

**CITY OF ATWATER  
ATWATER, MINNESOTA  
ANNUAL FINANCIAL REPORT  
YEAR ENDED  
DECEMBER 31, 2012**

WESTBERG EISCHENS, PLLP  
Certified Public Accountants  
Willmar, Minnesota 56201

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**CITY OF ATWATER, MINNESOTA  
CITY COUNCIL AND ADMINISTRATIVE OFFICIALS  
December 31, 2012**

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Mark Olson	01/01/2013
Council Member	Gary Tagtow	01/01/2015
Council Member	Pat Wortham	01/01/2015
Council Member	Shane Hagstrom	01/01/2013
Council Member	Scott Bjornson	01/01/2013
City Clerk/Treasurer	Goldie Smith	Appointed

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council Members  
City of Atwater, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Atwater, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Atwater, Minnesota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, listed in the table of contents, 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 auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Atwater's basic financial statements. The Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Revenues, Expenditures, and Changes in Fund Balance – Debt Service Fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2013, on our consideration of the City of Atwater, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Atwater's internal control over financial reporting and compliance.

*Westberg Eischens PLLP*

WESTBERG EISCHENS, PLLP  
Willmar, Minnesota

June 25, 2013

**CITY OF ATWATER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

This section of the basic financial statements of the City of Atwater (the City) presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2012. Please read it in conjunction with the City's basic financial statements following this section.

Financial Highlights

- The assets of the City, including the component unit, exceeded liabilities by \$5,968,233. Of this amount, \$2,962,665 may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fiscal policies.
- The City's total net position increased by \$53,345.
- The City's governmental funds reported combined ending fund balances of \$1,571,816, an increase of \$103,713 in comparison to the prior year. The increase is due mainly to a reduction in the amount of capital projects.
- At the end of the current fiscal year, the fund balance for the General Fund was \$1,059,201. Of this total amount, approximately 78% has been committed for purposes imposed by formal Council action and 22% has been assigned for specific purposes. Details of the fund balance classifications can be found in Note 3 of the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements are presented after the Statement of Activities. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The notes to the basic financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The City as a whole: Statement of Net Position and Statement of Activities

Our analysis of the City of Atwater begins with the Statement of Net Position 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 as a result of the year's activities?" The Statement of Net Position and the Statement of Activities both 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, 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. These two statements report the City's net position and changes in them. You can think of the City's net position – the difference between assets and liabilities – as one way to measure the City's financial health. Over time, increases and decreases in the City's net position are one indicator of whether the City's financial health is improving or deteriorating.

You will need to consider other nonfinancial factors, however, to assess the overall health of the City of Atwater.

**CITY OF ATWATER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

*Governmental Activities* - Most of the City's basic services are reported here, including the police, public works, parks departments and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.

*Business-Type Activities* – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water and sewer funds are reported here.

The City's Most Significant Funds: Fund Financial Statements

Our analysis of the City of Atwater's major funds begins with the fund financial statements. These statements provided detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City of Atwater's two kinds of funds – governmental and proprietary – use different accounting approaches.

*Governmental Funds* – Most of the City of Atwater's basic services are reported in governmental funds. Governmental 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 an accounting method called modified accrual 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 government operations and the basic services it provides. Governmental fund information helps the reader of the statements determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation after the fund financial statements.

The governmental fund financial statements can be found on pages 12-15 of this report.

*Proprietary Funds* – When the City of Atwater charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

The proprietary fund financial statements can be found on pages 16-18 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-35 of this report.

**CITY OF ATWATER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

Statement of Net Position

The City of Atwater's net position increased from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1  
Condensed Statement of Net Position

	Governmental Activities	Business-Type Activities	Component Unit	2012 Total	2011 Total
Current and other assets	\$ 1,757,618	\$ 1,280,622	\$ 102,547	\$ 3,140,787	\$ 3,091,360
Net capital assests	<u>3,769,245</u>	<u>1,361,944</u>	<u>100,706</u>	<u>5,231,895</u>	<u>5,163,351</u>
Total Assets	<u>\$ 5,526,863</u>	<u>\$ 2,642,566</u>	<u>\$ 203,253</u>	<u>\$ 8,372,682</u>	<u>\$ 8,254,711</u>
Current and other liabilities	\$ 30,409	\$ 71,166	\$ -	\$ 101,575	\$ 167,636
Long-term liabilities	<u>931,786</u>	<u>1,371,088</u>	<u>-</u>	<u>2,302,874</u>	<u>2,172,187</u>
Total Liabilities	<u>962,195</u>	<u>1,442,254</u>	<u>-</u>	<u>2,404,449</u>	<u>2,339,823</u>
Net Position					
Net investment in capital assets	2,837,459	-	-	2,837,459	2,921,366
Restricted	168,109	-	-	168,109	142,135
Unrestricted	<u>1,559,100</u>	<u>1,200,312</u>	<u>203,253</u>	<u>2,962,665</u>	<u>2,851,387</u>
Total Net Position	<u>4,564,668</u>	<u>1,200,312</u>	<u>203,253</u>	<u>5,968,233</u>	<u>5,914,888</u>
Total Liabilities and Net Position	<u>\$ 5,526,863</u>	<u>\$ 2,642,566</u>	<u>\$ 203,253</u>	<u>\$ 8,372,682</u>	<u>\$ 8,254,711</u>

Governmental Activities

The net position of the City's governmental activities increased by \$105,347. Table 2 presents key elements of the increase.

Business-Type Activities

The net position of the City's business-type activities decreased by \$15,589. Operating income(loss) was \$(9,057) and \$33,525 for the water and sewer respectively.

The net position of the City's component unit decreased by \$36,413.



**CITY OF ATWATER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

The following table indicates the changes in net position for the City's governmental and business-type activities:

Table 2  
Condensed Statement of Activities

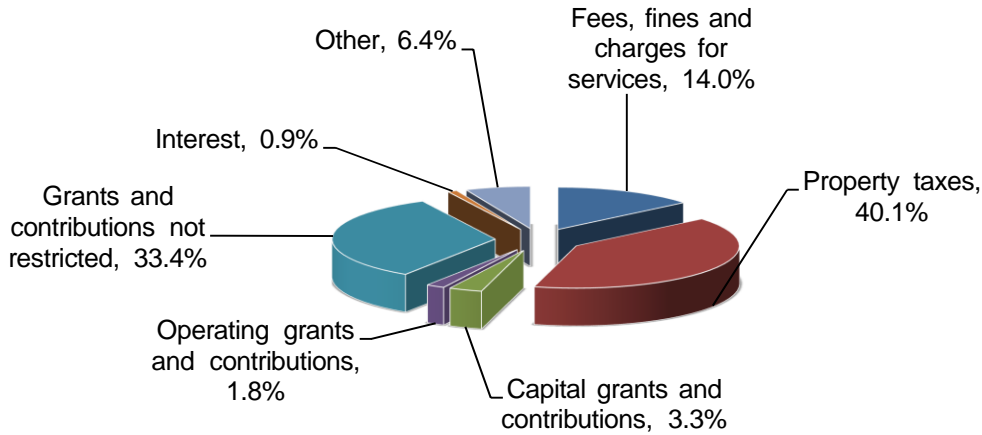
	Governmental Activities	Business-Type Activities	Component Unit	2012 Total	2011 Total
<b>Revenues</b>					
Program revenues:					
Fees, fines and charges for services	\$ 134,446	\$ 185,644	\$ 4,800	\$ 324,890	\$ 270,370
Operating grants and contributions	17,506	-	-	17,506	17,357
Capital grants and contributions	31,499	-	-	31,499	392,515
General revenues:					
Property taxes	385,601	-	-	385,601	329,725
Grants and contributions not restricted	320,876	-	-	320,876	421,608
Interest	8,847	8,553	-	17,400	24,136
Other	61,728	3,890	1,000	66,618	59,333
Total Revenues	<u>960,503</u>	<u>198,087</u>	<u>5,800</u>	<u>1,164,390</u>	<u>1,515,044</u>
<b>Expenses</b>					
General government	207,058	-	-	207,058	169,846
Public safety	264,761	-	-	264,761	314,866
Streets and highways	377,729	-	-	377,729	347,746
Sanitation	3,446	-	-	3,446	1,866
Health	1,151	-	-	1,151	6,006
Culture and recreation	59,721	-	-	59,721	58,994
Economic development	-	-	12,945	12,945	12,845
Interest on long-term debt	23,058	-	-	23,058	73,609
Water utility	-	118,191	-	118,191	36,134
Sewer utility	-	42,985	-	42,985	17,489
Total Expenses	<u>936,924</u>	<u>161,176</u>	<u>12,945</u>	<u>1,111,045</u>	<u>1,039,401</u>
Changes in Net Position Before Transfers	23,579	36,911	(7,145)	53,345	475,643
Transfers	<u>81,768</u>	<u>(52,500)</u>	<u>(29,268)</u>	<u>-</u>	<u>-</u>
Changes in Net Position	105,347	(15,589)	(36,413)	53,345	475,643
Net Position - Beginning of Year	<u>4,459,321</u>	<u>1,215,901</u>	<u>239,666</u>	<u>5,914,888</u>	<u>5,439,245</u>
Net Position - End of Year	<u>\$ 4,564,668</u>	<u>\$ 1,200,312</u>	<u>\$ 203,253</u>	<u>\$ 5,968,233</u>	<u>\$ 5,914,888</u>

