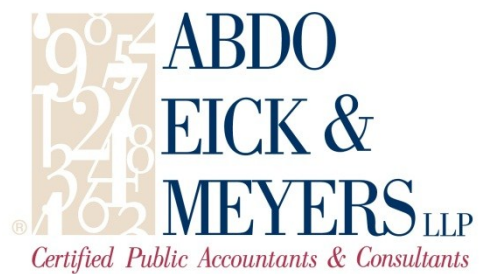




CITY OF CANNON FALLS
CANNON FALLS, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2012



CITY OF CANNON FALLS
CANNON FALLS, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2012

5201 Eden Avenue
Suite 250
Edina, MN 55436

Management, Honorable Mayor and City Council
City of Cannon Falls, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cannon Falls, Minnesota (the City), for the year ended December 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 20, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described below as finding 2012-1, which we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**2012-1 Preparation of financial statements**

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

Recommendation: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements, we recommend that a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.

Management response:

For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of the City's compliance with those requirements. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or statutes set forth by the State of Minnesota.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.



Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The requirements of GASB statements of No. 63 and 65 were adopted for the year ended December 31, 2012. The application of existing policies was not changed during the year. We noted no transaction entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumption about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Depreciation on capital assets is an estimate based on the planned useful lives of the City's capital assets and capital asset basis. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and correct by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 6, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



Financial Position and Results of Operations

Our principal observations and recommendations are summarized on the following pages. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended December 31, 2012.

General Fund

The General fund is used to account for resources traditionally associated with government, which are not required legally or by sound principal management to be accounted for in another fund. The General fund balance increased \$215,585 from 2011 to end the year at \$2,855,251. City Council has committed \$1,000,000 of the total fund balance for future costs related to the Highway 52 interchange project. We recommend the unassigned fund balance be maintained at a level sufficient to fund operations until the major revenue sources are received in June. The City's unassigned fund balance is 56 percent of the 2013 budgeted expenditures. We feel a reserve of approximately 40 to 50 percent of planned expenditures and transfers out is adequate to meet working capital and small emergency needs.

The Office of the State Auditor (the OSA) has issued a *Statement of Position* relating to fund balance stating "a local government should identify fund balance separately between reserved and unreserved fund balance. The local government may assign and report some or all of the fund balance as designated and undesignated." The OSA also recommends local governments adopt a formal policy on the level of unreserved fund balance that should be maintained in the general and special revenue funds. This helps address citizen concerns as to the use of fund balance and tax levels.

The purposes and benefits of a fund balance are as follows:

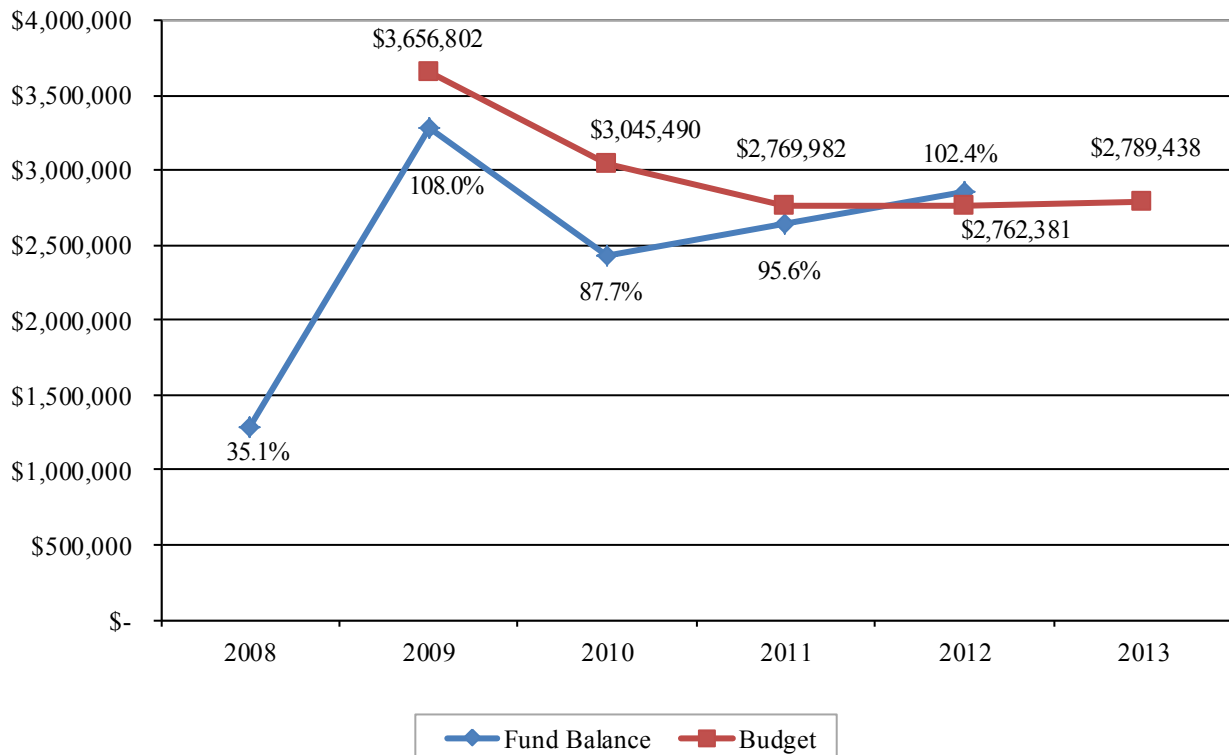
- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the General fund expenditures until these revenue sources are received.
- Expenditures not anticipated at the time the annual budget was adopted may need immediate City Council action. These would include capital outlay replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.
- A strong fund balance will assist the City in obtaining, maintaining or improving its bond rating. The result will be better interest rates in future bond sales.



A table summarizing the General fund balance in relation to budget follows:

Year	Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2008	\$ 1,284,225	2009	\$ 3,656,802	35.1 %
2009	3,287,638	2010	3,045,490	108.0
2010	2,429,575	2011	2,769,982	87.7
2011	2,639,666	2012	2,762,381	95.6
2012	2,855,251	2013	2,789,438	102.4

Fund Balance as a Percent of Next Year's Budget



We have compiled a peer group average derived from information available on the website of the Office of the State Auditor for Cities of the 4th class which have populations of 2,500-10,000. In 2010 and 2011, the average General fund balance as a percentage of expenditures was 67 percent and 69 percent, respectively. Based on comparison to the peer groups, the City's General fund balance is above that average.



A summary of 2012 General fund revenue and expenditures is as follows:

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues	\$ 2,697,381	\$ 2,697,381	\$ 2,823,226	\$ 125,845
Expenditures	<u>2,659,185</u>	<u>2,659,185</u>	<u>2,603,763</u>	<u>55,422</u>
Excess of revenues over expenditures	<u>38,196</u>	<u>38,196</u>	<u>219,463</u>	<u>181,267</u>
Other financing sources (uses)				
Transfer in	45,000	45,000	45,000	-
Sale of capital assets	-	-	54,433	54,433
Transfers out	<u>(103,196)</u>	<u>(103,196)</u>	<u>(103,311)</u>	<u>(115)</u>
Total other financing sources (uses)	<u>(58,196)</u>	<u>(58,196)</u>	<u>(3,878)</u>	<u>54,318</u>
Net change in fund balances	(20,000)	(20,000)	215,585	235,585
Fund balances, January 1	<u>2,639,666</u>	<u>2,639,666</u>	<u>2,639,666</u>	<u>-</u>
Fund balances, December 31	<u>\$ 2,619,666</u>	<u>\$ 2,619,666</u>	<u>\$ 2,855,251</u>	<u>\$ 235,585</u>

The largest revenue variance was from taxes, which was \$32,912 over budget due a higher collection of delinquent taxes. Total expenditures were \$50,389 under budget, this variance can be attributed to general government, which was under budget by \$45,977. The reason for the positive variance in general government can be attributed to all departments being under budget, except for planning and zoning, which was only over budget by \$116. Total public works expenditures were also under budget by \$19,578.

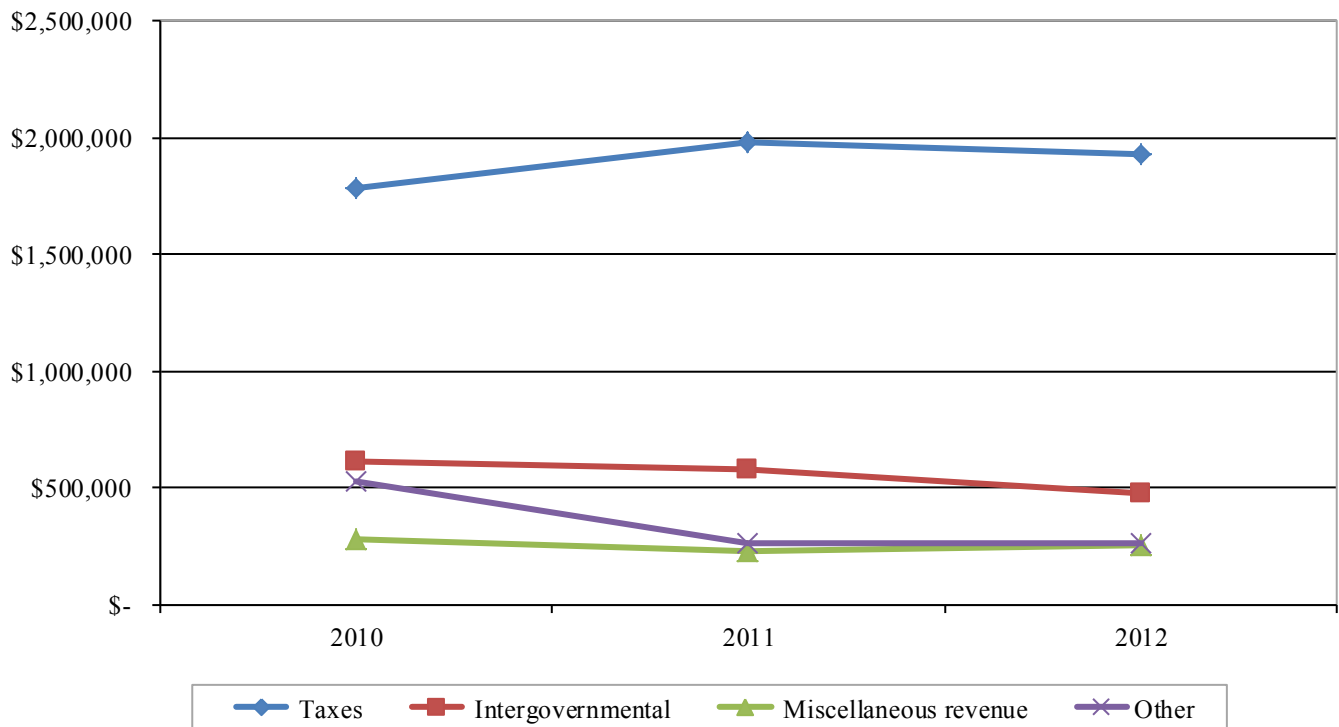


A comparison between 2010, 2011 and 2012 revenues and transfers is presented below:

Source	2010	2011	2012	Percent of Total	Per Capita
Taxes	\$ 1,786,812	\$ 1,984,367	\$ 1,930,515	66.2 %	\$ 475
Licenses and permits	44,344	42,414	71,264	2.4	17
Intergovernmental	609,233	573,815	479,401	16.4	117
Charges for services	123,222	41,653	56,539	1.9	14
Fines and forfeitures	35,603	35,133	29,967	1.0	7
Special assessments	-	333	1,000	-	-
Interest on investments	17,056	10,962	5,247	0.2	1
Miscellaneous revenue	280,898	227,895	249,293	8.5	61
Capital lease issued	51,706	72,630	-	-	-
Sale of capital assets	249,942	-	54,433	1.9	13
Transfers in	57,061	54,450	45,000	1.5	11
Total revenues and transfers	\$ 3,255,877	\$ 3,043,652	\$ 2,922,659	100.0 %	\$ 716

A graphical presentation of 2010, 2011 and 2012 revenues and transfers totals follows:

Revenues





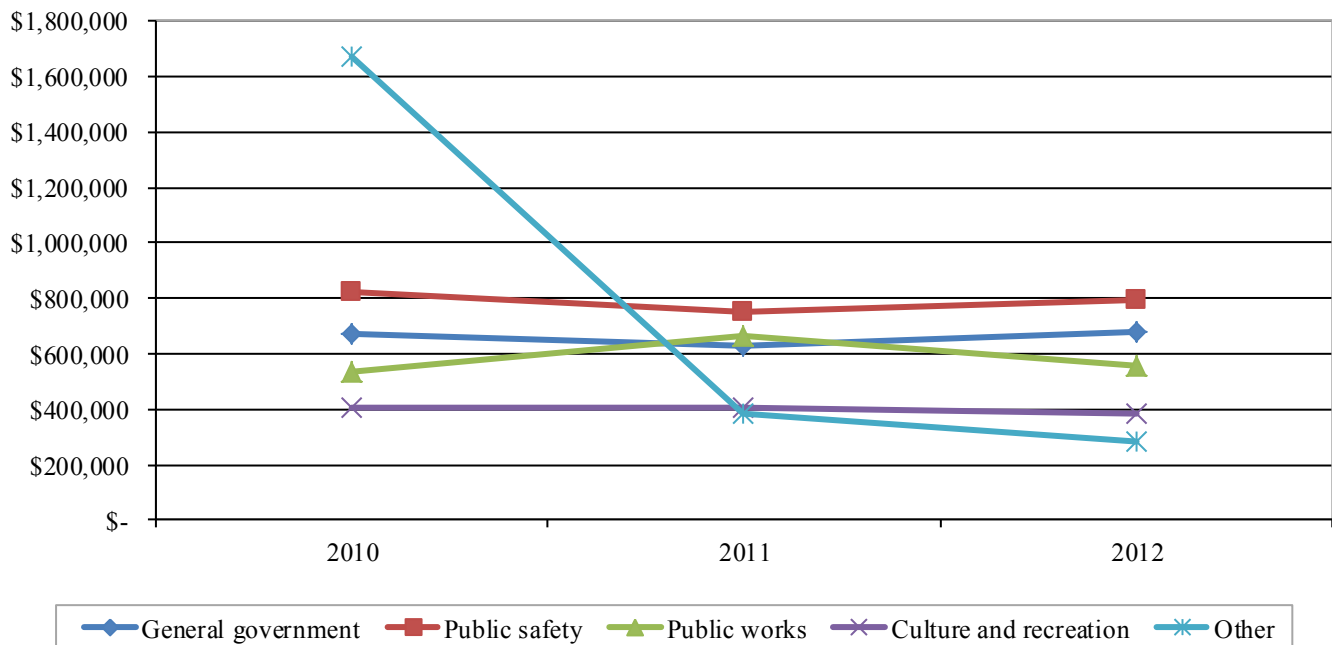
A comparison between 2010, 2011 and 2012 expenditures and transfers is presented below:

Program	2010	2011	2012	Percent of Total	Per Capita	Peer Group Per Capita
Current						
General government	\$ 673,534	\$ 627,558	\$ 681,698	25.2 %	\$ 167	\$ 123
Public safety	821,045	749,795	795,949	29.4	195	204
Public works	537,581	663,418	558,597	20.6	137	108
Culture and recreation	408,183	406,466	384,749	14.2	94	47
Miscellaneous	93,492	74,165	119,208	4.4	29	15
Total current	2,533,835	2,521,402	2,540,201	93.8	622	497
Capital outlay	117,406	110,239	33,552	1.3	8	18
Debt service	36,732	30,013	30,010	1.1	7	-
Transfers out	1,425,967	171,907	103,311	3.8	25	-
Total expenditures and transfers	\$ 4,113,940	\$ 2,833,561	\$ 2,707,074	100.0 %	\$ 662	\$ 515

The above chart compares the amount the City spends per capita, in comparison to a peer group. The peer group average is compiled from information from the 4th Class cities we audit and information from the Minnesota Office of the State Auditor.

A graphical presentation of 2010, 2011 and 2012 expenditure and transfer totals by program follows:

Expenditures



**Special Revenue Funds**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. A summary of the special revenue funds and fund balances is shown below:

Fund	Fund Balances December 31,		Increase (Decrease)
	2012	2011	
Nonmajor			
Library	\$ 71,633	\$ 33,004	\$ 38,629
Cable Public Television	109,711	108,786	925
Fire Department Operations	(4,684)	(32,746)	28,062
Total	<u>\$ 176,660</u>	<u>\$ 109,044</u>	<u>\$ 67,616</u>

The deficit in the Fire Department Operations fund will be eliminated with future revenues and transfers in from other funds.



Debt Service Funds

Debt Service funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt (other than enterprise fund debt).

Debt Service funds may have one or a combination of the following revenue sources pledged to retire debt as follows:

- Property taxes - Primarily for general City benefit projects such as parks and municipal buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.
- Tax increments - Pledged exclusively for tax increment/economic development districts.
- Capitalized interest portion of bond proceeds - After the sale of bonds, the project may not produce revenue (tax increments or special assessments) for a period of one to two years. Bonds are issued with this timing difference considered in the form of capitalized interest.
- Special assessments - Charges to benefited properties for various improvements.

In addition to the above pledged assets, other funding sources may be received by Debt Service funds as follows:

- Residual project proceeds from the related capital projects fund
- Investment earnings
- State or Federal grants
- Transfers from other funds

A comparison of the assets of each fund and the remaining bonds outstanding at year end are as follows:

Description	Total Cash	Total Assets	Bonds Outstanding	Maturity Date
1997/2003 Improvement Bonds	\$ 36,983	\$ 210,055	\$ 210,000	03/01/14
2006A G.O. PIR Refunding Bonds	234,044	234,044	1,945,000	02/01/13
2006B G.O. PIR Bonds	363,457	1,176,609	2,010,000	02/01/15
2011A G.O. Improvement Bond	416,523	791,700	1,480,000	02/01/27
2012A G.O. Improvement Bond	-	152,000	932,000	02/01/22
2012B G.O. Refunding Bonds	1,649,794	3,053,702	3,085,000	02/01/23
Total	\$ 2,700,801	\$ 5,618,110	\$ 9,662,000	

The cash deficit in the 1997/2003 Improvement Bond fund has been eliminated during 2012. The City completed a debt cash flow study in 2010 which seems to have addressed the deficit cash balances.

**Capital Projects Funds**

A two year comparison of year end fund balances for all capital project funds follows:

Fund	Fund Balances December 31,		Increase (Decrease)
	2012	2011	
Major			
2011 West Side Reconstruction Project	\$ 7,523	\$ 782,438	\$ (774,915)
2012 Library Construction	(145,819)	-	(145,819)
Nonmajor			
Public Improvement Revolving	171,739	166,895	4,844
Street Capital	4,357	(6,889)	11,246
Public Works Capital	169,758	169,320	438
Police Capital	(12,464)	47,223	(59,687)
Fire Capital	259,159	589,668	(330,509)
Ambulance Capital	35,573	39,368	(3,795)
Administration Capital	56,372	71,702	(15,330)
Park Capital	45,718	40,118	5,600
Library Capital	44,984	(21,490)	66,474
Park Board	178,846	235,222	(56,376)
Tax Increment Financing District No. 2-1	164,595	328,793	(164,198)
Tax Increment Financing District No. 2-2	148,390	344,252	(195,862)
2013 Eastside Improvement Project	(40,216)	-	(40,216)
 Total capital projects funds	 <u>\$ 1,088,515</u>	 <u>\$ 2,786,620</u>	 <u>\$ (1,698,105)</u>

All the deficits should be monitored by the City and management should develop funding plans to ensure deficits will be eliminated in future years. The decrease in the fund balance in the 2011 West Side Reconstruction Project, 2012 Library Construction, TIF 2-1, and TIF 2-2 funds relates directly to costs related to the respective projects. The decrease in the Fire capital relates to the purchase of a new fire truck.



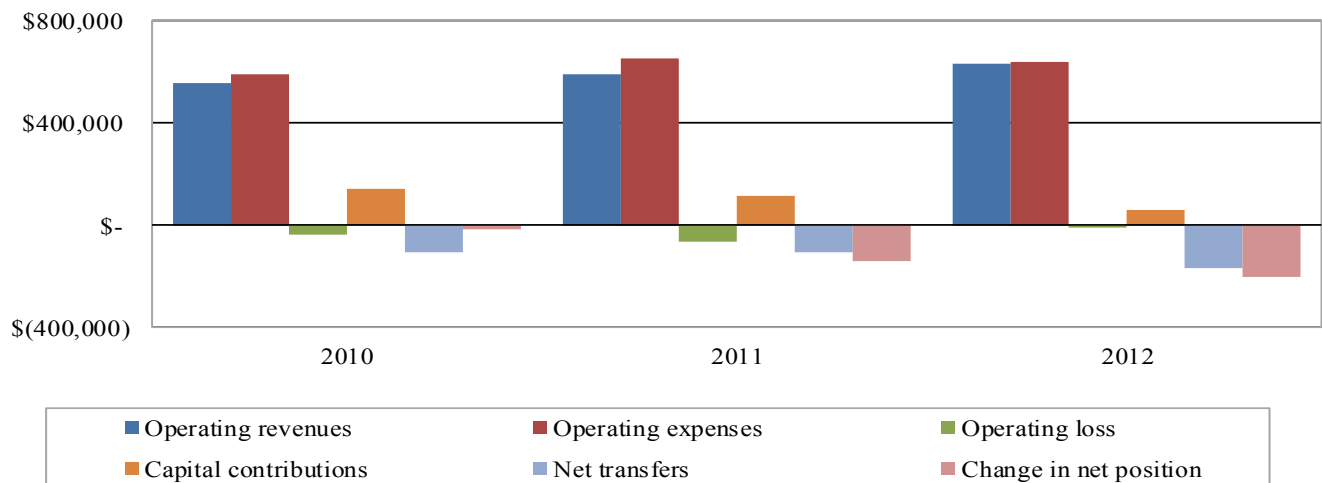
Enterprise Funds

Water Utility Fund

The results of the operations and cash position of the Water Utility fund for the past three years are as follows:

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 558,203	100 %	\$ 595,588	100 %	\$ 633,085	100 %
Operating expenses	595,654	107	657,307	110	638,360	101
Operating loss	(37,451)	(7)	(61,719)	(10)	(5,275)	(1)
Nonoperating expenses	(16,821)	(3)	(89,788)	(15)	(84,833)	(13)
Loss before contributions and transfers	(54,272)	(10)	(151,507)	(25)	(90,108)	(14)
Capital contributions	144,469	26	118,923	20	57,525	9
Net transfers	(104,024)	(19)	(104,024)	(17)	(166,760)	(26)
Change in net position	<u>\$ (13,827)</u>	<u>(3) %</u>	<u>\$ (136,608)</u>	<u>(22) %</u>	<u>\$ (199,343)</u>	<u>(31) %</u>
Cash and temporary investments	<u>\$ 861,073</u>		<u>\$ 1,414,000</u>		<u>\$ 1,171,617</u>	
Restricted cash	<u>\$ 3,493,599</u>		<u>\$ -</u>		<u>\$ -</u>	
Bonds outstanding	<u>\$ 7,059,000</u>		<u>\$ 4,056,617</u>		<u>\$ 3,746,617</u>	

Water Utility Fund Summary of Operations



The Water fund has had an operating loss for the last three years. It will be important to monitor the future cash flow of the enterprise funds to ensure that the rates are sufficient to cover the cost of operations and debt service.

