CITY OF CIRCLE PINES
ANOKA COUNTY, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
December 31, 2012

CITY OF CIRCLE PINES
ANOKA COUNTY, MINNESOTA

Table of Contents

	Page
INTRODUCTORY SECTION	
CITY COUNCIL AND OTHER OFFICIALS	1
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	2–4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5–12
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds	
Balance Sheet	15–16
Reconciliation of the Balance Sheet to the Statement of Net Position	17
Statement of Revenue, Expenditures, and Changes in Fund Balances	18–19
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Statement of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	21
Proprietary Funds	
Statement of Net Position	22–23
Statement of Revenue, Expenses, and Changes in Net Position	24–25
Statement of Cash Flows	26–27
Notes to Basic Financial Statements	28–47
SUPPLEMENTAL INFORMATION	
Nonmajor Governmental Funds	
Combining Balance Sheet	48–49
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	50–51
OTHER REQUIRED REPORTS	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*	52–53
Independent Auditor's Report on Minnesota Legal Compliance	54
Schedule of Findings and Responses	55

INTRODUCTORY SECTION

CITY OF CIRCLE PINES
ANOKA COUNTY, MINNESOTA

City Council and Other Officials
Year Ended December 31, 2012

CITY COUNCIL

David Bartholomay	Mayor
Dave Kelso	Councilmember
Deb O'Brien	Councilmember
Matt Percy	Councilmember
Richard Runbeck	Councilmember

CITY ADMINISTRATION

James W. Keinath	City Clerk/Administrator

CENTENNIAL UTILITIES COMMISSION

Ed Erchul	Chairperson
David Bartholomay	Member
Scott Bundy	Member
Jan Kreminski	Member
Keath Young	Member
James W. Keinath	Ex-Officio

FINANCIAL SECTION

MMKR
CERTIFIED PUBLIC
ACCOUNTANTS

PRINCIPALS

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management
City of Circle Pines, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Circle Pines, Minnesota (the City) as of and for the year ended December 31, 2012, and the related notes to basic 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 basic 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 basic 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 basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic 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 basic 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 basic financial statements.

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

(continued)

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.
[illegible]

OPINIONS

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

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 basic financial statements that collectively comprise the City's basic financial statements. The introductory section and the supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplemental 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

(continued)

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.

Minneapolis, Minnesota

April 26, 2013

As management of the City of Circle Pines, Minnesota (the City), we have provided readers of the City's financial statements with this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other information in addition to the basic financial statements themselves.

These financial statements include not only the City itself (known as the primary government), but also the Centennial Utilities Commission (the Commission) and the Circle Pines Housing and Redevelopment Authority (HRA). The Commission and HRA are legally separate entities which function, in essence, as part of the City. Therefore, the Commission and HRA have been included (blended) as an integral part of the City's financial statements.

Government-Wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private sector businesses.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows as applicable with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, delinquent taxes and special assessments).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, public works, parks and recreation, and insurance. The business-type activities of the City include enterprises for gas, water, sewer, storm water, and solid waste utilities.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City are divided into two categories—governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The fund financial statements present information for each major governmental fund in separate columns. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The City adopts an annual appropriated budget for the General Fund. Budget-to-actual comparisons are provided in this financial report for this fund.

Proprietary Funds – All of the City's proprietary funds are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City presents all enterprise funds as major funds in separate columns.

Notes to Basic Financial Statements – The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplemental Information – Combining statements for nonmajor funds are presented immediately following the notes to basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of the City's net position:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	$ 11,815,639	$ 9,118,576	$ 6,377,411	$ 5,739,674	$ 18,193,050	$ 14,858,250
Capital assets	11,022,503	9,728,982	9,773,737	8,604,180	20,796,240	18,333,162
Total assets	$ 22,838,142	$ 18,847,558	$ 16,151,148	$ 14,343,854	$ 38,989,290	$ 33,191,412
Liabilities						
Current and other liabilities	$ 215,119	$ 268,068	$ 424,804	$ 500,819	$ 639,923	$ 768,887
Long-term liabilities	10,861,419	8,029,022	4,443,086	2,943,440	15,304,505	10,972,462
Total liabilities	$ 11,076,538	$ 8,297,090	$ 4,867,890	$ 3,444,259	$ 15,944,428	$ 11,741,349
Net position						
Net investment in capital assets	$ 2,621,753	$ 2,772,482	$ 5,655,683	$ 6,274,361	$ 8,277,436	$ 9,046,843
Restricted	1,910,901	1,188,537	309,696	309,696	2,220,597	1,498,233
Unrestricted	7,228,950	6,589,449	5,317,879	4,315,538	12,546,829	10,904,987
Total net position	$ 11,761,604	$ 10,550,468	$ 11,283,258	$ 10,899,595	$ 23,044,862	$ 21,450,063

Total net position increased by $1,594,799 in 2012. The City takes a conservative financial approach, carefully analyzing revenues and expenses. The ongoing management of revenue and expenses has continued to improve the City's financial position, and has resulted in improved bond ratings over the last several years. This has also allowed us to deliver services with the least amount of property taxes.

The following is a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	$ 112,899	$ 109,715	$ 4,557,991	$ 5,085,817	$ 4,670,890	$ 5,195,532
Operating grants and contributions	39,857	42,275	28,030	71,222	67,887	113,497
Capital grants and contributions	629,236	73,358	–	–	629,236	73,358
General revenues						
Property taxes	2,868,821	2,748,638	–	–	2,868,821	2,748,638
General grants and contributions	131,351	238,676	–	–	131,351	238,676
Other general revenues	238,139	205,668	–	–	238,139	205,668
Investment earnings	87,769	82,191	25,325	30,851	113,094	113,042
Total revenues	4,108,072	3,500,521	4,611,346	5,187,890	8,719,418	8,688,411
Expenses						
General government	443,147	472,020	–	–	443,147	472,020
Public safety	1,112,815	1,125,052	–	–	1,112,815	1,125,052
Public works	570,031	633,787	–	–	570,031	633,787
Parks and recreation	324,144	370,906	–	–	324,144	370,906
Insurance	68,787	65,346	–	–	68,787	65,346
Interest and fiscal costs	378,012	362,912	–	–	378,012	362,912
Gas	–	–	2,726,165	3,229,750	2,726,165	3,229,750
Water	–	–	474,200	450,439	474,200	450,439
Sewer	–	–	592,600	616,838	592,600	616,838
Storm water	–	–	99,282	194,439	99,282	194,439
Solid waste	–	–	335,436	331,890	335,436	331,890
Total expenses	2,896,936	3,030,023	4,227,683	4,823,356	7,124,619	7,853,379
Change in net position	1,211,136	470,498	383,663	364,534	1,594,799	835,032
Net position – beginning	10,550,468	10,079,970	10,899,595	10,535,061	21,450,063	20,615,031
Net position – ending	$ 11,761,604	$ 10,550,468	$ 11,283,258	$ 10,899,595	$ 23,044,862	$ 21,450,063

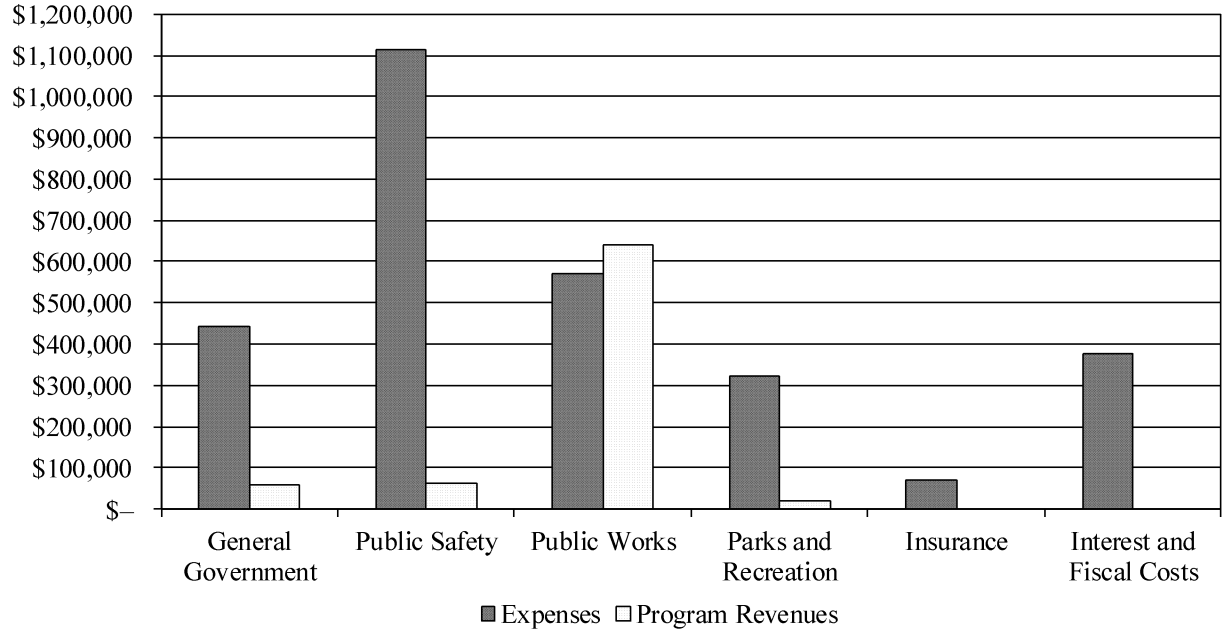
The City continues to be reliant on property taxes to finance its governmental activities. Property taxes represent approximately 70 percent of the total revenue received for governmental activities.

The table above shows an increase in the net position of both the governmental and business-type activities.

The fund-based discussion, which follows later in this report, provides further explanation of the City's activities for 2012.

