Pledges payable				45,000
Compensated absences	1,549	23,244	24,793	
<b>Total liabilities</b>	<b>2,199,724</b>	<b>172,731</b>	<b>2,372,455</b>	<b>1,585,397</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,539,401	1,153,659	2,693,060	
Restricted for				
Other special revenue	74,468		74,468	
Unrestricted	994,772	757,353	1,752,125	390,490
<b>Total net assets</b>	<b>2,608,641</b>	<b>1,911,012</b>	<b>4,519,653</b>	<b>390,490</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,808,365</b>	<b>\$ 2,083,743</b>	<b>\$ 6,892,108</b>	<b>\$ 1,975,887</b>

See Notes to Financial Statements.

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CITY OF SPRING GROVE  
STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2011

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	\$ 193,307	\$ 3,137	\$ 11,640
Public safety	274,906	3,536	14,646
Public works	164,452		
Culture and recreation	492,166	95,919	
Community and economic development	52,359		3,072
Interest on long-term debt	58,558		
Capital outlay	23,149		
Total governmental activities	<u>1,258,897</u>	<u>102,592</u>	<u>29,358</u>
Business-type activities			
Water utilities	127,666	169,152	
Sewer utilities	191,109	171,067	
Light utilities	1,128,319	1,230,637	
Liquor store	362,620	356,546	
Total business-type activities	<u>1,809,714</u>	<u>1,927,402</u>	<u>-</u>
Total primary government	<u>\$ 3,068,611</u>	<u>\$ 2,029,994</u>	<u>\$ 29,358</u>
<b>Component Unit</b>			
Economic development authority	<u>\$ 117,630</u>	<u>\$ 45,160</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			
<b>Transfers</b>			
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
\$ (178,530)		\$ (178,530)	
(256,724)		(256,724)	
(164,452)		(164,452)	
(396,247)		(396,247)	
(49,287)		(49,287)	
(58,558)		(58,558)	
(23,149)		(23,149)	
<u>(1,126,947)</u>	<u>\$ -</u>	<u>(1,126,947)</u>	<u>\$ -</u>
	41,486	41,486	
	(20,042)	(20,042)	
	102,318	102,318	
	(6,074)	(6,074)	
<u>-</u>	<u>117,688</u>	<u>117,688</u>	<u>-</u>
<u>(1,126,947)</u>	<u>117,688</u>	<u>(1,009,259)</u>	<u>-</u>
			<u>(72,470)</u>
430,001		430,001	
5,753		5,753	
503,815		503,815	
11,917	5,343	17,260	100
43,988	19,161	63,149	
76,056	(141,162)	(65,106)	65,106
<u>1,071,530</u>	<u>(116,658)</u>	<u>954,872</u>	<u>65,206</u>
(55,417)	1,030	(54,387)	(7,264)
<u>2,664,058</u>	<u>1,909,982</u>	<u>4,574,040</u>	<u>397,754</u>
<u>\$ 2,608,641</u>	<u>\$ 1,911,012</u>	<u>\$ 4,519,653</u>	<u>\$ 390,490</u>

CITY OF SPRING GROVE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2011

	General	Debt Service Aquatic Center	Capital Projects Aquatic Center	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 891,507	\$ 62,290	\$ 282,213	\$ 141,542	\$ 1,377,552
Investments	185,059				185,059
Receivables					
Accounts	567				567
Pledges receivable			82,058		82,058
Notes receivable				10,037	10,037
Due from other funds				7,112	7,112
Prepaid expenditures	18,079			772	18,851
<b>Total assets</b>	<b>\$ 1,095,212</b>	<b>\$ 62,290</b>	<b>\$ 364,271</b>	<b>\$ 159,463</b>	<b>\$ 1,681,236</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 36,249			\$ 4,380	\$ 40,629
Accrued taxes payable	3,239				3,239
Due to other funds				7,112	7,112
Salaries and benefits payable	11,659				11,659
<b>Total liabilities</b>	<b>51,147</b>	<b>\$ -</b>	<b>\$ -</b>	<b>11,492</b>	<b>62,639</b>
<b>FUND BALANCES</b>					
<b>Nonspendable</b>					
Insurance	18,079			772	18,851
<b>Restricted</b>					
Debt service		62,290		77,251	139,541
Special revenue fund				74,468	74,468
Committed			364,271	3,600	367,871
Unassigned	1,025,986			(8,120)	1,017,866
<b>Total fund balances</b>	<b>1,044,065</b>	<b>62,290</b>	<b>364,271</b>	<b>147,971</b>	<b>1,618,597</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,095,212</b>	<b>\$ 62,290</b>	<b>\$ 364,271</b>	<b>\$ 159,463</b>	<b>\$ 1,681,236</b>

See Notes to Financial Statements.

CITY OF SPRING GROVE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2011

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 1,618,597
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 \$ 4,218,280	3,077,557
Other long-term assets are not available to pay for current period expenditures	56,684
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	(525,000)
Leases payable	(1,538,156)
Accrued interest	(43,766)
Compensated absences	(37,275)
Net assets of governmental activities	<u>\$ 2,608,641</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, 2011