**CITY OF ATWATER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

Governmental Activities

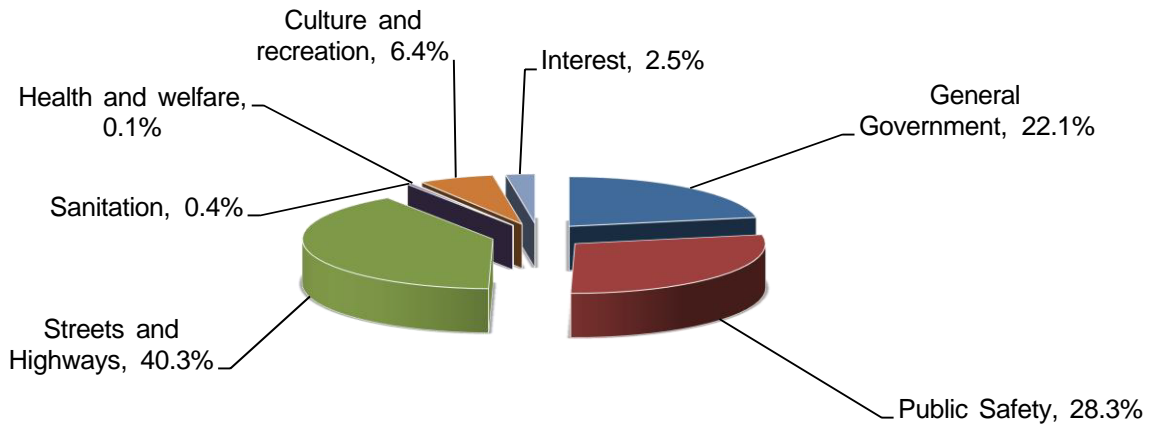
Revenues – The following chart visually illustrates the City's revenues by source for its governmental activities:

**Revenue by Source - Governmental Activities**



Expenses – The following chart visually illustrates the City's expenses by source for its governmental activities:

**Expenses by Source - Governmental Activities**



Financial Analysis of the City's Funds

General Fund – The City's General Fund balance decreased by \$13,660 for 2011. The decrease was due in part to the City purchasing a fire truck in 2012.

**CITY OF ATWATER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

Capital Projects Fund – The Capital Projects Fund balance increased by \$1,808. The small increase was primarily due to the finishing of street projects during the year.

Debt Service Fund – The Debt Service Fund balance increased by \$25,974. The increase was primarily due to lower interest expense related to the bond refunding in the previous year.

Special Revenue Fund – The City's Special Revenue Fund balance increased \$89,591. The increase was primarily due to receiving grants for the revolving loan program.

General Fund Budgetary Highlights

Over the course of the year, the City of Atwater's City Council did not revise the budget. The General Fund had sufficient revenues to cover expenditures resulting in an increase in fund balance.

Capital Assets

At the end of 2012, the City of Atwater had \$5,231,895 (net of accumulated depreciation) invested in a broad range of capital assets. Refer to Note 3 of the Notes to the Financial Statements for a schedule showing the City's capital asset activity.

The most significant capital asset additions were \$184,322 for a new tanker truck for the Fire Department and the City entered into a capital lease for improvements of the ballpark lights for \$106,786.

Long-Term Debt

At year-end, the City of Atwater had \$2,302,874 in bonds outstanding. Refer to Note 3 of the Notes to the Financial Statements for a schedule showing the City's long-term debt activity.

Contacting the City's Financial Management

This financial report is designated to provide our residents, customers, and creditors with a general overview of the City of Atwater's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City of Atwater, 322 Atlantic Ave W, PO Box 59, Atwater, MN 56209, 320-974-8760.

**CITY OF ATWATER, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**December 31, 2012**

	Governmental Activities	Business-Type Activities	Total Primary Government	EDA Component Unit
<b>ASSETS</b>				
Cash	\$ 1,446,482	\$ 1,191,693	\$ 2,638,175	\$ 102,547
Receivables				
Accounts	20,711	88,481	109,192	-
Delinquent taxes	27,056	-	27,056	-
Special assessments	139,067	-	139,067	-
Interest	296	448	744	-
Notes	110,876	-	110,876	-
Prepaid expenses	13,130	-	13,130	-
Capital assets				
Non-depreciable	30,700	4,915	35,615	-
Depreciable, net of accumulated depreciation	3,738,545	1,357,029	5,095,574	100,706
<b>TOTAL ASSETS</b>	<b>5,526,863</b>	<b>2,642,566</b>	<b>8,169,429</b>	<b>203,253</b>
<b>LIABILITIES</b>				
Accounts payable	23,373	38,812	62,185	-
Accrued payroll liabilities	2,784	-	2,784	-
Accrued interest payable	4,252	-	4,252	-
Customer deposits	-	32,354	32,354	-
Long-term liabilities				
Due within one year	168,007	69,000	237,007	-
Due in more than one year	763,779	1,302,088	2,065,867	-
<b>TOTAL LIABILITIES</b>	<b>962,195</b>	<b>1,442,254</b>	<b>2,404,449</b>	<b>-</b>
<b>NET POSITION</b>				
Net investment in capital assets	2,837,459	-	2,837,459	-
Restricted for:				
Debt service	168,109	-	168,109	-
Unrestricted	1,559,100	1,200,312	2,759,412	203,253
<b>TOTAL NET POSITION</b>	<b>\$ 4,564,668</b>	<b>\$ 1,200,312</b>	<b>\$ 5,764,980</b>	<b>\$ 203,253</b>

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

**CITY OF ATWATER, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For The Year Ended December 31, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>							
Governmental Activities:							
General government	\$ 207,058	\$ 4,000	\$ -	\$ -	\$ (203,058)	\$ -	\$ (203,058)
Public safety	264,761	117,549	17,506	-	(129,706)	-	(129,706)
Streets and highways	377,729	-	-	31,499	(346,230)	-	(346,230)
Sanitation	3,446	-	-	-	(3,446)	-	(3,446)
Health	1,151	-	-	-	(1,151)	-	(1,151)
Culture and recreation	59,721	12,897	-	-	(46,824)	-	(46,824)
Interest and fiscal charges on long term debt	23,058	-	-	-	(23,058)	-	(23,058)
<b>Total Governmental Activities</b>	<b>936,924</b>	<b>134,446</b>	<b>17,506</b>	<b>31,499</b>	<b>(753,473)</b>	<b>-</b>	<b>(753,473)</b>
Business-Type Activities:							
Water	118,191	109,134	-	-	-	(9,057)	(9,057)
Sewer	42,985	76,510	-	-	-	33,525	33,525
<b>Total Business-Type Activities</b>	<b>161,176</b>	<b>185,644</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,468</b>	<b>24,468</b>
<b>TOTAL</b>	<b>\$ 1,098,100</b>	<b>\$ 320,090</b>	<b>\$ 17,506</b>	<b>\$ 31,499</b>	<b>(753,473)</b>	<b>24,468</b>	<b>(729,005)</b>
General revenues:							
Property taxes levied for general purposes					282,035	-	282,035
Property taxes levied for debt service					103,566	-	103,566
Intergovernmental revenue not restricted to specific programs					320,876	-	320,876
Investment income					8,847	8,553	17,400
Loss on sale of assets					11,260	-	11,260
Miscellaneous					50,468	3,890	54,358
Transfers					81,768	(52,500)	29,268
<b>Total general revenues and transfers</b>					<b>858,820</b>	<b>(40,057)</b>	<b>818,763</b>
Change in net position					105,347	(15,589)	89,758
Net Position - Beginning					4,459,321	1,215,901	5,675,222
Net Position - Ending					<b>\$ 4,564,668</b>	<b>\$ 1,200,312</b>	<b>\$ 5,764,980</b>
Component Unit - EDA							
Revenues							
Charges for services					\$ 4,800		
Miscellaneous					1,000		
<b>Total Revenues</b>					<b>5,800</b>		
Expenses							
Transfer out					12,945		
					(29,268)		
<b>Change in net position - EDA</b>					<b>(36,413)</b>		
Net Position - Beginning					239,666		
Net Position - Ending					<b>\$ 203,253</b>		