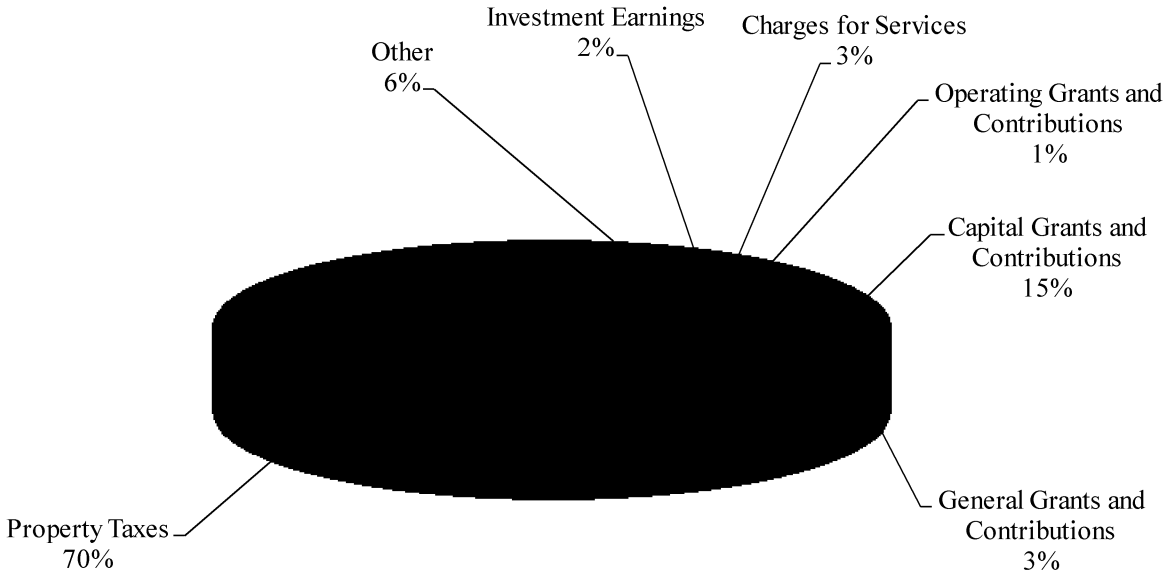
Governmental Activities – The following graphs illustrate the City's governmental activities:

Expenses and Program Revenues – Governmental Activities



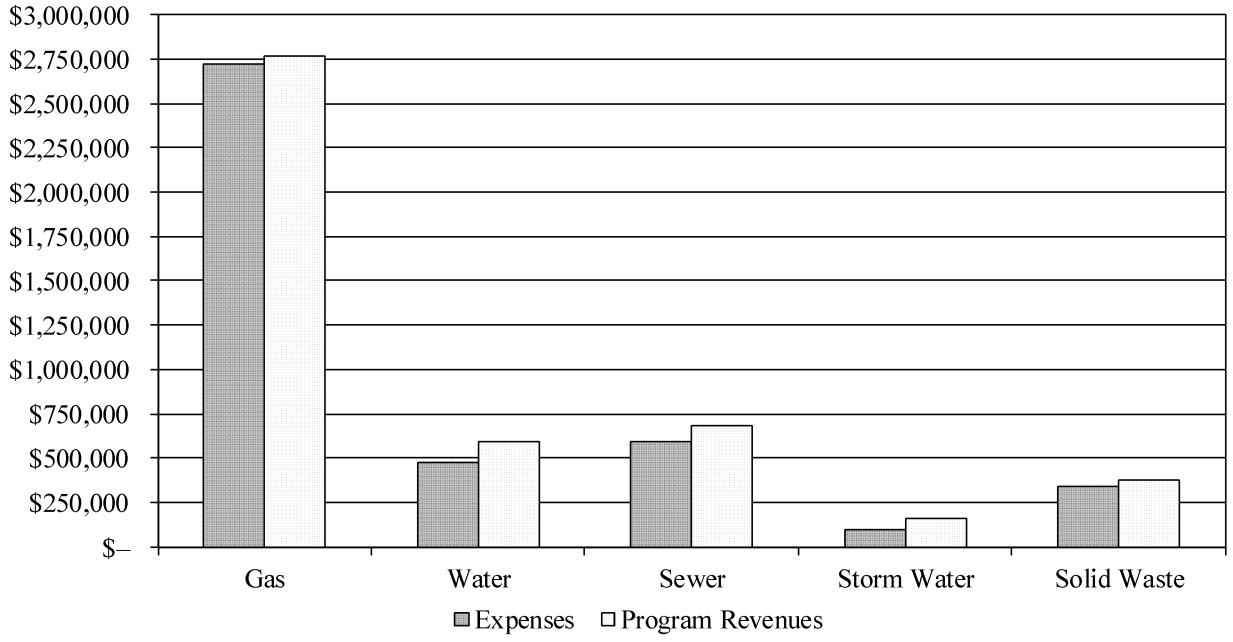
As is common with many cities, the City's governmental activities are primarily funded with property taxes. Capital grants and contributions made up 15 percent of governmental activities revenue sources, which increased significantly over the prior year due to special assessments recognized in the current year. Other general and program revenues finance governmental activities to a lesser extent.

Revenue by Source – Governmental Activities



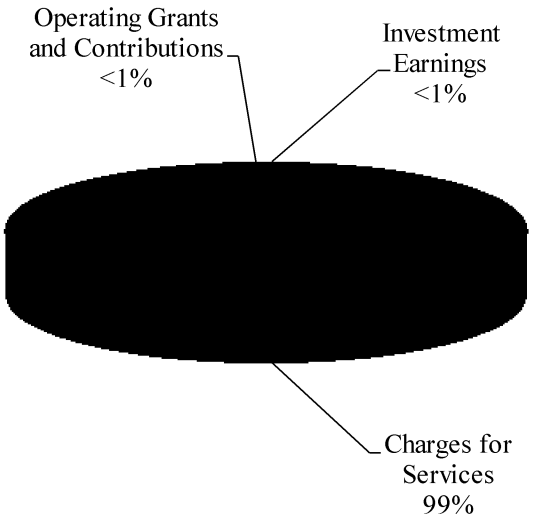
Business-Type Activities – The following graphs illustrate the City's business-type activities:

Expenses and Program Revenues – Business-Type Activities



Unlike governmental activities, these activities are primarily funded through program revenues like user charges. Overall, the business-type activities had positive operating results, but the City will continually need to look at utility rate adjustments to cover operational costs, cash flow, and infrastructure replacement. The business-type activities are discussed in more detail by fund in the following section.

Revenues by Source – Business-Type Activities



Governmental Funds – The following is a summary of the City's governmental funds ending fund balances in comparison with the prior year:

	Fund Balances		Increase
	2012	2011	(Decrease)
Major funds			
General	$ 2,564,556	$ 2,473,302	$ 91,254
Special revenue			
Tax Increment District No. 1-1 Revenue	(14,964)	(382,241)	367,277
Tax Increment District No. 1-4 Revenue	(419,933)	(479,421)	59,488
Debt service			
Capital Improvement Plan Bonds of 2005	1,665,316	204,018	1,461,298
General Obligation Street Bonds of 2012	145,201	–	145,201
Capital project			
Permanent Improvement Revolving	1,760,396	1,701,610	58,786
Street Project	2,457,008	1,894,113	562,895
Nonmajor funds	1,693,073	2,008,436	(315,363)
Total fund balances	$ 9,850,653	$ 7,419,817	$ 2,430,836

General Fund – The General Fund operating results can be summarized as follows:

	Original and Final Budget	Actual	Over (Under) Final Budget	Prior Year Actual
Revenue	$ 2,107,126	$ 2,285,700	$ 178,574	$ 2,160,885
Expenditures	2,141,558	2,044,446	(97,112)	2,034,423
Excess (deficiency) of revenue over expenditures	(34,432)	241,254	275,686	126,462
Transfers in	–	–	–	3,493
Transfers out	–	(150,000)	(150,000)	(1,055,000)
Net change in fund balances	$ (34,432)	91,254	$ 125,686	(925,045)
Fund balances				
Beginning of year		2,473,302		3,398,347
End of year		$ 2,564,556		$ 2,473,302

The General Fund has continued to improve its financial condition, which the City believes is important given the significant street improvement needs going forward. This will help protect the City from future funding shortfalls, as well as providing resources for unexpected but necessary expenditures.

The City believes the above table reflects increased tax revenue and favorable budget variances as a result of a good year of operations and strong budget controls. As a result of these favorable variances the City approved a transfer for $150,000 to the Street Project Capital Project Fund.

Significant Activities of Other Governmental Funds – The increases in the major special revenue tax increment funds represents the excess of property tax increment revenue received in excess of current debt transfers made. The increase in the major debt service funds represents refunding bonds issued in the current year and held at year-end along with prepaid special assessment funds received on street bonds issued in the current year. The increase in the major capital project funds was primarily in the Street Project Fund due to current year debt proceeds exceeding current year expenditures, in addition to the transfer from the General Fund as describe on the previous page.

Proprietary Funds – The City's proprietary funds had a combined net position balance of $11,283,258 at December 31, 2012. The changes in net position balances of these funds are listed below:

	Net Position		Increase
	2012	2011	(Decrease)
Major funds			
Enterprise			
Circle Pines Gas Utility	$ 1,960,471	$ 1,931,050	$ 29,421
Lino Lakes Gas Utility	345,734	304,931	40,803
Blaine Gas Utility	(273,157)	(251,509)	(21,648)
Water Utility	4,586,436	4,457,183	129,253
Sewer Utility	2,180,953	2,085,851	95,102
Storm Water Utility	1,852,675	1,787,465	65,210
Solid Waste Utility	630,146	584,624	45,522
Total net position	$ 11,283,258	$ 10,899,595	$ 383,663

The proprietary funds as a whole experienced an increase in total net position. The Blaine Gas Utility is still a maturing operation and has not yet accomplished the level of profit needed.

Capital Assets – The City's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of December 31, 2012 is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 529,453	$ 529,453	$ 4,153	$ 4,153	$ 533,606	$ 533,606
Construction in progress	–	–	–	46,336	–	46,336
Buildings and structures	4,495,821	4,432,466	969,194	969,194	5,465,015	5,401,660
Furniture and equipment	1,009,078	914,600	2,116,816	2,025,192	3,125,894	2,939,792
Improvements other than buildings	11,683,448	10,179,972	14,281,073	12,612,465	25,964,521	22,792,437
Utility rights	–	–	393,682	393,682	393,682	393,682
Total capital assets	17,717,800	16,056,491	17,764,918	16,051,022	35,482,718	32,107,513
Accumulated depreciation	(6,695,297)	(6,327,509)	(7,991,181)	(7,446,842)	(14,686,478)	(13,774,351)
Total capital assets, net of depreciation	$ 11,022,503	$ 9,728,982	$ 9,773,737	$ 8,604,180	$ 20,796,240	$ 18,333,162
Depreciation expense	$ 464,564	$ 422,152	$ 544,339	$ 530,141	$ 1,008,903	$ 952,293

The City has analyzed its infrastructure and has anticipated repairs or replacement in the near future to streets, water, sewer, and storm water systems. The existing streets, in at least 50 percent of the community, are reaching the end of their useful life. Over the next 10 years, we anticipate continued construction projects for the reconstruction of that infrastructure.

