CITY OF LAKE ELMO, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2012

CITY OF LAKE ELMO, MINNESOTA
FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2012

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CITY OF LAKE ELMO, MINNESOTA

INTRODUCTORY SECTION

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CITY OF LAKE ELMO, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
December 31, 2012

POSITION	NAME	TERM EXPIRES
	ELECTED OFFICIALS	
City Council:		
Mayor	Dean Johnston	December 31, 2012
Council Member	Brett Emmons	December 31, 2012
Council Member	Nicole Park	December 31, 2014
Council Member	Mike Pearson	December 31, 2014
Council Member	Anne Smith	December 31, 2012
	APPOINTED OFFICIALS	
City Administrator	Dean Zuleger	Continuous
Finance Director	Cathy Bendel	Continuous

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CITY OF LAKE ELMO, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2012

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SMITH•SCHAFER
& ASSOCIATES, LTD.
Certified Public Accountants and Consultants

Members of American Institute of CPA's,
Private Companies Practice Section, Minnesota Society of CPA's

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of
the City Council
City of Lake Elmo, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lake Elmo, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 purposes 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 principles 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, each major fund and the aggregate remaining fund information of the City of Lake Elmo, Minnesota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Maplewood Office • 2035 E County Road D • Suite A • Maplewood MN 55109 • PH (651) 770-8414 • FAX (651) 770-5175
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 and the Schedule of Funding Progress - Other Post-Employment Benefits on page 73 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 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake Elmo, Minnesota financial statements. The introductory section and combining and individual nonmajor fund financial statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Smith, Schafer and Associates, Ltd.

Maplewood, Minnesota
June 28, 2013

CITY OF LAKE ELMO, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lake Elmo, Minnesota, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Lake Elmo, Minnesota for the fiscal year ended December 31, 2012.

New Accounting Pronouncement. The City implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* in fiscal year 2012. This standard provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. The reader will notice a change in terminology from "net assets" to "net position".

FINANCIAL HIGHLIGHTS

- The assets of the City of Lake Elmo, Minnesota exceeded its liabilities at the close of the most recent fiscal year by $21,840,460 (*net position)*. Of this amount, $2,310,132 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.

- The City's total net position increased by $194,070. The increase is attributed to both business-type and governmental activities.

- As of the close of the current fiscal year, the City of Lake Elmo, Minnesota's governmental funds reported combined ending fund balances of $6,972,221, an increase of $58,835 from the prior year.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $2,414,692, or 88.1% of total general fund expenditures. The nonspendable portion of the general fund balance as of December 31, 2012 ($1,024,433) related to the interfund loan to the Village Project fund and prepaid expenses.

- The City's total noncurrent liabilities increased by $4,550,014 or 36% during the current fiscal year. The increase was primarily related to this issuance of the 2012A G.O. water revenue crossover refunding bonds and the 2012B G.O. improvement bonds. The City continues to carry the 2005A water revenue bonds until the point they are refunded with the proceeds of the issuance of the 2012A G.O. water revenue crossover refunding bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Lake Elmo, Minnesota's basic financial statements. The City's basic financial statements are comprised of the following three components: 1) government-wide financial statements, providing information for the City as a whole, 2) fund financial statements, providing detailed information for the City's significant funds, and 3) notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lake Elmo, Minnesota's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lake Elmo, Minnesota that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Lake Elmo, Minnesota include general government, public safety, public works, and culture and recreation. The business-type activities of the City of Lake Elmo, Minnesota include the water, sewer and storm sewer funds.

The government-wide financial statements can be found on pages 15-17 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lake Elmo, Minnesota, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lake Elmo, Minnesota can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Lake Elmo, Minnesota maintains twenty-one individual governmental funds, eight of which are debt service funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the village project fund and the 2012 street improvements fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for

each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City of Lake Elmo, Minnesota adopts an annual budget for its general fund. Budgetary comparison statements have been provided for this fund (pages 28 and 94 to 97) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 20-27 of this report.

Proprietary funds. The City of Lake Elmo, Minnesota maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Lake Elmo, Minnesota uses enterprise funds to account for its water, sewer and storm sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Lake Elmo, Minnesota's various functions. The City of Lake Elmo, Minnesota uses internal service funds to account for certain capital acquisition activities. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer and storm sewer funds, all of which are considered to be major funds of the City of Lake Elmo, Minnesota.

The proprietary fund financial statements can be found on pages 30-36 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting use for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 37 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 41-75 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds and internal service funds can be found on pages 82-102 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lake Elmo, Minnesota, assets exceeded liabilities by $21,840,460 at the close of the most recent fiscal year.

The largest portion of the City of Lake Elmo, Minnesota's net position, $15,571,217 (71%) reflects its investment in capital assets (e.g. land, buildings and improvements, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Lake Elmo, Minnesota uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lake Elmo, Minnesota's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lake Elmo Minnesota's Net Position

	Governmental Activities	Business-Type Activities	Total
Current and other assets	$ 8,276,848	$ 5,861,208	$ 14,138,056
Capital assets	14,656,197	10,870,749	25,526,946
Total assets	22,933,045	16,731,957	39,665,002
Long-term liabilities outstanding	8,411,173	8,714,727	17,125,900
Other liabilities	614,789	83,853	698,642
Total liabilities	9,025,962	8,798,580	17,824,542
Net position:			
Net investment in capital assets	8,782,840	6,788,377	15,571,217
Restricted	3,959,111		3,959,111
Unrestricted	1,165,132	1,145,000	2,310,132
Total net position	$ 13,907,083	$ 7,933,377	$ 21,840,460

An additional portion of the City of Lake Elmo, Minnesota's net position (18 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* ($2,310,132) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Lake Elmo, Minnesota is able to report positive balances in all categories of net position for the City as a whole.

Governmental activities. Governmental activities account for 64% of the City of Lake Elmo, Minnesota's net position. The total increase in net position for governmental activities was $132,815, accounting for 68% of the total increase in the net position of the City of Lake Elmo, Minnesota. Key elements of this increase include:

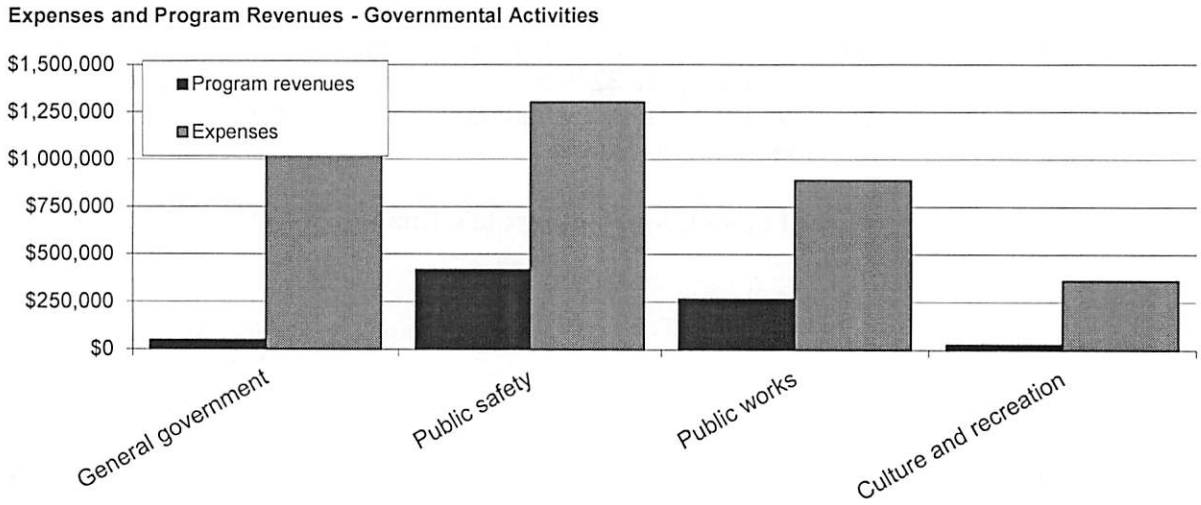
- Charges for services increased by $131,701 from the prior year.
- Property tax revenue increased by $389,302 from the prior year.

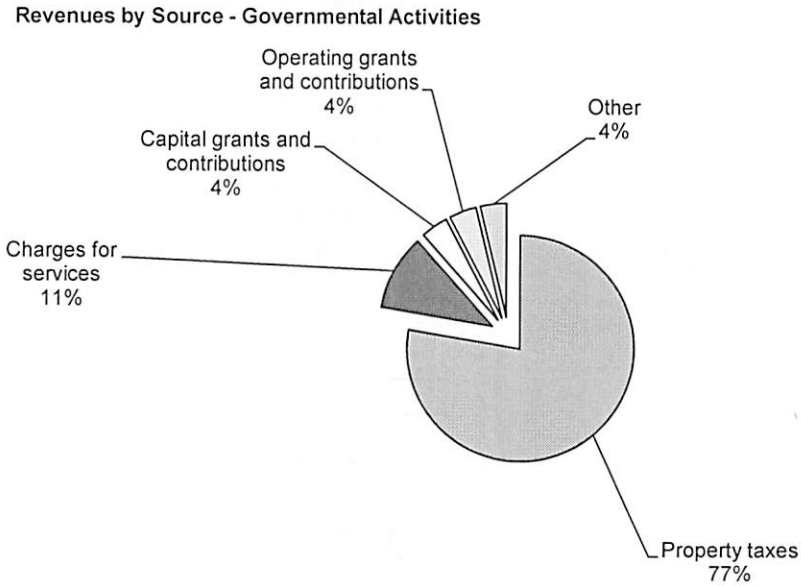
Business-type activities. Business-type activities increased the City of Lake Elmo, Minnesota's net position by $61,255 accounting for 32% of the total increase in the net position of the City of Lake Elmo, Minnesota. This increase is due primarily to an increase in charges for services and capital grants received in the enterprise funds.