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

**CITY OF ATWATER, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2012**

	General Fund	Capital Projects Fund	Debt Service Fund	Revolving Loan Fund	Totals
<b>ASSETS</b>					
Cash and investments	\$ 1,047,446	\$ 224,784	\$ 165,537	\$ 8,715	\$ 1,446,482
Receivables					
Accounts	20,711	-	-	-	20,711
Delinquent taxes	19,340	-	7,716	-	27,056
Special assessments	93,000	-	46,067	-	139,067
Interest	165	131	-	-	296
Notes	-	-	-	110,876	110,876
Prepaid expenses	13,130	-	-	-	13,130
<b>TOTAL ASSETS</b>	<b>\$ 1,193,792</b>	<b>\$ 224,915</b>	<b>\$ 219,320</b>	<b>\$ 119,591</b>	<b>\$ 1,757,618</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 23,373	\$ -	\$ -	\$ -	\$ 23,373
Accrued payroll liabilities	2,784	-	-	-	2,784
Deferred revenue	108,434	-	51,211	-	159,645
<b>TOTAL LIABILITIES</b>	<b>134,591</b>	<b>-</b>	<b>51,211</b>	<b>-</b>	<b>185,802</b>
<b>FUND BALANCES</b>					
Nonspendable	13,130	-	-	110,876	124,006
Restricted	-	-	168,109	8,715	176,824
Committed	817,256	-	-	-	817,256
Assigned	228,815	121,548	-	-	350,363
Unassigned	-	103,367	-	-	103,367
<b>TOTAL FUND BALANCES</b>	<b>1,059,201</b>	<b>224,915</b>	<b>168,109</b>	<b>119,591</b>	<b>1,571,816</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,193,792</b>	<b>\$ 224,915</b>	<b>\$ 219,320</b>	<b>\$ 119,591</b>	<b>\$ 1,757,618</b>

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

**CITY OF ATWATER, MINNESOTA  
RECONCILIATION OF BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
December 31, 2012**

Total Fund Balances-Governmental Funds		\$ 1,571,816
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.		
Governmental capital assets	8,549,964	
Less: accumulated depreciation	<u>(4,780,719)</u>	3,769,245
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent property taxes		21,624
Special assessments receivable		138,021
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(838,007)	
Capital lease	(93,779)	
Accrued interest payable	<u>(4,252)</u>	<u>(936,038)</u>
Total Net Position-Governmental Activities		<u>\$ 4,564,668</u>

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

**CITY OF ATWATER, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**For The Year Ended December 31, 2012**

	General Fund	Capital Projects Fund	Debt Service Fund	Revolving Loan Fund	Totals
<b>REVENUES</b>					
General property tax	\$ 270,023	\$ -	\$ 103,566	\$ -	\$ 373,589
Special assessments	23,195	-	37,556	-	60,751
License and permits	10,555	3,090	-	-	13,645
Intergovernmental	254,141	45,106	-	59,135	358,382
Charges for services	134,446	-	-	-	134,446
Fines and forfeits	6,848	-	-	-	6,848
Interest income	5,824	1,425	410	1,188	8,847
Miscellaneous revenues	27,825	17,170	-	-	44,995
	<u>732,857</u>	<u>66,791</u>	<u>141,532</u>	<u>60,323</u>	<u>1,001,503</u>
Total Revenues					
<b>EXPENDITURES</b>					
Current					
General government	160,131	-	-	-	160,131
Public safety	209,708	-	-	-	209,708
Streets and highways	110,429	285	-	-	110,714
Sanitation	3,446	-	-	-	3,446
Health	1,151	-	-	-	1,151
Culture and recreation	51,243	-	-	-	51,243
Capital outlay					
General government	-	18,924	-	-	18,924
Public safety	184,332	-	-	-	184,332
Streets and highways	9,713	45,774	-	-	55,487
Culture and recreation	16,364	-	-	-	16,364
Debt service					
Principal	-	-	145,000	-	145,000
Interest	-	-	22,633	-	22,633
Bond fees	-	-	425	-	425
	<u>746,517</u>	<u>64,983</u>	<u>168,058</u>	<u>-</u>	<u>979,558</u>
Total Expenditures					
<b>EXCESS (DEFICIENCY) OF REVENUES</b>					
<b>OVER (UNDER) EXPENDITURES</b>	(13,660)	1,808	(26,526)	60,323	21,945
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer from other funds	-	-	52,500	29,268	81,768
Transfer to other funds	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(13,660)	1,808	25,974	89,591	103,713
<b>FUND BALANCE JANUARY 1</b>	1,072,861	223,107	142,135	30,000	1,468,103
<b>FUND BALANCE DECEMBER 31</b>	<u>\$ 1,059,201</u>	<u>\$ 224,915</u>	<u>\$ 168,109</u>	<u>\$ 119,591</u>	<u>\$ 1,571,816</u>

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



**CITY OF ATWATER, MINNESOTA**  
**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For The Year Ended December 31, 2012**

Amounts reported for governmental activities in the statement of activities are different because:

Total Net Change in Fund Balances-Governmental Funds		\$	103,713
<p>Governmental funds reported capital outlays as expenditures.  However, in the statement of activities the cost of those assets  is allocated over their estimated useful lives and reported as  depreciation expense.</p>			
Capital outlay			249,399
Depreciation expense			<u>(351,765)</u>
			(102,366)
<p>The statement of activities reports losses arising from the disposal of capital  assets. Governmental funds do not report any gain or loss on disposal of  capital assets.</p>			
			(3,760)
<p>Revenues in the statement of activities that do not provide current  financial resources are not reported as revenues in the funds.</p>			
Deferred revenue, December 31, 2012			159,645
Deferred revenue, December 31, 2011			<u>(196,885)</u>
			(37,240)
<p>Bond proceeds provide current financial resources to governmental funds,  but issuing debt increases long-term liabilities in the statement of net position  Repayment of bond principal is an expenditure in the governmental fund,  but the repayment reduces long-term liabilities in the statement of net position.</p>			
Principal retirement of long-term debt			145,000
<p>Interest on long-term debt is reported when due in the governmental funds  because it requires the use of current financial resources. In the statement  of activities, however, interest expense is recognized as the interest accrues,  regardless of when it is due.</p>			
			<u>-</u>
Change in Net Position-Governmental Activities		\$	<u>105,347</u>

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

**CITY OF ATWATER, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**December 31, 2012**

	Water Fund	Sewer Fund	Total Primary Government	EDA Component Unit	Total Reporting Unit
<b>ASSETS</b>					
Current Assets					
Cash	\$ 727,792	\$ 463,901	\$ 1,191,693	\$ 102,547	\$ 1,294,240
Receivables					
Accounts receivable	51,493	36,988	88,481	-	88,481
Interest	281	167	448	-	448
Total Current Assets	<u>779,566</u>	<u>501,056</u>	<u>1,280,622</u>	<u>102,547</u>	<u>1,383,169</u>
Noncurrent Assets					
Capital assets					
Non-depreciable	4,915	-	4,915	-	4,915
Depreciable assets	1,197,616	854,744	2,052,360	130,853	2,183,213
Less accumulated depreciation	<u>(324,454)</u>	<u>(370,877)</u>	<u>(695,331)</u>	<u>(30,147)</u>	<u>(725,478)</u>
Total capital assets, net	<u>878,077</u>	<u>483,867</u>	<u>1,361,944</u>	<u>100,706</u>	<u>1,462,650</u>
Total Noncurrent Assets	<u>878,077</u>	<u>483,867</u>	<u>1,361,944</u>	<u>100,706</u>	<u>1,462,650</u>
<b>TOTAL ASSETS</b>	<u>1,657,643</u>	<u>984,923</u>	<u>2,642,566</u>	<u>203,253</u>	<u>2,845,819</u>
<b>LIABILITIES</b>					
Current Liabilities					
Accounts payable	38,661	151	38,812	-	38,812
Customer deposits	32,354	-	32,354	-	32,354
Current portion bonds payable	<u>45,000</u>	<u>24,000</u>	<u>69,000</u>	<u>-</u>	<u>69,000</u>
Total Current Liabilities	<u>116,015</u>	<u>24,151</u>	<u>140,166</u>	<u>-</u>	<u>140,166</u>
Noncurrent Liabilities					
Bonds payable	<u>838,318</u>	<u>463,770</u>	<u>1,302,088</u>	<u>-</u>	<u>1,302,088</u>
Total Noncurrent Liabilities	<u>838,318</u>	<u>463,770</u>	<u>1,302,088</u>	<u>-</u>	<u>1,302,088</u>
<b>TOTAL LIABILITIES</b>	<u>954,333</u>	<u>487,921</u>	<u>1,442,254</u>	<u>-</u>	<u>1,442,254</u>
<b>NET POSITION</b>					
Net investment in capital assets	-	-	-	-	-
Unrestricted	<u>703,310</u>	<u>497,002</u>	<u>1,200,312</u>	<u>203,253</u>	<u>1,403,565</u>
<b>TOTAL NET POSITION</b>	<u>\$ 703,310</u>	<u>\$ 497,002</u>	<u>\$ 1,200,312</u>	<u>\$ 203,253</u>	<u>\$ 1,403,565</u>

