

COMPREHENSIVE

ANNUAL FINANCIAL REPORT

OF THE

CITY OF FOREST LAKE,
MINNESOTA

For the Year Ended

December 31, 2012

Prepared by

THE DEPARTMENT OF FINANCE
AND ADMINISTRATION

Aaron Parrish, City Administrator

Ellen Paulseth, Finance Director

CITY OF FOREST LAKE
220 North Lake Street
Forest Lake, Minnesota 55025

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CITY OF FOREST LAKE

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CITY OF FOREST LAKE

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CITY OF FOREST LAKE

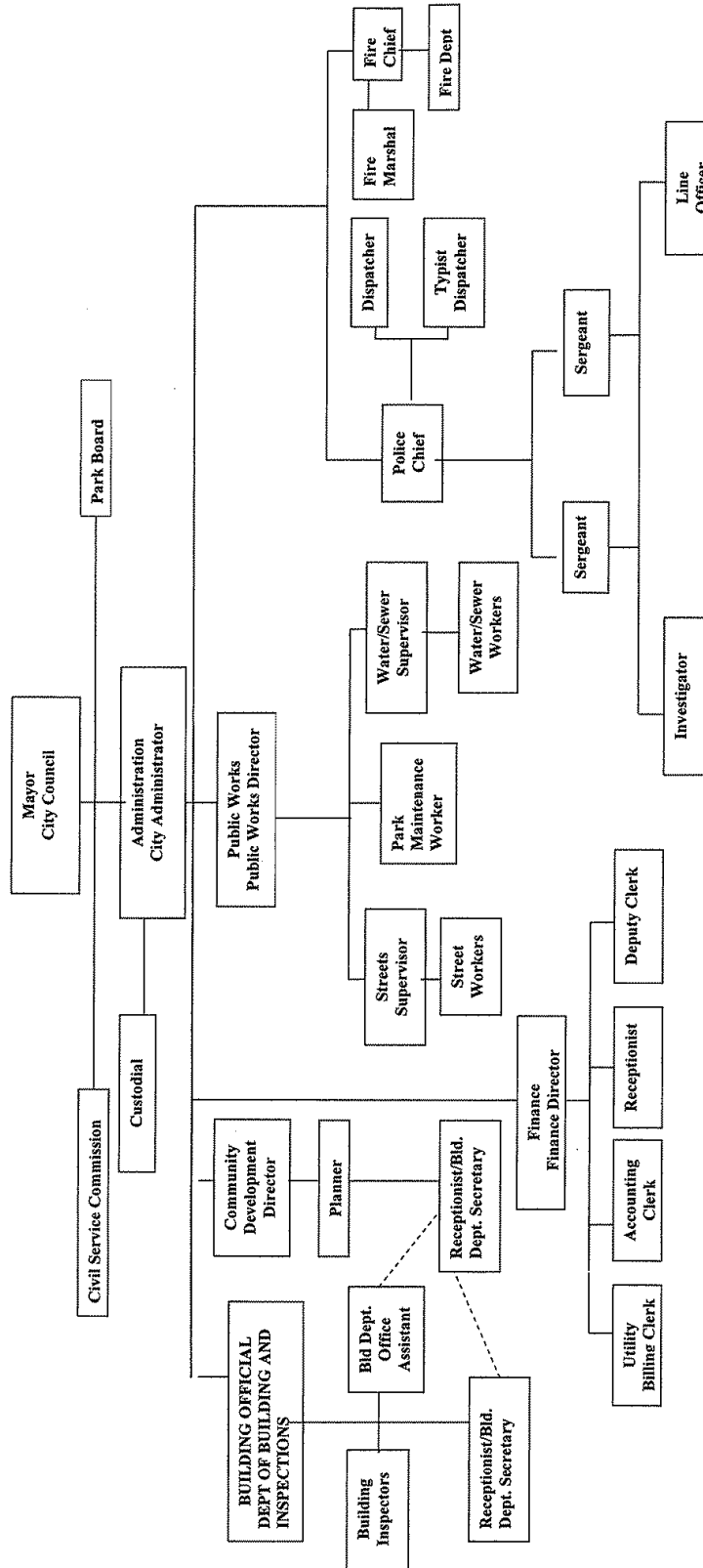
**ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2012**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Chris Johnson	Mayor	December 31, 2012
Jim Dufour	Council Member	December 31, 2012
Jackie McNamara	Council Member	December 31, 2012
Mike Freer	Council Member	December 31, 2014
Susan Young	Council Member	December 31, 2014
<u>Administration</u>		
Aaron Parrish	City Administrator/Clerk	
Ellen Paulseth	Finance Director/Treasurer	
Gary Sigfrinius	Fire Chief	
Richard Peterson	Police Chief	

CITY OF FOREST LAKE

ORGANIZATION CHART December 31, 2012

Organization Chart For Forest Lake





May 20, 2013

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Forest Lake:

Minnesota statutes require all cities to issue an annual report on the financial position and related financial activity of the city. The report must be prepared in accordance with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The organization, form and contents of this report were prepared in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association of the United States and Canada (GFOA), the American Institute of Certified Public Accountants (AICPA), the Office of the Minnesota State Auditor (OSA), and City policies. Pursuant to all legal requirements, we hereby issue the comprehensive annual financial report of the City of Forest Lake for the fiscal year ended December 31, 2012.

This report contains the representations of management concerning the finances of the City of Forest Lake. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. The internal control system in the City of Forest Lake is designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Kern, DeWenter, Viere Ltd., a firm of licensed certified public accountants has audited the financial statements of the City of Forest Lake, for the year ended December 31, 2012. An independent audit was performed to provide reasonable assurance that the financial statements of the City of Forest Lake for the fiscal year ended December 31, 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor issued an unqualified ("clean") opinion on the City of Forest Lake's financial statements. The independent auditor's report is located at the front of the financial section of this report.

In accordance with GAAP, management has provided a narrative introduction, overview and analysis to accompany the basic financial statements in the form of the MD&A. The MD&A is designed to complement this letter of transmittal and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Forest Lake, incorporated in 1893, is located in the northwestern corner of Washington County, Minnesota, which is in the northeastern suburbs of the Twin Cities metropolitan area. The City of Forest Lake and the entire northern suburbs area have experienced rapid growth over the past decade as population and housing development in the metropolitan area increased. A sluggish economy has temporarily hindered development efforts and growth. The City of Forest Lake currently occupies a land area of 36 square miles and serves a population of 18,591 people. The City of Forest Lake is empowered to levy a property tax on both real and personal property located within its boundaries. It is also empowered by Minnesota statutes to extend its corporate limits by annexation, which it has done from time to time. The City of Forest Lake and the Township of Forest Lake merged in September of 2001.

The City of Forest Lake is a statutory “Option A” city, operating under the council-administrator form of government. Policy-making and legislative authority are vested in a city council consisting of a mayor and four other members, all elected on a non-partisan basis. The city council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring staff. The city administrator is responsible for carrying out the policies and ordinances of the council and overseeing the day-to-day operations of the city government. Council members serve four-year staggered terms, while the mayor is elected every two years. All council members and the mayor are elected at large.

The City of Forest Lake provides a full range of services, including planning and zoning; election administration; building inspections; police and fire protection; emergency management; the construction and maintenance of highways, streets, and other infrastructure; surface water management; weed control; water and sewer services; some sanitation services; and recreational and cultural activities. The City has an active human rights commission. The City also owns and operates a grass-strip airport, complete with an arrival/departure building. Certain housing services are provided through a Housing and Redevelopment Authority, operated by Washington County.

Economic development services are provided through the Forest Lake Economic Development Authority (EDA), which is a legally separate component unit of the City. The EDA provides business retention and expansion programs, and establishes tax increment financing districts where feasible to attract new commercial and industrial businesses in the City. The EDA manages the City’s industrial park activities. EDA financial activity is discretely presented in the City’s financial statements.

The Forest Lake City Council is required to adopt a final budget by no later than the close of the preceding fiscal year. This annual budget serves as the foundation for the City’s financial planning and control and is organized by fund, function, and department. All department heads and agencies of the City of Forest Lake submit requests for appropriation to the city administrator in July of each year. The city administrator presents a proposed budget to the council for review prior to the end of August of each year. The Council is required to hold public hearings on the proposed budget and adopt a final budget by no later than December 31, the end of the fiscal year. Any changes to the adopted budget require special approval from the City Council.

Local Economy

The largest employer within the boundaries of the City of Forest Lake is Independent School District #831, a K-12 educational facility employing approximately 1,000 people. Several discount retail stores located in the city also provide significant employment opportunities. Eight financial institutions and several credit unions have a presence in Forest Lake. The largest industry in the city is a medical device and electronics manufacturer that employs over 100 people.

Because of its location in a region with a varied economic base, unemployment is relatively stable. During the past ten years, the unemployment rate rose from 4.2% in 2003 to 4.9% in 2012, with a low of 3.5% in 2005 and a high of 6.9% in 2009. However, in February of 2009, unemployment was 8.1% in Washington County. Unemployment is expected to continue to decrease in the near term as the national economy recovers. As a result of a variety of revitalization efforts undertaken over the past decade, the central business district has expanded dramatically.

The housing base of the City of Forest Lake could potentially increase by more than 1,400 new homes in the near future due to a large commercial and residential development that is experiencing renewed activity. Washington County opened a new service center in this development area in 2007. The City completed a \$2.1 million park improvement project near the area. Ball fields, a parking lot, and athletic facilities at the new Fenway Athletic Park were completed in 2009. Another parking lot was added in 2011.

Long-term Financial Planning

The City Council adopted a new five-year capital improvement plan and long-term financial plan in December of 2012. The plan includes a project development and process authorization schedule and a description of available capital improvement financing methods. Projected capital investment for the five-year period exceeds \$40 million and includes the completion of a \$6 million airport expansion project, a \$21 million government facilities project, a \$7.5 million street improvement plan, and a \$3.5 million lift station and water and sewer main improvement project. The City also plans to replace nearly \$2.8 million in capital equipment over the next five years. The long term financial plan contains assumptions and estimates related to the economy over the next ten years, along with property tax impact estimates resulting from the economic assumptions and the City's capital improvement plan.

In October of 2008, the City Council adopted a revised comprehensive plan. The plan will guide the use of land and the actions of the City Council to provide a quality environment and way of life for existing and future residents through the year 2030. The elements of the plan consist of community background, natural resources, land use, housing, parks, trails and open spaces, transportation, economic development, sanitary sewer, water supply and distribution, surface water, community facilities, sustainability, and implementation. The guiding principles that shaped the development of goals and policies contained within the plan are: 1) to protect natural resources, 2) to provide for parks and recreation opportunities, 3) to guide land and manage growth, 4) to plan for an effective transportation system, and 5) to create and expand opportunities for employment growth. The City consults this plan when developing the annual budget and capital improvement plan.

With the exception of public safety expenses, the City of Forest Lake's expenses by governmental function as a percentage of total expenses have remained relatively stable over the past ten years. Capital asset expenditures peaked in 2005-2006 due to a major renovation of the City's main recreational park, Lakeside Park, and the adjacent municipal parking lot, and again in 2010 with the Lake Street/Broadway Avenue intersection improvement project.

Relevant Financial Policies

The City has a policy regarding General Fund reserve balances. Certain amounts in the General Fund have been committed by the City Council for specific purposes. The City plans for a balanced budget and an unassigned fund balance in the General Fund equivalent to 50% of the current year's budgeted expenditures. Since property tax payments are received by the City in installments in July and December, the City needs adequate cash reserves in order to avoid short-term borrowing to finance operations. Prepaid items are considered nonspendable fund balance. Certain legal obligations are restricted in fund balance. The City Council may also commit a portion of fund balance for special purposes, and management may assign fund balance for certain purposes. The City also has a policy for enterprise fund balances. The cash balance for working capital in the Water and Sewer Fund is maintained at 25% to maintain adequate cash flow for a quarterly billing cycle. Reserves are also maintained to fund major projects and capital outlays.

The primary financial goal of the City investment policy is to ensure the safety of the principal invested by the City. Cash temporarily idle during the year is invested in certificates of deposit, commercial paper, and obligations of the U.S. Treasury and government agencies. The City only invests in instruments that are authorized under Minnesota Statute §118A. Cash balances from all City funds are pooled into an investment fund and investment income is distributed on a pro-rata basis at the end of each month. At December 31, 2012, the maturities of the investments ranged from 13 days to 4.09 years with an average maturity of 1.5 years. Maturities are staggered in a way that avoids over concentration in a specific maturity sector. Extended maturities are utilized to take advantage of higher yields. However, maturities are not extended beyond the dates necessary to meet projected liquidity needs. In addition, maturities beyond 5 years are limited to no more than 20% of the investment portfolio and no maturities are allowed to extend beyond 10 years. The average investment income rate of return for 2012 on all investments was 1.04%.

Capital financing for major municipal improvements is provided through improvement bonds, general obligation bonds, tax increment bonds, or revenue bonds. Depending upon the project, special assessments may be levied upon properties to share in the cost of the improvement project. The special assessments are collected over a period of time and are used to help satisfy the improvement bond debt. Internal financing of improvement projects is usually minimal and only for short periods of time. Occasionally, the City will finance projects internally through temporary loans or advances from other funds. The City Council sets the terms and conditions of the interfund loan or advance, including the rate of interest to be charged. In the years 2007 through 2010, the City Council agreed to temporarily finance an airport improvement project and the Fenway Athletic Park project with loans from the Water and Sewer Fund.

The City Council has also adopted financial management policies in order to allow for the planning of adequate funding of services desired by the public, to manage City finances wisely, and to carefully account for public funds. These policies are reviewed each year when the annual budget is adopted. The financial management policies include: operating budget policies; revenue policies; expenditure policies; accounting, auditing and financial reporting policies; investment policies; reserve policies; debt policies; capital equipment policies; capital improvement policies; interfund loan policies; and risk management policies. The City also has a separate capital and general expenditure policy to provide guidance relating to appropriate procedures for the procurement, management, and disposal of capital assets, and to promote fiscally responsible spending practices.

The City Council has adopted a comprehensive set of internal controls procedures. The City's accounting system was developed and is continually evaluated to assure the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable but not absolute assurance in the areas of: safeguarding assets against loss from unauthorized use or disposition, reliability of financial records, and convenience of access for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance adopted by the City Council recognizes that the evaluation of cost and benefits requires estimates and judgments by management, and the cost of a control should not exceed the benefits likely to be derived. All internal controls are evaluated against the above criteria. It is our belief that the City's internal accounting controls adequately safeguard the City's assets and also provide reasonable assurance of properly recording financial transactions.

Over the past ten years the City has become more reliant on property tax revenues as intergovernmental revenues, primarily State and federal grants and aids, have been steadily declining. During this period, intergovernmental revenue increased as a percentage of the total sources of revenue from 13.1% in 2003 to 16.2% in 2012. This is partially due to the receipt of a large municipal construction aid grant in 2012. A surge of nearly 30% in 2010 was related to the receipt of municipal construction aid for a major intersection improvement project. In fiscal years 2008 through 2011, the State of Minnesota was unable to fund a large portion of the property tax aid that was owed to the City. The City did not budget for property tax aid revenues in the years 2010-2011.

Major Initiatives

The City Council is in the planning stages of establishing the City's long-term goals and objectives. Plans include major street reconstruction projects, expected to cost \$7.5 million over the next five years, and a \$3.5 million sewage lift station and sewer and water main improvement project. Recently, the City completed the construction of ball fields at Fenway Athletic Park, which is part of the first phase of the recreational complex plans.

The Forest Lake Economic Development Authority (EDA) is currently constructing a \$21 million public safety and city hall facility, as part of an overall redevelopment project on the Northland Mall site. The project is being financed with lease revenue bonds sold in 2013. The City will lease the facilities from the EDA until the bonds are paid. The project is currently in the design phase and construction will be completed in late 2014.

In the year 2005 the City borrowed \$3,495,000 to complete a \$5,000,000 utility project, including the construction of a new water treatment plant and water tower. The water treatment plant was completed in 2008. Construction of the water tower began in the year 2007 and was recently completed. These infrastructure improvements will satisfy the City's water needs until the year 2020.

A major airport expansion project is also in progress. The City constructed a new arrival/departure facility in 2010. Future plans include a paved runway and taxiway and a new hangar building. The City purchased property in 2007 to provide easements for the expanded runway. The property will be subdivided, and the portions that will not be necessary for airport uses may be sold.

The City is also working closely with the County, State and Federal governments, and neighboring communities to improve the area's state and county transportation network, including improvements to West Broadway Avenue and the Lake Street/Broadway Avenue intersection. A new pedestrian bridge connecting the Hardwood Creek Trail over Broadway Avenue was completed in 2011. Funding for most of the transportation improvements will come from State, County, and Federal sources, with a minor portion supported by the local taxpayers. The project is expected to cost nearly \$41 million.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Forest Lake for its comprehensive annual financial report for the fiscal year ended December 31, 2011. This was the seventh consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit must also be given to the City Council for its support in maintaining the highest standards of professionalism in the management of the City of Forest Lake's finances.

Respectfully submitted,



Aaron Parrish
City Administrator



Ellen Paulseth
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Forest Lake
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Morinell

President

Jeffrey R. Emer

Executive Director

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Expert advice. When you need it.SM

INDEPENDENT AUDITOR’S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Forest Lake, Minnesota, as of and for the year ended December 31, 2012, and the related Notes to the Financial Statements, which collectively comprise the City’s basic financial statements as listed in the Table of Contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Forest Lake, Minnesota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the General Fund, 1986 Tax Increment Special Revenue Fund, Park Dedication Special Revenue Fund and 1989 Tax Increment Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 63

As discussed in Note 15 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits as noted in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Kern Dewenter, Vice Ltd

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
May 20, 2013

CITY OF FOREST LAKE

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012

This section of the annual financial statements of the City of Forest Lake, Minnesota (the "City") presents a discussion and analysis of the City's financial performance during the year ending December 31, 2012. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City, including the component unit, exceeded liabilities by \$ 83,193,208. Of this amount \$ 9,637,249 may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position decreased by \$ 3,833,583, not including the component unit.
- The City's governmental funds reported combined ending fund balances of \$ 6,403,991. Of this total amount, approximately \$ 2,406,549 is unassigned and available for spending at the City's discretion.
- At the end of the current year, unassigned fund balance for the General Fund was \$ 4,486,982, or 47.6%, of total General Fund expenditures.
- The City's bonded debt decreased by \$ 325,000 during the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Statement of Net Position and Statement of Activities

Our analysis of the City begins with the Statement of Net Position and the Statement of Activities. One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Activities both report information about the City as a whole and about its activities in a way that helps answer this question. These Statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current years' revenues and expenses are taken into account regardless of when cash is received or paid.

The government-wide financial statements includes information for not only the City (known as the primary government), but also legally separate entities for which the City is financially accountable (discretely presented component units). The City has one discretely presented component unit, the Forest Lake Economic Development Authority (EDA).

CITY OF FOREST LAKE

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

Statement of Net Position and Statement of Activities (Continued)

These two statements report the City's net position and changes in them. You can think of the City's net position, the difference between assets and liabilities, as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net position are one indicator of whether the City's financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the City.

Fund Financial Statements

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

Governmental Funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader of the statements determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation after the financial statements.

The basic governmental fund financial statements can be found on pages 30-40 of this report.

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

The basic proprietary fund financial statements can be found on pages 41-43 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 45-74 of this report.

CITY OF FOREST LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

Comparative Data

Certain comparative information between the current (2012) and prior year (2011) is required to be presented in the Management Discussion and Analysis (MD&A). Comparative data can be found on pages 17-19 of this report. This section will discuss and analyze significant differences between the two years.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's net position including the component unit, decreased during 2012 by \$ 2,047,987. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1
Statement of Net Position

	Governmental Activities		Primary Government Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
ASSETS:						
Current and Other Assets	\$ 9,265,801	\$ 8,029,617	\$ 6,878,998	\$ 7,012,006	\$ 16,144,799	\$ 15,041,623
Capital Assets	49,262,144	53,325,106	31,296,228	30,746,603	80,558,372	84,071,709
Total Assets	<u>\$ 58,527,945</u>	<u>\$ 61,354,723</u>	<u>\$ 38,175,226</u>	<u>\$ 37,758,609</u>	<u>\$ 96,703,171</u>	<u>\$ 99,113,332</u>
LIABILITIES:						
Noncurrent Liabilities Outstanding	\$ 3,445,893	\$ 3,059,667	\$ 7,892,154	\$ 6,545,326	\$ 11,338,047	\$ 9,604,993
Other Liabilities	3,117,808	1,419,149	944,775	2,953,066	4,062,583	4,372,215
Total Liabilities	<u>\$ 6,563,701</u>	<u>\$ 4,478,816</u>	<u>\$ 8,836,929</u>	<u>\$ 9,498,392</u>	<u>\$ 15,400,630</u>	<u>\$ 13,977,208</u>
NET POSITION:						
Net Investment in Capital						
Assets	\$ 45,992,169	\$ 49,942,144	\$ 23,622,118	\$ 23,731,603	\$ 69,614,287	\$ 73,673,747
Restricted	196,672	1,752,678	-	-	196,672	1,752,678
Unrestricted	5,775,403	5,181,085	5,716,179	4,528,614	11,491,582	9,709,699
Total Net Position	<u>\$ 51,964,244</u>	<u>\$ 56,875,907</u>	<u>\$ 29,338,297</u>	<u>\$ 28,260,217</u>	<u>\$ 81,302,541</u>	<u>\$ 85,136,124</u>

Governmental Activities

Net position of the City's governmental activities decreased by \$ 4,911,663, or 8.6%. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirement, was \$ 5,775,403 at December 31, 2012.