City of Lake Elmo, Minnesota's Change in Net Position

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 440,630	$ 936,125	$ 1,376,755
Operating grants and contributions	160,060		160,060
Capital grants and contributions	160,444	115,127	275,571
General revenues:			
Property taxes	3,183,078		3,183,078
Other	154,304	10,282	164,586
Total revenues	4,098,516	1,061,534	5,160,050
Expenses:			
General government	1,093,204		1,093,204
Public safety	1,302,857		1,302,857
Public works	891,169		891,169
Culture and recreation	362,432		362,432
Interest on long-term debt	316,039		316,039
Water		872,786	872,786
Sewer		53,903	53,903
Storm sewer		73,590	73,590
Total expenses	3,965,701	1,000,279	4,965,980
Change in net position	132,815	61,255	194,070
Net position - beginning of year	13,774,268	7,872,122	21,646,390
Net position - end of year	$ 13,907,083	$ 7,933,377	$ 21,840,460

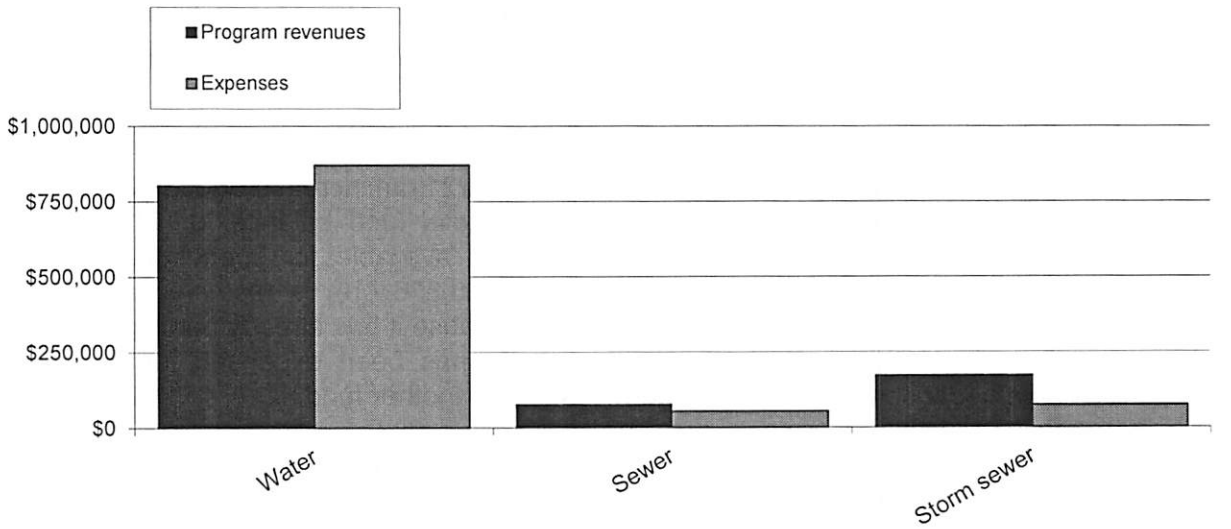
Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



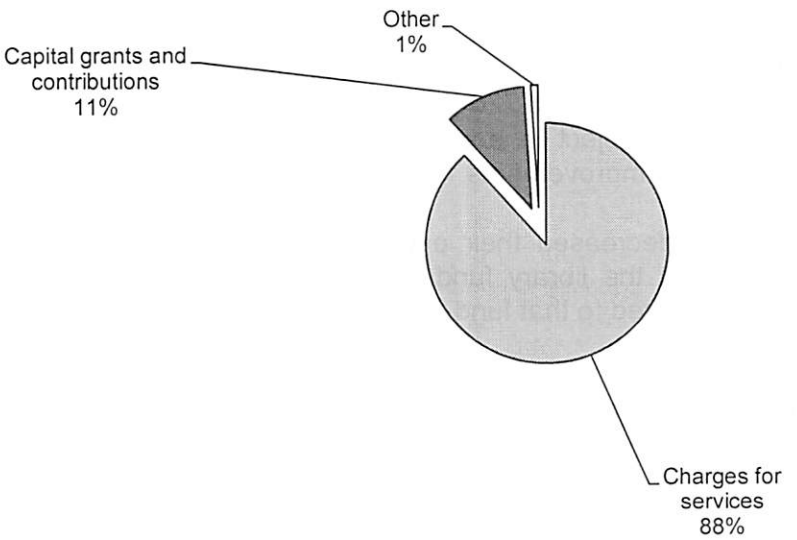


The following graphs related the business-type activity's program revenues with its expenditures. Since this activity requires significant physical assets to operate, any excess revenues are held for planned capital expenditures to keep pace with growing demand for services.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Lake Elmo, Minnesota uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Lake Elmo, Minnesota's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Lake Elmo, Minnesota's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Lake Elmo, Minnesota's governmental funds reported combined ending fund balances of $6,972,221, an increase of $58,835 in comparison with the prior year. Approximately 17 percent of this total fund balance, or $1,165,505, constitutes *assigned and unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance ($5,806,716) is *restricted and nonspendable* to indicate that it is not available for new spending because it has already been restricted by creditors, grantors or regulations of other governments or has been expensed for prepaid items, or is unavailable because the funds have been loaned to another fund.

The general fund is the chief operating fund of City of Lake Elmo, Minnesota. At the end of the current fiscal year, unassigned fund balance of the general fund was $2,414,692. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 88% of total general fund expenditures. The general fund's total fund balance increased by $525,205 during the current fiscal year due primarily to increases in property taxes and building permits and improved collections of delinquent property taxes.

The debt service fund decreased its fund balance by $33,943 due primarily to debt service expenditures in excess of property taxes, special assessments and intergovernmental revenues allocated to this fund.

The Village Project fund decreased its fund balance by $52,710 as a result of investment interest owed to other funds related to the fund balance deficit in this fund. The 2012 street improvements fund decreased its fund balance by $95,726 due primarily to capital outlay expenditures related to the 2012 street improvement project in excess of debt proceeds and prior to the collection of special assessments for these improvements.

The special revenue funds decreased their overall fund balances by $72,568 due primarily to capital outlay expenditures in the library fund related to the purchase of the library building in excess of property taxes allocated to that fund.

The capital projects funds, other than the village project and 2012 street improvements funds described previously, decreased their collective fund balance by $211,423 due primarily to capital outlay expenditures in excess of special assessments and investment earnings allocated to the funds.

Proprietary funds. The City of Lake Elmo, Minnesota's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position for water operations, sewer operations and storm sewer operations at the end of the year amounted to $667,175, $81,867 and $395,958, respectively. The water fund decreased its net position by $59,670 for the year ended December 31, 2012 while the sewer and storm sewer increased their net position by $22,648 and $98,277, respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City of Lake Elmo, Minnesota's business-type activities.

General Fund Budgetary Highlights

The City's General Fund budget was not amended during the year. The budget called for no change in General Fund balance. The actual net change to the General Fund balance was an increase of $525,205. Revenues exceeded budget by $366,392 for the year ended December 31, 2012 due primarily to better than anticipated collection of property taxes and an increase in licenses and permits revenue over expectations. Total expenditures exceeded budget by $16,187 for the year. Two departments had expenditures in excess of budget: general government expenditures exceeded budget by $56,119 and public safety expenditures exceeded budget by $28,396. These over expenditures were primarily related to increased personnel and professional services expenses. Additionally, the City had budgeted for $175,000 of transfers out that were not required to be made.

Capital Asset and Debt Administration

Capital assets. The City of Lake Elmo, Minnesota's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounted to $25,526,946 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and machinery and equipment. Total capital assets increased by $547,456, or 22%, for the year ended December 31, 2012, due primarily to construction in progress on various capital projects within the City.

City of Lake Elmo, Minnesota's Capital Assets
(net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	$ 3,453,979	$ 54,675	$ 3,508,654
Construction in progress	2,290,314	569,738	2,860,052
Buildings	2,925,354		2,925,354
Improvements other than buildings	493,529		493,529
Machinery and equipment	785,684	127,433	913,117
Infrastructure	4,707,337	10,118,903	14,826,240
Total	$ 14,656,197	$ 10,870,749	$ 25,526,946

Additional information on the City of Lake Elmo, Minnesota's capital assets can be found in Note 3D beginning on page 56 of this report.

Long-term debt. At the end of the current fiscal year, the City of Lake Elmo, Minnesota had $16,905,000 in bonds and certificates outstanding. The entire $16,905,000 outstanding comprises debt backed by the full faith and credit of the government.

City of Lake Elmo, Minnesota's Outstanding Debt
General Obligation Bonds and Certificates

	Governmental Activities	Business-Type Activities	Total
General obligation bonds	$ 8,120,000	$ 8,635,000	$ 16,755,000
General obligation certificates	150,000		150,000
Total	$ 8,270,000	$ 8,635,000	$ 16,905,000

The City of Lake Elmo, Minnesota's total bonds and certificates payable increased by $4,454,000 during the current fiscal year. The increase was due primarily to the issuance of the City's 2012A general obligation water revenue crossover refunding bonds and 2012B general obligation improvement bonds.

The City of Lake Elmo, Minnesota maintains an Aa2 bond rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a Minnesota City may issue to 3% of its market value of taxable property. Net debt is payable solely from ad valorem taxes. The City is currently well within this limit.

Economic Factors and Next Year's Budgets and Rates

- The City's taxable market value decreased 8.5 percent from 2011 to 2012, and increased 1.2 percent from 2012 to 2013.
- Total property taxes levied for 2013 increased 1.6% percent over property taxes levied for 2012. This is primarily due to an increase in the debt service component of the levy.
- Plans are underway for extensive development in the following three areas:
    - The I-94 Corridor where a mixed use development featuring commercial/retail business as well as residential (2012-2017).
    - The Old Village re-development project of commercial and residential expansion (2013-2018).
    - The Highway 36 Corridor residential expansion due to the completion of the new federally funded bridge linking Minnesota and Wisconsin (targeted completion in 2017).
    - Provision of sanitary sewer service to the Old Village/Downtown area
    - Improvements to the City's water distribution system including the Keats trunk water main and development of Well No. 4.

Requests for Information

This financial report is designed to provide a general overview of the City of Lake Elmo, Minnesota's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to City of Lake Elmo, Minnesota, 3800 Laverne Avenue North, Lake Elmo, Minnesota, 55042.

CITY OF LAKE ELMO, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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FORM A-1

CITY OF LAKE ELMO, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 4,532,496	$ 1,097,692	$ 5,630,188
Cash with fiscal agent	2,855,141	4,017,679	6,872,820
Receivables	392,281	560,932	953,213
Due from other governmental units	275,000		275,000
Prepaid expenses	19,035		19,035
Unamortized deferred charges	202,895	184,905	387,800
Capital assets:			
Nondepreciable	5,744,293	624,413	6,368,706
Depreciable, net	8,911,904	10,246,336	19,158,240
Total Assets	22,933,045	16,731,957	39,665,002
LIABILITIES			
Accounts payable	388,539	29,610	418,149
Accrued expenses	40,766	2,816	43,582
Accrued interest	93,620	48,576	142,196
Escrow deposits	75,000		75,000
Due to other governmental units	164	2,851	3,015
Unearned revenue	16,700		16,700
Noncurrent liabilities:			
Due within one year	3,374,241	168,381	3,542,622
Due in more than one year	5,036,932	8,546,346	13,583,278
Total Liabilities	9,025,962	8,798,580	17,824,542
NET POSITION			
Net investment in capital assets	8,782,840	6,788,377	15,571,217
Restricted			
Debt service	3,500,799		3,500,799
Street improvement	183,229		183,229
City facilities	275,083		275,083
Unrestricted	1,165,132	1,145,000	2,310,132
Total Net Position	$ 13,907,083	$ 7,933,377	$ 21,840,460