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

**CITY OF ATWATER, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**For The Year Ended December 31, 2012**

	Water Fund	Sewer Fund	Total Primary Government	EDA Component Unit	Total Reporting Unit
<b>OPERATING REVENUES</b>					
Sales and charges for services	\$ 109,134	\$ 76,510	\$ 185,644	\$ 4,800	\$ 190,444
Total Operating Revenues	<u>109,134</u>	<u>76,510</u>	<u>185,644</u>	<u>4,800</u>	<u>190,444</u>
<b>OPERATING EXPENSES</b>					
Personal services	10,431	9,569	20,000	-	20,000
Contract services	34,455	-	34,455	-	34,455
Materials and supplies	3,248	3,031	6,279	712	6,991
Repairs and maintenance	3,955	1,818	5,773	2,227	8,000
Other expenses	27,000	7,262	34,262	4,627	38,889
Depreciation	26,907	14,713	41,620	5,379	46,999
Total Operating Expenses	<u>105,996</u>	<u>36,393</u>	<u>142,389</u>	<u>12,945</u>	<u>155,334</u>
Operating Income (Loss)	3,138	40,117	43,255	(8,145)	35,110
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest income	5,322	3,231	8,553	-	8,553
Miscellaneous income	1,960	1,930	3,890	1,000	4,890
Interest expense	<u>(12,195)</u>	<u>(6,592)</u>	<u>(18,787)</u>	<u>-</u>	<u>(18,787)</u>
Total Non-Operating Revenues (Expenses)	<u>(4,913)</u>	<u>(1,431)</u>	<u>(6,344)</u>	<u>1,000</u>	<u>(5,344)</u>
Income (Loss) Before Transfers	(1,775)	38,686	36,911	(7,145)	29,766
<b>TRANSFERS</b>					
Transfers in	-	-	-	-	-
Transfers out	<u>(28,875)</u>	<u>(23,625)</u>	<u>(52,500)</u>	<u>(29,268)</u>	<u>(81,768)</u>
Total Transfers	<u>(28,875)</u>	<u>(23,625)</u>	<u>(52,500)</u>	<u>(29,268)</u>	<u>(81,768)</u>
Change in Net Position	(30,650)	15,061	(15,589)	(36,413)	(52,002)
<b>NET POSITION, JANUARY 1</b>	<u>733,960</u>	<u>481,941</u>	<u>1,215,901</u>	<u>239,666</u>	<u>1,455,567</u>
<b>NET POSITION, DECEMBER 31</b>	<u>\$ 703,310</u>	<u>\$ 497,002</u>	<u>\$ 1,200,312</u>	<u>\$ 203,253</u>	<u>\$ 1,403,565</u>

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

**CITY OF ATWATER, MINNESOTA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For The Year Ended December 31, 2012

	Water Fund	Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 108,835	\$ 75,912	\$ 184,747
Payments to suppliers	(36,350)	(12,197)	(48,547)
Payments to employees	(10,431)	(9,569)	(20,000)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	62,054	54,146	116,200
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES</b>			
Non operating revenue	1,960	1,930	3,890
Transfers out	(28,875)	(23,625)	(52,500)
<b>NET CASH USED IN NON CAPITAL FINANCING ACTIVITIES</b>	(26,915)	(21,695)	(48,610)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	(122,561)	(69,341)	(191,902)
Loan advance	122,561	69,341	191,902
Principal paid on long-term debt	(14,000)	(9,000)	(23,000)
Interest paid on long-term debt	(12,195)	(6,592)	(18,787)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(26,195)	(15,592)	(41,787)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received on investments	5,422	3,301	8,723
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	5,422	3,301	8,723
<b>NET INCREASE (DECREASE) IN CASH</b>	14,366	20,160	34,526
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	713,426	443,741	1,157,167
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	\$ 727,792	\$ 463,901	\$ 1,191,693
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 3,138	\$ 40,117	\$ 43,255
Adjustments to reconcile operating income to net cash flows from operating activities			
Depreciation	26,907	14,713	41,620
Change in assets and liabilities			
Decrease (increase) in receivables	(1,982)	(598)	(2,580)
Increase (decrease) in accounts payable	32,308	(86)	32,222
Increase (decrease) in customer deposits	1,683	-	1,683
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 62,054	\$ 54,146	\$ 116,200

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

**CITY OF ATWATER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Atwater's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**A. Financial Reporting Entity**

Atwater was established in 1889 pursuant to applicable Minnesota laws and statutes. The governing body consists of a four member council, and mayor elected by eligible voters of the City. Two members are elected every two years for a four year term. The Mayor's office is for two years. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

**1. Component Unit**

**a. Discretely presented component unit: Atwater Economic Development Authority (EDA)**

The authority is an entity legally separate from the City. It is governed by a five-member board including a City Council member. The remainder of the Board is appointed by the Mayor. The City Council has the ability to modify or overrule decisions made by the EDA Board. The City is legally obligated to finance operating deficits of the EDA and the EDA is financially accountable to the City.

The component unit columns in the combined financial statements include only the financial data of the EDA. This component unit is reported in a separate column to emphasize that it is legally separate from the City. Separate financial statements are not issued for this component unit. The City has no other component units with significant operational or financial relationships.

**2. Related Organization**

The Atwater Fire Relief Association (the "Association") is organized as a non-profit organization, legally separate from the City, by its members to provide pension and other benefits to such members in accordance with Minnesota Statutes. The Board of Directors is appointed by the membership of the Association and not by City Council. All relief funding is conducted in accordance with Minnesota Statutes whereby state aid flows to the Association, tax levies are determined by the Association and are only reviewed by the City, and the Association pays benefits directly to its members. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City's reporting entity.

**B. Basic Financial Statements**

**1. Government-Wide Statements**

The government-wide financial statements (the statement of position and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**CITY OF ATWATER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basic Financial Statements (continued)**

**1. Government-Wide Statements (continued)**

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net positions are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and its business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

**2. Fund Financial Statements**

The fund financial statements provide information about the City's funds. Separate statements for each fund category--governmental and proprietary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed in a separate column in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

**a. Governmental Funds**

The City reports the following major governmental funds:

**General Fund**

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**Revolving Loan Fund**

Revolving Loan Fund is used for promoting local economic development by providing loans to local businesses.

**Debt Service Fund**

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt and capital leases. The City annually levies ad valorem taxes restricted for the retirement of general obligation bonds.

**CITY OF ATWATER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basic Financial Statements (continued)**

**2. Fund Financial Statements (continued)**

**Capital Projects Fund**

The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

**b. Enterprise Funds**

The City reports the following major enterprise funds:

**Water and Sewer Funds**

The water and sewer funds account for activities of the public trust in providing water and sewer services to the public.

**C. Measurement Focus and Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. City considers all revenues as available if collected within 60 days after the end of the current period, except for reimbursement (expenditure driven) grants for which the period is 90 days. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or incidental activities.

**D. Assets, Liabilities, and Net Position/Fund Balances**

**1. Cash and Cash Equivalents**

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the City can deposit or effectively withdraw cash at any time without prior notice or penalty.

**CITY OF ATWATER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, Liabilities, and Net Position/Fund Balances (continued)**

**2. Deposits and Investments**

The cash balances of substantially all funds are pooled and invested by the City in certificates of deposit. Earnings on cash accounts are allocated to individual funds based upon the month-end balances.

**3. Receivables**

All receivables are shown net of an allowance for uncollectible .

Accounts receivable are uncollected billings for water and sewer at December 31. The billings are done on a quarterly basis.

Property taxes are levied by the City Council in October of each year and are certified to Kandiyohi County for collection in the following year. The property taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments in May and October. The County collects the taxes and periodically remits them to the City. The majority of these remittances are made in June and November.

Taxes that remain unpaid are classified as delinquent taxes receivable . Revenue from delinquent property taxes not collected within 60 days of year-end is deferred in the fund financial statements because they are not known to be available to finance the operations of the City in the current year.