The City's capital assets decrease was due primarily to depreciation of the City's infrastructure system. The City's cash position in the governmental funds increased by \$ 1,305,155. This was due in part to the establishment of a general obligation (G.O.) refunding bond escrow account in 2012, in the amount of \$ 430,158, which is being held until the call date of the refunded bonds. The remainder of the increase in cash position was due primarily to the receipt of a State aid payment for street improvements, in the amount of \$ 830,487, in the Capital Improvement Fund. The improvement project was completed in 2011, but State funds were not available until 2012.

CITY OF FOREST LAKE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Business-Type Activities

The net position of the City's business-type activities increased by \$ 1,078,080, or 3.8%. This was due primarily to a large refund, in the amount of \$ 1,181,780, from the Metropolitan Council to the City's Sewer and Water Utility Fund. This refund was due to a miscalculation of sewer flows in six prior years. Unrestricted net position increased by \$ 1,187,565 or 26.2%. The increase was due primarily to the sewer flow refund from the Metropolitan Council.

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

**Table 2
Statement of Activities**

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
REVENUES:						
Program Revenues:						
Charges for Services	\$ 1,478,550	\$ 1,443,280	\$ 4,905,133	\$ 3,141,374	\$ 6,383,683	\$ 4,584,654
Operating Grants and Contributions	712,920	592,797	3,800	3,800	716,720	596,597
Capital Grants and Contributions	1,340,633	3,615,411	324,147	1,106,745	1,664,780	4,722,156
General Revenues:						
Property Taxes and Tax Increments	8,015,533	7,569,367	137,486	-	8,153,019	7,569,367
Unrestricted State Aids	14,367	12,084	-	-	14,367	12,084
Unrestricted Investment Earnings	61,999	91,870	40,774	38,956	102,773	130,826
Miscellaneous	-	-	-	1	-	1
Gain on Sale of Assets	7,685	16,901	-	-	7,685	16,901
Total Revenues	<u>11,631,687</u>	<u>13,341,710</u>	<u>5,411,340</u>	<u>4,290,876</u>	<u>17,043,027</u>	<u>17,632,586</u>
EXPENSES:						
General Government	1,291,343	1,269,911	-	-	1,291,343	1,269,911
Public Safety	5,277,106	4,937,793	-	-	5,277,106	4,937,793
Public Works	8,772,890	7,696,219	-	-	8,772,890	7,696,219
Culture and Recreation	658,371	547,989	-	-	658,371	547,989
Economic Development	507,292	450,017	-	-	507,292	450,017
Airport	-	-	695,381	405,906	695,381	405,906
Interest and Fiscal Charges	86,348	100,931	-	-	86,348	100,931
Utilities	-	-	3,587,879	3,853,238	3,587,879	3,853,238
Golf Course	-	-	-	9,941	-	9,941
Total Expenses	<u>16,593,350</u>	<u>15,002,860</u>	<u>4,283,260</u>	<u>4,269,085</u>	<u>20,876,610</u>	<u>19,271,945</u>
Change in Net Position Before Transfers	(4,961,663)	(1,661,150)	1,128,080	21,791	(3,833,583)	(1,639,359)
Transfers	50,000	(180,787)	(50,000)	180,787	-	-
Change in Net Position	<u>(4,911,663)</u>	<u>(1,841,937)</u>	<u>1,078,080</u>	<u>202,578</u>	<u>(3,833,583)</u>	<u>(1,639,359)</u>
Net Position - Beginning	56,875,907	58,717,844	28,260,217	28,057,639	85,136,124	86,775,483
Net Position - Ending	<u>\$ 51,964,244</u>	<u>\$ 56,875,907</u>	<u>\$ 29,338,297</u>	<u>\$ 28,260,217</u>	<u>\$ 81,302,541</u>	<u>\$ 85,136,124</u>

CITY OF FOREST LAKE

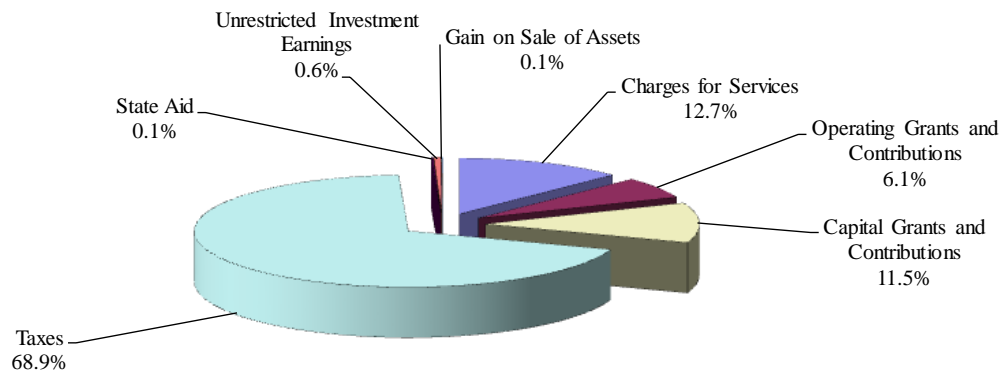
MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Activities

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

Revenues by Source – Governmental Activities



Revenues for the City's governmental activities decreased by \$ 1,710,023, or 12.8%. The major components of this decrease are explained as follows:

- Property tax revenue increased by \$ 446,166 due primarily to a higher tax levy in 2012. In addition, tax increment revenue increased due to a higher commercial values in the TIF district.
- Charges for services increased by \$35,270, due to an increase in building permit revenues.
- Operating grants and contributions increased by \$ 120,123 due to several factors: the City received an increase in State street maintenance aid, in the amount of \$ 69,913 in the year 2012; the City received a State grant for the first time in 2012, in the amount of \$22,650, for control of invasive species on Forest Lake; the City received a grant from the Watershed District, in the amount of \$19,670, for two water quality projects completed in 2012.
- Capital grants and contributions decreased by \$ 2,274,778 due primarily to one factor. The City received contributions of street related infrastructure from developers and a large contribution of road mileage from Washington County as part of jurisdictional transfer in the prior year. There were no contributions of infrastructure in 2012.
- Unrestricted investment earnings decreased by \$ 29,871, due to low interest rates.
- The City reported \$ 9,216 decrease in gain on the sale of assets in 2012 compared to 2011.

Expenses for governmental activities increased by \$ 1,590,490, or 10.6%. The major components of this decrease are explained as follows:

- Public works expenses increased by \$ 1,076,671, primarily due to the Broadway Avenue Project, which will be completed in 2013.
- Public safety expenses increased by \$ 339,313, primarily due to a reorganization of the Police Department. In addition, there were several periodic position vacancies in the prior year.
- Culture and recreation expenses increased by \$ 110,382, due to improvements at Castlewood Golf Course, funded by committed reserves.

CITY OF FOREST LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Business-Type Activities

Revenues – The City's business-type revenues increased overall by \$ 1,120,464, or 26.1%. The increase was primarily due to three factors: the City received a refund from the Metropolitan Council, in the amount of \$ 1,181,780 for sewer flow charges from prior years; the City raised utility rates by 10%, resulting in additional revenue of approximately \$ 570,000. In addition, there were prior year contributions of developer installed utilities in the amount of \$ 768,534. There were no developer contributions in 2012.

Expenses – Business-type expenses increased \$ 14,175 overall from the prior year. Airport expenses increased by \$ 289,475, primarily due to the abatement of special assessments on property located in the Airport Industrial Park, in the amount of \$ 272,000. The City Council abated the assessments as part of a development effort to retain businesses. The abatement was expensed in the Airport Fund. However, expenses in the Water and Sewer Utility Fund decreased by \$ 265,359, due primarily to a mid-year decrease in the Metropolitan Council sewer flow rate of approximately \$ 240,500.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund – The increase in the City's General Fund balance of \$ 335,364 was due to several factors: the City had unspent bond proceeds, in the amount of \$ 33,692, at year end in 2012; the City Council committed unspent emergency management capital funds, in the amount of \$25,000, to be spent in 2013; surface water fee revenues exceeded budget and the amount of \$ 128,618 was assigned in fund balance for future surface water management projects; delinquent property tax collections, fines and building permit revenue increased in 2012; and State aid for street maintenance increased by nearly \$ 70,000 in 2012, due to the acquisition of North Shore Trail.

Park Dedication Fund – The decrease of \$ 78,631 in the Park Dedication Fund balance was due to the expenditure of fund balance to establish a playground at Fenway Park.

Drug Forfeiture Fund – The increase of \$ 11,055 in the Drug Forfeiture Fund balance is due to fine revenues exceeding expenditures. The police department did not purchase a vehicle, as planned, in the amount of \$22,000. Offsetting the savings were expenses, in the approximate amount of \$ 9,000, relating to a forfeited vehicle that had been sold and the court system reversed the decision.

1986 TIF Fund No. 15 – The decrease of \$ 1,997,397 in the TIF No. 15 Fund is due to planned expenditures relating to the West Broadway Improvement Project that was mostly complete in 2012.

TIF District No. 24 Fund – The decrease of \$ 3,354 in the TIF No. 24 Fund is due to the elimination of the tax increment revenue. The property in the TIF district was sold to a tax exempt agency.

1989 TIF Fund No. 21 – The increase of \$ 279,366 was due to the receipt of a county grant in 2012 for the Lake Street/Broadway Avenue intersection improvement project completed in the prior year.

Debt Service Fund – The increase of \$ 431,322 in fund balance is due to the receipt of equipment refunding bond proceeds in the amount of \$ 440,000 in 2012.

Capital Improvements Fund – The increase of \$ 829,878 is primarily due to the receipt of state construction aid in the amount of \$ 830,487. Expenditures related to this aid were made in prior years.

CITY OF FOREST LAKE

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Airport Fund – The decrease of \$ 375,734 in the Airport Fund net position is primarily due to the abatement of special assessments, in the amount of \$ 272,000, on a lot in the City's Airport Industrial Park that was transferred to a developer. In addition, there was a \$ 85,481 operating loss attributed primarily to depreciation of capital assets.

Water and Sewer Utility Fund – The increase in the Water and Sewer Utility Fund net position of \$ 1,453,814 is primarily due to a refund from the Metropolitan Council in the amount of \$ 1,180,780 for sewer flow charges from prior years. Additional operating profit of approximately \$ 343,000 resulted from an increase in utility rates and a \$ 240,500 mid-year adjustment to the sewer flow charges from the Metropolitan Council.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City planned for a balanced budget for the General Fund for the year 2012. Overall, actual revenues and expenditures resulted in an increase in fund balance of \$ 335,364, or about 3.6% of the total General Fund budget. However, the amount of \$ 33,692 in unspent bond proceeds was restricted in fund balance for equipment purchases. The amount of \$ 25,000 was committed in fund balance by the City Council for expenditure in the next year to be utilized as matching funds for emergency management sirens. The amount of \$ 128,619 was assigned in fund balance for surface water management projects, as a result of surface water fees exceeding surface water expenses in 2012. The primary reason for the remaining increase in fund balance is an increase in revenues. Significant variances from budget to actual in the year 2012 are described below and on the following page.

Revenues

Property tax and other tax revenues were over budget by \$ 40,520, due to an increased collection of delinquent taxes.

Licenses and permit revenue was over budget by \$ 14,191 as a result of increased building permit revenue.

Intergovernmental revenue was over budget by \$ 117,147 due to an increase in municipal street maintenance aid of \$ 69,913; a new grant from the Minnesota Department of Natural Resources, in the amount of \$ 22,650, for control of invasive species on Forest Lake; and grants from the Watershed District for water management projects, in the amount of \$ 19,670.

Charges for services revenue was over budget by \$ 128,427, primarily due to unbudgeted revenue in the amount of \$ 94,039 from the surface water management charges. The remaining variance was primarily due to increased building inspection revenue.

Fines and forfeits revenue was over budget by \$ 21,398 due to higher than expected fine revenue.

Investment income was under budget by \$ 17,154. This is due primarily to continued low interest rates.

Miscellaneous revenues were over budget by \$ 55,018 due to the receipt of higher than anticipated insurance dividends and donations.

CITY OF FOREST LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS

Expenditures

General Government

Mayor and city council expenditures were under budget by \$ 1,137 due to reduced insurance premiums and no mileage reimbursement submitted for City Council travel.

Administration and finance expenditures were over budget by \$ 7,787 due primarily to changes in health insurance coverage in the department and an update of the City code.

Information technology expenditures were under budget by \$ 2,251 due to lower support costs.

The legal budget was under budget by \$ 18,332 due to a decrease in activity related to filling the City Administrator position that had been vacant in the prior year.

Expenditures for assessing property were under budget by \$ 1,806 due to a slightly decreased assessment contract.

Expenditures for maintenance of government buildings were under budget by \$ 295 due to several factors. However, expenditures for utilities were under budget by \$ 4,800 due to the installation of a new boiler in the previous year. In addition, wages were over budget by \$ 4,126 due to an increase in hours of a part-time janitorial position.

Public Safety

Police Department expenditures were under budget by \$ 6,276 due to a reduction in liability insurance premiums.

Fire Department expenditures were under budget by \$ 29,844, primarily due to lower volunteer firefighter wages related to a 10% decrease in calls from the previous year. In addition, less operating supplies were purchased.

Building inspection expenditures were over budget by \$ 24,487, primarily due to severance payments for terminated employees.

Emergency management expenditures were under budget by \$ 17,795, primarily due to a delay in the purchase of a new siren. The amount of \$25,000 was committed in fund balance to purchase the sirens in the next fiscal year. Installation of a siren purchased in the previous year also occurred in 2012, but was budgeted in 2011.

Animal control expenditures were over budget by \$ 2,058 due to one large case involving several maltreated animals.

CITY OF FOREST LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS

Expenditures (Continued)

Public Works

Street Department expenditures were under budget by \$ 92,037 due to several factors: a maintenance position was vacant for most of the year; less salt was purchased for road maintenance due to a mild winter in the 2011-2012 plowing season; and a portion of the capital equipment note funds, in the amount of \$ 33,692 remained unspent at year end.

Engineering expenditures were over budget by \$ 17,716, primarily due to activity related to the Public Safety/City Hall feasibility study.

Surface water management expenditures were over budget by \$ 54,659, primarily due to a capital project on Hayward/North Shore that received partial funding from the Watershed District. In addition, the City was aware that surface water management revenues were going to exceed surface water management expenditures in fiscal year 2012.

Expenditures for street lights were over budget by \$ 3,406 due to higher than anticipated electricity charges resulting from the number of new lights added in recent years.

Equipment shop expenditures were under budget by \$ 16,024 due to the purchase of less operating supplies in 2012 and savings on utilities due to a mild winter in the 2011-2012 heating season.

Expenditures at the City's compost site were under budget by \$ 327 due to budgeting for publishing and advertising, which were not needed.

Recycling expenditures were under budget by \$ 2,698 due to a vacancy in the contracted position of recycling coordinator for the budget year.

Weed harvester expenditures were over budget by \$ 10,134 due to the implementation of a new watercraft inspection program for invasive species. The expenditures were offset by a State grant.

Culture and Recreation

Parks program expenditures were under budget by \$ 3,254 due to lower than budgeted wages expense. Due to the mild 2011-2012 winter season, the outdoor skating rinks were not established, resulting in a savings of rink attendant costs.

Golf course expenditures were over budget by \$ 101,830 resulting from a planned expenditure of committed fund balance, in the amount of \$ 47,569, for capital projects and a private parking lot improvement agreement that exceeded expenditures due to complications in the field.

Parks maintenance expenditures were over budget by \$ 984 due primarily to increased insurance costs.

Expenditures for the senior center were \$ 1,522 over budget, due to unbudgeted repairs and maintenance.

CITY OF FOREST LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS

Expenditures (Continued)

Economic Development

Community development expenditures were over budget by \$ 12,023 due primarily to a waiver of development fees granted by the City Council to a developer, relating to the Mill Pond II housing development.

Other Financing Sources and Uses

The City sold surplus vehicles and squad cars in the year 2012, accounting for proceeds in the amount of \$ 7,685.

The City received insurance recoveries in the amount of \$ 4,660 in the year 2012.

The General Fund received a planned transfer of \$ 50,000 from the Water and Sewer Utilities Fund.

In 2012 the City issued the 2012A Capital Equipment Notes, in the amount of \$575,000. The proceeds from the bond issuance were recorded in the General Fund and were utilized for equipment purchases. At year end, \$ 33,692 in bond proceeds remained unspent.

Over the course of the year, the City Council made no modifications to the City's budget.

Significant changes to the 2012 budget from the 2011 budget included:

- An increase in property tax revenues of \$ 3,839, or 0.06%, virtually flat from the prior year;
- A decrease in licenses and permits revenue of \$ 81,100, or 22.5%, as a result of continued reduction in the issuance of building permits;
- An increase in intergovernmental revenue of \$ 26,989 due to an increase in State aid for street aid maintenance;
- An increase in charges for services of \$ 24,100, or 3.3%, due to increases in police and fire service contracts;
- An increase of \$ 32,500, or 812.5%, in the elections budget, due to the even-year election cycle;
- A decrease of \$ 16,122, or 7.4%, in the general government buildings and grounds budget, due to a reduction in salary costs and reduced energy costs resulting from the purchase of a new boiler;
- An increase of \$ 48,240 in the fire inspection budget, due to an increase in the fire inspector's position from part-time to full-time;
- A decrease of \$ 219,141, or 13.3%, in the streets budget, due primarily to a prior-year augmentation of the road maintenance budget with a \$ 300,000 interfund transfer;
- A decrease of \$ 89,241, or 44.62%, in the surface water management expenditures budget as a result of the desire to build the fund balance for special projects;
- A decrease of \$ 8,557, or 10.07%, in the maintenance shop budget, due to a reorganization of public works staff;
- A decrease of \$ 12,100, or 96.0% in the composting budget, due to a new provider agreement;
- The capital outlay budget was increased by \$ 396,000, or 267.57%, due to the issuance of equipment notes in 2012 to fund planned equipment purchases.

CITY OF FOREST LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City, including its component unit, had \$ 84,303,372 invested in a broad range of capital assets, net of accumulated depreciation. Refer to Note 4, Capital Assets, of the basic financial statements for a schedule showing the City's capital asset activity. This amount represents a net increase (including additions and deductions) of approximately \$ 231,663, or .28%, over last year.

The Forest Lake Economic Development Authority (EDA), the City's component unit, is currently planning the construction of a new public safety/city hall government complex as part of an overall redevelopment project on the existing Northland Mall site. The site was purchased by the EDA in December of 2012 and will be financed with the \$ 22,105,000 Public Facilities Lease Revenue Bonds, Series, 2013A. A portion of the property, valued at \$ 1,795,000, was gifted to the City by the developer in December of 2012. The EDA will lease the facilities to the City for governmental purposes until the bonds are paid in full. Three vacant lots on the site will be redeveloped and sold for private, commercial use. Two existing commercial lots adjacent to the property will be retained by the developer and redeveloped in accordance with an agreement between the City and developer. The EDA plans to begin construction in the fall of 2013. Completion of the project is anticipated in late 2014.

Currently, the City is developing an industrial park on 73 acres near the airport. The industrial park was zoned for light manufacturing use; however, the City recently added commercial use to expand the possibilities. The City has approved plans for a large commercial/residential development near the airport. The development includes a county government center, which opened in the fall of 2007. Final plans for this development also include the addition of a commercial district and up to 1,400 new homes. This development has potential to increase the population of the City by more than 3,500 people.

The City is in the completion stages of a cooperative effort with Washington County to improve West Broadway Avenue. The City will contribute \$ 4,700,000 toward the project, primarily from TIF funds.

The City constructed a new water tower and water treatment facility in 2008. The City also completed major lift station improvement projects in 2009 and 2012. The projects were financed with Water and Sewer Revenue Bonds and Utility Fund reserves.

Long-Term Debt

At year-end the City, including its component unit, had \$ 12,150,000 in bonds and notes outstanding. During 2012, the City issued the 2012A \$ 3,000,000 General Obligation Bonds and \$ 3,325,000 in debt was retired. A portion of the proceeds of the 2012A Bonds, in the amount of \$ 970,000 were refunding bonds and were placed in escrow until the call date of the 2008A Bonds, which is February 1, 2014. Refer to Note 6 of the basic financial statements for a schedule showing the City's long-term debt activity.

The City maintains a G.O. bond rating of "Aa2" from Moody's Investor's Service and an "AA" rating from Standard and Poor's (S&P), which are considered to be excellent ratings in the market.

CITY OF FOREST LAKE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's appointed officials considered many factors when setting the year 2013 budget and the rates and fees that will be charged for the business-type activities. The major factors accounted for when adopting the General Fund budget were:

- A 0.0% contractual cost-of-living (COLA) increase was planned for all employees;
- Building permit revenue is expected to increase slightly;
- The City Council adopted utility franchise fees to fund local road improvements;
- Engineering proposals were requested, resulting in significant cost savings;
- There will be no State election in 2013, for an estimated savings of \$ 36,500;
- There will be no significant equipment purchases in 2013;
- Most departmental expenditures were funded at the same level or less than 2012;
- The Economic Development Authority component unit will issue debt in 2013 to finance the new public facilities project.

CONTACT INFORMATION

This annual report is designed to provide a general overview of the City of Forest Lake, Minnesota finances for citizens, customers and others. Questions concerning any of the information contained in this report and requests for additional information should be addressed to Aaron Parrish, City Administrator, or Ellen Paulseth, Finance Director, City of Forest Lake, 220 North Lake Street, Forest Lake, Minnesota 55025, or by phone at (651) 464-3550.