Included in the change in capital assets is the completion of the 2012 Street Reconstruction Project, which included additions to both the governmental and enterprise funds.

Additional details of capital asset activity for the year can be found in the notes to basic financial statements.

Long-Term Liabilities – The debt service funds account for the accumulation of resources to finance the City's general obligation bonds within the governmental activities. The revenue sources for these funds include annual tax levies, tax increments, and special assessments. At year-end, the total fund balance of these funds was $1,908,683. General obligation bonds of the business-type activities and revenue bonds are retired by the revenue produced in the associated enterprise fund. If there were insufficient resources in the enterprise funds to retire the general obligation bonds, the City would be obligated to find other sources or levy taxes for their retirement. Compensated absences are paid for by the General Fund and respective enterprise funds. The following table summarizes the City's long-term liabilities:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	$ 10,820,000	$ 7,990,000	$ 3,605,000	$ 2,020,000	$ 14,425,000	$ 10,010,000
Revenue bonds	–	–	775,000	860,000	775,000	860,000
Compensated absences	41,419	39,022	63,086	63,440	104,505	102,462
Total	$ 10,861,419	$ 8,029,022	$ 4,443,086	$ 2,943,440	$ 15,304,505	$ 10,972,462

The City has sufficient funds on hand to make all required bond payments, and anticipates an ongoing stream of revenue to make future bond payments. The increase in general obligation bonds reflects the City's issuance of street project and refunding bonds.

Additional details of long-term debt activity for the year can be found in the notes to basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic factors affect the preparation of annual budgets. The following factor was considered in preparing the City's budget for 2013:

- The state of Minnesota has seen improvement in economic conditions after several years of significant budget deficits.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional information should be addressed by writing to the City of Circle Pines, 200 Civic Heights Circle, Circle Pines, Minnesota 55014, or by calling (763) 784–5898.

BASIC FINANCIAL STATEMENTS

CITY OF CIRCLE PINES

Statement of Net Position
as of December 31, 2012

	Governmental Activities	Business-Type Activities	Totals
Assets			
Cash and temporary investments	$ 8,749,612	$ 5,244,010	$ 13,993,622
Receivables			
Accounts	29,921	630,516	660,437
Accrued interest	13,960	5,986	19,946
Taxes – delinquent	82,943	–	82,943
Special assessments – delinquent	6,858	12,090	18,948
Special assessments – deferred	835,853	28,923	864,776
Due from other governmental units	949,442	6,532	955,974
Internal balances	(323,236)	323,236	–
Prepaid expenses and supplies	–	126,118	126,118
Land held for resale	15,318	–	15,318
Restricted assets – temporarily restricted			
Cash and investments for bond refunding	1,454,968	–	1,454,968
Capital assets			
Not depreciated	529,453	4,153	533,606
Depreciated, net	10,493,050	9,769,584	20,262,634
Total capital assets, net of depreciation	11,022,503	9,773,737	20,796,240
Total assets	$ 22,838,142	$ 16,151,148	$ 38,989,290
Liabilities			
Accounts and contracts payable	$ 95,487	$ 327,189	$ 422,676
Salaries payable	4,595	9,252	13,847
Accrued interest payable	115,037	51,035	166,072
Due to other governmental units	–	37,328	37,328
Long-term liabilities			
Due within one year	2,446,419	258,086	2,704,505
Due in more than one year	8,415,000	4,185,000	12,600,000
Total long-term liabilities	10,861,419	4,443,086	15,304,505
Total liabilities	11,076,538	4,867,890	15,944,428
Net position			
Net investment in capital assets	2,621,753	5,655,683	8,277,436
Restricted for			
Debt service	1,074,203	47,750	1,121,953
Capital acquisition	–	261,946	261,946
Park dedicated improvements	284,658	–	284,658
Street improvements	452,274	–	452,274
Tax increment allowable costs	99,766	–	99,766
Unrestricted	7,228,950	5,317,879	12,546,829
Total net position	11,761,604	11,283,258	23,044,862
Total liabilities and net position	$ 22,838,142	$ 16,151,148	$ 38,989,290

See notes to basic financial statements

CITY OF CIRCLE PINES

Statement of Activities
Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position: Governmental Activities	Net (Expenses) Revenue and Changes in Net Position: Business-Type Activities	Net (Expenses) Revenue and Changes in Net Position: Total
Governmental activities							
General government	$ 443,147	$ 58,532	$ –	$ –	$ (384,615)	$ –	$ (384,615)
Public safety	1,112,815	22,609	39,857	–	(1,050,349)	–	(1,050,349)
Public works	570,031	31,758	–	607,862	69,589	–	69,589
Parks and recreation	324,144	–	–	21,374	(302,770)	–	(302,770)
Insurance	68,787	–	–	–	(68,787)	–	(68,787)
Interest and fiscal costs	378,012	–	–	–	(378,012)	–	(378,012)
Total governmental activities	2,896,936	112,899	39,857	629,236	(2,114,944)	–	(2,114,944)
Business-type activities							
Gas	2,726,165	2,767,904	–	–	–	41,739	41,739
Water	474,200	584,716	8,000	–	–	118,516	118,516
Sewer	592,600	683,764	–	–	–	91,164	91,164
Storm water	99,282	163,321	–	–	–	64,039	64,039
Solid waste	335,436	358,286	20,030	–	–	42,880	42,880
Total business-type activities	4,227,683	4,557,991	28,030	–	–	358,338	358,338
Total governmental and business-type activities	$ 7,124,619	$ 4,670,890	$ 67,887	$ 629,236	(2,114,944)	358,338	(1,756,606)
General revenues							
Property taxes					2,868,821	–	2,868,821
General grants and contributions					131,351	–	131,351
Other general revenues					238,139	–	238,139
Investment earnings					87,769	25,325	113,094
Total general revenues					3,326,080	25,325	3,351,405
Change in net position					1,211,136	383,663	1,594,799
Net position – beginning					10,550,468	10,899,595	21,450,063
Net position – ending					$ 11,761,604	$ 11,283,258	$ 23,044,862

See notes to basic financial statements

CITY OF CIRCLE PINES

Balance Sheet
Governmental Funds
as of December 31, 2012

		Special Revenue Funds		Debt Service Funds		Capital Project Funds			
	General Fund	Tax Increment District No. 1-1 South	Tax Increment District No. 1-4 North	Capital Improvement Plan Bonds of 2005	G.O. Street Bonds of 2012	Permanent Improvement Revolving	Street Project	Nonmajor Funds	Totals
Assets									
Cash and temporary investments	$ 2,577,632	$ 660,693	$ 60,350	$ 210,348	$ 145,201	$ 603,395	$ 2,820,532	$ 1,671,461	$ 8,749,612
Cash and investments held by trustee	–	–	–	1,454,968	–	–	–	–	1,454,968
Receivables									
Accounts	187	–	–	–	–	–	25,092	4,642	29,921
Accrued interest	13,960	–	–	–	–	–	–	–	13,960
Taxes – delinquent	61,374	17,408	4,051	–	–	–	–	110	82,943
Special assessments – delinquent	238	4,916	–	–	–	–	–	1,704	6,858
Special assessments – deferred	550	76,450	–	–	454,650	–	–	304,203	835,853
Due from other governmental units	7,479	979	82	939,250	–	–	–	1,652	949,442
Due from other funds	–	–	–	–	–	757,001	–	–	757,001
Advances to other funds	–	–	–	–	–	400,000	–	–	400,000
Land held for resale	–	–	–	–	–	–	–	15,318	15,318
Total assets	$ 2,661,420	$ 760,446	$ 64,483	$ 2,604,566	$ 599,851	$ 1,760,396	$ 2,845,624	$ 1,999,090	$ 13,295,876
Liabilities and Fund Balances									
Liabilities									
Accounts and contracts payable	$ 29,933	$ –	$ –	$ –	$ –	$ –	$ 65,554	$ –	$ 95,487
Salaries payable	4,595	–	–	–	–	–	–	–	4,595
Due to other funds	174	676,636	80,365	–	–	–	323,062	–	1,080,237
Advances from other funds	–	–	400,000	–	–	–	–	–	400,000
Deferred revenue	62,162	98,774	4,051	939,250	454,650	–	–	306,017	1,864,904
Total liabilities	96,864	775,410	484,416	939,250	454,650	–	388,616	306,017	3,445,223
Fund balances (deficits)									
Restricted	–	–	–	1,665,316	145,201	–	452,274	398,670	2,661,461
Assigned	2,039,031	–	–	–	–	1,760,396	2,004,734	1,294,403	7,098,564
Unassigned	525,525	(14,964)	(419,933)	–	–	–	–	–	90,628
Total fund balances (deficits)	2,564,556	(14,964)	(419,933)	1,665,316	145,201	1,760,396	2,457,008	1,693,073	9,850,653
Total liabilities and fund balances	$ 2,661,420	$ 760,446	$ 64,483	$ 2,604,566	$ 599,851	$ 1,760,396	$ 2,845,624	$ 1,999,090	$ 13,295,876

See notes to basic financial statements

CITY OF CIRCLE PINES

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of December 31, 2012

Total fund balances – governmental funds	$ 9,850,653
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	17,717,800
Less accumulated depreciation	(6,695,297)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
General obligation bonds payable	(10,820,000)
Compensated absences	(41,419)
Certain revenues are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	1,864,904
Accrued interest payable is included in net position, but is excluded from fund balances until due and payable.	(115,037)
Total net position – governmental activities	$ 11,761,604