Assessments are levied at various times upon City Council resolution for property owner improvements made by the City. Generally, assessment collections are deferred over periods ranging from one to fifteen years. Revenue from these assessments is recognized when assessed in the government-wide financial statements and as the annual installments become collectible in the governmental funds of the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

**4. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both government-wide and fund financial statements.

**5. Capital Assets**

Capital assets; which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the City did not have any capitalized interest.



**CITY OF ATWATER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, Liabilities, and Net Position/Fund Balances (continued)**

**5. Capital Assets (continued)**

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Building improvements	20 - 30
Infrastructure	15 - 20
Furniture, equipment, and vehicles	3 - 15

**6. Compensated Absences**

Full time employees are granted from five to fifteen days of vacation time per year depending on years of employment. Sick leave may accumulate up to 60 days total, but employees are not compensated for unused sick days.

**7. Deferred Revenue**

All City funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period

**8. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**CITY OF ATWATER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, Liabilities, and Net Position/Fund Balances (continued)**

**9. Net Position/Fund Balances**

The government-wide and business-type activities fund financial statements use a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

*Net investment in capital assets* - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

*Restricted net position* - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* - This category represents net assets of the City, not restricted for any project or other purpose.

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

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

*Nonspendable* – consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact, such as, inventories and prepaid items.

*Restricted* – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* – consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. These constraints are established by Resolution of the Council.

*Assigned* – consists of amounts intended to be used by the City Council for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.

*Unassigned* – is the residual classification for the General Fund.

The City of Atwater uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

**CITY OF ATWATER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, Liabilities, and Net Position/Fund Balances (continued)**

**9. Net Position/Fund Balances (continued)**

At December 31, 2012, a summary of the governmental fund balance classifications are as follows:

	General Fund	Capital Projects	Debt Service	Revolving Loan Fund	Totals
Nonspendable					
Prepaid expenses	\$ 13,130	\$ -	\$ -	\$ -	\$ 13,130
Economic development loans	-	-	-	110,876	110,876
Restricted					
Debt service	-	-	168,109	-	168,109
Revolving loans	-	-	-	8,715	8,715
Committed					
City hall project	-	-	-	-	-
Street improvement	478,809	-	-	-	478,809
Public works - equipment	89,822	-	-	-	89,822
Public safety - police equipment	21,442	-	-	-	21,442
Public safety - fire equipment	90,028	-	-	-	90,028
Public safety - ambulance equip.	137,155	-	-	-	137,155
Assigned					
Working capital	195,701	-	-	-	195,701
Economic development	32,114	-	-	-	32,114
Street and highway	-	102,382	-	-	102,382
Culture and recreation	1,000	-	-	-	1,000
Storm sewer	-	19,166	-	-	19,166
Unassigned	-	103,367	-	-	103,367
 Total Fund Balances	 <u>\$ 1,059,201</u>	 <u>\$ 224,915</u>	 <u>\$ 168,109</u>	 <u>\$ 119,591</u>	 <u>\$ 1,571,816</u>

**10. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The City Clerk submits an annual budget to the City Council for the General Fund. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

**CITY OF ATWATER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS**

**A. Assets**

**1. Deposits and Investments**

**a. Deposits**

Minn. Stat. §§ 118A.02 and 118A.04 authorize the City to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better, and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. It is the City's policy that collateral or bonds will be required for all uninsured amounts on deposit and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. At December 31, 2012, the City deposits were entirely covered by federal depository insurance or collateral held by the City or its agent in the City's name.

**b. Investments**

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the City:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**Interest Rate Risk**

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that addresses interest rate risk.

**CITY OF ATWATER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**A. Assets (continued)**

**1. Deposits and Investments (continued)**

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City does not have a formal investment policy that addresses credit risk.

**Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The City does not have a formal investment policy that addresses custodial credit risk.

**Concentration of Credit Risk**

As of and during the year ended December 31, 2012, the City did not own any investments that required disclosure regarding interest rate risk, credit risk, or concentration of credit risk

**2. Capital Assets**

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

<b>Governmental activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 30,700	\$ -	\$ -	\$ 30,700
Construction in progress	<u>447,059</u>	<u>45,774</u>	<u>492,833</u>	<u>-</u>
Total capital assets not being depreciated	<u>477,759</u>	<u>45,774</u>	<u>492,833</u>	<u>30,700</u>
Capital assets being depreciated				
Buildings and structures	1,172,049	3,690	-	1,175,739
Infrastructure and improvements	5,517,835	492,833	9,492	6,001,176
Machinery and equipment	<u>1,060,509</u>	<u>306,721</u>	<u>24,881</u>	<u>1,342,349</u>
Total capital assets being depreciated	<u>7,750,393</u>	<u>803,244</u>	<u>34,373</u>	<u>8,519,264</u>
Less accumulated depreciation for:				
Buildings and structures	305,017	29,663	-	334,680
Infrastructure and improvements	3,487,492	259,560	9,492	3,737,560
Machinery and equipment	<u>667,058</u>	<u>62,542</u>	<u>21,121</u>	<u>708,479</u>
Total accumulated depreciation	<u>4,459,567</u>	<u>351,765</u>	<u>30,613</u>	<u>4,780,719</u>
Total capital assets being depreciated, net	<u>3,290,826</u>	<u>451,479</u>	<u>3,760</u>	<u>3,738,545</u>
Governmental activities capital assets, net	<u>\$ 3,768,585</u>	<u>\$ 497,253</u>	<u>\$ 496,593</u>	<u>\$ 3,769,245</u>

**CITY OF ATWATER, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**A. Assets (continued)**

**2. Capital Assets (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 4,915	\$ -	\$ -	\$ 4,915
Construction in progress	<u>1,279,205</u>	<u>114,883</u>	<u>1,394,088</u>	<u>-</u>
Total capital assets not being depreciated	<u>1,284,120</u>	<u>114,883</u>	<u>1,394,088</u>	<u>4,915</u>
Capital assets being depreciated				
Buildings and structures	24,430	-	-	24,430
Infrastructure and improvements	629,605	1,394,088	-	2,023,693
Machinery and equipment	<u>8,841</u>	<u>-</u>	<u>4,604</u>	<u>4,237</u>
Total capital assets being depreciated	<u>662,876</u>	<u>1,394,088</u>	<u>4,604</u>	<u>2,052,360</u>
Less accumulated depreciation for:				
Buildings and structures	24,430	-	-	24,430
Infrastructure and improvements	625,044	41,620	-	666,664
Machinery and equipment	<u>8,841</u>	<u>-</u>	<u>4,604</u>	<u>4,237</u>
Total accumulated depreciation	<u>658,315</u>	<u>41,620</u>	<u>4,604</u>	<u>695,331</u>
Total capital assets being depreciated, net	<u>4,561</u>	<u>1,352,468</u>	<u>-</u>	<u>1,357,029</u>
Business-type activities capital assets, net	<u>\$ 1,288,681</u>	<u>\$ 1,467,351</u>	<u>\$ 1,394,088</u>	<u>\$ 1,361,944</u>
<b>Economic Development Authority</b>				
Capital assets being depreciated				
Buildings and structures	\$ 86,191	\$ -	\$ -	\$ 86,191
Improvements	<u>44,662</u>	<u>-</u>	<u>-</u>	<u>44,662</u>
Total capital assets being depreciated	<u>130,853</u>	<u>-</u>	<u>-</u>	<u>130,853</u>
Less accumulated depreciation for:				
Buildings and structures	19,357	2,210	-	21,567
Improvements	<u>5,411</u>	<u>3,169</u>	<u>-</u>	<u>8,580</u>
Total accumulated depreciation	<u>24,768</u>	<u>5,379</u>	<u>-</u>	<u>30,147</u>
Total capital assets being depreciated, net	<u>106,085</u>	<u>(5,379)</u>	<u>-</u>	<u>100,706</u>
Economic Development Authority capital assets, net	<u>\$ 106,085</u>	<u>\$ (5,379)</u>	<u>\$ -</u>	<u>\$ 100,706</u>

**CITY OF ATWATER, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**A. Assets (continued)**

**2. Capital Assets (continued)**

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

<b>Governmental activities</b>		
General government	\$	31,683
Public safety		55,053
Public works		257,302
Parks and recreation		<u>7,727</u>
Total depreciation expense - governmental activities	\$	<u>351,765</u>
 <b>Business-type activities</b>		
Water	\$	26,907
Sewer		<u>14,713</u>
Total depreciation expense - business-type activities	\$	<u>41,620</u>
 <b>EDA</b>		
Total depreciation expense	\$	<u>5,379</u>

**B. Interfund Receivables, Payables and Transfers**

**1. Interfund Transfers**

Interfund transfers for the year ended December 31, 2012, consisted of the following:

	Transferred to	
	Debt Service Fund	Revolving Loan Fund
Transfer from		
Water Fund	\$ 28,875	\$ -
Sewer Fund	23,625	-
EDA	<u>-</u>	<u>29,268</u>
Totals	<u>\$ 52,500</u>	<u>\$ 29,268</u>

The Water Fund and Sewer Fund made transfers to the Debt Service Fund for their portion of the bond payments.