See Notes to Financial Statements

CITY OF LAKE ELMO, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	$ 1,093,204	$ 48,476	$	$
Public safety	1,302,857	379,557	38,823	
Public works	891,169	3,256	103,166	160,444
Culture and recreation	362,432	9,341	18,071	
Interest on long-term debt	316,039			
Total governmental activities	3,965,701	440,630	160,060	160,444
Business-Type activities:				
Water	872,786	699,159		104,652
Sewer	53,903	65,737		10,475
Storm sewer	73,590	171,229		
Total business-type activities	1,000,279	936,125		115,127
Total	$ 4,965,980	$ 1,376,755	$ 160,060	$ 275,571

General revenues:
General property taxes
Interest earnings
Miscellaneous
Total general revenues
Change in net position
Net position - beginning
Net position - ending

See Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (1,044,728)		$ (1,044,728)
(884,477)		(884,477)
(624,303)		(624,303)
(335,020)		(335,020)
(316,039)		(316,039)
(3,204,567)		(3,204,567)
	$ (68,975)	(68,975)
	22,309	22,309
	97,639	97,639
	50,973	50,973
(3,204,567)	50,973	(3,153,594)
3,183,078		3,183,078
111,705	10,282	121,987
42,599		42,599
3,337,382	10,282	3,347,664
132,815	61,255	194,070
13,774,268	7,872,122	21,646,390
$ 13,907,083	$ 7,933,377	$ 21,840,460

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CITY OF LAKE ELMO, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2012

CITY OF LAKE ELMO, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	General Fund	Debt Service	Village Project	2012 Street Improvements
ASSETS				
Cash and investments	$ 2,126,829	$ 659,158	$	$
Cash with fiscal agent		2,855,141		
Receivables (Net of allowance for uncollectibles)				
Accounts	16,500			
Delinquent taxes	64,105			
Special assessments		186,992		
Accrued interest	24,338			
Due from other funds	604,124			
Advances to other funds	1,005,398			
Due from other governmental units	41,202	275,000		
Prepaid expenses	19,035			
TOTAL ASSETS	$ 3,901,531	$ 3,976,291	$	$
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	$ 340,671	$ 13,500	$	$ 5,632
Escrow deposits payable				
Accrued liabilities	40,766			
Due to other governments	164			
Due to other funds			252,710	100,744
Advances from other funds			1,005,398	
Deferred revenue	80,805	461,992		
Total liabilities	462,406	475,492	1,258,108	106,376
FUND BALANCE				
Nonspendable	1,024,433			
Restricted		3,500,799		
Assigned				
Unassigned	2,414,692		(1,258,108)	(106,376)
Total Fund Balance	3,439,125	3,500,799	(1,258,108)	(106,376)
TOTAL LIABILITIES AND FUND BALANCE	$ 3,901,531	$ 3,976,291	$	$

See Notes to Financial Statements

FORM B-1

Other Governmental Funds	Total
$ 1,703,439	$ 4,489,426
	2,855,141
	16,500
	64,105
59,144	246,136
	24,338
112,576	716,700
	1,005,398
	316,202
	19,035
$ 1,875,159	$ 9,752,981
$ 28,736	$ 388,539
75,000	75,000
	40,766
	164
315,498	668,952
	1,005,398
59,144	601,941
478,378	2,780,760
	1,024,433
458,312	3,959,111
1,244,900	1,244,900
(306,431)	743,777
1,396,781	6,972,221
$ 1,875,159	$ 9,752,981

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FORM B-2

CITY OF LAKE ELMO, MINNESOTA
RECONCILIATION OF NET POSITION IN THE GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2012

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

Total governmental fund balances (pages 20-21)		$ 6,972,221
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental funds - capital assets	$ 18,754,088	
Accumulated depreciation	(4,297,875)	
		14,456,213
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:		
Delinquent property taxes	$ 64,105	
Deferred special assessments	246,136	
Due from other governmental units	275,000	
		585,241
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	$ (8,270,000)	
Compensated absences	(60,675)	
Post employment benefit obligation	(66,505)	
Accrued interest	(93,620)	
Unamortized premium	(13,993)	
Unamortized discount and bond issuance costs	202,895	
		(8,301,898)
Internal service funds are used by management to charge the cost of services to individual funds. The assets and liabilities are included in the governmental statement of net position.		195,306
Net position of governmental activities (page 15)		$ 13,907,083

See Notes to Financial Statements

CITY OF LAKE ELMO, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General Fund	Debt Service	Village Project	2012 Street Improvements
REVENUES				
Taxes	$ 2,549,986	$ 411,669	$	$
Licenses and permits	330,819			
Intergovernmental	162,029	75,225		
Charges for services	5,726			
Fines and forfeitures	58,385			
Special assessments		97,552		
Investment earnings	90,983	14,864	(6,999)	
Miscellaneous revenue	69,450			
TOTAL REVENUES	3,267,378	599,310	(6,999)	
EXPENDITURES				
Current				
General government	1,034,712			
Public safety	1,109,937			
Public works	446,541			
Culture and recreation	150,983			
Capital Outlay				
Public safety				
Public works			5,711	918,898
Culture and recreation				
Debt Service				
Principal		406,000		
Interest and other charges		227,253	40,000	
Bond issuance costs				41,828
TOTAL EXPENDITURES	2,742,173	633,253	45,711	960,726
Excess (deficiency) of revenues over (under) expenditures	525,205	(33,943)	(52,710)	(960,726)
OTHER FINANCING SOURCES				
Issuance of debt				865,000
Net change in fund balances	525,205	(33,943)	(52,710)	(95,726)
FUND BALANCES (DEFICIT), Beginning	2,913,920	3,534,742	(1,205,398)	(10,650)
FUND BALANCES (DEFICIT), Ending	$ 3,439,125	$ 3,500,799	$ (1,258,108)	$ (106,376)

See Notes to Financial Statements

FORM B-3

Other Governmental Funds	Total
$ 260,078	$ 3,221,733
	330,819
	237,254
	5,726
	58,385
38,598	136,150
12,889	111,737
18,112	87,562
329,677	4,189,366
	1,034,712
	1,109,937
	446,541
109,421	260,404
35,661	35,661
193,329	1,117,938
275,257	275,257
	406,000
	267,253
	41,828
613,668	4,995,531
(283,991)	(806,165)
	865,000
(283,991)	58,835
1,680,772	6,913,386
$ 1,396,781	$ 6,972,221

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CITY OF LAKE ELMO, MINNESOTA
RECONCILIATION OF THE STATEMENT 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:

Net change in fund balances - total governmental funds (pages 24-25)		$	58,835
Governmental funds report capital outlay 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:			
Capital outlay	$ 1,387,725		
Depreciation expense	(611,245)		
			776,480
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:			
Deferred revenue, end of year	$ 585,241		
Deferred revenue, beginning of year	(674,827)		
			(89,586)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:			
Compensated absences, end of year	$ (60,675)		
Compensated absences, beginning of year	41,731		
Post employment benefit obligation, end of year	(66,505)		
Post employment benefit obligation, beginning of year	43,561		
			(41,888)
Bond, contract and loan proceeds provide current financial resources to governmental funds, but issuing debt increase long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:			
Principal retirement on long-term debt	$ 406,000		
Issuance of long-term debt	(865,000)		
Change in accrued interest, bond premium, bond discount and bond issuance costs	8,003		
			(450,997)
Internal service funds are used by management to charge the costs of capital equipment replacement to individual funds. The net revenue of certain activities of internal service funds is reported with govermental activities in the government-wide financial statements			(120,029)
Change in net position of governmental activities (page 17)		$	132,815

See Notes to Financial Statements

FORM B-5

CITY OF LAKE ELMO, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2012

	Budgeted Amounts		2012 Actual	Variance with Final Budget- Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Taxes	$ 2,490,403	$ 2,490,403	$ 2,549,986	$ 59,583
Licenses and permits	181,100	181,100	330,819	149,719
Intergovernmental	133,249	133,249	162,029	28,780
Charges for services	8,850	8,850	5,726	(3,124)
Fines and forfeits	53,000	53,000	58,385	5,385
Investment earnings	20,000	20,000	90,983	70,983
Miscellaneous Revenue	14,384	14,384	69,450	55,066
TOTAL REVENUES	2,900,986	2,900,986	3,267,378	366,392
EXPENDITURES				
Current				
General government	978,593	978,593	1,034,712	(56,119)
Public safety	1,081,541	1,081,541	1,109,937	(28,396)
Public works	482,749	482,749	446,541	36,208
Culture and recreation	183,103	183,103	150,983	32,120
TOTAL EXPENDITURES	2,725,986	2,725,986	2,742,173	(16,187)
Excess (deficiency) of revenues over (under) expenditures	175,000	175,000	525,205	350,205
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(175,000)	(175,000)		175,000
Net change in fund balance			525,205	525,205
FUND BALANCE, beginning	2,913,920	2,913,920	2,913,920	
FUND BALANCE, ending	$ 2,913,920	$ 2,913,920	$ 3,439,125	$ 525,205

See Notes to Financial Statements

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CITY OF LAKE ELMO, MINNESOTA
PROPRIETARY FUNDS
Combining Statement of Net Position
December 31, 2012

	Water	Sewer	Storm Sewer
ASSETS			
Current Assets			
Cash and investments	$ 925,250	$ 52,989	$ 119,453
Cash with fiscal agent	4,017,679		
Receivables			
Accounts	219,560	26,324	225,222
Special assessments	44,335	11,543	33,948
Due from other funds	668		23,915
Total Current Assets	5,207,492	90,856	402,538
Noncurrent Assets			
Property and Equipment			
Land	54,675		
Machinery and equipment	282,860		
Infrastructure	11,745,589	346,607	595,833
Construction in progress	486,843	12,514	70,381
Total Property and Equipment	12,569,967	359,121	666,214
Less: Accumulated depreciation	2,482,547	186,669	55,337
Net Property and Equipment	10,087,420	172,452	610,877
Unamortized deferred charges	184,905		
Total Noncurrent Assets	10,272,325	172,452	610,877
TOTAL ASSETS	$ 15,479,817	$ 263,308	$ 1,013,415

See Notes to Financial Statements

FORM C-1

Total	Internal Service Funds
$ 1,097,692	$ 43,070
4,017,679	
471,106	
89,826	
24,583	
5,700,886	43,070
54,675	
282,860	598,435
12,688,029	
569,738	
13,595,302	598,435
2,724,553	398,451
10,870,749	199,984
184,905	
11,055,654	199,984
$ 16,756,540	$ 243,054

CITY OF LAKE ELMO, MINNESOTA
PROPRIETARY FUNDS
Combining Statement of Net Position (Continued)
December 31, 2012