BASIC FINANCIAL STATEMENTS

CITY OF FOREST LAKE

**STATEMENT OF NET POSITION
December 31, 2012**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
ASSETS				
Cash and Investments (Including Cash Equivalents)	\$ 8,769,898	\$ 2,272,396	\$ 11,042,294	\$ -
Cash with Fiscal Agent	430,158	521,201	951,359	-
Receivables:				
Taxes Receivable	402,981	4,367	407,348	1,145
Accounts Receivable	87,525	998,016	1,085,541	-
Interest Receivable	13,750	193,397	207,147	122
Special Assessments Receivable:				
Deferred and Delinquent	400,293	1,126,793	1,527,086	-
Due from Other Governments	476,598	9,958	486,556	-
Due from Primary Government	-	-	-	99,464
Advances to Other Funds (Internal Balances)	(1,489,000)	1,489,000	-	-
Notes Receivable	25,139	92,216	117,355	-
Inventory	-	31,306	31,306	-
Prepaid Items	148,459	140,348	288,807	-
Capital Assets not being Depreciated:				
Land	4,576,005	1,702,972	6,278,977	3,745,000
Construction in Progress	-	1,120,548	1,120,548	-
Capital Assets being Depreciated:				
Infrastructure	113,877,881	33,873,080	147,750,961	-
Buildings and Improvements	1,744,149	668,075	2,412,224	-
Machinery and Equipment	6,786,511	4,293,750	11,080,261	-
Less Accumulated Depreciation	(77,722,402)	(10,362,197)	(88,084,599)	-
Total Assets	<u>\$ 58,527,945</u>	<u>\$ 38,175,226</u>	<u>\$ 96,703,171</u>	<u>\$ 3,845,731</u>
LIABILITIES AND NET POSITION				
Liabilities				
Accounts Payable	\$ 179,816	\$ 68,502	\$ 248,318	\$ 1,955,064
Contracts Payable	-	40,714	40,714	-
Escrow Payable	406,788	-	406,788	-
Due to Other Governments	1,224,665	6,292	1,230,957	-
Due to EDA Component Unit	99,464	-	99,464	-
Salaries and Benefits Payable	185,084	17,800	202,884	-
Interest Payable	165,255	145,696	310,951	-
Unearned Revenue	100	-	100	-
Bond Principal Payable:				
Payable Within One Year	640,000	645,000	1,285,000	-
Payable After One Year	3,025,000	7,840,000	10,865,000	-
Capital Lease Payable:				
Payable Within One Year	19,464	-	19,464	-
Payable After One Year	59,203	-	59,203	-
Compensated Absences Payable:				
Payable Within One Year	197,172	20,771	217,943	-
Payable After One Year	212,741	41,875	254,616	-
Other Post Employment Benefits (OPEB) Obligation	148,949	10,279	159,228	-
Total Liabilities	<u>6,563,701</u>	<u>8,836,929</u>	<u>15,400,630</u>	<u>1,955,064</u>
Net Position				
Net Investment in Capital Assets	45,992,169	23,622,118	69,614,287	3,745,000
Restricted for:				
Tax Increment	152,297	-	152,297	-
Drug Forfeiture	44,375	-	44,375	-
Unrestricted	5,775,403	5,716,179	11,491,582	(1,854,333)
Total Net Position	<u>51,964,244</u>	<u>29,338,297</u>	<u>81,302,541</u>	<u>1,890,667</u>
Total Liabilities and Net Position	<u>\$ 58,527,945</u>	<u>\$ 38,175,226</u>	<u>\$ 96,703,171</u>	<u>\$ 3,845,731</u>

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Economic Development Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
General Government	\$ 1,291,343	\$ 200,333	\$ -	\$ -	\$ (1,091,010)	\$ -	\$ (1,091,010)	\$ -
Public Safety	5,277,106	916,358	342,518	-	(4,018,230)	-	(4,018,230)	-
Public Works	8,772,890	357,237	364,480	934,131	(7,117,042)	-	(7,117,042)	-
Economic Development	507,292	-	-	384,834	(122,458)	-	(122,458)	-
Culture and Recreation	658,371	4,622	5,922	21,668	(626,159)	-	(626,159)	-
Interest on Long-Term Debt	86,348	-	-	-	(86,348)	-	(86,348)	-
Total Governmental Activities	<u>16,593,350</u>	<u>1,478,550</u>	<u>712,920</u>	<u>1,340,633</u>	<u>(13,061,247)</u>	<u>-</u>	<u>(13,061,247)</u>	<u>-</u>
Business-Type Activities								
Utilities	3,587,879	4,794,627	-	256,696	-	1,463,444	1,463,444	-
Airport	695,381	110,506	3,800	67,451	-	(513,624)	(513,624)	-
Total Business-Type Activities	<u>4,283,260</u>	<u>4,905,133</u>	<u>3,800</u>	<u>324,147</u>	<u>-</u>	<u>949,820</u>	<u>949,820</u>	<u>-</u>
Total Governmental and Business-Type Activities	<u>\$ 20,876,610</u>	<u>\$ 6,383,683</u>	<u>\$ 716,720</u>	<u>\$ 1,664,780</u>	<u>(13,061,247)</u>	<u>949,820</u>	<u>(12,111,427)</u>	<u>-</u>
Component Unit								
Economic Development Authority	<u>\$ 35,401</u>	<u>\$ -</u>	<u>\$ 400</u>	<u>\$ 1,795,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,759,999</u>
General Revenues								
Property Taxes					6,953,248	137,486	7,090,734	24,794
Tax Increments					1,062,285	-	1,062,285	-
Unrestricted State Aids					14,367	-	14,367	23
Unrestricted Investment Earnings					61,999	40,774	102,773	780
Gain on Sale of Assets					7,685	-	7,685	-
Transfers					50,000	(50,000)	-	-
Total General Revenues and Transfers					<u>8,149,584</u>	<u>128,260</u>	<u>8,277,844</u>	<u>25,597</u>
Change in Net Position					<u>(4,911,663)</u>	<u>1,078,080</u>	<u>(3,833,583)</u>	<u>1,785,596</u>
Net Position, Beginning					<u>56,875,907</u>	<u>28,260,217</u>	<u>85,136,124</u>	<u>105,071</u>
Net Position - Ending					<u>\$ 51,964,244</u>	<u>\$ 29,338,297</u>	<u>\$ 81,302,541</u>	<u>\$ 1,890,667</u>

CITY OF FOREST LAKE

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2012

		Special Revenue	
	General Fund (101)	1986 Tax Increment (210)	Park Dedication (203)
ASSETS			
Cash and Investments	\$ 4,787,466	\$ 691,551	\$ 20,954
Cash with Fiscal Agent	-	-	-
Taxes Receivable	376,360	-	-
Special Assessments Receivable:			
Deferred and Delinquent	69,585	-	-
Accounts Receivable	87,375	-	150
Interest Receivable	5,736	849	26
Due from Other Funds	118,680	207,535	-
Due from Other Governments	143,514	-	-
Notes Receivable	-	-	-
Prepaid Items	148,459	-	-
Advance to Other Funds	-	-	-
	<u>\$ 5,737,175</u>	<u>\$ 899,935</u>	<u>\$ 21,130</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 177,503	\$ 1,126	\$ -
Escrows Payable	128,000	-	-
Interest Payable	-	-	135,420
Due to Other Funds	-	-	-
Due to Other Governments	35,286	1,189,379	-
Due to EDA Component Unit	99,464	-	-
Salaries and Benefits Payable	185,084	-	-
Deferred Revenue	289,086	-	-
Advance from Other Funds	-	-	1,614,000
Total Liabilities	<u>914,423</u>	<u>1,190,505</u>	<u>1,749,420</u>
Fund Balances			
Nonspendable	148,459	-	-
Restricted	33,692	-	-
Committed	25,000	-	25,918
Assigned	128,619	-	-
Unassigned	4,486,982	(290,570)	(1,754,208)
Total Fund Balances	<u>4,822,752</u>	<u>(290,570)</u>	<u>(1,728,290)</u>
	<u>\$ 5,737,175</u>	<u>\$ 899,935</u>	<u>\$ 21,130</u>

<u>Special Revenue</u>	<u>Capital Projects</u>		
1989 Tax	Capital	Nonmajor	
Increment (303)	Improvements	Governmental	Total
	(211)	Funds	
\$ -	\$ 3,222,443	\$ 47,484	\$ 8,769,898
-	-	430,158	430,158
23,024	4	3,593	402,981
-	312,691	18,017	400,293
-	-	-	87,525
1,114	5,252	773	13,750
-	-	-	326,215
333,084	-	-	476,598
-	25,139	-	25,139
-	-	-	148,459
-	160,655	-	160,655
<u>\$ 357,222</u>	<u>\$ 3,726,184</u>	<u>\$ 500,025</u>	<u>\$ 11,241,671</u>
\$ 74	\$ 626	\$ 487	\$ 179,816
-	278,788	-	406,788
-	-	-	135,420
207,535	-	118,680	326,215
-	-	-	1,224,665
-	-	-	99,464
-	-	-	185,084
15,981	305,830	19,676	630,573
-	-	35,655	1,649,655
<u>223,590</u>	<u>585,244</u>	<u>174,498</u>	<u>4,837,680</u>
-	-	-	148,459
133,632	-	361,182	528,506
-	3,115,801	-	3,166,719
-	25,139	-	153,758
-	-	(35,655)	2,406,549
<u>133,632</u>	<u>3,140,940</u>	<u>325,527</u>	<u>6,403,991</u>
<u>\$ 357,222</u>	<u>\$ 3,726,184</u>	<u>\$ 500,025</u>	<u>\$ 11,241,671</u>

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CITY OF FOREST LAKE

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

Total Fund Balances - Governmental Funds \$ 6,403,991

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not current financial resources
and, therefore, are not reported as assets in governmental funds.

Capital Assets	126,984,546
Less Accumulated Depreciation	(77,722,402)

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	(3,665,000)
Capital Lease Payable	(78,667)
Compensated Absences Payable	(409,913)
Net OPEB Obligation	(148,949)

Delinquent receivables will be collected in subsequent years, but are not available
soon enough to pay for the current period's expenditures and, therefore, are
deferred in the funds.

Property Taxes	237,277
Special Assessments	9,825

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds.

Deferred Special Assessments	383,371
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Governmental funds do not report a liability for accrued interest until due
and payable.

(29,835)

Total Net Position - Governmental Activities \$ 51,964,244

CITY OF FOREST LAKE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012**

	General Fund (101)	Special Revenue		
		1986 Tax Increment (210)	Park Dedication (203)	1989 Tax Increment (303)
REVENUES				
Taxes	\$ 6,934,915	\$ 291,611	\$ -	\$ 762,075
Special Assessments	-	-	-	-
Licenses and Permits	293,191	-	-	-
Intergovernmental	691,936	-	-	384,834
Charges for Services	887,227	-	2,671	-
Fines and Forfeitures	171,398	-	-	-
Miscellaneous:				
Investment Income	27,846	(1,221)	359	-
Contributions and Donations	18,722	-	16,167	-
Other	101,218	-	2,830	-
Total Revenues	<u>9,126,453</u>	<u>290,390</u>	<u>22,027</u>	<u>1,146,909</u>
EXPENDITURES				
Current				
General Government	1,241,711	-	-	-
Public Safety	4,887,035	-	-	-
Public Works	1,793,154	2,287,787	-	125,728
Culture and Recreation	452,727	-	45,281	-
Economic Development	359,257	-	-	108,708
Debt Service				
Principal	114,295	-	-	430,000
Interest and Other Charges	34,051	-	-	41,025
Capital Outlay				
Public Safety	107,652	-	-	-
Public Works	429,222	-	-	162,082
Culture and Recreation	9,330	-	55,377	-
Total Expenditures	<u>9,428,434</u>	<u>2,287,787</u>	<u>100,658</u>	<u>867,543</u>
Excess of Revenues Over (Under) Expenditures	(301,981)	(1,997,397)	(78,631)	279,366
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Asset	7,685	-	-	-
Bond Issuance	575,000	-	-	-
Transfers In	50,000	-	-	-
Insurance Recoveries	4,660	-	-	-
Total Other Financing Sources	<u>637,345</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	335,364	(1,997,397)	(78,631)	279,366
FUND BALANCES				
Beginning of Year	<u>4,487,388</u>	<u>1,706,827</u>	<u>(1,649,659)</u>	<u>(145,734)</u>
End of Year	<u>\$ 4,822,752</u>	<u>\$ (290,570)</u>	<u>\$ (1,728,290)</u>	<u>\$ 133,632</u>

<u>Capital Projects</u>		
<u>Capital Improvements (211)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ -	\$ 111,452	\$ 8,100,053
187,304	-	187,304
-	-	293,191
830,487	4,782	1,912,039
3,511	-	893,409
-	33,852	205,250
34,164	851	61,999
26,068	-	60,957
16,334	-	120,382
<u>1,097,868</u>	<u>150,937</u>	<u>11,834,584</u>
-	-	1,241,711
-	27,964	4,914,999
233,861	-	4,440,530
-	-	498,008
-	38,976	506,941
-	110,000	654,295
-	10,629	85,705
-	-	107,652
-	-	591,304
72,200	-	136,907
<u>306,061</u>	<u>187,569</u>	<u>13,178,052</u>
791,807	(36,632)	(1,343,468)
-	-	7,685
-	440,000	1,015,000
-	-	50,000
38,071	-	42,731
<u>38,071</u>	<u>440,000</u>	<u>1,115,416</u>
829,878	403,368	(228,052)
<u>2,311,062</u>	<u>(77,841)</u>	<u>6,632,043</u>
<u>\$ 3,140,940</u>	<u>\$ 325,527</u>	<u>\$ 6,403,991</u>

CITY OF FOREST LAKE

**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 \$ (228,052)

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

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities, the cost of those assets is allocated over the estimated
useful lives as depreciation expense.

Capital Outlays	901,415
Depreciation Expense	(4,931,794)
Loss on Disposal of Capital Assets	(32,583)

Compensated absences are recognized as paid in the governmental funds,
but recognized as the expense is incurred in the Statement of Activities. (38,999)

Net OPEB obligations are recognized as paid in the governmental
funds but recognized as the expense is incurred in the Statement of Activities. (9,720)

Principal payments on long-term debt are recognized as expenditures in
the governmental funds, but as an increase in the net position in the
Statement of Activities. 654,295

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 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. (643)

Proceeds from long-term debt are recognized as an other financing source in the
governmental funds, but as a decrease in net position in the Statement of Activities.
Bonds Payable (1,015,000)

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds.

Special Assessments Deferred	(120,837)
Special Assessments Delinquent	(5,225)

Delinquent property taxes receivable will be collected in subsequent years,
but are not available soon enough to pay for the current period's expenditures
and, therefore, are deferred in the funds. (84,520)

Change in Net Position - Governmental Activities \$ (4,911,663)

CITY OF FOREST LAKE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Over (Under)</u>
	<u>Original and Final</u>	<u>Actual Amounts</u>	
REVENUES			
Taxes	\$ 6,894,395	\$ 6,934,915	\$ 40,520
Licenses and Permits	279,000	293,191	14,191
Intergovernmental	574,789	691,936	117,147
Charges for Services	758,800	887,227	128,427
Fines and Forfeitures	150,000	171,398	21,398
Miscellaneous Revenues:			
Investment Income	45,000	27,846	(17,154)
Contributions and Donations	9,000	18,722	9,722
Other	46,200	101,218	55,018
Total Revenues	<u>8,757,184</u>	<u>9,126,453</u>	<u>369,269</u>
EXPENDITURES			
Current			
General Government	1,261,595	1,241,711	(19,884)
Public Safety	4,888,057	4,887,035	(1,022)
Public Works	1,847,547	1,793,154	(54,393)
Culture and Recreation	350,975	452,727	101,752
Economic Development	347,234	359,257	12,023
Debt Service			
Principal	115,251	114,295	(956)
Interest and Other Charges	23,525	34,051	10,526
Capital Outlay			
Public Safety	134,000	107,652	(26,348)
Public Works	400,000	429,222	29,222
Culture and Recreation	10,000	9,330	(670)
Total Expenditures	<u>9,378,184</u>	<u>9,428,434</u>	<u>50,250</u>
Excess of Revenues Over (Under) Expenditures	(621,000)	(301,981)	319,019
OTHER FINANCING SOURCES			
Proceeds from Sale of Capital Asset	6,000	7,685	1,685
Bond Issuance	565,000	575,000	10,000
Transfers In	50,000	50,000	-
Insurance Recoveries	-	4,660	4,660
Total Other Financing Sources	<u>621,000</u>	<u>637,345</u>	<u>16,345</u>
Net Change in Fund Balances	<u>\$ -</u>	335,364	<u>\$ 335,364</u>
FUND BALANCES			
Beginning of Year		<u>4,487,388</u>	
End of Year		<u>\$ 4,822,752</u>	

CITY OF FOREST LAKE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
1986 TAX INCREMENT SPECIAL REVENUE FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original and Final			
REVENUES				
Taxes	\$ 270,000		\$ 291,611	\$ 21,611
Miscellaneous:				
Investment Income	5,000		(1,221)	(6,221)
Total Revenues	275,000		290,390	15,390
EXPENDITURES				
Current				
Public Works	2,730,000		2,287,787	(442,213)
Excess of Revenues Over (Under) Expenditures	\$ (2,455,000)		(1,997,397)	\$ 457,603
FUND BALANCES				
Beginning of Year			1,706,827	
End of Year			\$ (290,570)	

CITY OF FOREST LAKE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - PARK DEDICATION SPECIAL REVENUE FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts		Variance with Final Budget - Over (Under)
	Original and Final				
REVENUES					
Charges for Services	\$ 120,000		\$ 2,671		\$ (117,329)
Miscellaneous Revenues:					
Investment Income	1,000		359		(641)
Contributions and Donations	7,500		16,167		8,667
Other	-		2,830		2,830
Total Revenues	128,500		22,027		(106,473)
EXPENDITURES					
Current					
Culture and Recreation	18,500		45,281		26,781
Capital Outlay					
Culture and Recreation	50,000		55,377		5,377
Total Expenditures	68,500		100,658		32,158
Excess of Revenues Over (Under) Expenditures	60,000		(78,631)		(138,631)
OTHER FINANCING SOURCES (USES)					
Transfers Out	(60,000)		-		60,000
Net Change in Fund Balances	\$ -		(78,631)		\$ (78,631)
FUND BALANCES					
Beginning of Year			(1,649,659)		
End of Year			\$ (1,728,290)		

CITY OF FOREST LAKE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - 1989 TAX INCREMENT SPECIAL REVENUE FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original and Final		Amounts	Over (Under)
REVENUES				
Taxes	\$ 715,000		\$ 762,075	\$ 47,075
Intergovernmental	101,000		384,834	283,834
Miscellaneous Revenues:				
Investment Income	500		-	(500)
Total Revenues	816,500		1,146,909	330,409
EXPENDITURES				
Current				
Public Works	3,000		125,728	122,728
Economic Development	115,000		108,708	(6,292)
Debt Service				
Principal	430,000		430,000	-
Interest and Other Charges	41,031		41,025	(6)
Capital Outlay				
Public Works	-		162,082	162,082
Total Expenditures	589,031		867,543	278,512
Net Change in Fund Balances	\$ 227,469		279,366	\$ 51,897
FUND BALANCES				
Beginning of Year			(145,734)	
End of Year			\$ 133,632	

CITY OF FOREST LAKE

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2012

	<u>Utility (631)</u>	<u>Airport (612)</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Investments (Including Cash Equivalents)	\$ 2,218,852	\$ 53,544	\$ 2,272,396
Cash with Fiscal Agent	-	521,201	521,201
Taxes Receivable	-	4,367	4,367
Special Assessments Receivable:			
Deferred and Delinquent	547,293	579,500	1,126,793
Accounts Receivable	997,750	266	998,016
Interest Receivable	192,513	884	193,397
Due from Other Governments	-	9,958	9,958
Inventory	17,081	14,225	31,306
Prepaid Items	132,120	8,228	140,348
Total Current Assets	<u>4,105,609</u>	<u>1,192,173</u>	<u>5,297,782</u>
Noncurrent Assets			
Notes Receivable	92,216	-	92,216
Advance to Other Funds	2,359,000	-	2,359,000
Capital Assets:			
Land	114,573	1,588,399	1,702,972
Construction in Progress	1,120,548	-	1,120,548
Infrastructure	32,229,079	1,644,001	33,873,080
Buildings and Improvements	26,165	641,910	668,075
Machinery and Equipment	4,117,055	176,695	4,293,750
Total Capital Assets	<u>37,607,420</u>	<u>4,051,005</u>	<u>41,658,425</u>
Less Accumulated Depreciation	<u>(9,770,141)</u>	<u>(592,056)</u>	<u>(10,362,197)</u>
Net Capital Assets	<u>27,837,279</u>	<u>3,458,949</u>	<u>31,296,228</u>
Total Noncurrent Assets	<u>30,288,495</u>	<u>3,458,949</u>	<u>33,747,444</u>
Total Assets	<u>\$ 34,394,104</u>	<u>\$ 4,651,122</u>	<u>\$ 39,045,226</u>
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts Payable	\$ 62,741	\$ 5,761	\$ 68,502
Contracts Payable	31,014	9,700	40,714
Salaries and Benefits Payable	17,230	570	17,800
Interest Payable	76,103	69,593	145,696
Due to Other Governments	6,292	-	6,292
Long-term Liabilities Due within One Year	548,343	117,428	665,771
Total Current Liabilities	<u>741,723</u>	<u>203,052</u>	<u>944,775</u>
Noncurrent Liabilities			
Advance from Other Funds	-	870,000	870,000
Compensated Absences	58,736	3,910	62,646
Net OPEB Obligation	10,242	37	10,279
Bonds Payable	7,205,000	1,280,000	8,485,000
Less Long-term Liabilities Due Within One Year	<u>(548,343)</u>	<u>(117,428)</u>	<u>(665,771)</u>
Total Noncurrent Liabilities	<u>6,725,635</u>	<u>2,036,519</u>	<u>8,762,154</u>
Total Liabilities	<u>7,467,358</u>	<u>2,239,571</u>	<u>9,706,929</u>
Net Position			
Net Investment in Capital Assets	20,913,169	2,708,949	23,622,118
Unrestricted	6,013,577	(297,398)	5,716,179
Total Net Position	<u>26,926,746</u>	<u>2,411,551</u>	<u>29,338,297</u>
Total Liabilities and Net Position	<u>\$ 34,394,104</u>	<u>\$ 4,651,122</u>	<u>\$ 39,045,226</u>