The Economic Development Authority (EDA) made a transfer to the Revolving Loan Fund to establish loans for local businesses.

**CITY OF ATWATER, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**C. Deferred Revenue**

Deferred revenue consists of taxes and special assessments receivable that are not collected soon enough after year-end to pay liabilities of the current period and prepayments that have been received but not earned.

Deferred revenue at December 31, 2012 is summarized below by fund:

<u>Fund</u>	<u>Taxes</u>	<u>Special Assessments</u>	<u>Total</u>
General	\$ 15,434	\$ 93,000	\$ 108,434
Debt Service	<u>6,190</u>	<u>45,021</u>	<u>51,211</u>
Total	<u>\$ 21,624</u>	<u>\$ 138,021</u>	<u>\$ 159,645</u>

**D. Liabilities**

**1. Capital Leases**

The City has entered into a lease agreement as lessee for financing acquisition of property and equipment for ballpark lights.

<u>Description</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Balance at Year End</u>
Ballpark light improvements	2012	2019	5.15%	\$ 106,786	\$ 106,786

The future minimum lease obligations are as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 13,006	\$ 5,632	\$ 18,638
2014	13,693	4,945	18,638
2015	14,415	4,223	18,638
2016	15,175	3,463	18,638
2017	15,975	2,663	18,638
2018-2019	<u>34,522</u>	<u>2,754</u>	<u>37,276</u>
	<u>\$ 106,786</u>	<u>\$ 23,680</u>	<u>\$ 130,466</u>

**2. Long-Term Debt**

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



**CITY OF ATWATER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**D. Liabilities**

**2. Long-Term Debt (continued)**

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

General obligation improvement bonds

The following bonds were issued to finance various improvements and will be repaid from special assessments levied on the properties benefiting from the improvements and from ad valorem tax levies.

Description	Issue Date	Maturity Date	Interest Rate	Original Issue Amount	Outstanding Balance at Year End
General Obligation Improvement Refunding Bonds, Series 2011A	2011	2017	2.00%	\$ 970,000	\$ 825,000

The annual debt service requirements to maturity for general obligation improvement bonds are as follows:

Year Ending December 31	Governmental Activities		
	Principal	Interest	Total
2013	\$ 155,000	\$ 16,500	\$ 171,500
2014	150,000	13,400	163,400
2015	175,000	10,400	185,400
2016	170,000	6,900	176,900
2017	175,000	3,500	178,500
Total	<u>\$ 825,000</u>	<u>\$ 50,700</u>	<u>\$ 875,700</u>

General obligation revenue bonds

These bonds were issued to finance capital improvements to the Water and Sewer funds. These bonds will be primarily retired from net revenue of these enterprise funds.

Description	Issue Date	Maturity Date	Interest Rate	Original Issue Amount	Outstanding Balance at Year End
General Obligation Water Revenue Note of 2011	2011	2030	1.78%	\$ 964,000	\$ 883,318
General Obligation Sewer Revenue Note of 2011	2011	2030	1.776%	522,000	<u>487,770</u>
Total Business-Type Activities					<u>\$ 1,371,088</u>

**CITY OF ATWATER, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**D. Liabilities**

**2. Long-Term Debt (continued)**

The annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31	Business-Type Activities		
	Principal	Interest	Total
2013	\$ 69,000	\$ 25,543	\$ 94,543
2014	71,000	24,767	95,767
2015	72,000	23,505	95,505
2016	74,000	22,226	96,226
2017	75,000	20,911	95,911
2018-2022	394,000	84,160	478,160
2023-2027	431,000	47,845	478,845
2028-2030	185,088	9,896	194,984
Total	<u>\$ 1,371,088</u>	<u>\$ 258,853</u>	<u>\$ 1,629,941</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
General Obligation Improvement Refunding Bonds, Series 2011A	\$ 970,000	\$ -	\$ 145,000	\$ 825,000	\$ 155,000
Ballpark light contract	-	106,786	-	106,786	13,007
Total governmental activities	<u>\$ 970,000</u>	<u>\$ 106,786</u>	<u>\$ 145,000</u>	<u>\$ 931,786</u>	<u>\$ 168,007</u>
<b>Business-type activities</b>					
General Obligation Water Revenue Note of 2011	\$ 427,429	\$ 69,341	\$ 9,000	\$ 487,770	\$ 45,000
General Obligation Sewer Revenue Note of 2011	774,758	122,560	14,000	883,318	24,000
Total business-type activities	<u>\$ 1,202,187</u>	<u>\$ 191,901</u>	<u>\$ 23,000</u>	<u>\$ 1,371,088</u>	<u>\$ 69,000</u>

**CITY OF ATWATER, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

**A. Plan Description**

All full-time and certain part-time employees of the City of Atwater are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The 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 Minn. Stat. chs.353 and 356.

The 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, firefighters and peace officers who qualify for membership by statute are covered by the PEPFF.

The 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 the 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 ten years of service and 2.7 percent for each year thereafter. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten 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 the PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all the GERF and PEPFF 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 the PEPFF and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced social security benefits capped at 66 for Coordinated Plan 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 retirements 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 yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**CITY OF ATWATER, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (continued)**

**B. Funding Policy**

Minn. Stat. ch. 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6 percent of their annual covered salary in 2012.

The City is required to contribute the following percentages of annual covered payroll in 2012 and 2013:

	2012	2013
Public Employee Retirement Fund		
Basic Plan Members	11.78%	11.78%
Coordinated Plan Members	7.25%	7.25%
Public Employee Police and Fire Fund	14.40%	14.40%

The City's contributions for the years ending December 31, 2012, 2011, and 2010, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2012	2011	2010
Public Employee Retirement Fund	<u>\$ 9,134</u>	<u>\$ 8,928</u>	<u>\$ 8,348</u>
Public Employee Police and Fire Fund	<u>\$ 9,073</u>	<u>\$ 9,775</u>	<u>\$ 8,620</u>

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**NOTE 5 DEFINED BENEFIT LUMP SUM SERVICE PENSION PLAN – VOLUNTEER FIRE RELIEF ASSOCIATION**

**A. Plan Description**

The City contributes to the Atwater Fire Department Relief Association (the "Association"), a single employer defined benefit pension plan. The plan provides retirement, disability and death benefits to volunteer firefighters of the City. Pension benefits are determined by multiplying the accrued liability, as set forth in *Minnesota Statutes* 69.772, Subd. 2, by the ratio of the lump sum service pension amount provided in the bylaws of the Association, currently \$1,000 per year, to a service pension of \$100 per year of service.

The Association's Board of Trustees has the authority to establish and amend benefit provisions in limited instances without municipality approval. Benefit provisions are also subject to enabling state statutes; therefore, any amendments to benefit provisions are reviewed by the Office of the State Auditor. The Association issues a publicly available audited financial statement. That report may be obtained by writing the plan at Atwater Fire Department Relief Association, PO Box 179, Atwater Minnesota 56209.

**CITY OF ATWATER, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 5 DEFINED BENEFIT LUMP SUM SERVICE PENSION PLAN – VOLUNTEER FIRE RELIEF ASSOCIATION (continued)**

**B. Funding Policy and Annual Pension Cost**

The State of Minnesota annually provides a statutory contribution to the plan. Municipalities are also required by state statutes to contribute an amount annually certified by the Association. The City's annual contribution for 2012 and 2013 are as follows:

	2012	2013
Required contribution	\$ <u>          -</u>	\$ <u>      4,596</u>

**NOTE 6 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. This City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

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

The workers' compensation policy is a retrospectively rated policy with premiums that accrue based on the ultimate cost of the experience to date. There is no way to estimate what the change in premium may be. Generally, it has been minimal. There were no claims in 2012.

**NOTE 7 OTHER COMMITMENTS**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

During 2012, The City has entered into a maintenance contract for the City's water storage tank. The agreement requires five annual payments of \$34,455.

**NOTE 8 SUBSEQUENT EVENTS**

The City has evaluated subsequent events through June 25, 2013, the date the financial statements were available to be issued.