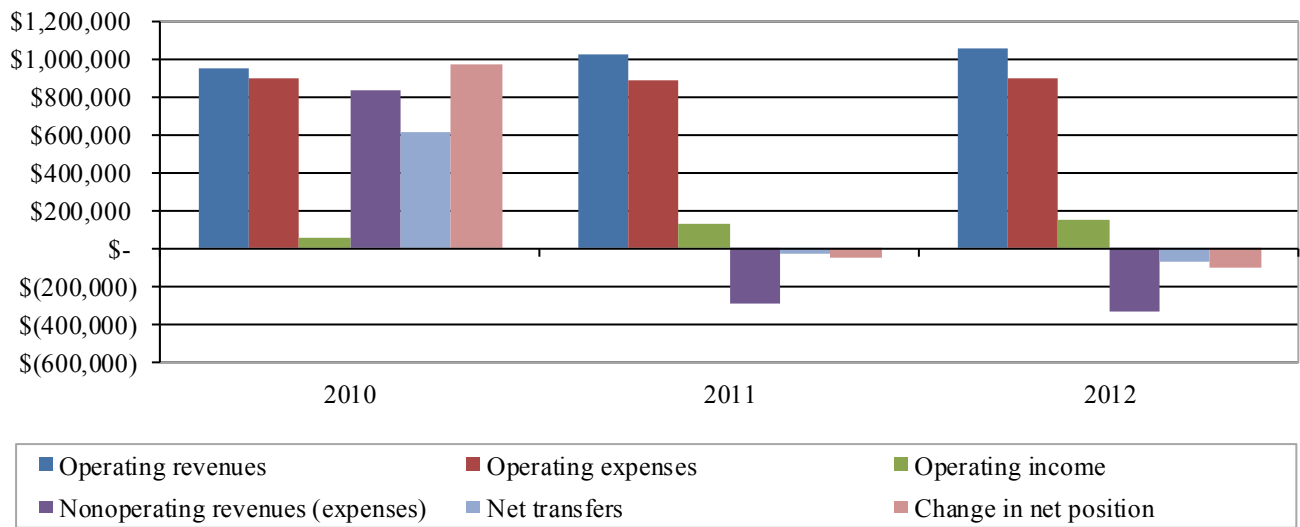


Disposal Fund

The results of the operations and cash position of the Disposal fund for the past three years are as follows:

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 956,376	100 %	\$ 1,021,657	100 %	\$ 1,055,602	100 %
Operating expenses	898,009	94	890,341	87	901,785	85
Operating income	58,367	6	131,316	13	153,817	15
Nonoperating expenses	(132,475)	(14)	(251,672)	(25)	(233,777)	(22)
Loss before contributions and transfers	(74,108)	(8)	(120,356)	(12)	(79,960)	(7)
Capital contributions	431,005	45	99,897	10	48,036	5
Net transfers	612,028	64	(22,724)	(2)	(71,865)	(7)
Change in net position	<u>\$ 968,925</u>	<u>101 %</u>	<u>\$ (43,183)</u>	<u>(4) %</u>	<u>\$ (103,789)</u>	<u>(9) %</u>
Cash and temporary investments	<u>\$ 682,990</u>		<u>\$ 945,302</u>		<u>\$ 606,011</u>	
Bonds outstanding	<u>\$ 8,413,909</u>		<u>\$ 8,374,327</u>		<u>\$ 7,738,327</u>	

Disposal Fund Summary of Operations



The Disposal fund has had operating income for the past three years. The Disposal fund increased its operating income by \$22,501 in 2012. An ongoing projection of operations should be maintained to ensure that revenues will be sufficient to meet bond payments.

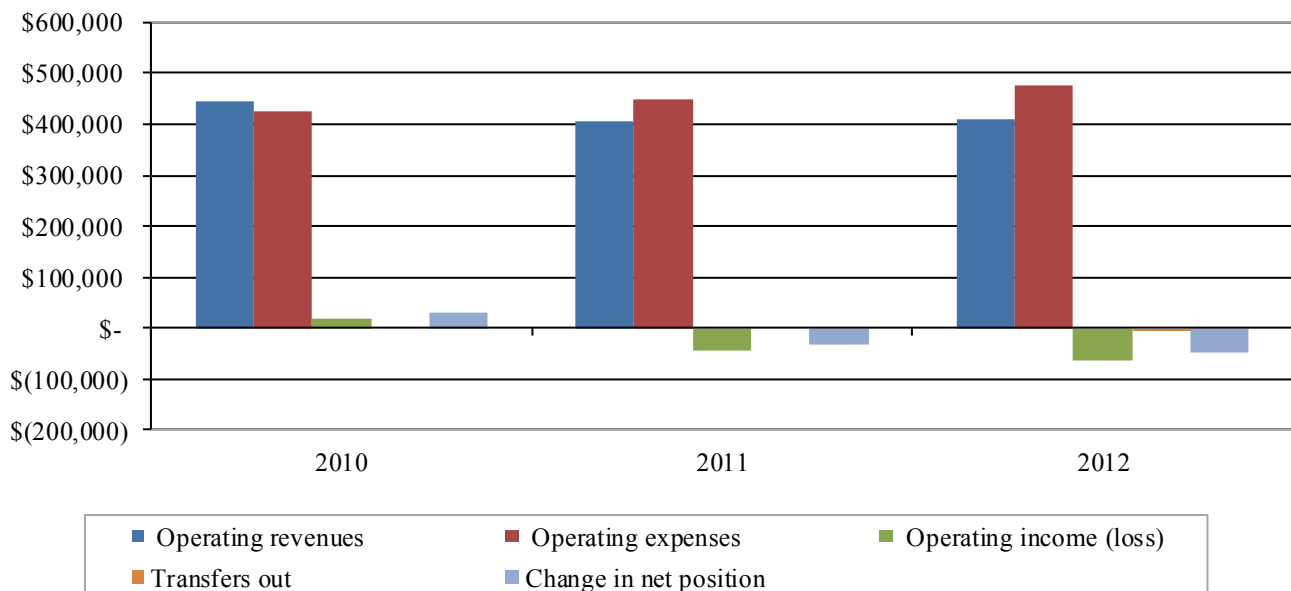


Ambulance Fund

The results of the operations and cash position of the Ambulance fund for the past three years are as follows:

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 445,937	100 %	\$ 408,042	100 %	\$ 410,061	100 %
Operating expenses	425,150	95	450,653	110	475,046	116
Operating income (loss)	20,787	5	(42,611)	(10)	(64,985)	(16)
Nonoperating revenues	9,928	2	10,123	2	9,005	2
Income (loss) before transfers	30,715	7	(32,488)	(8)	(55,980)	(14)
Capital contributions	-	-	-	-	12,052	3
Transfers out	-	-	-	-	(2,500)	(1)
Change in net position	<u>\$ 30,715</u>	<u>7 %</u>	<u>\$ (32,488)</u>	<u>(8) %</u>	<u>\$ (46,428)</u>	<u>(12) %</u>
Cash and temporary investments	<u>\$ 165,842</u>		<u>\$ 29,227</u>		<u>\$ 68,094</u>	

Ambulance Fund Summary of Operations



The Ambulance fund has had an operating loss in the past two years after experience an operating income for 2010. Operating expenses increased during the current year due to an increase in personnel expenses. The City should continue to monitor the activity to ensure that future revenue will be sufficient to cover operating expenses.

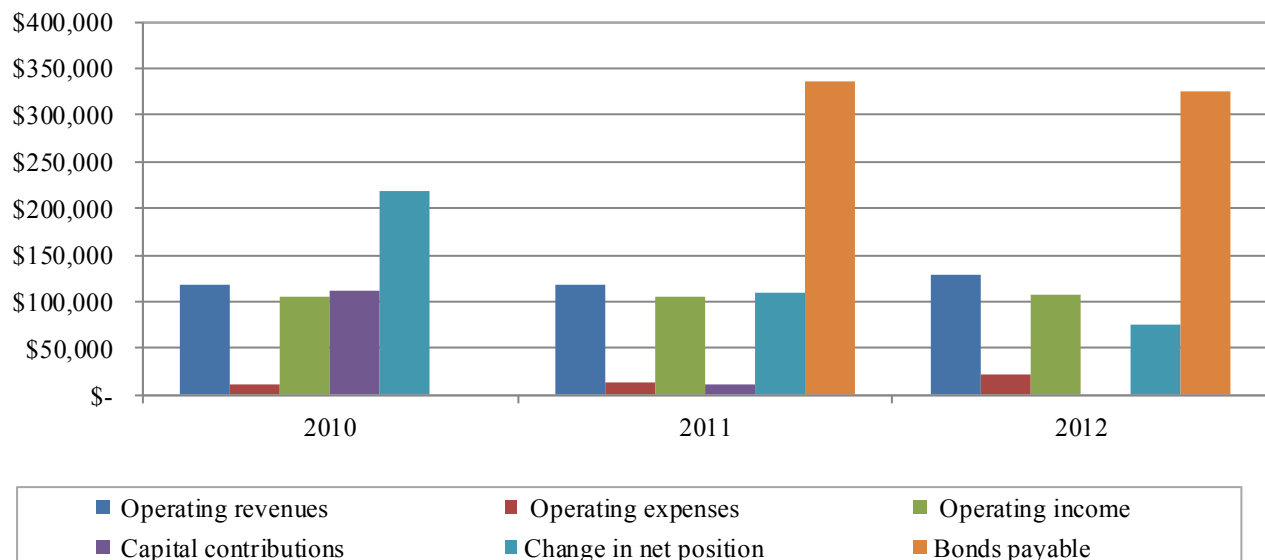


Storm Water Fund

The Storm Water fund was created in October of 2009 when the City started charging its utility customers for Storm Water. The results of the operations and cash position of the Storm Water fund for the past three years are as follows:

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 117,117	100 %	\$ 118,461	100 %	\$ 129,714	100 %
Operating expenses	11,268	10	14,046	12	22,596	17
Operating income	105,849	90	104,415	88	107,118	83
Nonoperating expenses	(564)	-	(5,793)	(5)	(12,571)	(10)
Income before contributions	105,285	90	98,622	83	94,547	73
Capital contributions	112,288	96	11,620	10	-	-
Transfer out	-	-	-	-	(20,000)	(15)
Change in net position	<u>\$ 217,573</u>	<u>186 %</u>	<u>\$ 110,242</u>	<u>93 %</u>	<u>\$ 74,547</u>	<u>58 %</u>
Cash and temporary investments	<u>\$ 93,723</u>		<u>\$ 317,799</u>		<u>\$ 96,525</u>	
Bonds outstanding	<u>\$ -</u>		<u>\$ 335,965</u>		<u>\$ 324,900</u>	

Storm Water Fund Summary of Operations



Fiscal year 2010 was the first full year of operations for the Storm Water fund. Operating revenues were sufficient to meet operating expenses for the past three years. The City should continue to monitor revenues and expenses to ensure rates are sufficient to cover costs.

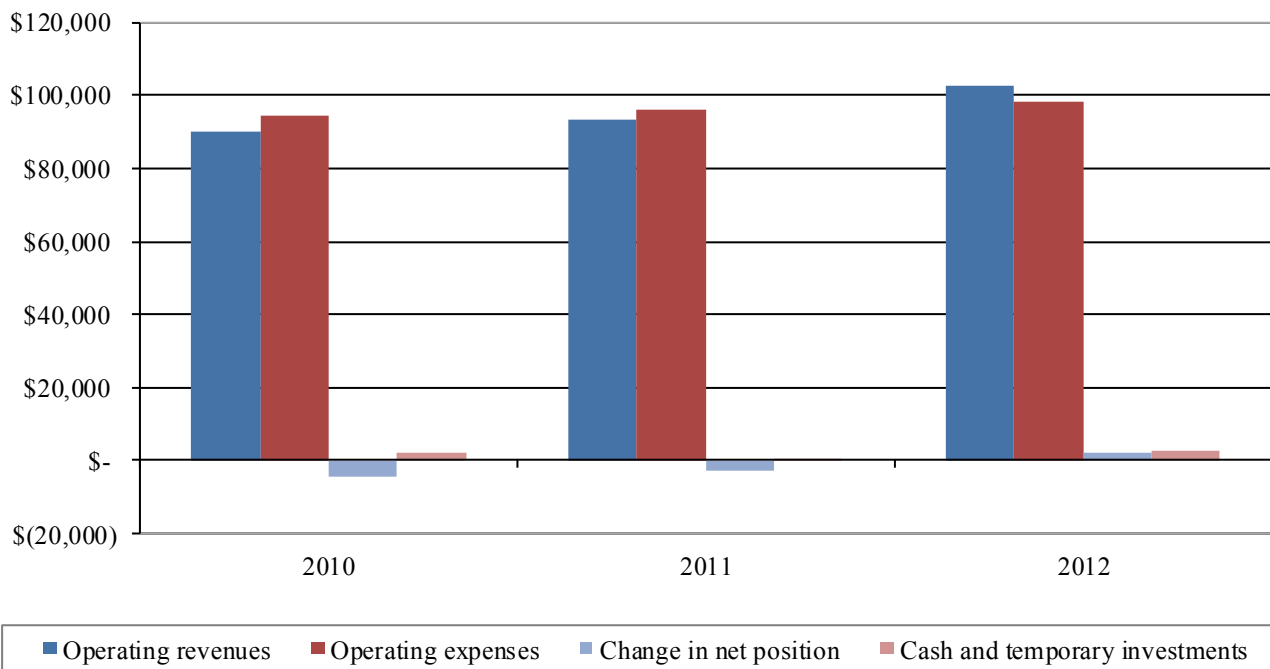


Deputy Registrar Fund

The results of the operations and cash position of the Deputy Registrar fund for the past three years are as follows:

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 89,986	100 %	\$ 93,347	100 %	\$ 102,857	100 %
Operating expenses	94,514	105	96,332	103	98,300	96
Loss before transfers	(4,528)	(5)	(2,985)	(3)	4,557	4
Transfers out	-	-	-	-	(2,500)	(2)
Change in net position	<u>\$ (4,528)</u>	<u>(5) %</u>	<u>\$ (2,985)</u>	<u>(3) %</u>	<u>\$ 2,057</u>	<u>2 %</u>
Cash and temporary investments	<u>\$ 2,183</u>		<u>\$ 39</u>		<u>\$ 2,638</u>	

Deputy Registrar Fund Summary of Operations



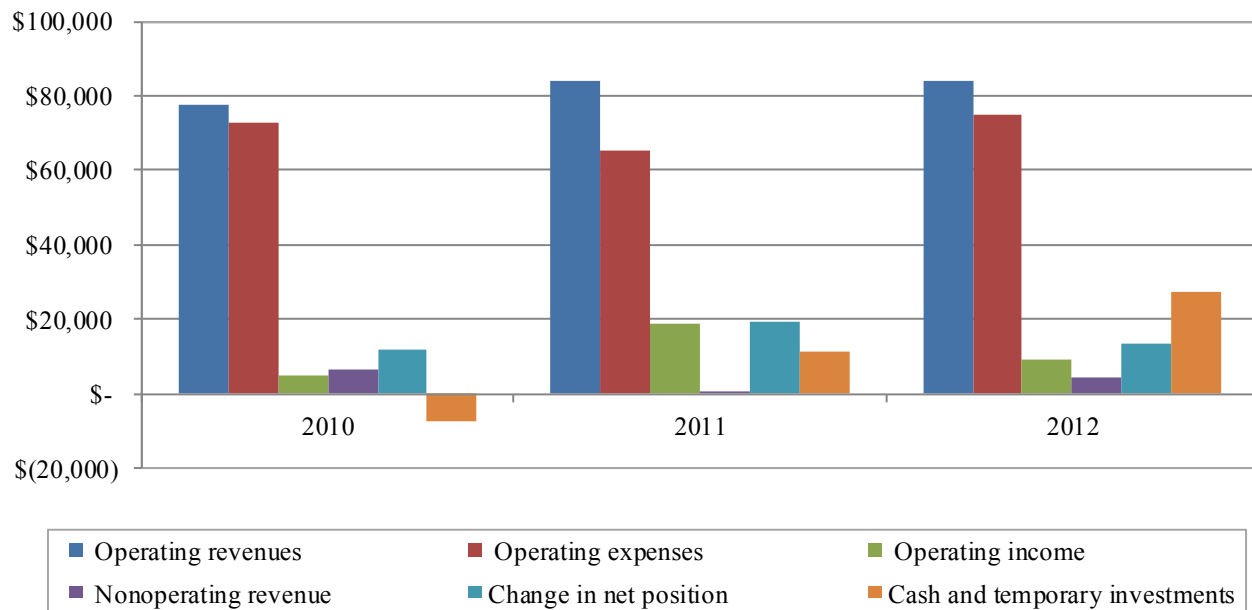


Recycling Program Fund

The results of the operations and cash position of the Recycling Program fund for the past three years are as follows:

	2010		2011		2012	
	Total	Percent	Total	Percent	Total	Percent
Operating revenues	\$ 77,691	100 %	\$ 84,019	100 %	\$ 83,976	100 %
Operating expenses	<u>72,552</u>	<u>93</u>	<u>65,483</u>	<u>78</u>	<u>74,798</u>	<u>89</u>
Operating income	5,139	7	18,536	22	9,178	11
Nonoperating revenue	<u>6,588</u>	<u>8</u>	<u>556</u>	<u>1</u>	<u>4,329</u>	<u>5</u>
Change in net position	<u>\$ 11,727</u>	<u>15 %</u>	<u>\$ 19,092</u>	<u>23 %</u>	<u>\$ 13,507</u>	<u>16 %</u>
Cash and temporary investments	<u>\$ (7,180)</u>		<u>\$ 11,514</u>		<u>\$ 27,377</u>	

Recycling Program Fund Summary of Operations



The City reclassified the type of fund the recycling program fund in 2011 to an enterprise fund. The City now reports the fund as an enterprise fund under similar to the Water and Disposal funds. As an enterprise fund, the fund is expected to cover operating and capital cost with charges for services. The City will need to monitor and project the operating and capital needs of the fund to ensure rates will meet the requirements.



Ratio Analysis

The following captures a few ratios from the City’s financial statements that give some additional information for trend and peer group analysis. The peer group average is derived from information available on the website of the Office of the State Auditor. Different peer group averages are used for Cities of the 4th Class (population 2,500 – 10,000). The majority of these ratios facilitate the use of economic resources focus and accrual basis of accounting at the government-wide level. A combination of liquidity (ability to pay its most immediate obligations), solvency (ability to pay its long-term obligations), funding (comparison of financial amounts and economic indicators to measure changes in financial capacity over time) and common-size (comparison of financial data with other cities regardless of size) ratios are shown below.

Ratio	Calculation	Source	2009	2010	2011	2012
Debt to assets	Total liabilities/total assets	Government-wide	44% 34%	44% 37%	41% 33%	44% N/A
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	46% 261%	64% 102%	82% 106%	86% N/A
Debt per capita	Bonded debt/population	Government-wide	\$ 4,916 \$ 2,713	\$ 5,207 \$ 3,125	\$ 4,727 \$ 2,826	\$ 5,263 N/A
Taxes per capita	Tax revenues/population	Government-wide	\$ 655 \$ 399	\$ 541 \$ 407	\$ 565 \$ 500	\$ 579 N/A
Current expenditures per capita	Governmental fund current expenditures/population	Governmental funds	\$ 811 \$ 625	\$ 811 \$ 624	\$ 765 \$ 640	\$ 872 N/A
Capital expenditures per capita	Governmental fund capital expenditures/population	Governmental funds	\$ 534 \$ 310	\$ 254 \$ 265	\$ 257 \$ 229	\$ 692 N/A
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	75% 68%	71% 61%	69% 64%	71% N/A
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	79% 67%	75% 59%	73% 65%	71% N/A

Represents the City of Cannon Falls

Peer Group Ratio

**Debt-to-Assets Leverage Ratio (Solvency Ratio)**

The debt-to-assets leverage ratio is a comparison of a city's total liabilities to its total assets or the percentage of total assets that are provided by creditors. It indicates the degree to which the City's assets are financed through borrowings and other long-term obligations (i.e. a ratio of 50 percent would indicate half of the assets are financed with outstanding debt).

Debt Service Coverage Ratio (Solvency Ratio)

The debt coverage ratio is a comparison of cash generated by operations to total debt service payments (principal and interest) of enterprise funds. This ratio indicates if there are sufficient cash flows from operations to meet Debt Service obligations. Except in cases where other nonoperating revenues (i.e. taxes, assessments, transfers from other funds, etc.) are used to fund Debt Service payments, an acceptable ratio would be above 100 percent.

Bonded Debt per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total bonded debt by the population of the City and represents the amount of bonded debt obligation for each citizen of the City at the end of the year. The higher the amount, the more resources are needed in the future to retire these obligations through taxes, assessments or user fees.

Taxes per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total tax revenues by the population of the City and represents the amount of taxes for each citizen of the City for the year. The higher this amount is, the more reliant the City is on taxes to fund its operations.

Current Expenditures per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total current governmental expenditures by the population of the City and represents the amount of governmental expenditure for each citizen of the City during the year. Since this is generally based on ongoing expenditures, we would expect consistent annual per capita results.

Capital Expenditures per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total governmental capital outlay expenditures by the population of the City and represents the amount of capital expenditure for each citizen of the City during the year. Since projects are not always recurring, the per capita amount will fluctuate from year to year.