	Water	Sewer	Storm Sewer
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts payable	$ 23,821	$ 3,916	$ 1,873
Accrued salaries payable	1,407	611	798
Accrued interest payable	48,576		
Due to other funds	24,583		
Due to other governments	2,851		
Current portion of compensated absences	1,907	1,026	448
Current portion of bonds payable	165,000		
Total Current Liabilities	268,145	5,553	3,119
Long-term Liabilities			
Other postemployment benefits payable	7,377	1,852	2,769
Compensated absences payable	2,946	1,584	692
Unamortized premium on bonds	59,126		
Bonds payable	8,470,000		
Total Long-term Liabilities	8,539,449	3,436	3,461
Total Liabilities	8,807,594	8,989	6,580
Net Position			
Net investment in capital assets	6,005,048	172,452	610,877
Unrestricted	667,175	81,867	395,958
Total Net Position	6,672,223	254,319	1,006,835
TOTAL LIABILITIES AND NET POSITION	$ 15,479,817	$ 263,308	$ 1,013,415

See Notes to Financial Statements

Total	Internal Service Funds
$ 29,610	$
2,816	
48,576	
24,583	47,748
2,851	
3,381	
165,000	
276,817	47,748
11,998	
5,222	
59,126	
8,470,000	
8,546,346	
8,823,163	47,748
6,788,377	199,984
1,145,000	(4,678)
7,933,377	195,306
$ 16,756,540	$ 243,054

CITY OF LAKE ELMO, MINNESOTA
PROPRIETARY FUNDS
Combining Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2012

	Water	Sewer	Storm Sewer
Operating Revenues	$ 634,607	$ 54,710	$ 147,162
Operating Expenses			
Personnel services	84,755	25,316	34,862
Supplies	37,903	21	3,236
Professional services	70,164	2,052	18,839
Repairs and maintenance	11,768	194	1,465
Insurance	6,162		
Utilities	111,800	17,581	
Depreciation	323,055	8,739	15,188
Total Operating Expenses	645,607	53,903	73,590
Operating Income (Loss)	(11,000)	807	73,572
Other Revenue (Expense)			
Investment earnings	9,305	339	638
Rents	46,001		
Special assessments	18,551	11,027	24,067
Amortization of deferred charges	(6,050)		
Interest expense	(221,129)		
Total Other Revenue (Expense)	(153,322)	11,366	24,705
Income (Loss) Before Contributions	(164,322)	12,173	98,277
Capital contributions	104,652	10,475	
Net Income (Loss)	(59,670)	22,648	98,277
Net Position, Beginning of Year	6,731,893	231,671	908,558
Net Position, End of Year	$ 6,672,223	$ 254,319	$ 1,006,835

See Notes to Financial Statements

FORM C-2

Total	Internal Service Funds
$ 836,479	$
144,933	
41,160	
91,055	
13,427	69,663
6,162	
129,381	
346,982	50,334
773,100	119,997
63,379	(119,997)
10,282	(32)
46,001	
53,645	
(6,050)	
(221,129)	
(117,251)	(32)
(53,872)	(120,029)
115,127	
61,255	(120,029)
7,872,122	315,335
$ 7,933,377	$ 195,306

FORM C-3

CITY OF LAKE ELMO, MINNESOTA
PROPRIETARY FUNDS
Combining Statement of Cash Flows
For the Year Ended December 31, 2012

	Water	Sewer	Storm Sewer	Total	Internal Service Funds
Cash Flows from Operating Activities					
Cash received from customers	$ 645,578	$ 57,782	$ 207,711	$ 911,071	$
Cash payments to suppliers	(241,762)	(17,934)	(26,314)	(286,010)	(77,444)
Cash payments to employees	(83,980)	(23,248)	(34,220)	(141,448)	
Net Cash Provided By (Used In) Operating Activities	319,836	16,600	147,177	483,613	(77,444)
Cash Flows From Investing Activities					
Interest earnings received	9,305	339	638	10,282	(32)
Cash Flows from Noncapital Financing Activities					
Rents received	46,001			46,001	
(Increase) decrease in due from other funds	(668)		(23,915)	(24,583)	13,676
Increase (decrease) in due to other funds	24,583			24,583	34,072
Net Cash Provided By (Used In) Noncapital Financing Activities	69,916		(23,915)	46,001	47,748
Cash Flows from Capital and Related Financing Activities					
Acquisition of capital assets	(117,712)	(12,514)	(31,831)	(162,057)	(6,236)
Connection fees received	104,652	10,475		115,127	
Special assessments	18,551	11,027	24,067	53,645	
Proceeds from issuance of long-term debt	4,035,000			4,035,000	
(Increase) in unamortized bond charges	(72,934)			(72,934)	
Increase in unamortized bond premiums	53,363			53,363	
Principal paid on long-term debt	(40,000)			(40,000)	
Interest paid on long-term debt	(189,706)			(189,706)	
Net Cash Provided By (Used In) Capital and Related Financing Activities	3,791,214	8,988	(7,764)	3,792,438	(6,236)
Net Increase (Decrease) In Cash and Cash Equivalents	4,190,271	25,927	116,136	4,332,334	(35,964)
Cash and Cash Equivalents, January 1	752,658	27,062	3,317	783,037	79,034
Cash and Cash Equivalents, December 31	$ 4,942,929	$ 52,989	$ 119,453	$ 5,115,371	$ 43,070
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	$ (11,000)	$ 807	$ 73,572	$ 63,379	$ (119,997)
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	323,055	8,739	15,188	346,982	50,334
(Increase) decrease in:					
Accounts receivable	(4,908)	14,099	59,351	68,542	
Special assessments	15,879	(11,027)	1,198	6,050	
Increase (decrease) in:					
Accounts payable	(1,843)	1,914	(2,238)	(2,167)	(7,781)
Accrued salaries payable	133	323	445	901	
Due to other governments	(2,122)		(536)	(2,658)	
Other postemployment benefits payable	2,563	639	961	4,163	
Compensated absences payable	(1,921)	1,106	(764)	(1,579)	
Net Cash Provided By Operating Activities	$ 319,836	$ 16,600	$ 147,177	$ 483,613	$ (77,444)
Noncash Capital and Related Financing Activities					
Amortization of deferred charges	$ 6,050	$	$	$ 6,050	$
Amortization of bond premiums	1,345			1,345	

See Notes to Financial Statements

FORM D-1

CITY OF LAKE ELMO, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2012

	Agency Funds
ASSETS	
Cash and investments	$ 427,455
Accounts receivable	128
TOTAL ASSETS	$ 427,583
LIABILITIES	
Accounts payable	$ 8,000
Deposits payable	419,583
TOTAL LIABILITIES	$ 427,583

See Notes to Financial Statements

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CITY OF LAKE ELMO, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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1. Summary of Significant Accounting Policies

The financial statements of the City of Lake Elmo, Minnesota (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting principles are described below.

A. Reporting Entity

The City operates under Optional Plan A as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability for a component unit. These criteria include appointing a voting majority of the component unit's governing body, and 1) the ability of the primary government to impose its will on that component unit, or 2) the potential for the component unit to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units.

Related Organizations

The Lake Elmo Firemen's Relief Association (Association) is organized as a legally separate entity from the City by its members to provide pension and other benefits to its members in accordance with Minnesota statutes. The membership appoints the board of the Association and separate financial statements are issued by the Association. All funding is conducted in accordance with Minnesota statutes. Although the City levies property taxes for the Association, the Association is fiscally independent to determine and levy taxes. The City's portion of the pension benefit costs related to the Association is included in the general fund. The Association does not have any significant operational or financial relationship with the City.

1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. *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 for support.

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. 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. 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. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

Property taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *debt service fund* accounts is an accumulation of resources (special assessments and property tax revenues) for the payments of principal and interest on long-term general obligation debt of governmental funds.

The *village project fund* accounts for engineering, planning and financing of the village area developments and redevelopments.

The *2012 street improvements fund* is an accumulation of resources and costs associated with the 2012 Street Improvement project.

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water distribution operations.

The *sewer fund* accounts for costs associated with the City's sewer system.

The *storm sewer fund* accounts for costs associated with the City's storm sewer system. These costs are financed by the storm sewer surcharge.

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Additionally, the City reports the following fund types:

Internal service funds are used to account for the replacement of radios, information technology and furniture, fixtures and equipment expenses of the governmental activities. Internal service funds operate in a manner similar to enterprise funds; however, they accumulate funding primarily from other departments within the City on a cost reimbursement basis.

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the City holds for others in an agency capacity.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All other revenues and expenses are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Position or Equity

1. Cash and investments (including cash equivalents)

Cash balances from all funds (including cash equivalents) are pooled and invested to the extent available in various securities as authorized by Minnesota statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance (or due from other funds balance) participation by each fund.

Investments are stated at fair value, based upon quoted market prices at the reporting date. Cash and cash equivalents for purposes of the basic financial statements includes amounts in demand deposits as well as all investments held by the City.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "interfund balances."

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

2. Receivables and payables (continued)

Advances between funds, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property tax levies are set by the City Council in December of each year and are certified to Washington County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1, of the following year, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectible, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of January, July and December.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. The net amount of delinquent taxes receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

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 ten to twenty years with interest charges ranging from 4.5% to 7.0%. 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. The net amount of delinquent assessments receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

3. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $25,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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. Donated capital assets are recorded at estimated fair market value at the date of donation.

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, net of interest earned on the invested debt proceeds over the same period.

Property, plant and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	Useful Life in Years
Buildings and Improvements	10 - 50
Infrastructure	20 - 40
Other Improvements	10 - 25
Machinery and Equipment	5 - 20

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

5. Postemployment benefits other than pensions

Under Minnesota Statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was determined using the alternative measurement method, in accordance with GASB Statement No. 45.

6. 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 statements of net position.

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 premiums and discounts, as well as issuance costs, are deferred 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 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.

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

7. Fund equity

In the government-wide and proprietary financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City Council through formal action (resolution), which is the City's highest level of decision-making authority. Committed amounts remain binding unless removed by the City Council by subsequent formal action.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator or his or her designee.

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

7. Fund equity (continued)

Unassigned – includes positive fund balances within the General Fund which have not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City considers restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned and lastly unassigned amounts when expenditures are made. The City Council has formally adopted a fund balance policy for the General Fund. The City's policy is to maintain a minimum unassigned fund balance in the General Fund equal to 50 percent of budgeted expenditures to ensure funds are available at all times to meet cash flow needs and accommodate emergency contingency concerns.

8. Interfund transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

E. Concentration of Credit Risk

Financial instruments which expose the City to a concentration of credit risk consist primarily of cash investments and accounts and loans receivable. Credit risk related to cash and investments is discussed in Note 3A. The City's accounts and loans receivable are concentrated geographically, and for the most part, amounts are due from individuals residing in and businesses located in the City of Lake Elmo, Minnesota.

F. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General Fund. Formal budgetary integration is employed as a management control device during the year for the General Fund.

The City follows these legal compliance procedures in establishing the budgetary data reflected in the financial statements.

1. Budget requests are submitted by all department heads to the City Administrator and Finance Officer in August of each year. The Administrator's office compiles the budget requests into an overall preliminary City budget, balancing budget requests with available revenue.

2. The preliminary budget is submitted to the City Council in September for its review and/or modification.

3. City administration presents the proposed budget to the City Council which in turn, when required, holds a truth-in-taxation public hearing on the proposed budget. The budget resolution adopted by the City Council sets forth the budget at the department level for the General Fund.