	General	Debt Service Aquatic Center	Capital Projects Aquatic Center	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 298,168	\$ 100,292		\$ 18,080	\$ 416,540
Special assessments				19,214	19,214
Licenses and permits	3,137				3,137
Intergovernmental	436,376			3,072	439,448
Charges for service	95,919				95,919
Fines and forfeits	3,536				3,536
Investment earnings	8,547		\$ 2,320	1,050	11,917
Contributions and donations	53,108		70,485		123,593
Miscellaneous	24,100	104		33,583	57,787
<b>Total revenues</b>	<b>922,891</b>	<b>100,396</b>	<b>72,805</b>	<b>74,999</b>	<b>1,171,091</b>
<b>EXPENDITURES</b>					
<b>Current operating</b>					
General government	185,227				185,227
Public safety	243,896				243,896
Streets and highways	110,394				110,394
Culture and recreation	336,509				336,509
Community and economic development				52,359	52,359
Capital outlay	45,809				45,809
<b>Debt service</b>					
Principal	10,739	65,000		25,000	100,739
Interest and other charges	4,261	39,610		23,350	67,221
<b>Total expenditures</b>	<b>936,835</b>	<b>104,610</b>	<b>-</b>	<b>100,709</b>	<b>1,142,154</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(13,944)</b>	<b>(4,214)</b>	<b>72,805</b>	<b>(25,710)</b>	<b>28,937</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	146,218	16,133		103,939	266,290
Transfers out	(75,413)	(38,106)	(16,133)	(60,582)	(190,234)
<b>Total other financing sources (uses)</b>	<b>70,805</b>	<b>(21,973)</b>	<b>(16,133)</b>	<b>43,357</b>	<b>76,056</b>
<b>EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>56,861</b>	<b>(26,187)</b>	<b>56,672</b>	<b>17,647</b>	<b>104,993</b>
<b>FUND BALANCES, beginning of year</b>	<b>987,204</b>	<b>88,477</b>	<b>307,599</b>	<b>130,324</b>	<b>1,513,604</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 1,044,065</b>	<b>\$ 62,290</b>	<b>\$ 364,271</b>	<b>\$ 147,971</b>	<b>\$ 1,618,597</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, 2011

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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	\$	104,993
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	\$	(247,256)
Capital outlay		22,660
		<u>(224,596)</u>
Receipt of long-term receivable are included in the governmental funds but decrease long-term receivables in the statement of activities.		(43,667)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		100,739
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.		8,663
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>(1,549)</u>
Change in net assets of governmental activities	\$	<u>(55,417)</u>

See Notes to Financial Statements.

CITY OF SPRING GROVE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2011

	Enterprise Funds				Total
	Water	Sewer	Light	Liquor	
<b>ASSETS</b>					
Cash	\$ 173,902	\$ 17,885	\$ 376,235	\$ 27,298	\$ 595,320
Investments			110,832	30,369	141,201
Receivables					
Accounts and unbilled usage, net	23,561	22,826	108,632		155,019
Inventory				23,153	23,153
Prepaid expenses	2,540	1,637	5,234	5,981	15,392
<b>Total current assets</b>	<u>200,003</u>	<u>42,348</u>	<u>600,933</u>	<u>86,801</u>	<u>930,085</u>
<b>Noncurrent assets</b>					
Land	6,917	34,114	36,968	7,500	85,499
Net capital assets	222,050	723,662	64,003	58,444	1,068,159
<b>Total noncurrent assets</b>	<u>228,967</u>	<u>757,776</u>	<u>100,971</u>	<u>65,944</u>	<u>1,153,658</u>
<b>Total assets</b>	<u>\$ 428,970</u>	<u>\$ 800,124</u>	<u>\$ 701,904</u>	<u>\$ 152,745</u>	<u>\$ 2,083,743</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Liabilities</b>					
Accounts payable	\$ 5,589	\$ 9,254	\$ 101,063	\$ 7,096	\$ 123,002
Accrued taxes payable				3,005	3,005
Salaries and benefits payable	387	387	4,353	3,037	8,164
Compensated absences	18	19	13,197	2,082	15,316
Long-term liabilities					
Compensated absences			23,244		23,244
<b>Total liabilities</b>	<u>5,994</u>	<u>9,660</u>	<u>141,857</u>	<u>15,220</u>	<u>172,731</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt	228,967	757,776	100,972	65,944	1,153,659
Unrestricted	194,009	32,688	459,075	71,581	757,353
<b>Total net assets</b>	<u>422,976</u>	<u>790,464</u>	<u>560,047</u>	<u>137,525</u>	<u>1,911,012</u>
<b>Total liabilities and net assets</b>	<u>\$ 428,970</u>	<u>\$ 800,124</u>	<u>\$ 701,904</u>	<u>\$ 152,745</u>	<u>\$ 2,083,743</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, 2011

	Enterprise Funds				Total
	Water	Sewer	Light	Liquor	
<b>OPERATING REVENUES</b>					
Charges for service	\$ 168,852	\$ 134,322	\$ 1,230,487	\$ 352,753	\$ 1,886,414
Less: cost of sales			(923,999)	(223,381)	(1,147,380)
Miscellaneous	300	36,745	150	3,793	40,988
<b>Total operating revenues</b>	<u>169,152</u>	<u>171,067</u>	<u>306,638</u>	<u>133,165</u>	<u>780,022</u>
<b>OPERATING EXPENSES</b>					
Personal services	40,106	40,106	90,527	82,274	253,013
Health and life insurance contributions	10,163	12,220	17,201	126	39,710
Pension contributions	2,715	2,715	6,065	4,724	16,219
Utilities	38,678	45,091	3,136	12,308	99,213
Repairs and maintenance	2,077	31,236	7,201	10,817	51,331
Supplies	10,530	22,820	10,345	2,573	46,268
Insurance claims and expenses	3,654	2,363	7,950	6,542	20,509
Depreciation expense	12,030	25,871	1,779	5,377	45,057
Other expenses	7,713	8,687	60,116	14,498	91,014
<b>Total operating expenses</b>	<u>127,666</u>	<u>191,109</u>	<u>204,320</u>	<u>139,239</u>	<u>662,334</u>
<b>Total operating income (loss)</b>	<u>41,486</u>	<u>(20,042)</u>	<u>102,318</u>	<u>(6,074)</u>	<u>117,688</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	882	182	4,011	268	5,343
Refunds and credits			10,776	285	11,061
Deposits			8,100		8,100
<b>Net nonoperating revenues (expenses)</b>	<u>882</u>	<u>182</u>	<u>22,887</u>	<u>553</u>	<u>24,504</u>
<b>Income before contributions and transfers</b>	<u>42,368</u>	<u>(19,860)</u>	<u>125,205</u>	<u>(5,521)</u>	<u>142,192</u>
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>					
Transfers in			9,590		9,590
Transfers out	(3,927)	(4,625)	(142,200)		(150,752)
	<u>(3,927)</u>	<u>(4,625)</u>	<u>(132,610)</u>	<u>-</u>	<u>(141,162)</u>
<b>Change in net assets</b>	<u>38,441</u>	<u>(24,485)</u>	<u>(7,405)</u>	<u>(5,521)</u>	<u>1,030</u>
<b>NET ASSETS, beginning of year</b>	<u>384,535</u>	<u>814,949</u>	<u>567,452</u>	<u>143,046</u>	<u>1,909,982</u>
<b>NET ASSETS, end of year</b>	<u>\$ 422,976</u>	<u>\$ 790,464</u>	<u>\$ 560,047</u>	<u>\$ 137,525</u>	<u>\$ 1,911,012</u>