See notes to basic financial statements

CITY OF CIRCLE PINES

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2012

		Special Revenue Funds		Debt Service Funds		Capital Project Funds			
	General Fund	Tax Increment District No. 1-1 South	Tax Increment District No. 1-4 North	Capital Improvement Plan Bonds of 2005	G.O. Street Bonds of 2012	Permanent Improvement Revolving	Street Project	Nonmajor Funds	Totals
Revenue									
Taxes	$ 2,032,618	$ 548,134	$ 145,863	$ 77,300	$ –	$ –	$ –	$ 40,889	$ 2,844,804
Special assessments	–	26,729	–	–	126,350	27,767	–	66,650	247,496
Licenses and permits	58,532	–	–	–	–	–	–	–	58,532
Intergovernmental revenue	73,588	–	–	136,870	–	–	–	55,000	265,458
Charges for services	31,758	–	–	–	–	–	–	–	31,758
Fines and forfeits	22,609	–	–	–	–	–	–	–	22,609
Other revenue									
Investment earnings	27,123	5,705	478	1,173	119	7,069	24,803	21,299	87,769
Interfund loan interest	–	–	–	–	–	24,000	–	–	24,000
Lease and rental	–	–	–	–	–	–	–	80,178	80,178
Miscellaneous	39,472	–	–	–	18,732	–	121,131	–	179,335
Total revenue	2,285,700	580,568	146,341	215,343	145,201	58,836	145,934	264,016	3,841,939
Expenditures									
Current									
General government	379,642	3,291	2,853	25,232	–	50	–	3,238	414,306
Public safety	1,087,631	–	–	–	–	–	–	–	1,087,631
Public works	158,542	–	–	–	–	–	402,052	–	560,594
Parks and recreation	349,844	–	–	–	–	–	–	–	349,844
Insurance	68,787	–	–	–	–	–	–	–	68,787
Capital outlay	–	–	–	–	–	–	1,083,900	244,986	1,328,886
Debt service									
Principal retirement	–	–	–	140,000	–	–	–	310,000	450,000
Interest and other	–	–	–	68,813	–	–	–	338,242	407,055
Interfund loan interest	–	–	24,000	–	–	–	–	–	24,000
Total expenditures	2,044,446	3,291	26,853	234,045	–	50	1,485,952	896,466	4,691,103
Excess (deficiency) of revenue over expenditures	241,254	577,277	119,488	(18,702)	145,201	58,786	(1,340,018)	(632,450)	(849,164)
Other financing sources (uses)									
Debt issued	–	–	–	1,480,000	–	–	1,730,000	3,925,000	7,135,000
Payment on refunded debt	–	–	–	–	–	–	–	(3,855,000)	(3,855,000)
Transfers in	–	–	–	–	–	–	172,913	314,000	486,913
Transfers (out)	(150,000)	(210,000)	(60,000)	–	–	–	–	(66,913)	(486,913)
Total other financing sources (uses)	(150,000)	(210,000)	(60,000)	1,480,000	–	–	1,902,913	317,087	3,280,000
Net change in fund balances	91,254	367,277	59,488	1,461,298	145,201	58,786	562,895	(315,363)	2,430,836
Fund balances (deficits)									
Beginning of year	2,473,302	(382,241)	(479,421)	204,018	–	1,701,610	1,894,113	2,008,436	7,419,817
End of year	$ 2,564,556	$ (14,964)	$ (419,933)	$ 1,665,316	$ 145,201	$ 1,760,396	$ 2,457,008	$ 1,693,073	$ 9,850,653

See notes to basic financial statements

CITY OF CIRCLE PINES

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended December 31, 2012

Total net change in fund balances – governmental funds	$ 2,430,836
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds 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	1,758,085
Depreciation expense	(464,564)
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.	(7,135,000)
Repayment of general obligation bonds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	4,305,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	29,043
Compensated absences are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.	(2,397)
Certain revenues (including delinquent taxes and special assessments) are included in the change in net position, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.	290,133
Change in net position – governmental activities	$ 1,211,136

See notes to basic financial statements

CITY OF CIRCLE PINES

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended December 31, 2012

	Original and Final Budget	Actual	Over (Under) Final Budget
Revenue			
Taxes	$ 1,901,190	$ 2,032,618	$ 131,428
Licenses and permits	32,750	58,532	25,782
Intergovernmental revenue	73,786	73,588	(198)
Charges for services	34,900	31,758	(3,142)
Fines and forfeits	25,000	22,609	(2,391)
Other revenue			
Investment earnings	15,000	27,123	12,123
Miscellaneous	24,500	39,472	14,972
Total revenue	2,107,126	2,285,700	178,574
Expenditures			
Current			
General government	417,652	379,642	(38,010)
Public safety	1,080,036	1,087,631	7,595
Public works	191,030	158,542	(32,488)
Parks and recreation	384,590	349,844	(34,746)
Insurance	68,250	68,787	537
Total expenditures	2,141,558	2,044,446	(97,112)
Excess (deficiency) of revenue over expenditures	(34,432)	241,254	275,686
Other financing uses			
Transfers (out)	–	(150,000)	(150,000)
Net change in fund balances	$ (34,432)	91,254	$ 125,686
Fund balances			
Beginning of year		2,473,302	
End of year		$ 2,564,556	

See notes to basic financial statements

CITY OF CIRCLE PINES

Statement of Net Position
Proprietary Funds
as of December 31, 2012

	Business-Type Activities – Enterprise Funds							
	Circle Pines Gas Utility	Lino Lakes Gas Utility	Blaine Gas Utility	Water Utility	Sewer Utility	Storm Water Utility	Solid Waste Utility	Total
Assets								
Current assets								
Cash and temporary investments	$ 479,339	$ –	$ –	$ 2,656,476	$ 1,373,624	$ 103,751	$ 630,820	$ 5,244,010
Receivables								
Accounts								
Utilities – customers	198,662	219,053	7,939	16,661	128,251	27,292	25,677	623,535
Miscellaneous	6,981	–	–	–	–	–	–	6,981
Accrued interest	1,616	–	–	2,538	931	277	624	5,986
Special assessments – delinquent	–	–	–	12,090	–	–	–	12,090
Special assessments – deferred	–	–	–	28,923	–	–	–	28,923
Due from other governmental units	5,461	–	–	149	–	–	922	6,532
Due from other funds	792,474	–	–	10,000	–	281,178	–	1,083,652
Prepaid expenses and supplies	114,730	10,267	–	730	391	–	–	126,118
Total current assets	1,599,263	229,320	7,939	2,727,567	1,503,197	412,498	658,043	7,137,827
Capital assets								
Land	–	–	–	–	4,153	–	–	4,153
Buildings and structures	25,238	1,937	–	931,521	10,498	–	–	969,194
Furniture and equipment	667,387	560,544	30,855	401,791	456,239	–	–	2,116,816
Improvements other than buildings	1,778,036	1,161,001	357,199	4,283,538	3,634,808	3,066,491	–	14,281,073
Utility rights	–	393,682	–	–	–	–	–	393,682
	2,470,661	2,117,164	388,054	5,616,850	4,105,698	3,066,491	–	17,764,918
Accumulated depreciation	1,482,169	1,308,805	80,034	2,455,690	1,797,091	867,392	–	7,991,181
Net capital assets	988,492	808,359	308,020	3,161,160	2,308,607	2,199,099	–	9,773,737
Total assets	$ 2,587,755	$ 1,037,679	$ 315,959	$ 5,888,727	$ 3,811,804	$ 2,611,597	$ 658,043	$ 16,911,564
Liabilities and Net Position								
Current liabilities								
Accounts and contracts payable	$ 133,189	$ 143,686	$ 3,671	$ 11,195	$ 9,808	$ –	$ 25,640	$ 327,189
Salaries payable	4,909	1,998	117	1,307	921	–	–	9,252
Accrued interest payable	4,939	890	2,669	14,912	18,703	8,922	–	51,035
Due to other governmental units	8,389	20,538	283	5,861	–	–	2,257	37,328
Due to other funds	–	422,349	338,067	–	–	–	–	760,416
Compensated absences payable – current	25,465	21,333	853	9,016	6,419	–	–	63,086
Bonds payable – current	49,398	8,901	26,701	40,000	45,000	25,000	–	195,000
Total current liabilities	226,289	619,695	372,361	82,291	80,851	33,922	27,897	1,443,306
Noncurrent liabilities								
Bonds payable, net of current portion	400,995	72,250	216,755	1,220,000	1,550,000	725,000	–	4,185,000
Total liabilities	627,284	691,945	589,116	1,302,291	1,630,851	758,922	27,897	5,628,306
Net position								
Net investment in capital assets	538,099	727,208	326,510	1,901,160	713,607	1,449,099	–	5,655,683
Restricted for								
Debt service	27,750	5,000	15,000	–	–	–	–	47,750
Capital acquisition	–	–	261,946	–	–	–	–	261,946
Unrestricted	1,394,622	(386,474)	(876,613)	2,685,276	1,467,346	403,576	630,146	5,317,879
Total net position	1,960,471	345,734	(273,157)	4,586,436	2,180,953	1,852,675	630,146	11,283,258
Total liabilities and net position	$ 2,587,755	$ 1,037,679	$ 315,959	$ 5,888,727	$ 3,811,804	$ 2,611,597	$ 658,043	$ 16,911,564

See notes to basic financial statements

CITY OF CIRCLE PINES

Statement of Revenue, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended December 31, 2012

	Business-Type Activities – Enterprise Funds							
	Circle Pines Gas Utility	Lino Lakes Gas Utility	Blaine Gas Utility	Water Utility	Sewer Utility	Storm Water Utility	Solid Waste Utility	Total
Operating revenues								
Charges for sales and services								
Gas	$ 1,397,439	$ 1,343,141	$ 27,324	$ –	$ –	$ –	$ –	$ 2,767,904
Water	–	–	–	526,901	–	–	–	526,901
Sewer	–	–	–	–	683,764	–	–	683,764
Storm sewer	–	–	–	–	–	163,321	–	163,321
Solid waste	–	–	–	–	–	–	357,214	357,214
Total operating revenues	1,397,439	1,343,141	27,324	526,901	683,764	163,321	357,214	4,499,104
Operating expenses								
Cost of sales and services	1,042,396	1,016,375	20,566	154,340	375,213	4,657	335,436	2,948,983
Administration	205,364	149,269	9,224	115,924	57,684	–	–	537,465
Depreciation expense	72,547	88,971	11,095	173,422	122,932	75,372	–	544,339
Franchise fee	39,136	45,391	–	–	–	–	–	84,527
Total operating expenses	1,359,443	1,300,006	40,885	443,686	555,829	80,029	335,436	4,115,314
Operating income (loss)	37,996	43,135	(13,561)	83,215	127,935	83,292	21,778	383,790
Nonoperating revenues (expenses)								
Intergovernmental	–	–	–	8,000	–	–	20,030	28,030
Investment earnings	6,837	–	–	10,737	3,938	1,171	2,642	25,325
Other income	–	–	–	57,815	–	–	1,072	58,887
Interest and amortization of discount on bonds	(15,412)	(2,332)	(8,087)	(30,514)	(36,771)	(19,253)	–	(112,369)
Total nonoperating revenues (expenses)	(8,575)	(2,332)	(8,087)	46,038	(32,833)	(18,082)	23,744	(127)
Change in net position	29,421	40,803	(21,648)	129,253	95,102	65,210	45,522	383,663
Net position								
Beginning of year	1,931,050	304,931	(251,509)	4,457,183	2,085,851	1,787,465	584,624	10,899,595
End of year	$ 1,960,471	$ 345,734	$ (273,157)	$ 4,586,436	$ 2,180,953	$ 1,852,675	$ 630,146	$ 11,283,258