4. All budgeted appropriations lapse at the end of the fiscal year. The legal level of control (the level on which expenditures may not legally exceed appropriations) for each budget is at the department level. Administration cannot legally amend or transfer appropriations between departments without the approval of the City Council once the budget has been approved. Any over expenditures of appropriations or transfers of appropriated amounts must be approved by the City Council.

5. Budgeted amounts are as originally adopted, or as amended by the City Council. The budget cannot be amended without approval by the City Council.

All budget amounts presented in the accompanying supplementary information reflect the original budget and the final budget (which were the same for the year ended December 31, 2012).

The City does not use encumbrance accounting.

2. Stewardship, Compliance, and Accountability

B. Expenditures Exceeding Appropriations

For the year ended December 31, 2012, the General Fund total expenditures were $16,187 more than budget. The following General Fund departments had expenditures exceeding the latest amended budget:

	2012 Budgeted Expenditures	2012 Actual Expenditures	Amount Exceeding Budgeted Amount
General government	$ 978,593	$ 1,034,712	$ 56,119
Public safety	1,081,541	1,109,937	28,396

The above listed overexpenditures were approved by the City Council.

C. Fund Balance Deficits

As of December 31, 2012, the following funds had deficit fund balances:

Fund	Amount
Major:	
Village Project	$ 1,258,108
2012 Street Improvements	106,376
Nonmajor:	
Development	200
Fall Festival	59
Library	72,678
Infrastructure Reserve	90,144
Manning Avenue/Highway 36	6,319
South of 10th Street	137,031

The fund balance deficits will be eliminated by future revenue and financing sources.

3. Detailed Notes on All Funds

A. Deposits and Investments

In accordance with applicable Minnesota statutes, the City maintains deposits at depository banks authorized by the City Council. All such depositories are members of the Federal Reserve System.

Minnesota statutes require that all deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds. Authorized collateral includes certain state or local government obligations and legal investments described in the investment policy section. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than the institution furnishing the collateral.

The City's deposits were entirely covered by federal depository insurance or collateral at December 31, 2012.

Investment Policy

The City does not maintain a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates or that would limit its investment choices as a means of managing its exposure to credit risk.

The City is authorized by Minnesota Statutes to invest idle funds as follows:

(a) Direct obligations or obligations guaranteed by the United States or its agencies.
(b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
(c) General obligations of the State of Minnesota or its municipalities.
(d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
(e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
(f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
(g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
(h) Guaranteed investment contracts (gic's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies and with a credit quality in one of the top two highest categories.

3. Detailed Notes on All Funds (Continued)

A. Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operation.

The following is a summary of the City of Lake Elmo, Minnesota's cash and investment portfolio including the range of maturities and investment ratings by type of investment:

Investment	Range of Maturities	Rating	Value
Cash	N/A	N/A	$ 2,585,134
Certificates of Deposit	6/14	N/A	800,642
Municipal Bonds	12/22	AAA	2,442,489
U.S. Government Agencies	3/22	AAA	7,102,198
Total cash and investments			$ 12,930,463

N/A Not applicable or not available

A reconciliation of cash and temporary investments as shown on the Statement of Net Position for the City follows:

Carrying amount of deposits	$ 2,585,134
Investments	10,345,329
Total	$ 12,930,463
Government-wide	
Cash and investments	$ 5,630,188
Cash with fiscal agent	6,872,820
Fiduciary	
Cash and investments	427,455
Total	$ 12,930,463

3. Detailed Notes on All Funds (Continued)

A. 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. The City's investments are rated by various credit rating agencies, where applicable, to indicate the associated credit risk. Investment ratings by investment type (as applicable) are included in the preceding summary of investments.

Concentration of Credit Risk

Investments in any one issuer that represented 5% or more of total investments as of December 31, 2012 were as follows:

Issuer	Investment Type	Value
Lake Elmo Bank	Money Market Savings	$ 1,717,817
Morgan Stanley	Money Market Account	701,960
U.S. Treasury	U.S. Government Agencies	6,873,448

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. At December 31, 2012, all investments were insured or registered or the securities were held by the City or its agent in the City's name.

B. Accounts Receivable

Accounts receivable as of December 31, 2012 ($487,606) are expected to be collected in full. Based upon management's assessment of the creditworthiness of the customers comprising the receivable balance, no allowance for uncollectible accounts is necessary.

C. Due from Other Governmental Units

Amounts due from other governmental units as of December 31, 2012 were as follows:

Fund Type	Washington County	Minnesota Department of Transportation
General Fund	$ 41,202	$
Debt Service		275,000

3. Detailed Notes on All Funds (Continued)

D. Capital Assets

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 3,453,979	$	$	$ 3,453,979
Construction in progress	1,397,963	1,118,268	225,917	2,290,314
Total capital assets, not being depreciated	4,851,942	1,118,268	225,917	5,744,293
Capital assets, being depreciated:				
Buildings	3,393,346	241,137		3,634,483
Improvements other than buildings	1,199,541			1,199,541
Machinery and equipment	2,664,939	34,555	25,607	2,673,887
Infrastructure	5,874,402	225,917		6,100,319
Total capital assets, being depreciated	13,132,228	501,609	25,607	13,608,230
Less accumulated depreciation for:				
Building	628,637	80,492		709,129
Improvements other than buildings	641,209	64,803		706,012
Machinery and equipment	1,726,011	187,799	25,607	1,888,203
Infrastructure	1,064,497	328,485		1,392,982
Total accumulated depreciation	4,060,354	661,579	25,607	4,696,326
Total capital assets, being depreciated, net	9,071,874	(159,970)		8,911,904
Governmental activities capital assets, net	$ 13,923,816	$ 958,298	$ 225,917	$ 14,656,197

3. Detailed Notes on All Funds (Continued)

D. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 36,573	$ 18,102	$	$ 54,675
Construction in progress	425,783	143,955		569,738
Total capital assets, not being depreciated	462,356	162,057		624,413
Capital assets, being depreciated:				
Machinery and equipment	282,860			282,860
Infrastructure	12,688,029			12,688,029
Total capital assets, being depreciated	12,970,889			12,970,889
Less accumulated depreciation for:				
Machinery and equipment	136,294	19,133		155,427
Infrastructure	2,241,277	327,849		2,569,126
Total accumulated depreciation	2,377,571	346,982		2,724,553
Total capital assets, being depreciated, net	10,593,318	(346,982)		10,246,336
Business-type activities capital assets, net	$ 11,055,674	$ (203,027)	$	$ 10,870,749

Depreciation expense for the year ended December 31, 2012 was charged to functions/programs as follows:

Governmental Activities	
General government	$ 28,449
Public safety	106,398
Public works	457,486
Culture and recreation	69,246
Total	$ 661,579
Business-Type Activities	
Water	$ 323,055
Sewer	8,739
Storm sewer	15,188
Total	$ 346,982

3. Detailed Notes on All Funds (Continued)

E. Long-Term Debt

The City issues general obligation bonds to provide funds for economic development and for the acquisition and construction of major capital assets including infrastructure. General obligation bonds have been issued for both governmental and business-type activities. Bonds issued to provide funds for business-type activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation improvement bonds are expected to be repaid, in part, from assessments to the benefited properties.

A summary of long-term debt outstanding at December 31, 2012 is as follows:

	Issue Date	Range of Interest Rates	Final Maturity	Balance 12/31/12
General obligation bonds:				
2004A CIP Bonds	11/1/2004	3.45%	2013	$ 3,030,000
2009A Refunding Bonds	5/1/2009	3.00% - 3.85%	2017	275,000
2009B Improvement Bonds	10/1/2009	2.00% - 3.05%	2020	490,000
2010A Improvement Bonds	11/15/2010	0.75% - 2.80%	2021	645,000
2010B CIP Crossover Refunding Bonds	11/15/2010	1.00% - 3.20%	2025	1,970,000
2011A Improvement Bonds	10/1/2011	0.50% - 2.30%	2022	845,000
2012B Improvement Bonds	8/16/2012	0.50% - 1.90%	2023	865,000
General obligation certificates:				
2006A Equipment Certificates	3/8/2006	4.00%	2015	150,000
General obligation revenue bonds:				
2005A Water Revenue Bonds	8/10/2005	3.50% - 4.375%	2030	4,200,000
2009A Refunding Bonds	5/1/2009	3.00% - 3.85%	2021	400,000
2012A Refunding Bonds	8/13/2012	2.00 - 2.50%	2030	4,035,000
Other Liabilities:				
Compensated Absences				69,278
Post Employment Benefit Obligation				78,503
Unamortized premium				73,119
Total Long-Term Debt				$ 17,125,900

Liquidation of the compensated absences liability occurs within the department and fund for which the corresponding employees are assigned.

3. Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Accrued Interest
GOVERNMENTAL ACTIVITIES						
Bonds and Notes Payable:						
General obligation bonds:						
2004 CIP Bonds	$ 3,205,000	$	$ 175,000	$ 3,030,000	$ 3,030,000	$ 51,455
2009A Refunding Bonds	340,000		65,000	275,000	65,000	1,857
2009B Improvement Bonds	545,000		55,000	490,000	60,000	5,666
2010A Improvement Bonds	710,000		65,000	645,000	70,000	5,226
2010B CIP Crossover Refunding Bonds	1,970,000			1,970,000		19,420
2011A Improvement Bonds	845,000			845,000	75,000	5,251
2012B Improvement Bonds		865,000		865,000		4,245
General obligation certificates:						
2006A Equipment Certificates	196,000		46,000	150,000	48,000	500
Other Liabilities:						
Compensated Absences	41,731	65,182	46,238	60,675	26,241	
Post Employment Benefit Obligation	43,561	22,944		66,505		
Unamortized premium	15,137		1,144	13,993		
Governmental Activities						
Long-Term Liabilities	7,911,429	953,126	453,382	8,411,173	3,374,241	93,620
BUSINESS-TYPE ACTIVITIES						
Bonds and Notes Payable:						
General obligation revenue bonds:						
2005A Water Revenue Bonds	4,200,000			4,200,000	125,000	14,585
2009A Refunding Bonds	440,000		40,000	400,000	40,000	
2012A Refunding Bonds		4,035,000		4,035,000		33,991
Other Liabilities:						
Compensated Absences	10,182	3,991	5,570	8,603	3,381	
Post Employment Benefit Obligation	7,835	4,163		11,998		
Unamortized premium	7,108	53,363	1,345	59,126		
Business-Type Activities						
Long-Term Liabilities	4,665,125	4,096,517	46,915	8,714,727	168,381	48,576
Total	$ 12,576,554	$ 5,049,643	$ 500,297	$ 17,125,900	$ 3,542,622	$ 142,196

3. Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

In August 2012, the City issued $4,035,000 in general obligation water revenue crossover refunding bonds with interest rates ranging from 2.00% to 2.50%. Proceeds from this bond issuance will be used to refund the remaining principal of the 2005A water revenue bonds in 2015. This refunding will result in a $455,000 reduction to total debt service payments over the next eighteen years. This will result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $366,000.