CITY OF FOREST LAKE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2012**

	Utility (631)	Airport (612)	Total
OPERATING REVENUES			
User Charges	\$ 3,527,189	\$ 110,445	\$ 3,637,634
Other	1,285,082	61	1,285,143
Total Operating Revenues	<u>4,812,271</u>	<u>110,506</u>	<u>4,922,777</u>
 OPERATING EXPENSES			
Wages and Salaries	430,499	7,520	438,019
Employee Benefits	141,572	3,833	145,405
Materials and Supplies	467,540	50,147	517,687
Repairs and Maintenance	197,273	2,436	199,709
Professional Services	81,048	2,955	84,003
Insurance	79,453	14,865	94,318
Utilities	190,080	14,113	204,193
Depreciation	675,434	94,405	769,839
Metro Sewer Service Charges	959,492	-	959,492
Miscellaneous	65,692	5,713	71,405
Total Operating Expenses	<u>3,288,083</u>	<u>195,987</u>	<u>3,484,070</u>
Operating Income (Loss)	1,524,188	(85,481)	1,438,707
 NONOPERATING REVENUES (EXPENSES)			
Investment Income	40,370	404	40,774
Special Assessments	-	49,671	49,671
Intergovernmental Grants	-	3,800	3,800
Taxes	-	137,486	137,486
Connection Charges	239,052	-	239,052
Interest Expense	(273,230)	(38,562)	(311,792)
Other Expense	(26,566)	(188,832)	(215,398)
Special Assessments Abatement	-	(272,000)	(272,000)
Total Nonoperating Revenues (Expenses)	<u>(20,374)</u>	<u>(308,033)</u>	<u>(328,407)</u>
Income (Loss) Before Capital Contributions and Transfers	1,503,814	(393,514)	1,110,300
Capital Contributions	-	17,780	17,780
Transfers Out	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Change in Net Position	1,453,814	(375,734)	1,078,080
 NET POSITION			
Beginning of Year	<u>25,472,932</u>	<u>2,787,285</u>	<u>28,260,217</u>
End of Year	<u>\$ 26,926,746</u>	<u>\$ 2,411,551</u>	<u>\$ 29,338,297</u>

CITY OF FOREST LAKE

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2012**

	Utility (631)	Airport (612)	Total
CASH FLOWS - OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 3,399,824	\$ 101,117	\$ 3,500,941
Payments to Suppliers	(2,018,600)	(97,553)	(2,116,153)
Payments to Employees	(560,602)	(9,177)	(569,779)
Miscellaneous Income (Expense)	1,181,673	(179,155)	1,002,518
Net Cash Flows - Operating Activities	2,002,295	(184,768)	1,817,527
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES			
Transfer to Other Funds	(50,000)	-	(50,000)
Intergovernmental Grants	-	3,800	3,800
Taxes	-	133,119	133,119
Notes Receivable Payments	5,424	-	5,424
Special Assessments Received	4,155	-	4,155
Net Cash Flows - Noncapital Financing Activities	(40,421)	136,919	96,498
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES			
Grants and Contributions	-	17,780	17,780
Special Assessments Received	-	191,588	191,588
Connection Fees Received	239,052	-	239,052
Principal Paid on Long-Term Debt	(2,585,000)	(110,000)	(2,695,000)
Interest Paid on Long-Term Debt	(299,534)	(38,076)	(337,610)
Bond Proceeds	1,455,000	530,000	1,985,000
Acquisition of Capital Assets	(1,300,767)	(2,000)	(1,302,767)
Net Cash Flows - Capital and Related Financing Activities	(2,491,249)	589,292	(1,901,957)
CASH FLOWS - INVESTING ACTIVITIES			
Interest and Dividends Received	15,203	-	15,203
Net Change in Cash and Cash Equivalents	(514,172)	541,443	27,271
CASH AND CASH EQUIVALENTS			
January 1	2,733,024	33,302	2,766,326
December 31	\$ 2,218,852	\$ 574,745	\$ 2,793,597
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 1,524,188	\$ (85,481)	\$ 1,438,707
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:			
Miscellaneous Income (Expense)	-	(179,155)	(179,155)
Depreciation Expense	675,434	94,405	769,839
Accounts Receivable	(178,391)	569	(177,822)
Special Assessments Receivable	(52,383)	-	(52,383)
Due from Other Governments	-	(9,958)	(9,958)
Prepaid Items	12,232	838	13,070
Inventory	373	(6,488)	(6,115)
Accounts Payable	11,256	(1,649)	9,607
Due to Other Governments	(1,883)	(25)	(1,908)
Salaries Payable	7,329	217	7,546
Compensated Absences Payable	2,967	1,958	4,925
Net OPEB Obligation	1,173	1	1,174
Total Adjustments	478,107	(99,287)	378,820
Net Cash Flows - Operating Activities	\$ 2,002,295	\$ (184,768)	\$ 1,817,527
NONCASH ACTIVITIES			
Abatement of Special Assessments	\$ -	\$ (272,000)	\$ (272,000)
Capital Contributions	-	17,780	17,780

The Notes to the Financial Statements are an integral part of this statement.

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CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Forest Lake (the “City”) is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the City is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization’s governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations are presented in this report as follows:

Discretely Presented Component Units – The relationship of the City with the entity is disclosed.

Joint Ventures – The relationships of the City with the entities are disclosed.

For each of the categories above, the specific entities are identified as follows:

1. Discretely Presented Component Unit

Component units are legally separate entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit’s governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit or is fiscally dependent upon the potential component unit.

In conformity with accounting principles generally accepted in the United States of America, the component units’ column in the government-wide Statement of Net Position and Statement of Activities include the financial data of the City’s component unit. This unit is reported in a separate column to emphasize that it is legally separate from the City.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

1. Discretely Presented Component Unit (Continued)

The Forest Lake Economic Development Authority (EDA) meets the criteria to be included as a discrete presentation. The members of the governing board of the Forest Lake EDA are appointed by the City Council. Although the City does not have the authority to approve or modify the Forest Lake EDA's operational and capital budgets, the tax levy established by the Forest Lake EDA must be approved by the City Council. The enabling resolution establishing the EDA authorizes the EDA to issue debt, provided that the debt is not backed by the full faith and credit of the City. Separate financial statements are not prepared for the Forest Lake EDA.

2. Joint Ventures

a. Fire Contracts

The Cities of Forest Lake and Columbus have a joint powers agreement entered into January 1, 1992, whereby the City of Forest Lake fire departments shall furnish fire services to the City of Columbus. The City of Forest Lake is responsible for the administration and management of the fire department. The joint powers agreement continues until its members decide to withdraw from the agreement. Withdrawal will only be permitted after payment has been made in full for all equipment, including equipment being purchased by equipment certificates. Pursuant to these agreements, the City of Columbus contributes approximately 20% of the City of Forest Lake's yearly approved budget for fire protection. The City of Forest Lake accounts for the fire contract in the General Fund.

b. I-35 WE Coalition

The I-35 WE Coalition (the "Coalition") includes cities and counties along I-35W and I-35E corridors in Anoka and Washington Counties. The goals of the Coalition are to:

- Develop a cohesive transportation system in the area
- Balance land use and the transportation system
- Identify, develop and support regional transportation system improvements

To accomplish these goals, the Counties and Cities entered into a joint powers agreement under the authority provided by *Minnesota Statutes* 471.59. This agreement was signed by Washington County in 2004. The Coalition strives to coordinate programming of transportation systems through 2030 by an interactive process such that the transportation system is capable of supporting land use and development in the northeast metropolitan area.

The parties agree to hold regular meetings for the purpose of monitoring progress on the planning activities, providing guidance for such planning activities and coordinating between governing bodies, including the Minnesota Department of Transportation (MN/DOT) and the Metropolitan Council (MC).

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

2. Joint Ventures (Continued)

b. I-35 WE Coalition (Continued)

Currently, there are no direct costs associated with the work performed. However, if the parties agree that costs are to be incurred, the parties will amend the existing joint powers agreement or prepare a new agreement for that purpose. Any party may withdraw from the agreement upon 30 days written notice to the other parties in the agreement.

c. School Liaison Officer

The City and Independent School District No. 831 (the “District”) have a joint powers agreement entered into September 1, 1994, whereby the members have agreed to create, fund and implement the position of Police School Liaison Officers. The City will provide the services of two police officers and related support services to assist the District in establishing a Police School Liaison Officer Program. The City will bill the District for these services on a quarterly basis. The City accounts for this program in the General Fund.

d. Cable Commission

The City and the Forest Lake Cable Commission have a joint powers agreement whereby the members have established an organization to monitor the operations and activities of cable communications and related communications matters. The agreement coordinates the administration, enforcement and renewal of the franchises of its members and protects the interests of its members and its citizens with respect to the delivery of cable communications and related communications matter. The Cable Commission operates on franchise fees and an appropriation from the City.

e. Washington County Drug Task Force

The City and the Washington County Drug Task Force have a joint powers agreement whereby the members have agreed to a coordinated and formal framework for targeted investigations, commitments, operations, resource and equipment sharing, distribution of forfeiture funds and proceeds, and general management and liability issues. The City provides one full time officer to the Washington County Drug Task Force.

f. Metro I-Net

The Metro I-Net is a joint powers agreement between several metro cities to share computing technology assistance. Subsequently, the City entered into an agreement with the City of Roseville to receive information technology and network related service and support. Currently, the City compensates the City of Roseville approximately \$ 65,000 annually for services rendered.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

2. Joint Ventures (Continued)

g. National Joint Powers Alliance (NJPA)

The City belongs to the NJPA and has a joint powers agreement with the various members whereby the members agree to jointly exercise certain powers common to them for the procurement of various goods and services. Currently, there are no direct costs associated with the work performed. However, the City does belong to the NJPA health insurance pool and occasionally purchases items from the nation purchasing contract.

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 activities of the City. The effect of interfund activity has been removed from these Statements. 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. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. 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 are not included among program revenues; instead, they are properly reported as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

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

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

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

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 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 fees, licenses and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current 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.

Description of Funds:

Major Governmental Funds:

General Fund – This Fund is the City’s primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

1986 Tax Increment Special Revenue Fund – This Fund accounts for costs associated with the TIF District Everton Industrial Park. The Park is a redevelopment district formed in 1986. The main source of revenue for this fund is tax increments.

Park Dedication Special Revenue Fund – This Fund accounts for costs associated with park land dedication and recreation projects. The main sources of revenue for this fund are park dedication fees and donations.

1989 Tax Increment Special Revenue Fund – This Fund accounts for costs associated with the Downtown Redevelopment TIF District. The TIF District was formed in 1989 and includes downtown commercial properties and properties along West Broadway. The main source of revenue for this fund is tax increments.

Capital Improvements Capital Projects Fund – This Fund accounts for costs related to general City capital improvement projects. Examples of such projects include street improvements and bridge projects. Additionally, developer contributions are accounted for in this Fund.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Funds: (Continued)

Major Proprietary Funds:

Utility Enterprise Fund – This Fund accounts for the operations of the City’s sanitary sewer utility and water utility.

Airport Enterprise Fund – This Fund accounts for the activities of the City’s airport operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City’s utility functions 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.

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

Component Units (Discretely Presented)

The Forest Lake EDA activities are governmental in nature and maintain records on the modified accrual basis of accounting. The Forest Lake EDA’s records are reported on the accrual basis of accounting for the Statement of Activities and Statement of Net Position.

D. Assets, Liabilities and Net Position or Fund Balance

1. Cash 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.

Minnesota Statutes authorize the City and the Forest Lake EDA component unit to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers’ acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool. Investments are stated at fair value.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Cash and Investments (Continued)

The Minnesota Municipal Investment Pool is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

At December 31, 2012, cash and investments were comprised of deposits, money market accounts, certificates of deposit, securities, U.S. treasuries and mortgage backed notes held by brokers. The Forest Lake EDA and the City follow the same investment policy.

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy states all deposits will be insured or collateralized at a level of 110% of the market value of principal and accrued interest as required in *Minnesota Statutes* 118.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City's investment policy states the City will diversify their investments in a way that allows securities to mature in order to meet cash requirements for ongoing operations. It also includes specific limits on investment maturities as a means of managing its exposure to fair value arising from increasing interest rates. No more than 20% of the total investment portfolio should extend beyond 5 years and in no circumstance should any extend beyond 10 years.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limits investments to those that are in the top two ratings issued by nationally recognized statistical rating organizations. The City's policy limits investments to some of those referenced in these Statutes.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The City's investment policy states their investment portfolio will reflect diversity by class of maturity and issuer. The policy lists specific limits that are imposed for investments of a specific class, such as at any one time, no more than 60% of the total portfolio shall consist of certificates of deposit and maximum holding for any one issuer of collateralized certificates of deposit will be 5% of the total portfolio.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy states that investments held in safekeeping by a broker/dealer must have asset protection of \$ 500,000 through the Securities Investor Protection Corporation (SIPC) and at least another \$ 2,000,000 supplemental insurance protection.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. Receivables and Payables

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Washington County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

All property tax receivables are shown at a gross amount since they are assessable to the property taxes and are collectible upon the sale of the property.

3. Inventory and Prepaid Items

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.

Inventory is valued at cost using the first in, first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include property, plant, equipment, intangible and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or the business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as infrastructure assets with initial, individual costs of more than \$ 50,000, building and improvement assets in excess of \$ 50,000 and all other assets greater than \$ 10,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure assets acquired prior to the implementation of GASB Statement No. 34 have been reported at actual or estimated historical cost.

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.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4. Capital Assets (Continued)

The City also capitalizes certain intangible assets, which are assets that lack physical substance, have a useful life in excess of one year and are nonfinancial in nature.

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

Assets	Years
Infrastructure	25-75
Buildings and Improvements Other than Buildings	5-40
Machinery and Equipment	3-10

5. Compensated Absences

City employees earn vacation time based on years of City service with a maximum of 25 days of vacation time to be carried over from one year to the next. The City compensates employees, upon termination or retirement, for all unused vacation.

Sick leave accrues at 1 day per month up to a maximum of 90 days paid at full pay; thereafter, an additional 90 days may be accrued at 1 day per month and paid at 60%. Upon retirement, full-time employees will be paid severance pay as follows:

- After 10 years of service, 60% of unused sick leave up to a maximum of 45 days' pay
- After 15 years of service, 60% of unused sick leave up to a maximum of 55 days' pay
- After 20 years of service, 60% of unused sick leave up to a maximum of 90 days' pay

Vested or accumulated sick leave for governmental funds that is not expected to be liquidated with expendable available financial resources is recorded in the governmental activities in the Statement of Net Position. Vested or accumulated vacation and sick leave in the proprietary fund is recorded in that fund.

6. Other Post Employment Benefits

The City will provide insurance coverage in the City's group medical hospitalization insurance plan for those municipal employees who terminate employment with the City and have more than 30 years of service with the City. The employee's right to City provided insurance coverage will terminate after 10 years of retirement.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

7. 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of 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.

8. Fund Balance

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form, such as inventories and prepaid items.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by resolution of the City Council (highest level of decision making authority) and that remain committed unless modified or removed by the City Council by subsequent resolution.
- Assigned Fund Balance – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed and include remaining amounts (except for negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable, restricted or committed. Assignments are made by the City Administrator/Clerk and/or Finance Director/Treasurer based on the City Council's direction.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

8. Fund Balance (Continued)

a. Classification (Continued)

- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is the City's policy to use resources in the following order: committed, assigned and unassigned.

b. Minimum Fund Balance

The City's goal is to maintain a General Fund unassigned fund balance of 50% of the subsequent year's total budgeted expenditures in the General Fund.

9. Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

10. Use of Estimates

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

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. In August of each year, City staff submits to the City Council and EDA Board, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments.
4. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Expenditures may not legally exceed budgeted appropriations at the functional level. No fund’s budget can be increased without City Council or EDA Board approval. The City Council and EDA Board may authorize transfer of budgeted amounts between functions within any fund. Management may amend budgets within a functional level, so long as the total function budget is not changed.
6. Annual appropriated budgets are adopted during the year for the City’s General Fund as well as the Special Revenue (except for the TIF No. 1 Industrial Park Special Revenue Fund), Debt Service and Capital Projects Funds. The EDA Board also approved an annual budget for the EDA General Fund.
7. Budgeted amounts are as originally adopted or as amended by the City Council and EDA Board. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

B. Deficit Fund Balances

The following funds had deficit fund balances at December 31, 2012:

1986 Tax Increment Special Revenue Fund	\$ 290,570
Park Dedication Special Revenue Fund	1,728,290
TIF No. 1 Industrial Park Special Revenue Fund	35,655

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

C. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations during the year ended December 31, 2012 in the following Funds:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures Over Appropriations</u>
Primary Government:			
General Fund	\$ 9,428,434	\$ 9,378,184	\$ 50,250
Park Dedication	100,658	68,500	32,158
1989 Tax Increment	867,543	589,031	278,512
Nonmajor Fund:			
Debt Service Fund	120,629	112,397	8,232
EDA Component Unit:			
General Fund	34,851	26,000	8,851

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by the City Council.

Minnesota Statutes require all deposits with financial institutions be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal at least 110% of deposits in excess of FDIC insurance or corporate surety bonds.

Custodial Credit Risk – Deposits: As of December 31, 2012, the City’s bank balance was not exposed to custodial credit risk because it was insured through FDIC insurance and fully collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name.

As of December 31, 2012, the City had the following deposits:

Cash and Cash Equivalents	\$ 8,188,531
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The December 31, 2012 carrying amount of the Forest Lake EDA component unit’s deposits with financial institutions was \$ 0.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of December 31, 2012, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Brokered Money Market Accounts	\$ 750,837	N/A
U.S. State and Local Government Issues	951,359	0.69
Government Securities	531,238	0.82
Negotiable Certificates of Deposit	<u>1,571,688</u>	2.32
Total	<u><u>\$ 3,805,122</u></u>	

The December 31, 2012 carrying amount of the Forest Lake EDA component unit's investments was \$ 0.

Credit Risk: The City's investments in Municipal Securities were rated between AA and AAA by Standard & Poor's (S&P) and between Aa2 and Aaa by Moody's Investors Services.

Concentration of Credit Risk: As of December 31, 2012, the City had five individual investments exceeding 5% of the total investment portfolio: Ally Bank UT (6.53%), Barclays Bank (6.46%), Discover Bank (6.44%), Goldman Sachs Bank (6.55%), State Bank India NY (6.58%) and ISD Forest Lake OPEB Bonds (7.24%). The City's investment policy states that no more than 60% of the total investment portfolio shall consist of certificates of deposit. As of December 31, 2012, 41% of the City's investments were classified as certificates of deposit. The City is in compliance with its investment policy.

Custodial Credit Risk – Investments: Some City securities held by the City's broker-dealer are not registered to the City, but are held in an insured account. The account is insured up to \$ 500,000 SIPC insurance and the broker-dealer provides an additional aggregate insurance policy for all of its customers as a group, not individually. It is unknown what portion of this policy is applicable to the City's portfolio

The following is a summary of total deposits and investments:

	<u>Primary Government</u>
Deposits (Note 3.A.)	\$ 8,188,531
Investments	<u>3,805,122</u>
Total Deposits and Investments	<u><u>\$ 11,993,653</u></u>

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Deposits and investments are presented in the December 31, 2012 basic financial statements as follows:

	<u>Primary Government</u>
Statement of Net Position:	
Cash and Investments	\$ 11,042,294
Cash with Fiscal Agent	<u>951,359</u>
 Total Deposits and Investments	 <u><u>\$ 11,993,653</u></u>

NOTE 4 – CAPITAL ASSETS

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

A. Primary Government

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 4,413,922	\$ 162,083	\$ -	\$ 4,576,005
Construction in Progress	219,166	-	(219,166)	-
Total Capital Assets not being Depreciated	4,633,088	162,083	(219,166)	4,576,005
Capital Assets being Depreciated:				
Infrastructure	113,616,374	261,507	-	113,877,881
Buildings and Improvements	1,671,949	72,200	-	1,744,149
Machinery and Equipment	6,355,215	624,791	(193,495)	6,786,511
Total Capital Assets being Depreciated	121,643,538	958,498	(193,495)	122,408,541
Less Accumulated Depreciation for:				
Infrastructure	(66,577,965)	(4,297,426)	-	(70,875,391)
Buildings and Improvements	(1,229,664)	(46,275)	-	(1,275,939)
Machinery and Equipment	(5,143,891)	(588,093)	160,912	(5,571,072)
Total Accumulated Depreciation	(72,951,520)	(4,931,794)	160,912	(77,722,402)
Total Capital Assets being Depreciated, Net	48,692,018	(3,973,296)	(32,583)	44,686,139
Governmental Activities Capital Assets, Net	\$ 53,325,106	\$ (3,811,213)	\$ (251,749)	\$ 49,262,144

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 4 – CAPITAL ASSETS

A. Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,702,972	\$ -	\$ -	\$ 1,702,972
Construction in Progress	180,206	1,134,100	(193,758)	1,120,548
Total Capital Assets not being Depreciated	1,883,178	1,134,100	(193,758)	2,823,520
Capital Assets being Depreciated:				
Buildings and Improvements Other than Buildings	656,375	11,700	-	668,075
Infrastructure	33,625,825	247,255	-	33,873,080
Machinery and Equipment	4,173,583	120,167	-	4,293,750
Total Capital Assets being Depreciated	38,455,783	379,122	-	38,834,905
Less Accumulated Depreciation for:				
Buildings and Improvements Other than Buildings	(175,714)	(19,445)	-	(195,159)
Infrastructure	(7,927,340)	(539,510)	-	(8,466,850)
Machinery and Equipment	(1,489,304)	(210,884)	-	(1,700,188)
Total Accumulated Depreciation	(9,592,358)	(769,839)	-	(10,362,197)
Total Capital Assets being Depreciated, Net	28,863,425	(390,717)	-	28,472,708
Business-Type Activities Capital Assets, Net	\$ 30,746,603	\$ 743,383	\$ (193,758)	\$ 31,296,228

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

Governmental Activities:	
General Government	\$ 33,025
Public Safety	336,456
Public Works	4,358,908
Culture and Recreation	203,405
Total Depreciation Expense - Governmental Activities	\$ 4,931,794
Business-Type Activities:	
Utility	\$ 675,434
Airport	94,405
Total Depreciation Expense - Business-Type Activities	\$ 769,839

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 4 – CAPITAL ASSETS

B. Discretely Presented Component Unit

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being Depreciated:				
Land	\$ -	\$ 3,745,000	\$ -	\$ 3,745,000

NOTE 5 – INTERFUND ACTIVITY

A. Transfers

Transfers during the year ended December 31, 2012 were as follows:

	Transfers In General Fund
Transfers Out:	
Utility Fund	\$ 50,000

The transfer was made to assist with operating costs of the General Fund.

