

CITY OF LUVERNE  
LUVERNE, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2012

BARBARA J. BERGHORST  
FINANCE DIRECTOR



CITY OF LUVERNE, MINNESOTA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 TABLE OF CONTENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Page No.
<b>INTRODUCTORY SECTION</b>	
Letter of Transmittal	3
GFOA Certificate of Achievement	7
Organizational Chart	8
List of Elected and Appointed Officials	9
 <b>FINANCIAL SECTION</b>	
Independent Auditor's Report	11
Management Discussion and Analysis	13
 <b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Position	25
Statement of Activities	26
Fund Financial Statements	
Governmental Funds	
Balance Sheet	28
Reconciliation of the Balance Sheet to the Statement of Net Position	31
Statement of Revenues, Expenditures and Changes in Fund Balances	32
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	35
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	36
Airport Special Revenue Fund	37
Proprietary Funds	
Statements of Net Position	38
Statements of Revenues, Expenses and Changes in Net Position	46
Statements of Cash Flows	50
Fiduciary Funds	
Statement of Fiduciary Net Position	58
Notes to the Financial Statements	59
 <b>Required Supplementary Information</b>	
Schedule of Funding Progress	108
 <b>Combining and Individual Fund Statements and Schedules</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet	112
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	114
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Swimming Pool Special Revenue Fund	116
Nonmajor Proprietary Funds	
Combining Statements of Net Position	118
Combining Statements of Revenues, Expenses and Changes in Net Position	120
Combining Statements of Cash Flows	122
General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balances	126
Debt Service Funds	
Combining Balance Sheet	132
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	134
Internal Service Funds	
Combining Statements of Net Position	138
Combining Statements of Revenues, Expenses and Changes in Net Position	142
Combining Statements of Cash Flows	146

CITY OF LUVERNE, MINNESOTA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 TABLE OF CONTENTS - CONTINUED  
 FOR THE YEAR ENDED DECEMBER 31, 2012

		Page No.
<b>Combining and Individual Fund Statements and Schedules - Continued</b>		
Agency Funds		
Combining Statement of Changes in Assets and Liabilities		152
Summary Financial Report		
Revenues and Expenditures for General Operations - Governmental Funds		153
 <b>STATISTICAL SECTION (UNAUDITED)</b>		
	Table	Page No.
Financial Trends		
Net Position by Component	1	156
Changes in Net Position	2	158
Governmental Activities Tax Revenues by Source	3	163
Fund Balances of Governmental Funds	4	164
Changes in Fund Balances of Governmental Funds	5	166
General Governmental Tax Revenues by Source	6	169
Revenue Capacity		
Estimated Market Value and Tax Capacity Value of Taxable Property	7	170
Property Tax Rates - Direct and Overlapping Governments	8	172
Principal Property Taxpayers	9	174
Property Tax Levies and Collections	10	177
Debt Capacity		
Ratios of Outstanding Debt by Type	11	178
Ratios of General Bonded Debt Outstanding	12	180
Computation of Direct and Overlapping Debt	13	181
Legal Debt Margin Information	14	182
Pledged-Revenue Coverage - Utility Revenue Bonds	15A	18
Pledged-Revenue Coverage - Other Bonds	15B	185
Demographic and Economic Information		
Demographic and Economic Statistics	16	186
Principal Employers	17	187
Operating Information		
Full-time Equivalent City Government Employees by Function	18	188
Operating Indicators by Function	19	190
Capital Asset Statistics by Function	20	192
Schedule of Sources and Uses of Public Funds		
Larson, A Tax Increment Financing District	21	194
Connell/Klosterbuer Vagjrt, A Tax Increment Financing District	22	195
Pamida, A Tax Increment Financing District	23	196
Minnwest, A Tax Increment Financing District	24	197
Luverne Family Housing, A Tax Increment Financing District	25	198
 <b>OTHER REQUIRED REPORTS</b>		
Auditor's Report on Legal Compliance		199
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 <i>Government Auditing Standards</i>		200



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May 17, 2013

To the Honorable Mayor, City Council and Citizens of the City of Luverne:

Minnesota statutes require all cities to issue an annual report on its financial position and activity prepared in accordance with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Luverne (the City) for the fiscal year ended December 31, 2012.

The report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Abdo, Eick & Meyers, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended December 31, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP required that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

## ***Profile of the Government***

The City incorporated on February 14, 1877, is located in the extreme southwestern part of the State of Minnesota, approximately 25 miles east of Sioux Falls, South Dakota and about halfway between Minneapolis-Saint Paul and Omaha, Nebraska. The City has a land area of 3.44 square miles and serves a population of 4,745. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the City Council.

The City is governed under a home rule charter adopted September 1, 1987. Policy-making and legislative authority are vested in a City Council consisting of the Mayor and four Aldermen. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring a City Administrator. The Mayor is the presiding officer of the Council and votes only in case of a tie. The City Administrator is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the city government and for appointing the heads of the various departments. The Council is elected on a non-partisan basis. The Mayor is elected every two years and Aldermen are elected by ward and serve four-year staggered terms.

The City provides a full range of services, including fire protection, construction and maintenance of streets and infrastructure, recreational facilities and parks, storm sewer, sanitary sewer, water utilities, electric utilities, refuse and recycling collection, airport operations, planning and zoning, building inspection and general government.

The annual budget serves as the foundation for the City's financial planning and control. All departments are required to submit requests for appropriation to the City Administrator in June of each year. The City Administrator uses these requests as the starting point for developing a proposed budget. Work sessions are held with the Council covering each department budget. The City Administrator then provides a proposed budget to the Council for review prior to September 1<sup>st</sup>. The Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than December 31<sup>st</sup>.

The appropriated budget for the General fund is prepared by fund, function (e.g., public safety), and department (e.g., fire). The appropriated budget is prepared by fund for the Airport and Pool & Fitness special revenue funds. Transfers of appropriations between departments and funds require the approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General and Airport funds, this comparison is presented on pages 36 and 37 as part of the basic financial statements for the governmental funds. For governmental funds, other than the General fund, with appropriated annual budgets, this comparison is presented in the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual of this report which starts on page 116.

***Local economy.*** The City is the county seat of Rock County in Minnesota and is located at the crossroads of Interstate Highway 90 and Highway 75. The majority of Luverne residents are employed in small businesses of ten or fewer employees. This provides a great deal of economic diversity in this rural community. The economy is not adversely affected by fluctuations of one or two significant employers and employment has been very stable. Unemployment has been low for the past decade. A few Main street businesses struggled during this recent recession and some ceased operations. New Main street businesses include Power Fitness, Skippers Pub, Computer Tutors, Lavish Designs, Sassy Seconds and Loopy's Gift Shop. The Luverne Economic Development Authority focuses its efforts on attracting businesses whose workforce and activities complement existing businesses and our local agricultural economy. A Business Retention and Expansion survey of local businesses has been conducted to provide a more complete understanding of our Main street businesses and their needs. Housing starts continue to be steady and a developer has committed to developing twin homes on 8 lots in the Manfred Heights subdivision.

***Long-term financial planning.*** The City is continuing to work on the Lewis and Clark project which is a tri-state effort to develop, construct and operate a water resource from Missouri River water for southeastern South Dakota and portions of northwest Iowa and southwest Minnesota. This additional water resource is necessary to meet the future water needs of the City's residents and businesses. Federal budget reductions may have an impact on their portion of the funding for this project and alternative financing options are being considered.

***Relevant financial policies***

The City uses a "pooled cash" concept of investing, which means that all funds with cash balances participate in an investment pool. Available cash is invested in short-term government money market accounts, certificates of deposit, obligations of the U.S. Treasury and its agencies, and municipal bonds. The maturities of the investments range from less than a month to ten years. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity. Cash and investments at year end totaled \$23,874,484. The investment income return for 2012 on all investments was 1.65 percent.

The City maintains a self-insurance program for Property/Casualty insurance and Workers Compensation insurance. The City's Property/Casualty insurance policy includes a \$25,000 deductible per occurrence with a \$50,000 annual aggregate exposure. Individual funds make small annually contributions to the Property/Casualty internal service fund to provide a source of funds for uninsured losses that may be sustained from time to time. Annual fluctuations in the cost of Workers Compensation insurance are absorbed by the Workers Compensation internal service fund.

The Finance Department engaged an actuarial study for Other Post-Employment Benefits (OPEB) in order to comply with Governmental Accounting Standards Board Pronouncement 45. The City implemented GASB 45 in the fiscal year 2009 comprehensive financial report. The OPEB liability is relatively minor and no debt will be issued to fund this liability. Additional information regarding the OPEB liability can be found in the Notes to the Financial Statement on pages 101-103.

The Finance Department updated the Internal Control manual in 2011. The Department identified key areas of activity and drafted controls for each of them. This document will be maintained as a continuing work in progress.

The City's accounting records are maintained on the accrual or modified accrual basis, as appropriate. Monthly financial reports with detailed budget to actual information are provided to Department Heads. Summary budget to actual financial reports are provided to the City Council on a monthly basis.

The management philosophy used in developing the General fund budget for City Council consideration and approval includes conservative revenue estimates, realistic expenditures and a contingency amount for unexpected costs. In addition, management maintains a philosophy that amounts included in the budget are not automatically considered "approved." Capital expenditures as well as other significant expenditures are not approved by the City Administrator until it has been determined that adequate funds are available and the expenditure is still necessary.

## *Awards and Acknowledgments*

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

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

The preparation of this report could not be accomplished without the professional, efficient services of many dedicated people. I would like to first express my appreciation to all members of the Fiscal & Management Services department who assisted and contributed in preparing the report. I also thank the staff of Abdo, Eick & Meyers, LLP for their assistance and review of the document. And finally I acknowledge the Mayor and the members of the City Council for their ongoing support for the management of the City of Luverne's financial operations in a responsible and progressive manner.

Respectfully submitted,

*Barbara J Berghorst*

Barbara J. Berghorst  
Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Luverne  
Minnesota

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

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

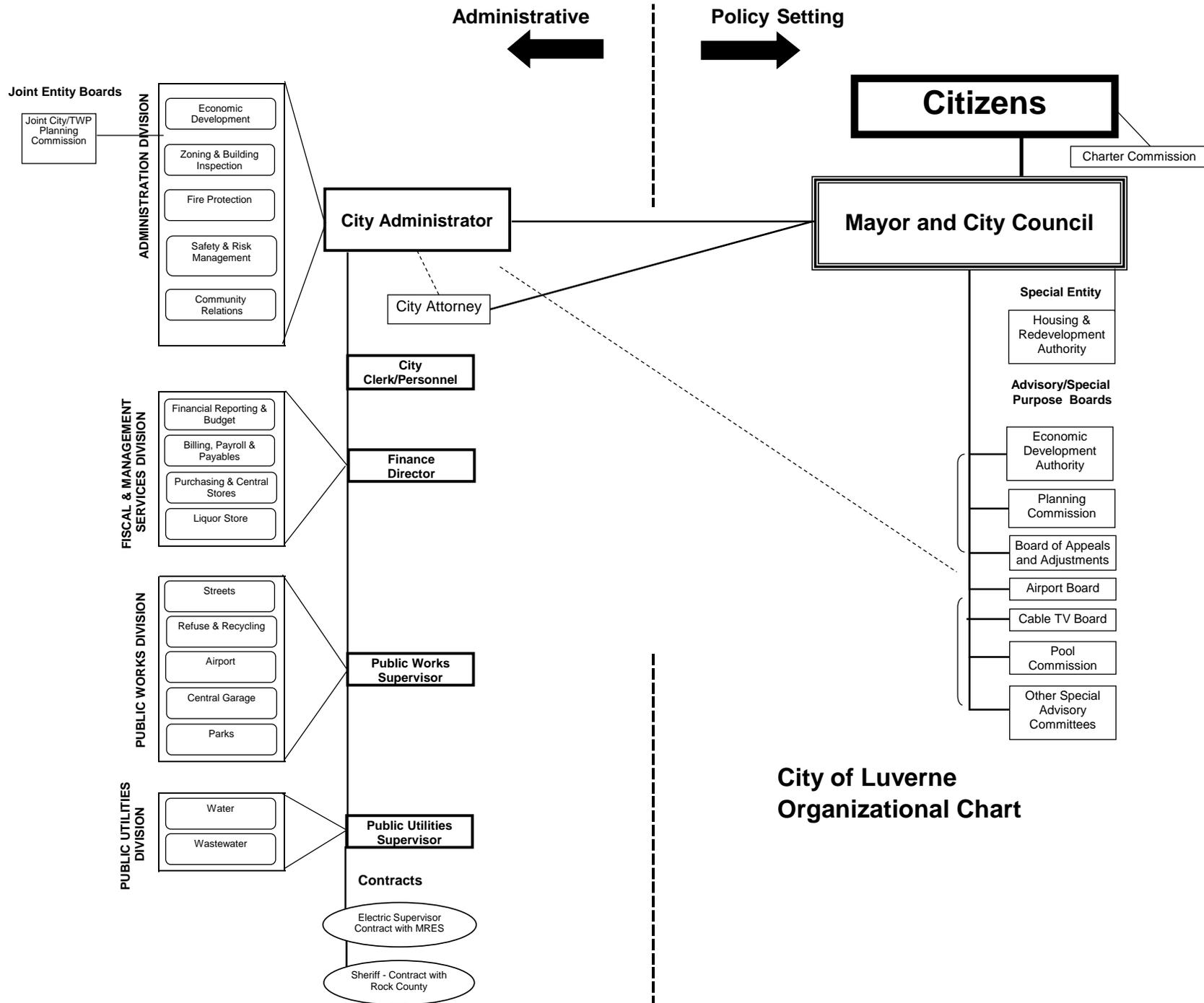


*Christopher P. Moville*

President

*Jeffrey R. Emer*

Executive Director



**City of Luverne  
Organizational Chart**

CITY OF LUVERNE, MINNESOTA

Listing of Officials

For the Year Ended December 31, 2012

Mayor - City Council

Patrick T. Baustian  
Caroline Thorson  
Maynard R. Lafrenz  
Esther S. Frakes  
Kevin Aaker

Mayor  
Alderman - North Ward  
Alderman - South Ward  
Alderman - North Ward  
Alderman - South Ward

City Administrator

John M. Call

Finance Director

Barbara J. Berghorst

City Clerk

Jessica Mead

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11 Civic Center Plaza  
Suite 300  
P.O. Box 3166  
Mankato, MN 56002-3166

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Luverne  
Luverne, Minnesota

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2011 financial statements and, in our report dated May 7, 2012, we expressed unqualified opinions on the respective proprietary fund financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinions**

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



## Other Matters

### *Change in Accounting Standards*

As described in the Note 6 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2012. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 13 and the Schedule of Funding Progress on page 108 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.

### *Supplementary Information in Relation to the Financial Statements as a Whole*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, statistical section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

May 17, 2013  
Mankato, Minnesota

*Abdo, Eick & Meyers, LLP*  
ABDO, EICK & MEYERS, LLP  
Certified Public Accountants

## **City of Luverne, Minnesota Management's Discussion and Analysis**

As management of the City of Luverne, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found starting on page 3 of this report.

Certain comparative information between the current year and the prior year is required to be presented in the Management's Discussion and Analysis.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$45,891,559 (*net position*). Of this amount, \$20,736,542 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$2,575,042 compared to an increase of \$1,667,670 in the prior year. This increase is mainly due to increases in capital grants and contributions and tax revenues with little or no increases in overall expenses.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,786,910, an increase of \$1,703,648 in comparison with the prior year. This increase largely reflects the bond proceeds received to refinance G.O. Bonds with call dates in 2013 and 2014. This portion of the bond proceeds is reported as cash with fiscal agent. Approximately 12.6 percent of this total amount, \$858,402, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) nonspendable - \$578,641, 2) restricted - \$2,715,104, 3) committed - \$588,008, or 4) assigned - \$2,046,755 for the purposes described in Note 3.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$970,948 or 34.4 percent of total General fund expenditures.
- The City's total debt increased by \$4,053,408 or 68.1 percent. The key factors in this increase were the issuance of \$4,775,000 in bonds (\$2,445,000 in new debt and the refunding of \$2,330,000 in existing debt), offset by the retirement of existing debt of \$721,592.

## Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components:

1. Government-wide financial statements, providing information for the City as a whole.
2. Fund financial statements, providing detailed information for the City's significant funds.
3. Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 show how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements. Internal service funds statements are also included, reflecting balances prior to the elimination from the governmental-wide financial statements, to avoid "doubling-up" effect within the governmental and business-type columns of said statements.

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

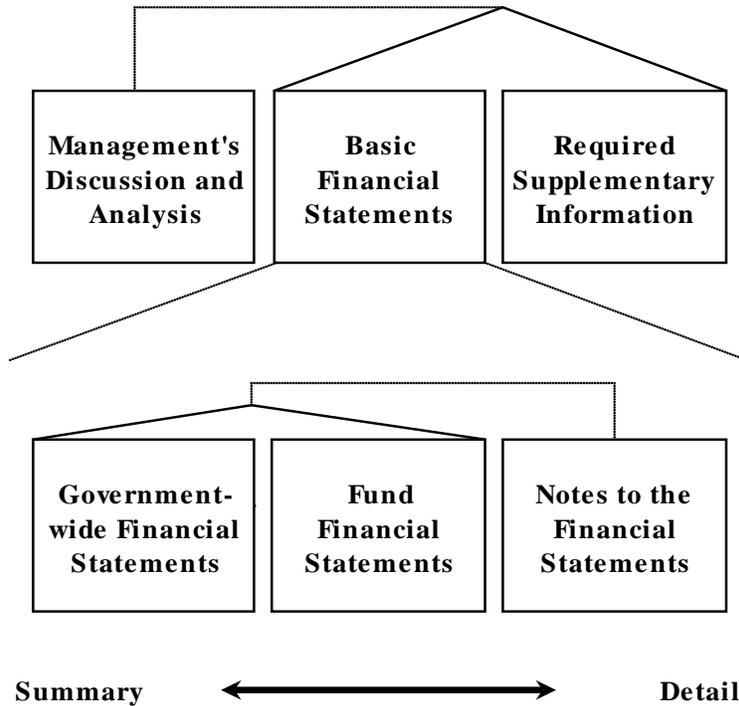


Figure 2 summarized the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

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

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

The *statement of activities* presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation and conservation and economic development. The business-type activities of the City include a water utility, a sewer utility, refuse and recycling, an electric utility, a storm sewer utility and a liquor store operation.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found starting on page 25 of this report.

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

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

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

The City maintains 21 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Airport fund, the Economic Development Revolving Loan fund, the Community Development fund, and the Debt Service fund (considered one fund for financial reporting), all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund and certain special revenue funds. A budgetary comparison statement has been provided for the General fund and the special revenue funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 28 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric, refuse, and storm sewer utilities as well as its liquor store operation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its vehicle maintenance, central purchasing, data processing, general risk management, worker's compensation risk management and governmental payroll benefits.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, electric and liquor operations, all of which are considered to be major funds of the City. Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found starting on page 38 of this report.

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

The basic fiduciary fund financial statements can be found starting on page 58 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 59 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental and proprietary funds and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found starting on page 112 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$45,891,559 at the close of the most recent fiscal year.

A large portion of the City's net position (52.7 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Luverne's Summary of Net Position

	Governmental Activities			Business-type Activities			Component Unit Activities		
	(Restated)	Increase	(Decrease)	(Restated)	Increase	(Decrease)	2012	2011	Increase (Decrease)
	2012	2011		2012	2011				
Current and other assets	\$ 7,686,189	\$ 6,225,484	\$ 1,460,705	\$ 19,015,366	\$ 17,515,729	\$ 1,499,637	\$ 1,961,119	\$ 2,082,106	\$ (120,987)
Capital assets	12,795,251	11,829,736	965,515	17,933,455	15,553,019	2,380,436	2,067,617	1,950,803	116,814
Total assets	20,481,440	18,055,220	2,426,220	36,948,821	33,068,748	3,880,073	4,028,736	4,032,909	(4,173)
Long-term liabilities outstanding	5,087,413	3,561,114	1,526,299	5,466,768	3,118,531	2,348,237	2,373	11,511	(9,138)
Other liabilities	189,040	345,090	(156,050)	795,481	782,716	12,765	437,521	383,333	54,188
Total liabilities	5,276,453	3,906,204	1,370,249	6,262,249	3,901,247	2,361,002	439,894	394,844	45,050
Net investment in capital assets	9,974,182	9,126,886	847,296	14,204,393	13,684,830	519,563	1,847,237	1,700,844	146,393
Restricted	628,498	529,057	99,441	347,944	304,281	43,663	759,696	816,942	(57,246)
Unrestricted	4,602,307	4,493,073	109,234	16,134,235	15,178,390	955,845	981,909	1,120,279	(138,370)
Total net position	\$ 15,204,987	\$ 14,149,016	\$ 1,055,971	\$ 30,686,572	\$ 29,167,501	\$ 1,519,071	\$ 3,588,842	\$ 3,638,065	\$ (49,223)

An additional portion of the City's net position (2.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (45.2 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

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

There was an increase of \$1,519,071 in net position reported in connection with the City's business-type activities. Charges for services/sales for business-type activities increased by only \$8,795 or 0.1 percent. Revenue was comparable to the prior year as GEVO, a major electric utility customer used less electricity in 2012 while they were shut down for a construction project.

The City's net position increased by \$2,575,042 during the current fiscal year. This increase is mainly due to increases in capital grants and contributions and tax revenues with little or no increases in overall expenses..

**Governmental activities.** Governmental activities increased the City's net position by \$1,055,971 during the year, accounting for 41.0 percent of the total growth in the City's net position. Key elements of the various increases and decreases are as follows:

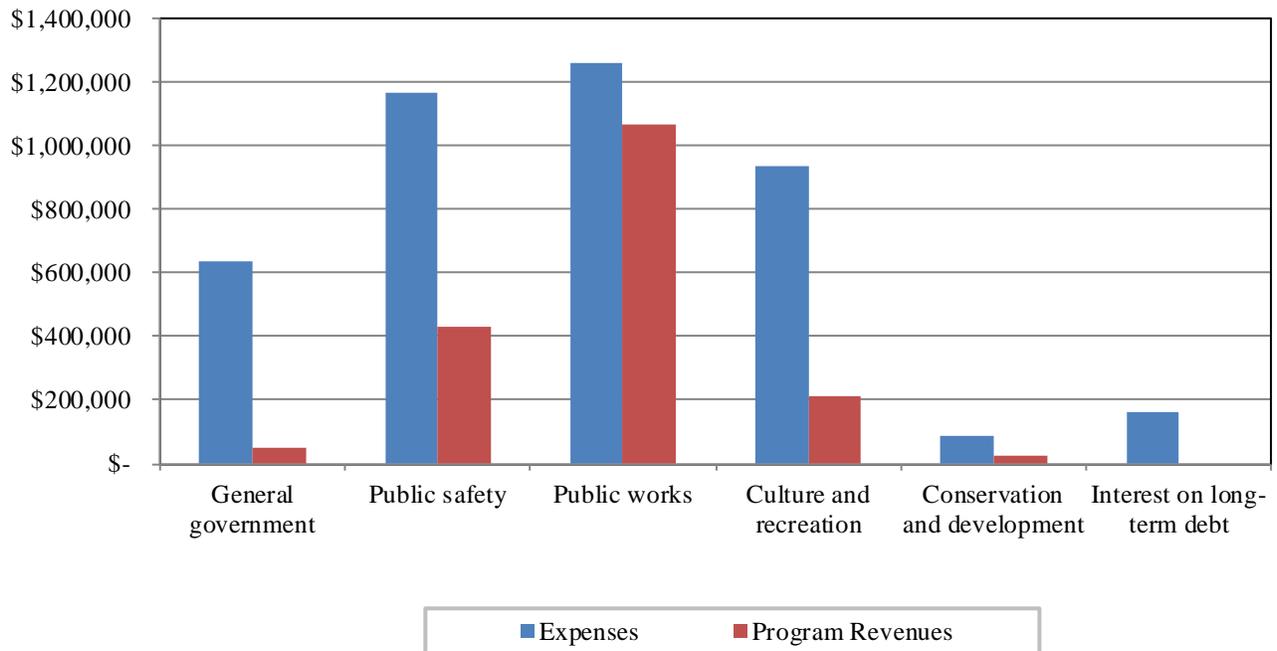
### City of Luverne's Changes in Net Position