**CITY OF ATWATER, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**For The Year Ended December 31, 2012**

	Original Budget	Amended Budget	Actual	Over (Under) Final Budget
<b>REVENUES</b>				
Taxes				
General property taxes	\$ 284,166	\$ 284,166	\$ 270,023	\$ (14,143)
Special assessments	26,200	26,200	23,195	(3,005)
License and permits	<u>9,260</u>	<u>9,260</u>	<u>10,555</u>	<u>1,295</u>
Total Taxes	<u>319,626</u>	<u>319,626</u>	<u>303,773</u>	<u>(15,853)</u>
Intergovernmental Revenue				
State Grants and Aid				
Local government aid	231,643	231,643	231,643	-
Residential market value credit	-	-	-	-
PERA aid	674	674	674	-
Fire aid	11,000	11,000	11,033	33
Police aid	7,000	7,000	6,473	(527)
Other state grants	<u>1,900</u>	<u>1,900</u>	<u>4,318</u>	<u>2,418</u>
Total Intergovernmental Revenue	<u>252,217</u>	<u>252,217</u>	<u>254,141</u>	<u>1,924</u>
Charges for Services				
General government	3,500	3,500	4,000	500
Public safety				
Fire contracts and calls	49,400	49,400	54,853	5,453
Ambulance calls	30,000	30,000	62,696	32,696
Culture and recreation	<u>14,000</u>	<u>14,000</u>	<u>12,897</u>	<u>(1,103)</u>
Total Charges for Services	<u>96,900</u>	<u>96,900</u>	<u>134,446</u>	<u>37,546</u>
Fines and forfeits	<u>8,500</u>	<u>8,500</u>	<u>6,848</u>	<u>(1,652)</u>
Miscellaneous Revenues				
Investment income	16,000	16,000	5,824	(10,176)
Donations	2,000	2,000	2,100	100
Refunds and reimbursements	-	-	3,013	3,013
Other	<u>2,000</u>	<u>2,000</u>	<u>22,712</u>	<u>20,712</u>
Total Miscellaneous Revenues	<u>20,000</u>	<u>20,000</u>	<u>33,649</u>	<u>13,649</u>
<b>TOTAL REVENUES</b>	<b>697,243</b>	<b>697,243</b>	<b>732,857</b>	<b>35,614</b>
<b>OTHER SOURCES</b>				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES AND OTHER SOURCES</b>	<b><u>697,243</u></b>	<b><u>697,243</u></b>	<b><u>732,857</u></b>	<b><u>35,614</u></b>

See notes to required supplementary information

**CITY OF ATWATER, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**For The Year Ended December 31, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
<b>EXPENDITURES</b>				
General Government				
Governing Board				
Salaries	7,800	7,800	6,715	(1,085)
Payroll taxes and benefits	585	585	391	(194)
Other expenses	<u>650</u>	<u>650</u>	<u>308</u>	<u>(342)</u>
Total Governing Board	<u>9,035</u>	<u>9,035</u>	<u>7,414</u>	<u>(1,621)</u>
Administration and Finance				
Salaries	51,529	51,529	50,811	(718)
Payroll taxes and benefits	15,388	15,388	14,187	(1,201)
Supplies	2,200	2,200	1,876	(324)
Occupancy	1,168	1,168	1,012	(156)
Other expenses	<u>2,150</u>	<u>2,150</u>	<u>2,003</u>	<u>(147)</u>
Total Administration and Finance	<u>72,435</u>	<u>72,435</u>	<u>69,889</u>	<u>(2,546)</u>
Government Buildings				
Occupancy	<u>21,200</u>	<u>21,200</u>	<u>20,862</u>	<u>(338)</u>
Total Government Buildings	<u>21,200</u>	<u>21,200</u>	<u>20,862</u>	<u>(338)</u>
Other General Government				
Insurance	17,000	17,000	23,120	6,120
Elections	2,200	2,200	1,379	(821)
Assessor	6,200	6,200	5,940	(260)
Professional services	13,000	13,000	16,574	3,574
Publishing	500	500	420	(80)
Other expenses	20,500	20,500	14,533	(5,967)
Capital outlay	<u>500</u>	<u>500</u>	<u>-</u>	<u>(500)</u>
Total Other General Government	<u>59,900</u>	<u>59,900</u>	<u>61,966</u>	<u>2,066</u>
Total General Government	<u>162,570</u>	<u>162,570</u>	<u>160,131</u>	<u>(2,439)</u>
Public Safety				
Police Department				
Salaries	66,935	66,935	68,676	1,741
Payroll taxes and benefits	15,100	15,100	16,299	1,199
Supplies	2,500	2,500	3,828	1,328
Occupancy	2,500	2,500	2,274	(226)
Repairs and maintenance	12,600	12,600	16,378	3,778
Other expenses	3,500	3,500	3,931	431
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Police Department	<u>103,135</u>	<u>103,135</u>	<u>111,386</u>	<u>8,251</u>

See notes to required supplementary information

**CITY OF ATWATER, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**For The Year Ended December 31, 2012**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>EXPENDITURES (Continued)</b>				
Public Safety				
Ambulance				
Salaries	20,000	20,000	21,796	1,796
Payroll taxes and benefits	1,600	1,600	1,761	161
Supplies	2,800	2,800	2,536	(264)
Repairs and maintenance	1,500	1,500	3,928	2,428
Other expenses	15,000	15,000	15,503	503
Capital outlay	2,000	2,000	-	(2,000)
Total Ambulance	<u>42,900</u>	<u>42,900</u>	<u>45,524</u>	<u>2,624</u>
Fire Department				
Salaries	10,000	10,000	7,375	(2,625)
Payroll taxes and benefits	1,148	1,148	1,021	(127)
Supplies	1,000	1,000	1,821	821
Occupancy	7,000	7,000	6,105	(895)
Repairs and maintenance	13,500	13,500	7,928	(5,572)
Other expenses	22,500	22,500	21,373	(1,127)
Capital outlay	230,000	230,000	184,332	(45,668)
Total Fire Department	<u>285,148</u>	<u>285,148</u>	<u>229,955</u>	<u>(55,193)</u>
Other Protection				
Building inspection	3,200	3,200	5,418	2,218
Civil defense	2,000	2,000	1,560	(440)
Animal control	200	200	197	(3)
Total Other Protection	<u>5,400</u>	<u>5,400</u>	<u>7,175</u>	<u>1,775</u>
Total Public Safety	<u>436,583</u>	<u>436,583</u>	<u>394,040</u>	<u>(42,543)</u>
Streets and Highways				
Street Maintenance				
Salaries	32,000	32,000	36,793	4,793
Payroll taxes and benefits	25,976	25,976	24,156	(1,820)
Supplies	4,000	4,000	2,099	(1,901)
Occupancy	2,300	2,300	3,014	714
Repairs and maintenance	30,200	30,200	14,631	(15,569)
Other expenses	800	800	598	(202)
Capital outlay	150,000	150,000	9,713	(140,287)
Total Street Maintenance	<u>245,276</u>	<u>245,276</u>	<u>91,004</u>	<u>(154,272)</u>
Snow and Ice Removal				
Salaries	10,000	10,000	4,265	(5,735)
Other expenses	3,000	3,000	647	(2,353)
Total Snow and Ice Removal	<u>13,000</u>	<u>13,000</u>	<u>4,912</u>	<u>(8,088)</u>
Street Lighting	<u>25,000</u>	<u>25,000</u>	<u>24,226</u>	<u>(774)</u>
Total Streets and Highways	<u>283,276</u>	<u>283,276</u>	<u>120,142</u>	<u>(163,134)</u>

See notes to required supplementary information



**CITY OF ATWATER, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**For The Year Ended December 31, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
<b>EXPENDITURES (Continued)</b>				
Sanitation				
Brush site	1,000	1,000	1,617	617
Weed control	<u>2,200</u>	<u>2,200</u>	<u>1,829</u>	<u>(371)</u>
Total Sanitation	<u>3,200</u>	<u>3,200</u>	<u>3,446</u>	<u>246</u>
Health and Welfare				
Nutrition Transportation				
Other expenses	<u>1,400</u>	<u>1,400</u>	<u>1,151</u>	<u>(249)</u>
Total Health and Welfare	<u>1,400</u>	<u>1,400</u>	<u>1,151</u>	<u>(249)</u>
Culture and Recreation				
Library	9,500	9,500	10,522	1,022
Parks and Recreation				
Salaries	25,147	25,147	24,492	(655)
Payroll taxes and benefits	1,067	1,067	1,043	(24)
Supplies	1,800	1,800	2,527	727
Repairs and maintenance	2,000	2,000	3,014	1,014
Other expenses	7,200	7,200	9,645	2,445
Capital outlay	<u>28,000</u>	<u>28,000</u>	<u>16,364</u>	<u>(11,636)</u>
Total Culture and Recreation	<u>74,714</u>	<u>74,714</u>	<u>67,607</u>	<u>(7,107)</u>
<b>TOTAL EXPENDITURES</b>	<u>961,743</u>	<u>961,743</u>	<u>746,517</u>	<u>(215,226)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(264,500)	(264,500)	(13,660)	(250,840)
<b>OTHER FINANCING USES</b>				
Transfer out	<u>35,500</u>	<u>35,500</u>	-	<u>(35,500)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(300,000)	(300,000)	(13,660)	<u>\$ (286,340)</u>
<b>FUND BALANCE, JANUARY 1</b>	<u>1,072,861</u>	<u>1,072,861</u>	<u>1,072,861</u>	
<b>FUND BALANCE, DECEMBER 31</b>	<u>\$ 772,861</u>	<u>\$ 772,861</u>	<u>\$ 1,059,201</u>	