See notes to basic financial statements

CITY OF CIRCLE PINES

Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2012

	Business-Type Activities – Enterprise Funds							
	Circle Pines Gas Utility	Lino Lakes Gas Utility	Blaine Gas Utility	Water Utility	Sewer Utility	Storm Water Utility	Sollid Waste Utility	Total
Cash flows from operating activities								
Cash received from customers	$ 1,350,412	$ 1,335,355	$ 28,189	$ 531,580	$ 676,106	$ 155,111	$ 392,332	$ 4,469,085
Cash paid to suppliers	(902,798)	(1,014,616)	(19,936)	(169,505)	(361,883)	(4,619)	(334,990)	(2,808,347)
Cash paid to employees	(329,634)	(265,700)	(9,663)	(109,240)	(76,099)	(38)	(1,509)	(791,883)
Cash received from other sources	–	–	–	57,815	–	–	1,072	58,887
Net cash provided (used) by operating activities	117,980	55,039	(1,410)	310,650	238,124	150,454	56,905	927,742
Cash flows from noncapital financing activities								
Subsidy from state grant	–	–	–	8,000	–	–	20,030	28,030
Cash received (paid) to other funds	(42,400)	(26,176)	36,354	(10,000)	–	(281,178)	–	(323,400)
Net cash provided (used) by noncapital financing activities	(42,400)	(26,176)	36,354	(2,000)	–	(281,178)	20,030	(295,370)
Cash flows from capital and related financing activities								
Proceeds from bond issue	–	–	–	590,000	795,000	310,000	–	1,695,000
Acquisition of capital assets	(361,133)	(17,215)	–	(650,653)	(412,422)	(272,473)	–	(1,713,896)
Principal paid on bonds	(49,398)	(8,901)	(26,701)	(40,000)	(45,000)	(25,000)	–	(195,000)
Interest paid on bonds	(15,700)	(2,747)	(8,243)	(25,203)	(29,534)	(16,519)	–	(97,946)
Net cash provided (used) by capital and related financing activities	(426,231)	(28,863)	(34,944)	(125,856)	308,044	(3,992)	–	(311,842)
Cash flows from investing activities								
Interest received	7,285	–	–	11,015	3,856	1,128	2,621	25,905
Net change in cash and cash equivalents	(343,366)	–	–	193,809	550,024	(133,588)	79,556	346,435
Cash and cash equivalents								
Beginning of year	822,705	–	–	2,462,667	823,600	237,339	551,264	4,897,575
End of year	$ 479,339	$ –	$ –	$ 2,656,476	$ 1,373,624	$ 103,751	$ 630,820	$ 5,244,010
Reconciliation of operating income (loss) to net cash provided (used) by operating activities								
Operating income (loss)	$ 37,996	$ 43,135	$ (13,561)	$ 83,215	$ 127,935	$ 83,292	$ 21,778	$ 383,790
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities								
Depreciation	72,547	88,971	11,095	173,422	122,932	75,372	–	544,339
Other income	–	–	–	57,815	–	–	1,072	58,887
Change in assets and liabilities								
Receivables								
Accounts – utility customers	(44,449)	(7,786)	865	10,020	(7,841)	(8,210)	30,783	(26,618)
Accounts – miscellaneous	2,883	–	–	–	–	–	–	2,883
Special assessments – delinquent	–	–	–	(9,500)	–	–	–	(9,500)
Special assessments – deferred	–	–	–	25,186	–	–	–	25,186
Due from other governments	(5,461)	–	–	183	183	–	4,335	(760)
Prepaid expenses and supplies	39,752	594	–	(116)	97	–	–	40,327
Accounts payable	11,919	5,295	132	(8,542)	(5,543)	–	(1,065)	2,196
Unearned Revenue	–	–	–	(21,210)	–	–	–	(21,210)
Salaries and compensated absences payable	2,494	(79)	51	163	361	–	–	2,990
Due to other governmental units	299	(75,091)	8	14	–	–	2	(74,768)
Net cash provided by operating activities	$ 117,980	$ 55,039	$ (1,410)	$ 310,650	$ 238,124	$ 150,454	$ 56,905	$ 927,742

See notes to basic financial statements

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The City of Circle Pines, Minnesota (the City) operates under the "Optional Plan A" form of government as defined in Minnesota Statutes, Chapter 412. Under this plan, the government of the City is run by a council composed of an elected mayor and four councilmembers. The City Council exercises legislative authority and determines all matters of policy.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

B. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include the City (the primary government) and its component units. Component units are legally separate entities for which the 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 includes whether or not the primary government appoints the voting majority of the potential component unit's board, 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 depended upon by the potential component unit.

The City Council appoints the voting majority of the Centennial Utilities Commission's Board. The Circle Pines Housing and Redevelopment Authority (HRA) Board is comprised of the same members as the City Council. Based on the general level of control by the City over these entities, the Centennial Utilities Commission and the HRA are included as component units of the City. The financial data of these component units are blended with that of the City (reported as though their funds were funds of the City).

The City also participates in two joint ventures which are not included in the City's financial statements. Descriptions and condensed financial information for these joint ventures are included later in these notes.

C. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, charges between the City's enterprise funds and other functions are not eliminated, as that would distort the direct costs and program revenues reported in those functions. Depreciation expense is included in the direct expenses of each function. Interest on long-term debt of governmental activities is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if collected within 60 days after year-end. Uncollected revenue which is measurable at year-end, but not available, is recorded as a receivable with an offsetting amount recorded to a deferred revenue liability.

Major revenue that is susceptible to accrual includes intergovernmental revenue, charges for services, and interest earned on investments. Only the portion of taxes and special assessments meeting the availability criteria is considered to be susceptible to accrual as revenue of the current period. Revenue that is not susceptible to accrual includes licenses and permits, fees, and miscellaneous revenue. Such revenue is recorded only when received because it is not measurable until collected. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements. 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. The operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Funds

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Tax Increment District No. 1-1 South Special Revenue Fund – This fund accounts for the collection of tax increments from District No. 1-1, redistributes those resources to funds responsible for related debt requirements, and accounts for the allowable capital costs to develop the District.

Tax Increment District No. 1-4 North Special Revenue Fund – This fund accounts for the collection of tax increments from District No. 1-4, redistributes those resources to funds responsible for related debt requirements, and accounts for the allowable capital costs to develop the District.

Capital Improvement Plan Bonds of 2005 Debt Service Fund – This fund accounts for the collection of resources for, and the repayment of, debt issued to finance the Centennial Lakes Police Department facilities.

General Obligation Street Bonds of 2012 Debt Service Fund – This fund accounts for the collection of resources for, and the repayment of, debt issued to finance the 2012 Street Improvement Project.

Permanent Improvement Revolving Capital Project Fund – This fund is used to account for the financial resources to be used for capital improvements of the City's governmental activities.

Street Project Capital Project Fund – This fund is used to account for the financial resources to be used for capital improvements of city streets and surrounding areas.

The City reports the following major proprietary funds:

Circle Pines, Lino Lakes, and Blaine Gas Utility Enterprise Funds – These funds are used to account for the operation, maintenance, and improvement of the City's gas utility systems within the cities of Circle Pines, Lino Lakes, and Blaine.

Water Utility Enterprise Fund – The Water Utility Enterprise Fund is used to account for the operation, maintenance, and improvement of the City's water utility system.

Sewer Utility Enterprise Fund – The Sewer Utility Enterprise Fund is used to account for the operation, maintenance, and improvement of the City's sewer utility system.

Storm Water Utility Enterprise Fund – The Storm Water Utility Enterprise Fund is used to account for the operation, maintenance, and improvement of the City's storm water utility system.

Solid Waste Utility Enterprise Fund – The Solid Waste Utility Enterprise Fund is used to account for the operation, maintenance, and improvement of the City's solid waste utility system, including recycling services.

E. Cash and Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. The City currently has a refunding bond escrow account held by trustee, used to retire refunded bond issues and to pay interest on refunding bond issues until the crossover refunding dates. Interest earned on these investments is allocated directly to those accounts.

The City generally reports investments at fair value, except for investments in 2a7-like external investment pools, which are stated at amortized cost. The Minnesota Municipal Money Market (4M) Fund is an external investment pool regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities that is not registered with the Securities and Exchange Commission (SEC), but follows the same regulatory rules of the SEC under rule 2a7. The City's investment in this fund is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. The fund is not rated by a nationally recognized rating agency.

F. Receivables

Utility and miscellaneous accounts receivable are reported at gross. Since the City is generally able to certify delinquent amounts to the county for collection as special assessments, no allowance for uncollectible accounts has been provided on current receivables. The only receivables not expected to be fully collected within one year are property taxes receivable and special assessments receivable.

G. Property Taxes

Property tax levies are set by the City Council in December of each year, and are certified to Anoka County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads the levies over all taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City on that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes are due in full on May 15. The county provides tax settlements to cities and other taxing districts three times a year; in July, December, and January.

Property taxes are recognized as revenue in the year levied in the government-wide financial statements and proprietary fund financial statements. In the governmental fund financial statements, taxes are recognized as revenue when received in cash or within 60 days after year-end. Taxes which remain unpaid on December 31 are classified as delinquent taxes receivable, and are offset by deferred revenue in the governmental fund financial statements.

H. Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. Special assessments are recorded as receivables upon certification to the county. Special assessments are recognized as revenue in the year levied in the government-wide financial statements and proprietary fund financial statements. In the governmental fund financial statements, special assessments are recognized as revenue when received in cash or within 60 days after year-end. Governmental fund special assessments receivable which remain unpaid on December 31 are offset by deferred revenue in the governmental fund financial statements.

I. Interfund Receivables and Payables

Activity between funds that is representative of lending or borrowing arrangements is reported as either "due to/from other funds" (current portion) or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Prepaid Expenses and Supplies

The inventories of the City's proprietary funds are recorded as prepaid expenses and supplies at the lower of cost or market on the first-in, first-out basis. Prepaid items are reported using the consumption method and recorded as an expenditure/expense at the time of consumption.

K. Land Held for Resale

The land is stated at the lower of cost or net realizable value.