	Governmental Activities			Business-type Activities			Component Unit Activities		
		(Restated)	Increase		(Restated)	Increase			Increase
	2012	2011	(Decrease)	2012	2011	(Decrease)	2012	2011	(Decrease)
<b>Revenues</b>									
<b>Program revenues</b>									
Charges for services	\$ 969,362	\$ 877,010	\$ 92,352	\$ 10,625,983	\$ 10,617,188	\$ 8,795	\$ 158,625	\$ 194,754	\$ (36,129)
Operating grants and contributions	35,506	34,568	938	-	-	-	201,460	486,711	(285,251)
Capital grants and contributions	781,163	226,957	554,206	150,540	720	149,820	-	-	-
<b>General revenues</b>									
Property taxes/									
tax increments	1,347,542	1,093,936	253,606	24,976	21,276	3,700	18,120	16,583	1,537
Other taxes	405,670	388,611	17,059	-	-	-	-	-	-
Grants and contributions not restricted to specific programs	1,280,652	1,420,670	(140,018)	1,500	4,225	(2,725)	-	2,281	(2,281)
Unrestricted investment earnings	143,948	162,832	(18,884)	236,262	280,084	(43,822)	40,955	52,120	(11,165)
Other	-	15	(15)	809	613	196	17,410	-	17,410
Gain on sale of capital assets	-	-	-	1,000	-	1,000	30,750	32,500	(1,750)
<b>Total revenues</b>	<b>4,963,843</b>	<b>4,204,599</b>	<b>759,244</b>	<b>11,041,070</b>	<b>10,924,106</b>	<b>116,964</b>	<b>467,320</b>	<b>784,949</b>	<b>(317,629)</b>
<b>Expenses</b>									
General government	635,951	637,217	(1,266)	-	-	-	-	-	-
Public safety	1,166,584	1,139,841	26,743	-	-	-	-	-	-
Public works	1,263,739	1,236,599	27,140	-	-	-	-	-	-
Culture and recreation	932,997	901,766	31,231	-	-	-	-	-	-
Conservation and development	86,198	318,480	(232,282)	-	-	-	-	-	-
Interest on long-term debt	159,403	117,587	41,816	-	-	-	-	-	-
Water	-	-	-	949,208	832,189	117,019	-	-	-
Sewer	-	-	-	875,392	834,287	41,105	-	-	-
Refuse and recycling	-	-	-	437,194	420,554	16,640	-	-	-
Electric	-	-	-	5,769,226	5,923,359	(154,133)	-	-	-
Storm sewer	-	-	-	76,250	82,298	(6,048)	-	-	-
Liquor	-	-	-	1,077,729	1,016,858	60,871	-	-	-
Economic development	-	-	-	-	-	-	516,543	603,176	(86,633)
<b>Total expenses</b>	<b>4,244,872</b>	<b>4,351,490</b>	<b>(106,618)</b>	<b>9,184,999</b>	<b>9,109,545</b>	<b>75,454</b>	<b>516,543</b>	<b>603,176</b>	<b>(86,633)</b>
<b>Increase in net position</b>									
before transfers	718,971	(146,891)	865,862	1,856,071	1,814,561	41,510	(49,223)	181,773	(230,996)
Transfers	337,000	332,000	5,000	(337,000)	(332,000)	(5,000)	-	-	-
<b>Change in net position</b>	<b>1,055,971</b>	<b>185,109</b>	<b>870,862</b>	<b>1,519,071</b>	<b>1,482,561</b>	<b>36,510</b>	<b>(49,223)</b>	<b>181,773</b>	<b>(230,996)</b>
<b>Net position - January 1 as restated</b>	<b>14,149,016</b>	<b>13,963,907</b>	<b>185,109</b>	<b>29,167,501</b>	<b>27,684,940</b>	<b>1,482,561</b>	<b>3,638,065</b>	<b>3,456,292</b>	<b>181,773</b>
<b>Net position - December 31 as restated</b>	<b>\$ 15,204,987</b>	<b>\$ 14,149,016</b>	<b>\$ 1,055,971</b>	<b>\$ 30,686,572</b>	<b>\$ 29,167,501</b>	<b>\$ 1,519,071</b>	<b>\$ 3,588,842</b>	<b>\$ 3,638,065</b>	<b>\$ (49,223)</b>

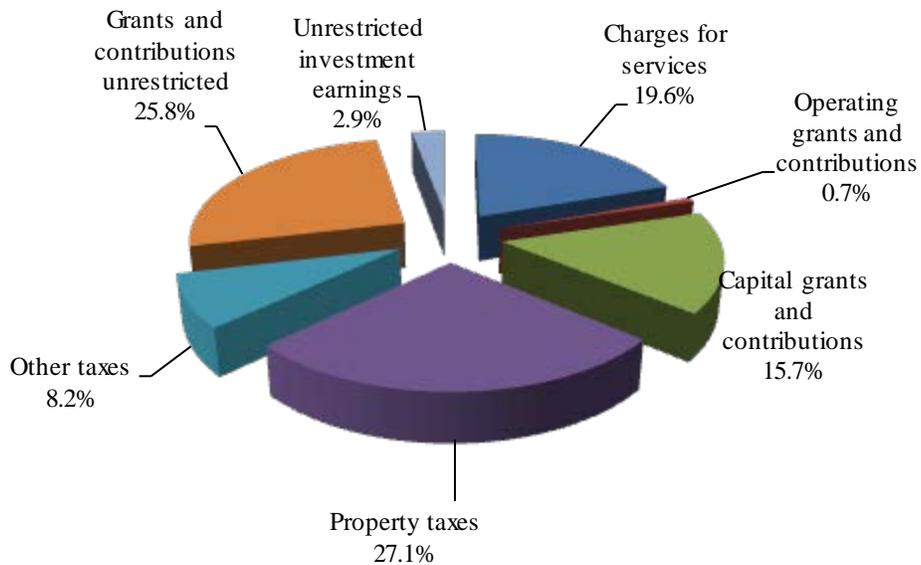
Property tax levies increased by \$64,286 (5.0 percent) during the year.

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

### Expenses and Program Revenues – Governmental Activities



### Revenue by Source - Governmental Activities

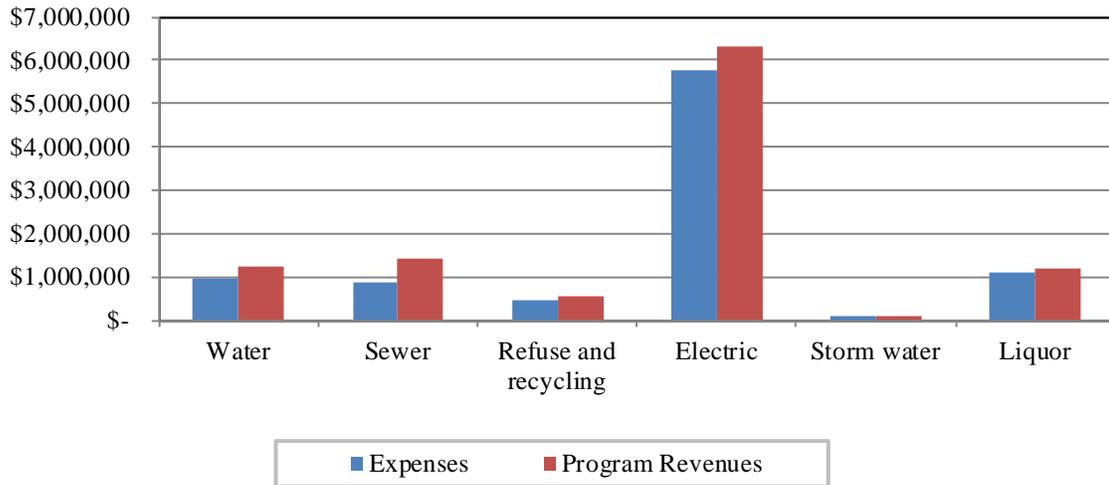


For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

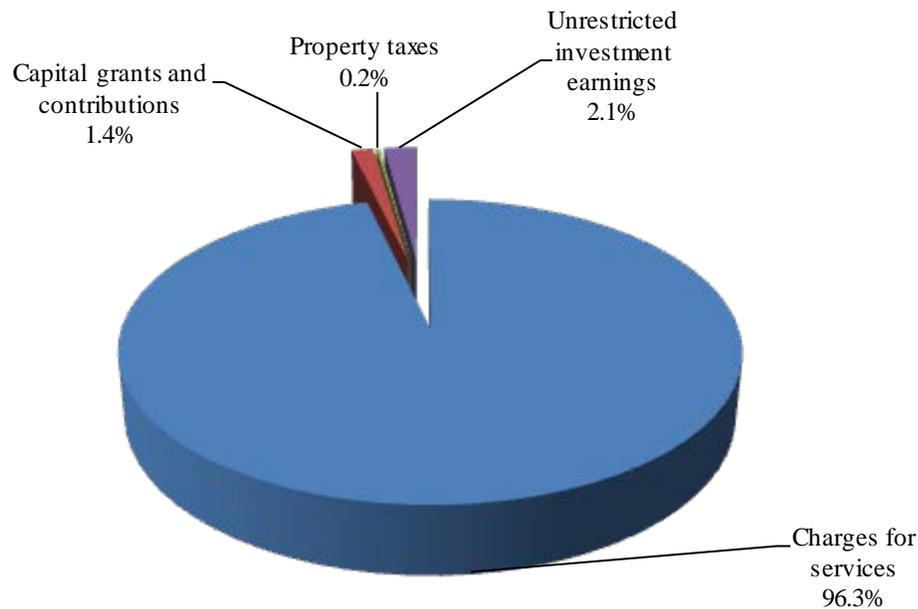
**Business-type activities.** Business-type activities increased the City’s net position by \$1,519,071, accounting for 59.0 percent of the total growth in the City’s net position. This is comparable to previous year’s increase of \$1,482,561. Key elements of this increase are as follows:

- Charges for services/sales for business-type activities increased by only \$8,795 or 0.1 percent. Utility revenue remained flat as GEVO, a large electric customer consumed less power during 2012 while shut down for an expansion project.
- Capital grants and contributions increased \$149,820 from the previous year.

**Expenses and Program Revenues – Business-type Activities**



**Revenue by Source – Business-type Activities**



## Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,786,910, an increase of \$1,703,648 in comparison with the prior year. This increase largely reflects the bond proceeds received to refinance G.O. Bonds with call dates in 2013 and 2014. This portion of the bond proceeds is reported as cash with fiscal agent. .

Of this total amount (\$6,786,910), ( \$858,402) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is in *nonspendable* form (\$578,641), *restricted* (\$2,715,104), *committed* (\$588,008) or *assigned* (\$2,046,755) for the purposes identified in Note 3.

The *General fund* is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the General fund was \$970,948, while total fund balance reached \$2,639,022. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 34.4 percent of total General fund expenditures, while total fund balance represents 93.6 percent of that same amount.

The fund balance of the City's General fund increased by \$234,956 during the current fiscal year. Key factors in this growth are as follows:

- This stable level of growth is due to actual revenues for building permits being nearly \$90,000 more than budgeted and actual expenditures being slightly more than \$100,000 less than budgeted.

The *Airport fund* has a fund balance of \$191,082 at year end. There was an increase of \$13,186 in fund balance during the current year due to increased fuel sales at the airport.

The *Community Development fund* has a fund balance of \$149,741 at year end. There was an increase of \$14,301 in fund balance during the current year due to property rental income being greater than annual expenditures.

The *Debt Service fund* has a total fund balance of \$2,702,629 all of which is restricted for the payment of debt service. The net increase in fund balance of \$1,661,888 during the current year in the Debt Service fund was primarily due to bond proceeds received to refund existing bond issues with call dates in 2013 and 2014. The bond proceeds are reported as cash with fiscal agent.

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

Unrestricted net position of the Water fund at the end of the year amounted to \$3,416,662. The amount of unrestricted net position is intended to be 75 percent of the amount of accumulated depreciation for the various utility funds so there is partial funding available for ongoing infrastructure replacement. In the Sewer fund, unrestricted net position at the end of the year was \$3,478,418. Unrestricted net position of the Electric fund at the end of year amounted to \$6,335,344. Those for the Liquor Store operation amounted to \$454,981. The total growth in net position for all enterprise funds was \$1,519,071 which is primarily related to a reduction in purchase power costs for the electric utility due to the GEVO plant not operating during their construction project to convert from making ethanol to isobutanol. Other factors concerning the finances of the proprietary funds have already been addressed in the discussion of the City's business-type activities.

## General Fund Budgetary Highlights

The final amended budget was a \$66,000 increase in appropriations to allow \$25,000 for expenditures related to a SHIP grant that was awarded to the City to promote wellness and fitness in the community and \$41,000 for a transfer to the Pool and Fitness Center fund for brick repair on the exterior of the building.

At the close of the year, General fund total expenditures were \$107,486 less than the final budget and actual revenues exceeded the final budget by \$287,470.

## Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of December 31, 2012, amounts to \$30,728,706 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and machinery and equipment. The majority of the capital assets are related to the water, sewer and electric utility operations.

Major capital asset events during the current fiscal year included the following:

- The Electric fund invested \$249,199 in infrastructure to meet the planned power demand of the GEVO plant for the production of isobutanol. In addition, \$386,328 was invested for distribution system upgrades
- Additional automatic meter reading equipment was installed at a cost of \$71,555 for Water, \$73,851 for Sewer and \$65,897 for Electric.
- \$80,786 was invested by the Water fund for well development.
- As part of the south Highway 75 improvement project and the Warren Street improvement. \$419,623 was invested by the Water fund for upgrading water mains and the Sewer fund invested \$634,958 for sewer main replacement.
- The Storm Sewer fund completed the installation of upgraded storm sewer improvements on Bishop Street at a cost of \$30,500. In addition \$92,203 was invested in replacing old storm sewer infrastructure on south Highway 75.
- The Refuse and Recycling fund purchased and distributed recycling containers costing \$101,475 as part of the new curbside, single stream recycling service.
- The exterior brick on the pool and fitness facility was improved at a cost of \$40,200 and a handicapped lift was installed in the pool at a cost of \$9,994. A portion of the roof was replaced at a cost of \$80,490.
- The street department purchased a replacement skid loader at a cost of \$25,684 and a replacement street sweeper at a cost of \$172,684.
- ARMER narrow band radios were purchased by the fire department to comply with Federal law at a cost of \$84,280.
- The City Office renovated space for Minnesota West Community and Technical College under the terms of a new lease for additional programming space. The cost of this investment was \$262,632. In addition the roof of the building was replaced at a cost of \$239,163 and the HVAC system was updated at a cost of \$75,022.

**City of Luverne's Capital Assets**  
(net of accumulated depreciation)

	Primary Government								
	Governmental Activities			Business-type Activities			Component Unit Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Land	\$ 1,984,925	\$ 1,979,324	\$ 5,601	\$ 203,715	\$ 203,715	\$ -	\$ 627,002	\$ 627,889	\$ (887)
Buildings	3,645,421	3,826,257	(180,836)	619,225	612,670	6,555	1,436,142	1,317,857	118,285
Improvements	5,088,908	4,815,986	272,922	15,456,773	13,610,583	1,846,190	-	-	-
Machinery and equipment	1,284,877	1,177,966	106,911	634,706	512,992	121,714	4,473	5,057	(584)
Construction in progress	791,120	30,203	760,917	1,019,036	613,059	405,977	-	-	-
<b>Total</b>	<b>\$ 12,795,251</b>	<b>\$ 11,829,736</b>	<b>\$ 965,515</b>	<b>\$ 17,933,455</b>	<b>\$ 15,553,019</b>	<b>\$ 2,380,436</b>	<b>\$ 2,067,617</b>	<b>\$ 1,950,803</b>	<b>\$ 116,814</b>

Additional information on the City's capital assets can be found in Note 3F starting on page 81 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$9,690,000. This entire amount is debt backed by the full faith and credit of the City even though certain bonds have specified revenue sources.

**City of Luverne's Outstanding Debt**

	Primary Government								
	Governmental Activities			Business-type Activities			Component Unit Activities		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
General obligation bonds	\$ 2,620,000	\$ 1,340,000	\$ 1,280,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
G.O. tax increment bonds	345,000	382,500	(37,500)	-	-	-	-	-	-
G.O. improvement bonds	1,555,000	1,150,000	405,000	-	-	-	-	-	-
General obligation revenue bonds	-	-	-	5,125,000	2,660,000	2,465,000	-	-	-
Equipment certificates	45,000	55,000	(10,000)	-	-	-	-	-	-
Notes/loans	313,815	362,907	(49,092)	-	-	-	-	11,009	(11,009)
<b>Total</b>	<b>\$ 4,878,815</b>	<b>\$ 3,290,407</b>	<b>\$ 1,588,408</b>	<b>\$ 5,125,000</b>	<b>\$ 2,660,000</b>	<b>\$ 2,465,000</b>	<b>\$ -</b>	<b>\$ 11,009</b>	<b>\$ (11,009)</b>

The City's total debt increased by \$4,053,408 or 68.1 percent. The key factors in this increase were the issuance of \$4,775,000 in bonds (\$2,445,000 in new debt and the refunding of \$2,330,000 in existing debt), offset by the retirement of existing debt of \$721,592.

The City received an "AA-" rating from Standard & Poor's on the 2012 General Obligation bonds and at the "AA-" rating was affirmed for the outstanding debt. Minnesota statutes limit the amount of net general obligation debt a city may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$6,903,957. The current legal debt margin is \$4,238,957 which is in excess of the City's outstanding general obligation debt and Equipment Certificates of \$2,620,000.

Additional information on the City's long-term debt can be found in Note 3G starting on page 85 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

- The City continues to budget revenue conservatively and continues to make expenditure reductions where possible. Technology is also being used to bring additional efficiencies to the operations of the City.
- Purchased power costs have stabilized. WAPA rates will not increase in 2013. MRES rates have moved from the two-tier demand rate structure to a seasonal single demand rate structure with June-August at \$21.50 per kW cost per month, December-February at \$17.50 per kW cost per month and all other months at \$11.00 per kW cost per month. Local electric rates are expected to increase by an average of 1 percent over the next two years. An Electric rate study will be conducted in 2014.
- Low interest rates over the past few years reduced the return on the City's investment portfolio.
- New residential construction continues in the City. The City's total estimated market valuation increased by 2.4 percent.

All of these factors were considered in preparing the City's budget for the 2013 fiscal year.

The water rates were increased by 4.0 percent, sewer rates were increased by 3.0 percent, electric rates increased by 1.0 percent and refuse and recycling rates were not increased. These rate increases were necessary to finance increased costs of operations as well as capital improvements. A water and sewer rate study will be conducted in 2013.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Luverne, PO Box 659, Luverne, MN 56156.

CITY OF LUVERNE, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
<b>ASSETS</b>				
Cash and temporary investments	\$ 5,335,884	\$ 15,886,141	\$ 21,222,025	\$ 1,099,260
Receivables (net of allowance for uncollectibles)				
Accrued interest	26,359	51,445	77,804	6,888
Delinquent taxes	7,384	129	7,513	49
Accounts, net	24,885	624,971	649,856	11,997
Loans/contracts	308,949	458,743	767,692	793,042
Special assessments	15,631	13,087	28,718	-
Intergovernmental	65,239	151,196	216,435	8,849
Internal balances	(56,434)	56,434	-	-
Due from component unit	281,313	3,198	284,511	-
Inventories	38,089	734,171	772,260	-
Prepaid items	1,144	2,523	3,667	-
Restricted assets				
Temporarily restricted				
Cash and cash equivalents	1,629,236	1,023,223	2,652,459	16,034
Investments	-	-	-	25,000
Unamortized bond discounts	8,510	10,105	18,615	-
Capital assets				
Nondepreciable assets	2,776,045	1,222,751	3,998,796	627,002
Depreciable assets, net of accumulated depreciation	10,019,206	16,710,704	26,729,910	1,440,615
<b>TOTAL ASSETS</b>	<b>20,481,440</b>	<b>36,948,821</b>	<b>57,430,261</b>	<b>4,028,736</b>
<b>LIABILITIES</b>				
Accounts payable	76,894	471,894	548,788	139,111
Contracts payable	4,835	86,496	91,331	-
Retainage payable	20,164	54,820	74,984	-
Due to primary government	-	-	-	284,511
Due to other governments	4,924	34,577	39,501	-
Accrued interest payable	54,844	52,345	107,189	-
Wages and related benefits payable	27,187	38,245	65,432	1,899
Deposits payable	192	57,104	57,296	2,000
Unearned revenue	-	-	-	10,000
Noncurrent liabilities				
Due within one year	1,537,505	988,600	2,526,105	561
Due in more than one year	3,549,908	4,478,168	8,028,076	1,812
<b>TOTAL LIABILITIES</b>	<b>5,276,453</b>	<b>6,262,249</b>	<b>11,538,702</b>	<b>439,894</b>
<b>NET POSITION</b>				
Net investment in capital assets	9,974,182	14,204,393	24,178,575	1,847,237
Restricted for				
Debt service	628,498	347,944	976,442	-
Economic development	-	-	-	759,696
Unrestricted	4,602,307	16,134,235	20,736,542	981,909
<b>TOTAL NET POSITION</b>	<b>\$ 15,204,987</b>	<b>\$ 30,686,572</b>	<b>\$ 45,891,559</b>	<b>\$ 3,588,842</b>

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental activities				
General government	\$ 635,951	\$ 47,492	\$ -	\$ 1,554
Public safety	1,166,584	384,318	25,543	21,723
Public works	1,263,739	316,630	9,963	742,946
Culture and recreation	932,997	196,480	-	14,940
Conservation and development	86,198	24,442	-	-
Interest on long-term debt	159,403	-	-	-
<b>Total governmental activities</b>	<b>4,244,872</b>	<b>969,362</b>	<b>35,506</b>	<b>781,163</b>
Business-type activities				
Water	949,208	1,227,239	-	-
Sewer	875,392	1,263,396	-	150,540
Refuse and recycling	437,194	543,122	-	-
Electric	5,769,226	6,318,544	-	-
Storm sewer	76,250	87,038	-	-
Liquor	1,077,729	1,186,644	-	-
<b>Total business-type activities</b>	<b>9,184,999</b>	<b>10,625,983</b>	<b>-</b>	<b>150,540</b>
<b>Total primary government</b>	<b>\$ 13,429,871</b>	<b>\$ 11,595,345</b>	<b>\$ 35,506</b>	<b>\$ 931,703</b>
<b>Component unit</b>				
Luverne Economic Development Authority	\$ 516,543	\$ 158,625	\$ 201,460	\$ -

General revenues

Property taxes, levied for general purposes  
Property taxes, levied for debt service  
Tax increments  
Franchise and other taxes  
Grants and contributions not restricted to programs  
Unrestricted investment earnings  
Other  
Gain on sale of capital assets  
Transfers

Total general revenues and transfers

Change in net position

Net position, January 1 as restated

Net position, December 31

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

Net Revenue (Expense) and  
Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Authority
\$ (586,905)		\$ (586,905)	
(735,000)		(735,000)	
(194,200)		(194,200)	
(721,577)		(721,577)	
(61,756)		(61,756)	
(159,403)		(159,403)	
(2,458,841)		(2,458,841)	
	\$ 278,031	278,031	
	538,544	538,544	
	105,928	105,928	
	549,318	549,318	
	10,788	10,788	
	108,915	108,915	
	1,591,524	1,591,524	
(2,458,841)	1,591,524	(867,317)	
			\$ (156,458)
906,331	24,976	931,307	-
406,876	-	406,876	12,546
34,335	-	34,335	5,574
405,670	-	405,670	-
1,280,652	1,500	1,282,152	-
143,948	236,262	380,210	40,955
-	809	809	17,410
-	1,000	1,000	30,750
337,000	(337,000)	-	-
3,514,812	(72,453)	3,442,359	107,235
1,055,971	1,519,071	2,575,042	(49,223)
14,149,016	29,167,501	43,316,517	3,638,065
\$ 15,204,987	\$ 30,686,572	\$ 45,891,559	\$ 3,588,842

CITY OF LUVERNE, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012

	101	209	220
	General	Airport	Economic Development Revolving Loan
<b>ASSETS</b>			
Cash and temporary investments	\$ 2,052,564	\$ 183,380	\$ 41,736
Cash held with fiscal agent	-	-	-
Receivables			
Accrued interest	17,030	536	72
Delinquent taxes	5,112	-	-
Accounts, net	19,753	3,246	-
Loans/contracts	308,949	-	-
Special assessments	4,329	-	-
Intergovernmental	58,018	-	-
Due from other funds	174,144	-	-
Due from component unit	60,975	-	220,380
Inventories, at cost	18,426	15,003	-
Prepaid items	444	-	-
<b>TOTAL ASSETS</b>	<b>\$ 2,719,744</b>	<b>\$ 202,165</b>	<b>\$ 262,188</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 49,251	\$ 11,083	\$ -
Contracts payable	-	-	-
Retainage payable	-	-	-
Due to other funds	-	-	-
Due to other governments	4,087	-	-
Accrued interest payable	-	-	-
Wages and related benefits payable	17,785	-	-
Deposit payable	158	-	-
<b>TOTAL LIABILITIES</b>	<b>71,281</b>	<b>11,083</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - taxes	5,112	-	-
Unavailable revenue - special assessments	4,329	-	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>9,441</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>			
Nonspendable	562,938	15,003	-
Restricted	12,475	-	-
Committed	-	176,079	262,188
Assigned	1,092,661	-	-
Unassigned	970,948	-	-
<b>TOTAL FUND BALANCES</b>	<b>2,639,022</b>	<b>191,082</b>	<b>262,188</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 2,719,744</b>	<b>\$ 202,165</b>	<b>\$ 262,188</b>

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

<b>280</b>	<b>300s</b>	Other	Total
Community Development	Debt Service	Governmental Funds	Governmental Funds
\$ 368,568	\$ 1,071,334	\$ 991,672	\$ 4,709,254
-	1,629,236	-	1,629,236
661	2,333	4,173	24,805
-	2,272	-	7,384
-	-	1,886	24,885
-	-	-	308,949
-	2,476	8,826	15,631
-	887	6,334	65,239
-	-	-	174,144
-	-	-	281,355
-	-	-	33,429
-	-	700	1,144
<u>\$ 369,229</u>	<u>\$ 2,708,538</u>	<u>\$ 1,013,591</u>	<u>\$ 7,275,455</u>
\$ -	\$ 910	\$ 12,383	\$ 73,627
-	-	4,835	4,835
-	-	20,164	20,164
219,488	-	117,240	336,728
-	-	825	4,912
-	251	-	251
-	-	7,036	24,821
-	-	34	192
<u>219,488</u>	<u>1,161</u>	<u>162,517</u>	<u>465,530</u>
-	2,272	-	7,384
-	2,476	8,826	15,631
-	4,748	8,826	23,015
-	-	700	578,641
-	2,702,629	-	2,715,104
149,741	-	-	588,008
-	-	954,094	2,046,755
-	-	(112,546)	858,402
<u>149,741</u>	<u>2,702,629</u>	<u>842,248</u>	<u>6,786,910</u>
<u>\$ 369,229</u>	<u>\$ 2,708,538</u>	<u>\$ 1,013,591</u>	<u>\$ 7,275,455</u>

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

Total fund balances - governmental funds	\$ 6,786,910
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	12,699,436
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Other postemployment benefits liability	(15,493)
Loans payable	(313,815)
Bonds payable	(4,565,000)
Unamortized bond discounts	8,510
Long-term assets are not available to pay current-period expenditures and, therefore, are unavailable in the funds.	
Delinquent property taxes receivable	7,384
Special assessments receivable	15,631
Governmental funds do not report a liability for accrued interest until due and payable.	(54,593)
Internal service funds are used by management to charge the costs of various services to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position.	<u>636,017</u>
Total net position - governmental activities	<u><u>\$ 15,204,987</u></u>