See Notes to Financial Statements.

CITY OF SPRING GROVE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds				Total
	Water	Sewer	Light	Liquor	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from rent				\$ 2,876	\$ 2,876
Cash received from charges for services	\$ 175,532	\$ 178,381	\$ 1,268,836	353,670	1,976,419
Cash payments to employees for services	(37,504)	(37,504)	(84,156)	(75,424)	(234,588)
Cash payments to suppliers for services	(75,016)	(137,326)	(1,014,583)	(268,599)	(1,495,524)
Other operating payments paid on employees' behalf	(5,506)	(5,506)	(12,431)	(10,439)	(33,882)
Net cash provided by (used in) operating activities	57,506	(1,955)	157,666	2,084	215,301
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating transfers in			9,590		9,590
Operating transfers out	(3,927)	(4,625)	(142,200)		(150,752)
Net cash (used in) noncapital financing activities	(3,927)	(4,625)	(132,610)	-	(141,162)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Refunds and credits			10,776	285	11,061
Customer deposits			8,100		8,100
Acquisition of capital assets	(10,917)	(15,540)	(46,195)		(72,652)
Net cash (used in) provided by capital and related financing activities	(10,917)	(15,540)	(27,319)	285	(53,491)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest on investments	882	182	4,011	268	5,343
Purchase of investments			(1,635)	(268)	(1,903)
Net cash provided by investing activities	882	182	2,376	-	3,440
Net increase (decrease) in cash and cash equivalents	43,544	(21,938)	113	2,369	24,088
CASH AND CASH EQUIVALENTS, beginning of year	130,358	39,823	376,122	24,929	571,232
CASH AND CASH EQUIVALENTS, end of year	\$ 173,902	\$ 17,885	\$ 376,235	\$ 27,298	\$ 595,320
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>					
Operating income (loss)	\$ 41,486	\$ (20,042)	\$ 102,318	\$ (6,074)	\$ 117,688
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation	12,030	25,871	1,779	5,377	45,057
(Increase) decrease in accounts receivable	6,380	7,317	38,210		51,907
Increase in prepaid expense	(2,183)	(1,104)	(4,399)	(3,275)	(10,961)
Decrease in inventory				1,318	1,318
(Decrease) increase in accounts payable	(18)	(13,808)	19,753	3,603	9,530
Decrease in salaries and benefits payable	(44)	(44)	(592)		(680)
(Decrease) increase in accrued compensated absences	(145)	(145)	597	1,135	1,442
Net cash provided by (used in) operating activities	\$ 57,506	\$ (1,955)	\$ 157,666	\$ 2,084	\$ 215,301

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 statutory form of government and provides the following services: public safety, highway and streets, sanitation, public improvements, utilities (lights, water and sewer), liquor store sales, planning and zoning and general administrative services.

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

b. Significant Accounting Policies

*Reporting Entity*

For financial reporting purposes, City of Spring Grove has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City; or the organization is fiscally dependent on the primary government. Also, any other organizations that due to the nature of significance of their relationship with the City should be included in the financial statements as component units.

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

*Government-wide Financial Statements*

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

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

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

b. Significant Accounting Policies (Continued)

*Fund Financial Statements*

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

The City reports the following major governmental funds:

*Governmental*

*General Fund*

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

*Capital Projects Funds*

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

*Aquatic Center*

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

*Debt Service Funds*

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

*Aquatic Center*

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

The City reports the following major proprietary funds:

*Enterprise Funds*

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

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

b. Significant Accounting Policies (Continued)

*Measurement Focus*

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

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

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

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

*Basis of Accounting*

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

b. Significant Accounting Policies (Continued)

*Basis of Accounting (Continued)*

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

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

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

*Assets, Liabilities and Fund Equity*

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

*Cash, Pooled Investments and Cash Equivalents*

The City maintains one primary demand deposit account through which the majority of the City's cash resources are processed. The funds, which have issued warrants in excess of their share of the account balance, are considered to have borrowed these amounts from other funds. Interest earned on the checking and money market accounts are recorded in the appropriate funds. Interest earned on the investments is recorded in each fund. All of the cash and investments carried in the financial statement, which consist of bank checking and savings accounts and certificates of deposit are stated at cost. Cost approximates fair value at December 31, 2011.

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, 2011, 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, 2011 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, 2011 assessed property valuations; is for the tax accrual period January 1, 2011 through December 31, 2011.