Debt service requirements to maturity for long-term debt, excluding compensated absences and post employment benefit obligation, as of December 31, 2012 were as follows:

	General Obligation Improvement Bonds		Equipment Certificates		General Obligation Revenue Bonds	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 3,300,000	$ 164,256	$ 48,000	$ 6,000	$ 165,000	$ 303,431
2014	490,000	97,394	50,000	4,080	190,000	269,174
2015	510,000	90,371	52,000	2,080	3,965,000	262,574
2016	520,000	81,968			235,000	95,924
2017	455,000	72,772			235,000	90,824
2018-2022	2,195,000	220,251			1,315,000	367,896
2023-2027	650,000	27,406			1,530,000	219,438
2028-2030					1,000,000	48,776
Totals	$ 8,120,000	$ 754,418	$ 150,000	$ 12,160	$ 8,635,000	$ 1,658,037

3. Detailed Notes on All Funds (Continued)

F. Interfund Receivables and Payables

The following schedule reports the interfund receivables and payables within the City's funds as of December 31, 2012:

	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General Fund	$ 604,124	$
Village Project		252,710
2012 Street Improvements		100,744
Subtotal	604,124	353,454
Non-Major Governmental Funds:		
Special Revenue		
Development		200
Fall Festival		59
Library		112,576
Capital Projects		
Infrastructure Reserve		65,691
City Facilities	112,576	
South of 10th Street		136,972
Subtotal	112,576	315,498
Total Governmental Funds	716,700	668,952
Proprietary Funds:		
Water	668	24,583
Storm Sewer	23,915	
Subtotal	24,583	24,583
Internal Service Funds:		
FFE Replacement		47,748
Total All Funds	$ 741,283	$ 741,283

Interfund receivables and payables are the result of expenditures of funds prior to the collection of special assessments, property taxes and other revenues. All interfund balances will be repaid as the revenues are collected by the individual funds.

3. Detailed Notes on All Funds (Continued)

F. Interfund Receivables and Payables (Continued)

The City established an interfund loan from the General Fund to the Village Project fund. At December 31, 2012, the outstanding balance was $1,005,398. The loan carries an interest rate of 4 percent.

G. Fund Equity

In accordance with the requirements of GASB Statement No. 54, below is a schedule of ending fund balances as of December 31, 2012:

	General	Debt Service	Village Project	2012 Street Improvements	Other Governmental Funds	Total Governmental Funds
Nonspendable						
Prepaid items	$ 19,035	$	$	$	$	$ 19,035
Advance to other funds	1,005,398					1,005,398
Total Nonspendable	1,024,433					1,024,433
Restricted						
Debt service		3,500,799				3,500,799
Street improvement					183,229	183,229
City facilities					275,083	275,083
Total Restricted		3,500,799			458,312	3,959,111
Assigned						
Park improvements					924,916	924,916
Vehicle acquisition					319,984	319,984
Total Assigned					1,244,900	1,244,900
Unassigned	2,414,692		(1,258,108)	(106,376)	(306,431)	743,777
Total Fund Balance	$ 3,439,125	$ 3,500,799	$ (1,258,108)	$ (106,376)	$ 1,396,781	$ 6,972,221

4. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota Cities. All Cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to the participating cities if a deficiency occurs. The City purchases commercial insurance for property values in excess of the LMCIT policy limits and all other risks of loss. Settled claims have not exceeded the LMCIT or commercial coverage in any of the past three fiscal year.

Worker's compensation insurance is also purchased through the LMCIT. The worker compensation program is a retrospectively rated contract with premiums or required contributions based primarily on the experience rates of the participating cities. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

B. Commitments and Contingencies

Insurance:
The City has outstanding claims subject to its insurance deductible. Although the outcome of these actions are not presently determinable, in the opinion of management, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

General Litigation:
There were several pending lawsuits in which the City was involved as of December 31, 2012. It is the opinion of management that any potential claim regarding any lawsuits against the City would be covered by the liability insurance of the City and that any potential claim against the City would not affect the financial statements.

4. Other Information (Continued)

C. Other Post Employment Benefits

Plan Description

The City administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan until Medicare age, which covers both active and retired members. There are 12 active participants. Benefit provisions are established by the Council. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

The City has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the City and union representatives on a per contract basis. At the present time, no retiree benefits are provided except the allowance to continue health insurance that is mandated by Minnesota Law. The City does not contribute any of the cost of current-year premiums for eligible retired plan members or their spouses. For fiscal year 2012, the City did not contribute anything to the plan. Plan members receiving benefits contribute 100 percent of their premium costs.

Annual Other Postemployment Benefit Cost and Net Other Postemployment Benefit Obligations

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

4. Other Information (Continued)

C. Other Post Employment Benefits (Continued)

Annual Other Postemployment Benefit Cost and Net Other Postemployment Benefit Obligations (Continued)

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	$ 20,397
Interest on net OPEB obligations	1,041
Adjustment to ARC	5,669
Annual OPEB cost	27,107
Contributions during the year	
Increase in net OPEB obligation	27,107
Net OPEB, beginning of year	51,396
Net OPEB, ending of year	$ 78,503

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ended December 31, 2012, 2011 and 2010 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
12/31/2010	$ 17,131	0%	$ 34,060
12/31/2011	17,336	0%	51,396
12/31/2012	27,107	0%	78,503

4. Other Information (Continued)

C. Other Post Employment Benefits (Continued)

Funded Status and Funding Progress

As of January 1, 2012, the actuarial accrued liability for benefits was $101,981, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $932,540, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 10.9 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 63, or at the first subsequent year in which the member would qualify for benefits. In addition, spouses of retired employees were assumed to continue on the plan for the lesser of eighteen months after the retired employee reaches Medicare age or until the spouse reaches Medicare age.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

4. Other Information (Continued)

C. Other Post Employment Benefits (Continued)

Methods and Assumptions (Continued)

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2004 United States Life Tables for Males and Females was used.

Turnover - Non-group-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumptions for purposes of allocation to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 2.0 percent initially, rising to an ultimate rate of 6.0 percent after six years, was used.

Health insurance premiums - 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 4.00 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Payroll growth rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected return of the City's short-term investment portfolio, a discount rate of 5.0 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012 was thirty years.

4. Other Information (Continued)

D. Pension Plans

The following disclosures are made in accordance with GASB Statement No. 50:

1. Public Employees Retirement Association (PERA) - Defined Benefit

A. Plan Description

All full-time and certain part-time employees of the City of Lake Elmo, Minnesota are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan was established and is administered in accordance with *Minnesota Statutes,* Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

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

4. Other Information (Continued)

D. Pension Plans (Continued)

1. Public Employees Retirement Association (PERA) - Defined Benefit (Continued)

A. Plan Description (continued)

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 reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

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

4. Other Information (Continued)

D. Pension Plans (Continued)

1. Public Employees Retirement Association (PERA) - Defined Benefit (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Township makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. The City of Lake Elmo, Minnesota is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were $64,694, $56,576 and $52,277, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

2. Lake Elmo Volunteer Firefighter's Relief Association

A. Plan Description

Volunteer fire fighters of the City of Lake Elmo, Minnesota are members of the Lake Elmo Volunteer Firefighter's Relief Association (the Association). The Association is administrator of a single-employer defined benefit pension plan available to firefighters that operates under the provisions of Minnesota Laws 1951, Chapter 550, as amended and Minnesota State Statutes Section 317, as amended. It is governed by a Board of seven officers and trustees elected by the members of the Association for two-year terms. The Chief of the Lake Elmo Fire Department, the Mayor and Clerk of the City of Lake Elmo, Minnesota are ex officio, non-voting members of the Board of Trustees.

The Lake Elmo Volunteer Firefighter's Relief Association issues a publicly available financial report that includes financial statements for the Organization. That report may be obtained by contacting the Fire Department at the City of Lake Elmo, Minnesota.

For financial reporting purposes, the Association's financial statements are not included in the City of Lake Elmo, Minnesota's financial statements because the Association is not a component unit of the City.

4. Other Information (Continued)

D. Pension Plans (Continued)

2. Lake Elmo Volunteer Firefighter's Relief Association (Continued)

A. Plan Description (Continued)

The Association maintains a separate special fund to accumulate assets to fund the retirement benefits earned by the Association's membership. Funds available for retirement benefits are supplemented by investment income.

B. Pension Benefits

Benefits are payable in a lump sum, based upon years of service, to eligible members of the Association. At December 31, 2012, the pension benefit level was at $3,100 per year of service.

C. Funding Policy

Minnesota Statutes specify minimum contributions that may be required from the City on an annual basis. These statutes are established and amended by the state legislature. The Association is comprised of volunteers; therefore, members have no contribution requirements. No contribution to the plan was required to be made by the City for the year ended December 31, 2012. The Association also receives funding from the State of Minnesota two-percent fire premium tax. The City receives the contributions and is required by state statute to pass this through as payment to the Association. This contribution amounted to $39,324 (including the 10% supplemental reimbursement) for the year ended December 31, 2012.

4. Other Information (Continued)

D. Pension Plans (Continued)

2. Lake Elmo Volunteer Firefighter's Relief Association (Continued)

D. Annual Pension Cost and Net Pension Obligation as of and for the year ended December 31, 2012:

Annual pension cost - total	$ 39,324
Contributions made:	
City	
State Aid - pass-through	39,324
Actuarial valuation date	12/31/12
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period:	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

4. Other Information (Continued)

D. Pension Plans (Continued)

2. Lake Elmo Volunteer Firefighter's Relief Association (Continued)

D. Annual Pension Cost and Net Pension Obligation (Continued)

The City's net pension obligation for the Association for the years ended December 31, 2011, 2010 and 2009 (most current information available) are as follows:

Disclosure	2012	2011	2010
Annual Pension Cost (APC)	$ 39,324	$ 47,867	$ 55,081
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	N/A	N/A	N/A

Membership of the Association at December 31, 2011 (most current information available) was comprised of the following:

Terminated members entitled to benefits but have not received them	6
Current Members:	
Vested (Fully or Partially)	8
Non-Vested	15
Total Plan Members	29

E. Schedule of Funding Progress (most current information available shown)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilitiy	Assets in Excess of (Unfunded) Accrued Liability	Funded Ratio	Pension Benefit Per Year of Service
12/31/2012	$ 919,992	$ 717,847	$ 202,145	128.2%	$ 3,100
12/31/2011	887,064	752,729	134,335	117.8%	3,100
12/31/2010	863,494	715,984	147,510	120.6%	3,100

F. Related Party Investments

As of December 31, 2012, and for the year then ended, the Association held no securities issued by the City or other related parties.