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

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

	<b>101</b>	<b>209</b>	<b>220</b>
	General	Airport	Economic Development Revolving Loan
<b>REVENUES</b>			
Property and other taxes	\$ 1,321,913	\$ -	\$ -
Tax increments	-	-	-
Licenses and permits	190,435	-	-
Intergovernmental	1,251,135	16,321	-
Charges for services	260,018	181,303	-
Special assessments	1,554	-	-
Investment income	89,406	2,472	334
Miscellaneous	45,951	56,043	11,739
<b>TOTAL REVENUES</b>	<b>3,160,412</b>	<b>256,139</b>	<b>12,073</b>
<b>EXPENDITURES</b>			
Current			
General government	544,639	-	-
Public safety	1,095,648	-	-
Public works	633,645	223,606	-
Culture and recreation	378,059	-	-
Conservation and development	54,735	-	-
Capital outlay			
General government	-	-	-
Public safety	100,032	-	-
Public works	-	8,165	-
Culture and recreation	-	-	-
Debt service			
Principal retirement	10,000	49,092	-
Interest and fiscal charges	2,307	90	-
Bond issuance costs	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>2,819,065</b>	<b>280,953</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>341,347</b>	<b>(24,814)</b>	<b>12,073</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	282,000	38,000	-
Debt issued	-	-	-
Transfers out	(388,391)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(106,391)</b>	<b>38,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>234,956</b>	<b>13,186</b>	<b>12,073</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>2,404,066</b>	<b>177,896</b>	<b>250,115</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 2,639,022</b>	<b>\$ 191,082</b>	<b>\$ 262,188</b>

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

<b>280</b>	<b>300s</b>	Other	Total
Community Development	Debt Service	Governmental Funds	Governmental Funds
\$ -	\$ 410,605	\$ 50	\$ 1,732,568
-	36,878	-	36,878
-	-	-	190,435
-	-	-	1,267,456
-	-	232,692	674,013
-	30,089	4,807	36,450
3,049	10,516	19,256	125,033
24,442	70,000	737,234	945,409
<u>27,491</u>	<u>558,088</u>	<u>994,039</u>	<u>5,008,242</u>
-	-	-	544,639
-	-	-	1,095,648
-	-	-	857,251
-	-	396,563	774,622
13,190	8,539	-	76,464
-	-	576,816	576,816
-	-	20,400	120,432
-	-	174,123	182,288
-	-	861,013	861,013
-	417,500	-	476,592
-	99,509	6,915	108,821
-	25,652	6,356	32,008
<u>13,190</u>	<u>551,200</u>	<u>2,042,186</u>	<u>5,706,594</u>
<u>14,301</u>	<u>6,888</u>	<u>(1,048,147)</u>	<u>(698,352)</u>
-	-	450,391	770,391
-	1,655,000	410,000	2,065,000
-	-	(45,000)	(433,391)
-	1,655,000	815,391	2,402,000
14,301	1,661,888	(232,756)	1,703,648
135,440	1,040,741	1,075,004	5,083,262
<u>\$ 149,741</u>	<u>\$ 2,702,629</u>	<u>\$ 842,248</u>	<u>\$ 6,786,910</u>

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

Net change in fund balances - governmental funds	\$ 1,703,648
<p>Amounts reported for governmental activities in the statement of activities are different because</p>	
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	1,739,933
Depreciation expense	(764,686)
<p>The effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net position.</p>	
Book value of disposed of capital assets	(3,388)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	476,592
Debt issued or incurred	(2,065,000)
Discounts on bonds issued, net of amortization expense	(8,067)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	(10,507)
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	(16,234)
Special assessments	(35,341)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Other postemployment benefits expenses	(1,653)
<p>Internal service funds are used by management to charge the costs of various services to individual funds. The net revenues of certain activities of internal service funds is reported with governmental activities.</p>	
	40,674
Change in net position - governmental activities	\$ 1,055,971

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

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,300,415	\$ 1,300,415	\$ 1,321,913	\$ 21,498
Licenses and permits	63,150	63,150	190,435	127,285
Intergovernmental	1,119,786	1,144,786	1,251,135	106,349
Charges for services	231,800	231,800	260,018	28,218
Special assessments	-	-	1,554	1,554
Investment income	85,991	85,991	89,406	3,415
Miscellaneous	46,800	46,800	45,951	(849)
<b>TOTAL REVENUES</b>	<b>2,847,942</b>	<b>2,872,942</b>	<b>3,160,412</b>	<b>287,470</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	282,000	282,000	282,000	-
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b>3,129,942</b>	<b>3,154,942</b>	<b>3,442,412</b>	<b>287,470</b>
<b>EXPENDITURES</b>				
General government	534,064	546,564	544,639	1,925
Public safety	1,205,579	1,210,579	1,195,680	14,899
Public works	635,395	635,395	633,645	1,750
Culture and recreation	381,550	406,550	378,059	28,491
Conservation and development	36,350	56,350	54,735	1,615
Miscellaneous	96,138	58,638	-	58,638
Debt service	12,475	12,475	12,307	168
<b>TOTAL EXPENDITURES</b>	<b>2,901,551</b>	<b>2,926,551</b>	<b>2,819,065</b>	<b>107,486</b>
<b>OTHER FINANCING USES</b>				
Transfers out	347,391	388,391	388,391	-
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<b>3,248,942</b>	<b>3,314,942</b>	<b>3,207,456</b>	<b>107,486</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(119,000)</b>	<b>(160,000)</b>	<b>234,956</b>	<b>394,956</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>2,404,066</b>	<b>2,404,066</b>	<b>2,404,066</b>	<b>-</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 2,285,066</b>	<b>\$ 2,244,066</b>	<b>\$ 2,639,022</b>	<b>\$ 394,956</b>

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

CITY OF LUVERNE, MINNESOTA  
 AIRPORT SPECIAL REVENUE FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Intergovernmental				
State	\$ 9,963	\$ 9,963	\$ 16,321	\$ 6,358
Charges for services	135,500	135,500	181,303	45,803
Investment income	1	1	2,472	2,471
Miscellaneous	51,230	51,230	56,043	4,813
<b>TOTAL REVENUES</b>	<b>196,694</b>	<b>196,694</b>	<b>256,139</b>	<b>59,445</b>
<b>OTHER FINANCING SOURCES</b>				
Transfer from General fund	38,000	38,000	38,000	-
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b>234,694</b>	<b>234,694</b>	<b>294,139</b>	<b>59,445</b>
<b>EXPENDITURES</b>				
Public works				
Airport				
Supplies	106,400	106,400	141,033	(34,633)
Other services and charges	72,710	72,710	82,573	(9,863)
Capital outlay	-	-	8,165	(8,165)
Debt service				
Principal retirement	49,156	49,156	49,092	64
Interest expense	90	90	90	-
<b>TOTAL EXPENDITURES</b>	<b>228,356</b>	<b>228,356</b>	<b>280,953</b>	<b>(52,597)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>6,338</b>	<b>6,338</b>	<b>13,186</b>	<b>6,848</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>177,896</b>	<b>177,896</b>	<b>177,896</b>	<b>-</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 184,234</b>	<b>\$ 184,234</b>	<b>\$ 191,082</b>	<b>\$ 6,848</b>

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

CITY OF LUVERNE, MINNESOTA  
STATEMENTS OF NET POSITION - CONTINUED ON THE FOLLOWING PAGES  
PROPRIETARY FUNDS  
DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	601		602	
	Water		Sewer	
	2012	(Restated) 2011	2012	(Restated) 2011
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and temporary investments	\$ 4,111,959	\$ 3,819,417	\$ 3,325,387	\$ 3,040,189
Cash with fiscal agent - restricted	665,833	-	-	-
Receivables				
Accrued interest	13,260	16,102	11,500	12,177
Delinquent taxes	-	-	129	518
Accounts, net	75,097	91,611	96,131	103,681
Loans	3,457	2,492	4,390	-
Delinquent special assessments	1,946	2,361	-	-
Intergovernmental	-	-	151,196	1,309
Due from other funds	32,517	36,138	32,517	36,138
Inventories, at cost	37,098	124,210	-	-
Prepaid items	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>4,941,167</b>	<b>4,092,331</b>	<b>3,621,250</b>	<b>3,194,012</b>
<b>NONCURRENT ASSETS</b>				
Restricted assets				
Cash and temporary investments	171,500	155,246	143,855	127,887
Special assessments receivable				
Noncurrent	1,047	2,625	8,472	14,128
Loans receivable - noncurrent	63,436	290	63,726	-
Unamortized bond discounts	4,042	9,893	6,063	6,918
Capital assets				
Land	102,967	102,967	18,451	18,451
Buildings	973,702	973,702	409,094	409,094
Improvements and infrastructure	6,667,181	5,705,371	7,534,942	6,768,914
Machinery and equipment	317,294	304,044	407,335	394,086
Construction in progress	362,755	344,957	648,938	57,219
Total capital assets	8,423,899	7,431,041	9,018,760	7,647,764
Less accumulated depreciation	(4,600,550)	(4,381,758)	(4,202,408)	(3,959,396)
Total capital assets (net of accumulated depreciation)	3,823,349	3,049,283	4,816,352	3,688,368
<b>TOTAL NONCURRENT ASSETS</b>	<b>4,063,374</b>	<b>3,217,337</b>	<b>5,038,468</b>	<b>3,837,301</b>
<b>TOTAL ASSETS</b>	<b>9,004,541</b>	<b>7,309,668</b>	<b>8,659,718</b>	<b>7,031,313</b>

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

Business-type Activities - Enterprise Funds

<b>604</b>		<b>609</b>		Other Proprietary Funds	
Electric		Liquor			
2012	2011	2012	2011	2012	2011
\$ 5,679,052	\$ 5,622,177	\$ 368,868	\$ 337,458	\$ 1,064,748	\$ 1,289,101
-	-	-	-	-	-
16,787	21,891	986	1,148	3,863	5,740
-	-	-	-	-	-
391,906	425,380	-	970	61,581	61,647
12,696	13,228	-	-	138,646	-
-	-	-	-	-	-
-	-	-	-	-	-
65,033	72,275	-	-	32,517	36,138
553,414	418,630	130,572	177,126	1,371	6,977
-	63	-	-	-	-
<u>6,718,888</u>	<u>6,573,644</u>	<u>500,426</u>	<u>516,702</u>	<u>1,302,726</u>	<u>1,399,603</u>
<u>37,673</u>	<u>39,268</u>	<u>-</u>	<u>-</u>	<u>4,362</u>	<u>4,344</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,622</u>	<u>1,562</u>
<u>73,358</u>	<u>35,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
11,325	11,325	8,340	8,340	62,632	62,632
1,123,103	1,057,121	107,064	107,064	79,566	79,566
14,473,860	13,491,795	20,359	11,705	1,305,496	1,151,905
581,991	522,450	74,448	74,448	668,684	579,430
-	210,883	-	-	7,343	-
<u>16,190,279</u>	<u>15,293,574</u>	<u>210,211</u>	<u>201,557</u>	<u>2,123,721</u>	<u>1,873,533</u>
<u>(8,035,631)</u>	<u>(7,395,308)</u>	<u>(126,554)</u>	<u>(127,360)</u>	<u>(1,159,600)</u>	<u>(1,097,360)</u>
<u>8,154,648</u>	<u>7,898,266</u>	<u>83,657</u>	<u>74,197</u>	<u>964,121</u>	<u>776,173</u>
<u>8,265,679</u>	<u>7,972,552</u>	<u>83,657</u>	<u>74,197</u>	<u>970,105</u>	<u>782,079</u>
<u>14,984,567</u>	<u>14,546,196</u>	<u>584,083</u>	<u>590,899</u>	<u>2,272,831</u>	<u>2,181,682</u>

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CITY OF LUVERNE, MINNESOTA  
STATEMENTS OF NET POSITION - CONTINUED  
PROPRIETARY FUNDS  
DECEMBER 31, 2012 AND 2011

	Business-type Activities Enterprise Funds		Governmental Activities - Internal Service Funds	
	Total		2012	2011
	2012	(Restated) 2011		
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and temporary investments	\$ 14,550,014	\$ 14,108,342	\$ 1,962,757	\$ 1,984,239
Cash with fiscal agent - restricted	665,833	-	-	-
Receivables				
Accrued interest	46,396	57,058	6,603	8,562
Delinquent taxes	129	518	-	-
Accounts, net	624,715	683,289	256	336
Loans	159,189	15,720	99,034	-
Delinquent special assessments	1,946	2,361	-	-
Intergovernmental	151,196	1,309	-	-
Due from other funds	162,584	180,689	-	-
Inventories, at cost	722,455	726,943	16,376	19,082
Prepaid items	-	63	2,523	2,387
<b>TOTAL CURRENT ASSETS</b>	<b>17,084,457</b>	<b>15,776,292</b>	<b>2,087,549</b>	<b>2,014,606</b>
<b>NONCURRENT ASSETS</b>				
Restricted assets				
Cash and temporary investments	357,390	326,745	-	-
Special assessments receivable				
Noncurrent	11,141	18,315	-	-
Loans receivable - noncurrent	200,520	35,308	-	-
Unamortized bond discounts	10,105	16,811	-	-
Capital assets				
Land	203,715	203,715	-	-
Buildings	2,692,529	2,626,547	130,303	130,303
Improvements and infrastructure	30,001,838	27,129,690	61,159	61,159
Machinery and equipment	2,049,752	1,874,458	404,744	356,772
Construction in progress	1,019,036	613,059	2,597	-
Total capital assets	35,966,870	32,447,469	598,803	548,234
Less accumulated depreciation	(18,124,743)	(16,961,182)	(411,660)	(379,343)
Total capital assets (net of accumulated depreciation)	17,842,127	15,486,287	187,143	168,891
<b>TOTAL NONCURRENT ASSETS</b>	<b>18,421,283</b>	<b>15,883,466</b>	<b>187,143</b>	<b>168,891</b>
<b>TOTAL ASSETS</b>	<b>35,505,740</b>	<b>31,659,758</b>	<b>2,274,692</b>	<b>2,183,497</b>

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

CITY OF LUVERNE, MINNESOTA  
STATEMENTS OF NET POSITION - CONTINUED  
PROPRIETARY FUNDS  
DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	601		602	
	Water		Sewer	
	2012	(Restated) 2011	2012	(Restated) 2011
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 20,822	\$ 45,176	\$ 39,038	\$ 16,147
Contracts payable	24,114	42,359	9,177	-
Retainage payable	17,998	14,275	32,234	-
Due to other funds	-	-	-	-
Due to other governments	1,010	955	124	-
Accrued interest payable	32,411	17,823	19,934	7,538
Wages and related benefits payable	6,618	5,675	8,318	7,336
Compensated absences payable - current	20,127	12,457	23,040	19,178
Customer deposits payable	6,922	6,423	6,921	6,349
Current portion bonds payable	798,000	131,000	117,000	114,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>928,022</b>	<b>276,143</b>	<b>255,786</b>	<b>170,548</b>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences payable (net of current portion)	47,277	61,868	55,102	62,902
Other postemployment benefits liability	5,925	4,434	8,484	6,386
Bonds payable (net of current portion)	2,190,750	1,398,000	2,019,250	1,017,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>2,243,952</b>	<b>1,464,302</b>	<b>2,082,836</b>	<b>1,086,288</b>
<b>TOTAL LIABILITIES</b>	<b>3,171,974</b>	<b>1,740,445</b>	<b>2,338,622</b>	<b>1,256,836</b>
<b>NET POSITION</b>				
Net investment in capital assets	2,224,474	2,305,176	2,686,165	2,564,286
Restricted for debt service	191,431	172,531	156,513	131,750
Unrestricted	3,416,662	3,091,516	3,478,418	3,078,441
<b>TOTAL NET POSITION</b>	<b>\$ 5,832,567</b>	<b>\$ 5,569,223</b>	<b>\$ 6,321,096</b>	<b>\$ 5,774,477</b>

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

Business-type Activities - Enterprise Funds

<b>604</b>		<b>609</b>		Other Proprietary Funds	
Electric		Liquor			
2012	2011	2012	2011	2012	2011
\$ 378,146	\$ 463,762	\$ 19,676	\$ 31,289	\$ 15,266	\$ 14,780
-	-	-	-	53,205	-
-	-	-	-	-	-
-	30	-	-	-	-
18,399	18,544	11,244	11,833	3,800	3,619
-	-	-	-	-	-
5,891	5,803	6,291	4,801	5,358	4,897
10,151	14,738	65	7,614	7,679	15,481
37,673	39,268	1,226	985	4,362	4,344
-	-	-	-	-	-
<u>450,260</u>	<u>542,145</u>	<u>38,502</u>	<u>56,522</u>	<u>89,670</u>	<u>43,121</u>
38,731	45,700	2,752	57,284	23,330	23,323
5,584	4,280	4,191	3,836	6,787	5,382
-	-	-	-	-	-
<u>44,315</u>	<u>49,980</u>	<u>6,943</u>	<u>61,120</u>	<u>30,117</u>	<u>28,705</u>
<u>494,575</u>	<u>592,125</u>	<u>45,445</u>	<u>117,642</u>	<u>119,787</u>	<u>71,826</u>
8,154,648	7,898,266	83,657	74,197	964,121	776,173
-	-	-	-	-	-
<u>6,335,344</u>	<u>6,055,805</u>	<u>454,981</u>	<u>399,060</u>	<u>1,188,923</u>	<u>1,333,683</u>
<u>\$ 14,489,992</u>	<u>\$ 13,954,071</u>	<u>\$ 538,638</u>	<u>\$ 473,257</u>	<u>\$ 2,153,044</u>	<u>\$ 2,109,856</u>

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CITY OF LUVERNE, MINNESOTA  
STATEMENTS OF NET POSITION - CONTINUED  
PROPRIETARY FUNDS  
DECEMBER 31, 2012 AND 2011

	Business-type Activities Enterprise Funds		Governmental Activities - Internal Service Funds	
	Total		2012	2011
	2012	(Restated) 2011		
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 472,948	\$ 571,154	\$ 6,801	\$ 2,763
Contracts payable	86,496	42,359	-	-
Retainage payable	50,232	14,275	-	-
Due to other funds	-	30	-	-
Due to other governments	34,577	34,951	12	38
Accrued interest payable	52,345	25,361	-	-
Wages and related benefits payable	32,476	28,512	8,135	6,541
Compensated absences payable - current	61,062	69,468	55,487	54,245
Customer deposits payable	57,104	57,369	-	-
Current portion bonds payable	915,000	245,000	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,762,240</u>	<u>1,088,479</u>	<u>70,435</u>	<u>63,587</u>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences payable (net of current portion)	167,192	251,077	213,291	235,927
Other postemployment benefits liability	30,971	24,318	6,870	5,287
Bonds payable (net of current portion)	4,210,000	2,415,000	-	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>4,408,163</u>	<u>2,690,395</u>	<u>220,161</u>	<u>241,214</u>
<b>TOTAL LIABILITIES</b>	<u>6,170,403</u>	<u>3,778,874</u>	<u>290,596</u>	<u>304,801</u>
<b>NET POSITION</b>				
Net investment in capital assets	14,113,065	13,618,098	187,143	168,891
Restricted for debt service	347,944	304,281	-	-
Unrestricted	14,874,328	13,958,505	1,796,953	1,709,805
<b>TOTAL NET POSITION</b>	29,335,337	27,880,884	<u>\$ 1,984,096</u>	<u>\$ 1,878,696</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	1,351,235	1,286,617		
Net position of business-type activities	<u>\$ 30,686,572</u>	<u>\$ 29,167,501</u>		

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

CITY OF LUVERNE, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - CONTINUED ON THE FOLLOWING PAGES  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-type Activities - Enterprise Funds			
	601 Water		602 Sewer	
	2012	(Restated) 2011	2012	(Restated) 2011
<b>OPERATING REVENUES</b>				
Charges for services/sales	\$ 1,200,534	\$ 1,233,607	\$ 1,239,916	\$ 1,188,760
Cost of sales	-	-	-	-
Service income	17,715	14,758	23,026	27,333
Other income	8,300	2,635	-	323
<b>TOTAL OPERATING REVENUES</b>	<u>1,226,549</u>	<u>1,251,000</u>	<u>1,262,942</u>	<u>1,216,416</u>
<b>OPERATING EXPENSES</b>				
Personal services	228,236	227,973	305,661	303,559
Supplies	149,670	130,482	75,162	91,982
Other services and charges	267,415	222,654	205,774	181,422
Power purchased/delivered	-	-	-	-
Depreciation	223,352	212,268	247,574	240,010
<b>TOTAL OPERATING EXPENSES</b>	<u>868,673</u>	<u>793,377</u>	<u>834,171</u>	<u>816,973</u>
<b>OPERATING INCOME</b>	<u>357,876</u>	<u>457,623</u>	<u>428,771</u>	<u>399,443</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Property taxes	-	-	24,976	21,276
State grants and aids	1,500	-	-	4,225
Special assessment income	-	-	540	720
Investment income	60,836	70,587	52,763	53,379
Rental income	690	690	454	454
Gain on disposition of assets	-	-	-	-
Loss on disposition of assets	-	-	-	-
Long-term debt interest	(57,043)	(45,752)	(30,679)	(22,327)
Interest on customer deposits	(7)	(20)	(7)	(20)
Amortization expense	(5,851)	(4,711)	(855)	(6,333)
Bond issuance costs	(24,657)	-	(17,344)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(24,532)</u>	<u>20,794</u>	<u>29,848</u>	<u>51,374</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	333,344	478,417	458,619	450,817
<b>TRANSFERS OUT</b>	(70,000)	(70,000)	(62,000)	(62,000)
<b>CAPITAL CONTRIBUTIONS</b>	-	-	150,000	-
<b>CHANGE IN NET POSITION</b>	263,344	408,417	546,619	388,817
<b>NET POSITION, JANUARY 1 AS RESTATED</b>	<u>5,569,223</u>	<u>5,160,806</u>	<u>5,774,477</u>	<u>5,385,660</u>
<b>NET POSITION, DECEMBER 31 AS RESTATED</b>	<u>\$ 5,832,567</u>	<u>\$ 5,569,223</u>	<u>\$ 6,321,096</u>	<u>\$ 5,774,477</u>

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

Business-type Activities - Enterprise Funds

<b>604</b>		<b>609</b>			
Electric		Liquor		Other Proprietary Funds	
2012	2011	2012	2011	2012	2011
\$ 6,075,863	\$ 6,226,686	\$ 1,186,644	\$ 1,103,616	\$ 608,702	\$ 606,585
-	-	(843,306)	(778,111)	-	-
111,477	108,257	-	-	5,343	5,268
134,961	81,801	-	-	3,843	5,008
<u>6,322,301</u>	<u>6,416,744</u>	<u>343,338</u>	<u>325,505</u>	<u>617,888</u>	<u>616,861</u>
227,859	224,849	150,201	172,725	226,379	217,165
244,831	256,728	15,130	9,433	54,107	44,654
1,211,418	1,274,139	67,350	54,907	164,575	163,904
3,460,659	3,592,716	-	-	-	-
644,886	602,182	4,820	4,296	74,461	84,611
<u>5,789,653</u>	<u>5,950,614</u>	<u>237,501</u>	<u>241,361</u>	<u>519,522</u>	<u>510,334</u>
<u>532,648</u>	<u>466,130</u>	<u>105,837</u>	<u>84,144</u>	<u>98,366</u>	<u>106,527</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
77,314	96,945	4,544	5,036	17,564	25,167
-	-	-	-	12,272	12,272
1,000	-	-	-	-	-
-	-	-	-	-	-
(41)	(110)	-	-	(14)	(23)
-	-	-	-	-	-
-	-	-	-	-	-
<u>78,273</u>	<u>96,835</u>	<u>4,544</u>	<u>5,036</u>	<u>29,822</u>	<u>37,416</u>
610,921	562,965	110,381	89,180	128,188	143,943
(75,000)	(70,000)	(45,000)	(45,000)	(85,000)	(85,000)
-	-	-	-	-	-
535,921	492,965	65,381	44,180	43,188	58,943
<u>13,954,071</u>	<u>13,461,106</u>	<u>473,257</u>	<u>429,077</u>	<u>2,109,856</u>	<u>2,050,913</u>
<u>\$ 14,489,992</u>	<u>\$ 13,954,071</u>	<u>\$ 538,638</u>	<u>\$ 473,257</u>	<u>\$ 2,153,044</u>	<u>\$ 2,109,856</u>

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

	Business-type Activities Enterprise Funds		Governmental Activities - Internal Service Funds	
	Total		2012	2011
	2012	(Restated) 2011		
<b>OPERATING REVENUES</b>				
Charges for services/sales	\$ 10,311,659	\$ 10,359,254	\$ 740,734	\$ 728,761
Cost of sales	(843,306)	(778,111)	-	-
Service income	157,561	155,616	-	-
Other income	147,104	89,767	50,335	38,677
<b>TOTAL OPERATING REVENUES</b>	<u>9,773,018</u>	<u>9,826,526</u>	<u>791,069</u>	<u>767,438</u>
<b>OPERATING EXPENSES</b>				
Personal services	1,138,336	1,146,271	323,725	331,430
Supplies	538,900	533,279	54,363	37,652
Other services and charges	1,916,532	1,897,026	305,681	268,885
Power purchased/delivered	3,460,659	3,592,716	-	-
Depreciation	1,195,093	1,143,367	32,317	39,355
<b>TOTAL OPERATING EXPENSES</b>	<u>8,249,520</u>	<u>8,312,659</u>	<u>716,086</u>	<u>677,322</u>
<b>OPERATING INCOME</b>	<u>1,523,498</u>	<u>1,513,867</u>	<u>74,983</u>	<u>90,116</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Property taxes	24,976	21,276	-	-
State grants and aids	1,500	4,225	-	-
Special assessment income	540	720	-	-
Investment income	213,021	251,114	30,417	38,002
Rental income	13,416	13,416	-	-
Gain on disposition of assets	1,000	-	-	-
Loss on disposition of assets	-	-	-	-
Long-term debt interest	(87,736)	(68,102)	-	-
Interest on customer deposits	(55)	(150)	-	-
Amortization expense	(6,706)	(11,044)	-	-
Bond issuance costs	(42,001)	-	-	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>117,955</u>	<u>211,455</u>	<u>30,417</u>	<u>38,002</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	1,641,453	1,725,322	105,400	128,118
<b>TRANSFERS OUT</b>	(337,000)	(332,000)	-	-
<b>CAPITAL CONTRIBUTIONS</b>	150,000	-	-	-
<b>CHANGE IN NET POSITION</b>	1,454,453	1,393,322	105,400	128,118
<b>NET POSITION, JANUARY 1 AS RESTATED</b>	<u>27,880,884</u>	<u>26,487,562</u>	<u>1,878,696</u>	<u>1,750,578</u>
<b>NET POSITION, DECEMBER 31 AS RESTATED</b>	<u>\$ 29,335,337</u>	<u>\$ 27,880,884</u>	<u>\$ 1,984,096</u>	<u>\$ 1,878,696</u>
Change in net position as shown above	\$ 1,454,453	\$ 1,393,322		
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	64,618	89,239		
Change in net position of business-type activities	<u>\$ 1,519,071</u>	<u>\$ 1,482,561</u>		