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, 2011:

Account	Primary Government Amount	Component Unit Amount	Financial Statement Classification
Cash on hand	\$ 1,450		Cash
Cash in bank	345,123	\$ 29,846	Cash
Money market account	1,626,299	61,268	Cash
Certificates of deposit	326,260	1,500	Investments
	<u>\$ 2,299,132</u>	<u>\$ 92,614</u>	

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

	Carrying Amount	Bank Balance
Primary government	\$ 2,297,682	\$ 2,361,060
Component unit	92,614	92,614
	<u>\$ 2,390,296</u>	<u>\$ 2,453,674</u>

Of the bank balances, \$341,114 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, 2011 are summarized as follows:

	Primary Government Amount	Component Unit Amount
Notes receivables, January 1, 2011	\$ 51,742	\$ 1,735,906
Advances	None	None
Payments	(15,923)	(97,622)
	\$ 35,819	\$ 1,638,284

December 31,	Primary Government		Component Unit	
	Principal	Interest	Principal	Interest
2012	\$ 10,037	\$ 715	\$ 135,321	\$ 81,893
2013	8,646	535	86,251	74,174
2014	6,944	339	91,816	69,985
2015	6,604	185	108,145	65,558
2016	2,916	57	85,011	60,715
2017-2021	672	4	501,612	233,509
2022-2026			630,128	87,590
	\$ 35,819	\$ 1,835	\$ 1,638,284	\$ 673,424

4. Pledges Receivable

Pledges receivable at December 31, 2011 are as follows:

Receivable in less than one year	\$ 82,058
Receivable in one to five years	47,000
	129,058
Total unconditional promises to give	129,058
Less discounts to net present value	(16,098)
	\$ 112,960
Net unconditional promises to give	\$ 112,960
Current unconditional promises to give	\$ 82,058
Long-term unconditional promises to give	30,902
	\$ 112,960

NOTES TO FINANCIAL STATEMENTS

5. Capital Assets

Capital assets activity for the year ended December 31, 2011 was as follows:

GOVERNMENTAL ACTIVITIES	Balance December 31, 2010	Additions	Deletions	Balance December 31, 2011
Capital assets not being depreciated				
Land	\$ 37,968			\$ 37,968
<b>Total capital assets not being depreciated</b>	<b>37,968</b>			<b>37,968</b>
Capital assets being depreciated				
Buildings and improvements	2,579,373	\$ 5,000		2,584,373
Improvements other than buildings	26,824			26,824
Equipment	1,433,611	73,077	\$ (67,172)	1,439,516
Infrastructure	3,207,156			3,207,156
<b>Total capital assets being depreciated</b>	<b>7,246,964</b>	<b>78,077</b>	<b>(67,172)</b>	<b>7,257,869</b>
Less accumulated depreciation				
Buildings and improvements	863,962	62,461		926,423
Improvements other than buildings	5,911	2,132		8,043
Equipment	908,633	147,560	(11,755)	1,044,438
Infrastructure	2,204,273	35,103		2,239,376
<b>Total accumulated depreciation</b>	<b>3,982,779</b>	<b>247,256</b>	<b>(11,755)</b>	<b>4,218,280</b>
<b>Total capital assets being depreciated, net</b>	<b>3,264,185</b>	<b>(169,179)</b>	<b>(55,417)</b>	<b>3,039,589</b>
<b>Governmental activities, capital assets, net</b>	<b>\$ 3,302,153</b>	<b>\$ (169,179)</b>	<b>\$ (55,417)</b>	<b>\$ 3,077,557</b>
COMPONENT UNIT	Balance December 31, 2010	Additions	Deletions	Balance December 31, 2011
Capital assets not being depreciated				
Land	\$ 81,250	\$ None	\$ None	\$ 81,250
Capital assets being depreciated				
Buildings and improvements	206,471	None	None	206,471
Less accumulated depreciation				
Buildings and improvements	38,288	5,162	None	43,450
<b>Total capital assets being depreciated, net</b>	<b>168,183</b>	<b>(5,162)</b>	<b>None</b>	<b>163,021</b>
<b>Component unit, capital assets, net</b>	<b>\$ 249,433</b>	<b>\$ (5,162)</b>	<b>\$ None</b>	<b>\$ 244,271</b>

NOTES TO FINANCIAL STATEMENTS

5. Capital Assets (Continued)

BUSINESS-TYPE ACTIVITIES	Balance December 31, 2010	Additions	Deletions	Balance December 31, 2011
<b>Capital assets not being depreciated</b>				
Land	\$ 41,614			\$ 41,614
Infrastructure in progress	None	\$ 43,885	\$ None	43,885
<b>Total capital assets not being depreciated</b>	<b>41,614</b>	<b>43,885</b>	<b>None</b>	<b>85,499</b>
<b>Capital assets being depreciated</b>				
Buildings and improvements	3,120,512	18,264		3,138,776
Equipment	323,214			323,214
Infrastructure, water and sewer network	978,847	10,497		989,344
<b>Total capital assets being depreciated</b>	<b>4,422,573</b>	<b>28,761</b>	<b>None</b>	<b>4,451,334</b>
<b>Less accumulated depreciation</b>				
Buildings and improvements	2,684,735	9,299		2,694,034
Equipment	184,705	16,331		201,036
Infrastructure, water and sewer network	468,678	19,427		488,105
<b>Total accumulated depreciation</b>	<b>3,338,118</b>	<b>45,057</b>	<b>None</b>	<b>3,383,175</b>
<b>Total capital assets being depreciated, net</b>	<b>1,084,455</b>	<b>(16,296)</b>	<b>None</b>	<b>1,068,159</b>
<b>Business-type activities, capital assets, net</b>	<b>\$ 1,126,069</b>	<b>\$ 27,589</b>	<b>\$ None</b>	<b>\$ 1,153,658</b>