4. Other Information (Continued)

E. Deferred Compensation Plans - Statewide

Under Minnesota statute 353.028, subdivision 2, City managers or administrators may elect to be excluded from membership in PERA. They must choose exclusion within six months of the day they begin employment. The law also provides for refunds of contributions made before the election. If they elect exclusion, they and their cities may agree that the cities will defer and contribute additional compensation on behalf of the employees to a deferred compensation program. The program must meet federal income tax laws. The City contribution cannot exceed the amount it would have made under the PERA contribution.

Prior to 2012, the City Administrator was covered by deferred compensation plan 457(b) administered by ICMA-RC. The City contributed $6,230 and $6,759 for the years ended December 31, 2011 and 2010, respectively.

In general, any amount of compensated deferred and any income attributable to the amounts so deferred shall be includible in gross income only for the taxable year in which such compensation or other income is paid to the participant or other beneficiary.

Under federal requirements, a plan meets distribution requirements if under the plan amounts will not be made available to participants or beneficiaries earlier than (1) the calendar year in which the participant attains age 70 1/2, (2) when the participant has a severance from employment with the employer, or (3) when the participant is faced with an unforeseeable emergency (determined in the manner prescribed by the Secretary in regulations).

ICMA-RC issues a publicly available financial report that includes financial statements and required supplementary information for the 457(b) plan. That report may be obtained by writing to ICMA-RC Headquarters, 777 North Capitol Street, NE Washington, DC 20002 or by calling 202-962-4600.

5. New Accounting Pronouncements

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, implemented this year, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City has determined they have no deferred outflows or inflows as defined by this standard.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City.

GASB 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the City beginning with its year ending December 31, 2013. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows of resources, deferred inflows of resources, or current-period outflows and inflows.

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CITY OF LAKE ELMO, MINNESOTA

REQUIRED SUPPLEMENTAL INFORMATION

December 31, 2012

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FORM E-1

CITY OF LAKE ELMO, MINNESOTA
SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS
For the Year Ended December 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilitiy	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2012	$	$ 101,981	$ 101,981	0%	$ 932,540	10.94%

Actuarial valuations are provided every two or three years unless events occur (e.g. plan changes, layoffs, etc.) that would materially impact results. See Note 4C in the Notes to Financial Statements for more details on this schedule.

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CITY OF LAKE ELMO, MINNESOTA

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

December 31, 2012

FORM F-1

CITY OF LAKE ELMO, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012

	Special Revenue	Capital Projects	Total
ASSETS			
Cash and investments	$ 43,143	$ 1,660,296	$ 1,703,439
Receivables (Net of allowance for uncollectibles)			
Special assessments		59,144	59,144
Due from other funds		112,576	112,576
TOTAL ASSETS	$ 43,143	$ 1,832,016	$ 1,875,159
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	$ 3,245	$ 25,491	$ 28,736
Escrow deposits payable		75,000	75,000
Due to other funds	112,835	202,663	315,498
Deferred revenue		59,144	59,144
Total liabilities	116,080	362,298	478,378
FUND BALANCE (DEFICIT)			
Restricted		458,312	458,312
Assigned		1,244,900	1,244,900
Unassigned	(72,937)	(233,494)	(306,431)
Total Fund Balance (Deficit)	(72,937)	1,469,718	1,396,781
TOTAL LIABILITIES AND FUND BALANCE	$ 43,143	$ 1,832,016	$ 1,875,159

FORM F-2

CITY OF LAKE ELMO, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Special Revenue	Capital Projects	Total
REVENUES			
Taxes	$ 260,078	$	$ 260,078
Special assessments		38,598	38,598
Investment earnings		12,889	12,889
Miscellaneous revenue	18,112		18,112
TOTAL REVENUES	278,190	51,487	329,677
EXPENDITURES			
Current			
Culture and recreation	109,421		109,421
Capital Outlay			
Public safety		35,661	35,661
Public works	200	193,129	193,329
Culture and recreation	241,137	34,120	275,257
TOTAL EXPENDITURES	350,758	262,910	613,668
Net change in fund balances	(72,568)	(211,423)	(283,991)
FUND BALANCES (DEFICIT), Beginning	(369)	1,681,141	1,680,772
FUND BALANCES (DEFICIT), Ending	$ (72,937)	$ 1,469,718	$ 1,396,781

FORM G-1

CITY OF LAKE ELMO, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
December 31, 2012

	Development	Fall Festival	Library	Total
ASSETS				
Cash and investments	$	$	$ 43,143	$ 43,143
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	$	$	$ 3,245	$ 3,245
Due to other funds	200	59	112,576	112,835
Total liabilities	200	59	115,821	116,080
FUND BALANCE (DEFICIT)				
Unassigned	(200)	(59)	(72,678)	(72,937)
Total Fund Balance (Deficit)	(200)	(59)	(72,678)	(72,937)
TOTAL LIABILITIES AND FUND BALANCE	$	$	$ 43,143	$ 43,143

FORM G-2

CITY OF LAKE ELMO, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended December 31, 2012

	Development	Fall Festival	Library	Total
REVENUES				
Taxes	$	$	$ 260,078	$ 260,078
Miscellaneous revenue		8,701	9,411	18,112
TOTAL REVENUES		8,701	269,489	278,190
EXPENDITURES				
Current				
Culture and recreation		15,874	93,547	109,421
Capital Outlay				
Public works	200			200
Culture and recreation			241,137	241,137
TOTAL EXPENDITURES	200	15,874	334,684	350,758
Net change in fund balances	(200)	(7,173)	(65,195)	(72,568)
FUND BALANCES (DEFICIT), Beginning		7,114	(7,483)	(369)
FUND BALANCES (DEFICIT), Ending	$ (200)	$ (59)	$ (72,678)	$ (72,937)

CITY OF LAKE ELMO, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
December 31, 2012

	Park Dedication	Infrastructure Reserve	Vehicle Acquisition
ASSETS			
Cash and investments	$ 925,895	$	$ 319,984
Receivables (Net of allowance for uncollectibles)			
Special assessments		59,144	
Due from other funds			
TOTAL ASSETS	$ 925,895	$ 59,144	$ 319,984
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	$ 979	$ 24,453	$
Escrow deposits payable			
Due to other funds		65,691	
Deferred revenue		59,144	
Total liabilities	979	149,288	
FUND BALANCE (DEFICIT)			
Restricted			
Assigned	924,916		319,984
Unassigned		(90,144)	
Total Fund Balance (Deficit)	924,916	(90,144)	319,984
TOTAL LIABILITIES AND FUND BALANCE	$ 925,895	$ 59,144	$ 319,984

City Facilities	Manning Avenue/Hwy 36	2011 Street Improvements	South of 10th Street	Total
$ 162,507	$ 68,681	$ 183,229	$	$ 1,660,296
				59,144
112,576				112,576
$ 275,083	$ 68,681	$ 183,229	$	$ 1,832,016
$	$	$	$ 59	$ 25,491
	75,000			75,000
			136,972	202,663
				59,144
	75,000		137,031	362,298
275,083		183,229		458,312
				1,244,900
	(6,319)		(137,031)	(233,494)
275,083	(6,319)	183,229	(137,031)	1,469,718
$ 275,083	$ 68,681	$ 183,229	$	$ 1,832,016

CITY OF LAKE ELMO, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
For the Year Ended December 31, 2012

	Park Dedication	Infrastructure Reserve	Vehicle Acquisition
REVENUES			
Special assessments	$	$ 38,598	$
Investment earnings	6,395	(604)	2,212
TOTAL REVENUES	6,395	37,994	2,212
EXPENDITURES			
Capital Outlay			
Public safety			35,661
Public works		177,397	
Culture and recreation	34,120		
TOTAL EXPENDITURES	34,120	177,397	35,661
Net change in fund balances	(27,725)	(139,403)	(33,449)
FUND BALANCES (DEFICIT), Beginning	952,641	49,259	353,433
FUND BALANCES (DEFICIT), Ending	$ 924,916	$ (90,144)	$ 319,984

City Facilities	Manning Avenue/Hwy 36	2011 Street Improvements	South of 10th Street	Total
$	$	$	$	$ 38,598
3,998	475	1,360	(947)	12,889
3,998	475	1,360	(947)	51,487
				35,661
		3,077	12,655	193,129
				34,120
		3,077	12,655	262,910
3,998	475	(1,717)	(13,602)	(211,423)
271,085	(6,794)	184,946	(123,429)	1,681,141
$ 275,083	$ (6,319)	$ 183,229	$ (137,031)	$ 1,469,718

FORM I-1

CITY OF LAKE ELMO, MINNESOTA
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
December 31, 2012

	Radio Replacement	IT Replacement	FFE Replacement	Total
ASSETS				
Current Assets				
Cash and investments	$ 26,834	$ 16,236	$	$ 43,070
Noncurrent Assets				
Property and Equipment				
Machinery and equipment	99,851	135,431	363,153	598,435
Less: Accumulated depreciation	45,072	97,890	255,489	398,451
Net Property and Equipment	54,779	37,541	107,664	199,984
TOTAL ASSETS	$ 81,613	$ 53,777	$ 107,664	$ 243,054
LIABILITIES AND NET POSITION				
Current Liabilities				
Due to other funds	$	$	$ 47,748	$ 47,748
Net Position				
Net investment in capital assets	54,779	37,541	107,664	199,984
Unrestricted	26,834	16,236	(47,748)	(4,678)
Total Net Position	81,613	53,777	59,916	195,306
TOTAL LIABILITIES AND NET POSITION	$ 81,613	$ 53,777	$ 107,664	$ 243,054

FORM I-2

CITY OF LAKE ELMO, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
For the Year Ended December 31, 2012

	Radio Replacement	IT Replacement	FFE Replacement	Total
Operating Expenses				
Repairs and maintenance	$	$ 1,314	$ 68,349	$ 69,663
Depreciation	8,321	12,435	29,578	50,334
Total Operating Expenses	8,321	13,749	97,927	119,997
Other Revenue (Expense)				
Investment earnings	186	112	(330)	(32)
Net (Loss)	(8,135)	(13,637)	(98,257)	(120,029)
Net Position, Beginning of Year	89,748	67,414	158,173	315,335
Net Position, End of Year	$ 81,613	$ 53,777	$ 59,916	$ 195,306

FORM I-3

CITY OF LAKE ELMO, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended December 31, 2012

	Radio Replacement	IT Replacement	FFE Replacement	Total
Cash Flows from Operating Activities				
Cash payments to suppliers	$	$ (1,314)	$ (76,130)	$ (77,444)
Cash Flows From Investing Activities				
Interest earnings received	186	112	(330)	(32)
Cash Flows from Noncapital Financing Activities				
Decrease in due from other funds	13,676			13,676
Increase in due to other funds			34,072	34,072
Net Cash Provided By Noncapital Financing Activities	13,676		34,072	47,748
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	-	(6,236)		(6,236)
Net Increase (Decrease) in Cash and Cash Equivalents	13,862	(7,438)	(42,388)	(35,964)
Cash and Cash Equivalents, Beginning of Year	12,972	23,674	42,388	79,034
Cash and Cash Equivalents, End of Year	$ 26,834	$ 16,236	$	$ 43,070
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	$ (8,321)	$ (13,749)	$ (97,927)	$ (119,997)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	8,321	12,435	29,578	50,334
Increase (decrease) in:				
Accounts payable			(7,781)	(7,781)
Net Cash Provided By (Used In) Operating Activities	$	$ (1,314)	$ (76,130)	$ (77,444)