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

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

	Business-type Activities - Enterprise Funds			
	601 Water		602 Sewer	
	2012	2011	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from customers	\$ 1,245,555	\$ 1,244,726	\$ 1,276,833	\$ 1,209,178
Cash paid to suppliers	(354,279)	(184,497)	(257,928)	(275,552)
Cash paid to and on behalf of employees	(232,723)	(231,073)	(306,519)	(305,151)
Other receipts	690	690	994	1,174
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>659,243</u>	<u>829,846</u>	<u>713,380</u>	<u>629,649</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	(70,000)	(70,000)	(62,000)	(62,000)
Loans made	(67,698)	(3,335)	(69,992)	-
Loan payments received	3,587	2,207	1,876	-
(Increase) decrease in due from other funds	3,621	3,621	3,621	3,621
Increase (decrease) in due to other funds	-	-	-	-
Taxes received	-	-	25,365	22,949
State aids received	1,500	-	-	4,225
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(128,990)</u>	<u>(67,507)</u>	<u>(101,130)</u>	<u>(31,205)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from bonds issued	1,566,093	-	1,101,906	-
Acquisition of capital assets	(1,011,940)	(381,401)	(1,334,147)	(150,297)
Proceeds from sale of capital assets	-	-	-	-
Principal paid on long-term borrowings	(131,000)	(863,000)	(114,000)	(1,212,000)
Interest paid on long-term borrowings	(42,455)	(57,619)	(18,283)	(38,855)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>380,698</u>	<u>(1,302,020)</u>	<u>(364,524)</u>	<u>(1,401,152)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	<u>63,678</u>	<u>75,207</u>	<u>53,440</u>	<u>56,362</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	974,629	(464,474)	301,166	(746,346)
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>3,974,663</u>	<u>4,439,137</u>	<u>3,168,076</u>	<u>3,914,422</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 4,949,292</u>	<u>\$ 3,974,663</u>	<u>\$ 3,469,242</u>	<u>\$ 3,168,076</u>

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

Business-type Activities - Enterprise Funds

<b>604</b>		<b>609</b>		Other Proprietary Funds	
Electric		Liquor		2012	2011
2012	2011	2012	2011	2012	2011
\$ 6,354,180	\$ 6,461,925	\$ 1,187,855	\$ 1,102,731	\$ 617,912	\$ 610,233
(5,137,431)	(5,096,859)	(891,434)	(849,095)	(212,423)	(206,126)
(238,023)	(225,437)	(210,437)	(173,539)	(232,308)	(221,771)
-	-	-	-	12,272	12,272
<u>978,726</u>	<u>1,139,629</u>	<u>85,984</u>	<u>80,097</u>	<u>185,453</u>	<u>194,608</u>
(75,000)	(70,000)	(45,000)	(45,000)	(85,000)	(85,000)
(75,690)	(25,475)	-	-	(138,646)	-
37,882	30,040	-	-	-	-
7,242	7,242	-	-	3,621	3,621
(30)	30	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>(105,596)</u>	<u>(58,163)</u>	<u>(45,000)</u>	<u>(45,000)</u>	<u>(220,025)</u>	<u>(81,379)</u>
-	-	-	-	-	-
(901,268)	(589,277)	(14,280)	(5,717)	(209,204)	(213,632)
1,000	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>(900,268)</u>	<u>(589,277)</u>	<u>(14,280)</u>	<u>(5,717)</u>	<u>(209,204)</u>	<u>(213,632)</u>
<u>82,418</u>	<u>100,284</u>	<u>4,706</u>	<u>5,188</u>	<u>19,441</u>	<u>26,418</u>
55,280	592,473	31,410	34,568	(224,335)	(73,985)
<u>5,661,445</u>	<u>5,068,972</u>	<u>337,458</u>	<u>302,890</u>	<u>1,293,445</u>	<u>1,367,430</u>
<u>\$ 5,716,725</u>	<u>\$ 5,661,445</u>	<u>\$ 368,868</u>	<u>\$ 337,458</u>	<u>\$ 1,069,110</u>	<u>\$ 1,293,445</u>

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

	Business-type Activities Enterprise Funds		Governmental Activities - Internal Service Funds	
	Total		2012	2011
	2012	2011		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from customers	\$ 10,682,335	\$ 10,628,793	\$ 615,395	\$ 745,679
Cash paid to suppliers	(6,853,495)	(6,612,129)	(353,462)	(307,589)
Cash paid to and on behalf of employees	(1,220,010)	(1,156,971)	(315,557)	(369,605)
Other receipts	13,956	14,136	50,335	38,677
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>2,622,786</u>	<u>2,873,829</u>	<u>(3,289)</u>	<u>107,162</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	(337,000)	(332,000)	-	-
Loans made	(352,026)	(28,810)	-	-
Loan payments received	43,345	32,247	-	-
(Increase) decrease in due from other funds	18,105	18,105	-	-
Increase (decrease) in due to other funds	(30)	30	-	-
Taxes received	25,365	22,949	-	-
State aids received	1,500	4,225	-	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(600,741)</u>	<u>(283,254)</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from bonds issued	2,667,999	-	-	-
Acquisition of capital assets	(3,470,839)	(1,340,324)	(50,569)	(8,368)
Proceeds from sale of capital assets	1,000	-	-	-
Principal paid on long-term borrowings	(245,000)	(2,075,000)	-	-
Interest paid on long-term borrowings	(60,738)	(96,474)	-	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(1,107,578)</u>	<u>(3,511,798)</u>	<u>(50,569)</u>	<u>(8,368)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	223,683	263,459	32,376	39,221
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,138,150	(657,764)	(21,482)	138,015
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>14,435,087</u>	<u>15,092,851</u>	<u>1,984,239</u>	<u>1,846,224</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 15,573,237</u>	<u>\$ 14,435,087</u>	<u>\$ 1,962,757</u>	<u>\$ 1,984,239</u>

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

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

	Business-type Activities - Enterprise Funds			
	601 Water		602 Sewer	
	2012	2011	2012	2011
<b>CASH AND CASH EQUIVALENTS ARE COMPRISED OF:</b>				
Cash and temporary investments	\$ 4,111,959	\$ 3,819,417	\$ 3,325,387	\$ 3,040,189
Restricted assets				
Cash and temporary investments	837,333	155,246	143,855	127,887
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b><u>\$ 4,949,292</u></b>	<b><u>\$ 3,974,663</u></b>	<b><u>\$ 3,469,242</u></b>	<b><u>\$ 3,168,076</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income	\$ 357,876	\$ 457,623	\$ 428,771	\$ 399,443
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	223,352	212,268	247,574	240,010
Other income related to operations	690	690	994	1,174
Interest paid on customer deposits	(7)	(20)	(7)	(20)
Change in assets and liabilities				
(Increase) decrease in accounts receivable	16,514	(2,937)	7,550	(9,176)
(Increase) decrease in due from other governments	-	-	113	-
(Increase) decrease in special assessments receivable	1,993	(3,365)	5,656	1,984
(Increase) decrease in inventories	87,112	146,024	-	-
(Increase) decrease in prepaid items	-	1,659	-	-
Increase (decrease) in accounts payable	(24,354)	20,850	22,891	(2,124)
Increase (decrease) in due to other governments	55	126	124	(4)
Increase (decrease) in wages and related benefits payable	943	(133)	982	(129)
Increase (decrease) in compensated absences payable	(6,921)	3,861	(3,938)	4,114
Increase (decrease) in other postemployment benefits liability	1,491	(6,828)	2,098	(5,577)
Increase (decrease) in deposits payable	499	28	572	(46)
Total adjustments	<u>301,367</u>	<u>372,223</u>	<u>284,609</u>	<u>230,206</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b><u>\$ 659,243</u></b>	<b><u>\$ 829,846</u></b>	<b><u>\$ 713,380</u></b>	<b><u>\$ 629,649</u></b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Amortization on bond discount	\$ 5,851	\$ 4,711	\$ 855	\$ 6,333
Discount and issuance costs on bonds issued	24,657	-	17,344	-
Book value of disposed/traded of capital assets	-	13,139	-	13,140
Increase (decrease) in contracts and retainages payable	(14,522)	56,634	41,411	-

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

Business-type Activities - Enterprise Funds

<b>604</b>		<b>609</b>		Other Proprietary Funds	
Electric		Liquor		2012	2011
2012	2011	2012	2011	2012	2011
\$ 5,679,052	\$ 5,622,177	\$ 368,868	\$ 337,458	\$ 1,064,748	\$ 1,289,101
37,673	39,268	-	-	4,362	4,344
<u>\$ 5,716,725</u>	<u>\$ 5,661,445</u>	<u>\$ 368,868</u>	<u>\$ 337,458</u>	<u>\$ 1,069,110</u>	<u>\$ 1,293,445</u>
\$ 532,648	\$ 466,130	\$ 105,837	\$ 84,144	\$ 98,366	\$ 106,527
644,886	602,182	4,820	4,296	74,461	84,611
-	-	-	-	12,272	12,272
(41)	(110)	-	-	(14)	(23)
33,474	40,343	970	(970)	66	(7,099)
-	-	-	-	-	-
-	-	-	-	(60)	586
(134,784)	(8,990)	46,554	3,265	5,606	(213)
63	-	-	-	-	-
(85,616)	37,342	(11,613)	(10,167)	486	2,263
(145)	(1,518)	(589)	258	181	405
88	94	1,490	376	461	(457)
(11,556)	4,326	(62,081)	2,345	(7,795)	1,058
1,304	(5,008)	355	(3,535)	1,405	(5,207)
(1,595)	4,838	241	85	18	(115)
446,078	673,499	(19,853)	(4,047)	87,087	88,081
<u>\$ 978,726</u>	<u>\$ 1,139,629</u>	<u>\$ 85,984</u>	<u>\$ 80,097</u>	<u>\$ 185,453</u>	<u>\$ 194,608</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	13,142	-	-	-	-
-	-	-	-	-	-

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

	Business-type Activities Enterprise Funds		Governmental Activities - Internal Service Funds	
	Total		2012	2011
	2012	2011	2012	2011
<b>CASH AND CASH EQUIVALENTS ARE COMPRISED OF:</b>				
Cash and temporary investments	\$ 14,550,014	\$ 14,108,342	\$ 1,962,757	\$ 1,984,239
Restricted assets				
Cash and temporary investments	1,023,223	326,745	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b><u>\$ 15,573,237</u></b>	<b><u>\$ 14,435,087</u></b>	<b><u>\$ 1,962,757</u></b>	<b><u>\$ 1,984,239</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income	\$ 1,523,498	\$ 1,513,867	\$ 74,983	\$ 90,116
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	1,195,093	1,143,367	32,317	39,355
Other income related to operations	13,956	14,136	-	-
Interest paid on customer deposits	(69)	(173)	-	-
Change in assets and liabilities				
(Increase) decrease in accounts receivable	58,574	20,161	(98,954)	138
(Increase) decrease in due from other governments	113	-	-	-
(Increase) decrease in special assessments receivable	7,589	(795)	-	-
(Increase) decrease in inventories	4,488	140,086	2,706	254
(Increase) decrease in prepaid items	63	1,659	(136)	1,024
Increase (decrease) in accounts payable	(98,206)	48,164	4,038	(2,346)
Increase (decrease) in due to other governments	(374)	(733)	(26)	16
Increase (decrease) in wages and related benefits payable	3,964	(249)	1,594	(2,059)
Increase (decrease) in compensated absences payable	(92,291)	15,704	(21,394)	(11,698)
Increase (decrease) in other postemployment benefits liability	6,653	(26,155)	1,583	(7,638)
Increase (decrease) in deposits payable	(265)	4,790	-	-
Total adjustments	<u>1,099,288</u>	<u>1,359,962</u>	<u>(78,272)</u>	<u>17,046</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b><u>\$ 2,622,786</u></b>	<b><u>\$ 2,873,829</u></b>	<b><u>\$ (3,289)</u></b>	<b><u>\$ 107,162</u></b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Amortization on bond discount	\$ 6,706	\$ 11,044	\$ -	\$ -
Discount and issuance costs on bonds issued	42,001	-	-	-
Book value of disposed/traded of capital assets	-	39,421	-	-
Increase (decrease) in contracts and retainages payable	26,889	56,634	-	-

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

CITY OF LUVERNE, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2012

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 553
Receivables	
Accrued interest	<u>2</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 555</u></u>
<b>LIABILITIES</b>	
Amounts held in trust for others	<u><u>\$ 555</u></u>

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

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

The City of Luverne, Minnesota (the City) was incorporated in 1877. The City operates under a Home Rule Charter as defined by Minnesota statutes which provides for a Mayor-Council form of government. The council appoints the city administrator who is responsible for the proper administration of all affairs relating to the operation of the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The discretely presented component unit is reported in a separate column in the government-wide (see note below for description) financial statements to emphasize it is legally separate from the City. The discretely presented component unit has a December 31 year end.

*Discretely Presented Component Unit.* The Economic Development Authority (EDA) was created to carry out housing and economic development activities within the City. The governing board is appointed by the City Council. The EDA's operations are partially funded by an operating transfer from the City's General fund. Various city employees, such as the City Administrator and Community/Economic Development Director perform key management functions for the EDA. In accordance with GASB Statement No. 14, this entity is presented as a discretely presented component unit comprised of governmental (Special Revenue and Debt Service and Capital Projects funds), and proprietary (Enterprise) fund types and is reported separately on the general purpose financial statements as such. The EDA has a December 31 year end. Complete financial statements for the EDA may be obtained at the City's finance department.

*Related Organization.* The Luverne Volunteer Firemen's Relief Association is organized as a nonprofit organization, legally separate from the City, to provide pension benefits to its members in accordance with Minnesota statutes. Its board of directors includes the Mayor, Clerk, Fire Chief and six members appointed by the membership of the organization. All funding is conducted in accordance with Minnesota statutes, whereby state aids flow to the association, tax levies are determined by the association and the association pays benefits directly to its members. The City's portion of the costs of the association's pension benefits are included in the General fund.

The City officials are also responsible for appointing the members of the board of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor appoints the board members of the Housing and Redevelopment Authority of Luverne.

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

**C. Measurement focus, basis of accounting, and financial statement presentation**

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

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

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

The City reports the following major governmental funds:

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

The *Airport fund* accounts for airport services provided (hangar rent, fuel sold, etc.) to the community. Revenue sources include hangar rent, aviation fuel sales and land rent.

The *Economic Development Revolving Loan fund* accounts for grants received from the Minnesota Department of Trade and Economic Development that are used for economic development loans to qualified businesses. Revenue source includes principal and interest payments on loan.

The *Community Development fund* was established with proceeds from the sale of the Luverne Community Hospital which will be used for enhancing the community through conservation and development activities. Revenue source includes land rent.

The *Debt Service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

The *Water fund* accounts for the activities of the government's water production and distribution system.

The *Sewer fund* accounts for the activities of the government's sewer collection and treatment operations.

The *Electric fund* accounts for the activities of the government's electric distribution operations.

The *Liquor fund* accounts for the activity of the government's municipal liquor store operations.

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Additionally, the City reports the following fund types:

*Internal service funds* account for data processing, central inventory, central garage maintenance, partial self-insurance for property casualty and workers compensation insurance and sick and vacation accrued benefits, on a cost reimbursement basis.

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

The *Agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity. Agency activities of the City include Lewis and Clark.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund, of the electric enterprise fund, and of the government's internal service funds are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

***Deposits and investments***

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

Cash balances from all funds and the discretely presented component units are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of average month-end cash and investment balances.

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase 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, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments for the City, as well as for its component units, are reported at fair value. Broker money market funds operate in accordance with appropriate state laws and regulations.

The City's investment policy follows Minnesota statutes, which reduces the City's exposure to credit, custodial credit and interest rate risks. Specific risk information for the City is as follows:

- *Custodial Credit Risk* - For investments, custodial credit risk is the risk that in the event of a failure of the counterparty, the government would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of December 31, 2012 all investments were insured or registered, or securities were held by the City or its agent in the City's name.
- *Credit Risk* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper that is rated in the highest quality category by at least two nationally recognized rating agencies. The City's investment policy does not further limit the ratings of their investments.
- *Concentration Risk* - At year end, more than 5 percent of the City's investment portfolio included securities held with Smith Barney.
- *Interest Rate Risk* - In accordance with its investment policy, the City diversifies its investment portfolio to eliminate the risk of loss resulting from the over-concentration of assets in a specific maturity. The maturities selected shall provide for stability of income and reasonable liquidity.

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Property taxes*

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

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

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

*Accounts receivable*

Accounts receivable include amounts billed for services provided before year end. Unbilled enterprise fund receivables are also included for services provided in 2012. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance in the enterprise funds at December 31, 2012 was \$63,200 and the allowance in the Swimming Pool special revenue fund was \$16,000.

*Special assessments*

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by deferred inflows of resources in the fund financial statements.

*Interfund receivables and payables*

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Inventories and prepaid items***

The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased. Inventories are valued at cost utilizing the following methods of valuation:

Governmental funds - weighted average cost except for the Airport fund which uses first-in, first-out based on purchases. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current costs.

Business-type funds - weighted average costs except for the Liquor fund which uses first-in, first-out based on purchases.

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

***Restricted assets***

Assets whose use is limited includes assets set aside for payment of bond principal due in the next year as well as an amount for utility deposits and related interest payable to utility customers.

***Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Therefore, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the city chose to include all such items regardless of their acquisition date or amount. As the city constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure assets are reported on a network and subsystem basis.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the estimated useful lives. Capitalized leased assets are being amortized on a straight line basis over the estimated useful life of the equipment. The estimated useful lives are as follows:

Assets	Years
Buildings	20 to 50
Other improvements	15 to 30
System improvements/infrastructure	30 to 50
Machinery and equipment	3 to 50
Vehicles	3 to 10
Capitalized leased assets	2 to 10

***Compensated absences***

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay may be earned at a rate from six to twenty days a year, according to length of employment, and is charged to expenses or expenditures in the year earned. Employees may retain a maximum of one year accrual plus five days earned vacation time every year. Vacation pay earned is accrued in the proprietary funds and recorded in the governmental funds as a current liability payable from net current assets. Sick leave is accumulated at a rate of one (1) working day per month up to a maximum of one hundred thirty-two (132) days. Sick leave is charged to expenses or expenditures in the year earned, subject to the maximum accrual.

Employees receive severance pay upon termination in good standing, or retirement, including all earned vacation and accumulated sick leave at their current rate of pay. The value of accumulated sick leave must be deposited in the employees Health Care Savings Plan account administered by the Minnesota State Retirement System at the time of termination or retirement. The balance of earned vacation and accumulated sick leave for governmental funds is reconciled and transferred at the end of each year to the Vacation/Sick internal service fund. The balance of earned vacation and accumulated sick leave for enterprise funds is accrued in the appropriate fund. The General fund is typically used to liquidate governmental compensated absences payable.

The retired employee may continue participation in the City's group health insurance plan as if the retired employee were a City employee. The normal monthly premium must be paid each month in advance of the month of coverage.

***Postemployment benefits other than pensions***

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement 45, at January 1, 2012.

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Deferred inflows of resources*

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

*Long-term obligations*

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

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

*Fund balance*

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

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items, inventories, due from component units and other funds, and long term loans and contracts.

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

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

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

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

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

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 25-30 percent of budgeted operating expenditures for cash-flow timing needs.

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Net position*

Net position represents the difference between assets and liabilities. Net position is displayed in three components:

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

*Comparative data/reclassifications*

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

**Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. In June of each year, all department of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 15, the proposed budget is presented to the Council for review. The Council holds a public hearing and a final budget is prepared and adopted prior to the end of December.

Annual appropriated budgets are legally adopted by Council resolution for the General fund, the Airport and Swimming Pool special revenue funds. Formal budgetary integration is not employed for the Economic Development Revolving Loan fund. Formal budgetary integration is not employed for Debt Service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary control for the capital projects funds is based on a project completion time cycle rather than an annual basis, therefore budgetary comparisons on an annual basis would not present meaningful information. All annual appropriations lapse at fiscal year end. The City does not use encumbrance accounting.

The appropriated budget for the General fund is prepared by fund and function (e.g., public safety). The appropriated budget is prepared by fund for the Swimming Pool special revenue fund. Transfers of appropriations between departments and funds require the approval of the City Council. The City amended its General fund budget during the year resulting in increasing its revenues by \$25,000 and expenditures by \$66,000.

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

**Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED**

**B. Excess of expenditures over appropriations**

For the year ended December 31, 2012 excess expenditures over appropriations for the Airport special revenue fund is as follows:

Fund/Department	Budget	Actual	Excess of Expenditures Over Appropriations
Special revenue			
Airport	\$ 228,356	\$ 280,953	\$ 52,597

The excess of expenditures over appropriations was funded by increased revenue from the sale of aviation fuel and jet fuel.

**C. Deficit fund equity**

For the year ended December 31, 2012, the following fund had a fund equity deficit as follows:

Fund	Amount
Nonmajor	
Special revenue	
Swimming Pool	\$ 1,067
Capital projects	
Rural Fire Tanker	110,779

The Swimming Pool fund deficit will be funded with a transfer from the General fund in 2013.

The Rural Fire Tanker fund deficit will be funded with payments from annual charges to communities under contract for rural fire services as well as fees collected from owners of property where a response to a fire call occurred.

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

**Note 3: DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

*Deposits*

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was , including \$10,241,712 reported in fiduciary funds. The bank balance was All bank balances in excess of those covered by federal depository insurance of were collateralized with securities held by the pledging financial institutions's trust department in the City's name of . The primary government and component unit's deposits and investments are pooled.

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

*Cash on hand*

Cash in the possession of the City, consisting of petty cash and change funds totals \$1,900.

*Investments*

As of December 31, 2012, the City had the following investments that are insured or registered, or securities held by the City or it's agent in the City's name:

Types of Investments	Fair Value and Carrying Amount	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)
<b>Pooled investments</b>			
Smith Barney Money Funds	\$ 15,696	NR	under 6 months
Mainstreet Securities Money Funds	22,911	NR	under 6 months
Escrow Funds	15,693	NR	under 6 months
Minnesota Community Capital Fund	<u>25,000</u>	NR	under 6 months
Total pooled investments	<u>79,300</u>		
<b>Non-pooled investments</b>			
Government Securities	3,442,593	AAA	more than 3 years
Broker Certificates of Deposit	1,226,014	NR	under 6 months
Broker Certificates of Deposit	2,280,309	NR	6 months to 1 year
Broker Certificates of Deposit	2,681,854	NR	1 to 3 years
Broker Certificates of Deposit	2,771,317	NR	more than 3 years
State and Local Government Securities (SLGS)	1,686,154	NR	under 6 months
State and Local Government Securities (SLGS)	2,089	NR	6 months to 1 year
State and Local Government Securities (SLGS)	<u>602,089</u>	NR	1 to 3 years
Total non-pooled investments	<u>14,692,419</u>		
Total investments	<u>\$ 14,771,719</u>		

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

N/A indicates not applicable or available. NR indicates not rated.