B. Due to/from Other Funds

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 118,680	\$ -
Debt Service Fund	-	118,680
1986 Tax Increment	207,535	-
1989 Tax Increment	-	207,535
Total	\$ 326,215	\$ 326,215

The amounts above represent interfund loans to cover temporary cash deficits.

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 5 – INTERFUND ACTIVITY

C. Advance to/from Other Funds

<u>Fund</u>	<u>Advance to Other Funds</u>	<u>Advance from Other Funds</u>
Capital Improvements	\$ 160,655	\$ -
Park Dedication	-	1,614,000
Utility Fund	2,359,000	-
Airport Fund	-	870,000
TIF No. 1 Industrial Park	-	35,655
Total	<u>\$ 2,519,655</u>	<u>\$ 2,519,655</u>

The amounts advanced to the Park Dedication and Airport Funds from the Capital Improvements and Utility Funds represent interfund loans to temporarily fund projects. The amount advanced from the Capital Improvements Fund to the TIF No. 1 Fund is to temporarily fund TIF District start-up costs.

NOTE 6 – LONG-TERM DEBT

A. G.O. Bonds

The City issues G.O. bonds to provide funds for economic development and for the acquisition and construction of major capital facilities including infrastructure. G.O. bonds have been issued for both general government and proprietary activities. Bonds issued to provide funds for proprietary activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

G.O. bonds are direct obligations and pledge the full faith and credit of the City. Tax increment bonds are expected to be repaid from tax increments received over the life of the tax increment districts. Special assessment bonds are expected to be repaid, in part, from assessments to the benefited properties.

The component unit had no outstanding G.O. bonds.

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 6 – LONG-TERM DEBT

B. Components of Long-Term Liabilities

	<u>Issued Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Primary Government:					
Long-Term Liabilities:					
Governmental Activities:					
Refunding Bonds:					
2012A G.O. Crossover Refunding Bonds (Government Portion)	05/03/12	0.65%-1.20%	\$ 440,000	02/01/18	\$ 440,000
2011A G.O. Current Refunding Bonds (Government Portion)	11/01/11	0.45%-0.80%	325,000	12/01/14	215,000
Tax Increment Bonds:					
2010A G.O. Tax Increment Crossover Refunding	04/01/10	2.00%	2,245,000	02/01/16	1,815,000
Equipment Certificates:					
2012A G.O. Equipment Certificates (Government Portion)	05/03/12	0.50%-1.20%	575,000	02/01/18	575,000
2008A G.O. Equipment Certificates	07/01/08	3.25%-3.80%	<u>870,000</u>	02/01/14	<u>620,000</u>
Capital Lease Obligations					78,667
Compensated Absences					<u>409,913</u>
Total Governmental Activities			4,455,000		<u>4,153,580</u>
Business-Type Activities:					
G.O. Revenue Bonds:					
2012A G.O. Water Revenue Bonds	05/03/12	0.50%-2.10%	255,000	02/01/23	255,000
2012A G.O. Sewer Revenue Bonds	05/03/12	0.50%-2.10%	845,000	02/01/23	845,000
Special Assessment Bonds:					
2008A G.O. Improvement Bonds	07/01/08	3.25%-3.80%	1,075,000	02/01/14	750,000
Equipment Certificates:					
2012A G.O. Equipment Certificates (Enterprise Portion)	05/03/12	0.50%-2.00%	355,000	02/01/22	355,000
Refunding Bonds:					
2012A G.O. Crossover Refunding Bonds (Enterprise Portion)	05/03/12	0.65%-1.20%	530,000	02/01/18	530,000
2011A G.O. Crossover Refunding Bonds (Enterprise Portion)	11/01/11	0.60%-2.30%	2,180,000	12/01/20	2,180,000
2005A G.O. Crossover Refunding Bonds (Enterprise Portion)	04/21/05	3.50%-4.20%	<u>4,645,000</u>	02/01/24	<u>3,570,000</u>
Compensated Absences					62,646
Total Business-Type Activities			<u>9,885,000</u>		<u>8,547,646</u>
Total all Long-Term Liabilities - Primary Government			<u>\$ 14,340,000</u>		<u>\$ 12,701,226</u>

Long-term bonded indebtedness listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. The General Fund has historically been used to liquidate the outstanding equipment certificates and governmental activity compensated absences listed above. The remaining governmental outstanding bonds payable will be paid from various corresponding Debt Service Funds. The Utility Fund and Airport Fund liquidate their respective business-type activity long-term debt.

The EDA component unit did not have any long-term liabilities at December 31, 2012.

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 6 – LONG-TERM DEBT

C. Minimum Debt Payments

Annual debt service requirements to maturity for G.O. Bonds are as follows:

Year Ending December 31,	Governmental Activities		
	G.O. Refunding Bonds		
	Principal	Interest	Total
2013	\$ 105,000	\$ 6,529	\$ 111,529
2014	110,000	4,895	114,895
2015	110,000	3,657	113,657
2016	110,000	2,860	112,860
2017	110,000	1,870	111,870
2018	110,000	660	110,660
Total	<u>\$ 655,000</u>	<u>\$ 20,471</u>	<u>\$ 675,471</u>

Year Ending December 31,	Governmental Activities					
	G.O. TIF Bonds			G.O. Equipment Certificates		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 440,000	\$ 31,900	\$ 471,900	\$ 95,000	\$ 26,233	\$ 121,233
2014	450,000	23,000	473,000	635,000	13,873	648,873
2015	460,000	13,900	473,900	115,000	3,884	118,884
2016	465,000	4,650	469,650	115,000	3,050	118,050
2017	-	-	-	115,000	2,015	117,015
2018	-	-	-	120,000	720	120,720
Total	<u>\$ 1,815,000</u>	<u>\$ 73,450</u>	<u>\$ 1,888,450</u>	<u>\$ 1,195,000</u>	<u>\$ 49,775</u>	<u>\$ 1,244,775</u>

Year Ended December 31,	Business-Type Activities					
	G.O. Revenue Bonds			Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ -	\$ 18,303	\$ 18,303	\$ 530,000	\$ 180,484	\$ 710,484
2014	100,000	14,393	114,393	550,000	166,685	716,685
2015	105,000	13,801	118,801	700,000	152,326	852,326
2016	105,000	13,040	118,040	705,000	136,208	841,208
2017	110,000	12,070	122,070	740,000	118,560	858,560
2018-2022	560,000	37,700	597,700	2,560,000	296,329	2,856,329
2023	120,000	1,260	121,260	495,000	22,110	517,110
Total	<u>\$ 1,100,000</u>	<u>\$ 110,567</u>	<u>\$ 1,210,567</u>	<u>\$ 6,280,000</u>	<u>\$ 1,072,702</u>	<u>\$ 7,352,702</u>

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 6 – LONG-TERM DEBT

C. Minimum Debt Payments (Continued)

Year Ending December 31,	Business-Type Activities					
	G.O. Improvement Bonds			G.O. Equipment Certificates		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 115,000	\$ 24,459	\$ 139,459	\$ -	\$ 5,444	\$ 5,444
2014	635,000	11,295	646,295	35,000	4,268	39,268
2015	-	-	-	40,000	4,050	44,050
2016	-	-	-	40,000	3,760	43,760
2017	-	-	-	40,000	3,400	43,400
2018-2022	-	-	-	200,000	8,800	208,800
Total	<u>\$ 750,000</u>	<u>\$ 35,754</u>	<u>\$ 785,754</u>	<u>\$ 355,000</u>	<u>\$ 29,722</u>	<u>\$ 384,722</u>

D. Capital Lease Obligations

The City entered into a lease agreement with Access Communications, Inc. for the acquisition of fiber cable, equipment, goods and services and the installation, testing and inspection of a comprehensive fiber network between various sites within the City. The purchase price was \$ 194,640 for the fiber optic cable and \$ 52,038 for the fiber optic equipment. The outstanding balance of the fiber optic cable was \$ 78,667 at December 31, 2012, which is payable in annual principal installments of \$ 19,464 through January 2016, with no interest. The fiber optic equipment was paid off in 2012.

Minimum future lease payments under the capital lease are as follows:

Year Ending December 31,	
2013	\$ 19,464
2014	19,464
2015	19,464
2016	19,464
2017	<u>811</u>
Net Minimum Lease Payments	<u>78,667</u>
Less Amount Representing Interest	<u>-</u>
Present Value of Net Minimum Lease Payments	<u>\$ 78,667</u>

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 6 – LONG-TERM DEBT

E. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
Governmental Activities:					
G.O. Bonds Payable:					
Refunding	\$ 325,000	\$ 440,000	\$ 110,000	\$ 655,000	\$ 105,000
Tax Increment	2,245,000	-	430,000	1,815,000	440,000
Equipment Certificates	710,000	575,000	90,000	1,195,000	95,000
Total G.O. Bonds Payable	<u>3,280,000</u>	<u>1,015,000</u>	<u>630,000</u>	<u>3,665,000</u>	<u>640,000</u>
Capital Lease Obligations	102,962	-	24,295	78,667	19,464
Compensated Absences	<u>370,914</u>	<u>248,438</u>	<u>209,439</u>	<u>409,913</u>	<u>197,172</u>
Total Governmental Activities	<u>3,753,876</u>	<u>1,263,438</u>	<u>863,734</u>	<u>4,153,580</u>	<u>856,636</u>
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	2,325,000	1,100,000	2,325,000	1,100,000	-
Special Assessment Bonds	860,000	-	110,000	750,000	115,000
Equipment Certificates	-	355,000	-	355,000	-
Refunding Bonds	<u>6,010,000</u>	<u>530,000</u>	<u>260,000</u>	<u>6,280,000</u>	<u>530,000</u>
Total Bonds Payable	9,195,000	1,985,000	2,695,000	8,485,000	645,000
Compensated Absences	<u>57,721</u>	<u>30,811</u>	<u>25,886</u>	<u>62,646</u>	<u>20,771</u>
Total Business-Type Activities	<u>9,252,721</u>	<u>2,015,811</u>	<u>2,720,886</u>	<u>8,547,646</u>	<u>665,771</u>
Total Primary Government	<u>\$ 13,006,597</u>	<u>\$ 3,279,249</u>	<u>\$ 3,584,620</u>	<u>\$ 12,701,226</u>	<u>\$ 1,522,407</u>

In November 2011, the City issued G.O. Refunding Bonds, Series 2011A. The Bonds were issued to refund the G.O. Water Revenue Bonds, Series 2005B and the G.O. Equipment Certificates, Series 2005C. The G.O. Equipment Certificates, Series 2005C Bonds were refunded on November 28, 2011. The G.O. Water Revenue Bonds, Series 2005B Bonds were refunded through a crossover refunding and were refunded on the crossover date of December 1, 2012. The net present value benefit to the City was \$ 125,070.

In May 2012, the City issued G.O. Refunding Bonds, Series 2012A. The Bonds were issued to refund the G.O. Equipment Certificates, Series 2008A and the G.O. Improvement Bonds, Series 2008A. The Series 2008A Bonds were refunded through a crossover refunding and will be refunded on the crossover date of December 1, 2014. The total net present value benefit to the City was \$ 33,038.

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 7 – CONDUIT DEBT OBLIGATIONS

Conduit debt obligations are certain limited-obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued various revenue bonds to provide funding to private-sector entities for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

As of December 31, 2012, the City’s conduit debt consisted of the following:

	<u>Outstanding Balance December 31, 2012</u>
Forest Lake Athletic Association:	
Recreational Facility Revenue Note, Series 2008A	<u>\$ 4,171,183</u>

NOTE 8 – LONG-TERM NOTES RECEIVABLE

The City has issued a note receivable to the Forest Lake Athletic Association for the deferment of development and utility connection charges related to the building of the recreational facility. The charges will be paid in 20 equal installments without interest. The first payment was made on July 1, 2010. Of the total note receivable at year-end of \$ 117,355, \$ 25,139 is related to transportation area charges and \$ 92,216 is for sanitary sewer and water area charges and connection charges.

	<u>01/01/12 Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>12/31/12 Balance</u>
Long-Term Note Receivable	<u>\$ 124,258</u>	<u>\$ -</u>	<u>\$ 6,903</u>	<u>\$ 117,355</u>

NOTE 9 – FUND BALANCES/NET POSITION

A. Fund Balance Classifications

Fund balances are classified as follows to reflect the limitations and restrictions of the respective funds.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 9 – FUND BALANCES/NET POSITION

A. Fund Balance Classifications (Continued)

	General Fund	1986 Tax Increment	Park Dedication	1989 Tax Increment	Capital Improvements	Nonmajor Governmental Funds	Total
Nonspendable:							
Prepaid Items	\$ 148,459	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 148,459
Restricted:							
Capital Equipment	33,692	-	-	-	-	-	33,692
Debt Service	-	-	-	-	-	430,158	430,158
Drug Forfeiture	-	-	-	-	-	44,375	44,375
Tax Increment	-	-	-	133,632	-	2,684	136,316
Total	<u>33,692</u>	<u>-</u>	<u>-</u>	<u>133,632</u>	<u>-</u>	<u>477,217</u>	<u>644,541</u>
Committed:							
Sirens	25,000	-	-	-	-	-	25,000
Veterans Memorial	-	-	25,918	-	-	-	25,918
Capital Improvements	-	-	-	-	3,115,801	-	3,115,801
Total	<u>25,000</u>	<u>-</u>	<u>25,918</u>	<u>-</u>	<u>3,115,801</u>	<u>-</u>	<u>3,166,719</u>
Assigned:							
Storm Water Management	128,619	-	-	-	-	-	128,619
Capital Improvements	-	-	-	-	25,139	-	25,139
Total	<u>128,619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,139</u>	<u>-</u>	<u>153,758</u>
Unassigned							
	<u>4,486,982</u>	<u>(290,570)</u>	<u>(1,754,208)</u>	<u>-</u>	<u>-</u>	<u>(151,690)</u>	<u>2,290,514</u>
Total Fund Balance	<u>\$ 4,822,752</u>	<u>\$ (290,570)</u>	<u>\$ (1,728,290)</u>	<u>\$ 133,632</u>	<u>\$ 3,140,940</u>	<u>\$ 325,527</u>	<u>\$ 6,403,991</u>

B. Net Position

Restricted net position is comprised of the total restricted fund balance in the governmental funds plus the effects of the conversion to the government-wide net position.

NOTE 10 – RISK MANAGEMENT

The City purchases commercial insurance coverage with other cities in the state through the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to LMCIT for its insurance coverage. LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2012 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2012, there were no other claims liabilities reported based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 10 – RISK MANAGEMENT

Component Unit

The Forest Lake EDA component unit is covered through the City's commercial insurance coverage through the LMCIT.

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City 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 or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership are covered by the PEPFF.

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

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

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will 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 yet receiving them, 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 GERP and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. In 2012, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members and 14.4% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$ 163,906, \$ 152,161 and \$ 144,097, respectively. The City's contributions to PEPFF for the years ending December 31, 2012, 2011 and 2010 were \$ 329,294, \$ 299,747 and \$ 298,946, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 12 – DEFINED CONTRIBUTION PLAN

Three City Council Members of the City are covered by the Public Employees' Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax qualified plan under Section 401(a) if the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

CITY OF FOREST LAKE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 12 – DEFINED CONTRIBUTION PLAN

Plan benefits depend solely on amounts contributed to the Plan plus investment earnings, less administrative expenses. *Minnesota Statutes* Chapter 353D.03 specifies Plan provisions including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official’s employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the Plan, PERA receives 2% of employer contributions and 25 hundredths of 1% of the assets in each member’s account annually.

Total contributions made by the City during 2012 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$ 875	\$ 875	5.0%	5.0%	5.0%

NOTE 13 – CONTRACT COMMITMENTS

At December 31, 2012, the City had commitments for various construction projects as follows:

Michel's Pipeline Construction	\$ 8,981
Penn Contracting	7,935
Total	\$ 16,916

NOTE 14 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The City provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. Medical coverage is administered by HealthPartners, Inc. It is the City’s policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for City employees and retirees.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as City employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with HealthPartners, Inc. The required contributions are based on projected pay-as-you-go financing requirements. For year 2012, the City contributed \$ 132,511 to the plan. The General Fund typically liquidates the governmental activities’ net OPEB obligation, while the Utility and Airport Funds liquidate their own liabilities. As of January 1, 2010, there were approximately 10 retirees receiving health benefits from the City’s health plan.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 14 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Obligation

The City’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The table below shows the components of the City’s annual OPEB cost of the year, the amount actually contributed to the plan and changes in the City’s net OPEB obligation to the plan.

ARC	\$ 142,503
Interest on Net OPEB Obligation	5,933
Adjustment to ARC	<u>(5,030)</u>
Annual OPEB Cost (Expense)	143,406
Contributions Made	<u>(132,511)</u>
Increase in Net OPEB Obligation	10,895
Net OPEB Obligation - Beginning of Year	<u>148,333</u>
 Net OPEB Obligation - End of Year	 <u><u>\$ 159,228</u></u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012, 2011 and 2010 was as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/12	\$ 143,406	\$ 132,511	92%	\$ 159,228
12/31/11	139,341	109,928	79%	148,333
12/31/10	134,719	88,277	66%	118,920

D. Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the City had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 1,895,860 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 1,895,860. The covered payroll (annual payroll of active employees covered by the plan) was \$ 6,012,000 and the ratio of the UAAL to the covered payroll was 32%.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 14 – POST EMPLOYMENT HEALTH CARE PLAN

D. Funded Status and Funding Progress (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The year ending December 31, 2009 was the year of implementation for the City and the actuarial study has only been updated once; therefore, only two years of information is presented.

E. Actuarial Methods and Assumptions

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

In the actuarial study dated January 1, 2010, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate, which is based on the investment yield expected to finance benefits depending on whether the plan is funded in a separate trust. The City currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 9% initially, reduced incrementally to an ultimate rate of 5% after 10 years. Both rates included a 4.5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at January 1, 2010 was 30 years.

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2012, the City implemented GASB Statement No. 63. This action resulted in the establishment of categories outside of assets and liabilities titled deferred outflows and deferred inflows. The Statement also retitled Net Assets as Net Position.

NOTE 16 – SUBSEQUENT EVENTS

The City and the Forest Lake EDA component unit have evaluated subsequent events through May 20, 2013, the date which the financial statements were available to be issued.

On January 23, 2013, the Forest Lake EDA component unit issued the Public Project Lease Revenue Bonds, Series 2013A in the amount of \$ 22,105,000 for the acquisition of land and construction of the new city facilities center.

CITY OF FOREST LAKE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 17 – GASB STATEMENTS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards of financial reporting for deferred outflows and deferred inflows as established by GASB Statement No. 63. This statement will also eliminate the recognition of deferred charges associated with bond issuances. This Statement will be effective for the year ending December 31, 2013

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement will be effective for the year ending December 31, 2015.