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FORM J-1

CITY OF LAKE ELMO, MINNESOTA
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2012

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	$ 2,451,903	$ 2,451,903	$ 2,507,990	$ 56,087
Franchise	38,500	38,500	41,996	3,496
Total Taxes	2,490,403	2,490,403	2,549,986	59,583
Licenses and Permits				
Business	10,250	10,250	12,935	2,685
Nonbusiness	170,850	170,850	317,884	147,034
Total Licenses and Permits	181,100	181,100	330,819	149,719
Intergovernmental				
MSA - maintenance	75,000	75,000	87,578	12,578
Fire state aid	40,000	40,000	38,823	(1,177)
Other	2,749	2,749		(2,749)
County and local	15,500	15,500	35,628	20,128
Total Intergovernmental	133,249	133,249	162,029	28,780
Charges for Services	8,850	8,850	5,726	(3,124)
Fines and forfeits	53,000	53,000	58,385	5,385
Investment earnings	20,000	20,000	90,983	70,983
Miscellaneous Revenue	14,384	14,384	69,450	55,066
TOTAL REVENUES	$ 2,900,986	$ 2,900,986	$ 3,267,378	$ 366,392

FORM J-1

CITY OF LAKE ELMO, MINNESOTA
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended December 31, 2012

	Budgeted Amounts		2012 Actual	Variance with Final Budget- Positive
	Original	Final	Amounts	(Negative)
EXPENDITURES				
General Government				
Mayor and Council				
Personnel services	$ 17,692	$ 17,692	$ 17,728	$ (36)
Other services and charges	17,700	17,700	8,981	8,719
Total Mayor and Council	35,392	35,392	26,709	8,683
Election				
Other services and charges	11,950	11,950	14,124	(2,174)
Administration				
Personnel services	333,327	333,327	352,085	(18,758)
Supplies	8,000	8,000	11,953	(3,953)
Other services and charges	79,411	79,411	87,055	(7,644)
Total Administration	420,738	420,738	451,093	(30,355)
Communications				
Personnel services	13,276	13,276	13,334	(58)
Other services and charges	44,400	44,400	39,676	4,724
Total Communications	57,676	57,676	53,010	4,666
Building				
Supplies	1,400	1,400	570	830
Other services and charges	38,400	38,400	34,537	3,863
Total Building	39,800	39,800	35,107	4,693
Professional Services				
Assessor	46,000	46,000	44,978	1,022
Accounting and auditing	60,000	60,000	91,048	(31,048)
Legal	65,000	65,000	71,250	(6,250)
Engineering	70,000	70,000	69,864	136
Total Professional Services	$ 241,000	$ 241,000	$ 277,140	$ (36,140)

FORM J-1

CITY OF LAKE ELMO, MINNESOTA
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended December 31, 2012

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
EXPENDITURES				
General Government				
Planning and Zoning				
Personnel services	$ 142,937	$ 142,937	$ 120,715	$ 22,222
Supplies	750	750	1,202	(452)
Other services and charges	28,350	28,350	55,612	(27,262)
Total Planning and Zoning	172,037	172,037	177,529	(5,492)
Total General Government	978,593	978,593	1,034,712	(56,119)
Public Safety				
Police				
Contracted services	493,000	493,000	492,995	5
Fire Protection				
Personnel services	226,950	226,950	225,006	1,944
2% fire aid	40,000	40,000	37,324	2,676
Supplies	25,500	25,500	36,890	(11,390)
Other services and charges	135,850	135,850	111,756	24,094
Total Fire Protection	428,300	428,300	410,976	17,324
Building Inspector				
Personnel services	80,651	80,651	91,249	(10,598)
Supplies	500	500	1,738	(1,238)
Other services and charges	14,390	14,390	47,940	(33,550)
Total Building Inspector	95,541	95,541	140,927	(45,386)
Animal Control				
Supplies	100	100		100
Other services and charges	7,600	7,600	2,121	5,479
Total Animal Control	7,700	7,700	2,121	5,579
Criminal Legal	51,000	51,000	51,474	(474)
Emergency Communications	6,000	6,000	11,444	(5,444)
Total Public Safety	$ 1,081,541	$ 1,081,541	$ 1,109,937	$ (28,396)

FORM J-1

CITY OF LAKE ELMO, MINNESOTA
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended December 31, 2012

	Budgeted Amounts		2012 Actual	Variance with Final Budget- Positive
	Original	Final	Amounts	(Negative)
EXPENDITURES				
Public Works				
General				
Personnel services	$ 205,924	$ 205,924	$ 191,052	$ 14,872
Supplies	133,100	133,100	91,635	41,465
Other services and charges	114,225	114,225	118,932	(4,707)
Total General	453,249	453,249	401,619	51,630
Trees	5,000	5,000	4,126	874
Street Lighting	24,500	24,500	40,796	(16,296)
Total Public Works	482,749	482,749	446,541	36,208
Culture and Recreation				
Parks				
Personnel services	145,103	145,103	120,905	24,198
Supplies	8,400	8,400	6,218	2,182
Other services and charges	29,600	29,600	23,860	5,740
Total Culture and Recreation	183,103	183,103	150,983	32,120
Total Expenditures	2,725,986	2,725,986	2,742,173	(16,187)
Excess (deficiency) of revenues over (under) expenditures	175,000	175,000	525,205	350,205
OTHER FINANCING SOURCES (USES)				
Transfers out	(175,000)	(175,000)		175,000
NET CHANGE IN FUND BALANCE			525,205	525,205
FUND BALANCE, January 1	2,913,920	2,913,920	2,913,920	
FUND BALANCE, December 31	$ 2,913,920	$ 2,913,920	$ 3,439,125	$ 525,205

CITY OF LAKE ELMO, MINNESOTA
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
December 31, 2012

	2002 GO Improvement Bonds	2004 GO CIP Bonds	2006A GO Equipment Certificates	2009A GO Refunding Bonds
ASSETS				
Cash and investments	$ 161	$ 169,596	$ 20,631	$ 2,367
Cash with fiscal agent		2,855,141		
Receivables (Net of allowance for uncollectibles)				
Special assessments				
Due from other governmental units				275,000
TOTAL ASSETS	$ 161	$ 3,024,737	$ 20,631	$ 277,367
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	$	$	$	$
Deferred revenue				275,000
Total liabilities				275,000
FUND BALANCE				
Restricted	161	3,024,737	20,631	2,367
TOTAL LIABILITIES AND FUND BALANCE	$ 161	$ 3,024,737	$ 20,631	$ 277,367

2009B GO Improvement Bonds	2010A GO Improvement Bonds	2011A GO Improvement Bonds	2012B GO Improvement Bonds	Total
$ 164,205	$ 142,844	$ 153,623	$ 5,731	$ 659,158
				2,855,141
50,376	73,516	63,100		186,992
				275,000
$ 214,581	$ 216,360	$ 216,723	$ 5,731	$ 3,976,291
$	$	$ 13,500	$	$ 13,500
50,376	73,516	63,100		461,992
50,376	73,516	76,600		475,492
164,205	142,844	140,123	5,731	3,500,799
$ 214,581	$ 216,360	$ 216,723	$ 5,731	$ 3,976,291

CITY OF LAKE ELMO, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
For the Year Ended December 31, 2012

	2002 GO Improvement Bonds	2004 GO CIP Bonds	2006A GO Equipment Certificates	2009A GO Refunding Bonds
REVENUES				
Taxes	$	$ 160,000	$ 56,532	$
Intergovernmental				75,225
Special assessments	161			
Investment earnings		3,540	142	2,367
TOTAL REVENUES	161	163,540	56,674	77,592
EXPENDITURES				
Debt Service				
Principal		175,000	46,000	65,000
Interest and other charges		172,987	7,840	10,225
Bond issuance costs				
TOTAL EXPENDITURES		347,987	53,840	75,225
Net change in fund balances	161	(184,447)	2,834	2,367
FUND BALANCES, Beginning		3,209,184	17,797	
FUND BALANCES, Ending	$ 161	$ 3,024,737	$ 20,631	$ 2,367

2009B GO Improvement Bonds	2010A GO Improvement Bonds	2011A GO Improvement Bonds	2012B GO Improvement Bonds	Total
$ 54,639	$ 64,498	$ 76,000	$	$ 411,669
				75,225
11,631	12,982	72,778		97,552
1,127	988	969	5,731	14,864
67,397	78,468	149,747	5,731	599,310
55,000	65,000			406,000
12,913	12,786	10,502		227,253
67,913	77,786	10,502		633,253
(516)	682	139,245	5,731	(33,943)
164,721	142,162	878		3,534,742
$ 164,205	$ 142,844	$ 140,123	$ 5,731	$ 3,500,799

FORM L-1

CITY OF LAKE ELMO, MINNESOTA
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended December 31, 2012

	Balance January 1	Additions	Deletions	Balance December 31
ESCROW				
ASSETS				
Cash and investments	$ 335,383	$ 299,300	$ 207,100	$ 427,583
LIABILITIES				
Accounts payable	$ 5,000	$ 180,100	$ 177,100	$ 8,000
Deposits payable	330,383	316,300	227,100	419,583
TOTAL LIABILITIES	$ 335,383	$ 496,400	$ 404,200	$ 427,583
YELLOW RIBBON				
ASSETS				
Cash and investments	$ (128)	$	$	$ (128)
Accounts receivable	128			128
TOTAL ASSETS	$	$	$	$
TOTAL AGENCY FUNDS				
ASSETS				
Cash and investments	$ 335,255	$ 299,300	$ 207,100	$ 427,455
Accounts receivable	128			128
TOTAL ASSETS	$ 335,383	$ 299,300	$ 207,100	$ 427,583
LIABILITIES				
Accounts payable	$ 5,000	$ 180,100	$ 177,100	$ 8,000
Deposits payable	330,383	316,300	227,100	419,583
TOTAL LIABILITIES	$ 335,383	$ 496,400	$ 404,200	$ 427,583

CITY OF LAKE ELMO, MINNESOTA

OTHER REPORT SECTION

December 31, 2012

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SMITH•SCHAFER
& ASSOCIATES, LTD.
Certified Public Accountants and Consultants

Members of American Institute of CPA's,
Private Companies Practice Section, Minnesota Society of CPA's

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Honorable Mayor and
Members of the City Council
City of Lake Elmo, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lake Elmo, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2013.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Lake Elmo, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions.* However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Lake Elmo, Minnesota's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the City of Lake Elmo, Minnesota and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Schafer and Associates, Ltd.

Maplewood, Minnesota
June 28, 2013

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