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

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

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

	Primary Government	Component Unit - EDA	Fiduciary Funds	Total
Deposits	\$9,125,865	\$ 1,115,294	\$ 553	\$ 10,241,712
Cash on hand	1,900	-	-	1,900
Investments	14,746,719	25,000	-	14,771,719
<b>Total</b>	<b>\$ 23,874,484</b>	<b>\$ 1,140,294</b>	<b>\$ 553</b>	<b>\$ 25,015,331</b>
Cash and cash investments	\$ 21,222,025	\$ 1,099,260	\$ 553	\$ 22,321,838
Restricted assets	2,652,459	41,034	-	2,693,493
<b>Total</b>	<b>\$ 23,874,484</b>	<b>\$ 1,140,294</b>	<b>\$ 553</b>	<b>\$ 25,015,331</b>

The balances of the restricted asset accounts are as follows:

	Primary Government					Total	Component Unit
	Debt Service	Water	Sewer	Electric	Other Proprietary Funds		EDA
Accrued interest payable	\$ -	\$ 32,411	\$ 19,934	\$ -	\$ -	\$ 52,345	\$ -
Current portion of bonds/notes payable	-	798,000	117,000	-	-	915,000	-
Customer deposits payable	-	6,922	6,921	37,673	4,362	55,878	-
Minnesota Community Capital Fund	-	-	-	-	-	-	25,000
Cash with fiscal agent	1,629,236	-	-	-	-	1,629,236	-
Other	-	-	-	-	-	-	16,034
<b>Total</b>	<b>\$ 1,629,236</b>	<b>\$ 837,333</b>	<b>\$ 143,855</b>	<b>\$ 37,673</b>	<b>\$ 4,362</b>	<b>\$ 2,652,459</b>	<b>\$ 41,034</b>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**B. Receivables**

Receivables as of year-end for the City's individual major funds, nonmajor funds and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Airport Project	Economic Development Revolving Loan	Debt Service
Receivables				
Interest	\$ 17,030	\$ 536	\$ 72	\$ 2,333
Taxes	5,112	-	-	2,272
Accounts	19,753	3,246	-	-
Loans/contracts	308,949	-	-	-
Special assessments	4,329	-	-	2,476
Intergovernmental	58,018	-	-	887
Net total receivables	<u>\$ 413,191</u>	<u>\$ 3,782</u>	<u>\$ 72</u>	<u>\$ 7,968</u>
	Community Development	Nonmajor Governmental	Water	Sewer
Receivables				
Interest	\$ 661	\$ 4,173	\$ 13,260	\$ 11,500
Taxes	-	-	-	129
Accounts	-	17,886	83,097	102,631
Loans/contracts	-	-	3,457	4,390
Special assessments	-	8,826	2,993	8,472
Intergovernmental	-	6,334	-	151,196
Gross receivables	<u>661</u>	<u>37,219</u>	<u>102,807</u>	<u>278,318</u>
Less: allowance for uncollectibles	<u>-</u>	<u>(16,000)</u>	<u>(8,000)</u>	<u>(6,500)</u>
Net total receivables	<u>\$ 661</u>	<u>\$ 21,219</u>	<u>\$ 94,807</u>	<u>\$ 271,818</u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

	<u>Electric</u>	<u>Liquor</u>	<u>Nonmajor Enterprise</u>
Receivables			
Interest	\$ 16,787	\$ 986	\$ 3,863
Taxes	-	-	-
Accounts	435,906	-	66,281
Loans/contracts	213,216	-	138,646
Special assessments	-	-	1,622
Intergovernmental	-	-	-
Gross receivables	<u>665,909</u>	<u>986</u>	<u>210,412</u>
Less: allowance for uncollectibles	<u>(44,000)</u>	<u>-</u>	<u>(4,700)</u>
Net total receivables	<u><u>\$ 621,909</u></u>	<u><u>\$ 986</u></u>	<u><u>\$ 205,712</u></u>
		<u>Internal Service</u>	<u>Total</u>
Receivables			
Interest		\$ 6,603	\$ 77,804
Taxes		-	7,513
Accounts		256	729,056
Loans/contracts		99,034	767,692
Special assessments		-	28,718
Intergovernmental		-	216,435
Gross receivables		<u>105,893</u>	<u>1,827,218</u>
Less: allowance for uncollectibles		<u>-</u>	<u>(79,200)</u>
Net total receivables		<u><u>\$ 105,893</u></u>	<u><u>\$ 1,748,018</u></u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**C. Loans/contracts receivable**

Loans/contract receivable at December 31, 2012 are comprised of the following:

The City General fund made a loan to Southwest Minnesota Housing Partnership on November 1, 1997 in the amount of \$20,460 at an interest rate of 0.00 percent. Final payment is due on June 1, 2013.	\$ 11,460
The City General fund made a loan on November 14, 2008 to the Luverne Baseball Association in the amount of \$20,000 to finance the improvements to the baseball field. Payments in the amount of \$2,857.15 are due on the 15th day of each November beginning in 2009. Final payment is due on November 15, 2015.	4,279
The City General fund made a loan to the Blue Mound Area Theatre group on December 1, 2005 in the amount of \$100,000 at an interest rate of 4.25 percent. The purpose of the loan was to assist with improvements to the Palace Theatre. Monthly payments in the amount of \$1,024 are due and payable beginning January 1, 2006 with the final payment due on December 1, 2015.	34,566
The City General fund made a loan to the Luverne Convention & Visitors Bureau on May 29, 2012 in the amount of \$3,000 at an interest rate of 2.00 percent to assist with the financing of a billboard. Monthly payments in the amount of 127.64 are due on the 1 <sup>st</sup> of each month beginning July 1, 2012 with the final payment due on June 1, 2014.	2,007
The City General fund made a loan to the Luverne Hockey Club, Inc. on October 8, 2012 in the amount of \$65,000 at an interest rate of 1.00 percent to assist with the financing of an addition to the Blue Mound Ice Arena. Semi-annual payments are due beginning December 1, 2012 with final payment due on June 1, 2042.	64,371
The City General fund made a loan to the Blue Mound Area Theatre on February 28, 2012 in the amount of \$164,000 at a 2.00 percent interest rate for improvements to the Palace Theatre. Monthly payments in the amount of \$2,874.55 are due monthly beginning April 1, 2012 with final payment due on March 1, 2017.	140,432
The City General fund made a loan to the Blue Mound Area Theatre on September 24, 2012 in the amount of \$52,000 at a 3.00 percent interest rate for improvements to the Shaw Drug building. Monthly payments in the amount of \$366.06 are due monthly beginning December 13, 2012 with final payment due on July 13, 2027.	<u>51,834</u>
Total governmental funds loans/contracts receivable	<u>308,949</u>
The Water utility made a zero percent loan to a customer on March 16, 2011 in the amount of \$3,480.03 for the purpose of providing financing for installation of new water and sewer service lines. Payments in the amount of \$145.00 are due on the 10th of each month, beginning in April 2011, with final payment due on March 10, 2013.	290
The Water utility made a zero percent loan to a customer on October 4, 2012 in the amount of \$1,315.98 for the purpose of providing financing for installation of a new water service line. Payments in the amount of \$54.83 are due on the 10 <sup>th</sup> of each month, beginning in December 2012, with final payment due on October 10, 2014.	1,206
The Water utility made a zero percent loan to a customer on August 30, 2012 in the amount of \$1,230.66 for the purpose of providing financing ofr installaiton of a new water service line. Payments in the amount of \$51.22 are due on the 10 <sup>th</sup> of each month, beginning in October 2012, with final payment due on September 10, 2014.	1,026

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

<p>The Water utility made a loan to the Luverne Hockey Club, Inc. on October 8, 2012 in the amount of \$65,000 at an interest rate of 1.00 percent to assist with the financing of an addition to the Blue Mound Ice Arena. Semi-annual payments are due beginning December 1, 2012 with final payment due on June 1, 2042.</p>	\$ 64,371
<p>The Sewer utility made a zero percent loan to a customer on July 5, 2012 in the amount of 4,992.33 for the purpose of providing financing for the intallation of a replacement sewer service line. Payments in the amount of \$208.02 are due on the 10<sup>th</sup> of each month, beginning in August 2012, with final payment due on July 10, 2014.</p>	3,744
<p>The Sewer utility made a loan to the Luverne Hockey Club, Inc. on October 8, 2012 in the amount of \$65,000 at an interest rate of 1.00 percent to assist with the financing of an addition to the Blue Mound Ice Arena. Semi-annual payments are due beginning December 1, 2012 with final payment due on June 1, 2042.</p>	64,372
<p>The Electric utility made a loan to the Luverne Hockey Club, Inc. on October 8, 2012 in the amount of \$65,000 at an interest rate of 1.00 percent to assist with the financing of an addition to the Blue Mound Ice Arena. Semi-annual payments are due beginning December 1, 2012 with final payment due on June 1, 2042.</p>	64,371
<p>The Electric utility made a loan to Glen’s Food and Gas Center on June 7, 2012 in the amount of \$5,000 at a zero percent interest rate. The purpose of the loan was to finance energy efficient lighting. Payments in the amount of \$416.63 are due on the 10<sup>th</sup> of each month beginning July 10, 2012 with final payment due June 10, 2013.</p>	2,083
<p>The Electric utility made a zero percent loan on April 27, 2011 to Herman Motors in the amount of \$5,000.00 as an incentive to promote installation of energy efficient lighting. Payments in the amount of \$83.33 are due on the 10th of each month, beginning in July 2011 with final payment due June 10, 2016.</p>	3,417
<p>The Electric utility made a zero percent loan on June 23, 2011 to Luverne Motor Parts in the amount of \$2,827.00 as an incentive to promote installation of energy efficient lighting. Payments in the amount of \$78.53 are due on the 10th of each month, beginning in August 2011 with final payment due July 10, 2014.</p>	1,414
<p>The Electric utility made a zero percent loan on October 31, 2011 to Tollefson Publishing in the amount of \$3,611.25 as an incentive to promote installation of energy efficient lighting. Payments in the amount of \$75.23 are due on the 10th of each month, beginning in December 2011 with final payment due November 10, 2015.</p>	2,558
<p>The Electric utility made a zero percent loan on July 29, 2011 to G &amp; S Auto in the amount of \$2,983.32 as an incentive to promote installation of energy efficient lighting. Payments in the amount of \$82.87 are due on the 10th of each month, beginning in September 2011 with final payment due August 10, 2014.</p>	1,575
<p>The Electric utility made a zero percent loan on December 30, 2011 to Mert’s Machine in the amount of \$3,221.36 as an incentive to promote installation of energy efficient lighting. Payments in the amount of \$67.11 are due on the 10th of each month, beginning in February 2012 with final payment due January 10, 2016.</p>	2,416
<p>The Property Casualty fund made a loan to the Luverne Hockey Club, Inc. on October 8, 2012 in the amount of \$100,000 at an interest rate of 1.00 percent to assist with the financing of an addition to the Blue Mound Ice Arena. Semi-annual payments are due beginning December 1, 2012 with final payment due on June 1, 2042.</p>	99,034

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

The Electric utility has extended loans to eligible employees for computer purchases to increase their skill level in their jobs.	\$ 5,120
The Electric utility made a zero percent loan on May 19, 2011 to the Pizza Ranch in the amount of \$4,536.32 as an incentive to promote installation of energy efficient lighting. Payments in the amount of \$75.61 are due on the 10th of each month, beginning in July 2011 with final payment due June 10, 2016.	3,100
The Refuse utility made a loan to the Luverne Hockey Club, Inc. on October 8, 2012 in the amount of \$140,000 at an interest rate of 1.00 percent to assist with the financing of an addition to the Blue Mound Ice Arena. Semi-annual payments are due beginning December 1, 2012 with final payment due on June 1, 2042.	<u>138,646</u>
Total business-type funds loans receivable	<u>458,743</u>
Total primary government loans/contracts receivable	<u>767,692</u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

<p>The Economic Development Authority made a loan on November 8, 2001 to Netbriefings.com, Inc. in the amount of \$250,000 at an interest rate of 4 percent to provide capital for their business expansion. Payments in the amount of \$3,047 are due on the eighth of each month beginning in December 2003 for 96 months at which time all remaining balances become fully due and payable.</p>	\$ 37,201
<p>The Economic Development Authority made a loan on April 29, 2008 to Midwest Fire in the amount of \$240,000 at an interest rate of 5.00 percent to provide capital for the construction of a new facility for their business expansion. Payments in the amount of \$1,905 are due on the first of each month, beginning in June 1, 2008. Final payment is due on or before November 1, 2019.</p>	125,327
<p>The Economic Development Authority made a loan on November 21, 2008 to Rock Manor Limited Partnership in the amount of \$10,000 at zero percent interest to assist in the financing of a major renovation of the Rock Manor Townhouse project. The payment of this loan is due on November 21, 2038.</p>	10,000
<p>The Economic Development Authority made a loan on July 15, 2010 to Merlin and Carol Cleveringa in the amount of \$104,180 at an interest rate of 5.00 percent for the purchase of 8 lots in the Manfred Heights subdivision for twin home development. Annual payments in varying amounts from \$12,846 to \$22,278.38 are due on the 15<sup>th</sup> of July beginning in 2011 with the final payment being due on July 15, 2018.</p>	79,796
<p>The Economic Development Authority made a loan on April 1, 2010 in the amount of \$390,000 to Total Card, Inc. to consolidate two existing loans. Payments in the amount of \$5,000 including interest are due monthly on the 1st of each month beginning on May 1, 2010. Final payment is due November 1, 2017.</p>	265,274
<p>The Economic Development Authority made a non-interest bearing forgivable loan on April 1, 2010 in the amount of \$254,444 to Total Card, Inc. The loan will due on November 1, 2017 if TCI fails to increase its base employment of 21 FTE's to 72 FTE's by that date.</p>	254,444
<p>The Economic Development Authority provided a contract for deed on September 9, 2009 to Merlin and Carol Cleveringa in the amount of \$30,000 for the purchase of 2 lots in Evergreen Addition for housing development. Payment in the amount of \$200.00 is due on the 1<sup>st</sup> of each month beginning September 9, 2009, with final payment due on September 1, 2012.</p>	<u>21,000</u>
<p>Total component unit loans receivable</p>	<u>793,042</u>
<p>Total loans/contract receivable</p>	<p><u>\$ 1,560,734</u></p>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**D. Interfund receivables, payables, and transfers**

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

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	\$ 117,240
	Community Development	56,904
Enterprise		
Water	Community Development	32,517
Sewer	Community Development	32,517
Electric	Community Development	65,033
Nonmajor enterprise	Community Development	32,517
Total		\$ 336,728

The majority of the General fund outstanding balance is a loan to the Rural Fire Tanker fund 408 and will be repaid with rural fire call fees and payments from Townships under contract for rural fire protection. The other outstanding balances between funds result from a loan from the General fund and various utility funds to the Community Development fund for land acquisition for an industrial park. Semi-annual payments are made when land rent is received.

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

The following transfers were made in 2012:

	Transfer in			Total
	General Fund	Airport Fund	Nonmajor Governmental Funds	
Transfer out				
General fund	\$ -	\$ 38,000	\$ 350,391	\$ 388,391
Water enterprise fund	70,000	-	-	70,000
Sewer enterprise fund	62,000	-	-	62,000
Electric enterprise fund	40,000	-	35,000	75,000
Liquor enterprise fund	45,000	-	-	45,000
Nonmajor enterprise funds	65,000	-	20,000	85,000
	<u>\$ 282,000</u>	<u>\$ 38,000</u>	<u>\$ 450,391</u>	<u>\$ 770,391</u>

The General fund transfer to the Airport fund (\$38,000) and Swimming Pool fund (\$212,591) are annual operating transfers. The General fund transfer to the Capital Equipment Replacement fund (\$50,000), and MN West/City Offices Project (\$42,800) are transfers for future capital purchases and improvements. The transfer from the General fund to the Pool Capital Projects fund (\$41,000) was for repair of the brick exterior and to the Ice Arena Capital Projects fund (\$4,000) was for future capital improvements..

Transfer from the Swimming Pool fund of \$45,000 to the Pool Capital Improvement fund (a non-major fund) is to accumulate funds for future capital improvements.

The Water fund (\$70,000), Sewer fund (\$62,000), Electric fund (\$40,000), Refuse and Recycling fund (\$52,000), Storm Sewer fund (\$13,000) and Liquor fund (\$45,000) transfers to the General fund are annual transfers for operations.

The transfer to the Capital Equipment Replacement fund from Refuse and Recycling (\$20,000) and Electric (\$35,000) are transfers for equipment purchases.

**E. Restricted assets**

The composition of restricted assets of enterprise funds at December 31, 2012 are cash and investments offset by the following liability accounts:

Customer deposits - Water fund	\$ 6,922
Customer deposits - Sewer fund	6,921
Customer deposits - Electric fund	37,673
Customer deposits - Other proprietary funds	4,362
Accrued interest payable - Water fund	32,411
Accrued interest payable - Sewer fund	19,934
Current portion of bonds - Water fund	798,000
Current portion of bonds - Sewer fund	117,000
	<u>117,000</u>
 Total restricted assets	 <u>\$ 1,023,223</u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**F. Capital assets**

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

*Primary government*

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 1,979,324	\$ 5,601	\$ -	\$ 1,984,925
Construction in progress	30,203	760,917	-	791,120
Total capital assets not being depreciated	<u>2,009,527</u>	<u>766,518</u>	<u>-</u>	<u>2,776,045</u>
Capital assets being depreciated				
Buildings	7,060,124	40,200	-	7,100,324
Improvements and infrastructure	13,020,770	607,018	-	13,627,788
Machinery and equipment	4,162,313	341,015	(104,436)	4,398,892
Total capital assets being depreciated	<u>24,243,207</u>	<u>988,233</u>	<u>(104,436)</u>	<u>25,127,004</u>
Less accumulated depreciation for				
Buildings	(3,233,867)	(221,036)	-	(3,454,903)
Improvements and infrastructure	(8,204,784)	(334,096)	-	(8,538,880)
Machinery and equipment	(2,984,347)	(230,716)	101,048	(3,114,015)
Total accumulated depreciation	<u>(14,422,998)</u>	<u>(785,848)</u>	<u>101,048</u>	<u>(15,107,798)</u>
Total capital assets being depreciated, net	<u>9,820,209</u>	<u>202,385</u>	<u>(3,388)</u>	<u>10,019,206</u>
Governmental activities capital assets, net	<u>\$ 11,829,736</u>	<u>\$ 968,903</u>	<u>\$ (3,388)</u>	<u>\$ 12,795,251</u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 203,715	\$ -	\$ -	\$ 203,715
Construction in progress	613,059	616,860	(210,883)	1,019,036
	<u>816,774</u>	<u>616,860</u>	<u>(210,883)</u>	<u>1,222,751</u>
Total capital assets not being depreciated				
	<u>816,774</u>	<u>616,860</u>	<u>(210,883)</u>	<u>1,222,751</u>
Capital assets being depreciated				
Buildings	2,686,248	65,982	-	2,752,230
Improvements and infrastructure	27,129,690	2,877,774	(5,626)	30,001,838
Machinery and equipment	2,175,919	249,172	(25,906)	2,399,185
	<u>31,991,857</u>	<u>3,192,928</u>	<u>(31,532)</u>	<u>35,153,253</u>
Total capital assets being depreciated				
	<u>31,991,857</u>	<u>3,192,928</u>	<u>(31,532)</u>	<u>35,153,253</u>
Less accumulated depreciation for				
Buildings	(2,073,578)	(59,427)	-	(2,133,005)
Improvements and infrastructure	(13,519,107)	(1,031,584)	5,626	(14,545,065)
Machinery and equipment	(1,662,927)	(127,458)	25,906	(1,764,479)
	<u>(17,255,612)</u>	<u>(1,218,469)</u>	<u>31,532</u>	<u>(18,442,549)</u>
Total accumulated depreciation				
	<u>(17,255,612)</u>	<u>(1,218,469)</u>	<u>31,532</u>	<u>(18,442,549)</u>
Total capital assets being depreciated, net				
	<u>14,736,245</u>	<u>1,974,459</u>	<u>-</u>	<u>16,710,704</u>
Business-type activities capital assets, net				
	<u>\$ 15,553,019</u>	<u>\$ 2,591,319</u>	<u>\$ (210,883)</u>	<u>\$ 17,933,455</u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

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

**Governmental activities**

General government	\$ 101,851
Public safety	75,331
Public works, including depreciation of general infrastructure assets	235,610
Culture and recreation	169,942
Conservation and development	9,734
Miscellaneous - airport	172,218
Central Garage internal service	<u>8,941</u>
 Total depreciation expense - governmental activities	 <u><u>\$ 773,627</u></u>

**Business-type activities**

Water	\$ 223,352
Sewer	247,574
Refuse and recycling	25,442
Electric	644,886
Storm sewer	49,019
Liquor	4,820
Central Store internal service	4,790
Data Processing internal service	<u>18,586</u>
 Total depreciation expense - business-type activities	 <u><u>\$ 1,218,469</u></u>

***Construction commitments***

The government has active construction projects as of December 31, 2012. The projects include a street improvement and a lift station project. At year end the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Warren Street Project	\$ 550,923	\$ 154,885
Industrial Lift Station	<u>371,042</u>	<u>51,341</u>
 Total	 <u><u>\$ 921,965</u></u>	 <u><u>\$ 206,226</u></u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

*Discretely presented component units*

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 627,889	\$ 19,700	\$ (20,587)	\$ 627,002
Capital assets being depreciated				
Buildings	2,160,835	171,000	-	2,331,835
Machinery and equipment	5,835	-	-	5,835
Total capital assets being depreciated	<u>2,166,670</u>	<u>171,000</u>	<u>-</u>	<u>2,337,670</u>
Less accumulated depreciation for				
Buildings	(842,978)	(52,715)	-	(895,693)
Machinery and equipment	(778)	(584)	-	(1,362)
Total accumulated depreciation	<u>(843,756)</u>	<u>(53,299)</u>	<u>-</u>	<u>(897,055)</u>
Total capital assets being depreciated, net	<u>1,322,914</u>	<u>117,701</u>	<u>-</u>	<u>1,440,615</u>
EDA capital assets, net	<u>\$ 1,950,803</u>	<u>\$ 137,401</u>	<u>\$ (20,587)</u>	<u>\$ 2,067,617</u>

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

Component unit activities	
Housing and economic development	<u>\$ 53,299</u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**G. Long-term debt**

General obligation bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$10,728,000.

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

***Primary government debt***

General obligation bonds

The following bonds were issued to provide funding for fire relief pensions and fire hall construction. Revenue to retire this bond issue comes from ad valorem tax levies.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Taxable Pension Bonds of 2002D	\$ 560,000	3.00 - 5.25 %	12/01/02	02/01/13	\$ 75,000
G.O. Capital Improvement Bonds of 2006A (Fire Hall/MN West)	1,500,000	4.00 - 4.70	07/01/06	02/01/13 *	1,100,000
G.O. Improvement Bonds of 2012A (Refunding 2006A)	1,035,000	.35 - 2.40	04/01/12	02/01/22	1,035,000
G.O. Improvement Bonds of 2012A (City reroof)	410,000	.35 - 2.40	04/01/12	02/01/28	<u>410,000</u>
Total General Obligation Bonds					<u><u>\$ 2,620,000</u></u>

\* The 2012A refunding issue will refund this issue.

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

Year Ending December 31,	<b>General Obligation Bonds</b>		
	Governmental Activities		
	Principal	Interest	Total
2013	\$ 1,175,000	\$ 48,744	\$ 1,223,744
2014	135,000	16,699	151,699
2015	135,000	16,159	151,159
2016	135,000	15,450	150,450
2017	140,000	14,485	154,485
2018 - 2022	720,000	47,370	767,370
2023 - 2027	150,000	11,767	161,767
2028	30,000	360	30,360
Total	<u><u>\$ 2,620,000</u></u>	<u><u>\$ 171,034</u></u>	<u><u>\$ 2,791,034</u></u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

G.O. tax increment bonds

The following bonds were issued to finance various tax increment projects. The additional tax increment revenue resulting from the increased tax capacity of these projects will be used to retire the related debt.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Tax Increment Refunding Bonds of 2010A (Pamida)	\$ 375,000	0.60 - 3.00 %	11/01/10	02/01/23	<u>\$ 345,000</u>

Annual debt service requirements to maturity for all G.O. tax increment bonds are as follows:

Year Ending December 31,	<b>G.O. Tax Increment Bonds</b> Governmental Activities		
	Principal	Interest	Total
2013	\$ 30,000	\$ 7,163	\$ 37,163
2014	30,000	6,900	36,900
2015	25,000	6,594	31,594
2016	25,000	6,244	31,244
2017	30,000	5,773	35,773
2018 - 2022	170,000	17,429	187,429
2023	35,000	525	35,525
Total	<u>\$ 345,000</u>	<u>\$ 50,628</u>	<u>\$ 395,628</u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

G.O. improvement bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bonds of 2010A (Freeman/Estey)	\$ 260,000	0.60 - 0.75 %	11/01/10	02/01/13	\$ 135,000
G.O. Improvement Bonds of 2007A	975,000	3.55 - 3.95	11/15/07	02/01/14	* 800,000
G.O. Improvement Bonds of 2012A (Refunding)	620,000	0.35 - 2.40	04/01/12	02/01/20	<u>620,000</u>
Total G.O. Special Assessment Bonds					<u><u>\$ 1,555,000</u></u>

\* The 2012A refunding issue will refund this issue.

Annual debt service requirements to maturity for all G.O. improvement bonds are as follows:

Year Ending December 31,	<b>G.O. Improvement Bonds</b> Governmental Activities		
	Principal	Interest	Total
2013	\$ 235,000	\$ 34,050	\$ 269,050
2014	700,000	19,000	719,000
2015	110,000	5,378	115,378
2016	110,000	4,800	114,800
2017	105,000	4,050	109,050
2018 - 2020	<u>295,000</u>	<u>5,725</u>	<u>300,725</u>
Total	<u><u>\$ 1,555,000</u></u>	<u><u>\$ 73,003</u></u>	<u><u>\$ 1,628,003</u></u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

G.O. equipment certificates

The following bond was issued to provide funding for the acquisition of a new fire truck. Revenue to retire these certificates comes from ad valorem tax levies.

<u>Description</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>
G.O. Equipment Certificates of 2005A	\$ 98,000	4.25 %	12/15/05	01/01/16	<u>\$ 45,000</u>

Annual debt service requirements to maturity for all G.O. equipment certificates are as follows:

<u>Year Ending December 31,</u>	<b>G.O. Equipment Certificates</b> Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 10,000	\$ 1,700	\$ 11,700
2014	11,000	1,254	12,254
2015	11,000	786	11,786
2016	13,000	276	13,276
Total	<u>\$ 45,000</u>	<u>\$ 4,016</u>	<u>\$ 49,016</u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

General obligation revenue bonds

The following revenue bonds were issued to finance capital improvements to the water and sewer utilities. They will be retired from net revenue of these funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding					
Bonds of 2010A (Water & Sewer)	\$ 1,885,000	0.60 - 2.55 %	11/01/10	02/01/13	* \$ 1,695,000
G.O. Water Revenue					
Bonds of 2006B	975,000	3.60 - 4.10	11/01/06	02/01/13	* 720,000
G.O. Improvement Bonds of 2012A (Refunding-Water & Sewer)	2,035,000	.35 - 2.40	04/01/12	02/01/28	2,035,000
G.O. Improvement Bonds of 2012A (Refunding-Water)	675,000	.35 - 2.40	04/01/12	02/01/28	<u>675,000</u>
 Total G.O. Revenue Bonds					 <u><u>\$ 5,125,000</u></u>

\* The 2012A refunding issue will refund these issues.