**REQUIRED SUPPLEMENTARY INFORMATION OTHER
THAN MANAGEMENT'S DISCUSSION AND ANALYSIS**

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SUPPLEMENTARY INFORMATION

CITY OF FOREST LAKE

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012**

	Special Revenue		
	TIF No. 24 (312)	Drug Forfeiture (207)	TIF No. 1 Industrial Park (214)
ASSETS			
Cash and Investments	\$ 2,681	\$ 44,803	\$ -
Cash with Fiscal Agent	-	-	-
Taxes Receivable	-	-	-
Special Assessments Receivable:			
Deferred and Delinquent	-	-	-
Interest Receivable	3	59	-
	<u>3</u>	<u>59</u>	<u>-</u>
Total Assets	<u>\$ 2,684</u>	<u>\$ 44,862</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ -	\$ 487	\$ -
Due to Other Funds	-	-	-
Advances from Other Funds	-	-	35,655
Deferred Revenue	-	-	-
Total Liabilities	<u>-</u>	<u>487</u>	<u>35,655</u>
Fund Balances			
Restricted	2,684	44,375	-
Unassigned	-	-	(35,655)
Total Fund Balances	<u>2,684</u>	<u>44,375</u>	<u>(35,655)</u>
Total Liabilities and Fund Balances	<u>\$ 2,684</u>	<u>\$ 44,862</u>	<u>\$ -</u>

<u>Special Revenue</u>	<u>Debt Service</u>	
Total	Debt Service Fund (317)	Total Nonmajor Governmental Funds
\$ 47,484	\$ -	\$ 47,484
-	430,158	430,158
-	3,593	3,593
-	18,017	18,017
62	711	773
<u>\$ 47,546</u>	<u>\$ 452,479</u>	<u>\$ 500,025</u>
\$ 487	\$ -	\$ 487
-	118,680	118,680
35,655	-	35,655
-	19,676	19,676
<u>36,142</u>	<u>138,356</u>	<u>174,498</u>
47,059	314,123	361,182
(35,655)	-	(35,655)
<u>11,404</u>	<u>314,123</u>	<u>325,527</u>
<u>\$ 47,546</u>	<u>\$ 452,479</u>	<u>\$ 500,025</u>

CITY OF FOREST LAKE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2012

	Special Revenue		
	TIF No. 24 (312)	Drug Forfeiture (207)	TIF No. 1 Industrial Park (214)
REVENUES			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	-	4,782	-
Fines and Forfeitures	-	33,852	-
Miscellaneous:			
Investment Income	(33)	385	-
Total Revenues	<u>(33)</u>	<u>39,019</u>	<u>-</u>
EXPENDITURES			
Current			
Public Safety	-	27,964	-
Economic Development	3,321	-	35,655
Debt Service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Total Expenditures	<u>3,321</u>	<u>27,964</u>	<u>35,655</u>
Excess of Revenues Over (Under) Expenditures	(3,354)	11,055	(35,655)
OTHER FINANCING SOURCES			
Bond Issuance	-	-	-
Net Change in Fund Balances	(3,354)	11,055	(35,655)
FUND BALANCES			
Beginning of Year	<u>6,038</u>	<u>33,320</u>	<u>-</u>
End of Year	<u>\$ 2,684</u>	<u>\$ 44,375</u>	<u>\$ (35,655)</u>

<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Nonmajor</u>
<u>Total</u>	<u>Debt Service</u>	<u>Governmental</u>
	<u>Fund (317)</u>	<u>Funds</u>
\$ -	\$ 111,452	\$ 111,452
4,782	-	4,782
33,852	-	33,852
352	499	851
<u>38,986</u>	<u>111,951</u>	<u>150,937</u>
27,964	-	27,964
38,976	-	38,976
-	110,000	110,000
-	10,629	10,629
<u>66,940</u>	<u>120,629</u>	<u>187,569</u>
(27,954)	(8,678)	(36,632)
-	440,000	440,000
(27,954)	431,322	403,368
39,358	(117,199)	(77,841)
<u>\$ 11,404</u>	<u>\$ 314,123</u>	<u>\$ 325,527</u>

CITY OF FOREST LAKE

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	Original and Final	Actual Amounts	
REVENUES			
Taxes	\$ 6,894,395	\$ 6,934,915	\$ 40,520
Licenses and Permits	279,000	293,191	14,191
Intergovernmental Revenue:			
Market Value Credit	3,000	8,578	5,578
PERA Aid	5,789	5,789	-
Fire Aid	88,000	98,971	10,971
Police Aid	197,000	174,687	(22,313)
Federal Grants	20,000	50,942	30,942
Other Grants and Aids	261,000	352,969	91,969
Total Intergovernmental Revenue	574,789	691,936	117,147
Charges for Services:			
General Government	50,700	51,081	381
Public Safety	439,100	482,577	43,477
Public Works	254,000	348,947	94,947
Culture and Recreation	15,000	4,622	(10,378)
Total Charges for Services	758,800	887,227	128,427
Fines and Forfeitures	150,000	171,398	21,398
Miscellaneous:			
Investment Income	45,000	27,846	(17,154)
Contributions and Donations	9,000	18,722	9,722
Other	46,200	101,218	55,018
Total Miscellaneous	100,200	147,786	47,586
Total Revenues	8,757,184	9,126,453	369,269
EXPENDITURES			
General Government			
Mayor and Council	55,944	54,807	(1,137)
Administrative and Finance	692,568	700,355	7,787
Other General Government	513,083	486,549	(26,534)
Total General Government	1,261,595	1,241,711	(19,884)

CITY OF FOREST LAKE

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012
(Continued)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original and Final			
EXPENDITURES				
Public Safety				
Police:				
Current	\$ 3,602,048		\$ 3,593,499	\$ (8,549)
Capital Outlay	74,000		76,273	2,273
Fire:				
Current	860,156		833,933	(26,223)
Capital Outlay	35,000		31,379	(3,621)
Other:				
Current	425,853		459,603	33,750
Capital Outlay	25,000		-	(25,000)
Total Public Safety	5,022,057		4,994,687	(27,370)
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers	1,615,247		1,532,623	(82,624)
Street Engineering	55,500		73,216	17,716
Street Lighting	94,000		97,406	3,406
Capital Outlay	400,000		429,222	29,222
Sanitation:				
Garbage and Other Refuse:				
Collection and Disposal Current	37,300		34,275	(3,025)
Other Sanitation Current	45,500		55,634	10,134
Total Public Works	2,247,547		2,222,376	(25,171)
Culture and Recreation				
Park and Recreation:				
Current	350,975		452,727	101,752
Capital Outlay	10,000		9,330	(670)
Total Culture and Recreation	360,975		462,057	101,082
Economic Development				
Current	347,234		359,257	12,023

CITY OF FOREST LAKE

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012
(Continued)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original and Final			
EXPENDITURES				
Debt Service				
Principal	\$ 115,251		\$ 114,295	\$ (956)
Interest and Other Charges	23,525		34,051	10,526
Total Debt Service	138,776		148,346	9,570
Total Expenditures	9,378,184		9,428,434	50,250
Excess of Revenues Over (Under) Expenditures	(621,000)		(301,981)	319,019
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Asset	6,000		7,685	1,685
Bond Issuance	565,000		575,000	10,000
Transfers In	50,000		50,000	-
Insurance Recoveries	-		4,660	4,660
Total Other Financing Sources	621,000		637,345	16,345
Net Change in Fund Balances	\$ -		335,364	\$ 335,364
FUND BALANCES				
Beginning of Year			4,487,388	
End of Year			\$ 4,822,752	

CITY OF FOREST LAKE

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - TIF NO. 24 SPECIAL REVENUE FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	<u>Original and Final</u>	<u>Actual Amounts</u>	<u>Over (Under)</u>
REVENUES			
Taxes	\$ 19,000	\$ -	\$ (19,000)
Investment Income	150	(33)	(183)
Total Revenues	<u>19,150</u>	<u>(33)</u>	<u>(19,183)</u>
 EXPENDITURES			
Current			
Economic Development	<u>14,017</u>	<u>3,321</u>	<u>(10,696)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 5,133</u>	(3,354)	<u>\$ (8,487)</u>
 FUND BALANCES			
Beginning of Year		<u>6,038</u>	
End of Year		<u>\$ 2,684</u>	

CITY OF FOREST LAKE

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DRUG FORFEITURE SPECIAL REVENUE FUND
For the Year Ended December 31, 2012**

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Over (Under)</u>
	<u>Original and Final</u>	<u>Actual Amounts</u>	
REVENUES			
Intergovernmental	\$ -	\$ 4,782	\$ 4,782
Fines and Forfeitures	32,000	33,852	1,852
Miscellaneous:			
Investment Income	750	385	(365)
Total Revenues	<u>32,750</u>	<u>39,019</u>	<u>6,269</u>
 EXPENDITURES			
Current			
Public Safety	10,750	27,964	17,214
Capital Outlay			
Public Safety	22,000	-	(22,000)
Total Expenditures	<u>32,750</u>	<u>27,964</u>	<u>(4,786)</u>
 Excess of Revenues Over Expenditures	<u>\$ -</u>	11,055	<u>\$ 11,055</u>
 FUND BALANCES			
Beginning of Year		<u>33,320</u>	
 End of Year		<u>\$ 44,375</u>	

CITY OF FOREST LAKE

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DEBT SERVICE FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Variance with Final Budget - Over (Under)
	Original and Final	Actual Amounts	
REVENUES			
Taxes	\$ 113,805	\$ 111,452	\$ (2,353)
Investment Income	-	499	499
Total Revenues	<u>113,805</u>	<u>111,951</u>	<u>(1,854)</u>
EXPENDITURES			
Debt Service			
Principal	110,000	110,000	-
Interest and Other Charges	2,397	10,629	8,232
Total Expenditures	<u>112,397</u>	<u>120,629</u>	<u>8,232</u>
Excess of Revenues Over (Under) Expenditures	1,408	(8,678)	(10,086)
OTHER FINANCING SOURCES			
Issuance of Refunding Bonds	-	440,000	440,000
Net Change in Fund Balances	<u>\$ 1,408</u>	431,322	<u>\$ 429,914</u>
FUND BALANCES			
Beginning of Year		<u>(117,199)</u>	
End of Year		<u>\$ 314,123</u>	

CITY OF FOREST LAKE

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original and Final			
REVENUES				
Special Assessments	\$ 215,000		\$ 187,304	\$ (27,696)
Intergovernmental	150,000		830,487	680,487
Charges for Services	-		3,511	3,511
Miscellaneous:				
Investment Income	30,000		34,164	4,164
Contributions and Donations	-		26,068	26,068
Other	-		16,334	16,334
Total Revenues	395,000		1,097,868	702,868
EXPENDITURES				
Current				
Public Works	395,000		233,861	(161,139)
Capital Outlay				
Culture and Recreation	-		72,200	72,200
Total Expenditures	395,000		306,061	(88,939)
Excess of Revenues Over Expenditures	-		791,807	791,807
OTHER FINANCING SOURCES				
Insurance Recoveries	-		38,071	38,071
Net Change in Fund Balances	\$ -		829,878	\$ 829,878
FUND BALANCES				
Beginning of Year			2,311,062	
End of Year			\$ 3,140,940	

CITY OF FOREST LAKE
COMBINING BALANCE SHEET -
FOREST LAKE ECONOMIC DEVELOPMENT AUTHORITY
DISCRETELY PRESENTED COMPONENT UNIT
December 31, 2012

	General Fund	Capital Projects	Total Component Unit
ASSETS			
Current Assets			
Taxes Receivable	\$ 1,145	\$ -	\$ 1,145
Interest Receivable	122	-	122
Due from Primary Government	99,464	-	99,464
Total Assets	\$ 100,731	\$ -	\$ 100,731
LIABILITIES AND FUND BALANCE			
Current Liabilities			
Accounts Payable	\$ 4,514	\$ 1,950,550	\$ 1,955,064
Deferred Revenue	626	-	626
Total Liabilities	5,140	1,950,550	\$ 1,955,690
Fund Balance			
Unassigned	95,591	(1,950,550)	(1,854,959)
Total Liabilities and Fund Balance	\$ 100,731	\$ -	\$ 100,731
Total Fund Balances - EDA as reported above			\$ (1,854,959)
Amounts Reported for the EDA in the Statement of Net Position differ because:			
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.			
Cost of Capital Assets			3,745,000
Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.			
Property Taxes			626
Total Net Position - EDA			\$ 1,890,667

CITY OF FOREST LAKE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - FOREST LAKE ECONOMIC DEVELOPMENT AUTHORITY
DISCRETELY PRESENTED COMPONENT UNIT**

December 31, 2012

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total</u>
REVENUES			
Taxes	\$ 24,168	\$ -	\$ 24,168
Intergovernmental	23	-	23
Miscellaneous:			
Investment Income	780	-	780
Contributions and Donations	400	-	400
Total Revenues	<u>25,371</u>	<u>-</u>	<u>25,371</u>
 EXPENDITURES			
Current			
General Government	-	550	550
Economic Development	34,851	-	34,851
Capital Outlay			
General Government	-	1,950,000	1,950,000
Total Expenditures	<u>34,851</u>	<u>1,950,550</u>	<u>1,985,401</u>
 Excess of Revenues Under Expenditures	 (9,480)	 (1,950,550)	 (1,960,030)
 FUND BALANCES			
Beginning of Year	<u>105,071</u>	<u>-</u>	<u>105,071</u>
End of Year	<u>\$ 95,591</u>	<u>\$ (1,950,550)</u>	<u>\$ (1,854,959)</u>

Net Change in Fund Balances - EDA as reported above \$ (1,960,030)

Amounts Reported for the EDA in the Statement of Activities differ because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital Outlays	1,950,000
Donated Assets	1,795,000

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

Change in Net Position - EDA

<u>626</u>
<u>\$ 1,785,596</u>

CITY OF FOREST LAKE

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - FOREST LAKE
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT GENERAL FUND
For the Year Ended December 31, 2012**

	<u>Budgeted Amounts</u>		Variance with
	<u>Original and Final</u>	<u>Actual Amounts</u>	<u>Final Budget - Over (Under)</u>
REVENUES			
Taxes	\$ 25,000	\$ 24,168	\$ (832)
Intergovernmental	-	23	23
Miscellaneous:			
Investment Income	1,000	780	(220)
Contributions and Donations	-	400	400
Total Revenues	<u>26,000</u>	<u>25,371</u>	<u>(629)</u>
 EXPENDITURES			
Current			
Economic Development	<u>26,000</u>	<u>34,851</u>	<u>8,851</u>
Excess of Revenues Under Expenditures	<u>\$ -</u>	<u>(9,480)</u>	<u>\$ (9,480)</u>
 FUND BALANCES			
Beginning of Year		<u>105,071</u>	
End of Year		<u>\$ 95,591</u>	

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CITY OF FOREST LAKE

STATISTICAL SECTION

SUMMARY

This part of the City's comprehensive annual financial report presents detailed information to assist the reader in understanding the preceding financial statements and reports in the context of the City's overall financial health. The statistical section is designed to complement the comprehensive annual financial report by providing an historical analysis of financial indicators.

CONTENTS

Financial Trend Data

These schedules contain trend information to illustrate how the City's financial performance has changed over time. They include an analysis of revenues and expenses and changes in net position for governmental activities and business-type activities.

Table 1	Net Position by Component
Table 2	Changes in Net Position
Table 3	Governmental Activities Tax Revenue by Source
Table 4	Fund Balances of Governmental Funds
Table 5	Changes in Fund Balances of Governmental Funds

Revenue Capacity Data

These schedules contain historical information about the City's most significant local revenue source, property taxes. Information contained within these schedules includes an illustration of how the City's tax capacity and tax rates have changed over time. Also included is a more comprehensive look at how tax rates of overlapping governments have changed over time.

Table 6	General Governmental Activities Tax Revenue by Source
Table 7	Net Tax Capacity and Estimated Market Value of Property
Table 8	Property Tax Rates Direct and Overlapping Governments
Table 9	Principal Property Taxpayers
Table 10	Property Tax Levies and Collections

Debt Capacity Data

These schedules present information designed to help the reader assess the affordability of the City's current level of outstanding debt and the City's ability to issue additional debt in the future.

Table 11	Ratios of Outstanding Debt by Type
Table 12	Ratios of General Bonded Debt Outstanding
Table 13	Computation of Direct and Overlapping Debt
Table 14	Legal Debt Margin Information
Table 15	Pledged Revenue Coverage

CITY OF FOREST LAKE

STATISTICAL SECTION

CONTENTS

Demographic and Economic Information

These schedules provide demographic and economic indicators to illustrate the overall environment in which the City's financial activities take place.

Table 16 Demographic and Economic Statistics

Table 17 Principal Employers

Operating Indicators

These schedules contain information about City services and capital assets to assist the reader in understanding how the information contained within the City's comprehensive annual financial report relates to the services the City provides and the activities it performs.

Table 18 Full-Time City Government Employees by Function

Table 19 Operating Indicators by Function

Table 20 Capital Asset Statistics by Function

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CITY OF FOREST LAKE

Table 1

**NET POSITION BY COMPONENT
Last Nine Fiscal Years ⁽¹⁾
Unaudited**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities			
Net Investment in Capital Assets	\$ 61,631,584	\$ 60,508,985	\$ 58,320,658
Restricted	1,590,917	5,448,848	3,064,520
Unrestricted	14,152,729	8,027,749	9,611,750
Total Governmental Activities Net Position	<u>\$ 77,375,230</u>	<u>\$ 73,985,582</u>	<u>\$ 70,996,928</u>
Business-Type Activities			
Net Investment in Capital Assets	\$ 13,697,145	\$ 14,698,242	\$ 15,027,368
Restricted	-	-	-
Unrestricted	7,307,685	7,383,557	11,124,962
Total Business-Type Activities Net Position	<u>\$ 21,004,830</u>	<u>\$ 22,081,799</u>	<u>\$ 26,152,330</u>
Primary Government			
Net Investment in Capital Assets	\$ 75,328,729	\$ 75,207,227	\$ 73,348,026
Restricted	1,590,917	5,448,848	3,064,520
Unrestricted	21,460,414	15,411,306	20,736,712
Total Primary Government Net Position	<u>\$ 98,380,060</u>	<u>\$ 96,067,381</u>	<u>\$ 97,149,258</u>

⁽¹⁾ 2004 was the first year of implementation of the provisions of GASB Statement No. 34.
No government-wide amounts are available for prior years.

Note: In 2012, the City implemented GASB Statement No. 63, which retitled Net Assets as Net Position.

Table 1 (Continued)

2007	2008	2009	2010	2011	2012
\$ 57,499,915	\$ 54,241,643	\$ 51,503,781	\$ 51,220,472	\$ 49,942,144	\$ 45,992,169
2,542,665	6,141,329	5,484,118	2,465,499	1,752,678	196,672
8,899,046	5,251,787	5,735,437	5,184,077	5,181,085	5,775,403
<u>\$ 68,941,626</u>	<u>\$ 65,634,759</u>	<u>\$ 62,723,336</u>	<u>\$ 58,870,048</u>	<u>\$ 56,875,907</u>	<u>\$ 51,964,244</u>
\$ 19,805,508	\$ 21,988,622	\$ 22,794,708	\$ 22,554,290	\$ 23,731,603	\$ 23,622,118
-	-	25,000	-	-	-
8,094,132	6,082,145	6,787,430	5,503,349	4,528,614	5,716,179
<u>\$ 27,899,640</u>	<u>\$ 28,070,767</u>	<u>\$ 29,607,138</u>	<u>\$ 28,057,639</u>	<u>\$ 28,260,217</u>	<u>\$ 29,338,297</u>
\$ 77,305,423	\$ 76,230,265	\$ 74,298,489	\$ 73,774,762	\$ 73,673,747	\$ 69,614,287
2,542,665	6,141,329	5,509,118	2,465,499	1,752,678	196,672
16,993,178	11,333,932	12,522,867	10,687,426	9,709,699	11,491,582
<u>\$ 96,841,266</u>	<u>\$ 93,705,526</u>	<u>\$ 92,330,474</u>	<u>\$ 86,927,687</u>	<u>\$ 85,136,124</u>	<u>\$ 81,302,541</u>

CITY OF FOREST LAKE

Table 2

CHANGES IN NET POSITION
Last Nine Fiscal Years ⁽¹⁾
Unaudited

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
EXPENSES				
Governmental Activities				
General Government	\$ 1,254,060	\$ 1,141,041	\$ 1,509,839	\$ 1,341,500
Public Safety	2,944,338	3,280,943	3,885,500	4,330,950
Public Works	5,081,846	6,426,181	8,332,857	6,464,855
Culture and Recreation	627,418	587,424	654,647	491,142
Economic Development	45,306	257,144	649,774	740,176
Miscellaneous (Unallocated Capital Outlay)	380,638	-	-	-
Interest and Fiscal Charges	347,328	267,814	240,500	194,221
Total Governmental Activities Expenses	<u>10,680,934</u>	<u>11,960,547</u>	<u>15,273,117</u>	<u>13,562,844</u>
Business-Type Activities				
Utility	3,519,873	3,440,801	3,665,610	3,702,342
Airport/Industrial Park	164,756	340,265	181,553	240,379
Golf Course	6,735	8,933	13,378	7,769
Total Business-Type Activities Expenses	<u>3,691,364</u>	<u>3,789,999</u>	<u>3,860,541</u>	<u>3,950,490</u>
Total Primary Government Expenses	<u>\$ 14,372,298</u>	<u>\$ 15,750,546</u>	<u>\$ 19,133,658</u>	<u>\$ 17,513,334</u>
PROGRAM REVENUES				
Governmental Activities				
Charges for Services:				
General Government	\$ 228,489	\$ 126,244	\$ 177,213	\$ 170,325
Public Safety	1,182,370	888,819	985,493	1,035,610
Public Works	496,424	531,714	792,893	206,838
Culture and Recreation	3,589	12,466	2,418	4,706
Economic Development	1,110	-	-	-
Operating Grants and Contributions	1,145,682	430,672	498,206	515,977
Capital Grants and Contributions	1,227,114	1,094,904	3,714,690	1,612,798
Total Government Activities Program Revenues	<u>4,284,778</u>	<u>3,084,819</u>	<u>6,170,913</u>	<u>3,546,254</u>
Business-Type Activities				
Charges for Services:				
Utility	3,764,196	3,746,229	4,045,767	4,005,902
Airport	49,037	70,562	59,652	54,558
Golf Course	1,000	19	-	-
Operating Grants and Contributions	9,269	-	-	3,800
Capital Grants and Contributions	483,212	632,739	713,645	1,010,487
Total Business-Type Activities Program Revenues	<u>4,306,714</u>	<u>4,449,549</u>	<u>4,819,064</u>	<u>5,074,747</u>
Total Primary Government Program Revenues	<u>\$ 8,591,492</u>	<u>\$ 7,534,368</u>	<u>\$ 10,989,977</u>	<u>\$ 8,621,001</u>

Table 2 (Continued)