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

<b>Governmental activities</b>	
Public safety	\$ 32,647
Public works	53,945
Culture and recreation	154,014
General government	6,650
<b>Total depreciation expense</b>	<b>\$ 247,256</b>
<b>Business-type activities</b>	
Water	\$ 12,030
Sewer	25,871
Light	1,779
Liquor Store	5,377
<b>Total depreciation expense</b>	<b>\$ 45,057</b>

6. Fund Balance Deficit

The Community Building special revenue fund and the Tax Increment Bluff Country debt service fund had deficit fund balances as of December 31, 2011. 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 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. In 2011, 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, 2011, 2010, and 2009 were \$28,202, \$26,400, and \$28,749 respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2011, 2010, and 2009 were \$13,464, \$13,146, and \$12,965, 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, 2011 are summarized as follows:

Bonds payable, January 1, 2011	\$	2,157,000
Bonds issued		None
Bonds retired		<u>(94,000)</u>
 Bonds payable, December 31, 2011	 \$	 <u>2,063,000</u>

Interest costs incurred and charged to expenses was \$100,495 for the year ended December 31, 2011. Bonds payable at December 31, 2011 are comprised of the following individual issues:

a. General Obligation Bonds

<p>\$160,000 General Obligation Tax Increment Bond Series 2005A, due semi-annually in varying installments February 2012 through February 2022 plus interest at 4.5%. Bonds are callable on February 2011, or any date thereafter at par plus accrued interest.</p>	\$ 135,000
<p>\$430,000 General Obligation Tax Increment Bond Series 2007A, due semi-annually in varying installments February 2012 through February 2023 plus interest at 3.8%. Bonds are callable on February 2015, or any date thereafter at par plus accrued interest.</p>	390,000
 <i>Component Unit-Economic Authority</i>	
<p>\$96,767 2002 Taxable Revenue Bond, due semi-annually in varying installments through September 2012 plus interest at 7.0%. Bonds are callable on any date at par plus accrued interest.</p>	78,000
<p>\$1,760,000 Public Project Revenue Bonds Series 2006A, due semi-annually in varying installments through February 2026 plus interest at 4.25 – 5.50%.</p>	<u>1,460,000</u>
	<u>\$ 2,063,000</u>

NOTES TO FINANCIAL STATEMENTS

8. Long-term Debt (Continued)

b. Capital Leases

In March 2008, the City entered into two capital lease purchase agreements to lease the new Aquatic Center and an end loader with historical cost of \$1,760,000 and \$71,526, respectively. The leases bear varying interest rates. The following is a schedule of future minimum lease payments under the capital leases, together with the net present value of the minimum lease payments as of December 31, 2011.

Year ending December 31,		
2012	\$	159,593
2013		156,225
2014		157,601
2015		158,726
2016		154,726
2017-2021		721,871
2022-2026		696,866
		\$ 2,205,608
Minimum lease payments	\$	2,205,608
Less amount representing interest		667,452
Present value of minimum lease payments	\$	1,538,156

c. Debt Funding Schedule

A summary of the City's long-term indebtedness (including the component unit) as of December 31, 2011 were as follows:

December 31,	Bonded	
	Principal	Interest
2012	\$ 178,000	\$ 103,192
2013	100,000	92,060
2014	110,000	87,225
2015	115,000	81,900
2016	120,000	76,451
2017-2021	725,000	285,366
2022-2026	715,000	93,077
	\$ 2,063,000	\$ 819,271

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, 2011, the City had not exceeded the net debt limitation.

	Percent of Legal Debt Incurred
Estimated market value	\$ 55,591,400
Legal debt percentage, allowed	2.00%
Legal debt limit	1,111,828
Amount of debt applicable to debt limit	-
Unused margin of indebtedness	\$ 1,111,828

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, 2011, 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	3,512	
Tax Increment Bluff Country		\$ 7,112
	\$ 7,112	\$ 7,112

NOTES TO FINANCIAL STATEMENTS

11. Interfund Transfers

The detail of interfund transfers for the year ended December 31, 2011 is as follows:

	Transfers In	Transfers Out
<b>Governmental activities</b>		
<b>General fund</b>		
Light enterprise fund	\$ 137,404	\$ 9,590
Water enterprise fund	3,927	None
Sewer enterprise fund	4,625	None
Nonmajor governmental	262	38,823
Economic Development Authority	None	27,000
	146,218	75,413
<b>Capital projects fund</b>		
<b>Aquatic Center</b>		
	None	16,133
<b>Debt service</b>		
<b>Aquatic Center</b>		
	16,133	None
<b>Economic Development Authority</b>		
	None	38,106
	16,133	38,106
<b>Nonmajor governmental</b>		
<b>General fund</b>		
	38,823	262
<b>Light enterprise fund</b>		
	4,796	None
<b>Nonmajor governmental</b>		
	60,320	60,320
	103,939	60,582
<b>Business-type activities</b>		
<b>Light enterprise fund</b>		
	9,590	142,200
<b>Sewer enterprise fund</b>		
	None	4,625
<b>Water enterprise fund</b>		
	None	3,927
	9,590	150,752
<b>Component Unit</b>		
<b>Economic Development Authority</b>		
	65,106	None
<b>Total</b>	\$ 340,986	\$ 340,986

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

12. Fund Equity

The amounts restricted at December 31, 2011 are as follows:

<b>Restricted fund balances</b>	
<b>Special revenue fund</b>	
Nonmajor governmental funds	\$ 74,468
<b>Debt service fund</b>	
<b>Aquatic Center</b>	
	62,290
<b>Nonmajor governmental funds</b>	
	77,251
	\$ 214,009



12. **Fund Equity (Continued)**

The amounts committed at December 31, 2011 are as follows:

Committed fund balances	
Capital projects fund	
Aquatic Center	\$ 364,271
Nonmajor governmental funds	<u>3,600</u>
	<u>\$ 367,871</u>

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, 2011 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. **Subsequent Events**

The City approved the issuance of \$1,440,000 Tax Abatement Bonds on February 16, 2012.