Annual debt service requirements to maturity for all G.O. revenue bonds are as follows:

Year Ending December 31,	<b>G.O. Revenue Bonds</b>		
	Business-type Activities		
	Principal	Interest	Total
2013	\$ 915,000	\$ 92,945	\$ 1,007,945
2014	395,000	63,951	458,951
2015	410,000	60,848	470,848
2016	400,000	56,911	456,911
2017	400,000	52,088	452,088
2018 - 2022	1,730,000	160,325	1,890,325
2023 - 2027	720,000	58,398	778,398
2028	155,000	1,860	156,860
 Total	 <u><u>\$ 5,125,000</u></u>	 <u><u>\$ 547,326</u></u>	 <u><u>\$ 5,672,326</u></u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Notes payable

The following notes were issued to providing financing for the construction of hangars at the municipal airport. These notes will be retired from hangar rental payments.

Description	Authorized and issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2007 Hangar Note	\$ 161,098	- %	12/31/07	12/31/17	\$ 80,099
2009 Hangar Note	136,552	-	12/31/09	12/31/19	104,606
2010 Hangar Note	143,486	-	12/31/10	12/31/21	129,110
Total Notes					<u>\$ 313,815</u>

Annual debt service requirements to maturity for all notes payable are as follows:

Year Ending December 31,	Notes Governmental Activities		
	Principal	Interest	Total
2013	\$ 44,556	\$ -	\$ 44,556
2014	44,556	-	44,556
2015	44,556	-	44,556
2016	44,556	-	44,556
2017	43,655	-	43,655
2018 - 2021	91,936	-	91,936
Total	<u>\$ 313,815</u>	<u>\$ -</u>	<u>\$ 313,815</u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Changes in long-term liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable					
General obligation bonds	\$ 1,340,000	\$ 1,445,000	\$ (165,000)	\$ 2,620,000	\$ 1,175,000
General obligation tax increment bonds	382,500	-	(37,500)	345,000	30,000
General obligation improvement bonds	1,150,000	620,000	(215,000)	1,555,000	235,000
General obligation equipment certificates	55,000	-	(10,000)	45,000	10,000
Total bonds payable	2,927,500	2,065,000	(427,500)	4,565,000	1,450,000
Notes payable	362,907	-	(49,092)	313,815	44,556
Compensated absences payable	216,426	52,224	(77,732)	190,918	42,949
Other postemployment benefits liability	15,801	1,879	-	17,680	-
Governmental activity long-term liabilities	<u>\$ 3,522,634</u>	<u>\$ 2,119,103</u>	<u>\$ (554,324)</u>	<u>\$ 5,087,413</u>	<u>\$ 1,537,505</u>
<b>Business-type activities</b>					
Bonds payable					
General obligation revenue bonds	\$ 2,660,000	\$ 2,710,000	\$ (245,000)	\$ 5,125,000	\$ 915,000
Compensated absences payable	394,291	81,656	(169,833)	306,114	73,600
Other postemployment benefits liability	27,644	8,010	-	35,654	-
Business-type activity long-term liabilities	<u>\$ 3,081,935</u>	<u>\$ 2,799,666</u>	<u>\$ (414,833)</u>	<u>\$ 5,466,768</u>	<u>\$ 988,600</u>
<b>Component Unit</b>					
<b>Economic Development Authority</b>					
Bank notes payable	\$ 11,009	\$ -	\$ (11,009)	\$ -	\$ -
Compensated absences payable	-	2,526	(1,965)	561	561
Other postemployment benefits liability	502	1,310	-	1,812	-
Component Unit long-term liabilities	<u>\$ 11,511</u>	<u>\$ 3,836</u>	<u>\$ (12,974)</u>	<u>\$ 2,373</u>	<u>\$ 561</u>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Long-term debt payable at December 31, 2012 is comprised of the following individual issues:

General obligation bonds

\$560,000 General Obligation Taxable Pension Bonds, \$50,000 to \$75,000 due annually through 2-1-2013 at an interest rate of 3.00 percent to 5.25 percent.	\$ 75,000
\$1,500,000 General Obligation Capital Improvement Bonds, \$70,000 to \$140,000 due annually through 2-1-2022 at an interest rate of 4.00 percent to 4.70 percent.	1,100,000
\$1,035,000 General Obligation Bonds of 2012A (Refunding 2006A), \$110,000 to \$130,000 due annually through 2-1-2022 at an interest rate of .35 percent to 1.70 percent.	1,035,000
\$410,000 General Obligation Bonds of 2012A (City re-roof), \$25,000 to \$30,000 due annually through 2-1-2028 at an interest rate of .35 percent to 2.40 percent.	<u>410,000</u>
Total	<u>2,620,000</u>

General obligation improvement bonds

\$260,000 2010 General Obligation Refunding Bonds (Freeman & Estey), \$125,000 to \$135,000 due annually through 2-1-2013 at an interest rate of 0.60 percent to 0.75 percent.	135,000
\$975,000 2007A General Obligation Improvement Bonds, (Manfred Heights), \$85,000 to \$100,000 due annually through 2-1-2020 at an interest rate of 3.55 percent to 3.95 percent.	800,000
\$620,000 General Obligation Improvement Bonds pf 2012A (Refunding 2007A), \$95,000 to \$110,000 due annually through 2-1-2020 at an interest rate of 0.45 percent to 1.40 percent.	<u>620,000</u>
Total	<u>1,555,000</u>

General obligation equipment certificates:

\$98,000 General Obligation Equipment Certificates, Series 2005A made on December 1, 2005 for the purpose of financing the acquisition of a fire truck. Varying principal amounts of \$7,000 to \$13,000 due annually through 1-1-2016 at an interest rate of 4.250 percent.	<u>45,000</u>
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General obligation tax increment bonds:

\$500,000 2002 General Obligation TIF Refunding Bond (Pamida Project) varying principal amounts of \$10,000 to \$40,000 due annually through 2-1-2023 at an interest rate of 2.25 percent to 5.00 percent.	<u>345,000</u>
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CITY OF LUVERNE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Notes payable - airport:

\$161,099 note from the State of Minnesota for the construction of a hangar at the Airport. Monthly payments of \$1,350 include interest at 0.00 percent. The final payment will be made in November 2017. \$ 80,099

\$139,556 note from the State of Minnesota for the construction of a hangar at the Airport. Monthly payments of \$1,165 include interest at 0.00 percent. The date of the final payment is June 2020. 104,606

\$143,486 note from the State of Minnesota for the construction of a hangar at the Airport. Monthly payment of \$1,201 include interest at 0.00 percent. The final payment will be made in December 2021. 129,110

Total 313,815

General obligation revenue bonds:

\$1,885,000, 2010 General Obligation Refunding Bonds (Sewer & Water 2004) due annually through 2-1-2023 at an interest rate of 0.60 percent to 3.00 percent. 1,695,000

\$975,000, 2006 General Obligation Revenue Bonds, \$45,000 to \$95,000 due annually through 2-1-2022 at an interest rate of 3.60 percent to 4.10 percent. 720,000

\$2,035,000, 2012 General Obligation Improvement Bonds of 2012A (Refunding Water & Sewer), \$125,000 to \$155,000 due annually through 2-1-2028 at an interest rate of 0.35 percent to 2.40 percent. 2,035,000

\$675,000, 2012 General Obligation Improvement Bonds of 2012 A (Refunding Water), \$70,000 to \$90,000 due annually through 2-1-2022 at an interest rate of 0.35 percent to 1.70 percent. 675,000

Total 5,125,000

Total Long-term Debt \$ 10,003,815

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**The following amounts are included in the due to primary government totals:**

<p>The Economic Development Revolving Loan Fund made a loan to the Luverne Economic Development Authority (a discretely presented component unit) in the amount of \$350,000 on October 2, 1995. The interest rate increases from 1.00 percent to 5.00 percent over the term of the loan. The purpose of the loan was to provide financing for the Berkley Information Services project. Payment of the loan is due in November 2019.</p>	\$ 220,380
<p>The General fund made a 6.00 percent loan to the Luverne Economic Development Authority (a discretely presented component unit) in the amount of \$47,000 on November 25, 1996. The purpose of the loan was to provide financing for the Minnwest Bank Tax Increment project. Payment of the loan is due in January 2024. The current amount due to the General fund is shown in the Minnwest TIF No. 17 Debt Service fund.</p>	29,582
<p>The General fund made a 3.00 percent loan to the Luverne Economic Development Authority (a discretely presented component unit) in the amount of \$200,000 on July 30, 1999. The purpose of the loan was to provide financing for the Exsito Foods project. Payments on the loan are due annually beginning August 1, 2000 with final payment due on August 1, 2014.</p>	<u>31,393</u>
<p>Amount due to Internal Service fund</p>	<u>3,156</u>
<p>Total due to primary government</p>	<u>\$ 284,511</u>

***Advance and crossover refundings***

On April 1, 2012, the City issued General Obligation Bonds, Series 2012 A for \$4,795,000. The bonds were issued to:

1. Refund in advance of maturity on February 1, 2013 (the crossover date) the February 1, 2014 through 2022 maturities totaling \$1,010,000 of the General Obligation Capital Improvement Plan Bonds, Series 2006A. This portion of the bonds was issued with a net interest cost of 1.3499905 percent. It is estimated that the City will reduce its aggregate debt service payment by approximately \$136,585 over the eight years and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$136,394.
2. Refund in advance of maturity on February 1, 2013 (the crossover date) the February 1, 2014 through 2022 maturities totaling \$660,000 of the General Obligation Water Revenue Bonds, Series 2006B. This portion of the bonds was issued with a net interest cost of 1.2445344 percent. It is estimated that the City will reduce its aggregate debt service payment by approximately \$76,053 over the nine years and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$74,860.
3. Refund in advance of maturity on February 1, 2014 (the crossover date) the February 1, 2015 through 2020 maturities totaling \$600,000 of the General Obligation Improvement Bonds, Series 2007A. This portion of the bonds was issued with a net interest cost of 1.1436068 percent. It is estimated that the City will reduce its aggregate debt service payment by approximately \$36,130 over the eight years and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$35,968.
4. Provide financing in the amount of \$410,000 to replace the roof on the City Office building. This portion of the bonds was issued with a net interest cost of 1.9029136 percent.
5. Provide financing in the amount of \$2,035,000 to replace water and sewer mains on South Highway 75. This portion of the bonds was issued with a net interest cost of 1.8987197 percent.

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**H. Components of fund balance**

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

	General	Airport	Economic Development Revolving Loan	Community Development	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>							
Loans/contracts	\$ 308,949	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 308,949
Due from other funds	174,144	-	-	-	-	-	174,144
Due from component unit	60,975	-	-	-	-	-	60,975
Inventories	18,426	15,003	-	-	-	-	33,429
Prepaid items	444	-	-	-	-	700	1,144
<b>Total nonspendable</b>	<b>\$ 562,938</b>	<b>\$ 15,003</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 700</b>	<b>\$ 578,641</b>
<b>Restricted for</b>							
Fire pension debt service	\$ 12,475	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,475
Debt service	-	-	-	-	2,702,629	-	2,702,629
<b>Total restricted</b>	<b>\$ 12,475</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,702,629</b>	<b>\$ -</b>	<b>\$ 2,715,104</b>
<b>Committed for</b>							
Airport operations	\$ -	\$ 176,079	\$ -	\$ -	\$ -	\$ -	\$ 176,079
Economic development	-	-	262,188	-	-	-	262,188
Community development	-	-	-	149,741	-	-	149,741
<b>Total committed</b>	<b>\$ -</b>	<b>\$ 176,079</b>	<b>\$ 262,188</b>	<b>\$ 149,741</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 588,008</b>
<b>Assigned for</b>							
LEC contract	\$ 778,593	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 778,593
Fire pension contract	45,000	-	-	-	-	-	45,000
Tax abatement costs	20,000	-	-	-	-	-	20,000
Ice arena expansion	20,000	-	-	-	-	-	20,000
Chamber contract	19,000	-	-	-	-	-	19,000
Seal coating	80,000	-	-	-	-	-	80,000
Assessing	46,568	-	-	-	-	-	46,568
Data processing	83,500	-	-	-	-	-	83,500
Capital improvements	-	-	-	-	-	420,744	420,744
Capital equipment	-	-	-	-	-	533,350	533,350
<b>Total assigned</b>	<b>\$ 1,092,661</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 954,094</b>	<b>\$ 2,046,755</b>
<b>Unassigned</b>	<b>\$ 970,948</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (112,546)</b>	<b>\$ 858,402</b>

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

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**I. Tax increment districts**

The City of Luverne is the administering authority for the following tax increment financing districts:

	Larson-Luverne True Value TIF District	Connell/Skewes Klosterbuer TIF District	Pamida 1997 TIF District
Authorizing Law	M.S. 469	M.S. 469	M.S. 469
Type of District	Redevelopment	Redevelopment	Redevelopment
Year Established	1988	1993	1996
Duration of District	25 years	25 years	25 years
Tax Capacity			
Original	\$ 555	\$ 345	\$ 326
Current	3,188	4,156	23,986
Captured - Retained	<u>\$ 2,633</u>	<u>\$ 3,811</u>	<u>\$ 23,660</u>
Total General Obligation Tax Increment			
Bonds and Notes issued	\$ 80,000	\$ 95,000	\$ 500,000
Amounts redeemed	(80,000)	(95,000)	(155,000)
Outstanding at December 31, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 345,000</u>
		Minnwest Bank TIF District	Luverne Family Housing TIF District
Authorizing Law		M.S. 469	M.S. 469
Type of District		Redevelopment	Housing
Year Established		1996	1997
Duration of District		25 years	25 years
Tax Capacity			
Original		\$ 462	\$ 98
Current		1,688	8,393
Captured - Retained		<u>\$ 1,226</u>	<u>\$ 8,295</u>
Total General Obligation Tax Increment			
Bonds and Notes issued		\$ 47,000	\$ -
Amounts redeemed		(17,418)	-
Outstanding at December 31, 2012		<u>\$ 29,582</u>	<u>\$ -</u>

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

**Note 4: OTHER INFORMATION**

**A. Risk management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Insurance is purchased by the City, the Economic Development Authority (a discretely presented component unit) to provide coverage for any losses that may occur. As a method to reduce insurance costs, the City uses a \$25,000 deductible per occurrence with an annual aggregate of \$50,000. This affects all of the City's insurance except for airport liability, liquor liability, boiler and machinery, worker's compensation and employee health, life and disability insurance.

The City established an Internal Service fund, called Property/Casualty Insurance fund. This fund was set up to account for and finance the City's uninsured risk of loss and to establish a reserve for uninsured losses. That initial reserve was \$200,000. This fund fronts the cost of the League of Minnesota Cities Insurance Trust insurance premium. Upon receipt of the required information, the costs, based on a premium with a \$1,000 deductible, are charged to appropriate funds/departments. There was no claim liability reported at December 31, 2012 or December 31, 2011 as there were no losses known or unpaid at those times.

Year	January 1 Claims Liability	Current Year Claims and Changes in Estimates	Current Year Claim Payments	December 31 Claims Liability
2012	\$ -	\$ 5,738	\$ (5,738)	\$ -
2011	-	23,300	(23,300)	-
2010	-	2,393	(2,393)	-

The League of Minnesota Cities Insurance Trust provides a Group Self-Insured Workers' Compensation Plan to provide workers compensation insurance for member cities of the League of Minnesota Cities and the City of Luverne purchases worker's compensation coverage through this plan. This plan is administered by Berkley Administrators, a member of the Berkley Risk Management Service Group. The City of Luverne has selected a regular premium option for determining the premium charged to the City.

The City has established an Internal Service fund, called Worker's Compensation Insurance fund. This fund was set up to account for and finance the City's additional premium costs or return premium within the parameters of the retrospective rating option selected for premiums for worker's compensation insurance coverage and to establish a reserve for additional premiums that may be required due to actual loss experience. The City now uses the regular premium option and uses the fund to account for any deposit premium refunds.

The Economic Development Authority (a discretely presented component unit) has insurance coverage under the City policy with the League of Minnesota Cities Insurance Trust. They purchase worker's compensation insurance from the League of Minnesota Cities along with the City. There have been no claims in excess of insurance coverage in any of the past three years.

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

**Note 4: OTHER INFORMATION - CONTINUED**

**B. Commitments and contingencies**

The City of Luverne is under contract with Missouri Basin Municipal Power Agency (MBMPA), whereby the City has agreed to purchase and receive from the agency supplemental electrical power (about 20 percent of total needs) and energy to provide electrical service to the community. This contract was amended on 1-1-93 to provide power until 1-1-2030.

The City of Luverne is under contract with Western Area Power Administration (WAPA) for firm electric service from the United States Department of Energy, Western Area Power Administration (about 80 percent of total needs). This contract was amended on 1-12-94 to provide power until 12-31-2020.

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

The City of Luverne has committed to donate \$100,000 to the Blue Mound Theatre over a period of 5 years at the October 23, 2007 meeting of the City Council. Payments totaling \$100,000 have been made as of December 31, 2012.

The City of Luverne, at the March 27, 2012 meeting of the City Council, approved a donation of \$20,000 per year for five years to the Luverne Hockey Club, Inc. for the building expansion project. The first donation was made in 2012.

The City of Luverne is a participant in the Lewis & Clark Regional Water System. This system will sell water to its members based on an allocation commitment made by each member. There are 20 members. The commitment allocation for the City is 821,000 gallons per day. The project is primarily funded by the Federal Government, the States of Minnesota, Iowa and South Dakota as well as members, based on their proportionate commitment. The City prepaid the first half of their commitment in May 2008 (\$734,008). The second pre-paid amount of the commitment was made in April 2009 (\$836,473). Federal funding is uncertain due to the current economic conditions. The Lewis & Clark Regional Water System board of directors is currently evaluating alternative funding options.

**C. Pension plans**

**1. Defined benefit pension plans - statewide**

**a. Plan description**

All full-time and certain part-time employees of the City of Luverne are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan 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 Minnesota statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

**Note 4: OTHER INFORMATION - CONTINUED**

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

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

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

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

**b. Funding policy**

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The City makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in 2012. In 2012, the City of Luverne was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERP members and 7.25 percent of Coordinated Plan members. The City's contributions to the GERP for the years ending December 31, 2012, 2011, and 2010 were \$111,255, \$110,159, and \$103,826, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

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

**Note 4: OTHER INFORMATION - CONTINUED**

**2. Defined contribution plan - Minnesota PERA**

Five council members of the City of Luverne are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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

The City's contributions to the PEDCP for the years ended December 31, 2012, 2011 and 2010 were \$1,296, \$1,297, and \$1,296, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statutes.

**D. Concentrations**

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) and Market Value Homestead Credit (MVHC) programs. The amount received in 2012 was \$1,194,175 and \$225 for LGA and MVHC, respectively. This accounted for 38 percent of General fund revenues.

**E. Electric transmission assets**

The City has received a request from Missouri River Energy Services to separately identify transmission plant assets. As a member of Missouri River Energy Services interested in signing a Transmission Service Agreement (T-1) and Member Transmission Lease agreement (MTL) in the future we found it beneficial to disclose the value of these assets. The total facility gross plant included in the Electric Utility capital assets is \$314,959. This amount is included with the electric utility assets on the Statement of Net Position for Proprietary Funds.

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

**Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

In 2009, the City prospectively implemented the requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

**A. Plan description**

The City administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides healthcare insurance for eligible retirees and their spouses through the City’s group health insurance plan until Medicare age, which covers both active and retired members. There are 26 active participants and no retired participant. Since the premium is a blended rate determined on the active and retiree population, the retirees are receiving an implicit rate subsidy. Benefit provisions are established by the City Council. The Retiree Health Plan does not issue a publicly available financial report.

**B. Funding policy**

The City has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are determined by the City Council. At the present time, no retiree benefits are provided except the allowance to continue health insurance that is mandated by Minnesota Law. The City contributes none of the cost of current-year premiums for eligible retired plan members or their spouses. For fiscal year 2012, the City (including component unit) contributed \$0 of implicit costs to the plan. Plan members receiving benefits contribute 100 percent of their premium costs. The General fund is typically used to liquidate the net OPEB obligation.

**C. Annual OPEB cost and net OPEB obligation**

The City’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount determined using the alternative measurement method in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City has elected to calculate the ARC and related information using the alternative measurement method permitted for employers in plans with fewer than one hundred total plan members.

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

	Primary Government	Component Unit	Total
Annual required contribution	\$ 10,581	\$ 1,402	\$ 11,983
Interest on net OPEB obligation	1,552	206	1,758
Adjustment to annual required contribution	(2,244)	(298)	(2,542)
Annual OPEB cost (expense)	9,889	1,310	11,199
Contributions made	-	-	-
Increase in net OPEB obligation	9,889	1,310	11,199
Net OPEB obligation - beginning of year	43,445	502	43,947
NET OPEB obligation - end of year	<u>\$ 53,334</u>	<u>\$ 1,812</u>	<u>\$ 55,146</u>

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

**Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the previous two years follows:

<u>Year Ending</u>	<u>Three Year Trend Information</u>		
	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Contributed</u>	<u>Net OPEB Obligation</u>
12/31/12	\$ 11,199	- %	\$ 55,146
12/31/11	51,660	203.9	43,947
12/31/10	51,649	-	97,602

**D. Funded status and funding progress**

As of January 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$101,275, of which the entire amount was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,734,486, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.8 percent.

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

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

**Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED**

**E. Actuarial methods and assumptions**

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

For the City, in the January 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return and an annual healthcare cost trend rate of 10 percent initially, reduced incrementally to an ultimate rate of 5 percent after 10 years. The actuarial value of assets was not determined as the City has not advance-funded its obligation. The plan's unfunded actuarial accrued liability was amortized as a level dollar amount over an open basis of thirty years.

The following simplifying assumptions were made:

*Retirement age for active employees* - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

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

*Mortality* - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2000 United States Life Tables for Males and for Females were used.

*Turnover* - Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* - The expected rate of increase in healthcare insurance premiums was 10 percent initially, reduced incrementally to an ultimate rate of 5 percent after 10 years.

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

*Payroll growth rate* - The expected long-term payroll growth rate was assumed to equal the rate of inflation. Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4.0 percent was used. In addition, a simplified version of the projected unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012 was 30 years.

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

**Note 6: ACCOUNTING CHANGE**

Governmental Accounting Standard Board (GASB) Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*” will improve financial reporting by the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the City’s net position. GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*” will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The City implemented these standards for the fiscal year end December 31, 2012. Changes to governmental fund type fund balance reporting is reflected in the financial statements and schedules and related disclosures are included in Note 1 and Note 3.

The City enters into transactions that result in the consumption or acquisition of net asset in one period that are applicable to future periods. These consumptions or acquisitions are *deferred outflows of resources* and *deferred inflows of resources* and are distinguished from assets and liabilities. Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The Statement of Net Position (renamed from the Statement of Net Assets) is presented in a format that shows *assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position*.

The implementation of GASB Statements No. 63 and 65 resulted in the reclassification of certain funds and restatement of the City’s financial statements. This statement had the following effect on net position as it were previously reported:

Fund	December 31, 2011		
	Net Position December 31, 2010 as Previously Reported	Prior Period Restatement (1)	Net Position January 1, 2011 as Restated
Governmental activities	\$ 14,007,543	\$ (43,636)	\$ 13,963,907
Business-type activities	\$ 27,725,490	\$ (40,550)	\$ 27,684,940
Proprietary funds			
Water Utility	\$ 5,188,994	\$ (28,188)	\$ 5,160,806
Sewer Utility	5,398,022	(12,362)	5,385,660
Electric	13,461,106	-	13,461,106
Liquor	429,077	-	429,077
Refuse and Recycling	831,854	-	831,854
Storm Sewer	1,066,878	-	1,066,878
Lewis and Clark Reserve	152,181	-	152,181
Internal service funds			
Central Store	386,186	-	386,186
Property and Casualty Insurance	493,246	-	493,246
Data Processing	410,012	-	410,012
Interfund eliminations	(92,066)	-	(92,066)
Total business-type activities	\$ 27,725,490	\$ (40,550)	\$ 27,684,940

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

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

**Note 6: ACCOUNTING CHANGE - CONTINUED**

Fund	December 31, 2012		
	Net Position December 31, 2011 as Previously Reported	Prior Period Restatement (2)	Net Position January 1, 2012 as Restated
Governmental activities	\$ 14,187,496	\$ (38,480)	\$ 14,149,016
Business-type activities	\$ 29,204,097	\$ (36,596)	\$ 29,167,501
Proprietary funds			
Water Utility	\$ 5,594,818	\$ (25,595)	\$ 5,569,223
Sewer Utility	5,785,478	(11,001)	5,774,477
Electric	13,954,071	-	13,954,071
Liquor	473,257	-	473,257
Refuse and Recycling	885,641	-	885,641
Storm Sewer	1,069,178	-	1,069,178
Lewis and Clark Reserve	155,037	-	155,037
Internal service funds			
Central Store	382,280	-	382,280
Property and Casualty Insurance	515,763	-	515,763
Data Processing	471,146	-	471,146
Interfund eliminations	(82,572)	-	(82,572)
Total business-type activities	\$ 29,204,097	\$ (36,596)	\$ 29,167,501

- (2) Write off of any bond issuance cost activity for the year ended December 31, 2011 plus unamortized bond issuance costs at December 31, 2010.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

CITY OF LUVERNE  
LUVERNE, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2012

CITY OF LUVERNE, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED DECEMBER 31, 2012

**Schedule of funding progress for the postemployment benefit plan**

Actuarial Valuation Date	Required Supplementary Information					
	Actuarial Value of Assets (a)	Actuarial Accrued Liability - Simplified Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/12	\$ -	\$ 101,275	\$ 101,275	- %	\$ 1,734,486	5.8 %
01/01/09	-	474,231	474,231	-	1,872,209	25.3

## **Nonmajor Governmental Funds Special Revenue Funds**

**Swimming Pool Fund:** The City operates the Luverne Area Aquatic and Fitness Center. User fees are charged, however the operations are subsidized through a transfer from the General fund to ensure use of the facility is affordable to community residents.

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## **Nonmajor Governmental Funds Capital Projects Funds**

**Parking Lot Fund:** This fund was created to account for all revenue and expenditures associated with public parking in the Central Business District in compliance with City Code Section 11.13 Subd.3.

**Street/Sidewalk Improvement Fund:** This fund was created to make necessary repairs to the streets and sidewalks of the City. To simplify the accounting for the various ongoing projects of this type, the City combined the various Street and Sidewalk Capital Project funds into this one fund.