Capital Assets Percentage (Common-size Ratio)

This percentage represents the percent of governmental or business-type capital assets that are left to be depreciated. The lower this percentage, the older the City's capital assets are and may need major repairs or replacements in the near future. A higher percentage may indicate newer assets being constructed or purchased and may coincide with higher debt ratios or bonded debt per capita.



Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future City financial statements.

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*

Summary

The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14 and the related financial reporting requirements of Statement No. 34, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances.

This Statement clarifies the reporting of equity interests in legally separate organizations as well. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

GASB Statement No. 66 - *Technical Corrections- an Amendment of GASB Statements No. 10 and No. 62*

Summary

The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports.



Future Accounting Standard Changes - Continued

GASB Statement No. 67 - *The Financial Reporting for Pension Plans- an Amendment to GASB Statement No. 25*

Summary

The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability information, including ratios, will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. The comparability of the reported information for similar types of pension plans will be improved by the changes related to the attribution method used to determine the total pension liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. In that circumstance, it also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due.

**Future Accounting Standard Changes - Continued****GASB Statement No. 68 - *The Accounting and Financial Reporting of Pensions- an Amendment of GASB Statement No. 27***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information.

* * * * *

This communication is intended solely for the information and use of management, City Council, others within the City and the Minnesota Office of the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

May 6, 2013
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

CITY OF CANNON FALLS
CANNON FALLS, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2012

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INTRODUCTORY SECTION

CITY OF CANNON FALLS
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

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CITY OF CANNON FALLS, MINNESOTA
 ELECTED AND APPOINTED OFFICIALS
 FOR THE YEAR ENDED DECEMBER 31, 2012

ELECTED

Name	Title	Term Expires
Lyman (Robby) Robinson	Mayor	12/31/12
Merlyce Johnson	Council Member	12/31/12
Phil Hammes	Council Member	12/31/12
Morris Mattson	Council Member	12/31/12
LeRoy McCusker	Council Member	12/31/14
Bill Duncan	Council Member	12/31/14
Rodney Holst	Council Member	12/31/14

APPOINTED

Name	Title
Aaron Reeves	City Administrator
Lanell Endres	Assistant City Administrator
Tom Bergeson	Public Works Director
Justin Padgett	Library Director
Jeff McCormick	Chief of Police
Campbell, Knutson, P.A.	City Attorney
David Maroney	Community Development Director
Brenda Voshalike	Ambulance Director

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FINANCIAL SECTION
CITY OF CANNON FALLS
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

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5201 Eden Avenue
Suite 250
Edina, MN 55436

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Cannon Falls, Minnesota

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cannon Falls, Minnesota (the City), 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. The prior year comparative information has been derived from the City's 2011 financial statements and, in our report dated May 10, 2012 we express unqualified opinions on the respective proprietary fund financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

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Other Matters

Change in Accounting Standards

As described in the Note 8 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2012. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information starting on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information in Relation to the Financial Statements as a Whole

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain addition procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

May 6, 2013
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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Management's Discussion and Analysis

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

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$29,247,048 (net position). Of this amount, \$7,695,144 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$533,119.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,488,853, an increase of \$2,124,002 in comparison with the prior year.
- At the end of the current fiscal year, total fund balance for the General fund was \$2,855,251 or 102 percent of budgeted 2013 General fund expenditures.
- The City's total bonded debt increased \$2,292,566 during the current fiscal year due to the issuance of two bonds in 2012. One issuance was for \$932,000 and a second issue refunded two current obligation of the City for \$3,085,000, in which the refunded bonds are not considered defeased.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1
Required Components of the
City’s Annual Financial Report**

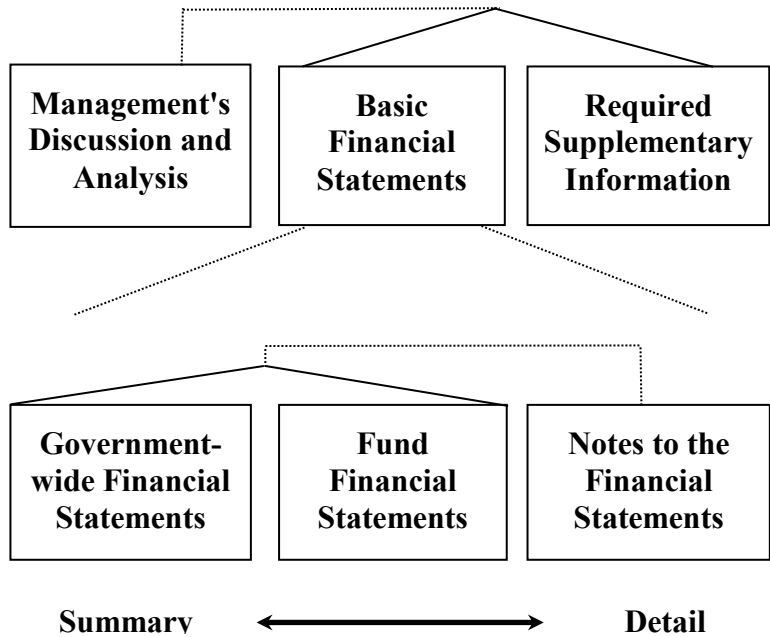


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included.	All deferred outflows/inflows of resources, regardless of when cash is received or paid.
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

The *statement of net position* presents information on all of the City’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 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 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 that are principally supported by taxes and intergovernmental revenue (*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 include general government, public safety, public works, culture and recreation, economic development, miscellaneous, and debt service. The business-type activities of the City include water utility, disposal, ambulance, storm water, recycling, and deputy registrar. The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority (the EDA) for which the City is financially accountable. Financial information for this *component unit* is discretely presented from the financial information presented for the primary government itself.

The government-wide financial statements start on page 29 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, 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 can be divided into two categories: governmental funds and proprietary 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 financing 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 by 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 maintains 29 individual governmental funds, six 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, Debt Service funds, the 2011 West Side Reconstruction Project and the 2012 Library Construction fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregate 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 adopts an annual appropriated budget for its General fund, special revenue funds and certain Debt Service funds. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with its budget.

The basic governmental fund financial statements start on page 34 of this report.

Proprietary funds: The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water utility, disposal, storm water, ambulance, recycling, and deputy registrar.

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 each of the enterprise funds which are considered to be major funds of the City. Data from the non-major enterprise funds are combined into a single, aggregate presentation. Individual fund data for each of these non-major enterprise funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The basic proprietary fund financial statements start on page 42 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 start on page 51 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules start on page 76 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, assets exceeded liabilities by \$29,247,048 in Governmental activities, and decreased by \$533,119 in the Business-type activities at the close of the most recent fiscal year.

By far, the largest portion of the City's net position is its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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 Cannon Falls' Summary of Net Position

	Governmental Activities			Business-type Activities		
	2012	Restated 2011	Increase (Decrease)	2012	Restated 2011	Increase (Decrease)
Assets						
Current and other assets	\$10,433,263	\$ 8,479,859	\$ 1,953,404	\$ 4,584,628	\$ 5,799,203	\$ (1,214,575)
Capital assets	13,713,852	11,480,163	2,233,689	23,246,531	23,185,059	61,472
Total assets	24,147,115	19,960,022	4,187,093	27,831,159	28,984,262	(1,153,103)
Liabilities						
Long-term						
liabilities outstanding	60,354,250	6,672,538	53,681,712	68,397,626	12,900,128	55,497,498
Other liabilities	(49,829,690)	457,497	(50,287,187)	(56,190,960)	200,192	(56,391,152)
Total liabilities	10,524,560	7,130,035	3,394,525	12,206,666	13,100,320	(893,654)
Net position						
Net investment in capital assets	7,072,248	5,852,635	1,219,613	11,614,312	11,288,911	325,401
Restricted	2,865,344	2,981,605	(116,261)	-	-	-
Unrestricted	3,684,963	3,995,747	(310,784)	4,010,181	4,595,031	(584,850)
Total net position	\$13,622,555	\$12,829,987	\$ 792,568	\$15,624,493	\$15,883,942	\$ (259,449)

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

Statement of Activities. The changes in net position are highlighted below:

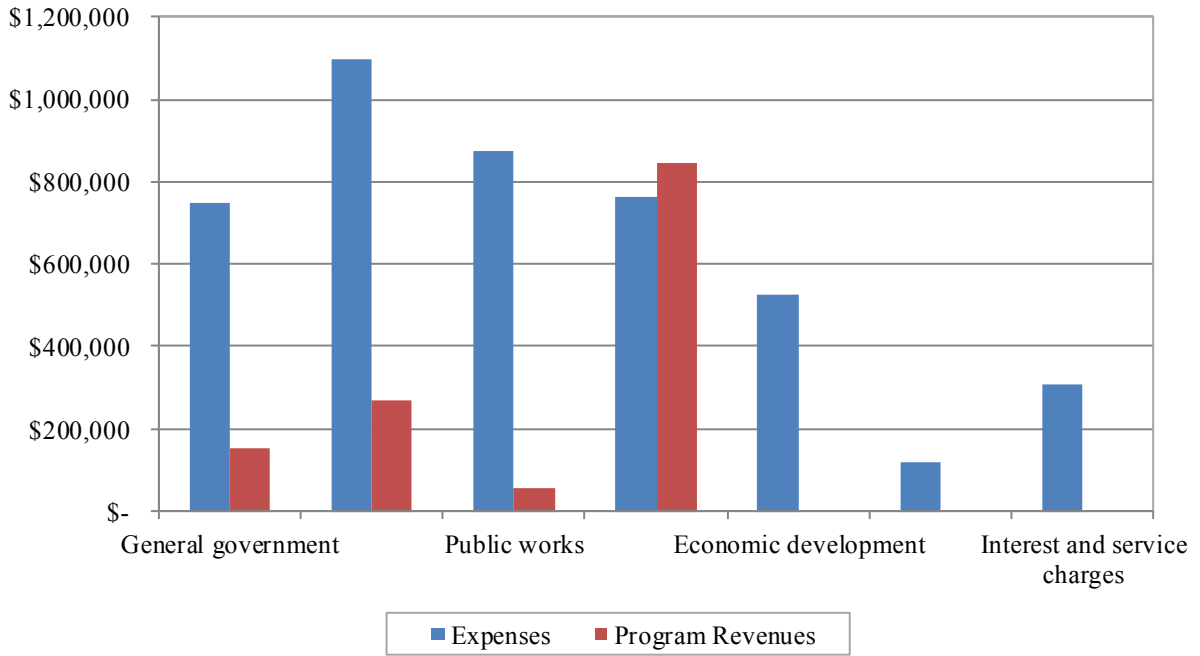
City of Cannon Falls' Changes in Net Position

	Governmental Activities			Business-type Activities		
	2012	Restated 2011	Increase (Decrease)	2012	Restated 2011	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 507,817	\$ 445,297	\$ 62,520	\$ 2,419,621	\$ 2,321,670	\$ 97,951
Operating grants and contributions	759,917	301,530	458,387	8,992	10,093	(1,101)
Capital grants and contributions	55,356	672,118	(616,762)	105,561	218,820	(113,259)
General revenues						
Taxes	3,151,613	3,085,146	66,467	-	-	-
Grants and contributions not restricted to specific programs	436,045	505,025	(68,980)	-	-	-
Investment earnings	14,876	21,622	(6,746)	14,711	12,079	2,632
Gain on sale of capital assets	54,433	-	54,433	-	-	-
Total revenues	4,980,057	5,030,738	(50,681)	2,548,885	2,562,662	(13,777)
Expenses						
General government	748,783	688,153	60,630	-	-	-
Public safety	1,095,154	1,143,507	(48,353)	-	-	-
Public works	876,101	979,226	(103,125)	-	-	-
Sanitation and recycling	-	-	-	-	-	-
Culture and recreation	765,322	864,107	(98,785)	-	-	-
Economic development	525,887	34,294	491,593	-	-	-
Miscellaneous	119,568	74,165	45,403	-	-	-
Interest and service charges	308,247	329,187	(20,940)	-	-	-
Water utility	-	-	-	733,063	823,304	(90,241)
Disposal	-	-	-	1,140,126	1,144,243	(4,117)
Storm water	-	-	-	35,428	22,604	12,824
Recycling	-	-	-	74,798	65,483	9,315
Ambulance	-	-	-	475,046	450,653	24,393
Deputy registrar	-	-	-	98,300	96,332	1,968
Total expenses	4,439,062	4,112,639	326,423	2,556,761	2,602,619	(45,858)
Change in net position before transfers	540,995	918,099	(377,104)	(7,876)	(39,957)	32,081
Capital transfers by other funds	(12,052)	(11,620)	(432)	12,052	11,620	432
Transfers	263,625	181,198	82,427	(263,625)	(126,748)	(136,877)
Change in net position	792,568	1,087,677	(295,109)	(259,449)	(155,085)	(104,364)
Net position (restated), January 1	12,829,987	11,742,310	1,087,677	15,883,942	16,039,027	(155,085)
Net position, December 31	\$13,622,555	\$12,829,987	\$ 792,568	\$15,624,493	\$15,883,942	\$ (259,449)

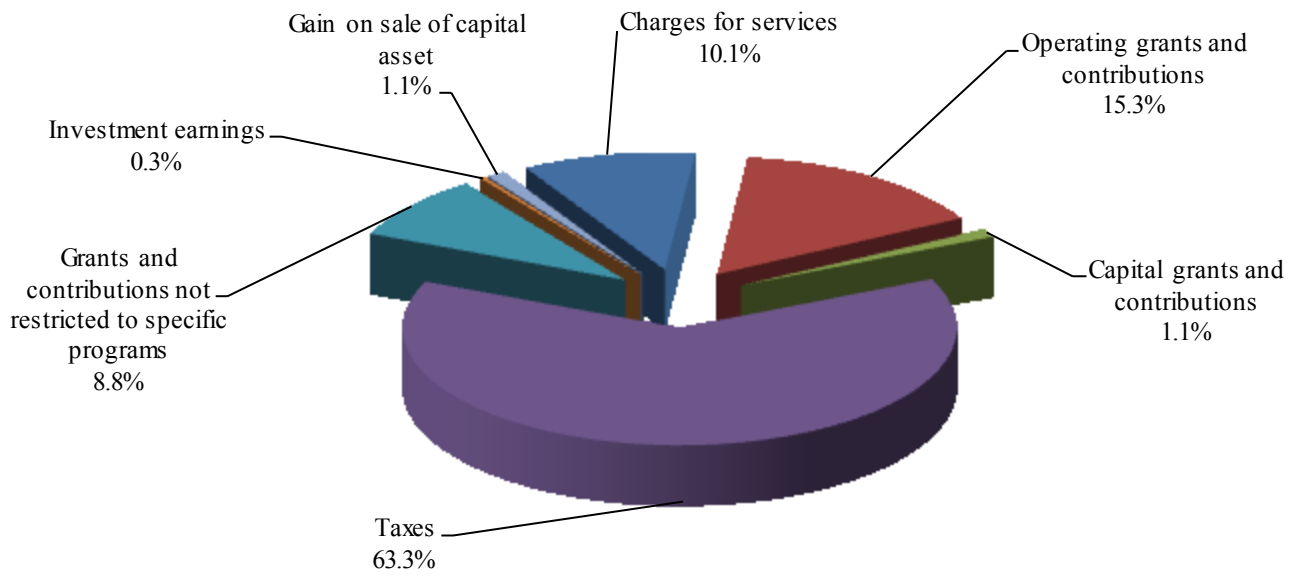
The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

Governmental activities. Net position in the governmental activities increased \$792,568.

Expenses and Program Revenues - Governmental Activities



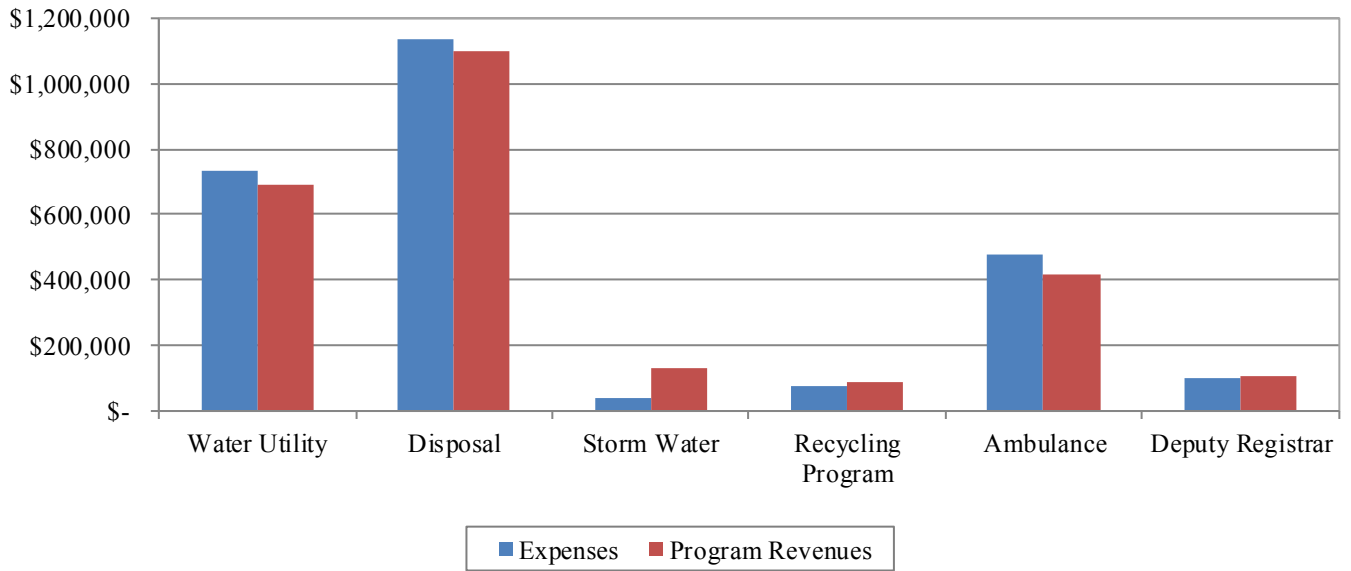
Revenues by Source - Governmental Activities



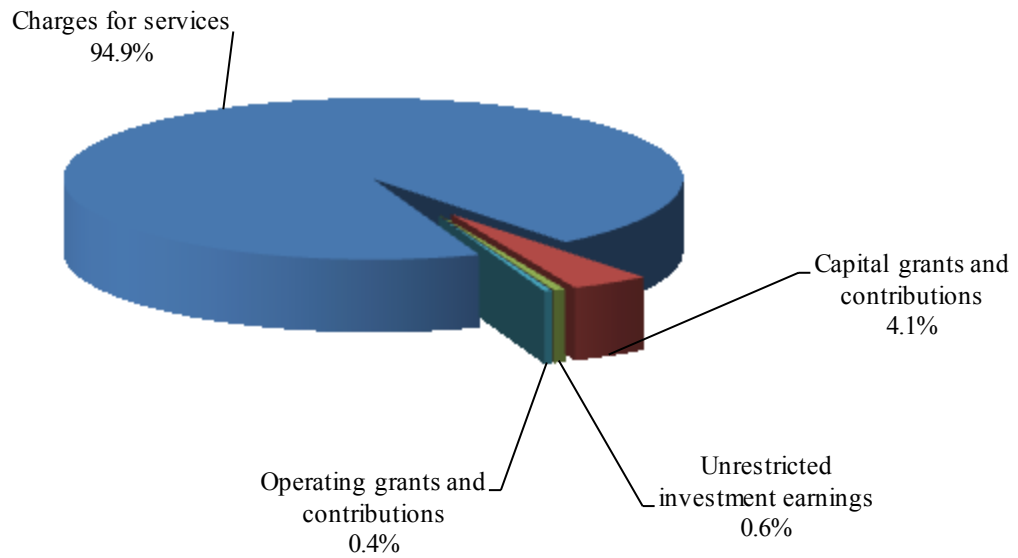
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-type activities. Net position in business-type activities decreased by \$259,449.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds: The focus of the City'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'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.

Activity in the City's major funds is discussed below:

<u>Major Funds</u>	<u>Fund Balance December 31,</u>		<u>Increase (Decrease)</u>
	<u>2012</u>	<u>2011</u>	
General Fund balance increased due to revenues received in excess of budget.	\$ 2,855,251	\$ 2,639,666	\$ 215,585
Debt Service The Debt Service funds increased due the 2012B G.O. refunding bond issue.	\$ 4,368,427	\$ 829,521	\$ 3,538,906
2011 West Side Reconstruction Project The decrease in the fund balance is due to construction costs for the West Side reconstruction project.	\$ 7,523	\$ 782,438	\$ (774,915)
2012 Library Construction The decrease in the fund balance is due to construction costs for new library building.	\$ (145,819)	\$ -	\$ (145,819)

General Fund Budgetary Highlights

The City's General fund budget was not amended during 2012. Compared to the final budget, revenues were over budget by \$125,845 and expenditures were under budget by \$55,422.

- The largest revenue variance was from taxes, which was \$32,912 over budget due a higher collection of delinquent taxes.
- The largest variances in expenditures included miscellaneous expenses which exceeded budget by \$26,058 and general government, which was under budget by \$45,977. The reason for the variance in miscellaneous expenses was in other services and charges. The reason for the positive variance in general government can be attributed to many different departments.

Capital Asset and Debt Administration

Capital assets: The City's investment in capital assets for its governmental and business type activities as of December 31, 2012, amounts to \$18,686,560 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges.

Additional information on the City's capital assets can be found in Note 3E starting on page 62 of this report.

City of Cannon Falls' Capital Assets (net of depreciation)

	Governmental Activities			Business-type Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Land	\$ 958,174	\$ 958,174	\$ -	\$ 87,816	\$ 87,816	\$ -
Construction in progress	40,217	678,862	(638,645)	40,217	693,417	(653,200)
Buildings and improvements	3,859,920	2,605,829	1,254,091	8,068	8,603	(535)
System improvements/ infrastructure	7,353,829	6,123,830	1,229,999	22,476,441	21,687,044	789,397
Machinery and equipment	591,742	471,783	119,959	407,145	442,156	(35,011)
Vehicles	909,970	641,685	268,285	226,844	266,023	(39,179)
Total	<u>\$13,713,852</u>	<u>\$11,480,163</u>	<u>\$ 2,233,689</u>	<u>\$23,246,531</u>	<u>\$23,185,059</u>	<u>\$ 61,472</u>

Long-term debt. At the end of the current fiscal year, the City had total bonded and capital lease debt outstanding of \$2,292,566. While all of the City's bonds have revenue streams, all are backed by the full faith and credit of the City.