L. Capital Assets

Capital assets, which include land, buildings and structures, furniture and equipment, improvements other than buildings (infrastructure assets), utility rights, and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City defines capital assets as those with an initial, individual cost of $500 or more with an estimated useful life in excess of one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide and proprietary fund financial statements, but are not reported in the governmental fund financial statements. Interest incurred during the construction phase of capital assets for business-type activities is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over their estimated useful lives. Land and construction in progress are not depreciated. Useful lives vary from 10 to 50 years for buildings and structures, 3 to 20 years for furniture and equipment, 5 to 50 years for improvements other than buildings, and 10 years for utility rights.

M. Compensated Absences Payable

Substantially all regular full-time and permanent part-time city employees earn annual leave at various rates based on longevity. Unused annual leave may be accumulated up to a maximum of 240 hours for employees with less than 15 years of employment with the City and 280 hours with over 15 years of employment. These compensated absences are paid to an employee leaving in good standing, at their current rate of pay. Compensated absences payable are accounted for as long-term liabilities as described in the following section. The General Fund and enterprise funds are used to liquidate this liability.

N. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. If they are material, bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

In the governmental fund financial statements, long-term debt and other long-term obligations are not reported as liabilities. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Principal and interest on long-term debt and compensated absences are recorded as expenditures in the governmental fund financial statements to the extent they have matured.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Budgets and Budgetary Accounting

Each fall the City Council adopts a General Fund budget for the following fiscal year beginning January 1. The City has established budgetary control at the fund level. Budget appropriations lapse at year-end. Budget amounts are presented on a modified accrual basis of accounting and include amendments adopted by the City Council during the year.

P. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid debt instruments with an original maturity from the time of purchase by the City of three months or less to be cash equivalents. The proprietary funds' portion in the government-wide cash and investment management pool is considered to be cash equivalent.

Q. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for its general property and casualty, workers' compensation, and other miscellaneous insurance coverages. LMCIT operates as a common risk management and insurance program for a large number of cities in Minnesota. The City pays an annual premium to LMCIT for insurance coverage. The LMCIT agreement provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. The City also carries commercial insurance for certain other risks of loss. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in 2012.

R. Use of Estimates

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

S. Fund Balance Classifications and Flow Assumptions

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

- **Restricted** – Consists of amounts where there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments, or enabling legislation.

- **Committed** – Consists of amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Assigned** – Consists of internally imposed constraints for amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. Assigned amounts represent intended uses established by the City Council itself or by an official to which the City Council delegates the authority. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, the City first uses restricted resources, then use unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, the City uses resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

T. Net Position Classifications and Flow Assumptions

In the government-wide and proprietary fund financial statements, net position represents the difference between assets, liabilities, deferred inflows/outflows as applicable. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments, or enabling legislation.

- **Unrestricted Net Position** – All remaining net position that do not meet the definition of "restricted" or "net investment in capital assets."

The City applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

U. Restricted Assets

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements. In the fund financial statements these assets have been reported as "cash and investments held by trustee."

V. Change in Accounting Principle

For the fiscal year ended December 31, 2012, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This statement changed how governmental entities present a statement of net position, adding two new basic financial statement elements, and replacing "net assets" with "net position" as the terminology used to describe the difference between the other four elements. The two basic financial statement elements added are "deferred inflows of resources" and "deferred outflows of resources". These new elements are differentiated from assets (deferred outflows of resources) and liabilities (deferred inflows of resources), but have similar effects on net position.

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	$ 107,365
Investments	15,341,075
Cash on hand	150
Total	$ 15,448,590

Cash and investments are presented in the financial statements as follows:

Statement of Net Position	
Cash and temporary investments	$ 13,993,622
Restricted assets – temporarily restricted	
Cash and investments for bond refunding	1,454,968
Total	$ 15,448,590

B. Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council, including checking accounts and certificates of deposit. Negotiable certificates of deposit are included with investments for the purpose of this disclosure.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City has no additional deposit policies addressing custodial credit risk.

At year-end, the carrying amount and the balance on the bank records was $107,365. At December 31, 2012, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the City's agent in the City's name.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

C. Investments

The City has the following investments at year-end:

	Credit Risk		Interest Risk – Maturity Duration in Years			
Investment Type	Rating	Agency	Less Than 1	1 to 5	5 to 10	Total
U.S. treasuries	N/A	N/A	$ 1,454,968	$ 193,060	$ –	$ 1,648,028
U.S. agencies	AA+	S&P	101,719	146,324	1,541,175	1,789,218
Negotiable certificates of deposit	N/R	N/A	4,015,914	3,892,750	–	7,908,664
Investment pools/mutual funds						
Minnesota Municipal Money Market Fund	N/R	N/A	3,995,165	–	–	3,995,165
Total investments			$ 9,567,766	$ 4,232,134	$ 1,541,175	$ 15,341,075

N/A – Not Applicable
N/R – Not Rated

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the City would 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 investment policy addresses this risk by requiring that securities be held by an independent third-party custodian with identification of the City's ownership.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the City's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The City's investment policies further limit investments to direct United States government obligations, state and local municipal securities rated in the top rating tiers issued by nationally recognized statistical rating organizations, federal agency issues, shares in mutual funds investing exclusively in United States government and agency issues, obligations of the state of Minnesota or Minnesota municipalities, banker's acceptances, commercial paper, repurchase agreements, reverse purchase agreements, securities lending agreements, guaranteed investment contracts, and interest bearing deposits, all with the same state restrictions.

Concentration Risk – This is the risk associated with investing a significant portion of the City's investment (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City's investment policies allow an unlimited amount of United States treasury securities and authorized treasury pools, and certificates of deposit. Any remaining types of investments cannot exceed more than 50 percent of the City's total investment portfolio. Investments with a single financial institution cannot exceed more than 50 percent of the City's total investment portfolio. As of December 31, 2012, the City's investment portfolio includes the following percentages of specific issuers: Federal Home Loan Bank at 5.8 percent.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City's investment policies do not allow investing more than 15 percent of the total cash and investment balance available at any point for more than 10 years.

NOTE 3 – CAPITAL ASSETS

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

A. Changes in Capital Assets Used in Governmental Activities

	Balance – Beginning of Year	Additions	Deletions	Completed Construction	Balance – End of Year
Capital assets, not depreciated					
Land	$ 529,453	$ –	$ –	$ –	$ 529,453
Capital assets, depreciated					
Buildings and structures	4,432,466	68,591	(5,236)	–	4,495,821
Furniture and equipment	914,600	183,673	(89,195)	–	1,009,078
Improvements other than buildings	10,179,972	1,505,821	(2,345)	–	11,683,448
Total capital assets, depreciated	15,527,038	1,758,085	(96,776)	–	17,188,347
Less accumulated depreciation on					
Buildings and structures	(1,808,188)	(128,990)	5,236	–	(1,931,942)
Furniture and equipment	(690,251)	(53,681)	89,195	–	(654,737)
Improvements other than buildings	(3,829,070)	(281,893)	2,345	–	(4,108,618)
Total accumulated depreciation	(6,327,509)	(464,564)	96,776	–	(6,695,297)
Net capital assets, depreciated	9,199,529	1,293,521	–	–	10,493,050
Net capital assets	$ 9,728,982	$ 1,293,521	$ –	$ –	$ 11,022,503

NOTE 3 – CAPITAL ASSETS (CONTINUED)

B. Changes in Capital Assets Used in Business-Type Activities

	Balance – Beginning of Year	Additions	Deletions	Completed Construction	Balance – End of Year
Capital assets, not depreciated					
Land	$ 4,153	$ –	$ –	$ –	$ 4,153
Construction in progress	46,336	174,491	–	(220,827)	–
Total capital assets, not depreciated	50,489	174,491	–	(220,827)	4,153
Capital assets, depreciated					
Buildings and structures	969,194	–	–	–	969,194
Furniture and equipment	2,025,192	91,624	–	–	2,116,816
Improvements other than buildings	12,612,465	1,447,781	–	220,827	14,281,073
Utility rights	393,682	–	–	–	393,682
Total capital assets, depreciated	16,000,533	1,539,405	–	220,827	17,760,765
Less accumulated depreciation on					
Buildings and structures	(573,047)	(21,898)	–	–	(594,945)
Furniture and equipment	(1,373,394)	(146,467)	–	–	(1,519,861)
Improvements other than buildings	(5,187,359)	(348,460)	–	–	(5,535,819)
Utility rights	(313,042)	(27,514)	–	–	(340,556)
Total accumulated depreciation	(7,446,842)	(544,339)	–	–	(7,991,181)
Net capital assets, depreciated	8,553,691	995,066	–	220,827	9,769,584
Net capital assets	$ 8,604,180	$ 1,169,557	$ –	$ –	$ 9,773,737

C. Depreciation Expense by Function

Governmental activities	
General government	$ 27,739
Public safety	25,184
Public works	314,036
Parks and recreation	97,605
Total depreciation expense – governmental activities	$ 464,564
Business-type activities	
Gas	$ 172,613
Water	173,422
Sewer	122,932
Storm water	75,372
Total depreciation expense – business-type activities	$ 544,339

NOTE 4 – LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Additions	Retirements	Balance – End of Year	Due Within One Year
Governmental activities					
General obligation bonds payable	$ 7,990,000	$ 7,135,000	$ (4,305,000)	$10,820,000	$ 2,405,000
Compensated absences payable	39,022	51,624	(49,227)	41,419	41,419
Total governmental activities	8,029,022	7,186,624	(4,354,227)	10,861,419	2,446,419
Business-type activities					
General obligation bonds payable	2,020,000	1,695,000	(110,000)	3,605,000	110,000
Revenue bonds payable	860,000	–	(85,000)	775,000	85,000
Compensated absences payable	63,440	75,257	(75,611)	63,086	63,086
Total business-type activities	2,943,440	1,770,257	(270,611)	4,443,086	258,086
Total long-term liabilities	$10,972,462	$ 8,956,881	$ (4,624,838)	$15,304,505	$ 2,704,505