**Capital Equipment Replacement Fund:** This fund was created to account for various capital equipment purchases. Financing is provided by a transfer from the General Fund as well as Enterprise Funds.

**Rural Fire Tanker Fund:** This fund was created to account for the acquisition of a rural fire tanker truck with annual revenue coming from rural fire contracts with surrounding townships as well as rural fire call fees.

**Ice Arena Capital Improvement Fund:** This fund was created to account for capital improvements to the ice arena facility. Funding is provided by a transfer from the General fund.

**MN West/City Offices Project:** This fund was created to account for capital improvements to the City Office building. Funding was provided by a General Obligation Bond issue.

**Manfred Heights Subdivision Project:** This fund was created to account for capital improvements to a new residential housing subdivision. Funding was provided by a General Obligation Bond issue.

**Pool Capital Improvement Fund:** This fund accounts for transfers from the Pool Special Revenue Fund to be used for significant capital improvements to the Pool facility. The long term intent is to begin accumulating funds for inevitable future renovation.

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

	Special Revenue	Capital Projects	
	<u>210</u>	<u>401</u>	<u>402</u> Street/ Sidewalk Improvement
	<u>Swimming Pool</u>	<u>Parking Lot</u>	<u>Improvement</u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 14,970	\$ 54,450	\$ 168,153
Receivables			
Accrued interest	341	169	512
Accounts, net	1,886	-	-
Special assessments	-	-	8,826
Intergovernmental	210	-	-
Prepaid items	700	-	-
<b>TOTAL ASSETS</b>	<u>\$ 18,107</u>	<u>\$ 54,619</u>	<u>\$ 177,491</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 11,272	\$ -	\$ -
Contracts payable	-	-	-
Retainage payable	-	-	-
Due to other funds	7	-	-
Deposits payable	34	-	-
Due to other governments	825	-	-
Wages and related benefits payable	7,036	-	-
<b>TOTAL LIABILITIES</b>	<u>19,174</u>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - special assessments	-	-	8,826
<b>FUND BALANCES</b>			
Nonspendable	700	-	-
Assigned	-	54,619	168,665
Unassigned	(1,767)	-	-
<b>TOTAL FUND BALANCES</b>	<u>(1,067)</u>	<u>54,619</u>	<u>168,665</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 18,107</u>	<u>\$ 54,619</u>	<u>\$ 177,491</u>

Capital Projects (Continued)

<b>405</b> Capital Equipment Replacement	<b>408</b> Rural Fire Tanker	<b>410</b> Ice Arena Capital Improvement	<b>451</b> MN West/ City Offices Project	<b>452</b> Manfred Heights Subdivision Project	<b>479</b> Pool Capital Improvement	Total Nonmajor Governmental Funds
\$ 531,490	\$ 314	\$ 41,730	\$ 62,419	\$ 94,598	\$ 23,548	\$ 991,672
1,860	16	129	650	250	246	4,173
-	-	-	-	-	-	1,886
-	-	-	-	-	-	8,826
-	6,124	-	-	-	-	6,334
-	-	-	-	-	-	700
<u>\$ 533,350</u>	<u>\$ 6,454</u>	<u>\$ 41,859</u>	<u>\$ 63,069</u>	<u>\$ 94,848</u>	<u>\$ 23,794</u>	<u>\$ 1,013,591</u>
\$ -	\$ -	\$ -	\$ 1,111	\$ -	\$ -	\$ 12,383
-	-	-	4,835	-	-	4,835
-	-	-	20,164	-	-	20,164
-	117,233	-	-	-	-	117,240
-	-	-	-	-	-	34
-	-	-	-	-	-	825
-	-	-	-	-	-	7,036
-	117,233	-	26,110	-	-	162,517
-	-	-	-	-	-	8,826
-	-	-	-	-	-	700
533,350	-	41,859	36,959	94,848	23,794	954,094
-	(110,779)	-	-	-	-	(112,546)
<u>533,350</u>	<u>(110,779)</u>	<u>41,859</u>	<u>36,959</u>	<u>94,848</u>	<u>23,794</u>	<u>842,248</u>
<u>\$ 533,350</u>	<u>\$ 6,454</u>	<u>\$ 41,859</u>	<u>\$ 63,069</u>	<u>\$ 94,848</u>	<u>\$ 23,794</u>	<u>\$ 1,013,591</u>

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

	Special Revenue	Capital Projects	
	210	401	402
	Swimming Pool	Parking Lot	Street/ Sidewalk Improvement
REVENUES			
Taxes	\$ -	\$ -	\$ 47
Charges for services	195,469	-	-
Special assessments	-	-	4,807
Investment income	1,578	778	2,363
Miscellaneous	201	-	-
<b>TOTAL REVENUES</b>	<b>197,248</b>	<b>778</b>	<b>7,217</b>
EXPENDITURES			
Current			
Culture and recreation	396,563	-	-
Capital outlay			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Culture and recreation	9,994	-	-
Debt service			
Interest and other	-	-	-
Bond issuance costs	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>406,557</b>	<b>-</b>	<b>-</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<b>(209,309)</b>	<b>778</b>	<b>7,217</b>
OTHER FINANCING SOURCES (USES)			
Transfers in	212,591	-	-
Bonds issued	-	-	-
Transfers out	(45,000)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>167,591</b>	<b>-</b>	<b>-</b>
NET CHANGE IN FUND BALANCES	(41,718)	778	7,217
FUND BALANCES, JANUARY 1	40,651	53,841	161,448
FUND BALANCES, DECEMBER 31	<b>\$ (1,067)</b>	<b>\$ 54,619</b>	<b>\$ 168,665</b>

Capital Projects (Continued)

405 Capital Equipment Replacement	408 Rural Fire Tanker	410 Ice Arena Capital Improvement	451 MN West/ City Offices Project	452 Manfred Heights Subdivision Project	479 Pool Capital Improvement	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ 50
-	37,223	-	-	-	-	232,692
-	-	-	-	-	-	4,807
8,579	73	596	2,999	1,154	1,136	19,256
-	-	708,033	-	29,000	-	737,234
<u>8,579</u>	<u>37,296</u>	<u>708,632</u>	<u>2,999</u>	<u>30,154</u>	<u>1,136</u>	<u>994,039</u>
-	-	-	-	-	-	396,563
-	-	-	576,816	-	-	576,816
20,400	-	-	-	-	-	20,400
172,684	-	-	-	1,439	-	174,123
22,296	-	708,033	-	-	120,690	861,013
-	6,915	-	-	-	-	6,915
-	-	-	6,356	-	-	6,356
<u>215,380</u>	<u>6,915</u>	<u>708,033</u>	<u>583,172</u>	<u>1,439</u>	<u>120,690</u>	<u>2,042,186</u>
<u>(206,801)</u>	<u>30,381</u>	<u>599</u>	<u>(580,173)</u>	<u>28,715</u>	<u>(119,554)</u>	<u>(1,048,147)</u>
105,000	-	4,000	42,800	-	86,000	450,391
-	-	-	410,000	-	-	410,000
-	-	-	-	-	-	(45,000)
<u>105,000</u>	<u>-</u>	<u>4,000</u>	<u>452,800</u>	<u>-</u>	<u>86,000</u>	<u>815,391</u>
(101,801)	30,381	4,599	(127,373)	28,715	(33,554)	(232,756)
<u>635,151</u>	<u>(141,160)</u>	<u>37,260</u>	<u>164,332</u>	<u>66,133</u>	<u>57,348</u>	<u>1,075,004</u>
<u>\$ 533,350</u>	<u>\$ (110,779)</u>	<u>\$ 41,859</u>	<u>\$ 36,959</u>	<u>\$ 94,848</u>	<u>\$ 23,794</u>	<u>\$ 842,248</u>

CITY OF LUVERNE, MINNESOTA  
SWIMMING POOL SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 222,000	\$ 222,000	\$ 195,469	\$ (26,531)
Investment income	2,401	2,401	1,578	(823)
Miscellaneous	600	600	201	(399)
<b>TOTAL REVENUES</b>	<b>225,001</b>	<b>225,001</b>	<b>197,248</b>	<b>(27,753)</b>
OTHER FINANCING SOURCES				
Transfer from General Fund	212,591	212,591	212,591	-
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b>437,592</b>	<b>437,592</b>	<b>409,839</b>	<b>(27,753)</b>
EXPENDITURES				
Culture and recreation				
Swimming pool				
Personal services	244,000	244,000	242,383	1,617
Supplies	50,500	50,500	54,252	(3,752)
Other services and charges	100,650	100,650	99,928	722
Capital outlay	22,442	22,442	9,994	12,448
<b>TOTAL EXPENDITURES</b>	<b>417,592</b>	<b>417,592</b>	<b>406,557</b>	<b>11,035</b>
OTHER FINANCING USES				
Transfer to Pool Capital Replacement Trust Fund	20,000	45,000	45,000	-
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<b>437,592</b>	<b>462,592</b>	<b>451,557</b>	<b>11,035</b>
NET CHANGE IN FUND BALANCES	-	(25,000)	(41,718)	(16,718)
FUND BALANCES, JANUARY 1	40,651	40,651	40,651	-
FUND BALANCES, DECEMBER 31	<u>\$ 40,651</u>	<u>\$ 15,651</u>	<u>\$ (1,067)</u>	<u>\$ (16,718)</u>

## Nonmajor Proprietary Funds

**Refuse and Recycling Fund:** This fund accounts for the collection and disposal of refuse. Rock County owns the landfill site and assumed operations of it in October 1981. City customers are charged a flat fee monthly for collection service and recyclable pickup.

**Storm Sewer Fund:** This fund accounts for revenues and expenses associated with storm water drainage systems throughout the City. City customers are charged a fee based on the size and type of property they own.

**Lewis and Clark Reserve Fund:** This fund was established to receive transfers from the Water fund for the purpose of accumulating funds for the City's share of the Lewis and Clark Water project.

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

	Business-type Activities - Enterprise Funds			
	<b>603</b>		<b>606</b>	
	Refuse and Recycling		Storm Sewer	
	2012	2011	2012	2011
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and temporary investments	\$ 475,345	\$ 657,037	\$ 432,612	\$ 477,678
Receivables				
Accrued interest	1,923	2,437	1,455	2,652
Accounts, net	54,209	54,148	7,372	7,499
Loan	138,646	-	-	-
Due from other funds	32,517	36,138	-	-
Inventories, at cost	-	4,466	1,371	2,511
<b>TOTAL CURRENT ASSETS</b>	<b>702,640</b>	<b>754,226</b>	<b>442,810</b>	<b>490,340</b>
<b>NONCURRENT ASSETS</b>				
Restricted assets				
Cash and temporary investments	4,362	4,344	-	-
Special assessments receivable				
Noncurrent	1,569	1,385	53	177
Capital assets				
Land	62,632	62,632	-	-
Construction work in process	7,343	-	-	-
Buildings	79,566	79,566	-	-
Improvements	-	-	1,305,496	1,151,905
Machinery and equipment	668,684	579,430	-	-
Total capital assets	818,225	721,628	1,305,496	1,151,905
Less accumulated depreciation	(545,483)	(532,262)	(614,117)	(565,098)
Total capital assets (net of accumulated depreciation)	272,742	189,366	691,379	586,807
<b>TOTAL NONCURRENT ASSETS</b>	<b>278,673</b>	<b>195,095</b>	<b>691,432</b>	<b>586,984</b>
<b>TOTAL ASSETS</b>	<b>981,313</b>	<b>949,321</b>	<b>1,134,242</b>	<b>1,077,324</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	9,416	9,032	5,850	5,748
Contract payable	-	-	53,205	-
Due to other governments	3,781	3,619	19	-
Wages and related benefits payable	5,236	4,767	122	130
Compensated absences payable - current	7,471	15,198	208	283
<b>TOTAL CURRENT LIABILITIES</b>	<b>25,904</b>	<b>32,616</b>	<b>59,404</b>	<b>6,161</b>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>				
Customer deposits payable	4,362	4,344	-	-
<b>NONCURRENT LIABILITIES</b>				
Compensated absences payable (net of current portion)	21,676	21,402	1,654	1,921
Other postemployment benefits liability	6,755	5,318	32	64
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>28,431</b>	<b>26,720</b>	<b>1,686</b>	<b>1,985</b>
<b>TOTAL LIABILITIES</b>	<b>58,697</b>	<b>63,680</b>	<b>61,090</b>	<b>8,146</b>
<b>NET POSITION</b>				
Net investment in capital assets	272,742	189,366	691,379	586,807
Unrestricted	649,874	696,275	381,773	482,371
<b>TOTAL NET POSITION</b>	<b>\$ 922,616</b>	<b>\$ 885,641</b>	<b>\$ 1,073,152</b>	<b>\$ 1,069,178</b>

Business-type Activities - Enterprise Funds

**611**

Lewis and Clark Reserve		Total Nonmajor Proprietary Funds	
2012	2011	2012	2011
\$ 156,791	\$ 154,386	\$ 1,064,748	\$ 1,289,101
485	651	3,863	5,740
-	-	61,581	61,647
-	-	138,646	-
-	-	32,517	36,138
-	-	1,371	6,977
<u>157,276</u>	<u>155,037</u>	<u>1,302,726</u>	<u>1,399,603</u>
-	-	4,362	4,344
-	-	1,622	1,562
-	-	62,632	62,632
-	-	7,343	-
-	-	79,566	79,566
-	-	1,305,496	1,151,905
-	-	668,684	579,430
-	-	2,123,721	1,873,533
-	-	(1,159,600)	(1,097,360)
-	-	964,121	776,173
-	-	970,105	782,079
<u>157,276</u>	<u>155,037</u>	<u>2,272,831</u>	<u>2,181,682</u>
-	-	15,266	14,780
-	-	53,205	-
-	-	3,800	3,619
-	-	5,358	4,897
-	-	7,679	15,481
-	-	85,308	38,777
-	-	4,362	4,344
-	-	23,330	23,323
-	-	6,787	5,382
-	-	30,117	28,705
-	-	119,787	71,826
-	-	964,121	776,173
<u>157,276</u>	<u>155,037</u>	<u>1,188,923</u>	<u>1,333,683</u>
<u>\$ 157,276</u>	<u>\$ 155,037</u>	<u>\$ 2,153,044</u>	<u>\$ 2,109,856</u>

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

	Business-type Activities - Enterprise Funds			
	<b>603</b>		<b>606</b>	
	Refuse and Recycling		Storm Sewer	
	2012	2011	2012	2011
OPERATING REVENUES				
Charges for services/sales	\$ 522,059	\$ 520,138	\$ 86,643	\$ 86,447
Service income	4,948	4,873	395	395
Other income	3,843	5,008	-	-
<b>TOTAL OPERATING REVENUES</b>	<b>530,850</b>	<b>530,019</b>	<b>87,038</b>	<b>86,842</b>
OPERATING EXPENSES				
Personal services	219,788	212,392	6,591	4,773
Supplies	50,731	38,067	3,376	6,587
Other services and charges	146,786	152,375	17,789	11,529
Depreciation	25,442	24,331	49,019	60,280
<b>TOTAL OPERATING EXPENSES</b>	<b>442,747</b>	<b>427,165</b>	<b>76,775</b>	<b>83,169</b>
<b>OPERATING INCOME</b>	<b>88,103</b>	<b>102,854</b>	<b>10,263</b>	<b>3,673</b>
NONOPERATING REVENUES (EXPENSES)				
Investment income	8,614	10,684	6,711	11,627
Rental income	12,272	12,272	-	-
Interest expense	(14)	(23)	-	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>20,872</b>	<b>22,933</b>	<b>6,711</b>	<b>11,627</b>
<b>INCOME BEFORE TRANSFERS</b>	<b>108,975</b>	<b>125,787</b>	<b>16,974</b>	<b>15,300</b>
<b>TRANSFERS OUT</b>	<b>(72,000)</b>	<b>(72,000)</b>	<b>(13,000)</b>	<b>(13,000)</b>
<b>CHANGE IN NET POSITION</b>	<b>36,975</b>	<b>53,787</b>	<b>3,974</b>	<b>2,300</b>
<b>NET POSITION, JANUARY 1</b>	<b>885,641</b>	<b>831,854</b>	<b>1,069,178</b>	<b>1,066,878</b>
<b>NET POSITION, DECEMBER 31</b>	<b>\$ 922,616</b>	<b>\$ 885,641</b>	<b>\$ 1,073,152</b>	<b>\$ 1,069,178</b>

Business-type Activities - Enterprise Funds

<b>611</b>			
Lewis and Clark Reserve		Total Nonmajor Proprietary Funds	
2012	2011	2012	2011
\$ -	\$ -	\$ 608,702	\$ 606,585
-	-	5,343	5,268
-	-	3,843	5,008
-	-	617,888	616,861
-	-	226,379	217,165
-	-	54,107	44,654
-	-	164,575	163,904
-	-	74,461	84,611
-	-	519,522	510,334
-	-	98,366	106,527
2,239	2,856	17,564	25,167
-	-	12,272	12,272
-	-	(14)	(23)
2,239	2,856	29,822	37,416
2,239	2,856	128,188	143,943
-	-	(85,000)	(85,000)
2,239	2,856	43,188	58,943
155,037	152,181	2,109,856	2,050,913
<u>\$ 157,276</u>	<u>\$ 155,037</u>	<u>\$ 2,153,044</u>	<u>\$ 2,109,856</u>

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

	Business-type Activities - Enterprise Funds			
	<b>603</b>		<b>606</b>	
	Refuse and Recycling		Storm Sewer	
	2012	2011	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from customers	\$ 530,623	\$ 523,660	\$ 87,289	\$ 86,573
Cash paid to suppliers	(192,519)	(193,506)	(19,904)	(12,620)
Cash paid to and on behalf of employees	(225,335)	(217,002)	(6,973)	(4,769)
Other receipts	12,272	12,272	-	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>125,041</b>	<b>125,424</b>	<b>60,412</b>	<b>69,184</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	(72,000)	(72,000)	(13,000)	(13,000)
Loans made	(138,646)	-	-	-
(Increase) decrease in due from other funds	3,621	3,621	-	-
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(207,025)</b>	<b>(68,379)</b>	<b>(13,000)</b>	<b>(13,000)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	(108,818)	-	(100,386)	(213,632)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	9,128	11,098	7,908	12,275
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(181,674)</b>	<b>68,143</b>	<b>(45,066)</b>	<b>(145,173)</b>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<b>661,381</b>	<b>593,238</b>	<b>477,678</b>	<b>622,851</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>\$ 479,707</b>	<b>\$ 661,381</b>	<b>\$ 432,612</b>	<b>\$ 477,678</b>
<b>CASH AND CASH EQUIVALENTS ARE COMPRISED OF</b>				
Cash and temporary investments	\$ 475,345	\$ 657,037	\$ 432,612	\$ 477,678
Restricted assets				
Cash and temporary investments	4,362	4,344	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 479,707</b>	<b>\$ 661,381</b>	<b>\$ 432,612</b>	<b>\$ 477,678</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income	\$ 88,103	\$ 102,854	\$ 10,263	\$ 3,673
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	25,442	24,331	49,019	60,280
Other income related to operations	12,272	12,272	-	-
Interest paid on customer deposits	(14)	(23)	-	-
Increase (decrease) in assets and liabilities				
Accounts receivable	(61)	(6,855)	127	(244)
Special assessments receivable	(184)	611	124	(25)
Inventories	4,466	32	1,140	(245)
Accounts payable	384	(3,478)	102	5,741
Due to other governments	162	405	19	-
Wages and related benefits payable	469	(461)	(8)	4
Compensated absences payable	(7,453)	997	(342)	61
Other postemployment benefits liability	1,437	(5,146)	(32)	(61)
Deposits payable	18	(115)	-	-
Total adjustments	36,938	22,570	50,149	65,511
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 125,041</b>	<b>\$ 125,424</b>	<b>\$ 60,412</b>	<b>\$ 69,184</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Capital assets purchased on account	\$ -	\$ -	\$ 53,205	\$ -

Business-type Activities - Enterprise Funds

<b>611</b>			
Lewis and Clark Reserve		Total Nonmajor Proprietary Funds	
2012	2011	2012	2011
\$ -	\$ -	\$ 617,912	\$ 610,233
-	-	(212,423)	(206,126)
-	-	(232,308)	(221,771)
-	-	12,272	12,272
-	-	185,453	194,608
-	-	(85,000)	(85,000)
-	-	(138,646)	-
-	-	3,621	3,621
-	-	(220,025)	(81,379)
-	-	(209,204)	(213,632)
2,405	3,045	19,441	26,418
2,405	3,045	(224,335)	(73,985)
154,386	151,341	1,293,445	1,367,430
<u>\$ 156,791</u>	<u>\$ 154,386</u>	<u>\$ 1,069,110</u>	<u>\$ 1,293,445</u>
\$ 156,791	\$ 154,386	\$ 1,064,748	\$ 1,289,101
-	-	4,362	4,344
<u>\$ 156,791</u>	<u>\$ 154,386</u>	<u>\$ 1,069,110</u>	<u>\$ 1,293,445</u>
\$ -	\$ -	\$ 98,366	\$ 106,527
-	-	74,461	84,611
-	-	12,272	12,272
-	-	(14)	(23)
-	-	66	(7,099)
-	-	(60)	586
-	-	5,606	(213)
-	-	486	2,263
-	-	181	405
-	-	461	(457)
-	-	(7,795)	1,058
-	-	1,405	(5,207)
-	-	18	(115)
-	-	87,087	88,081
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,453</u>	<u>\$ 194,608</u>
\$ -	\$ -	\$ 53,205	\$ -

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## **The General Fund**

The General fund accounts for all revenues and expenditures of a governmental unit which are not accounted for in other funds, and it is usually the largest and most important accounting activity for state and local governments. It normally receives a greater variety and number of taxes and other general revenues than any other fund. This fund has flowing into it such revenues as general property taxes, licenses and permits, fines and forfeits, rents and charges for current services, state-shared taxes, and interest earnings. The fund's resources also finance a wider range of activities than any other fund. Most of the current operations of governmental units will be financed from this fund.

CITY OF LUVERNE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
CONTINUED ON THE FOLLOWING PAGES  
FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012				2011
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
<b>REVENUES</b>					
<b>Taxes</b>					
General property tax	\$ 911,515	\$ 911,515	\$ 914,854	\$ 3,339	\$ 738,970
Hotel/motel tax	1,400	1,400	1,675	275	887
Franchise tax	387,000	387,000	403,995	16,995	387,724
Penalties	500	500	1,389	889	496
<b>Total taxes</b>	<u>1,300,415</u>	<u>1,300,415</u>	<u>1,321,913</u>	<u>21,498</u>	<u>1,128,077</u>
<b>Licenses and permits</b>					
Business	16,850	16,850	24,979	8,129	14,086
Nonbusiness	46,300	46,300	165,456	119,156	76,142
<b>Total licenses and permits</b>	<u>63,150</u>	<u>63,150</u>	<u>190,435</u>	<u>127,285</u>	<u>90,228</u>
<b>Intergovernmental revenues</b>					
<b>State</b>					
Local government aid	1,088,361	1,088,361	1,194,175	105,814	1,194,175
Residential market value credit	225	225	225	-	40,076
Other state aids	31,200	31,200	54,396	23,196	31,666
<b>Total State</b>	<u>1,119,786</u>	<u>1,119,786</u>	<u>1,248,796</u>	<u>129,010</u>	<u>1,265,917</u>
<b>Local</b>					
Other local grant	-	25,000	2,339	(22,661)	188,534
<b>Total intergovernmental revenues</b>	<u>1,119,786</u>	<u>1,144,786</u>	<u>1,251,135</u>	<u>106,349</u>	<u>1,454,451</u>
<b>Charges for services</b>					
General government	-	-	106	106	250
Public safety	112,300	112,300	126,815	14,515	116,368
Highways and streets	119,500	119,500	132,895	13,395	129,473
Culture and recreation	-	-	-	-	150
Other	-	-	202	202	130
<b>Total charges for services</b>	<u>231,800</u>	<u>231,800</u>	<u>260,018</u>	<u>28,218</u>	<u>246,371</u>
<b>Special assessments</b>	<u>-</u>	<u>-</u>	<u>1,554</u>	<u>1,554</u>	<u>311</u>
<b>Investment income</b>	<u>85,991</u>	<u>85,991</u>	<u>89,406</u>	<u>3,415</u>	<u>98,936</u>
<b>Miscellaneous</b>					
Other	46,800	46,800	45,951	(849)	52,792
<b>TOTAL REVENUES</b>	<u>2,847,942</u>	<u>2,872,942</u>	<u>3,160,412</u>	<u>287,470</u>	<u>3,071,166</u>
<b>OTHER FINANCING SOURCES</b>					
Transfers in	<u>282,000</u>	<u>282,000</u>	<u>282,000</u>	<u>-</u>	<u>282,000</u>
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<u>3,129,942</u>	<u>3,154,942</u>	<u>3,442,412</u>	<u>287,470</u>	<u>3,353,166</u>

CITY OF LUVERNE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012			Variance with Final Budget	2011
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
<b>EXPENDITURES</b>					
<b>Current</b>					
General government					
Council					
Personal services	\$ 39,300	\$ 39,300	\$ 38,237	\$ 1,063	\$ 36,860
Supplies	100	100	3,560	(3,460)	601
Other services and charges	3,120	3,120	4,274	(1,154)	1,776
Total Council	42,520	42,520	46,071	(3,551)	39,237
Administration					
Personal services	125,925	125,925	106,019	19,906	113,609
Supplies	6,000	6,000	5,520	480	1,852
Other services and charges	46,700	56,700	59,779	(3,079)	41,103
Total administration	178,625	188,625	171,318	17,307	156,564
Elections					
Personal services	5,050	7,550	7,521	29	-
Supplies	1,000	1,000	554	446	-
Other services and charges	100	100	118	(18)	-
Total elections	6,150	8,650	8,193	457	-
Financial administration					
Other services and charges	84,000	84,000	84,000	-	84,000
Law					
Supplies	100	100	-	100	-
Other services and charges	22,550	22,550	30,595	(8,045)	26,544
Total law	22,650	22,650	30,595	(7,945)	26,544
Other general government					
Personal services	42,615	42,615	29,124	13,491	39,060
Supplies	29,650	29,650	33,231	(3,581)	46,017
Other services and charges	127,854	127,854	142,107	(14,253)	115,451
Total other general government	200,119	200,119	204,462	(4,343)	200,528
Total general government	534,064	546,564	544,639	1,925	506,873
Public safety					
Police					
Other services and charges	770,874	770,874	770,884	(10)	770,884
Fire					
Personal services	53,800	53,800	56,023	(2,223)	49,097
Supplies	40,500	40,500	65,243	(24,743)	47,663
Other services and charges	87,510	87,510	64,750	22,760	67,684
Total fire	181,810	181,810	186,016	(4,206)	164,444