City of Cannon Falls' Outstanding Debt

	Governmental Activities			Business-type Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Capital lease payable	\$ 104,651	\$ 129,638	\$ (24,987)	\$ 82,576	\$ 96,023	\$ (13,447)
Compensated absences payable	173,625	157,900	15,725	44,871	37,196	7,675
General obligation special assessment bonds	4,165,000	4,905,000	(740,000)	-	-	-
General obligation revenue bonds	5,497,000	1,480,000	4,017,000	11,820,909	12,766,909	(946,000)
Total	<u>\$ 9,940,276</u>	<u>\$ 6,672,538</u>	<u>\$ 3,267,738</u>	<u>\$11,948,356</u>	<u>\$12,900,128</u>	<u>\$ (951,772)</u>

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 3H starting on page 66 of this report.

Economic Factors and Next Year's Budgets and Rates

- Property values appear to have stabilized and the City is seeing strong Commercial/Industrial growth along with an increase in new home construction.
- The City will continue to monitor utility fees to ensure that charges are sufficient to cover costs in the Water and Disposal funds.
- The Legislature is close to approving an increase in State Aid to Cities which would result in a large increase to the City.
- The City will continue to update and monitor its Financial Management Plan to ensure that the numerous scheduled capital projects can be completed as budgeted.

Requests for Information

This financial report is designed to provide a general overview of the City'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 financial information should be addressed to the City Administrator, City of Cannon Falls, 918 River Road, Cannon Falls, MN 55009.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF CANNON FALLS
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

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CITY OF CANNON FALLS, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
ASSETS				
Cash and temporary investments	\$ 7,040,869	\$ 1,972,262	\$ 9,013,131	\$ 427,784
Cash held with fiscal agent	1,395,708	-	1,395,708	-
Receivables				
Accrued interest	552	620	1,172	441
Taxes	190,406	-	190,406	-
Accounts, net of allowance	229,083	291,671	520,754	-
Special assessments	1,453,111	2,272,219	3,725,330	-
Deposits	-	-	-	25,000
Loans	-	-	-	215,291
Contract for deed	-	-	-	29,185
Due from other governments	96,885	-	96,885	-
Inventories, at cost	-	39,962	39,962	-
Prepaid items	26,649	7,894	34,543	111
Capital assets				
Land and construction in progress	998,391	128,033	1,126,424	1,286,175
Depreciable buildings, property, and equipment, net	12,715,461	23,118,498	35,833,959	-
TOTAL ASSETS	24,147,115	27,831,159	51,978,274	1,983,987
LIABILITIES				
Accounts and contracts payable	396,744	119,596	516,340	203
Accrued interest payable	97,985	126,537	224,522	-
Due to other governments	-	1,770	1,770	-
Accrued salaries payable	33,811	10,407	44,218	2,229
Deposits payable	55,744	-	55,744	-
Noncurrent liabilities				
Due within one year	2,704,028	1,045,262	3,749,290	3,177
Due in more than one year	7,236,248	10,903,094	18,139,342	9,532
TOTAL LIABILITIES	10,524,560	12,206,666	22,731,226	15,141
NET POSITION				
Net investment in capital assets	7,072,248	11,614,312	18,686,560	1,286,175
Restricted for				
Debt service	2,435,125	-	2,435,125	-
Project costs	430,219	-	430,219	-
Unrestricted	3,684,963	4,010,181	7,695,144	682,671
TOTAL NET POSITION	\$ 13,622,555	\$ 15,624,493	\$ 29,247,048	\$ 1,968,846

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

CITY OF CANNON FALLS, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 748,783	\$ 148,888	\$ 3,510	\$ -
Public safety	1,095,154	178,085	93,415	-
Public works	876,101	100	-	55,356
Culture and recreation	765,322	180,744	662,992	-
Economic development	525,887	-	-	-
Miscellaneous	119,568	-	-	-
Interest and service charges	308,247	-	-	-
Total governmental activities	<u>4,439,062</u>	<u>507,817</u>	<u>759,917</u>	<u>55,356</u>
Business-type activities				
Water utility	733,063	633,085	-	57,525
Disposal	1,140,126	1,055,602	-	48,036
Storm water	35,428	129,714	-	-
Recycling	74,798	88,302	-	-
Ambulance	475,046	410,061	8,992	-
Deputy registrar	98,300	102,857	-	-
Total business-type activities	<u>2,556,761</u>	<u>2,419,621</u>	<u>8,992</u>	<u>105,561</u>
Total	<u><u>6,995,823</u></u>	<u><u>2,927,438</u></u>	<u><u>768,909</u></u>	<u><u>160,917</u></u>
Component unit				
Economic Development Authority	<u>\$ 205,853</u>	<u>\$ 26,000</u>	<u>\$ 64,057</u>	<u>\$ -</u>

General revenues

Taxes
Property taxes, levied for general purpose
Property taxes, levied for debt service
Property taxes, for economic development
Property taxes, for library
Property taxes, for public safety
Payments in lieu of property taxes
Franchise tax
Tax increments
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Gain on sale of capital assets
Transfers - internal activities
Transfers - capital assets contributed by other funds
Total general revenues and transfers

Change in net position

Net position (restated), January 1

Net position, December 31

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

Net (Expense) Revenue and Changes in Net Position

Primary government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Authority
\$ (596,385)	\$ -	\$ (596,385)	\$ -
(823,654)	-	(823,654)	-
(820,645)	-	(820,645)	-
78,414	-	78,414	-
(525,887)	-	(525,887)	-
(119,568)	-	(119,568)	-
(308,247)	-	(308,247)	-
<u>(3,115,972)</u>	<u>-</u>	<u>(3,115,972)</u>	<u>-</u>
-	(42,453)	(42,453)	-
-	(36,488)	(36,488)	-
-	94,286	94,286	-
-	13,504	13,504	-
-	(55,993)	(55,993)	-
-	4,557	4,557	-
<u>-</u>	<u>(22,587)</u>	<u>(22,587)</u>	<u>-</u>
<u>(3,115,972)</u>	<u>(22,587)</u>	<u>(3,138,559)</u>	<u>-</u>
			<u>(115,796)</u>
1,372,193	-	1,372,193	-
515,342	-	515,342	-
-	-	-	85,850
222,851	-	222,851	-
70,639	-	70,639	-
493,000	-	493,000	-
44,845	-	44,845	-
432,743	-	432,743	-
436,045	-	436,045	85,226
14,876	14,711	29,587	3,400
54,433	-	54,433	-
263,625	(263,625)	-	-
(12,052)	12,052	-	-
<u>3,908,540</u>	<u>(236,862)</u>	<u>3,671,678</u>	<u>174,476</u>
792,568	(259,449)	533,119	58,680
<u>12,829,987</u>	<u>15,883,942</u>	<u>28,713,929</u>	<u>1,910,166</u>
<u>\$ 13,622,555</u>	<u>\$ 15,624,493</u>	<u>\$ 29,247,048</u>	<u>\$ 1,968,846</u>

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FUND FINANCIAL STATEMENTS

CITY OF CANNON FALLS
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

CITY OF CANNON FALLS , MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Debt Service	2011 West Side Reconstruction Project	2012 Library Construction
ASSETS				
Cash and temporary investments	\$ 2,840,142	\$ 2,700,801	\$ 40,047	\$ 79,665
Cash held with fiscal agent	-	1,395,708	-	-
Receivables				
Accrued interest	175	-	-	-
Taxes	190,135	-	-	-
Accounts	61,069	160,200	-	-
Special assessments	1,000	1,361,401	-	-
Due from other governments	37,049	-	-	-
Prepaid items	22,863	-	-	-
TOTAL ASSETS	<u>\$ 3,152,433</u>	<u>\$ 5,618,110</u>	<u>\$ 40,047</u>	<u>\$ 79,665</u>
LIABILITIES				
Accounts and contracts payable	\$ 89,070	\$ -	\$ 32,524	\$ 225,484
Accrued salaries payable	29,028	-	-	-
Deposits payable	55,744	-	-	-
TOTAL LIABILITIES	<u>173,842</u>	<u>-</u>	<u>32,524</u>	<u>225,484</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	123,340	-	-	-
Unavailable revenue - special assessments	-	1,249,683	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>123,340</u>	<u>1,249,683</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	22,863	-	-	-
Restricted	-	4,368,427	7,523	-
Committed	1,000,000	-	-	-
Assigned	260,000	-	-	-
Unassigned	1,572,388	-	-	(145,819)
TOTAL FUND BALANCES	<u>2,855,251</u>	<u>4,368,427</u>	<u>7,523</u>	<u>(145,819)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 3,152,433</u>	<u>\$ 5,618,110</u>	<u>\$ 40,047</u>	<u>\$ 79,665</u>

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

<u>Other</u> <u>Governmental</u>	<u>Total</u> <u>Governmental</u>
\$ 1,380,214	\$ 7,040,869
-	1,395,708
377	552
271	190,406
7,814	229,083
90,710	1,453,111
59,836	96,885
3,786	26,649
<u>\$ 1,543,008</u>	<u>\$ 10,433,263</u>
\$ 49,666	\$ 396,744
4,783	33,811
-	55,744
<u>54,449</u>	<u>486,299</u>
-	123,340
85,088	1,334,771
<u>85,088</u>	<u>1,458,111</u>
3,786	26,649
422,696	4,798,646
745,426	1,745,426
291,889	551,889
(60,326)	1,366,243
<u>1,403,471</u>	<u>8,488,853</u>
<u>\$ 1,543,008</u>	<u>\$ 10,433,263</u>

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CITY OF CANNON FALLS, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

Total fund balances - governmental funds	\$ 8,488,853
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental fund.	
Cost of capital assets	19,312,728
Less: accumulated depreciation	(5,598,876)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Bond principal payable	(9,662,000)
Capital lease payable	(104,651)
Compensated absences payable	(173,625)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
	123,340
Special assessments receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
	1,334,771
Governmental funds do not report a liability for accrued interest until due and payable.	
	<u>(97,985)</u>
Total net position - governmental activities	<u><u>\$ 13,622,555</u></u>

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

CITY OF CANNON FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General	Debt Service	2011 West Side Reconstruction Project	2012 Library Construction
REVENUES				
Taxes	\$ 1,930,515	\$ 515,342	\$ -	\$ -
Licenses and permits	71,264	-	-	-
Intergovernmental	479,401	-	-	-
Charges for services	56,539	-	-	-
Fines and forfeitures	29,967	-	-	-
Special assessments	1,000	254,931	-	-
Interest on investments	5,247	2,581	2,511	180
Miscellaneous	249,293	152,000	-	350,757
TOTAL REVENUES	2,823,226	924,854	2,511	350,937
EXPENDITURES				
Current				
General government	681,698	-	-	-
Public safety	795,949	-	-	-
Public works	558,597	-	-	-
Culture and recreation	384,749	-	-	-
Economic development	-	-	-	-
Miscellaneous	119,208	-	-	-
Capital outlay				
General government	1,040	-	-	-
Public safety	25,557	-	-	-
Public works	6,595	-	777,426	-
Culture and recreation	-	-	-	1,346,222
Economic development	-	-	-	-
Miscellaneous	360	-	-	-
Debt service				
Principal	24,987	740,000	-	-
Interest and service charges	5,023	212,460	-	-
Bond issuance costs	-	33,879	-	26,060
TOTAL EXPENDITURES	2,603,763	986,339	777,426	1,372,282
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	219,463	(61,485)	(774,915)	(1,021,345)
OTHER FINANCING SOURCES (USES)				
Transfers in	45,000	515,391	-	-
Bonds issued	-	-	-	932,000
Sale of capital assets	54,433	-	-	-
Refunding bonds issued	-	3,085,000	-	-
Transfers out	(103,311)	-	-	(56,474)
TOTAL OTHER FINANCING SOURCES (USES)	(3,878)	3,600,391	-	875,526
NET CHANGE IN FUND BALANCES	215,585	3,538,906	(774,915)	(145,819)
FUND BALANCES, JANUARY 1	2,639,666	829,521	782,438	-
FUND BALANCES, DECEMBER 31	\$ 2,855,251	\$ 4,368,427	\$ 7,523	\$ (145,819)

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

<u>Other</u> <u>Governmental</u>	<u>Total</u> <u>Governmental</u>
\$ 771,078	\$ 3,216,935
-	71,264
194,454	673,855
98,711	155,250
3,626	33,593
21,519	277,450
4,376	14,895
21,879	773,929
<u>1,115,643</u>	<u>5,217,171</u>
-	681,698
172,600	968,549
-	558,597
349,009	733,758
498,803	498,803
-	119,208
26,580	27,620
452,437	477,994
89,892	873,913
72,012	1,418,234
27,084	27,084
-	360
-	764,987
-	217,483
-	59,939
<u>1,688,417</u>	<u>7,428,227</u>
<u>(572,774)</u>	<u>(2,211,056)</u>
179,785	740,176
-	932,000
-	54,433
-	3,085,000
<u>(316,766)</u>	<u>(476,551)</u>
<u>(136,981)</u>	<u>4,335,058</u>
(709,755)	2,124,002
<u>2,113,226</u>	<u>6,364,851</u>
<u>\$ 1,403,471</u>	<u>\$ 8,488,853</u>

CITY OF CANNON FALLS, MINNESOTA
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Net change in fund balances - governmental funds	\$ 2,124,002
Amounts reported for governmental activities in the statement of activities are different because	
<p>Capital outlays and sales are reported in governmental funds as expenditures and proceeds. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense and the proceeds are reported as reductions of net position and gains or losses on sales.</p>	
Capital outlays	2,821,432
Depreciation expense	(558,733)
Book value disposal of capital assets	(16,958)
<p>Assets purchased in the governmental funds for the enterprise funds are eliminated in the government-wide statements.</p>	
	(12,052)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect premiums and discounts when debt is first issued, whereas these amounts are delayed and amortized in the statement of activities.</p>	
Principal payments	740,000
Capital lease principal payments	24,987
Bonds issued	(4,017,000)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	(5,838)
<p>Certain revenues are recognized as soon as earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	(65,322)
Special assessments	(226,225)
<p>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.</p>	
Compensated absences	<u>(15,725)</u>
Change in net position - governmental activities	<u><u>\$ 792,568</u></u>

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

CITY OF CANNON FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,897,603	\$ 1,897,603	\$ 1,930,515	\$ 32,912
Licenses and permits	39,800	39,800	71,264	31,464
Intergovernmental	458,028	458,028	479,401	21,373
Charges for services	49,600	49,600	56,539	6,939
Fines and forfeitures	26,000	26,000	29,967	3,967
Special assessments	-	-	1,000	1,000
Interest on investments	12,000	12,000	5,247	(6,753)
Miscellaneous	214,350	214,350	249,293	34,943
TOTAL REVENUES	2,697,381	2,697,381	2,823,226	125,845
EXPENDITURES				
Current				
General government	727,675	727,675	681,698	45,977
Public safety	795,260	795,260	795,949	(689)
Public works	578,175	578,175	558,597	19,578
Culture and recreation	396,330	396,330	384,749	11,581
Miscellaneous	93,150	93,150	119,208	(26,058)
Capital outlay	38,395	38,395	33,552	4,843
Debt service				
Principal	25,775	25,775	24,987	788
Interest	4,425	4,425	5,023	(598)
TOTAL EXPENDITURES	2,659,185	2,659,185	2,603,763	55,422
EXCESS OF REVENUES OVER EXPENDITURES	38,196	38,196	219,463	181,267
OTHER FINANCING SOURCES (USES)				
Transfers in	45,000	45,000	45,000	-
Sale of capital assets	-	-	54,433	54,433
Transfers out	(103,196)	(103,196)	(103,311)	(115)
TOTAL OTHER FINANCING SOURCES (USES)	(58,196)	(58,196)	(3,878)	54,318
NET CHANGE IN FUND BALANCES	(20,000)	(20,000)	215,585	235,585
FUND BALANCES, JANUARY 1	2,639,666	2,639,666	2,639,666	-
FUND BALANCES, DECEMBER 31	<u>\$ 2,619,666</u>	<u>\$ 2,619,666</u>	<u>\$ 2,855,251</u>	<u>\$ 235,585</u>

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

CITY OF CANNON FALLS, MINNESOTA
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	Water Utility		Disposal	
	2012	Restated 2011	2012	Restated 2011
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 1,171,617	\$ 1,414,000	\$ 606,011	\$ 945,302
Receivables				
Accrued interest	179	1,374	394	62
Accounts, net of allowance	68,262	58,626	105,236	93,363
Special assessments	156,174	274,014	164,522	257,659
Inventories, at cost	24,962	23,500	15,000	4,500
Prepaid items	1,601	1,507	2,743	2,296
TOTAL CURRENT ASSETS	1,422,795	1,773,021	893,906	1,303,182
NONCURRENT ASSETS				
Special assessments receivable	1,058,441	1,194,941	879,160	992,487
Capital assets				
Land and construction in progress	103,903	356,624	12,869	216,712
Depreciable buildings, property, and equipment	12,597,998	12,000,112	18,786,298	18,288,655
Accumulated depreciation	(4,064,779)	(3,730,111)	(5,185,596)	(4,696,067)
Total net capital assets	8,637,122	8,626,625	13,613,571	13,809,300
TOTAL NONCURRENT ASSETS	9,695,563	9,821,566	14,492,731	14,801,787
TOTAL ASSETS	11,118,358	11,594,587	15,386,637	16,104,969
LIABILITIES				
CURRENT LIABILITIES				
Accounts and contracts payable	\$ 49,095	\$ 18,146	\$ 54,654	\$ 31,366
Accrued interest payable	38,766	36,439	81,270	85,223
Due to other governments	1,770	1,768	-	-
Accrued salaries payable	2,777	2,308	1,735	1,213
Compensated absences payable - current	1,770	1,302	2,173	1,147
Capital lease payable - current	2,614	2,498	2,614	2,498
Bonds payable - current	334,919	310,000	674,017	636,000
TOTAL CURRENT LIABILITIES	431,711	372,461	816,463	757,447
NONCURRENT LIABILITIES				
Compensated absences payable	5,309	3,908	6,518	3,442
Capital lease payable	5,597	8,215	5,597	8,215
Bonds payable	3,411,698	3,746,617	7,064,310	7,738,327
TOTAL NONCURRENT LIABILITIES	3,422,604	3,758,740	7,076,425	7,749,984
TOTAL LIABILITIES	3,854,315	4,131,201	7,892,888	8,507,431
NET POSITION				
Net investment in capital assets	5,059,276	5,041,546	5,961,317	5,780,725
Unrestricted	2,204,767	2,421,840	1,532,432	1,816,813
TOTAL NET POSITION	\$ 7,264,043	\$ 7,463,386	\$ 7,493,749	\$ 7,597,538

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

Business-type Activities - Enterprise Funds

Ambulance		Other Proprietary		Totals	
2012	2011	2012	Restated 2011	2012	Restated 2011
\$ 68,094	\$ 29,227	\$ 126,540	\$ 329,352	\$ 1,972,262	\$ 2,717,881
-	-	47	11	620	1,447
95,140	140,870	23,033	21,756	291,671	314,615
-	-	13,922	11,536	334,618	543,209
-	-	-	-	39,962	28,000
3,461	2,734	89	86	7,894	6,623
166,695	172,831	163,631	362,741	2,647,027	3,611,775
-	-	-	-	1,937,601	2,187,428
-	-	11,261	207,897	128,033	781,233
582,520	654,311	705,338	212,636	32,672,154	31,155,714
(279,003)	(313,737)	(24,278)	(11,973)	(9,553,656)	(8,751,888)
303,517	340,574	692,321	408,560	23,246,531	23,185,059
303,517	340,574	692,321	408,560	25,184,132	25,372,487
470,212	513,405	855,952	771,301	27,831,159	28,984,262
\$ 7,822	\$ 7,921	\$ 8,025	\$ 6,468	\$ 119,596	\$ 63,901
-	-	6,501	5,152	126,537	126,814
-	-	-	-	1,770	1,768
4,859	3,329	1,036	859	10,407	7,709
6,716	6,265	559	584	11,218	9,298
-	-	8,815	8,326	14,043	13,322
-	-	11,065	-	1,020,001	946,000
19,397	17,515	36,001	21,389	1,303,572	1,168,812
20,149	18,796	1,677	1,752	33,653	27,898
-	-	57,339	66,271	68,533	82,701
-	-	324,900	335,965	10,800,908	11,820,909
20,149	18,796	383,916	403,988	10,903,094	11,931,508
39,546	36,311	419,917	425,377	12,206,666	13,100,320
303,517	340,574	290,202	126,066	11,614,312	11,288,911
127,149	136,520	145,833	219,858	4,010,181	4,595,031
\$ 430,666	\$ 477,094	\$ 436,035	\$ 345,924	\$ 15,624,493	\$ 15,883,942

CITY OF CANNON FALLS, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	Water Utility		Disposal	
	2012	Restated 2011	2012	Restated 2011
OPERATING REVENUES				
Charges for services	\$ 633,085	\$ 595,588	\$ 1,055,602	\$ 1,021,657
OPERATING EXPENSES				
Personnel services	135,795	134,774	136,762	111,690
Supplies	48,544	59,307	47,239	36,696
Repairs and maintenance	17,393	26,767	15,285	19,275
Depreciation	334,668	335,467	489,529	490,332
Rent	-	-	-	-
Insurance	4,605	4,819	8,032	6,512
Utilities	57,395	62,999	110,943	126,492
Other	39,960	33,174	93,995	99,344
TOTAL OPERATING EXPENSES	638,360	657,307	901,785	890,341
OPERATING INCOME (LOSS)	(5,275)	(61,719)	153,817	131,316
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	9,870	9,807	4,564	2,231
Other income	-	-	-	-
Loss on disposal of assets	-	-	-	-
Interest expense	(94,703)	(99,595)	(238,341)	(253,903)
TOTAL NONOPERATING REVENUES (EXPENSES)	(84,833)	(89,788)	(233,777)	(251,672)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(90,108)	(151,507)	(79,960)	(120,356)
CAPITAL CONTRIBUTIONS	57,525	118,923	48,036	99,897
CAPITAL CONTRIBUTIONS FROM GOVERNMENTAL FUNDS	-	-	-	-
TRANSFERS OUT	(166,760)	(104,024)	(71,865)	(22,724)
CHANGE IN NET POSITION	(199,343)	(136,608)	(103,789)	(43,183)
NET POSITION (RESTATED), JANUARY 1	7,463,386	7,599,994	7,597,538	7,640,721
NET POSITION (RESTATED), DECEMBER 31	\$ 7,264,043	\$ 7,463,386	\$ 7,493,749	\$ 7,597,538