B. Bonds Payable

	Original Issue	Interest Rate	Issue Date	Final Maturity Date	Balance – End of Year
Governmental activities					
General obligation bonds					
Capital Improvement Plan Bonds of 2005	$ 2,365,000	3.50–4.30%	04/27/2005	02/01/2021	$ 1,590,000
Street Project Bonds of 2008	$ 1,430,000	3.50–4.50%	07/17/2008	03/01/2024	1,115,000
Street Project Bonds of 2010	$ 1,045,000	2.00–4.00%	07/15/2010	02/01/2026	980,000
Street Project and Refunding Bonds of 2012	$ 7,135,000	1.00–3.00%	06/14/2012	02/01/2029	7,135,000
Total governmental activity bonds payable					$ 10,820,000
Business-type activities					
General obligation bonds					
Street Project Bonds of 2008	$ 990,000	3.50–4.50%	07/17/2008	03/01/2024	$ 840,000
Street Project Bonds of 2010	$ 1,130,000	2.00–4.00%	07/15/2010	02/01/2026	1,070,000
Street Project Bonds of 2012	$ 1,695,000	1.00–3.00%	06/14/2012	02/01/2029	1,695,000
Revenue bonds					
Refunding Gas Revenue Bonds of 2010	$ 955,000	1.00–3.90%	06/30/2010	03/01/2020	775,000
Total business-type activity bonds payable					$ 4,380,000

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire bonds payable are as follows:

Year Ending	Governmental Activities		Business-Type Activities			
	General Obligation Bonds		General Obligation Bonds		Revenue Bonds	
December 31,	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 2,405,000	$ 225,891	$ 110,000	$ 103,444	$ 85,000	$ 26,239
2014	1,085,000	166,043	225,000	95,408	90,000	24,539
2015	1,110,000	151,268	225,000	90,545	95,000	22,413
2016	610,000	138,393	240,000	85,158	95,000	19,818
2017	615,000	127,693	240,000	79,408	95,000	16,849
2018–2022	2,910,000	453,316	1,290,000	297,794	315,000	32,203
2023–2027	1,660,000	169,428	1,140,000	96,948	–	–
2028–2029	425,000	11,325	135,000	2,023	–	–
	$ 10,820,000	$ 1,443,357	$ 3,605,000	$ 850,728	$ 775,000	$ 142,061

D. Descriptions and Restrictions of Debt Issues

General Obligation Bonds – These bonds were issued to make acquisitions, improvements, or to refund prior bond issues. The Street Project Bonds of 2008, 2010 and 2012 (General Obligation Bonds) were split between governmental activities and business-type activities. Principal and interest on the governmental activities bonds are paid by the debt service funds primarily through the collection of taxes and special assessments. The general obligation bonds of the business-type activities will be repaid from the revenues of the enterprise funds.

Revenue Bonds – These bonds were issued to finance improvements made to the capital assets of the enterprise funds. Repayment of principal and interest will be made from the revenue collection of those funds. Net position of certain enterprise funds is restricted as required by applicable bond covenants.

On June 14, 2012, the City issued $8,830,000 of General Obligation Improvement and Refunding Bonds (Series 2012A). The bonds were issued to finance new project costs, provide current refunding for the Refunding Tax Increment Bonds (Series 2002), and an advanced refunding of the Capital Improvement Plan Bonds (Series 2005A).

With respect to the current refunding, the proceeds of the new bonds were used to refund the Refunding Tax Increment Bonds (Series 2002) on the call date of August 01, 2012. This current refunding will reduce the City's total future debt service payments by $1,130,139, with a present value savings of $804,966.

With respect to the crossover refunding, the proceeds of the new bonds to be used to refund the Capital Improvement Plan Bonds (Series 2005) were deposited in an escrow account pending the call date of February 1, 2013. This crossover refunding will reduce the City's total future debt service payments by $160,215, with a present value savings of $146,793.

E. Ultimate Responsibility of Debt

All long-term debt is backed by the full faith and credit of the City, except for the Gas Utility Revenue Bonds, which are payable solely from the net revenues of the gas utilities.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

F. Arbitrage Rebate

The Tax Reform Act of 1986 requires governmental entities to pay to the federal government income earned on the proceeds from the issuance of debt in excess of interest costs, pending the expenditure of the borrowed funds. This rebate of interest income (known as arbitrage) applies to governmental debt issued after August 31, 1986. In the opinion of management, any obligation would be immaterial.

G. Revenue Pledged

Future revenue pledged for the payment of long-term debt is as follows:

		Revenue Pledged				Current Year	
Bond Issue	Use of Proceeds	Type	Percent of Total Debt Service	Term of Pledge	Remaining Principal and Interest	Principal and Interest Paid	Pledged Revenue Received
Street Project and Refunding Bonds of 2012 Tax Increment Refunding Bond Portion	Site improvements	Tax increment financing	100%	2012–2029	$ 4,442,119	$ 343,039	$ 693,997
Street Project Bonds of 2008	Site improvements	Utility charges	100%	2008–2024	$ 1,074,809	$ 85,551	$ 1,373,986
Street Project Bonds of 2010	Site improvements	Utility charges	100%	2010–2026	$ 1,353,776	$ 94,538	$ 1,373,986
Street Project Bonds of 2012	Site improvements	Utility charges	100%	2012–2029	$ 2,027,143	$ 17,271	$ 1,373,986
Refunding Gas Revenue Bonds of 2010	Site improvements	Utility charges	100%	2010–2020	$ 917,061	$ 110,831	$ 2,767,904

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivables and payables balances at year-end were as follows:

Fund	Interfund Receivables	Interfund Payables
Due to/from other funds		
General Fund	$ –	$ 174
Tax Increment District No. 1-1 South Special Revenue Fund	–	676,636
Tax Increment District No. 1-4 North Special Revenue Fund	–	80,365
Permanent Improvement Revolving Capital Project Fund	757,001	–
Street Project Capital Project Fund	–	323,062
Total governmental funds	757,001	1,080,237
Circle Pines Gas Utility Enterprise Fund	792,474	–
Lino Lakes Gas Utility Enterprise Fund	–	422,349
Blaine Gas Utility Enterprise Fund	–	338,067
Water Utility Enterprise Fund	10,000	–
Storm Water Utility Enterprise Fund	281,178	–
Total proprietary funds	1,083,652	760,416
	$ 1,840,653	$ 1,840,653
Advances to/from other funds		
Permanent Improvement Revolving Capital Project Fund	$ 400,000	$ –
Tax Increment District No. 1-4 North Special Revenue Fund	–	400,000
	$ 400,000	$ 400,000

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

The interfund balances were to assist in the development of the tax increment districts, to eliminate negative cash balances, and as needed to reimburse construction activity costs between funds. The advances from other funds are charged with interest at a rate of 6 percent per year.

NOTE 6 – INTERFUND TRANSFERS

Interfund transfers for the 2012 fiscal year were as follows:

	Transfers In		
Transfers Out	Street Project Capital Project Fund	Nonmajor Governmental Funds	Total
General Fund	$ 150,000	$ –	$ 150,000
Major Special Revenue Fund			
Tax Increment District No. 1-1 South	–	210,000	210,000
Tax Increment District No. 1-4 North	–	60,000	60,000
Nonmajor governmental funds	22,913	44,000	66,913
	$ 172,913	$ 314,000	$ 486,913

Transfers are made in accordance with budget appropriations or as approved by the City Council for special funding of city activities.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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 (PERA) of Minnesota. PERA administers the General Employees' Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

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 statutes, 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in 2012. In 2012, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERF members and 7.25 percent for Coordinated Plan GERF members. The City's contributions for the past three years ending December 31, which were equal to the contractually required contributions for each year as set by state statutes, were as follows:

	GERF
2010	$ 68,721
2011	$ 71,338
2012	$ 71,934

NOTE 8 – JOINT POWERS AGREEMENTS

A. Southeast Anoka County Fire Protection District (Centennial Fire District)

The City is a member of a joint powers agreement, together with the cities of Lino Lakes and Centerville, which established the authority for the Centennial Fire District (the District). The District was created to provide fire protection services to the residents of the member cities. Each member city is entitled to appoint two members to the District's Steering Committee. Each member city contributes funds to cover the budgeted costs of operations as determined by the Steering Committee. The amount of contributions required by each member is based on each city's population, number of fire calls, and assessed valuations. Contributions made by member cities for 2012 were as follows:

City of Centerville	$ 122,611	13.5 %
City of Circle Pines	156,216	17.2
City of Lino Lakes	629,403	69.3
	$ 908,230	100.0 %

B. Centennial Lakes Police Department

The City is a member of the Centennial Lakes Police Department (the Department), an entity created by a joint powers agreement, which provides police protection services to its member cities. The Department is managed through a three-tier system consisting of a Governing Board, an Operations Committee, and a Chief of Police. The Governing Board consists of six members—two elected officials appointed by each member city. The Operations Committee is made up of the city administrators from each member city and the Chief of Police. The Chief of Police is appointed by mutual agreement of the City Councils of all member cities. Annual contributions required by each member city are calculated based on complaint history, population, and staffing formulas. Contributions by the municipalities for 2012 were as follows:

City of Centerville	$ 661,008	31.5 %
City of Circle Pines	842,644	40.2
City of Lexington	594,438	28.3
	$ 2,098,090	100.0 %

C. Summary Financial Information of the Joint Powers Agreements Entities

The contribution to the joint fire district and the joint police department are reflected as expenditures in the City's General Fund. The fire district and police department's assets, liabilities, equity, and operations are excluded from the City's financial statements as further explained in Note 1B, Reporting Entity.

The following information is from the government-wide financial statements of the District and the Department as of December 31, 2012, the most recent audited information available at the time of this report. These financial statements are available for viewing at the Circle Pines City Hall.