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 1,266,790	\$ 1,250,207	\$ 1,276,522	\$ 1,269,911	\$ 1,291,343
4,868,074	4,970,924	4,893,544	4,937,793	5,277,106
6,237,577	6,074,075	10,973,465	7,696,219	8,772,890
546,737	554,178	564,491	547,989	658,371
453,112	1,368,413	1,209,768	450,017	507,292
-	-	-	-	-
203,099	180,556	177,667	100,931	86,348
<u>13,575,389</u>	<u>14,398,353</u>	<u>19,095,457</u>	<u>15,002,860</u>	<u>16,593,350</u>
3,730,406	3,665,379	3,673,426	3,853,238	3,587,879
240,415	284,849	475,050	405,906	695,381
22,877	11,215	16,649	9,941	-
<u>3,993,698</u>	<u>3,961,443</u>	<u>4,165,125</u>	<u>4,269,085</u>	<u>4,283,260</u>
<u>\$ 17,569,087</u>	<u>\$ 18,359,796</u>	<u>\$ 23,260,582</u>	<u>\$ 19,271,945</u>	<u>\$ 20,876,610</u>
\$ 184,377	\$ 149,353	\$ 161,702	\$ 172,006	\$ 200,333
1,162,650	864,370	872,748	824,596	916,358
84,229	321,476	272,159	445,334	357,237
3,890	5,590	5,441	1,344	4,622
-	671	13,817	-	-
524,708	541,296	578,196	592,797	712,920
130,614	1,417,799	4,042,527	3,615,411	1,340,633
<u>2,090,468</u>	<u>3,300,555</u>	<u>5,946,590</u>	<u>5,651,488</u>	<u>3,532,103</u>
3,339,753	3,268,619	3,222,432	3,049,936	4,794,627
73,737	134,596	70,946	91,438	110,506
-	-	-	-	-
3,800	3,800	3,800	3,800	3,800
<u>373,991</u>	<u>1,957,735</u>	<u>556,406</u>	<u>1,106,745</u>	<u>324,147</u>
<u>3,791,281</u>	<u>5,364,750</u>	<u>3,853,584</u>	<u>4,251,919</u>	<u>5,233,080</u>
<u>\$ 5,881,749</u>	<u>\$ 8,665,305</u>	<u>\$ 9,800,174</u>	<u>\$ 9,903,407</u>	<u>\$ 8,765,183</u>

CITY OF FOREST LAKE

Table 2

CHANGES IN NET POSITION

Last Nine Fiscal Years ⁽¹⁾

Unaudited

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
PROGRAM REVENUES				
Net (Expense)/Revenue				
Governmental Activities	\$ (6,396,156)	\$ (8,875,728)	\$ (9,102,204)	\$ (10,016,590)
Business-Type Activities	615,350	659,550	958,523	1,124,257
Total Primary Government Net Expense	<u>\$ (5,780,806)</u>	<u>\$ (8,216,178)</u>	<u>\$ (8,143,681)</u>	<u>\$ (8,892,333)</u>
 GENERAL REVENUES AND OTHER				
CHANGES IN NET POSITION				
Governmental Activities				
General Revenues:				
Taxes	\$ 4,222,676	\$ 5,285,200	\$ 5,880,909	\$ 7,073,402
Unrestricted State Aid	99,716	290,667	279,908	322,017
Unrestricted Investment Earnings	369,267	264,279	330,240	541,099
Miscellaneous	-	78,987	-	-
Gain on Sale of Assets	-	28,245	51,441	4,770
Transfers	122,588	20,000	20,000	20,000
Total Governmental Activities	<u>4,814,247</u>	<u>5,967,378</u>	<u>6,562,498</u>	<u>7,961,288</u>
 Business-Type Activities				
General Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Unrestricted State Aid	-	92,084	3,800	-
Unrestricted Investment Earnings	189,184	345,335	598,421	600,141
Miscellaneous	457,909	-	54,001	42,912
Gain on Sale of Assets	-	-	2,475,786	-
Transfers	(122,588)	(20,000)	(20,000)	(20,000)
Total Business-Type Activities	<u>524,505</u>	<u>417,419</u>	<u>3,112,008</u>	<u>623,053</u>
Total Primary Government	<u>\$ 5,338,752</u>	<u>\$ 6,384,797</u>	<u>\$ 9,674,506</u>	<u>\$ 8,584,341</u>
 CHANGE IN NET POSITION				
Governmental Activities	\$ (1,581,909)	\$ (2,908,350)	\$ (2,539,706)	\$ (2,055,302)
Business-Type Activities	1,139,855	1,076,969	4,070,531	1,747,310
Total Primary Government	<u>\$ (442,054)</u>	<u>\$ (1,831,381)</u>	<u>\$ 1,530,825</u>	<u>\$ (307,992)</u>

⁽¹⁾ 2004 was the first year of implementation of the provisions of GASB Statement No. 34.
No government-wide amounts are available for prior years.

Note: In 2012, the City implemented GASB Statement No. 63, which retitled Net Assets as Net Position.

Table 2 (Continued)

2008	2009	2010	2011	2012
\$ (11,484,921)	\$ (11,097,798)	\$ (13,148,867)	\$ (9,351,372)	\$ (13,061,247)
(202,417)	1,403,307	(311,541)	(17,166)	949,820
<u>\$ (11,687,338)</u>	<u>\$ (9,694,491)</u>	<u>\$ (13,460,408)</u>	<u>\$ (9,368,538)</u>	<u>\$ (12,111,427)</u>
\$ 7,469,598	\$ 7,814,607	\$ 7,726,575	\$ 7,569,367	\$ 8,015,533
145,410	46,985	10,575	12,084	14,367
427,884	331,862	249,010	91,870	61,999
-	-	-	-	-
58,083	-	36,541	16,901	7,685
77,079	(7,079)	1,272,878	(180,787)	50,000
<u>8,178,054</u>	<u>8,186,375</u>	<u>9,295,579</u>	<u>7,509,435</u>	<u>8,149,584</u>
\$ -	\$ -	\$ -	\$ -	\$ 137,486
-	-	-	-	-
411,456	125,984	29,368	38,956	40,774
39,167	1	5,552	1	-
-	-	-	-	-
(77,079)	7,079	(1,272,878)	180,787	(50,000)
<u>373,544</u>	<u>133,064</u>	<u>(1,237,958)</u>	<u>219,744</u>	<u>128,260</u>
<u>\$ 8,551,598</u>	<u>\$ 8,319,439</u>	<u>\$ 8,057,621</u>	<u>\$ 7,729,179</u>	<u>\$ 8,277,844</u>
\$ (3,306,867)	\$ (2,911,423)	\$ (3,853,288)	\$ (1,841,937)	\$ (4,911,663)
171,127	1,536,371	(1,549,499)	202,578	1,078,080
<u>\$ (3,135,740)</u>	<u>\$ (1,375,052)</u>	<u>\$ (5,402,787)</u>	<u>\$ (1,639,359)</u>	<u>\$ (3,833,583)</u>

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CITY OF FOREST LAKE

Table 3

**GOVERNMENTAL ACTIVITIES TAX REVENUE BY SOURCE
(Accrual Basis of Accounting)
Last Nine Fiscal Years ⁽¹⁾
Unaudited**

Fiscal Year	Property Tax	Tax Increment	Franchise Tax	Gravel Tax	Total
2004	\$ 3,590,933	\$ 629,318	\$ -	\$ 2,425	\$ 4,222,676
2005	4,580,810	700,835	-	3,555	5,285,200
2006	5,141,457	735,542	-	3,910	5,880,909
2007	6,238,234	832,580	-	2,588	7,073,402
2008	6,583,046	884,584	-	1,968	7,469,598
2009	6,845,389	969,158	-	60	7,814,607
2010	6,712,323	1,014,252	-	-	7,726,575
2011	6,571,635	997,732	-	-	7,569,367
2012	6,970,446	1,045,087	-	-	8,015,533

⁽¹⁾ 2004 was the first year of implementation of the provisions of GASB Statement No. 34. No government-wide amounts are available for prior years.

CITY OF FOREST LAKE

Table 4

**FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
Unaudited**

	Fiscal Year			
	2003	2004	2005	2006
General Fund				
Reserved	\$ 107,603	\$ 109,127	\$ 133,123	\$ 146,771
Unreserved	4,184,034	4,019,395	5,232,754	4,034,136
Nonspendable				
Restricted				
Committed				
Assigned				
Unassigned				
Total General Fund	<u>\$ 4,291,637</u>	<u>\$ 4,128,522</u>	<u>\$ 5,365,877</u>	<u>\$ 4,180,907</u>
All Other Governmental Funds				
Reserved	\$ 14,980	\$ 12,324	\$ 4,184,486	\$ 2,664,541
Unreserved, Reported in:				
Special Revenue Funds	7,850,935	8,466,899	2,527,563	2,869,870
Debt Service Funds	765,921	653,129	(210,820)	(262,217)
Capital Projects Funds	(85,435)	(142,536)	978,544	1,740,740
Restricted				
Committed				
Assigned				
Unassigned, Reported in:				
Special Revenue Funds				
Debt Service Funds				
Total All Other Governmental Funds	<u>\$ 8,546,401</u>	<u>\$ 8,989,816</u>	<u>\$ 7,479,773</u>	<u>\$ 7,012,934</u>

Note: The City implemented GASB Statement No. 54 in 2011, resulting in a change in fund balance classifications.

Table 4 (Continued)

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 193,083	\$ 192,354	\$ 155,899	\$ 153,212		
3,952,052	3,963,093	4,203,522	4,193,670		
				\$ 147,919	\$ 148,459
				-	33,692
				47,569	25,000
				-	128,619
				4,292,400	4,486,982
<u>\$ 4,145,135</u>	<u>\$ 4,155,447</u>	<u>\$ 4,359,421</u>	<u>\$ 4,346,882</u>	<u>\$ 4,487,888</u>	<u>\$ 4,822,752</u>
\$ 175	\$ 29,755	\$ 35,125	\$ 2,285,897		
4,359,747	4,353,458	3,754,384	928,979		
(36,936)	(11,092)	30,804	48,716		
1,624,525	1,829,574	2,293,717	1,620,808		
				1,745,296	494,814
				2,275,982	3,141,719
				59,004	25,139
				(1,818,428)	(2,080,433)
				(117,199)	-
<u>\$ 5,947,511</u>	<u>\$ 6,201,695</u>	<u>\$ 6,114,030</u>	<u>\$ 4,884,400</u>	<u>\$ 2,144,655</u>	<u>\$ 1,581,239</u>

CITY OF FOREST LAKE

Table 5

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
Unaudited**

	Fiscal Year			
	2003	2004	2005	2006
REVENUES				
Taxes	\$ 4,019,676	\$ 4,256,480	\$ 5,265,226	\$ 5,869,599
Special Assessments	1,520,859	747,914	685,103	469,987
Licenses and Permits	831,239	582,413	442,346	490,038
Intergovernmental	1,325,858	988,317	1,362,889	2,391,957
Charges for Services	1,538,779	1,222,398	1,038,235	1,594,831
Fines and Forfeits	133,273	124,163	128,370	137,180
Interest on Investments	176,373	189,402	264,279	330,240
Miscellaneous Revenue	520,685	723,837	156,683	1,178,298
Total Revenues	<u>10,066,742</u>	<u>8,834,924</u>	<u>9,343,131</u>	<u>12,462,130</u>
EXPENDITURES				
General Government	1,931,993	1,254,035	1,091,694	1,449,284
Public Safety	2,831,690	2,839,458	3,132,769	3,649,754
Public Works	1,044,635	1,074,622	1,339,603	1,412,134
Culture and Recreation	374,655	558,295	391,058	599,382
Economic Development	596,501	45,306	257,144	649,774
Capital Outlay	1,015,865	1,850,179	4,079,460	4,277,905
Debt Service:				
Principal	480,000	734,000	779,000	989,000
Interest	309,002	321,318	307,658	262,787
Total Expenditures	<u>8,584,341</u>	<u>8,677,213</u>	<u>11,378,386</u>	<u>13,290,020</u>
Excess of Revenues Over (Under) Expenditures	1,482,401	157,711	(2,035,255)	(827,890)
OTHER FINANCING SOURCES (USES)				
Transfers In	20,000	226,439	854,519	394,222
Transfers Out	-	(103,851)	(834,519)	(374,222)
Sale of Capital Assets	-	-	28,245	51,441
Insurance Recoveries	-	-	-	-
Refunded Debt	-	-	-	(1,090,000)
Bond Issuance and Bond Premium/Discount	5,070,000	-	1,790,000	194,640
Total Other Financing Sources (Uses)	<u>5,090,000</u>	<u>122,588</u>	<u>1,838,245</u>	<u>(823,919)</u>
Net Change in Fund Balances	<u>\$ 6,572,401</u>	<u>\$ 280,299</u>	<u>\$ (197,010)</u>	<u>\$ (1,651,809)</u>
Debt Service as a Percentage of Noncapital Expenditures	10.4%	15.5%	14.9%	10.9%

Table 5 (Continued)

		Fiscal Year					
		2007	2008	2009	2010	2011	2012
\$	6,993,184	\$ 7,361,653	\$ 7,760,467	\$ 7,661,449	\$ 7,689,988	\$ 8,100,053	
	663,341	448,258	352,812	394,527	291,013	187,304	
	468,351	608,228	314,436	311,150	281,794	293,191	
	898,358	632,757	1,201,770	3,939,604	1,252,760	1,912,039	
	891,151	561,357	783,063	912,462	999,520	893,409	
	165,498	202,310	170,244	187,941	185,958	205,250	
	541,099	427,884	331,862	249,010	91,870	61,999	
	272,943	162,305	104,377	141,018	168,210	181,339	
	<u>10,893,925</u>	<u>10,404,752</u>	<u>11,019,031</u>	<u>13,797,161</u>	<u>10,961,113</u>	<u>11,834,584</u>	
	1,222,198	1,223,121	1,189,074	1,260,157	1,234,688	1,241,711	
	4,093,718	4,459,880	4,585,479	4,574,234	4,573,130	4,914,999	
	1,523,012	1,949,810	1,959,495	6,720,105	3,192,761	4,440,530	
	332,066	403,853	336,765	378,637	392,227	498,008	
	740,176	453,112	1,365,228	1,206,953	448,321	506,941	
	3,299,651	1,776,252	838,485	2,678,879	595,136	835,863	
	658,908	717,350	698,774	805,101	776,583	654,295	
	202,199	200,700	191,550	200,152	165,693	85,705	
	<u>12,071,928</u>	<u>11,184,078</u>	<u>11,164,850</u>	<u>17,824,218</u>	<u>11,378,539</u>	<u>13,178,052</u>	
	(1,178,003)	(779,326)	(145,819)	(4,027,057)	(417,426)	(1,343,468)	
	242,342	79,612	865,927	365,200	619,071	50,000	
	(222,342)	(2,533)	(814,919)	-	(548,994)	-	
	4,770	93,145	6,826	44,987	16,901	7,685	
	-	-	204,294	84,247	110,428	42,731	
	-	-	-	-	(2,550,000)	-	
	52,038	873,598	-	2,290,454	322,985	1,015,000	
	<u>76,808</u>	<u>1,043,822</u>	<u>262,128</u>	<u>2,784,888</u>	<u>(2,029,609)</u>	<u>1,115,416</u>	
\$	<u>(1,101,195)</u>	<u>\$ 264,496</u>	<u>\$ 116,309</u>	<u>\$ (1,242,169)</u>	<u>\$ (2,447,035)</u>	<u>\$ (228,052)</u>	
	9.2%	9.8%	8.6%	6.6%	8.8%	6.0%	

CITY OF FOREST LAKE

Table 6

**GENERAL GOVERNMENTAL ACTIVITIES TAX REVENUE BY SOURCE
(Modified Accrual Basis of Accounting)
Last Ten Fiscal Years
Unaudited**

Fiscal Year	Property Tax	Tax Increment	Franchise Tax	Gravel Tax	Total
2003	\$ 3,455,919	\$ 561,427	\$ -	\$ 2,330	\$ 4,019,676
2004	3,624,737	629,318	-	2,425	4,256,480
2005	4,560,836	700,835	-	3,555	5,265,226
2006	5,130,147	735,542	-	3,910	5,869,599
2007	6,158,016	832,580	-	2,588	6,993,184
2008	6,511,293	848,392	-	1,968	7,361,653
2009	6,782,265	978,142	-	60	7,760,467
2010	6,651,862	1,009,587	-	-	7,661,449
2011	6,650,806	1,039,182	-	-	7,689,988
2012	7,046,367	1,053,686	-	-	8,100,053

CITY OF FOREST LAKE

Table 7

NET TAX CAPACITY AND ESTIMATED MARKET VALUE OF PROPERTY
Last Ten Fiscal Years
Unaudited

Fiscal Year	Real and Personal Property ⁽¹⁾							Ratio of Net Tax Capacity to Taxable Market Value
	Total Tax Capacity	Tax Increment Tax Capacity	Net Area-Wide Allocation	Powerline Deduction	Taxable Value	Total Direct Tax Rate	Taxable Market Value	
2003	\$ 12,691,412	\$ (623,371)	\$ 32,781	\$ (1,421)	\$ 12,099,401	30.462%	\$ 1,101,632,400	1.15%
2004	14,616,948	(709,503)	73,695	(1,984)	13,979,156	28.220%	1,282,960,900	1.14%
2005	17,513,581	(907,829)	2,716	(1,947)	16,606,521	29.647%	1,543,323,000	1.13%
2006	19,621,941	(1,015,288)	3,678	(1,916)	18,608,415	29.178%	1,752,391,100	1.12%
2007	22,760,971	(1,220,125)	140,871	(1,943)	21,679,774	30.415%	2,004,600,100	1.14%
2008	24,458,931	(1,193,559)	(116,498)	(1,769)	23,147,105	29.439%	2,167,397,000	1.13%
2009	24,871,532	(1,307,602)	110,502	(1,690)	23,672,742	30.109%	2,193,130,200	1.13%
2010	23,593,899	(1,293,646)	94,813	(1,613)	22,393,453	31.534%	2,067,612,700	1.14%
2011	21,762,076	(1,170,273)	92,673	(1,682)	20,682,794	33.548%	1,902,239,900	1.14%
2012	20,058,270	(1,121,580)	309,554	(1,682)	19,244,562	37.735%	1,738,913,900	1.15%

⁽¹⁾ Personal property values are minimal and are included in the total value.

CITY OF FOREST LAKE

Table 8

**PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Fiscal Years
Unaudited**

Fiscal Year	City of Forest Lake			Overlapping Rates ⁽²⁾		
				School District No. 831 ⁽¹⁾		
	Operating Rate	Debt Service Rate	Total Tax Capacity Rate	Operating Rate	Debt Service Rate	Total Tax Capacity Rate
2003	29.633%	0.829%	30.462%	9.791%	14.766%	24.557%
2004	27.454%	0.766%	28.220%	8.859%	12.013%	20.872%
2005	29.038%	0.609%	29.647%	6.287%	9.777%	16.064%
2006	28.447%	0.731%	29.178%	5.239%	8.821%	14.060%
2007	29.101%	1.314%	30.415%	4.514%	7.785%	12.299%
2008	27.944%	1.495%	29.439%	7.681%	7.456%	15.137%
2009	28.646%	1.463%	30.109%	7.071%	6.384%	13.455%
2010	29.656%	1.878%	31.534%	6.015%	6.880%	12.895%
2011	32.283%	1.265%	33.548%	8.177%	7.234%	15.411%
2012	35.677%	2.058%	37.735%	8.499%	8.832%	17.331%

⁽¹⁾ School levies do not include market value referendum levy amounts.

⁽²⁾ Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all City property owners (e.g., the rates for special districts apply only to the proportion of the government's property owners whose property is located within the geographic boundaries of the special district.)

⁽³⁾ Special Districts include the Washington County HRA, Comfort Lake/Forest Lake Watershed District and Metropolitan Transit.

Table 8 (Continued)

Overlapping Rates ⁽²⁾				
Washington County				Total Direct and Overlapping Rates
Operating Rate	Debt Service Rate	Total Tax Capacity Rate	Special Districts ⁽³⁾	
29.577%	3.726%	33.303%	4.483%	92.805%
27.680%	3.521%	31.201%	4.264%	84.557%
25.074%	3.525%	28.599%	4.342%	78.652%
23.666%	3.302%	26.968%	4.140%	74.346%
22.612%	3.061%	25.673%	3.591%	71.978%
22.902%	3.034%	25.936%	3.825%	74.337%
23.398%	2.973%	26.371%	5.980%	75.915%
24.797%	2.978%	27.775%	7.541%	79.745%
26.157%	3.614%	29.772%	7.938%	86.669%
27.879%	4.060%	31.939%	8.638%	95.644%

CITY OF FOREST LAKE

Table 9

**PRINCIPAL PROPERTY TAXPAYERS
December 31, 2012
Unaudited**

Taxpayer	Taxes Payable 2012			Taxes Payable 2003		
	Net Tax Capacity	Rank	Percent of Total Net Tax Capacity ⁽¹⁾	Net Tax Capacity	Rank	Percent of Total Net Tax Capacity ⁽²⁾
MRLR Real Estate Partners	\$ 247,140	1	1.23%	\$ 154,074	4	1.27%
Forest Lake Facilities, LLC	216,196	2	1.08%	-	-	-
Inland Forest Lake Marketplace	198,192	3	0.99%	176,618	1	-
Menards, Inc.	192,534	4	0.96%	175,288	2	1.45%
Xcel Energy	188,746	5	0.94%	168,592	3	1.39%
Dayton Hudson Corp T-1244	169,658	6	0.85%	151,544	5	1.25%
IRET Properties	149,422	7	0.74%	143,944	6	-
Fenway Investments	134,776	8	0.67%	-	-	-
Michael Roberts & Steven Saunders	98,538	9	0.49%	-	-	-
Desoto Assoc. Ltd. Partnership	94,304	10	0.47%	77,288	9	0.64%
Individual Family Ltd. Partnership	-	-	-	131,640	7	1.09%
MINWIS, Inc. and JJS Property 4	-	-	-	88,954	8	0.74%
Lake Shoppes LLC	-	-	-	66,826	10	0.55%
Total	\$ 1,689,506		8.42%	\$ 1,334,768		8.38%

⁽¹⁾ Real and Personal Property Total Net Tax Capacity \$ 20,058,270

⁽²⁾ Real and Personal Property Total Net Tax Capacity \$ 12,099,401

CITY OF FOREST LAKE

Table 10

**PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
Unaudited**

Fiscal Year Ended December 31,	Total Tax Levy for Fiscal Year ⁽¹⁾	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
2003	\$ 3,423,175	\$ 3,347,542	97.8%	\$ 75,633	\$ 3,423,175	100.0%
2004	3,667,836	3,601,306	98.2%	66,384	3,667,690	100.0%
2005	4,568,999	4,492,542	98.3%	76,119	4,568,661	100.0%
2006	5,116,722	5,008,963	97.9%	107,258	5,116,220	100.0%
2007	6,267,238	6,116,187	97.6%	148,679	6,264,866	100.0%
2008	6,569,221	6,361,370	96.8%	202,030	6,563,400	99.9%
2009	6,841,494	6,607,271	96.6%	207,123	6,814,393	99.6%
2010	6,722,317	6,471,089	96.3%	208,099	6,679,189	99.4%
2011	6,555,568	6,400,728	97.6%	115,051	6,515,779	99.4%
2012	7,161,299	7,056,775	98.5%	-	7,056,775	98.5%

⁽¹⁾ Levy amounts are shown after the reduction of homestead/agricultural credits and other miscellaneous credits.