CITY OF SPRING GROVE  
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS  
 GENERAL FUND  
 For the Year Ended December 31, 2011

	<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	\$ 818,645	\$ 818,645	\$ -
<b>RECEIPTS (resources, inflows)</b>			
Taxes			
General property tax			
Current, delinquent, penalties and interest	331,000	298,168	(32,832)
Total taxes	<u>331,000</u>	<u>298,168</u>	<u>(32,832)</u>
Licenses and permits			
Business (liquor, cigarette, etc.)	1,000	1,425	425
Non-business (building permits, etc.)	2,260	1,712	(548)
Total licenses and permits	<u>3,260</u>	<u>3,137</u>	<u>(123)</u>
Intergovernmental			
State grants			
Local government aid	432,582	390,959	(41,623)
Market value credit		19,131	19,131
State police aid	11,700	13,146	1,446
Other	10,790	13,364	2,574
Total intergovernmental	<u>455,072</u>	<u>436,600</u>	<u>(18,472)</u>
Charges for services			
Parks and recreation	68,800	70,274	1,474
Other	26,000	25,670	(330)
Total charges for services	<u>94,800</u>	<u>95,944</u>	<u>1,144</u>
Fines and forfeits			
County court	3,500	3,536	36
Miscellaneous			
Investment earnings	6,000	6,331	331
Donations	28,000	53,652	25,652
Refunds received	12,500	3,421	(9,079)
Other	24,750	21,518	(3,232)
Total miscellaneous	<u>71,250</u>	<u>84,922</u>	<u>13,672</u>
Total receipts	<u>958,882</u>	<u>922,307</u>	<u>(36,575)</u>
<b>OTHER FINANCING SOURCES:</b>			
Transfers from			
Light Enterprise Fund	110,000	137,407	27,407
Sewer Enterprise Fund		6,088	6,088
Water Enterprise Fund		3,924	3,924
1997-99 Division Ave		27	27
Curb and Gutter Debt Service Fund		235	235
Total other financing sources	<u>110,000</u>	<u>147,681</u>	<u>37,681</u>
Total receipts, other financing sources	<u>1,068,882</u>	<u>1,069,988</u>	<u>1,106</u>
Amounts available for appropriation	<u>\$ 1,887,527</u>	<u>\$ 1,888,633</u>	<u>\$ 1,106</u>

See Notes to Required Supplementary Information.

CITY OF SPRING GROVE  
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS  
 GENERAL FUND  
 For the Year Ended December 31, 2011

	<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>
<b>DISBURSEMENTS</b>			
General government			
Mayor and Council			
Current	\$ 31,695	\$ 41,441	\$ (9,746)
Finance-Municipal Clerk/Treasurer			
Current	140,622	131,637	8,985
Capital outlay	8,400	6,489	1,911
Total general government	<u>180,717</u>	<u>179,567</u>	<u>1,150</u>
Public safety			
Police protection			
Current	197,683	210,718	(13,035)
Capital outlay	14,750	11,685	3,065
Fire protection			
Current	73,985	49,968	24,017
Capital outlay	23,700	18,096	5,604
Ambulance			
Current	7,824	7,824	-
Total public safety	<u>317,942</u>	<u>298,291</u>	<u>19,651</u>
Streets and highways			
Streets maintenance and storm sewers			
Current	167,746	110,223	57,523
Capital outlay - equipment, buildings, etc.	31,954	30,093	1,861
Total streets and highways	<u>199,700</u>	<u>140,316</u>	<u>59,384</u>
Culture and recreation			
Library			
Current	93,721	106,248	(12,527)
Capital outlay	13,540	19,910	(6,370)
Recreational activities, facilities, community buildings			
Current	163,277	142,528	20,749
Parks and boulevards			
Current	40,632	33,390	7,242
Total culture and recreation	<u>311,170</u>	<u>302,076</u>	<u>9,094</u>
<b>OTHER FINANCING USES:</b>			
Transfers to:			
Light Enterprise Fund		9,591	(9,591)
Sewer Enterprise Fund		1,462	(1,462)
Community Building Special Revenue Fund		30,235	(30,235)
Tax Abatement		8,588	(8,588)
Economic Development Authority		27,000	(27,000)
Total other financing uses	<u>-</u>	<u>76,876</u>	<u>(76,876)</u>
Total disbursements and other financing uses	<u>1,009,529</u>	<u>997,126</u>	<u>12,403</u>
<b>BUDGETARY FUND BALANCE - December 31</b>	<b>\$ 877,998</b>	<b>\$ 891,507</b>	<b>\$ 13,509</b>

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, 2011

	Cash Basis	Accrual Adjustments	Modified Accrual Basis
REVENUES	\$ 922,307	\$ 584	\$ 922,891
EXPENDITURES	920,250	16,585	936,835
Net	2,057	(16,001)	(13,944)
OTHER FINANCING SOURCES, NET	70,805		70,805
BEGINNING FUND BALANCE	818,645	168,559	987,204
ENDING FUND BALANCE	\$ 891,507	\$ 152,558	\$ 1,044,065

See Notes to Required Supplementary Information.

CITY OF SPRING GROVE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
December 31, 2011

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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 did not exceed its budget during the year ended December 31, 2011.