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

Business-type Activities - Enterprise Funds

Ambulance		Other Proprietary		Totals	
2012	2011	2012	Restated 2011	2012	Restated 2011
\$ 410,061	\$ 408,042	\$ 316,547	\$ 295,827	\$ 2,415,295	\$ 2,321,114
303,220	274,727	76,965	73,154	652,742	594,345
48,003	42,167	1,647	1,703	145,433	139,873
9,964	6,297	265	558	42,907	52,897
48,765	48,371	12,305	10,900	885,267	885,070
-	-	16,950	16,950	16,950	16,950
2,773	2,637	-	-	15,410	13,968
14,492	14,908	-	-	182,830	204,399
47,829	61,546	87,562	72,596	269,346	266,660
475,046	450,653	195,694	175,861	2,210,885	2,174,162
(64,985)	(42,611)	120,853	119,966	204,410	146,952
13	30	264	11	14,711	12,079
9,336	10,093	4,326	556	13,662	10,649
(344)	-	-	-	(344)	-
-	-	(12,832)	(5,804)	(345,876)	(359,302)
9,005	10,123	(8,242)	(5,237)	(317,847)	(336,574)
(55,980)	(32,488)	112,611	114,729	(113,437)	(189,622)
-	-	-	-	105,561	218,820
12,052	-	-	11,620	12,052	11,620
(2,500)	-	(22,500)	-	(263,625)	(126,748)
(46,428)	(32,488)	90,111	126,349	(259,449)	(85,930)
477,094	509,582	345,924	219,575	15,883,942	15,969,872
\$ 430,666	\$ 477,094	\$ 436,035	\$ 345,924	\$ 15,624,493	\$ 15,883,942

CITY OF CANNON FALLS, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED ON THE FOLLOWING PAGES
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	Water Utility		Disposal	
	2012	Restated 2011	2012	Restated 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 623,449	\$ 596,053	\$ 1,043,729	\$ 1,027,480
Payments to suppliers	(138,502)	(187,405)	(263,153)	(286,931)
Payments to employees	(133,457)	(132,009)	(132,138)	(109,302)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>351,490</u>	<u>276,639</u>	<u>648,438</u>	<u>631,247</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers out	<u>(166,760)</u>	<u>(104,024)</u>	<u>(71,865)</u>	<u>(22,724)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Permits and connection fees received	2,450	-	2,450	-
Special assessments received	309,415	270,931	252,050	221,049
Acquisition of capital assets	(345,165)	(268,808)	(293,800)	(216,712)
Proceeds from bonds issued	-	751,059	-	573,177
Bond issuance costs paid	-	(6,203)	-	(4,734)
Principal paid on capital leases	(2,502)	(2,385)	(2,502)	(54,793)
Principal paid on bonds	(310,000)	(3,753,442)	(636,000)	(612,759)
Interest paid on bonds and capital leases	<u>(92,376)</u>	<u>(114,190)</u>	<u>(242,294)</u>	<u>(253,913)</u>
NET CASH (PROVIDED) USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(438,178)</u>	<u>(3,123,038)</u>	<u>(920,096)</u>	<u>(348,685)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received from investments	<u>11,065</u>	<u>9,751</u>	<u>4,232</u>	<u>2,474</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(242,383)	(2,940,672)	(339,291)	262,312
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>1,414,000</u>	<u>4,354,672</u>	<u>945,302</u>	<u>682,990</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,171,617</u>	<u>\$ 1,414,000</u>	<u>\$ 606,011</u>	<u>\$ 945,302</u>

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

Business-type Activities - Enterprise Funds

Ambulance		Other Proprietary		Totals	
2012	2011	2012	Restated 2011	2012	Restated 2011
\$ 465,127	\$ 452,287	\$ 317,210	\$ 291,670	\$ 2,449,515	\$ 2,367,490
(123,887)	(149,588)	(104,870)	(92,011)	(630,412)	(715,935)
(299,886)	(281,662)	(76,888)	(72,000)	(642,369)	(594,973)
<u>41,354</u>	<u>21,037</u>	<u>135,452</u>	<u>127,659</u>	<u>1,176,734</u>	<u>1,056,582</u>
<u>(2,500)</u>	<u>-</u>	<u>(22,500)</u>	<u>-</u>	<u>(263,625)</u>	<u>(126,748)</u>
-	-	-	-	4,900	-
-	-	-	-	561,465	491,980
-	(157,682)	(296,066)	(207,897)	(935,031)	(851,099)
-	-	-	335,965	-	1,660,201
-	-	-	(2,754)	-	(13,691)
-	-	(8,443)	(11,131)	(13,447)	(68,309)
-	-	-	-	(946,000)	(4,366,201)
-	-	(11,483)	(1,216)	(346,153)	(369,319)
<u>-</u>	<u>(157,682)</u>	<u>(315,992)</u>	<u>112,967</u>	<u>(1,674,266)</u>	<u>(3,516,438)</u>
<u>13</u>	<u>30</u>	<u>228</u>	<u>-</u>	<u>15,538</u>	<u>12,255</u>
38,867	(136,615)	(202,812)	240,626	(745,619)	(2,574,349)
<u>29,227</u>	<u>165,842</u>	<u>329,352</u>	<u>88,726</u>	<u>2,717,881</u>	<u>5,292,230</u>
<u>\$ 68,094</u>	<u>\$ 29,227</u>	<u>\$ 126,540</u>	<u>\$ 329,352</u>	<u>\$ 1,972,262</u>	<u>\$ 2,717,881</u>

CITY OF CANNON FALLS, MINNESOTA
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	Water Utility		Disposal	
	2012	2011	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (5,275)	\$ (61,719)	\$ 153,817	\$ 131,316
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Other income related to operations	-	-	-	-
Depreciation	334,668	335,467	489,529	490,332
(Increase) decrease in assets				
Accounts receivable	(9,636)	465	(11,873)	5,823
Special assessments receivable	-	-	-	-
Inventory	(1,462)	10,341	(10,500)	(3,871)
Prepaid items	(94)	386	(447)	(539)
Increase (decrease) in liabilities				
Accounts and contracts payable	30,949	(11,034)	23,288	5,798
Due to other governments	2	(32)	-	-
Accrued salaries payable	469	652	522	83
Compensated absences payable	1,869	2,113	4,102	2,305
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 351,490</u>	 <u>\$ 276,639</u>	 <u>\$ 648,438</u>	 <u>\$ 631,247</u>
 NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital assets contributed by other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Capital assets contributed by developers	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net disposal of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Capital assets purchased under capital lease	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Business-type Activities - Enterprise Funds

Ambulance		Other Proprietary		Totals	
2012	2011	2012	2011	2012	2011
\$ (64,985)	\$ (42,611)	\$ 120,853	\$ 119,966	\$ 204,410	\$ 146,952
9,336	10,093	4,326	556	13,662	10,649
48,765	48,371	12,305	10,900	885,267	885,070
45,730	34,152	(1,277)	(1,271)	22,944	39,169
-	-	(2,386)	(3,442)	(2,386)	(3,442)
-	-	-	-	(11,962)	6,470
(727)	(406)	(3)	16	(1,271)	(543)
(99)	(21,627)	1,557	(220)	55,695	(27,083)
-	-	-	-	2	(32)
1,530	(7,496)	177	180	2,698	(6,581)
1,804	561	(100)	974	7,675	5,953
<u>\$ 41,354</u>	<u>\$ 21,037</u>	<u>\$ 135,452</u>	<u>\$ 127,659</u>	<u>\$ 1,176,734</u>	<u>\$ 1,056,582</u>
<u>\$ 12,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,288</u>	<u>\$ 12,052</u>	<u>\$ 67,288</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,000</u>	<u>\$ -</u>	<u>\$ 45,000</u>
<u>\$ 83,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,843</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,630</u>	<u>\$ -</u>	<u>\$ 72,630</u>

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CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Cannon Falls, Minnesota (the City), operates under a home rule charter form of government as defined in the State of Minnesota statutes, which is termed the “Mayor-City Council Plan.” The City is governed by an elected Mayor and a six-member City Council. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Component units for which the City has been determined to be financially accountable can be blended with the primary government or be included as a discrete presentation. Included in the City’s reporting entity, based upon the application of these criteria, is the following discretely presented component unit. The discretely presented component unit is reported in a separate column in the government-wide financial statements.

Economic Development Authority. The Economic Development Authority (EDA) of the City was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment consistent with policies established by the City Council. The EDA is governed by five board members, two of which are City Council members and three are at-large members. The City Council appoints the EDA governing board and approves tax levies. Thus, the EDA has been reported as a discretely presented component unit and does not prepare separate financial statements. The EDA fund financial statements begin on page 112.

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 and the proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. 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 only when payment is due.

Property taxes, franchise taxes, licenses 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.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports major governmental funds that are calculated based on the following criteria:

- 1) Total assets, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (that is, total governmental or total enterprise funds),

and

- 2) Total assets, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The following major governmental funds meet the criteria described above:

The *General* fund is the City'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 is used for the servicing of general long-term debt not being financed by the proprietary fund.

The *2011 West Side Reconstruction Project* fund is set up to account for financial resources for the 2011 reconstruction project.

The *2012 Library Construction* fund is set up to account for the financial resources for the construction of the new library.

The City reports the following major proprietary funds:

The *Water Utility* fund is used for the activities of the water distribution system the City maintains.

The *Disposal* fund is used for the activities of the City's sewage collection operations.

The *Ambulance* fund is used for the activities related to the ambulance and emergency services the City provides.

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water and disposal function 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.

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 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 on capital assets. All revenues and expenses not meeting this definition 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.

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, liabilities, and deferred inflows of resources and net position/fund balance

Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes and the City's investment policy as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities in (1) above.
3. Minnesota Municipal Money Market fund and certificates of deposit with preference to local financial institutions.
4. Commercial paper issued by United States banks, corporations, or their Canadian subsidiaries, of highest quality, and maturing in 270 days or less rated by at least two of the three rating agencies. (Moody's, A-1/ Standard and Poor's, P-1/ Fitches, F-1)

It is the City's policy to invest in a manner which seeks to insure the preservation of capital. Safety of principal is the foremost objective, but liquidity and yield are also important considerations. It is essential that cash is available when needed, therefore the goal is to maximize yield while matching maturity dates with expenditure needs. All participating in the investment process shall seek to act responsibly as custodians of the public trust.

It is the policy of the City to invest available fund at the highest rates attainable at the time of the investment, however giving preference to local financial institutions where the highest local bid is not more than .25 percent less than the non-local investment.

Investments may be held in safekeeping with any federal reserve bank, any bank authorized under laws of the United States or any state to exercise corporate trust powers, including but not limited to the bank from which it is purchased. The City's ownership of all securities shall be evidenced by a written acknowledge identifying the securities by name of issue, maturity date, interest rate and serial number or other distinguishing mark

Investments for the City are reported at fair value. The Minnesota Municipal Money Market Fund (4M) operates in accordance with appropriate state laws and regulations. The 4M fund is an external investment pool not registered with the Securities and Exchange Commission (SEC); however, it follows the same regulatory rules of the SEC under rule 2a7. The reported value of the pool is the same as the fair value of the pool shares. Financial statements of the 4M Fund can be obtained by contacting RBC Global Asset Management (U.S.) Inc. at 100 South Fifth Street Suite 2300, Minneapolis, MN 55402-1240.

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2012. The City annually certifies delinquent water and disposal accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established for water and disposal funds. The Ambulance fund has an allowance for uncollectible accounts set at 25 percent of the outstanding balance. This amount totaled \$31,713 as of December 31, 2012.

Property taxes

The City Council annually adopts a tax levy in December and certifies it to the County for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, July and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes receivable have been offset by a deferred inflow of resources liability for delinquent taxes not received within 60 days after year end in the governmental fund financial statements.

Special assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end and when the following years levy is certified. All other governmental special assessments receivable not received within 60 days after year end are offset by a deferred inflow of resources liability in the fund financial statements.

Interfund 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 "internal balances."

Inventories and prepaid items

Inventories are valued at lower of cost or market, using the first-in, first-out (FIFO) method.

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

CITY OF CANNON FALLS, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years for equipment and \$1,000 for land. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Assets	Useful Lives in Years
Land improvements	5 to 30
Buildings and improvements	15 to 40
System improvements/infrastructure	15 to 50
Machinery and equipment	3 to 20
Vehicles	3 to 15

Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: property taxes, special assessments, loans receivable and contract for deed receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick leave, which is paid to the employee upon separation. In governmental fund types, the cost of these benefits is recognized when payments are made to the employees. Employees can accumulate to a total of 320 hours of vacation and 960 hours of sick leave. Proprietary fund types accrue vacation and sick leave in the period it is earned. A liability of \$195,096 represents accrued vacation and sick leave unused at year end for the governmental and business-type activities. The General fund is typically used to liquidate governmental fund compensated absences. The liability in the discretely presented component unit totals \$11,260.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. The recognition of bond premiums and discounts are delayed and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized 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.

Fund balance

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

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator or Finance Director.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

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

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 45-50 percent of budgeted operating expenditures for cash-flow timing needs.

CITY OF CANNON FALLS, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net position

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of “restricted” or “net investment in capital assets”.

Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statement in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

Note 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 for the General, special revenue and certain Debt Service funds. All annual appropriations lapse at fiscal yearend. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 15th, the proposed budget is presented to the City Council for review. The City Council adopts a preliminary maximum budget. Truth-in-taxation notices are mailed out to residents by the County. The City Council holds public hearings and adopts a budget and tax levy in December.

The appropriated budget is prepared by fund, function and department. The City’s Administrator may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. There were no budget amendments made during 2012.

B. Deficit fund equity

The following funds had fund equity deficits at December 31, 2012:

Fund	Amount
Special revenue	
Fire Department Operations	\$ 4,684
Capital project	
Police Capital	12,464
2012 Library Construction	145,819
2013 Eastside Improvement Project	40,216

The deficits will be eliminated with future revenue, transfers, donations, tax levies, and donations to the library project.

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by Minnesota statutes. Each fund's portion of this pool (or pools) is displayed on the financial statements as "cash and investments." For purposes of identifying the risk of investing public funds, the balances are categorized as follows:

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$2,671,281 and the bank balance was \$2,690,259. The bank balance was covered by federal depository insurance totaling \$1,427,663, with the rest covered by collateral held by the City's agent in the City's name.

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

Investments are carried at fair value. Investment and dividend income are recognized as revenue when earned. The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes and the City's investment policy limit the City's investments.
- *Custodial Credit Risk.* Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. The City is exposed to custodial credit risk in relation to the CDs invested in the CDARS program.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount that may be invested in any one issuer.
- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy limits its exposure to interest rate risk.

The Minnesota Municipal Money Market Fund (4M Fund) is a customized cash management and investment program for Minnesota public funds. Sponsored and governed by the League of Minnesota Cities since 1987, the 4M Fund is a unique investment alternative designed to address the daily and long term investment needs of Minnesota cities and other municipal entities. Allowable under Minnesota statutes, the 4M Fund is comprised of top quality, rated investments.

At year end, the City's investment balances were as follows:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Non-pooled			
Negotiable CDs	N/A	Less than 6 months	\$ 193,022
Negotiable CDs	N/A	1 to 3 years	197,604
Negotiable CDs	N/A	More than 3 years	199,367
U.S. Government Agencies	AAA	More than 3 years	250,323
U.S. Treasury Securities	AAA	1 to 3 years	<u>1,395,708</u>
Total nonpooled			2,236,024
Pooled			
4M Fund	N/A	Less than 6 months	<u>5,928,878</u>
Total investments			<u><u>\$ 8,164,902</u></u>

(1) Ratings are provided by Standard & Poors agency where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

CITY OF CANNON FALLS, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

A reconciliation of cash and temporary investments as shown on the statement of net position for the City follows:

Carrying amount of deposits	\$ 2,671,281
Investments	8,164,902
Cash on hand	<u>440</u>
Total	<u><u>\$ 10,836,623</u></u>

As reported in the financial statements

Statement of net position

Primary government

Governmental activities

Cash and temporary investments
 \$ 7,040,869 |

Cash held with fiscal agent
 1,395,708 |

Business-type activities

Cash and temporary investments
 1,972,262 |

Component unit

Economic Development Authority

Cash and temporary investments
 427,784 |

Total
 \$ 10,836,623 |

B. Deposit receivable

Economic Development Authority

On December 31, 2002, the discretely presented component unit deposited \$25,000 into the Minnesota Community Fund to finance a loan program. The deposit carries no interest rate.

\$ 25,000

C. Loans receivable

Economic Development Authority

On December 1, 2010, the EDA authorized a loan up to \$75,000 to Sibley Engineering at the rate of 3 percent per year. The loan is due February 1, 2016. Monthly payments of \$518 are due beginning March 1, 2011. During 2012, the EDA loaned \$1,525 of the original \$75,000. The outstanding balance as of December 31, 2012 was \$67,536.

On November 29, 2012, the EDA loaned \$150,000 to ArtOrg at the rate of 3 percent per year. The loan is due November 29, 2017. Month payments of \$1,035.87 are due beginning December 29, 2012. The outstanding balance as of December 31, 2012 was \$147,755.

The total loan receivable balance as of December 31, 2012 was \$215,291.

D. Contract for deed

On March 15, 2012, the EDA entered into a contract for deed with S&S Investment Properties, LLP for the purchase of land for \$31,430 with an interest rate of 3 percent per year. The loan is due March 1, 2019. Semi-annual payments of \$2,245 are due beginning September 1, 2012. The outstanding balance as of December 31, 2012 was \$29,185.

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CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Capital assets

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

Primary government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 958,174	\$ -	\$ -	\$ 958,174
Construction in progress	678,862	817,643	(1,456,288)	40,217
	<u>1,637,036</u>	<u>817,643</u>	<u>(1,456,288)</u>	<u>998,391</u>
Total capital assets not being depreciated				
Capital assets being depreciated				
Buildings and improvements	3,500,027	1,346,223	-	4,846,250
System improvements/infrastructure	8,093,167	1,496,885	-	9,590,052
Machinery and equipment	1,266,079	233,112	(72,252)	1,426,939
Vehicles	2,067,239	383,857	-	2,451,096
	<u>14,926,512</u>	<u>3,460,077</u>	<u>(72,252)</u>	<u>18,314,337</u>
Total capital assets being depreciated				
Less accumulated depreciation for				
Buildings and improvements	(894,198)	(92,132)	-	(986,330)
System improvements/infrastructure	(1,969,337)	(266,886)	-	(2,236,223)
Machinery and equipment	(794,296)	(84,143)	43,242	(835,197)
Vehicles	(1,425,554)	(115,572)	-	(1,541,126)
	<u>(5,083,385)</u>	<u>(558,733)</u>	<u>43,242</u>	<u>(5,598,876)</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>9,843,127</u>	<u>2,901,344</u>	<u>(29,010)</u>	<u>12,715,461</u>
Governmental activities capital assets, net	<u>\$ 11,480,163</u>	<u>\$ 3,718,987</u>	<u>\$ (1,485,298)</u>	<u>\$ 13,713,852</u>

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 87,816	\$ -	\$ -	\$ 87,816
Construction in progress	693,417	898,030	(1,551,230)	40,217
	<u>781,233</u>	<u>898,030</u>	<u>(1,551,230)</u>	<u>128,033</u>
Total capital assets not being depreciated				
	<u>781,233</u>	<u>898,030</u>	<u>(1,551,230)</u>	<u>128,033</u>
Capital assets being depreciated				
Buildings and improvements	15,980	-	-	15,980
System improvements/infrastructure	29,770,929	1,576,265	-	31,347,194
Machinery and equipment	889,030	24,018	(83,843)	829,205
Vehicles	479,775	-	-	479,775
	<u>31,155,714</u>	<u>1,600,283</u>	<u>(83,843)</u>	<u>32,672,154</u>
Total capital assets being depreciated				
	<u>31,155,714</u>	<u>1,600,283</u>	<u>(83,843)</u>	<u>32,672,154</u>
Less accumulated depreciation for				
Buildings and improvements	(7,377)	(535)	-	(7,912)
System improvements/infrastructure	(8,083,885)	(786,868)	-	(8,870,753)
Machinery and equipment	(446,874)	(58,685)	83,499	(422,060)
Vehicles	(213,752)	(39,179)	-	(252,931)
	<u>(8,751,888)</u>	<u>(885,267)</u>	<u>83,499</u>	<u>(9,553,656)</u>
Total accumulated depreciation				
	<u>(8,751,888)</u>	<u>(885,267)</u>	<u>83,499</u>	<u>(9,553,656)</u>
Total capital assets being depreciated, net				
	<u>22,403,826</u>	<u>715,016</u>	<u>(344)</u>	<u>23,118,498</u>
Business-type activities capital assets, net				
	<u><u>\$ 23,185,059</u></u>	<u><u>\$ 1,613,046</u></u>	<u><u>\$ (1,551,574)</u></u>	<u><u>\$ 23,246,531</u></u>

CITY OF CANNON FALLS, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

Governmental activities

General government	\$ 51,280
Public safety	149,131
Public works	326,694
Culture and recreation	31,628
	<u>558,733</u>

Total depreciation expense - governmental activities	\$ <u>558,733</u>
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Business-type activities

Water Utility	\$ 334,668
Disposal	489,529
Ambulance	48,765
Storm Water	12,305
	<u>885,267</u>

Total depreciation expense - business-type activities	\$ <u>885,267</u>
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Discretely presented component units

Activity for the Economic Development Authority for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,324,362	\$ -	\$ (38,187)	\$ 1,286,175

CITY OF CANNON FALLS, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Transfers

Interfund transfers

The composition of interfund transfers as of December 31, 2012, is as follows:

Fund	Transfers in			Total
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	
Transfer out				
General	\$ -	\$ -	\$ 103,311	\$ 103,311
2012 Library Construction	-	-	56,474	56,474
Nonmajor governmental	30,000	286,766	-	316,766
Water Utility	5,000	151,760	10,000	166,760
Disposal	5,000	56,865	10,000	71,865
Ambulance	2,500	-	-	2,500
Nonmajor enterprise	2,500	20,000	-	22,500
Total transfers out	<u>\$ 45,000</u>	<u>\$ 515,391</u>	<u>\$ 179,785</u>	<u>\$ 740,176</u>

Transfers were made for the following purposes:

- The General fund transferred \$103,311 to nonmajor governmental funds for project costs and future capital purchases.
- Nonmajor governmental funds transferred \$286,766 to Debt Service funds for 2012 bond payments.
- The Water Utility and Disposal funds transferred \$151,760 and \$56,865, respectively, to debt service for 2012 bond payments. Nonmajor enterprise funds also transferred \$20,000 to Debt Service funds for bond payments.
- Various funds transferred \$45,000 to the general fund for personnel expenses.
- The Water Utility and Disposal each transferred \$10,000 to nonmajor governmental funds for future capital purchases.
- The 2012 Library Construction fund transferred \$56,474 to nonmajor governmental funds to reimburse funds for prior year expenses.