	Centennial Fire District	Centennial Lakes Police Department
Total assets	$ 1,704,824	$ 632,201
Total liabilities	$ 116,628	$ 294,796
Total net position	$ 1,588,196	$ 337,405
Total revenue	$ 1,069,635	$ 2,194,530
Total expenses	$ 896,930	$ 2,219,211

NOTE 9 – FUND BALANCES

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

		Special Revenue Funds		Debt Service Funds		Capital Project Funds			
	General Fund	Tax Increment District No. 1-1 South	Tax Increment District No. 1-4 North	Capital Improvement Plan Bonds of 2005	G.O. Street Bonds of 2012	Permanent Improvement Revolving	Street Project	Nonmajor	Totals
Restricted									
Debt service	$ –	$ –	$ –	$ 1,665,316	$ 145,201	$ –	$ –	$ 98,166	$ 1,908,683
Street improvements	–	–	–	–	–	–	452,274	–	452,274
Park dedicated improvements	–	–	–	–	–	–	–	284,658	284,658
Tax increment	–	–	–	–	–	–	–	15,846	15,846
Total restricted	–	–	–	1,665,316	145,201	–	452,274	398,670	2,661,461
Assigned									
Cash flows	1,202,639	–	–	–	–	–	–	–	1,202,639
Employee benefits	38,476	–	–	–	–	–	–	–	38,476
Contingency	230,043	–	–	–	–	–	–	–	230,043
City signs	6,000	–	–	–	–	–	–	–	6,000
City celebration	5,968	–	–	–	–	–	–	–	5,968
City history books	4,400	–	–	–	–	–	–	–	4,400
Equipment acquisitions	551,505	–	–	–	–	–	–	236,932	788,437
Improvements	–	–	–	–	–	1,760,396	–	–	1,760,396
Park improvements	–	–	–	–	–	–	–	221,401	221,401
Street improvements	–	–	–	–	–	–	2,004,734	–	2,004,734
Capital improvements	–	–	–	–	–	–	–	836,070	836,070
Total assigned	2,039,031	–	–	–	–	1,760,396	2,004,734	1,294,403	7,098,564
Unassigned	525,525	(14,964)	(419,933)	–	–	–	–	–	90,628
Total	$ 2,564,556	$ (14,964)	$ (419,933)	$ 1,665,316	$ 145,201	$ 1,760,396	$ 2,457,008	$ 1,693,073	$ 9,850,653

NOTE 10 – INDIVIDUAL FUND DISCLOSURES

Deficit Fund Balances/Net Position

The following table summarizes the deficit fund balances/net position as of December 31, 2012:

Fund	Amount
Major funds	
Governmental funds	
Special revenue funds	
Tax Increment District No. 1-1 South	$ (14,964)
Tax Increment District No. 1-4 North	$ (419,933)
Proprietary funds	
Enterprise fund	
Blaine Gas Utility	$ (273,157)

The City intends to fund these deficits through future tax increments, utility charges, transfers from other funds, and various other sources.

NOTE 11 – FLEXIBLE BENEFITS PLAN

The City maintains a flexible benefits plan (the Plan). The Plan is a "cafeteria plan" under § 125 of the Internal Revenue Code. All employee groups of the City are eligible to participate in the Plan. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant.

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. At December 31, the City is contingently liable for claims against the total amount of participants' annual contributions to the healthcare part of the Plan, whether or not such contributions have been made.

An independent contractor serves as trustee and handles all plan record keeping. Employee contributions are included as personal services expenditures in the funds normally covering their payroll costs.

All property and income of the Plan attributable to that property is solely the property of the City, subject to the claims of the City's general creditors. Participants' rights under the Plan are equal to those of general creditors of the City in an amount equal to the eligible healthcare and dependent care expenses incurred by the participants. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 12 – TAX INCREMENT FINANCING REVENUE NOTES

The City has entered into private development agreements regarding certain tax increment properties. The notes are cancelled at the end of the agreement term, whether or not they have been repaid. Any additional tax increments received in years following the term are retained by the City.

The City made its final payment on outstanding private development agreements during the year ended December 31, 2012. These amounts were not reported as a city liability because of the nature of these notes in that repayment is required only if sufficient tax increments are received. The City's position is that these are obligations to assign future and uncertain revenue sources and, as such, is not actual debt in substance.

NOTE 13 – JOINT CONSTRUCTION OF POLICE DEPARTMENT FACILITIES

The cities of Circle Pines, Lexington, and Centerville have jointly financed the acquisition of land and the construction of a building to be used by the Department. The cities retain ownership of the facilities and, therefore, the City's share of the cost of the project is included in its governmental activities capital assets, and the bonds issued for financing the project are included in long-term liabilities. The City acted as the host of the project, issuing $2,365,000 of debt, representing the entire projected financing requirements. The cities of Lexington and Centerville issued $709,500 and $827,750 of bonds, respectively, to the City, representing their share of the project costs. The bonds from the cities of Lexington and Centerville represent a commitment of the cities to pay their portions of the debt and, therefore, are recorded as due from other governmental units in the City's Capital Improvement Plan Bonds of 2005 Debt Service Fund, rather than as investments. In the City's governmental funds financial statements, the revenue from these receivables are deferred until collected.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Receivables

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

B. Legal Claims

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount. Management is not aware of any legal action pending and does not anticipate any significant losses that would not be covered by insurance.

SUPPLEMENTAL INFORMATION

CITY OF CIRCLE PINES

Combining Balance Sheet
Nonmajor Governmental Funds
as of December 31, 2012

	Debt Service Funds			Capital Project Funds					
	Tax Increment Bonds	G.O. Street Bonds of 2008	G.O. Street Bonds of 2010	Equipment Acquisition	Capital Improvements	Parks Improvements	Park Dedicated Improvements	Tax Increment District No. 3	Total
Assets									
Cash and temporary investments	$ 3,345	$ 67,905	$ 26,916	$ 230,651	$ 836,070	$ 221,401	$ 284,658	$ 515	$ 1,671,461
Receivables									
Accounts	–	–	–	4,642	–	–	–	–	4,642
Taxes – delinquent	–	–	–	–	–	–	–	110	110
Special assessments – delinquent	–	940	764	–	–	–	–	–	1,704
Special assessments – deferred	–	144,441	159,762	–	–	–	–	–	304,203
Due from other governmental units	–	–	–	1,639	–	–	–	13	1,652
Land held for resale	–	–	–	–	–	–	–	15,318	15,318
Total assets	$ 3,345	$ 213,286	$ 187,442	$ 236,932	$ 836,070	$ 221,401	$ 284,658	$ 15,956	$ 1,999,090
Liabilities and Fund Balances									
Liabilities									
Deferred revenue	$ –	$ 145,381	$ 160,526	$ –	$ –	$ –	$ –	$ 110	$ 306,017
Fund balances									
Restricted for debt service	3,345	67,905	26,916	–	–	–	–	–	98,166
Restricted for park dedicated improvements	–	–	–	–	–	–	284,658	–	284,658
Restricted for tax increment	–	–	–	–	–	–	–	15,846	15,846
Assigned for equipment acquisitions	–	–	–	236,932	–	–	–	–	236,932
Assigned for park improvements	–	–	–	–	–	221,401	–	–	221,401
Assigned for capital improvements	–	–	–	–	836,070	–	–	–	836,070
Total fund balances	3,345	67,905	26,916	236,932	836,070	221,401	284,658	15,846	1,693,073
Total liabilities and fund balances	$ 3,345	$ 213,286	$ 187,442	$ 236,932	$ 836,070	$ 221,401	$ 284,658	$ 15,956	$ 1,999,090

CITY OF CIRCLE PINES

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2012

	Debt Service Funds			Capital Project Funds					
	Tax Increment Bonds	G.O. Street Bonds of 2008	G.O. Street Bonds of 2010	Equipment Acquisition	Capital Improvements	Parks Improvements	Park Dedicated Improvements	Tax Increment District No. 3	Total
Revenue									
Taxes	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 40,889	$ 40,889
Special assessments	–	34,287	32,363	–	–	–	–	–	66,650
Intergovernmental revenue	–	55,000	–	–	–	–	–	–	55,000
Other revenue									
Investment earnings	–	540	159	3,546	10,429	2,614	3,853	158	21,299
Lease and rental	–	–	–	50,844	7,960	21,374	–	–	80,178
Total revenue	–	89,827	32,522	54,390	18,389	23,988	3,853	41,047	264,016
Expenditures									
Current									
General government	150	1,100	100	–	50	50	50	1,738	3,238
Capital outlay	–	–	–	174,800	–	69,040	1,146	–	244,986
Debt service									
Principal retirement	155,000	90,000	65,000	–	–	–	–	–	310,000
Interest and other	258,039	48,535	31,668	–	–	–	–	–	338,242
Total expenditures	413,189	139,635	96,768	174,800	50	69,090	1,196	1,738	896,466
Excess (deficiency) of revenue over expenditures	(413,189)	(49,808)	(64,246)	(120,410)	18,339	(45,102)	2,657	39,309	(632,450)
Other financing sources (uses)									
Debt issued	3,925,000	–	–	–	–	–	–	–	3,925,000
Payment on refunded debt	(3,855,000)	–	–	–	–	–	–	–	(3,855,000)
Transfers in	314,000	–	–	–	–	–	–	–	314,000
Transfers (out)	–	–	–	–	–	–	(22,913)	(44,000)	(66,913)
Total other financing sources (uses)	384,000	–	–	–	–	–	(22,913)	(44,000)	317,087
Net change in fund balances	(29,189)	(49,808)	(64,246)	(120,410)	18,339	(45,102)	(20,256)	(4,691)	(315,363)
Fund balances									
Beginning of year	32,534	117,713	91,162	357,342	817,731	266,503	304,914	20,537	2,008,436
End of year	$ 3,345	$ 67,905	$ 26,916	$ 236,932	$ 836,070	$ 221,401	$ 284,658	$ 15,846	$ 1,693,073

OTHER REQUIRED REPORTS

MMKR
[redacted]
CERTIFIED PUBLIC
ACCOUNTANTS

PRINCIPALS
[redacted]

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER

FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN

ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council and Management
City of Circle Pines, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Circle Pines, Minnesota (the City) as of and for the year ended December 31, 2012, and the related notes to basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 26, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2012-1 to be a material weakness.

(continued)

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.
5353 Wayzata Boulevard • Suite 410 • Minneapolis, MN 55416 • Telephone: 952-545-0424 • Telefax: 952-545-0369 • www.mmkr.com

COMPLIANCE AND OTHER MATTERS

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

In addition, we noted certain other matters that we have reported to management of the City in a separate letter dated April 26, 2013.

CITY'S RESPONSE TO FINDING

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.

Minneapolis, Minnesota

April 26, 2013

MMKR

CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS

INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the City Council and Management
City of Circle Pines, Minnesota

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Circle Pines, Minnesota (the City) as of and for the year ended December 31, 2012, and the related notes to basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 26, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

The purpose of this report on Minnesota legal compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.

Minneapolis, Minnesota

April 26, 2013

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.
3550 Wayzata Boulevard • Suite 310 • Minneapolis, MN 55416 • Telephone: 952-545-0745 • Telefax: 952-545-0769 • www.mmkr.com

FINDINGS – MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

2012-1 SEGREGATION OF DUTIES

Criteria – Internal control over financial reporting.

Condition – The City of Circle Pines, Minnesota (the City) has limited segregation of duties in a number of areas.

Context – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the City's finance office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

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

Management Response – There is no disagreement with the audit finding. The City reviews and makes improvements to its internal control structure on an ongoing basis and attempts to maximize the segregation of duties in all areas within the limits of the staff available. However, the City does not consider it cost beneficial at this time to increase the size of its staff in order to further segregate accounting functions.