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

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

Our report on our audit of the financial statements of City of Spring Grove as of and for the year ended December 31, 2011 appears on pages 2-3. Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise City of Spring Grove's basic financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Decorah, Iowa  
June 21, 2012

CITY OF SPRING GROVE  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 December 31, 2011

	Special Revenue	Debt Service	Capital Projects	Total
<b>ASSETS</b>				
Cash	\$ 67,803	\$ 73,739		\$ 141,542
Note receivable	10,037			10,037
Due from other funds		3,512	\$ 3,600	7,112
Prepaid expenses	772			772
<b>Total assets</b>	<b>\$ 78,612</b>	<b>\$ 77,251</b>	<b>\$ 3,600</b>	<b>\$ 159,463</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 4,364	\$ 16		\$ 4,380
Due to other funds		7,112		7,112
<b>Total liabilities</b>	<b>4,364</b>	<b>7,128</b>	<b>\$ -</b>	<b>11,492</b>
<b>FUND BALANCES</b>				
<b>Nonspendable</b>				
Prepaid insurance	772			772
Restricted	74,468	77,251		151,719
Committed			3,600	3,600
Unassigned	(992)	(7,128)		(8,120)
<b>Total fund balances</b>	<b>74,248</b>	<b>70,123</b>	<b>3,600</b>	<b>147,971</b>
<b>Total liabilities and fund balances</b>	<b>\$ 78,612</b>	<b>\$ 77,251</b>	<b>\$ 3,600</b>	<b>\$ 159,463</b>

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Year Ended December 31, 2011

	Special Revenue	Debt Service	Capital Projects	Total
<b>REVENUES</b>				
Property taxes		\$ 18,080		\$ 18,080
Special assessments		19,214		19,214
Intergovernmental	\$ 3,072			3,072
Investment earnings	469	285	\$ 296	1,050
Miscellaneous	26,197	7,386		33,583
<b>Total revenues</b>	<b>29,738</b>	<b>44,965</b>	<b>296</b>	<b>74,999</b>
<b>EXPENDITURES</b>				
Community and economic development				
Current	43,771	8,588		52,359
Debt service				
Principal		25,000		25,000
Interest		23,350		23,350
<b>Total expenditures</b>	<b>43,771</b>	<b>56,938</b>	<b>-</b>	<b>100,709</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(14,033)</b>	<b>(11,973)</b>	<b>296</b>	<b>(25,710)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	35,031	68,908		103,939
Transfers out		(4,810)	(55,772)	(60,582)
<b>Total other financing sources (uses)</b>	<b>35,031</b>	<b>64,098</b>	<b>(55,772)</b>	<b>43,357</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>20,998</b>	<b>52,125</b>	<b>(55,476)</b>	<b>17,647</b>
<b>FUND BALANCES, beginning of year</b>	<b>53,250</b>	<b>17,998</b>	<b>59,076</b>	<b>130,324</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 74,248</b>	<b>\$ 70,123</b>	<b>\$ 3,600</b>	<b>\$ 147,971</b>

See Independent Auditor's Report on the Supplementary Information.



CITY OF SPRING GROVE  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 December 31, 2011

	<u>Small Cities Development</u>	<u>2011 Small Cities Development</u>	<u>Industrial Development</u>	<u>Community Building</u>	<u>Total</u>
<b>ASSETS</b>					
Cash	\$ 44,597	\$ 3,074	\$ 19,832	\$ 300	\$ 67,803
Note receivable	10,037				10,037
Prepaid expenses			178	594	772
<b>Total assets</b>	<b>\$ 54,634</b>	<b>\$ 3,074</b>	<b>\$ 20,010</b>	<b>\$ 894</b>	<b>\$ 78,612</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable		\$ 3,072		\$ 1,292	\$ 4,364
<b>Total liabilities</b>	<b>\$ -</b>	<b>3,072</b>	<b>\$ -</b>	<b>1,292</b>	<b>4,364</b>
<b>FUND BALANCES</b>					
<b>Nonspendable</b>					
Prepaid insurance			178	594	772
Restricted	54,634	2	19,832		74,468
Unassigned				(992)	(992)
<b>Total fund balances</b>	<b>54,634</b>	<b>2</b>	<b>20,010</b>	<b>(398)</b>	<b>74,248</b>
<b>Total liabilities and fund balances</b>	<b>\$ 54,634</b>	<b>\$ 3,074</b>	<b>\$ 20,010</b>	<b>\$ 894</b>	<b>\$ 78,612</b>

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 For the Year Ended December 31, 2011

	Small Cities Development	2011 Small Cities Development	Industrial Development	Community Building	Total
<b>REVENUES</b>					
Intergovernmental		\$ 3,072			\$ 3,072
Investment earnings	\$ 276	2	\$ 191		469
Miscellaneous	16,074		264	\$ 9,859	26,197
<b>Total revenues</b>	<b>16,350</b>	<b>3,074</b>	<b>455</b>	<b>9,859</b>	<b>29,738</b>
<b>EXPENDITURES</b>					
Community and economic development					
Current		3,072		40,699	43,771
<b>Total expenditures</b>	<b>-</b>	<b>3,072</b>	<b>-</b>	<b>40,699</b>	<b>43,771</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>16,350</b>	<b>2</b>	<b>455</b>	<b>(30,840)</b>	<b>(14,033)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	4,796			30,235	35,031
<b>Total other financing sources (uses)</b>	<b>4,796</b>	<b>-</b>	<b>-</b>	<b>30,235</b>	<b>35,031</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>21,146</b>	<b>2</b>	<b>455</b>	<b>(605)</b>	<b>20,998</b>
<b>FUND BALANCES, beginning of year</b>	<b>33,488</b>		<b>19,555</b>	<b>207</b>	<b>53,250</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 54,634</b>	<b>\$ 2</b>	<b>\$ 20,010</b>	<b>\$ (398)</b>	<b>\$ 74,248</b>

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE  
COMBINING BALANCE SHEET  
NONMAJOR DEBT SERVICE FUNDS  
December 31, 2011