G. Operating lease

The City leases three police vehicles under five-year operating lease agreements. Total lease payments for the year ended December 31, 2012 were \$12,033. The future minimum lease payments are as follows:

Year Ending December 31,	Amount
2013	<u>\$ 12,033</u>

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

H. Long-term debt

General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for general government activities. In addition, bonds have been issued to refund general obligation bonds.

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

General obligation improvement bonds

The following bonds were issued to finance various improvements and will be repaid from special assessments levied on the properties benefiting from the improvements and ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2003A	\$ 2,860,000	3.00 - 3.20 %	07/01/03	03/01/14	\$ 210,000
G.O. Refunding Permanent Improvement Revolving Bonds of 2006A	3,245,000	4.00 - 4.20	05/25/06	02/01/13	1,945,000
G.O. Permanent Improvement Revolving Bonds of 2006B	3,410,000	3.70 - 4.05	09/20/06	02/01/15	2,010,000
G.O. Improvement Bonds of 2011A	3,150,000	2.00 - 3.40	10/13/11	02/01/32	3,150,000
G.O. Improvement Bonds of 2012A	932,000	.75 - 2.5	05/01/12	02/01/22	932,000
G.O. Refunding Permanent Bonds of 2012B	3,085,000	1.00 - 1.65	11/28/12	02/01/23	<u>3,085,000</u>
 Total G.O. Improvement Bonds					 <u><u>\$ 11,332,000</u></u>

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

Year Ending December 31,	G.O. Improvement Bonds Governmental Activities			G.O. Improvement Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
	2013	\$ 2,635,000	\$ 191,992	\$ 2,826,992	\$ 55,000	\$ 44,656
2014	803,000	140,673	943,673	70,000	43,405	113,405
2015	2,050,000	100,666	2,150,666	70,000	42,005	112,005
2016	644,000	64,146	708,146	70,000	40,606	110,606
2017	640,000	56,576	696,576	70,000	39,205	109,205
2018 - 2022	2,140,000	182,191	2,322,191	380,000	173,054	553,054
2023 - 2027	750,000	43,943	793,943	435,000	121,557	556,557
2028 - 2032	-	-	-	520,000	45,560	565,560
Total	\$ 9,662,000	\$ 780,187	\$10,442,187	\$ 1,670,000	\$ 550,048	\$ 2,220,048

General obligation revenue bonds

The following bonds were issued to finance expansion to the water and wastewater system. They will be retired with assessments against the benefited properties.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. MN Public Facilities Authority Bond 2001 - Water and Wastewater Improvements	\$ 4,529,000	3.07 %	06/27/01	08/20/21	\$ 2,513,000
G.O. MN Public Facilities Authority Bond 2001 - Wastewater	8,021,909	2.86	11/20/01	08/20/22	4,647,909
G.O. Water Revenue Refunding Bonds - Series 2010A	3,560,000	1.00 - 3.50	12/09/10	08/01/21	<u>2,990,000</u>
Total G.O. Revenue Bonds					<u>\$ 10,150,909</u>

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

Year Ending December 31,	G.O. Revenue Bonds Business-type Activities		
	Principal	Interest	Total
2013	\$ 965,000	\$ 281,790	\$ 1,246,790
2014	989,000	258,818	1,247,818
2015	1,014,000	234,598	1,248,598
2016	1,039,000	208,759	1,247,759
2017	1,065,000	181,109	1,246,109
2018 - 2022	<u>5,078,909</u>	<u>426,331</u>	<u>5,505,240</u>
Total	<u>\$ 10,150,909</u>	<u>\$ 1,591,405</u>	<u>\$ 11,742,314</u>

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Capital lease obligation

The City has entered into capital lease agreements for the purchase of equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Sweeper	\$ 145,260	4.30 %	03/25/11	03/25/21	\$ 115,887
Telephone System	55,240	-	10/20/09	09/20/14	20,254
New Holland Snowblower	100,000	4.65	01/15/10	01/15/15	51,086
 Total Capital Leases					 <u>\$ 187,227</u>

Annual debt service requirements to maturity for capital leases are as follows:

Year Ending December 31,	Capital Leases Governmental Activities			Capital Leases Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 25,623	\$ 4,388	\$ 30,011	\$ 14,044	\$ 4,912	\$ 18,956
2014	24,447	3,722	28,169	14,684	4,303	18,987
2015	16,071	3,026	19,097	15,354	3,662	19,016
2016	7,054	2,292	9,346	7,054	2,992	10,046
2017	7,364	1,982	9,346	7,364	2,292	9,656
2018-2021	24,090	3,949	28,039	24,078	5,931	30,009
Total	<u>\$ 104,649</u>	<u>\$ 19,359</u>	<u>\$ 124,008</u>	<u>\$ 82,578</u>	<u>\$ 24,092</u>	<u>\$ 106,670</u>

Assets related to the above outstanding capital lease obligations are as follows:

Asset	Governmental Activities	Business-type Activities
Machinery and equipment	\$ 191,196	\$ 132,544
Less: Accumulated depreciation	<u>(32,139)</u>	<u>(19,489)</u>
Total	<u>\$ 159,057</u>	<u>\$ 113,055</u>

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in long-term liabilities

During the year ended December 31, 2012, the following changes in long-term liabilities occurred:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
General obligation special assessment bonds	\$ 6,385,000	\$ 4,017,000	\$ (740,000)	\$ 9,662,000	\$ 2,635,000
Capital leases payable	129,638	-	(24,987)	104,651	25,623
Compensated absences payable	<u>157,900</u>	<u>55,200</u>	<u>(39,475)</u>	<u>173,625</u>	<u>43,405</u>
Governmental activity long-term liabilities	<u>\$ 6,672,538</u>	<u>\$ 4,072,200</u>	<u>\$ (804,462)</u>	<u>\$ 9,940,276</u>	<u>\$ 2,704,028</u>
Business-type activities					
Bonds payable					
General obligation revenue bonds	\$ 11,096,909	\$ -	\$ (946,000)	\$ 10,150,909	\$ 965,000
General obligation improvement bonds	1,670,000	-	-	1,670,000	55,000
Capital leases payable	96,023	-	(13,446)	82,577	14,044
Compensated absences payable	<u>37,196</u>	<u>16,973</u>	<u>(9,299)</u>	<u>44,870</u>	<u>11,218</u>
Business-type activity long-term liabilities	<u>\$ 12,900,128</u>	<u>\$ 16,973</u>	<u>\$ (968,745)</u>	<u>\$ 11,948,356</u>	<u>\$ 1,045,262</u>
Component unit - EDA					
Compensated absences payable	<u>\$ 11,260</u>	<u>\$ 4,264</u>	<u>\$ (2,815)</u>	<u>12,709</u>	<u>\$ 3,177</u>

Crossover refunding

On November 28, 2012 the City issued \$3,085,000 of General Obligation Improvement Crossover Refunding Bonds, Series 2012B. The bond issued will crossover refund the General Obligation Permanent Improvement Revolving Fund Refunding Bonds, Series 2006A and the General Obligation Permanent Improvement Revolving Fund Bonds, Series 2006B. The proceeds of the bonds were deposited in an escrow account and will be used to pay issuance cost and to purchase securities bearing interest at such interest rates to provide sufficient funds to refund old bonds. The General Obligation Permanent Improvement Revolving Fund Refunding Bonds, Series 2006A bonds will be refunded on February 1, 2013 and the General Obligation Permanent Improvement Revolving Fund Bonds, Series 2006B will be refunded on February 1, 2015. The old bonds are not considered defeased until the crossover dates and therefore will not be removed as liabilities. As a result of the crossover refunding issue, the City will save \$280,125 in debt service payments and achieve an economic gain (the present value of the difference between the old and the new debt service) of \$263,661.

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

I. Fund balance

At December 31, 2012, portions of the City's fund balance are not available for appropriation due to not being in spendable form (nonspendable), legal restrictions (restricted), City Council action (committed), policy and/or intent (assigned). The following is a summary of the components of fund balance:

	General	Debt Service	2011 Westside Reconstruction Project	2012 Library Construction	Other Governmental Funds	Total
Nonspendable for						
Prepaid items	\$ 22,863	\$ -	\$ -	\$ -	\$ 3,786	\$ 26,649
Restricted for						
Debt service	-	4,368,427	-	-	-	4,368,427
Cable television	-	-	-	-	109,711	109,711
Tax increment districts	-	-	-	-	312,985	312,985
2011 Westside reconstruction project	-	-	7,523	-	-	7,523
Total restricted	-	4,368,427	7,523	-	422,696	4,798,646
Committed for						
Public works capital	1,000,000	-	-	-	169,758	1,169,758
Fire capital	-	-	-	-	259,159	259,159
Ambulance capital	-	-	-	-	35,573	35,573
Administration capital	-	-	-	-	56,372	56,372
Park capital	-	-	-	-	224,564	224,564
Total committed	1,000,000	-	-	-	745,426	1,745,426
Assigned						
Library operations	260,000	-	-	-	70,809	330,809
Public improvements	-	-	-	-	221,080	221,080
Total assigned	260,000	-	-	-	291,889	551,889
Unassigned	1,572,388	-	-	(145,819)	(60,326)	1,366,243
 Total	 <u>\$2,855,251</u>	 <u>\$4,368,427</u>	 <u>\$ 7,523</u>	 <u>\$ (145,819)</u>	 <u>\$1,403,471</u>	 <u>\$8,488,853</u>

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan description

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

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

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

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

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

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

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

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

B. Funding policy

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The City makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.60 percent of their annual covered salary in 2012. The City of Cannon Falls is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERP members, 7.25 percent of Coordinated Plan GERP members and 14.40 percent for PEPFF members. The City of Cannon Falls contributions to the GERP for the years ending December 31, 2012, 2011 and 2010 were \$109,680, \$104,665, and \$98,714, respectively. The City's contributions to the PEPFF for the years ending December 31, 2012, 2011 and 2010 were \$62,135, \$60,825, and \$65,954, respectively. The City of Cannon Falls contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 5: OTHER INFORMATION

A. Legal debt margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The City has \$187,187 applied against the limit of \$9,124,043 at year end.

B. Risk management

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

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

C. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2012 was \$416,072. This accounted for 15 percent of General fund revenues.

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 6: COMMITMENTS AND CONTINGENCIES

Tax increment districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

Note 7: TRANSACTIONS BETWEEN THE PRIMARY GOVERNMENT AND ITS COMPONENT UNIT

The City conducts routine transactions with its component unit for services provided. The City provides administrative and financial services for the EDA activities. Other significant transactions between the primary government and its component unit are described in other notes.

Note 8: CHANGE IN ACCOUNTING PRINCIPAL

During fiscal year 2012, the City implemented several new accounting pronouncements issued by the Government Accounting Standards Board (GASB), including Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and Statement No. 65, "Items Previously Reported as Assets and Liabilities". These standards required a retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2012 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 1.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2010 balances to the December 31, 2012 financial statements:

Activities/Fund	Net Position December 31, 2010 as Previously Reported	(1) Restatement	Net Position January 1, 2011 as Restated
Governmental activities	\$ 11,742,310	\$ (82,468)	\$ 12,737,184
Business-type activities	\$ 16,039,027	\$ (69,155)	\$ 15,969,872
Proprietary funds			
Water	\$ 7,666,395	\$ (66,401)	\$ 7,599,994
Disposal	7,640,721	-	7,640,721
Ambulance	509,582	-	509,582
Storm Water	221,811	(2,754)	219,057
Deputy Registrar	905	-	905
Recycling Program	(387)	-	(387)
Total business-type activities	\$ 16,039,027	\$ (69,155)	\$ 15,969,872

(1) Write-off of unamortized bond issuance cost balances at December 31, 2010.

CITY OF CANNON FALLS, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note 8: ACCOUNTING CHANGE - CONTINUES

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2011 balances to the December 31, 2012 financial statements:

<u>Activities/Fund</u>	<u>Net Position December 31, 2011 as Previously Reported</u>	<u>(2) Restatement</u>	<u>Net Position January 1, 2012 as Restated</u>
Governmental activities	<u>\$ 12,915,053</u>	<u>\$ (85,066)</u>	<u>\$ 12,829,987</u>
Business-type activities	<u>\$ 15,956,302</u>	<u>\$ (72,360)</u>	<u>\$ 15,883,942</u>
Proprietary funds			
Water	\$ 7,529,185	\$ (65,799)	\$ 7,463,386
Disposal	7,601,686	(4,148)	7,597,538
Ambulance	477,094	-	477,094
Storm Water	331,712	(2,413)	329,299
Deputy Registrar	(2,080)	-	(2,080)
Recycling Program	<u>18,705</u>	<u>-</u>	<u>18,705</u>
Total business-type activities	<u>\$ 15,956,302</u>	<u>\$ (72,360)</u>	<u>\$ 15,883,942</u>

(2) Write-off of unamortized bond issuance cost balances at December 31, 2011.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF CANNON FALLS
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

CITY OF CANNON FALLS , MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2012

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Funds</u>
ASSETS			
Cash and temporary investments	\$ 124,632	\$ 1,255,582	\$ 1,380,214
Receivables			
Accrued interest	-	377	377
Taxes	-	271	271
Accounts	7,814	-	7,814
Special assessments	-	90,710	90,710
Due from other governments	52,608	7,228	59,836
Prepaid items	3,786	-	3,786
	<u>3,786</u>	<u>-</u>	<u>3,786</u>
TOTAL ASSETS	<u><u>\$ 188,840</u></u>	<u><u>\$ 1,354,168</u></u>	<u><u>\$ 1,543,008</u></u>
LIABILITIES			
Accounts and contracts payable	\$ 7,397	\$ 42,269	\$ 49,666
Accrued salaries payable	4,783	-	4,783
	<u>4,783</u>	<u>-</u>	<u>4,783</u>
TOTAL LIABILITIES	<u>12,180</u>	<u>42,269</u>	<u>54,449</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - special assessments	-	85,088	85,088
	<u>-</u>	<u>85,088</u>	<u>85,088</u>
FUND BALANCES			
Nonspendable	3,786	-	3,786
Restricted	109,711	312,985	422,696
Committed	-	745,426	745,426
Assigned	70,809	221,080	291,889
Unassigned	(7,646)	(52,680)	(60,326)
	<u>(7,646)</u>	<u>(52,680)</u>	<u>(60,326)</u>
TOTAL FUND BALANCES	<u>176,660</u>	<u>1,226,811</u>	<u>1,403,471</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 188,840</u></u>	<u><u>\$ 1,354,168</u></u>	<u><u>\$ 1,543,008</u></u>

CITY OF CANNON FALLS, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue	Capital Projects	Total Nonmajor Funds
REVENUES			
Taxes			
Property	\$ 293,490	\$ -	\$ 293,490
Tax increments	-	432,743	432,743
Franchise taxes	44,845	-	44,845
Intergovernmental	194,454	-	194,454
Charges for services	98,711	-	98,711
Fines and forfeitures	3,626	-	3,626
Special assessments	-	21,519	21,519
Interest on investments	-	4,376	4,376
Miscellaneous	3,688	18,191	21,879
	<u>638,814</u>	<u>476,829</u>	<u>1,115,643</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Public safety	172,600	-	172,600
Culture and recreation	349,009	-	349,009
Economic development	-	498,803	498,803
Capital outlay			
General government	-	26,580	26,580
Public safety	4,791	447,646	452,437
Public works	-	89,892	89,892
Culture and recreation	14,913	57,099	72,012
Economic development	-	27,084	27,084
	<u>541,313</u>	<u>1,147,104</u>	<u>1,688,417</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			
	<u>97,501</u>	<u>(670,275)</u>	<u>(572,774)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	115	179,670	179,785
Transfers out	(30,000)	(286,766)	(316,766)
	<u>(29,885)</u>	<u>(107,096)</u>	<u>(136,981)</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	67,616	(777,371)	(709,755)
FUND BALANCES, JANUARY 1	<u>109,044</u>	<u>2,004,182</u>	<u>2,113,226</u>
FUND BALANCES, DECEMBER 31	<u>\$ 176,660</u>	<u>\$ 1,226,811</u>	<u>\$ 1,403,471</u>

CITY OF CANNON FALLS, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2012

	Library	Cable Public Television	Fire Department Operations	Total
ASSETS				
Cash and temporary investments	\$ 25,374	\$ 101,897	\$ (2,639)	\$ 124,632
Accounts receivable	-	7,814	-	7,814
Due from other governments	52,608	-	-	52,608
Prepaid items	824	-	2,962	3,786
TOTAL ASSETS	<u>\$ 78,806</u>	<u>\$ 109,711</u>	<u>\$ 323</u>	<u>\$ 188,840</u>
LIABILITIES				
Accounts and contracts payable	\$ 2,390	\$ -	\$ 5,007	\$ 7,397
Accrued salaries payable	4,783	-	-	4,783
TOTAL LIABILITIES	<u>7,173</u>	<u>-</u>	<u>5,007</u>	<u>12,180</u>
FUND BALANCES				
Nonspendable	824	-	2,962	3,786
Restricted	-	109,711	-	109,711
Assigned	70,809	-	-	70,809
Unassigned	-	-	(7,646)	(7,646)
TOTAL FUND BALANCES	<u>71,633</u>	<u>109,711</u>	<u>(4,684)</u>	<u>176,660</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 78,806</u>	<u>\$ 109,711</u>	<u>\$ 323</u>	<u>\$ 188,840</u>

CITY OF CANNON FALLS, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Library</u>	<u>Cable Public Television</u>	<u>Fire Department Operations</u>	<u>Total</u>
REVENUES				
Taxes				
Property	\$ 222,851	\$ -	\$ 70,639	\$ 293,490
Franchise taxes	-	44,845	-	44,845
Intergovernmental				
State	53,668	-	35,570	89,238
County	105,216	-	-	105,216
Charges for services	627	604	97,480	98,711
Fines and forfeitures	3,626	-	-	3,626
Miscellaneous				
Contributions and donations	1,838	-	250	2,088
Other	86	-	1,514	1,600
TOTAL REVENUES	<u>387,912</u>	<u>45,449</u>	<u>205,453</u>	<u>638,814</u>
EXPENDITURES				
Current				
Public safety	-	-	172,600	172,600
Culture and recreation	334,485	14,524	-	349,009
Capital outlay				
Public safety	-	-	4,791	4,791
Culture and recreation	14,913	-	-	14,913
TOTAL EXPENDITURES	<u>349,398</u>	<u>14,524</u>	<u>177,391</u>	<u>541,313</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>38,514</u>	<u>30,925</u>	<u>28,062</u>	<u>97,501</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	115	-	-	115
Transfers out	-	(30,000)	-	(30,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>115</u>	<u>(30,000)</u>	<u>-</u>	<u>(29,885)</u>
NET CHANGE IN FUND BALANCES	38,629	925	28,062	67,616
FUND BALANCES, JANUARY 1	<u>33,004</u>	<u>108,786</u>	<u>(32,746)</u>	<u>109,044</u>
FUND BALANCES, DECEMBER 31	<u>\$ 71,633</u>	<u>\$ 109,711</u>	<u>\$ (4,684)</u>	<u>\$ 176,660</u>

CITY OF CANNON FALLS, MINNESOTA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012				2011
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 222,851	\$ 222,851	\$ 222,851	\$ -	\$ 241,346
Intergovernmental					
State	53,668	53,668	53,668	-	1,310
County	105,216	105,216	105,216	-	104,221
Charges for services	1,000	1,000	627	(373)	949
Fines and forfeitures	9,100	9,100	3,626	(5,474)	7,636
Miscellaneous					
Contributions and donations	3,000	3,000	1,838	(1,162)	7,620
Other	-	-	86	86	49
TOTAL REVENUES	394,835	394,835	387,912	(6,923)	363,131
EXPENDITURES					
Current					
Culture and recreation					
Personnel services	302,825	302,825	280,264	22,561	283,119
Supplies	7,300	7,300	4,802	2,498	4,663
Other services and charges	54,410	54,410	49,419	4,991	54,211
Capital outlay					
Culture and recreation	30,300	30,300	14,913	15,387	21,138
TOTAL EXPENDITURES	394,835	394,835	349,398	45,437	363,131
EXCESS OF REVENUES OVER EXPENDITURES	-	-	38,514	38,514	-
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	115	115	-
Transfers out	-	-	-	-	(25,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	115	115	(25,000)
NET CHANGE IN FUND BALANCES	-	-	38,629	38,629	(25,000)
FUND BALANCES, JANUARY 1	33,004	33,004	33,004	-	58,004
FUND BALANCES, DECEMBER 31	\$ 33,004	\$ 33,004	\$ 71,633	\$ 38,629	\$ 33,004

CITY OF CANNON FALLS, MINNESOTA
CABLE PUBLIC TELEVISION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012				2011
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget	Amounts
REVENUES					
Franchise taxes	\$ 35,000	\$ 35,000	\$ 44,845	\$ 9,845	\$ 39,539
Charges for services	-	-	604	604	-
TOTAL REVENUE	<u>35,000</u>	<u>35,000</u>	<u>45,449</u>	<u>10,449</u>	<u>39,539</u>
EXPENDITURES					
Current					
Culture and recreation					
Personnel services	3,800	3,800	931	2,869	4,725
Supplies	400	400	750	(350)	2,367
Other services and charges	14,000	14,000	12,843	1,157	6,201
TOTAL EXPENDITURES	<u>18,200</u>	<u>18,200</u>	<u>14,524</u>	<u>3,676</u>	<u>13,293</u>
EXCESS OF REVENUES OVER EXPENDITURES	16,800	16,800	30,925	6,773	26,246
OTHER FINANCING USES					
Transfers out	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	-	-
NET CHANGE IN FUND BALANCES	(13,200)	(13,200)	925	6,773	26,246
FUND BALANCES, JANUARY 1	<u>108,786</u>	<u>108,786</u>	<u>108,786</u>	-	<u>82,540</u>
FUND BALANCES, DECEMBER 31	<u>\$ 95,586</u>	<u>\$ 95,586</u>	<u>\$ 109,711</u>	<u>\$ 6,773</u>	<u>\$ 108,786</u>