See notes to required supplementary information

**CITY OF ATWATER, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2012**

**NOTE 1 BUDGETARY INFORMATION**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) The City Clerk/Treasurer prepares an annual operating budget for the General Fund
- b) Public hearings are conducted to obtain taxpayer comments.
- c) The budget is legally enacted by a budget resolution.
- d) The City Clerk/Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
- e) Budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America. Budgeted amounts are as originally adopted, or as amended by the City Council. Appropriations for annually budgeted fund lapse at year-end.

**CITY OF ATWATER, MINNESOTA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - DEBT SERVICE FUND**  
**For The Year Ended December 31, 2012**

	Original Budget	Amended Budget	Actual	Over (Under) Final Budget
<b>REVENUES</b>				
Taxes				
General property taxes	\$ 116,000	\$ 116,000	\$ 103,566	\$ (12,434)
Special assessments	<u>27,032</u>	<u>27,032</u>	<u>37,556</u>	<u>10,524</u>
Total Taxes	<u>143,032</u>	<u>143,032</u>	<u>141,122</u>	<u>(1,910)</u>
Miscellaneous Revenues				
Investment income	<u>700</u>	<u>700</u>	<u>410</u>	<u>(290)</u>
Total Miscellaneous Revenues	<u>700</u>	<u>700</u>	<u>410</u>	<u>(290)</u>
<b>TOTAL REVENUES</b>	143,732	143,732	141,532	(2,200)
<b>OTHER SOURCES</b>				
Transfers in	<u>103,587</u>	<u>103,587</u>	<u>52,500</u>	<u>(51,087)</u>
<b>TOTAL REVENUES AND OTHER SOURCES</b>	<u>247,319</u>	<u>247,319</u>	<u>194,032</u>	<u>(53,287)</u>
<b>EXPENDITURES</b>				
Principal	163,000	163,000	145,000	(18,000)
Interest	74,563	74,563	22,633	(51,930)
Other expenses	<u>2,000</u>	<u>2,000</u>	<u>425</u>	<u>(1,575)</u>
<b>TOTAL EXPENDITURES</b>	<u>239,563</u>	<u>239,563</u>	<u>168,058</u>	<u>(71,505)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	7,756	7,756	25,974	(18,218)
<b>OTHER FINANCING USES</b>				
Transfer out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	7,756	7,756	25,974	<u>\$ (18,218)</u>
<b>FUND BALANCE, JANUARY 1</b>	<u>142,135</u>	<u>142,135</u>	<u>142,135</u>	
<b>FUND BALANCE, DECEMBER 31</b>	<u>\$ 149,891</u>	<u>\$ 149,891</u>	<u>\$ 168,109</u>	

**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**

Mayor and City Council  
City of Atwater, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, discretely presented component unit and each major fund of the City of Atwater, Minnesota as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Atwater Atwater's basic financial statements, and have issued our report thereon dated June 25, 2013.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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 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 correct on a timely basis. We consider finding 2007-2 and 2007-3 described in the accompanying Schedule of Findings and Responses to be material weaknesses.

*A significant deficiency* is a deficiency, or 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. We consider finding 2007-1 to be a significant deficiency.

**Compliance and Other Matters**

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

## **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories except that we did not test for compliance with the provisions for tax increment financing because the City has not established any tax increment districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Atwater failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described the accompanying Schedule of Findings and Recommendations as item 2012-1. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Atwater's noncompliance with the above referenced provisions.

### **City of Atwater's Response to Findings**

The City of Atwater's responses to the internal control and legal compliance findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. The City of Atwater's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

*Westberg Eischens PLLP*

Westberg Eischens, PLLP  
Willmar, Minnesota

June 25, 2013

**CITY OF ATWATER, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2012**

**SECTION I: FINANCIAL STATEMENT FINDINGS**

**Finding 2007-1**

**Criteria:**

Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

**Condition:**

Due to the limited size of the City's business staff, the City has limited segregation of duties.

**Questioned Costs:**

None

**Context:**

The City has informed us that the small size of its business office staff precludes proper separation of duties at this time.

**Effect:**

The City is unable to maintain separation of incompatible duties.

**Cause:**

Limited number of staff in the business office

**Recommendation:**

We recommend that the City continue to separate incompatible duties as best it can within the limits of what the City considers to be cost beneficial.

**CORRECTIVE ACTION PLAN (CAP)**

**Finding 2007-1**

**Explanation of Disagreement with Audit Finding:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The City reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available.

**Officer Responsible for Ensuring CAP:**

Mayor and Council

**Planned Completion Date:**

Not Applicable

**Plan to Monitor Completion of CAP:**

Not Applicable

**CITY OF ATWATER, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES (continued)  
Year Ended December 31, 2012**

**SECTION I: FINANCIAL STATEMENT FINDINGS (continued)**

**Finding 2007-2**

**Criteria:**

Generally, a system of internal control includes the ability to understand and prepare the City's financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Condition:**

The City relies upon the auditor to prepare the financial statements and related disclosures in accordance with GAAP.

**Questioned Costs:**

None

**Effect:**

The City is unable to prepare GAAP basis financial statements.

**Cause:**

The limited size of the City's business staff and the related resources available precludes the City from preparing the financial statements.

**Recommendation:**

We recommend that the City continue to review the auditor prepared financial statements with the intention of understanding and acceptance of responsibility for reporting under GAAP.

**CORRECTIVE ACTION PLAN (CAP)**

**Finding 2007-2**

**Explanation of Disagreement with Audit Finding:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The City will continue to review auditor prepared financial statements with the intention of understanding and acceptance of responsibility for reporting under GAAP.

**Officer Responsible for Ensuring CAP:**

Clerk/Treasurer

**Planned Completion Date:**

Not Applicable

**Plan to Monitor Completion of CAP:**

Not Applicable

**CITY OF ATWATER, MINNESOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES (continued)**  
**Year Ended December 31, 2012**

**SECTION I: FINANCIAL STATEMENT FINDINGS (continued)**

**Finding 2007-3**

**Criteria:**

A system of internal control allows management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis.

**Condition:**

During our audit, we proposed numerous adjustments that resulted in significant changes to the City's financial statements.

**Questioned Costs:**

None

**Effect:**

The City's inability to timely detect misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

**Cause:**

The City does not have year-end accounting procedures that would assist in identifying errors in account balances.

**Recommendation:**

We recommend that the City review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements.

**CORRECTIVE ACTION PLAN (CAP)**

**Finding 2007-3**

**Explanation of Disagreement with Audit Finding:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The City will continue to review internal controls and work to design modifications that will increase internal control and the ability to detect material misstatements.

**Officer Responsible for Ensuring CAP:**

Clerk/Treasurer

**Planned Completion Date:**

Not Applicable

**Plan to Monitor Completion of CAP:**

Not Applicable



**CITY OF ATWATER, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES (continued)  
Year Ended December 31, 2012**

**SECTION II: MINNESOTA COMPLIANCE FINDING**

**Finding 2012-1**

**Criteria:**

According to Minnesota Statute, all bids need to be on file for contracts over \$100,000.

**Condition:**

During our audit, we were unable to review all bids received for the fire department pumper truck.

**Questioned Costs:**

None

**Effect:**

The City did not follow the requirements established by Minnesota statutes.

**Cause:**

The City was not aware of the statute requirements.

**Recommendation:**

We recommend the City keep control of all bids received.

**CORRECTIVE ACTION PLAN (CAP)**

**Finding 2012-1**

**Explanation of Disagreement with Audit Finding:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

All bids will be kept on file at the City's office.

**Officer Responsible for Ensuring CAP:**

Clerk/Treasurer

**Planned Completion Date:**

June 2013

**Plan to Monitor Completion of CAP:**

Mayor and Council to monitor