CITY OF FOREST LAKE

Table 11

**RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
Unaudited**

Fiscal Year	Governmental Activities				Business-Type Activities		
	G.O. Bonds ⁽⁵⁾	Special Assessment Bonds	Tax Increment Bonds ⁽²⁾	Capital Leases	Utility Revenue Bonds ^{(1) (4)}	Special Assessment Bonds ⁽⁵⁾	Tax Increment Bonds
2003	\$ 325,000	\$ 1,885,000	\$ 5,495,000	\$ -	\$ 5,715,000	\$ -	\$ 155,000
2004	226,000	1,660,000	5,085,000	-	5,525,000	-	80,000
2005	1,627,000	1,680,000	4,675,000	-	13,460,000	-	-
2006	1,528,000	330,000	4,045,000	194,640	12,730,000	-	-
2007	1,294,000	270,000	3,705,000	221,770	12,310,000	-	-
2008	1,900,000	195,000	3,355,000	193,420	11,870,000	1,075,000	-
2009	1,790,000	-	2,990,000	164,646	7,195,000	1,075,000	-
2010	1,390,000	-	4,860,000	134,545	6,685,000	970,000	-
2011	1,035,000	-	2,245,000	102,962	8,335,000	860,000	-
2012	1,850,000	-	1,815,000	78,667	7,205,000	1,280,000	-

⁽¹⁾ The large increase in fiscal year 2005 is attributable to the issuance of G.O. advance refunding bonds in the amount of \$ 4,935,000. The bonds "crossed over" in the year 2009, at which time escrowed funds were used to satisfy the debt that reached the call date.

⁽²⁾ The large increase in fiscal year 2010 is attributable to the issuance of G.O. tax increment advance refunding bonds in the amount of \$ 2,245,000. The bonds "crossed over" in the year 2011, at which time escrowed funds were used to satisfy the debt that reached the call date.

⁽³⁾ Personal income (per capita) and population from Table 16.

⁽⁴⁾ In 2011, the City issued G.O. advance refunding bonds in the amount of \$ 2,180,000. The bonds "crossed over" in December of 2012, and escrowed funds were used to satisfy the debt that reached the call date.

⁽⁵⁾ In 2012, the City issued G.O. advance refunding bonds in the amount of \$970,000. The amount of \$440,000 was for governmental purposes and the amount of \$530,000 was for enterprise purposes. The bonds will "cross over" in February of 2014 and escrowed funds will be used to satisfy the original debt.

Sources: City of Forest Lake, audited financial statements. Metropolitan Council, population estimates. Bureau of Economic Analysis, local area personal income reports. City of Forest Lake, personal income estimate for fiscal year 2012.

Table 11 (Continued)

<u>Total Primary Government</u>	<u>Percentage of Personal Income⁽³⁾</u>	<u>Per Capita⁽³⁾</u>
\$ 13,575,000	0.29%	\$ 865
12,576,000	0.34%	749
21,442,000	0.20%	1,233
18,827,640	0.24%	1,081
17,800,770	0.26%	1,018
18,588,420	0.26%	1,067
13,214,646	0.35%	755
14,039,545	0.34%	764
12,577,962	0.39%	677
12,228,667	0.40%	658

CITY OF FOREST LAKE

Table 12

**RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years
Unaudited**

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Less Amounts Available in Debt Service Funds</u>	<u>Total</u>	<u>Percentage of Total Estimated Taxable Market Value of Property</u>	<u>Per Capita</u>
2003	\$ 325,000	\$ -	\$ 325,000	0.03%	\$ 21
2004	226,000	-	226,000	0.02%	13
2005	1,627,000	-	1,627,000	0.11%	94
2006	1,528,000	-	1,528,000	0.09%	88
2007	1,294,000	-	1,294,000	0.06%	74
2008	1,900,000	-	1,900,000	0.09%	109
2009	1,790,000	-	1,790,000	0.08%	102
2010	1,390,000	-	1,390,000	0.07%	76
2011	1,035,000	-	1,035,000	0.05%	56
2012	1,850,000	430,158	1,419,842	0.08%	76

Source: City of Forest Lake, audited financial statements. Metropolitan Council, population estimates. Washington County Property Tax Department, Market Value and Net Tax Capacity Values of Taxable Property Report - tax capacity values.

CITY OF FOREST LAKE

Table 13

**COMPUTATION OF DIRECT AND OVERLAPPING DEBT
As of December 31, 2012
Unaudited**

Governmental Unit	Gross Debt ⁽¹⁾	Sinking Funds	Net Debt	City's Share	
				Percent ⁽²⁾	Amount
Direct					
City of Forest Lake	\$ 3,743,667	\$ 430,158	\$ 3,313,509	100.00%	\$ 3,313,509
Overlapping					
School District No. 831	29,930,000	-	29,930,000	72.18%	21,604,213
Washington County	156,269,684	12,059,684	144,210,000	7.02%	10,121,581
Metropolitan Transit	226,580	-	226,580	0.62%	1,412
Washington County HRA	51,990,158	5,153,730	46,836,428	7.02%	3,287,281
Total Overlapping Debt	\$ 238,416,422	\$ 17,213,414	\$ 221,203,008		\$ 35,014,487
Total Direct and Overlapping Debt	\$ 242,160,089	\$ 17,643,572	\$ 224,516,517		\$ 38,327,996

⁽¹⁾ Gross debt totals include bonds which are financed by ad valorem tax levy, G.O. tax increment and special assessments for governmental purposes.

⁽²⁾ The percentage of overlapping debt applicable is estimated using the total adjusted net tax capacity of property values. Applicable percentages were estimated by determining the portion of the county's taxable total adjusted net tax capacity that is within the government's boundaries and dividing it by the county's total adjusted net tax capacity property value.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

Note: The City became a part of the Metropolitan Council Transit District, effective January 1, 2010.

CITY OF FOREST LAKE

Table 14

**LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
Unaudited**

	Fiscal Year				
	2003	2004	2005	2006	2007
Debt Limit	\$ 22,032,648	\$ 25,659,218	\$ 30,866,460	\$ 35,047,822	\$ 40,092,002
Total Net Debt Applicable to Limit	<u>325,000</u>	<u>226,000</u>	<u>1,627,000</u>	<u>1,528,000</u>	<u>1,294,000</u>
Legal Debt Margin	<u>\$ 21,707,648</u>	<u>\$ 25,433,218</u>	<u>\$ 29,239,460</u>	<u>\$ 33,519,822</u>	<u>\$ 38,798,002</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	1.48%	0.88%	5.27%	4.36%	3.23%

Note: Under Minnesota state law, the City's G.O. debt should not exceed 3% of the total taxable market value of the city. By law, the G.O. debt subject to the limitation may be offset by amounts set aside for repaying G.O. bonds. Prior to 2008, the state law required that G.O. debt not exceed 2% of the total taxable market value of the City.

Table 14 (Continued)

Fiscal Year				
2008	2009	2010	2011	2012
\$ 65,021,910	\$ 65,793,906	\$ 62,028,381	\$ 57,067,197	\$ 52,167,417
1,900,000	1,650,000	1,315,000	1,035,000	1,419,842
<u>\$ 63,121,910</u>	<u>\$ 64,143,906</u>	<u>\$ 60,713,381</u>	<u>\$ 56,032,197</u>	<u>\$ 50,747,575</u>
2.92%	2.51%	2.12%	1.81%	2.72%

Legal Debt Margin Calculation for Fiscal Year 2012

Taxable Market Value	\$ 1,738,913,900
Debt Limit (3% of Taxable Market Value)	52,167,417
Debt Applicable to Limit:	
G.O. Bonds	1,850,000
Less Amount Set Aside for Payment of G.O. Debt	<u>430,158</u>
Total Net Debt Applicable to Limit	<u>1,419,842</u>
Legal Debt Margin	<u>\$ 50,747,575</u>

CITY OF FOREST LAKE

Table 15

**PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years
Unaudited**

Fiscal Year	Water and Sewer Revenue Bonds					Coverage
	Utility	Less	Net	Debt Service		
	Charges and Other	Operating Expenses	Available Revenue	Principal	Interest	
2003	\$ 2,442,720	\$ 2,461,338	\$ (18,618)	\$ 250,000	\$ 304,296	(0.03)
2004	2,508,385	2,736,256	(227,871)	265,000	277,427	(0.42)
2005	3,379,371	2,364,750	1,014,621	285,000	467,084	1.35
2006	3,759,125	2,697,014	1,062,111	730,000	560,191	0.82
2007	4,084,870	2,747,118	1,337,752	420,000	543,353	1.39
2008	3,469,778	2,699,423	770,355	440,000	528,409	0.80
2009	3,392,333	2,773,612	618,721	4,675,000	401,507	0.12
2010	3,249,837	2,752,579	497,258	510,000	274,705	0.63
2011	3,103,313	2,898,519	204,794	530,000	254,610	0.26
2012	4,852,641	2,612,649	2,239,992	2,585,000	273,230	0.78

Note: Details regarding the government's outstanding debt can be found in the Notes to the Financial Statements. Utility charges and other includes investment earnings. Operating expenses do not include interest expense or depreciation. Special assessment collections and tax increment collections include investment earnings.

Note: Principal payments for 2006 include payment of an advance refunding crossover bond in the amounts of \$ 405,000 in water/sewer revenue bonds and \$ 1,275,000 in special assessment bonds. Principal payments for 2009 include payment of an advance refunding crossover bond in the amount of \$ 4,445,000 in water/sewer revenue bonds. Principal payments for 2011 for tax increment bonds include payment of an advance refunding crossover bond in the amount of \$ 2,225,000. Principal payments for 2012 include payment of an advance refunding crossover bond in the amount of \$2,105,000 in water/sewer revenue bonds.

Note: In 2012, utility charges and other includes a one-time payment from the Metropolitan Council, in the amount of \$1,181,780, representing a refund of sewer charges overcharged in past years.

Table 15 (Continued)

Special Assessment Bonds				
Special Assessment Collections	Debt Service		Coverage (percentage)	
	Principal	Interest		
\$ 402,269	\$ 265,000	\$ 97,615	1.11	
204,240	225,000	85,093	0.66	
366,508	270,000	81,790	1.04	
469,987	1,330,000	42,720	0.34	
663,341	60,000	11,518	9.28	
448,258	75,000	8,915	5.34	
352,810	55,000	46,014	3.49	
452,441	170,000	39,134	2.16	
295,168	185,000	33,309	1.35	
291,013	110,000	28,115	2.11	

Tax Increment Bonds				
Fiscal Year	Tax Increment Collections	Debt Service		Coverage (percentage)
		Principal	Interest	
2003	\$ 626,397	\$ 130,000	\$ 194,805	1.93
2004	731,027	410,000	222,171	1.16
2005	578,882	410,000	197,179	0.95
2006	735,542	630,000	168,270	0.92
2007	832,580	340,000	140,245	1.73
2008	848,392	350,000	129,895	1.77
2009	978,142	365,000	118,942	2.02
2010	1,009,587	375,000	106,911	2.09
2011	1,039,182	2,615,000	50,291	0.39
2012	1,053,686	430,000	40,600	2.24

CITY OF FOREST LAKE

Table 16

DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years
Unaudited

Fiscal Year	Population ⁽¹⁾	Total Personal Income ⁽²⁾	Per Capita Personal Income ⁽³⁾	Median Age ⁽⁴⁾	Population Over Age 25 with Post Secondary Education ⁽⁴⁾	District No. 831 School Enrollment ⁽⁵⁾	Unemployment Rate ⁽⁶⁾
2003	15,692	\$ 620,320,452	\$ 39,531	N/A	N/A	7,655	4.2%
2004	16,800	710,539,200	42,294	N/A	N/A	7,750	4.0%
2005	17,385	740,270,685	42,581	N/A	N/A	7,567	3.5%
2006	17,424	780,961,104	44,821	N/A	N/A	7,561	3.6%
2007	17,494	817,459,632	46,728	N/A	N/A	7,387	4.0%
2008	17,417	836,172,753	48,009	N/A	N/A	7,175	5.1%
2009	17,496	799,987,104	45,724	N/A	N/A	6,923	6.9%
2010	18,375	864,231,375	47,033	42	4,205	6,872	6.3%
2011	18,591	920,682,093	49,523	42	4,205	6,806	5.2%
2012	18,591	920,682,093	49,523	42	4,205	6,767	4.9%

Sources:

- ⁽¹⁾ Metropolitan Council, except year 2012 estimated by City of Forest Lake.
- ⁽²⁾ Calculated using population and per capita personal income.
- ⁽³⁾ Bureau of Economic Analysis, except year 2012 estimated by City of Forest Lake.
- ⁽⁴⁾ U.S. Census 2010. Includes population with degrees awarded only.
- ⁽⁵⁾ Minnesota Department of Education, Data Center.
- ⁽⁶⁾ Minnesota Department of Employment and Economic Development, Washington County unemployment statistics.

CITY OF FOREST LAKE

Table 17

**PRINCIPAL EMPLOYERS
Current Year and Ten Years Ago
Unaudited**

Employer	2012			2003		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Independent School District No. 831	1,000	1	0.79%	1,136	1	0.97%
Wal-Mart	541	2	0.43%	370	2	0.32%
Birchwood Health Center	220	3	0.17%	205	4	0.18%
Cub Foods	180	4	0.14%	113	7	0.10%
Menard's, Inc.	168	5	0.13%	230	3	0.20%
Target Store	160	6	0.13%	200	5	0.17%
Gaughan Properties	110	7	0.09%			-
TeamVantage	109	8	0.09%			-
Lakes International Language Academy	105	9	0.08%			-
Home Depot	82	10	0.06%			-
Wyard Industries	-		-	110	9	0.09%
City of Forest Lake	-		-	80	10	0.07%
Crown Simplimatic	-		-	150	6	0.13%
K-Mart	-		-	108	8	0.09%
Total	<u>2,675</u>		<u>2.10%</u>	<u>2,702</u>		<u>2.31%</u>

Note: Data for total City employment is not available. Therefore, the percentage of total employment was calculated using total Washington County employment data. Total county employment for 2012 was 127,119. Total county employment for 2003 was 117,071.

Sources:

- City of Forest Lake, Continuing Disclosure Document.*
- Minnesota Department of Employment and Economic Development, Community Profile for Forest Lake.*
- Minnesota Department of Employment and Economic Development, Washington County Unemployment Statistics.*

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CITY OF FOREST LAKE

Table 18

**FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years
Unaudited**

Function	⁽¹⁾ Full-time Equivalent Employees as of December 31,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
Administration	2	2	2	2	2	2	2	2	2	2
Finance	2	3	3	4	4	4	4	4	4	3
Community Development	2	3	3	3	3	3	3	3	3	3
Facilities Maintenance	2	2	2	2	2	2	2	2	2	2
Public Safety										
Police:										
Sworn Officers	19	19	23	23	24	25	25	25	25	25
Civilians	3	3	3	3	3	3	3	3	3	3
Fire:										
Fire Chief	-	1	1	1	1	1	1	1	1	1
Fire Inspection	-	-	-	1	1	-	-	-	-	1
Building Inspection	5	6	6	5	5	5	4	4	4	3
Public Works										
Highways and Streets	7	7	7	7	7	5	6	6	6	6
Maintenance	1	1	1	1	1	1	1	1	1	1
Surface Water Management	-	-	-	-	-	-	-	-	-	1
Culture and Recreation										
Parks Programs	1	1	1	1	1	1	1	1	1	1
Parks Maintenance	-	1	1	1	1	1	1	1	1	1
Proprietary										
Water	2	2	2	2	2	2	2	2	2	2
Sewer	2	2	2	2	2	2	2	2	2	2
Finance	1	1	1	1	1	1	1	1	1	1
Total	49	54	58	59	60	58	58	58	58	58

⁽¹⁾ Includes employees working a minimum of 20 hours per week. Does not include temporary and seasonal workers or volunteer firefighters.

CITY OF FOREST LAKE

Table 19

**OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years
Unaudited**

Function	Fiscal Year				
	2003	2004	2005	2006	2007
Public Safety					
Police:					
Number of Calls Answered	12,785	13,174	13,795	12,708	13,272
Number of Sworn Officers	19	19	23	23	24
Fire:					
Number of Calls Answered	408	338	367	368	395
Number of Volunteer Firefighters	30	30	32	32	31
Number of fire inspections ⁽¹⁾	-	-	-	133	218
Building Inspection:					
Number of Residential Permits	842	260	111	94	92
Number of Commercial Permits	276	6	11	2	6
Number of Other Permits	Included in above	635	663	612	703
Number of Inspections	8,178	8,021	5,213	4,927	4,216
Total Permit Valuation	\$ 90,935,233	\$ 52,519,689	\$ 38,531,638	\$ 41,869,119	\$ 32,295,842
Public Works					
Streets and Highways:					
Miles of Streets Resurfaced	5	5	5	5	4
Water System:					
Number of Service Connections	3,063	3,401	3,612	3,703	3,714
Number of Water Main Breaks	12	14	13	8	10
Average Daily Consumption	831,049	937,529	985,825	984,685	1,031,721
Sewage System:					
Number of Service Connections	4,801	5,158	5,337	5,434	5,457
Number of Sewer Backups	N/A	N/A	N/A	N/A	5
Culture and Recreation:					
Parks:					
Number of Seasonal Workers	26	24	20	19	19

Note: Indicators are not available for the general government function.

⁽¹⁾ The fire inspection program was first implemented in mid - 2006, suspended in mid - 2008, and resumed in 2012.

Table 19 (Continued)

Fiscal Year				
2008	2009	2010	2011	2012
12,939	12,972	13,778	12,790	14,858
25	25	25	25	25
384	398	410	444	398
34	33	34	34	34
73	77	77	117	79
25	12	28	24	30
12	7	3	4	7
3,101	950	564	490	397
4,185	4,011	3,261	2,424	2,473
\$ 40,879,726	\$ 24,420,642	\$ 21,473,787	\$ 19,459,320	\$ 20,616,788
4	3	3	10	6
3,779	3,826	3,801	3,858	4,002
5	14	4	5	8
914,085	1,056,551	1,042,723	941,907	1,114,458
5,505	5,563	5,561	5,565	5,628
5	10	10	3	4
22	17	17	23	21

CITY OF FOREST LAKE

Table 20

**CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years
Unaudited**

Function	Fiscal Year				
	2003	2004	2005	2006	2007
Public Safety					
Police:					
Number of Stations	1	1	1	1	1
Number of Patrol Units	10	11	12	12	13
Fire:					
Number of Stations	2	2	2	2	2
Number of Response Units	11	11	11	11	11
Number of Inspection Units	-	-	-	1	1
Public Works					
Streets and Highways:					
Municipal Streets and Roads	108.90	109.40	110.40	112.40	113.45
Number of Street Lights	N/A	N/A	N/A	N/A	N/A
Water System:					
Miles of Water Mains	60.38	62.07	62.64	64.66	65.09
Number of Fire Hydrants	660	665	670	675	680
Sewage System:					
Miles of Sanitary Sewers	85.25	86.34	87.01	89.03	89.36
Culture and Recreation:					
Parks:					
Number of Parks	16	18	18	20	20
Park Acreage	194.86	198.56	198.56	201.44	201.44
Tennis Courts	1	1	1	1	1
Basketball Courts	3	3	3	4	4
Softball Fields	7	7	7	7	7
Soccer Fields	-	-	-	-	-
Baseball Fields	-	-	-	-	-
Ice Rinks	2	2	2	2	2

Table 20 (Continued)

Fiscal Year				
2008	2009	2010	2011	2012
1	1	1	1	1
13	13	13	13	14
2	2	2	2	2
11	11	11	11	11
1	-	-	1	1
113.45	113.74	114.24	130.00	130.00
N/A	N/A	N/A	N/A	N/A
66.26	66.70	67.16	68.59	68.59
685	690	695	701	701
89.36	90.16	90.55	90.70	90.70
20	20	20	20	20
201.44	281.97	281.97	281.97	281.97
1	1	1	1	1
3	3	3	3	3
7	10	10	10	10
-	3	3	3	3
-	1	1	1	1
2	2	2	2	2

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