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CITY OF CANNON FALLS, MINNESOTA
FIRE DEPARTMENT OPERATIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012				2011
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 70,639	\$ 70,639	\$ 70,639	\$ -	\$ 76,400
Intergovernmental revenue					
Federal	-	-	-	-	59,301
State	32,000	32,000	35,570	3,570	33,866
Charges for services	90,230	90,230	97,480	7,250	84,720
Miscellaneous					
Contributions and donations	-	-	250	250	10,897
Other	-	-	1,514	1,514	6,163
TOTAL REVENUES	192,869	192,869	205,453	12,584	271,347
EXPENDITURES					
Current					
Public safety					
Personnel services	56,525	56,525	50,131	6,394	53,961
Supplies	25,300	25,300	20,115	5,185	25,260
Other services and charges	110,294	110,294	102,354	7,940	133,448
Capital outlay					
Public safety	750	750	4,791	(4,041)	75,792
TOTAL EXPENDITURES	192,869	192,869	177,391	15,478	288,461
NET CHANGE IN FUND BALANCES	-	-	28,062	28,062	(17,114)
FUND BALANCES, JANUARY 1	(32,746)	(32,746)	(32,746)	-	(15,632)
FUND BALANCES, DECEMBER 31	<u>\$ (32,746)</u>	<u>\$ (32,746)</u>	<u>\$ (4,684)</u>	<u>\$ 28,062</u>	<u>\$ (32,746)</u>

CITY OF CANNON FALLS, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET - CONTINUED ON THE FOLLOWING PAGES
DECEMBER 31, 2012

	Public Improvement Revolving	Street Capital	Public Works Capital	Police Capital
ASSETS				
Cash and temporary investments	\$ 166,059	\$ 4,357	\$ 169,758	\$ (14,271)
Receivables				
Accrued interest	58	-	-	-
Taxes	-	-	-	-
Special assessments	90,710	-	-	-
Due from other governments	-	-	-	1,807
	<u>\$ 256,827</u>	<u>\$ 4,357</u>	<u>\$ 169,758</u>	<u>\$ (12,464)</u>
TOTAL ASSETS				
LIABILITIES				
Accounts and contracts payable	\$ -	\$ -	\$ -	\$ -
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - special assessments	85,088	-	-	-
FUND BALANCES				
Restricted	-	-	-	-
Committed	-	-	169,758	-
Assigned	171,739	4,357	-	-
Unassigned	-	-	-	(12,464)
	<u>171,739</u>	<u>4,357</u>	<u>169,758</u>	<u>(12,464)</u>
TOTAL FUND BALANCES				
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
	<u>\$ 256,827</u>	<u>\$ 4,357</u>	<u>\$ 169,758</u>	<u>\$ (12,464)</u>

<u>Fire Capital</u>	<u>Ambulance Capital</u>	<u>Administration Capital</u>	<u>Park Capital</u>	<u>Library Capital</u>	<u>Park Board</u>
\$ 256,167	\$ 33,766	\$ 56,372	\$ 45,718	\$ 44,984	\$ 178,846
246	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,614	1,807	-	-	-	-
<u>\$ 260,027</u>	<u>\$ 35,573</u>	<u>\$ 56,372</u>	<u>\$ 45,718</u>	<u>\$ 44,984</u>	<u>\$ 178,846</u>
<u>\$ 868</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
-	-	-	-	-	-
-	-	-	-	-	-
259,159	35,573	56,372	45,718	-	178,846
-	-	-	-	44,984	-
-	-	-	-	-	-
<u>259,159</u>	<u>35,573</u>	<u>56,372</u>	<u>45,718</u>	<u>44,984</u>	<u>178,846</u>
<u>\$ 260,027</u>	<u>\$ 35,573</u>	<u>\$ 56,372</u>	<u>\$ 45,718</u>	<u>\$ 44,984</u>	<u>\$ 178,846</u>

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CITY OF CANNON FALLS, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET - CONTINUED
DECEMBER 31, 2012

	<u>Tax Increment Financing District No. 2-1</u>	<u>Tax Increment Financing District No. 2-2</u>	<u>2013 Eastside Improvement Project</u>	<u>Total</u>
ASSETS				
Cash and temporary investments	\$ 164,251	\$ 148,390	\$ 1,185	\$ 1,255,582
Receivables				
Accrued interest	73	-	-	377
Taxes	271	-	-	271
Special assessments	-	-	-	90,710
Due from other governments	-	-	-	7,228
	<u>164,595</u>	<u>148,390</u>	<u>1,185</u>	<u>1,354,168</u>
TOTAL ASSETS	<u>\$ 164,595</u>	<u>\$ 148,390</u>	<u>\$ 1,185</u>	<u>\$ 1,354,168</u>
LIABILITIES				
Accounts and contracts payable	<u>\$ -</u>	<u>\$ -</u>	<u>41,401</u>	<u>\$ 42,269</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - special assessments	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,088</u>
FUND BALANCES				
Restricted	164,595	148,390	-	312,985
Committed	-	-	-	745,426
Assigned	-	-	-	221,080
Unassigned	<u>-</u>	<u>-</u>	<u>(40,216)</u>	<u>(52,680)</u>
TOTAL FUND BALANCES	<u>164,595</u>	<u>148,390</u>	<u>(40,216)</u>	<u>1,226,811</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 164,595</u>	<u>\$ 148,390</u>	<u>\$ 1,185</u>	<u>\$ 1,354,168</u>

CITY OF CANNON FALLS, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Public Improvement Revolving	Street Capital	Public Works Capital	Police Capital
REVENUES				
Tax increments	\$ -	\$ -	\$ -	\$ -
Special assessments	21,519	-	-	-
Interest on investments	91	-	114	-
Miscellaneous	-	-	-	-
TOTAL REVENUES	21,610	-	114	-
EXPENDITURES				
Current				
Economic development	-	-	-	-
Capital outlay				
General government	-	-	-	-
Public safety	-	-	-	72,937
Public works	-	-	49,676	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
TOTAL EXPENDITURES	-	-	49,676	72,937
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	21,610	-	(49,562)	(72,937)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	11,246	50,000	13,250
Transfers out	(16,766)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(16,766)	11,246	50,000	13,250
NET CHANGE IN FUND BALANCES	4,844	11,246	438	(59,687)
FUND BALANCES, JANUARY 1	166,895	(6,889)	169,320	47,223
FUND BALANCES, DECEMBER 31	<u>\$ 171,739</u>	<u>\$ 4,357</u>	<u>\$ 169,758</u>	<u>\$ (12,464)</u>

<u>Fire Capital</u>	<u>Ambulance Capital</u>	<u>Administration Capital</u>	<u>Park Capital</u>	<u>Library Capital</u>	<u>Park Board</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
364	-	-	-	-	723
9,949	8,242	-	-	-	-
<u>10,313</u>	<u>8,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>723</u>
-	-	-	-	-	-
-	-	26,580	-	-	-
357,072	17,637	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	57,099
-	-	-	-	-	-
<u>357,072</u>	<u>17,637</u>	<u>26,580</u>	<u>-</u>	<u>-</u>	<u>57,099</u>
<u>(346,759)</u>	<u>(9,395)</u>	<u>(26,580)</u>	<u>-</u>	<u>-</u>	<u>(56,376)</u>
16,250	5,600	11,250	5,600	66,474	-
-	-	-	-	-	-
<u>16,250</u>	<u>5,600</u>	<u>11,250</u>	<u>5,600</u>	<u>66,474</u>	<u>-</u>
(330,509)	(3,795)	(15,330)	5,600	66,474	(56,376)
589,668	39,368	71,702	40,118	(21,490)	235,222
<u>\$ 259,159</u>	<u>\$ 35,573</u>	<u>\$ 56,372</u>	<u>\$ 45,718</u>	<u>\$ 44,984</u>	<u>\$ 178,846</u>

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CITY OF CANNON FALLS, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012

	Tax Increment Financing District No. 2-1	Tax Increment Financing District No. 2-2	2013 Eastside Improvement Project	Total
REVENUES				
Tax increments	\$ 130,016	\$ 302,727	\$ -	\$ 432,743
Special assessments	-	-	-	21,519
Interest on investments	2,870	214	-	4,376
Miscellaneous	-	-	-	18,191
TOTAL REVENUES	132,886	302,941	-	476,829
EXPENDITURES				
Current				
Economic development	-	498,803	-	498,803
Capital outlay				
General government	-	-	-	26,580
Public safety	-	-	-	447,646
Public works	-	-	40,216	89,892
Culture and recreation	-	-	-	57,099
Economic development	27,084	-	-	27,084
TOTAL EXPENDITURES	27,084	498,803	40,216	1,147,104
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	105,802	(195,862)	(40,216)	(670,275)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	179,670
Transfers out	(270,000)	-	-	(286,766)
TOTAL OTHER FINANCING SOURCES (USES)	(270,000)	-	-	(107,096)
NET CHANGE IN FUND BALANCES	(164,198)	(195,862)	(40,216)	(777,371)
FUND BALANCES, JANUARY 1	328,793	344,252	-	2,004,182
FUND BALANCES, DECEMBER 31	\$ 164,595	\$ 148,390	\$ (40,216)	\$ 1,226,811

CITY OF CANNON FALLS, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	Storm Water		Deputy Registrar	
	2012	Restated 2011	2012	2011
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 96,525	\$ 317,799	\$ 2,638	\$ 39
Receivables				
Accrued interest	47	11	-	-
Accounts	13,706	12,044	622	1,006
Special assessments	10,074	7,491	-	-
Prepaid items	-	-	89	86
TOTAL CURRENT ASSETS	120,352	337,345	3,349	1,131
NONCURRENT ASSETS				
Capital assets				
Land and construction in progress	11,261	207,897	-	-
Depreciable buildings, property, and equipment	705,338	212,636	-	-
Accumulated depreciation	(24,278)	(11,973)	-	-
TOTAL NONCURRENT ASSETS	692,321	408,560	-	-
TOTAL ASSETS	812,673	745,905	3,349	1,131
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	207	892	100	16
Accrued interest payable	6,501	5,152	-	-
Accrued salaries payable	-	-	1,036	859
Bonds payable - current	11,065	-	-	-
Compensated absences payable - current	-	-	559	584
Capital lease payable - current	8,815	8,326	-	-
TOTAL CURRENT LIABILITIES	26,588	14,370	1,695	1,459
NONCURRENT LIABILITIES				
Bonds payable	324,900	335,965	-	-
Compensated absences payable	-	-	1,677	1,752
Capital lease payable	57,339	66,271	-	-
TOTAL NONCURRENT LIABILITIES	382,239	402,236	1,677	1,752
TOTAL LIABILITIES	408,827	416,606	3,372	3,211
NET POSITION				
Net investment in capital assets	290,202	126,066	-	-
Unrestricted	113,644	203,233	(23)	(2,080)
TOTAL NET POSITION	\$ 403,846	\$ 329,299	\$ (23)	\$ (2,080)

Business-type Activities - Enterprise Funds

Recycling Program		Totals	
2012	2011	2012	Restated 2011
\$ 27,377	\$ 11,514	\$ 126,540	\$ 329,352
-	-	47	11
8,705	8,706	23,033	21,756
3,848	4,045	13,922	11,536
-	-	89	86
<u>39,930</u>	<u>24,265</u>	<u>163,631</u>	<u>362,741</u>
-	-	11,261	207,897
-	-	705,338	212,636
-	-	(24,278)	(11,973)
-	-	<u>692,321</u>	<u>408,560</u>
<u>39,930</u>	<u>24,265</u>	<u>855,952</u>	<u>771,301</u>
7,718	5,560	8,025	6,468
-	-	6,501	5,152
-	-	1,036	859
-	-	11,065	-
-	-	559	584
-	-	8,815	8,326
<u>7,718</u>	<u>5,560</u>	<u>36,001</u>	<u>21,389</u>
-	-	324,900	335,965
-	-	1,677	1,752
-	-	57,339	66,271
-	-	<u>383,916</u>	<u>403,988</u>
<u>7,718</u>	<u>5,560</u>	<u>419,917</u>	<u>425,377</u>
-	-	290,202	126,066
32,212	18,705	145,833	219,858
<u>\$ 32,212</u>	<u>\$ 18,705</u>	<u>\$ 436,035</u>	<u>\$ 345,924</u>

CITY OF CANNON FALLS, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	Storm Water		Deputy Registrar	
	2012	Restated 2011	2012	2011
OPERATING REVENUES				
Charges for services	\$ 129,714	\$ 118,461	\$ 102,857	\$ 93,347
OPERATING EXPENSES				
Personnel services	-	-	75,754	73,154
Supplies	1,177	1,143	470	560
Repairs and maintenance	-	-	265	558
Depreciation	12,305	10,900	-	-
Rent	-	-	16,950	16,950
Other	9,114	2,003	4,861	5,110
TOTAL OPERATING EXPENSES	22,596	14,046	98,300	96,332
OPERATING INCOME (LOSS)	107,118	104,415	4,557	(2,985)
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	261	11	-	-
Other income	-	-	-	-
Interest expense	(12,832)	(5,804)	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(12,571)	(5,793)	-	-
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	94,547	98,622	4,557	(2,985)
CAPITAL CONTRIBUTIONS FROM GOVERNMENTAL FUNDS	-	11,620	-	-
TRANSFERS OUT	(20,000)	-	(2,500)	-
CHANGE IN NET POSITION	74,547	110,242	2,057	(2,985)
NET POSITION (RESTATED), JANUARY 1	329,299	219,057	(2,080)	905
NET POSITION, DECEMBER 31	\$ 403,846	\$ 329,299	\$ (23)	\$ (2,080)

Business-type Activities - Enterprise Funds

Recycling Program		Totals	
2012	2011	2012	Restated 2011
\$ 83,976	\$ 84,019	\$ 316,547	\$ 295,827
1,211	-	76,965	73,154
-	-	1,647	1,703
-	-	265	558
-	-	12,305	10,900
-	-	16,950	16,950
73,587	65,483	87,562	72,596
74,798	65,483	195,694	175,861
9,178	18,536	120,853	119,966
3	-	264	11
4,326	556	4,326	556
-	-	(12,832)	(5,804)
4,329	556	(8,242)	(5,237)
13,507	19,092	112,611	114,729
-	-	-	11,620
-	-	(22,500)	-
13,507	19,092	90,111	126,349
18,705	(387)	345,924	219,575
\$ 32,212	\$ 18,705	\$ 436,035	\$ 345,924

CITY OF CANNON FALLS, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	Storm Water		Deputy Registrar	
	2012	Restated 2011	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 125,469	\$ 114,765	\$ 103,241	\$ 93,002
Payments to suppliers	(10,976)	(3,656)	(22,465)	(23,146)
Payments to employees	-	-	(75,677)	(72,000)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>114,493</u>	<u>111,109</u>	<u>5,099</u>	<u>(2,144)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers out	<u>(20,000)</u>	<u>-</u>	<u>(2,500)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(296,066)	(207,897)	-	-
Proceeds from bonds issued	-	335,965	-	-
Bond issuance costs paid	-	(2,754)	-	-
Principal paid on capital lease	(8,443)	(11,131)	-	-
Interest paid on long-term debt	<u>(11,483)</u>	<u>(1,216)</u>	<u>-</u>	<u>-</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(315,992)</u>	<u>112,967</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received from investments	<u>225</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(221,274)	224,076	2,599	(2,144)
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>317,799</u>	<u>93,723</u>	<u>39</u>	<u>2,183</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 96,525</u>	<u>\$ 317,799</u>	<u>\$ 2,638</u>	<u>\$ 39</u>

Business-type Activities - Enterprise Funds

Recycling Program		Totals	
2012	2011	2012	Restated 2011
\$ 88,500	\$ 83,903	\$ 317,210	\$ 291,670
(71,429)	(65,209)	(104,870)	(92,011)
(1,211)	-	(76,888)	(72,000)
<u>15,860</u>	<u>18,694</u>	<u>135,452</u>	<u>127,659</u>
-	-	(22,500)	-
-	-	(296,066)	(207,897)
-	-	-	335,965
-	-	-	(2,754)
-	-	(8,443)	(11,131)
-	-	(11,483)	(1,216)
<u>-</u>	<u>-</u>	<u>(315,992)</u>	<u>112,967</u>
3	-	228	-
15,863	18,694	(202,812)	240,626
<u>11,514</u>	<u>(7,180)</u>	<u>329,352</u>	<u>88,726</u>
<u>\$ 27,377</u>	<u>\$ 11,514</u>	<u>\$ 126,540</u>	<u>\$ 329,352</u>

CITY OF CANNON FALLS, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	Storm Water		Deputy Registrar	
	2012	Restated 2011	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 107,118	\$ 104,415	\$ 4,557	\$ (2,985)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	-	-	-	-
Depreciation	12,305	10,900	-	-
(Increase) decrease in assets				
Accounts receivable	(1,662)	(494)	384	(345)
Special assessments receivable	(2,583)	(3,202)	-	-
Prepaid items	-	-	(3)	16
Increase (decrease) in liabilities				
Accounts and contracts payable	(685)	(510)	84	16
Accrued salaries payable	-	-	177	180
Compensated absences payable	-	-	(100)	974
Accrued interest payable	-	-	-	-
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>\$ 114,493</u>	 <u>\$ 111,109</u>	 <u>\$ 5,099</u>	 <u>\$ (2,144)</u>
 NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital assets contributed by other funds	<u>\$ -</u>	<u>\$ 11,620</u>	<u>\$ -</u>	<u>\$ -</u>
Capital assets purchased under capital lease	<u>\$ -</u>	<u>\$ 72,630</u>	<u>\$ -</u>	<u>\$ -</u>

Business-type Activities - Enterprise Funds

Recycling Program		Totals	
2012	2011	2012	Restated 2011
\$ 9,178	\$ 18,536	\$ 120,853	\$ 119,966
4,326	556	4,326	556
-	-	12,305	10,900
1	(432)	(1,277)	(1,271)
197	(240)	(2,386)	(3,442)
-	-	(3)	16
2,158	274	1,557	(220)
-	-	177	180
-	-	(100)	974
<u>\$ 15,860</u>	<u>\$ 18,694</u>	<u>\$ 135,452</u>	<u>\$ 127,659</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,620</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,630</u>

CITY OF CANNON FALLS, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			2011	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Taxes	\$ 1,897,603	\$ 1,897,603	\$ 1,930,515	\$ 32,912	\$ 1,984,367
Licenses and permits					
Business	24,000	24,000	22,800	(1,200)	23,175
Nonbusiness	15,800	15,800	48,464	32,664	19,239
Total	39,800	39,800	71,264	31,464	42,414
Intergovernmental					
Federal					
Disaster aid	-	-	-	-	10,219
State					
Local government aid	416,072	416,072	416,072	-	468,430
Property tax credits	-	-	11	11	19,556
Police and police training	37,500	37,500	46,347	8,847	56,247
PERA rate increase aid	4,456	4,456	4,456	-	4,456
Disaster aid	-	-	3,510	3,510	2,326
Other	-	-	7,225	7,225	12,581
County					
Police grant	-	-	1,780	1,780	-
Total	458,028	458,028	479,401	21,373	573,815
Charges for services					
General government	4,600	4,600	9,558	4,958	4,257
Public safety	1,000	1,000	1,260	260	978
Public works	10,000	10,000	6,542	(3,458)	1,731
Culture and recreation	34,000	34,000	39,179	5,179	34,687
Total	49,600	49,600	56,539	6,939	41,653
Fines and forfeitures	26,000	26,000	29,967	3,967	35,133
Special assessments	-	-	1,000	1,000	333
Interest on investments	12,000	12,000	5,247	(6,753)	10,962
Miscellaneous					
Rents	59,000	59,000	66,710	7,710	69,155
Contributions and donations	-	-	1,470	1,470	850
Reimbursements	143,550	143,550	135,672	(7,878)	133,441
Other	11,800	11,800	45,441	33,641	24,449
Total	214,350	214,350	249,293	34,943	227,895
TOTAL REVENUES	2,697,381	2,697,381	2,823,226	125,845	2,916,572

CITY OF CANNON FALLS, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012				2011
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES					
Current					
General government					
Mayor and Council					
Personnel services	\$ 19,925	\$ 19,925	\$ 19,223	\$ 702	\$ 19,415
Supplies	750	750	329	421	938
Other services and charges	9,100	9,100	6,563	2,537	16,419
Total	29,775	29,775	26,115	3,660	36,772
Elections					
Personnel services	13,650	13,650	11,636	2,014	22
Supplies	50	50	24	26	-
Other services and charges	2,900	2,900	1,269	1,631	367
Total	16,600	16,600	12,929	3,671	389
Administrative					
Personnel services	357,900	357,900	359,863	(1,963)	355,598
Supplies	2,800	2,800	2,094	706	2,390
Other services and charges	68,300	68,300	53,248	15,052	49,806
Total	429,000	429,000	415,205	13,795	407,794
Audit and consulting fees					
Other services and charges	23,000	23,000	20,170	2,830	18,708
Planning and zoning					
Other services and charges	1,550	1,550	1,666	(116)	626
Legal					
Other services and charges	81,000	81,000	70,567	10,433	69,680
Information and Technology					
Personnel services	63,000	63,000	62,214	786	23,590
Supplies	250	250	-	250	109
Other services and charges	3,600	3,600	632	2,968	1,332
Total	66,850	66,850	62,846	4,004	25,031
General government building					
Personnel services	36,200	36,200	34,874	1,326	33,884
Supplies	3,000	3,000	2,468	532	6,582
Other services and charges	40,700	40,700	34,858	5,842	28,092
Total	79,900	79,900	72,200	7,700	68,558
Total general government	727,675	727,675	681,698	45,977	627,558