	Bender Tax Increment	Tax Increment Bluff Country	2007 Tax Increment	Total
<b>ASSETS</b>				
Cash	\$ 61,030		\$ 12,709	\$ 73,739
Due from other funds	3,512			3,512
<b>Total assets</b>	<b>\$ 64,542</b>	<b>\$ -</b>	<b>\$ 12,709</b>	<b>\$ 77,251</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable		\$ 16		\$ 16
Due to other funds		7,112		7,112
<b>Total liabilities</b>	<b>\$ -</b>	<b>7,128</b>	<b>\$ -</b>	<b>7,128</b>
<b>FUND BALANCES</b>				
Restricted	64,542		12,709	77,251
Unassigned		(7,128)		(7,128)
<b>Total fund balances</b>	<b>64,542</b>	<b>(7,128)</b>	<b>12,709</b>	<b>70,123</b>
<b>Total liabilities and fund balances</b>	<b>\$ 64,542</b>	<b>\$ -</b>	<b>\$ 12,709</b>	<b>\$ 77,251</b>

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR DEBT SERVICE FUNDS  
 For the Year Ended December 31, 2011

	Curb and Gutter 2nd Avenue	1997-99 Division Ave	Bender Tax Increment	Tax Increment Bluff Country	Tax Abatement	2007 Tax Increment	Total
<b>REVENUES</b>							
Property taxes			\$ 3,937	\$ 8,390		\$ 5,753	\$ 18,080
Special assessments						19,214	19,214
Investment earnings			285				285
Miscellaneous				7,386			7,386
<b>Total revenues</b>	<b>\$ -</b>	<b>\$ -</b>	<b>4,222</b>	<b>15,776</b>	<b>\$ -</b>	<b>24,967</b>	<b>44,965</b>
<b>EXPENDITURES</b>							
<b>Current</b>							
Community and economic development					8,588		8,588
Debt service							
Principal				10,000		15,000	25,000
Interest				6,300		17,050	23,350
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,300</b>	<b>8,588</b>	<b>32,050</b>	<b>56,938</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>4,222</b>	<b>(524)</b>	<b>(8,588)</b>	<b>(7,083)</b>	<b>(11,973)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in			60,320		8,588		68,908
Transfers out	(235)	(27)				(4,548)	(4,810)
<b>Total other financing sources (uses)</b>	<b>(235)</b>	<b>(27)</b>	<b>60,320</b>	<b>-</b>	<b>8,588</b>	<b>(4,548)</b>	<b>64,098</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(235)</b>	<b>(27)</b>	<b>64,542</b>	<b>(524)</b>	<b>-</b>	<b>(11,631)</b>	<b>52,125</b>
<b>FUND BALANCES, beginning of year</b>	<b>235</b>	<b>27</b>	<b>-</b>	<b>(6,604)</b>	<b>-</b>	<b>24,340</b>	<b>17,998</b>
<b>FUND BALANCES, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 64,542</b>	<b>\$ (7,128)</b>	<b>\$ -</b>	<b>\$ 12,709</b>	<b>\$ 70,123</b>

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE  
 COMBINING BALANCE SHEET  
 NONMAJOR CAPITAL PROJECTS FUNDS  
 December 31, 2011

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

See Independent Auditor's Report on the Supplementary Information.

CITY OF SPRING GROVE  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR CAPITAL PROJECTS FUNDS  
 For the Year Ended December 31, 2011

	<u>Bender Edition</u>	<u>Four Season Acres</u>	<u>Total</u>
REVENUES			
Investment earnings	\$ 296		\$ 296
Total revenues	<u>296</u>	<u>\$ -</u>	<u>296</u>
EXPENDITURES			
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>296</u>	<u>-</u>	<u>296</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(55,772)</u>		<u>(55,772)</u>
Total other financing sources (uses)	<u>(55,772)</u>	<u>-</u>	<u>(55,772)</u>
NET CHANGE IN FUND BALANCES	<u>(55,476)</u>	<u>-</u>	<u>(55,476)</u>
FUND BALANCES, beginning of year	<u>55,476</u>	<u>3,600</u>	<u>59,076</u>
FUND BALANCES, end of year	<u>\$ -</u>	<u>\$ 3,600</u>	<u>\$ 3,600</u>

See Independent Auditor's Report on the Supplementary Information.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Spring Grove as of and for the year ended December 31, 2011, which collectively comprise City of Spring Grove's basic financial statements and have issued our report thereon dated June 21, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Legal Compliance Task Force pursuant to Minnesota Statute §6.65.

**Internal Control Over Financial Reporting**

Management of City of Spring Grove is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Spring Grove's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Spring Grove's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Spring Grove's internal control over financial reporting.

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

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

1. Financial Report Preparation

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

Obtaining additional 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

The City's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records.

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

We noted certain matters that we reported to management of City of Spring Grove in a separate letter dated June 21, 2012.

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

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



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

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

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

Decorah, Iowa  
June 21, 2012

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**MANAGEMENT LETTER**

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

In planning and performing our audit of the financial statements of the City of Spring Grove for the year ended December 31, 2011, we considered the City's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening compliance with the Code of Minnesota and internal controls. The following summarizes our comments and suggestions regarding those matters. A separate report dated June 21, 2012 contains our report on significant deficiencies in the City's internal controls. This letter does not affect our report dated June 21, 2012, on the financial statements of the City of Spring Grove. Comment 1 is unresolved from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the City's responses and, accordingly, we express no opinion on them.

1. Fund Balance

The Tax Increment Bluff Country debt service fund and Community Building special revenue fund had negative fund balances at year end. It was also noted that the Community Building operated at a significant loss prior to the transfer in.

Recommendation

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

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.

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.

Decorah, Iowa  
June 21, 2012

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