CITY OF CANNON FALLS, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			Variance with Final Budget	2011
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES - CONTINUED					
Current - continued					
Public safety					
Police protection					
Personnel services	\$ 646,700	\$ 646,700	\$ 664,761	\$ (18,061)	\$ 647,697
Supplies	48,220	48,220	33,040	15,180	16,671
Other services and charges	74,590	74,590	53,208	21,382	67,679
Total	<u>769,510</u>	<u>769,510</u>	<u>751,009</u>	<u>18,501</u>	<u>732,047</u>
Building inspection					
Personnel services	4,200	4,200	3,815	385	2,114
Supplies	50	50	-	50	-
Other services and charges	21,000	21,000	40,625	(19,625)	15,134
Total	<u>25,250</u>	<u>25,250</u>	<u>44,440</u>	<u>(19,190)</u>	<u>17,248</u>
Animal control					
Other services and charges	500	500	500	-	500
Total public safety	<u>795,260</u>	<u>795,260</u>	<u>795,949</u>	<u>(689)</u>	<u>749,795</u>
Public works					
Public works administration					
Personnel services	170,500	170,500	180,009	(9,509)	184,221
Supplies	27,800	27,800	32,074	(4,274)	34,598
Other services and charges	20,900	20,900	30,626	(9,726)	106,204
Total	<u>219,200</u>	<u>219,200</u>	<u>242,709</u>	<u>(23,509)</u>	<u>325,023</u>
Streets and highways					
Personnel services	60,050	60,050	56,959	3,091	56,176
Supplies	28,700	28,700	34,882	(6,182)	21,078
Other services and charges	4,000	4,000	22,659	(18,659)	8,788
Total	<u>92,750</u>	<u>92,750</u>	<u>114,500</u>	<u>(21,750)</u>	<u>86,042</u>
Snow and ice removal					
Personnel services	34,550	34,550	14,991	19,559	25,274
Supplies	20,000	20,000	15,264	4,736	19,306
Other services and charges	4,500	4,500	2,548	1,952	5,605
Total	<u>59,050</u>	<u>59,050</u>	<u>32,803</u>	<u>26,247</u>	<u>50,185</u>

CITY OF CANNON FALLS, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			Variance with Final Budget	2011
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES - CONTINUED					
Current - continued					
Public works - continued					
Road equipment and garage					
Personnel services	\$ 29,225	\$ 29,225	\$ 21,391	\$ 7,834	\$ 29,354
Supplies	20,200	20,200	12,387	7,813	15,627
Other services and charges	26,000	26,000	21,251	4,749	32,079
Total	<u>75,425</u>	<u>75,425</u>	<u>55,029</u>	<u>20,396</u>	<u>77,060</u>
Garage building					
Personnel services	14,650	14,650	18,881	(4,231)	8,455
Supplies	3,400	3,400	3,945	(545)	2,136
Other services and charges	14,700	14,700	10,762	3,938	12,616
Total	<u>32,750</u>	<u>32,750</u>	<u>33,588</u>	<u>(838)</u>	<u>23,207</u>
Street lighting					
Supplies	5,000	5,000	4,157	843	5,518
Other services and charges	61,000	61,000	60,164	836	64,560
Total	<u>66,000</u>	<u>66,000</u>	<u>64,321</u>	<u>1,679</u>	<u>70,078</u>
Engineering					
Other services and charges	33,000	33,000	15,647	17,353	31,823
Total public works	<u>578,175</u>	<u>578,175</u>	<u>558,597</u>	<u>19,578</u>	<u>663,418</u>
Culture and recreation					
Tree maintenance					
Personnel services	22,600	22,600	17,971	4,629	17,127
Supplies	-	-	104	(104)	318
Other services and charges	6,500	6,500	10,578	(4,078)	14,141
Total	<u>29,100</u>	<u>29,100</u>	<u>28,653</u>	<u>447</u>	<u>31,586</u>
Parks					
Personnel services	57,100	57,100	57,816	(716)	50,638
Supplies	13,500	13,500	15,934	(2,434)	16,533
Other services and charges	14,500	14,500	18,825	(4,325)	31,965
Total	<u>85,100</u>	<u>85,100</u>	<u>92,575</u>	<u>(7,475)</u>	<u>99,136</u>

CITY OF CANNON FALLS, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			Variance with Final Budget	2011
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Culture and recreation - continued					
Swimming pool					
Personnel services	\$ 67,700	\$ 67,700	\$ 62,727	\$ 4,973	\$ 69,318
Supplies	9,100	9,100	12,098	(2,998)	9,575
Other services and charges	14,050	14,050	13,272	778	20,181
Total	<u>90,850</u>	<u>90,850</u>	<u>88,097</u>	<u>2,753</u>	<u>99,074</u>
Athletic fields					
Personnel services	10,550	10,550	7,984	2,566	8,541
Supplies	3,700	3,700	4,974	(1,274)	4,953
Other services and charges	16,400	16,400	14,199	2,201	14,815
Total	<u>30,650</u>	<u>30,650</u>	<u>27,157</u>	<u>3,493</u>	<u>28,309</u>
Skating					
Personnel services	2,790	2,790	1,126	1,664	3,758
Supplies	500	500	11	489	99
Other services and charges	2,150	2,150	514	1,636	1,114
Total	<u>5,440</u>	<u>5,440</u>	<u>1,651</u>	<u>3,789</u>	<u>4,971</u>
Cannon Valley Trail					
Personnel services	142,300	142,300	133,734	8,566	130,981
Other services and charges	12,890	12,890	12,882	8	12,409
Total	<u>155,190</u>	<u>155,190</u>	<u>146,616</u>	<u>8,574</u>	<u>143,390</u>
Total culture and recreation	<u>396,330</u>	<u>396,330</u>	<u>384,749</u>	<u>11,581</u>	<u>406,466</u>
Miscellaneous					
Unallocated					
Personnel services	1,200	1,200	454	746	2,865
Other services and charges	91,950	91,950	118,754	(26,804)	71,300
Total miscellaneous	<u>93,150</u>	<u>93,150</u>	<u>119,208</u>	<u>(26,058)</u>	<u>74,165</u>
Total current expenditures	<u>2,590,590</u>	<u>2,590,590</u>	<u>2,540,201</u>	<u>50,389</u>	<u>2,521,402</u>

CITY OF CANNON FALLS, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012				2011
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Capital outlay					
General government	\$ 1,750	\$ 1,750	\$ 1,040	\$ 710	\$ 1,909
Public safety	28,145	28,145	25,557	2,588	29,703
Public works	6,000	6,000	6,595	(595)	78,627
Culture and recreation	1,000	1,000	-	1,000	-
Miscellaneous	1,500	1,500	360	1,140	-
Total capital outlay	<u>38,395</u>	<u>38,395</u>	<u>33,552</u>	<u>4,843</u>	<u>110,239</u>
Debt service					
Capital lease					
Principal	25,775	25,775	24,987	788	28,036
Interest	4,425	4,425	5,023	(598)	1,977
Total debt service	<u>30,200</u>	<u>30,200</u>	<u>30,010</u>	<u>190</u>	<u>30,013</u>
TOTAL EXPENDITURES	<u>2,659,185</u>	<u>2,659,185</u>	<u>2,603,763</u>	<u>55,422</u>	<u>2,661,654</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>38,196</u>	<u>38,196</u>	<u>219,463</u>	<u>181,267</u>	<u>254,918</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	45,000	45,000	45,000	-	54,450
Capital lease issued	-	-	-	-	72,630
Sale of capital assets	-	-	54,433	54,433	-
Transfers out	(103,196)	(103,196)	(103,311)	(115)	(171,907)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(58,196)</u>	<u>(58,196)</u>	<u>(3,878)</u>	<u>54,318</u>	<u>(44,827)</u>
NET CHANGE IN FUND BALANCES	(20,000)	(20,000)	215,585	235,585	210,091
FUND BALANCES, JANUARY 1	<u>2,639,666</u>	<u>2,639,666</u>	<u>2,639,666</u>	<u>-</u>	<u>2,429,575</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 2,619,666</u></u>	<u><u>\$ 2,619,666</u></u>	<u><u>\$ 2,855,251</u></u>	<u><u>\$ 235,585</u></u>	<u><u>\$ 2,639,666</u></u>

CITY OF CANNON FALLS, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2012

	1997/2003 Improvement Bonds	2006A G.O. PIR Refunding Bonds	2006B G.O. PIR Bonds
ASSETS			
Cash and temporary investments	\$ 36,983	\$ 234,044	\$ 363,457
Cash held with fiscal agent	-	-	-
Receivables			
Accounts	-	-	-
Special assessments	173,072	-	813,152
	<u>\$ 210,055</u>	<u>\$ 234,044</u>	<u>\$ 1,176,609</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - special assessments	\$ 170,307	\$ -	\$ 737,961
FUND BALANCES			
Restricted for debt service	<u>39,748</u>	<u>234,044</u>	<u>438,648</u>
	<u>\$ 210,055</u>	<u>\$ 234,044</u>	<u>\$ 1,176,609</u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 210,055</u>	<u>\$ 234,044</u>	<u>\$ 1,176,609</u>

2011A G.O. Bonds	2012A G.O. Improvement Bond	2012B G.O. Refunding Bond	Total
\$ 416,523	\$ -	\$ 1,649,794	\$ 2,700,801
-	-	1,395,708	1,395,708
-	152,000	8,200	160,200
<u>375,177</u>	<u>-</u>	<u>-</u>	<u>1,361,401</u>
<u>\$ 791,700</u>	<u>\$ 152,000</u>	<u>\$ 3,053,702</u>	<u>\$ 5,618,110</u>
\$ 341,415	\$ -	\$ -	\$ 1,249,683
<u>450,285</u>	<u>152,000</u>	<u>3,053,702</u>	<u>4,368,427</u>
<u>\$ 791,700</u>	<u>\$ 152,000</u>	<u>\$ 3,053,702</u>	<u>\$ 5,618,110</u>

CITY OF CANNON FALLS, MINNESOTA
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

	1997/2003 Improvement Bonds	2006A G.O. PIR Refunding Bonds	2006B G.O. PIR Bonds
REVENUES			
Taxes	\$ 166,020	\$ 260,000	\$ -
Special assessments	8,443	-	138,649
Interest on investments	-	-	-
Miscellaneous	-	-	-
TOTAL REVENUES	<u>174,463</u>	<u>260,000</u>	<u>138,649</u>
EXPENDITURES			
Debt service			
Principal	100,000	280,000	360,000
Interest and service charges	8,541	84,690	89,294
Bond issuance costs	-	-	-
TOTAL EXPENDITURES	<u>108,541</u>	<u>364,690</u>	<u>449,294</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>65,922</u>	<u>(104,690)</u>	<u>(310,645)</u>
OTHER FINANCING SOURCES			
Transfers in	-	98,066	315,448
Refunding bonds issued	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>98,066</u>	<u>315,448</u>
NET CHANGE IN FUND BALANCES	65,922	(6,624)	4,803
FUND BALANCES, JANUARY 1	<u>(26,174)</u>	<u>240,668</u>	<u>433,845</u>
FUND BALANCES, DECEMBER 31	<u>\$ 39,748</u>	<u>\$ 234,044</u>	<u>\$ 438,648</u>

2011A G.O. Bonds	2012A G.O. Improvement Bond	2012B G.O. Refunding Bond	Total
\$ 89,322	\$ -	\$ -	\$ 515,342
107,839	-	-	254,931
-	-	2,581	2,581
-	152,000	-	152,000
<u>197,161</u>	<u>152,000</u>	<u>2,581</u>	<u>924,854</u>
-	-	-	740,000
29,935	-	-	212,460
-	-	33,879	33,879
<u>29,935</u>	<u>-</u>	<u>33,879</u>	<u>986,339</u>
<u>167,226</u>	<u>152,000</u>	<u>(31,298)</u>	<u>(61,485)</u>
101,877	-	-	515,391
-	-	3,085,000	3,085,000
<u>101,877</u>	<u>-</u>	<u>3,085,000</u>	<u>3,600,391</u>
269,103	152,000	3,053,702	3,538,906
<u>181,182</u>	<u>-</u>	<u>-</u>	<u>829,521</u>
<u>\$ 450,285</u>	<u>\$ 152,000</u>	<u>\$ 3,053,702</u>	<u>\$ 4,368,427</u>

CITY OF CANNON FALLS, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY
(DISCRETELY PRESENTED COMPONENT UNIT)
COMBINING BALANCE SHEET
DECEMBER 31, 2012

	Economic Development	Industrial Revolving Loan	Total
ASSETS			
Cash and temporary investments	\$ 53,570	\$ 374,214	\$ 427,784
Receivables			
Accrued interest	-	441	441
Deposits	-	25,000	25,000
Loans	-	215,291	215,291
Contract for deed	-	29,185	29,185
Prepaid items	111	-	111
	<u>\$ 53,681</u>	<u>\$ 644,131</u>	<u>\$ 697,812</u>
LIABILITIES			
Accounts and contracts payable	\$ 203	\$ -	\$ 203
Accrued salaries payable	2,229	-	2,229
	<u>2,432</u>	<u>-</u>	<u>2,432</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - loans receivable	-	215,291	215,291
Unavailable revenue - contract for deed receivable	-	29,185	29,185
	<u>-</u>	<u>244,476</u>	<u>244,476</u>
FUND BALANCES			
Nonspendable			
Prepaid items	111	-	111
Deposits	-	25,000	25,000
Committed			
Economic development	51,138	-	51,138
Revolving loan program	-	374,655	374,655
	<u>51,249</u>	<u>399,655</u>	<u>450,904</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 53,681</u>	<u>\$ 644,131</u>	<u>\$ 697,812</u>
Total fund balances reported above			\$ 450,904
Amounts reported for the Economic Development Authority in the statement of net position are different because			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
Cost of capital assets			1,286,175
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Long-term liabilities at year-end consist of			
Compensated absences payable			(12,709)
Some receivables are not available to pay for current-period expenditures and, therefore, are unavailable in the funds			
Loans			215,291
Contract for deed			29,185
Total net position - Economic Development Authority			<u>\$ 1,968,846</u>

CITY OF CANNON FALLS, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY
(DISCRETELY PRESENTED COMPONENT UNIT)
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Economic Development	Industrial Revolving Loan	Total
REVENUES			
Property taxes	\$ 85,850	\$ -	\$ 85,850
Interest on investments	-	3,400	3,400
Miscellaneous	26,000	85,226	111,226
TOTAL REVENUES	111,850	88,626	200,476
EXPENDITURES			
Current			
Economic development	110,176	230,384	340,560
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,674	(141,758)	(140,084)
OTHER FINANCING SOURCES			
Sale of capital assets	-	64,057	64,057
NET CHANGE IN FUND BALANCES	1,674	(77,701)	(76,027)
FUND BALANCES, JANUARY 1	49,575	477,356	526,931
FUND BALANCES, DECEMBER 31	\$ 51,249	\$ 399,655	\$ 450,904
Net changes in fund balances - Economic Development Authority			\$ (76,027)
Amounts reported for the Economic Development Authority in the statement of activities are different because			
Governmental funds report a gain (loss) on sale of capital assets to the extent of cash exchanged, whereas the disposition of the asset's book value is included in the total gain (loss) in the statement of activities.			
			(9,002)
Governmental funds report loan disbursements as expenditures and the related loan repayments as revenues. However, in the statement of activities these transactions has no effect on net position. The amounts of the differences are			
			230,384
			(85,226)
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.			
			(1,449)
Change in net position - Economic Development Authority			\$ 58,680

CITY OF CANNON FALLS, MINNESOTA
 ECONOMIC DEVELOPMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012
 (With comparative actual amounts for the year ended December 31, 2011)

	2012				2011
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget	Amounts
REVENUES					
Property taxes	\$ 85,850	\$ 85,850	\$ 85,850	\$ -	\$ 86,050
Miscellaneous					
Contributions and donations	-	-	-	-	4,500
Refunds and reimbursements	26,000	26,000	26,000	-	17,825
TOTAL REVENUES	111,850	111,850	111,850	-	108,375
EXPENDITURES					
Current					
Economic development					
Personal services	101,200	101,200	101,484	(284)	98,385
Supplies	250	250	67	183	-
Other services and charges	10,400	10,400	8,625	1,775	6,006
TOTAL EXPENDITURES	111,850	111,850	110,176	1,674	104,391
NET CHANGE IN FUND BALANCES	-	-	1,674	1,674	3,984
FUND BALANCES, JANUARY 1	49,575	49,575	49,575	-	45,591
FUND BALANCES, DECEMBER 31	<u>\$ 49,575</u>	<u>\$ 49,575</u>	<u>\$ 51,249</u>	<u>\$ 1,674</u>	<u>\$ 49,575</u>

CITY OF CANNON FALLS, MINNESOTA
INDUSTRIAL REVOLVING LOAN FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012				2011
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Interest on investments	\$ 6,500	\$ 6,500	\$ 3,400	\$ (3,100)	\$ 4,623
Miscellaneous					
Loan principal	4,100	4,100	85,226	81,126	3,342
TOTAL REVENUE	10,600	10,600	88,626	78,026	7,965
EXPENDITURES					
Economic development					
Other services and charges	-	-	230,384	230,384	72,100
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	10,600	10,600	(141,758)	(152,358)	(64,135)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets proceeds	-	-	64,057	64,057	54,450
Transfers to primary government	-	-	-	-	(54,450)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	64,057	64,057	-
NET CHANGE IN FUND BALANCES	10,600	10,600	(77,701)	(88,301)	(64,135)
FUND BALANCES, JANUARY 1	477,356	477,356	477,356	-	541,491
FUND BALANCES, DECEMBER 31	\$ 487,956	\$ 487,956	\$ 399,655	\$ (88,301)	\$ 477,356

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CITY OF CANNON FALLS, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Total		Percent Increase (Decrease)
	2012	2011	
REVENUES			
Taxes	\$ 3,216,935	\$ 3,161,757	1.75 %
Special assessments	277,450	391,360	(29.11)
Licenses and permits	71,264	42,414	68.02
Intergovernmental	673,855	787,188	(14.40)
Charges for services	155,250	127,322	21.93
Fines and forfeits	33,593	42,769	(21.45)
Investment earnings	14,895	21,622	(31.11)
Miscellaneous	773,929	252,624	206.36
TOTAL REVENUES	\$ 5,217,171	\$ 4,827,056	8.08 %
Per Capita	\$ 1,278	\$ 1,191	7.29 %
EXPENDITURES			
Current			
General government	\$ 681,698	\$ 631,978	7.87 %
Public safety	968,549	966,884	0.17
Public works	558,597	665,628	(16.08)
Culture and recreation	733,758	761,752	(3.67)
Miscellaneous	119,208	74,165	60.73
Capital outlay			
General government	27,620	8,443	227.13
Public safety	477,994	158,559	201.46
Public works	873,913	759,070	15.13
Culture and recreation	1,418,234	82,261	1,624.07
Economic development	27,084	34,294	(21.02)
Miscellaneous	360	-	100.00
Debt service			
Principal	764,987	736,986	3.80
Interest and other charges	277,422	228,873	21.21
TOTAL EXPENDITURES	\$ 7,428,227	\$ 5,108,893	45.40 %
Per Capita	\$ 1,820	\$ 1,261	44.33 %
Total Long-term Indebtedness	\$ 9,766,651	\$ 6,514,638	49.92 %
Per Capita	2,393	1,608	48.82
General Fund Balance - December 31	\$ 2,855,251	\$ 2,639,666	8.17 %
Per Capita	699	651	7.37

The purpose of this report is to provide a summary of financial information concerning the City of Cannon Falls, Minnesota to interested citizens. The complete financial statements may be examined at City Hall, 918 River Road, Cannon Falls, Minnesota 55009. Questions about this report should be directed to Lanell Endres, Assistant City Administrator at (507) 263-9300.

CITY OF CANNON FALLS, MINNESOTA
 FINANCIAL EXHIBITS
 COMBINED SCHEDULE OF BOND INDEBTEDNESS
 DECEMBER 31, 2012

	Net Interest Rate	Authorized	Issued
BOND INDEBTEDNESS			
General obligation improvement and refunding bonds of 2003, series A	2.47 %	\$ 2,860,000	\$ 2,860,000
General obligation refunding permanent improvement bonds of 2006, series A	4.00	3,245,000	3,245,000
General obligation permanent improvement revolving bonds of 2006, series B	3.55	3,410,000	3,410,000
General obligation water revenue refunding bonds of 2010, series A	2.11	3,560,000	3,560,000
General improvement refunding bonds 2011, series A	2.61	3,150,000	3,150,000
General obligation improvement bonds of 2012, series A	1.33	932,000	932,000
General improvement refunding bonds of 2012, series B	1.63	3,085,000	3,085,000
MPFA - General obligation water and wastewater loan of 2001	3.07	4,529,000	4,529,000
MPFA - General obligation wastewater loan of 2001	2.86	<u>8,021,909</u>	<u>8,021,909</u>
TOTAL		<u>\$ 32,792,909</u>	<u>\$ 32,792,909</u>

<u>Retired</u>	<u>Outstanding</u>	<u>Principal Due In 2013</u>	<u>Interest Due In 2013</u>
\$ 2,650,000	\$ 210,000	\$ 110,000	\$ 5,508
1,300,000	1,945,000	1,945,000	72,087
1,400,000	2,010,000	375,000	71,390
570,000	2,990,000	310,000	65,734
-	3,150,000	125,001	37,671
-	932,000	135,000	19,389
-	3,085,000	-	28,700
2,016,000	2,513,000	247,000	65,899
<u>3,374,000</u>	<u>4,647,909</u>	<u>408,000</u>	<u>113,544</u>
<u><u>\$ 11,310,000</u></u>	<u><u>\$ 21,482,909</u></u>	<u><u>\$ 3,655,001</u></u>	<u><u>\$ 479,922</u></u>

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OTHER REQUIRED REPORTS

CITY OF CANNON FALLS
CANNON FALLS, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2012

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5201 Eden Avenue
Suite 250
Edina, MN 55436

AUDITOR'S REPORT ON LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Cannon Falls, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cannon Falls, Minnesota (the City), as of and for the year ended December 31, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 6, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota statute, section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous city provisions and tax increment financing. Our study included all of the listed categories.

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

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, and the result of that testing, and not to provide an opinion on the City's compliance with those provisions. Accordingly, this report is not suitable for any other purpose.

May 6, 2013
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants



5201 Eden Avenue
Suite 250
Edina, MN 55436

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

Honorable Mayor and City Council
City of Cannon Falls, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cannon Falls, Minnesota (the City), 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, and have issued our report thereon dated May 6, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2012-1 that we consider to be a significant deficiency.



Compliance and Other Matters

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

The City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

May 6, 2013
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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CITY OF CANNON FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012

Finding Description

2012-1 **Preparation of financial statements**

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

Recommendation: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements, we recommend that a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.

Management response:

For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.