CITY OF LUVERNE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012			Variance with Final Budget	2011
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>EXPENDITURES - CONTINUED</b>					
Current - Continued					
Public safety - Continued					
Building/planning/zoning/safety					
Personal services	\$ 79,995	\$ 79,995	\$ 81,149	\$ (1,154)	\$ 79,115
Supplies	1,975	1,975	1,700	275	1,181
Other services and charges	9,405	9,405	6,518	2,887	6,696
Total building/planning/zoning/safety	<u>91,375</u>	<u>91,375</u>	<u>89,367</u>	<u>2,008</u>	<u>86,992</u>
Civil defense					
Supplies	1,000	1,000	1,439	(439)	436
Other services and charges	11,570	16,570	21,186	(4,616)	1,201
Total civil defense	<u>12,570</u>	<u>17,570</u>	<u>22,625</u>	<u>(5,055)</u>	<u>1,637</u>
Emergency management services					
Personal services	8,935	8,935	8,683	252	8,507
Other services and charges	3,500	3,500	400	3,100	339
Total emergency management services\	<u>12,435</u>	<u>12,435</u>	<u>9,083</u>	<u>3,352</u>	<u>8,846</u>
Animal control					
Supplies	300	300	430	(130)	1,489
Other services and charges	6,965	6,965	7,825	(860)	7,767
Total animal control	<u>7,265</u>	<u>7,265</u>	<u>8,255</u>	<u>(990)</u>	<u>9,256</u>
Insect control					
Supplies	9,500	9,500	7,662	1,838	5,873
Other services and charges	1,750	1,750	1,756	(6)	1,232
Total insect control	<u>11,250</u>	<u>11,250</u>	<u>9,418</u>	<u>1,832</u>	<u>7,105</u>
Total public safety	<u>1,087,579</u>	<u>1,092,579</u>	<u>1,095,648</u>	<u>(3,069)</u>	<u>1,049,164</u>
Public works					
Personal services	255,325	255,325	213,516	41,809	236,180
Supplies	131,200	131,200	156,601	(25,401)	138,702
Other services and charges	248,870	248,870	263,528	(14,658)	209,333
Total public works	<u>635,395</u>	<u>635,395</u>	<u>633,645</u>	<u>1,750</u>	<u>584,215</u>
Culture and recreation					
Personal services	221,050	221,050	199,371	21,679	194,351
Supplies	55,200	80,200	63,258	16,942	53,148
Other services and charges	105,300	105,300	115,430	(10,130)	97,496
Total culture and recreation	<u>381,550</u>	<u>406,550</u>	<u>378,059</u>	<u>28,491</u>	<u>344,995</u>

CITY OF LUVERNE, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012			Variance with Final Budget	2011
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
<b>EXPENDITURES - CONTINUED</b>					
Current - Continued					
Conservation and development					
Personal services	\$ -	\$ -	\$ -	\$ -	\$ 1
Supplies	12,100	12,100	10,767	1,333	13,424
Other services and charges	24,250	44,250	43,968	282	40,382
Total conservation and development	36,350	56,350	54,735	1,615	53,807
Contingencies					
Other services and charges	96,138	58,638	-	58,638	-
Total current expenditures	2,771,076	2,796,076	2,706,726	89,350	2,539,054
Capital outlay					
General government	-	-	-	-	20,000
Public safety	118,000	118,000	100,032	17,968	-
Conservation and development	-	-	-	-	179,358
Total capital outlay	118,000	118,000	100,032	17,968	199,358
Debt service					
Principal	10,000	10,000	10,000	-	10,000
Interest	2,475	2,475	2,307	168	2,550
Total debt service	12,475	12,475	12,307	168	12,550
<b>TOTAL EXPENDITURES</b>	2,901,551	2,926,551	2,819,065	107,486	2,750,962
<b>OTHER FINANCING USES</b>					
Transfers out	347,391	388,391	388,391	-	342,250
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	3,248,942	3,314,942	3,207,456	107,486	3,093,212
<b>NET CHANGE IN FUND BALANCES</b>	(119,000)	(160,000)	234,956	394,956	259,954
<b>FUND BALANCES, JANUARY 1</b>	2,404,066	2,404,066	2,404,066	-	2,144,112
<b>FUND BALANCES, DECEMBER 31</b>	<u>\$ 2,285,066</u>	<u>\$ 2,244,066</u>	<u>\$ 2,639,022</u>	<u>\$ 394,956</u>	<u>\$ 2,404,066</u>

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## **Debt Service Funds**

**Pamida TIF Fund:** This fund accounts for the principal and interest payments on a general obligation tax increment bond of \$225,000 issued in 1996. Revenue for such payments is derived from tax increment financing as provided by Minnesota Law.

**Luverne Family Housing TIF Fund:** This fund accounts for the principal and interest on a taxable tax increment note of 1997. Revenue for such payments is derived from tax increment financing as provided by Minnesota Law.

**Larson/True Value TIF Fund:** This fund accounts for the principal and interest payments on a redevelopment bond of \$80,000 issued in 1988. Revenue for such payments is derived from tax increment financing as provided by Minnesota Law.

**Fire Relief Pension Fund:** This fund accounts for the principal and interest payments on a taxable general obligation pension bond of \$560,000 issued in 2002. Revenue for such payments is derived from a general property tax levy.

**Freeman and Estey Fund:** This fund accounts for the principal and interest payments on a general obligation improvement bond of \$1,120,000 issued in 2002. Revenue for such payments is received from special assessments levied on individual affected properties as well as a general property tax levy.

**Fire Hall/MN West Fund:** This fund accounts for the principal and interest payments on a general obligation improvement bond of \$1,500,000 issued in 2006. Revenue for such payments is received from a general property tax levy.

**Manfred Heights Fund:** This fund accounts for the principal and interest payments on a general obligation improvement bond of \$975,000 issued in 2007. Revenue for such payments is received from lot sales as well as a general property tax levy.

**City Office Roof Fund:** This fund accounts for principal and interest payments on a general obligation improvement bond of \$410,000 issued in 2012. Revenue for such payments is derived from a general property tax levy.

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

	<b>338</b> Pamida TIF	<b>343</b> Luverne Family Housing TIF	<b>357</b> Larson/True Value TIF
<b>ASSETS</b>			
Cash and temporary investments	\$ 66,071	\$ 5,187	\$ 585
Cash held with fiscal agent - restricted	-	-	-
Receivables			
Accrued interest	127	5	14
Delinquent taxes	63	-	-
Special assessments	-	-	-
Intergovernmental	38	-	12
	<u>\$ 66,299</u>	<u>\$ 5,192</u>	<u>\$ 611</u>
<b>TOTAL ASSETS</b>			
	<u>\$ 66,299</u>	<u>\$ 5,192</u>	<u>\$ 611</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 182	\$ -	\$ -
Accrued interest payable	-	-	-
	<u>182</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>			
	<u>182</u>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - taxes	63	-	-
Unavailable revenue - special assessments	-	-	-
	<u>63</u>	<u>-</u>	<u>-</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>			
	<u>63</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted for			
Debt service	66,054	5,192	611
	<u>66,054</u>	<u>5,192</u>	<u>611</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
	<u>\$ 66,299</u>	<u>\$ 5,192</u>	<u>\$ 611</u>

<b>320</b> Fire Relief Pension	<b>341</b> Freeman and Estey	<b>321</b> Fire Hall/ MN West	<b>342</b> Manfred Heights	<b>322</b> City Office Roof	Total
\$ 96,566	\$ 286,668	\$ 124,279	\$ 491,977	\$ 1	\$ 1,071,334
-	-	1,018,923	610,313	-	1,629,236
157	536	123	1,371	-	2,333
478	745	909	77	-	2,272
-	2,476	-	-	-	2,476
150	307	312	68	-	887
<u>\$ 97,351</u>	<u>\$ 290,732</u>	<u>\$ 1,144,546</u>	<u>\$ 1,103,806</u>	<u>\$ 1</u>	<u>\$ 2,708,538</u>
\$ 182	\$ 182	\$ 182	\$ 182	\$ -	\$ 910
-	-	119	63	69	251
182	182	301	245	69	1,161
478	745	909	77	-	2,272
-	2,476	-	-	-	2,476
478	3,221	909	77	-	4,748
96,691	287,329	1,143,336	1,103,484	(68)	2,702,629
<u>\$ 97,351</u>	<u>\$ 290,732</u>	<u>\$ 1,144,546</u>	<u>\$ 1,103,806</u>	<u>\$ 1</u>	<u>\$ 2,708,538</u>

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

	<b>338</b> Pamida TIF	<b>343</b> Luverne Family Housing TIF	<b>357</b> Larson/True Value TIF
REVENUES			
Taxes			
Property taxes	\$ 13,611	\$ -	\$ 2,634
Tax increments	25,383	8,899	2,596
Special assessments	-	-	-
Investment income	586	23	65
Miscellaneous			
Contributions and donations	-	-	-
TOTAL REVENUES	<u>39,580</u>	<u>8,922</u>	<u>5,295</u>
EXPENDITURES			
Current			
Economic development			
Other services and charges	-	8,539	-
Debt service			
Principal retirement	30,000	-	7,500
Interest and other	7,903	-	450
Bond issuance costs	-	-	-
TOTAL EXPENDITURES	<u>37,903</u>	<u>8,539</u>	<u>7,950</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,677	383	(2,655)
OTHER FINANCING SOURCES			
Bonds issued	-	-	-
NET CHANGE IN FUND BALANCES	1,677	383	(2,655)
FUND BALANCES, JANUARY 1	<u>64,377</u>	<u>4,809</u>	<u>3,266</u>
FUND BALANCES, DECEMBER 31	<u>\$ 66,054</u>	<u>\$ 5,192</u>	<u>\$ 611</u>

<b>320</b> Fire Relief Pension	<b>341</b> Freeman and Estey	<b>321</b> Fire Hall/ MN West	<b>342</b> Manfred Heights	<b>322</b> City Office Roof	Total
\$ 71,024	\$ 144,021	\$ 147,102	\$ 32,213	\$ -	\$ 410,605
-	-	-	-	-	36,878
-	29,259	-	830	-	30,089
725	2,473	448	6,264	(68)	10,516
-	-	-	70,000	-	70,000
<u>71,749</u>	<u>175,753</u>	<u>147,550</u>	<u>109,307</u>	<u>(68)</u>	<u>558,088</u>
-	-	-	-	-	8,539
75,000	125,000	90,000	90,000	-	417,500
6,338	1,926	50,712	32,180	-	99,509
-	-	16,044	9,608	-	25,652
<u>81,338</u>	<u>126,926</u>	<u>156,756</u>	<u>131,788</u>	<u>-</u>	<u>551,200</u>
(9,589)	48,827	(9,206)	(22,481)	(68)	6,888
-	-	1,035,000	620,000	-	1,655,000
(9,589)	48,827	1,025,794	597,519	(68)	1,661,888
<u>106,280</u>	<u>238,502</u>	<u>117,542</u>	<u>505,965</u>	<u>-</u>	<u>1,040,741</u>
<u>\$ 96,691</u>	<u>\$ 287,329</u>	<u>\$ 1,143,336</u>	<u>\$ 1,103,484</u>	<u>\$ (68)</u>	<u>\$ 2,702,629</u>

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## **Internal Service Funds**

**Central Garage Fund:** This fund accounts for the repair and maintenance of City vehicles and equipment by the City mechanic. Certain pieces of equipment which are purchased with cash from a number of different funds, and used by them, are recorded in this fund as assets.

**Central Store Fund:** This fund accounts for the centralized inventory and purchasing functions of the City.

**Worker's Compensation Insurance Fund:** This fund accounts for the receipts and disbursements that may be incurred as a result of the City's election of the retro-rated premium method of the current workers' compensation insurance coverage. Premium refunds or additional payments on an experience factor will dictate the activity in this fund.

**Property/Casualty Insurance Fund:** This fund accounts for the premium savings as a result of the larger deductible option selected in the City's property and casualty insurance. The savings will be used to pay the larger deductible in the event of a loss and will cover any catastrophic losses not normally covered by insurance.

**Data Processing Fund:** This fund accounts for centralized accounting and data processing functions of the City.

**Vacation/Sick Fund:** This fund accounts for the accumulation of funds for vacation and sick accrual in governmental funds.

CITY OF LUVERNE, MINNESOTA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF NET POSITION - CONTINUED ON THE FOLLOWING PAGES  
DECEMBER 31, 2012 AND 2011

	701		702	
	Central Garage		Central Store	
	2012	2011	2012	2011
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 259,023	\$ 244,201	\$ 365,039	\$ 339,560
Receivables				
Accrued interest	996	1,364	1,170	1,486
Accounts, net	-	-	-	114
Loans	-	-	-	-
Inventories, at cost	4,660	3,770	11,716	15,312
Prepaid items	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>264,679</b>	<b>249,335</b>	<b>377,925</b>	<b>356,472</b>
<b>NONCURRENT ASSETS</b>				
Capital assets				
Buildings	70,602	70,602	59,701	59,701
Improvements	61,159	61,159	-	-
Machinery and equipment	55,311	55,311	146,997	146,997
Construction in progress	2,597	-	-	-
Total capital assets	189,669	187,072	206,698	206,698
Less accumulated depreciation	(93,854)	(84,913)	(177,558)	(172,768)
Total noncurrent assets	95,815	102,159	29,140	33,930
<b>TOTAL ASSETS</b>	<b>360,494</b>	<b>351,494</b>	<b>407,065</b>	<b>390,402</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	3,267	95	-	-
Due to other governments	12	-	-	7
Wages and related benefits payable	2,366	512	853	766
Compensated absences payable - current	1,129	876	2,406	2,554
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,774</b>	<b>1,483</b>	<b>3,259</b>	<b>3,327</b>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences payable (net of current portion)	6,360	5,736	5,019	4,491
Other postemployment benefits liability	2,187	1,961	492	304
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>8,547</b>	<b>7,697</b>	<b>5,511</b>	<b>4,795</b>
<b>TOTAL LIABILITIES</b>	<b>15,321</b>	<b>9,180</b>	<b>8,770</b>	<b>8,122</b>
<b>NET POSITION</b>				
Net investment in capital assets	95,815	102,159	29,140	33,930
Unrestricted	249,358	240,155	369,155	348,350
<b>TOTAL NET POSITION</b>	<b>\$ 345,173</b>	<b>\$ 342,314</b>	<b>\$ 398,295</b>	<b>\$ 382,280</b>

<b>703</b>		<b>704</b>		<b>705</b>	
Worker's Comp Insurance		Property and Casualty Insurance		Data Processing	
2012	2011	2012	2011	2012	2011
\$ 184,178	\$ 166,497	\$ 466,372	\$ 513,555	\$ 504,716	\$ 510,612
558	696	1,789	2,208	2,090	2,808
-	-	-	-	256	222
-	-	99,034	-	-	-
-	-	-	-	-	-
-	-	-	-	2,523	2,387
<u>184,736</u>	<u>167,193</u>	<u>567,195</u>	<u>515,763</u>	<u>509,585</u>	<u>516,029</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	202,436	154,464
-	-	-	-	-	-
-	-	-	-	202,436	154,464
-	-	-	-	(140,248)	(121,662)
-	-	-	-	62,188	32,802
<u>184,736</u>	<u>167,193</u>	<u>567,195</u>	<u>515,763</u>	<u>571,773</u>	<u>548,831</u>
-	-	-	-	3,534	2,668
-	-	-	-	-	31
-	-	-	-	4,916	5,263
-	-	-	-	10,132	10,143
-	-	-	-	18,582	18,105
-	-	-	-	60,303	56,558
-	-	-	-	4,191	3,022
-	-	-	-	64,494	59,580
-	-	-	-	83,076	77,685
-	-	-	-	62,188	32,802
<u>184,736</u>	<u>167,193</u>	<u>567,195</u>	<u>515,763</u>	<u>426,509</u>	<u>438,344</u>
<u>\$ 184,736</u>	<u>\$ 167,193</u>	<u>\$ 567,195</u>	<u>\$ 515,763</u>	<u>\$ 488,697</u>	<u>\$ 471,146</u>

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CITY OF LUVERNE, MINNESOTA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF NET POSITION - CONTINUED  
DECEMBER 31, 2012 AND 2011

	706		Totals	
	Vacation / Sick			
	2012	2011	2012	2011
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 183,429	\$ 209,814	\$ 1,962,757	\$ 1,984,239
Receivables				
Accrued interest	-	-	6,603	8,562
Accounts, net	-	-	256	336
Loans	-	-	99,034	-
Inventories, at cost	-	-	16,376	19,082
Prepaid items	-	-	2,523	2,387
<b>TOTAL CURRENT ASSETS</b>	<b>183,429</b>	<b>209,814</b>	<b>2,087,549</b>	<b>2,014,606</b>
<b>NONCURRENT ASSETS</b>				
Capital assets				
Buildings	-	-	130,303	130,303
Improvements	-	-	61,159	61,159
Machinery and equipment	-	-	404,744	356,772
Construction in progress	-	-	2,597	-
Total capital assets	-	-	598,803	548,234
Less accumulated depreciation	-	-	(411,660)	(379,343)
Total noncurrent assets	-	-	187,143	168,891
<b>TOTAL ASSETS</b>	<b>183,429</b>	<b>209,814</b>	<b>2,274,692</b>	<b>2,183,497</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	-	-	6,801	2,763
Due to other governments	-	-	12	38
Wages and related benefits payable	-	-	8,135	6,541
Compensated absences payable - current	41,820	40,672	55,487	54,245
<b>TOTAL CURRENT LIABILITIES</b>	<b>41,820</b>	<b>40,672</b>	<b>70,435</b>	<b>63,587</b>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences payable (net of current portion)	141,609	169,142	213,291	235,927
Other postemployment benefits liability	-	-	6,870	5,287
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>141,609</b>	<b>169,142</b>	<b>220,161</b>	<b>241,214</b>
<b>TOTAL LIABILITIES</b>	<b>183,429</b>	<b>209,814</b>	<b>290,596</b>	<b>304,801</b>
<b>NET POSITION</b>				
Net investment in capital assets	-	-	187,143	168,891
Unrestricted	-	-	1,796,953	1,709,805
<b>TOTAL NET POSITION</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,984,096</b>	<b>\$ 1,878,696</b>

CITY OF LUVERNE, MINNESOTA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -  
CONTINUED ON THE FOLLOWING PAGES  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<b>701</b>		<b>702</b>	
	Central Garage		Central Store	
	2012	2011	2012	2011
OPERATING REVENUES				
Charges for services	\$ 130,700	\$ 130,721	\$ 57,104	\$ 60,273
Other income	-	-	-	-
<b>TOTAL OPERATING REVENUES</b>	<b>130,700</b>	<b>130,721</b>	<b>57,104</b>	<b>60,273</b>
OPERATING EXPENSES				
Personal services	86,164	88,559	28,843	27,045
Supplies	25,494	5,643	1,740	1,102
Other services and charges	11,842	11,031	11,112	7,878
Depreciation	8,941	8,942	4,790	16,671
<b>TOTAL OPERATING EXPENSES</b>	<b>132,441</b>	<b>114,175</b>	<b>46,485</b>	<b>52,696</b>
OPERATING INCOME (LOSS)	(1,741)	16,546	10,619	7,577
NONOPERATING REVENUES				
Investment income	4,600	5,981	5,396	6,517
CHANGE IN NET POSITION	2,859	22,527	16,015	14,094
NET POSITION, JANUARY 1	342,314	319,787	382,280	368,186
NET POSITION, DECEMBER 31	<u>\$ 345,173</u>	<u>\$ 342,314</u>	<u>\$ 398,295</u>	<u>\$ 382,280</u>

<b>703</b>		<b>704</b>		<b>705</b>	
Worker's Comp Insurance		Property and Casualty Insurance		Data Processing	
2012	2011	2012	2011	2012	2011
\$ 14,967	\$ 4,795	\$ 149,963	\$ 137,472	\$ 388,000	\$ 395,500
-	-	49,165	37,102	1,170	1,575
<u>14,967</u>	<u>4,795</u>	<u>199,128</u>	<u>174,574</u>	<u>389,170</u>	<u>397,075</u>
-	-	-	-	208,718	215,826
-	-	-	-	27,129	30,907
-	-	155,769	161,737	126,958	88,239
-	-	-	-	18,586	13,742
<u>-</u>	<u>-</u>	<u>155,769</u>	<u>161,737</u>	<u>381,391</u>	<u>348,714</u>
14,967	4,795	43,359	12,837	7,779	48,361
<u>2,576</u>	<u>3,051</u>	<u>8,073</u>	<u>9,680</u>	<u>9,772</u>	<u>12,773</u>
17,543	7,846	51,432	22,517	17,551	61,134
<u>167,193</u>	<u>159,347</u>	<u>515,763</u>	<u>493,246</u>	<u>471,146</u>	<u>410,012</u>
<u>\$ 184,736</u>	<u>\$ 167,193</u>	<u>\$ 567,195</u>	<u>\$ 515,763</u>	<u>\$ 488,697</u>	<u>\$ 471,146</u>

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CITY OF LUVERNE, MINNESOTA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<b>706</b>		Totals	
	Vacation / Sick			
	2012	2011	2012	2011
OPERATING REVENUES				
Charges for services	\$ -	\$ -	\$ 740,734	\$ 728,761
Other income	-	-	50,335	38,677
<b>TOTAL OPERATING REVENUES</b>	<b>-</b>	<b>-</b>	<b>791,069</b>	<b>767,438</b>
OPERATING EXPENSES				
Personal services	-	-	323,725	331,430
Supplies	-	-	54,363	37,652
Other services and charges	-	-	305,681	268,885
Depreciation	-	-	32,317	39,355
<b>TOTAL OPERATING EXPENSES</b>	<b>-</b>	<b>-</b>	<b>716,086</b>	<b>677,322</b>
OPERATING INCOME (LOSS)	-	-	74,983	90,116
NONOPERATING REVENUES				
Investment income	-	-	30,417	38,002
CHANGE IN NET POSITION	-	-	105,400	128,118
NET POSITION, JANUARY 1	-	-	1,878,696	1,750,578
NET POSITION, DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,984,096</u>	<u>\$ 1,878,696</u>

CITY OF LUVERNE, MINNESOTA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED ON THE FOLLOWING PAGES  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	701		702	
	Central Garage		Central Store	
	2012	2011	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received (paid) from interfund services provided	\$ 130,700	\$ 130,721	\$ 57,218	\$ 60,465
Cash paid to suppliers	(35,042)	(18,404)	(9,263)	(8,729)
Cash paid to and on behalf of employees	(83,207)	(124,347)	(28,188)	(27,505)
Other receipts	-	-	-	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>12,451</u>	<u>(12,030)</u>	<u>19,767</u>	<u>24,231</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	(2,597)	-	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	4,968	6,276	5,712	6,823
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	14,822	(5,754)	25,479	31,054
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>244,201</u>	<u>249,955</u>	<u>339,560</u>	<u>308,506</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 259,023</u>	<u>\$ 244,201</u>	<u>\$ 365,039</u>	<u>\$ 339,560</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (1,741)	\$ 16,546	\$ 10,619	\$ 7,577
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	8,941	8,942	4,790	16,671
Increase (decrease) in assets and liabilities				
Accounts receivable	-	-	114	192
Inventories	(890)	(174)	3,596	428
Prepaid items	-	-	-	-
Accounts payable	3,172	(1,554)	-	(164)
Due to other governments	12	(2)	(7)	(13)
Wages and related benefits payable	1,854	(1,982)	87	-
Other postemployment benefits liability	226	(2,098)	188	(645)
Compensated absences payable	877	(31,708)	380	185
<b>Total adjustments</b>	<u>14,192</u>	<u>(28,576)</u>	<u>9,148</u>	<u>16,654</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 12,451</u>	<u>\$ (12,030)</u>	<u>\$ 19,767</u>	<u>\$ 24,231</u>

703		704		705	
Worker's Comp Insurance		Property and Casualty Insurance		Data Processing	
2012	2011	2012	2011	2012	2011
\$ 14,967	\$ 4,795	\$ 50,929	\$ 137,472	\$ 387,966	\$ 395,446
-	-	(155,769)	(163,200)	(153,388)	(117,256)
-	-	-	-	(204,162)	(217,753)
-	-	49,165	37,102	1,170	1,575
14,967	4,795	(55,675)	11,374	31,586	62,012
-	-	-	-	(47,972)	(8,368)
2,714	3,210	8,492	9,772	10,490	13,140
17,681	8,005	(47,183)	21,146	(5,896)	66,784
166,497	158,492	513,555	492,409	510,612	443,828
<u>\$ 184,178</u>	<u>\$ 166,497</u>	<u>\$ 466,372</u>	<u>\$ 513,555</u>	<u>\$ 504,716</u>	<u>\$ 510,612</u>
\$ 14,967	\$ 4,795	\$ 43,359	\$ 12,837	\$ 7,779	\$ 48,361
-	-	-	-	18,586	13,742
-	-	(99,034)	-	(34)	(54)
-	-	-	-	-	-
-	-	-	-	(136)	1,024
-	-	-	(1,463)	866	835
-	-	-	-	(31)	31
-	-	-	-	(347)	(77)
-	-	-	-	1,169	(4,895)
-	-	-	-	3,734	3,045
-	-	(99,034)	(1,463)	23,807	13,651
<u>\$ 14,967</u>	<u>\$ 4,795</u>	<u>\$ (55,675)</u>	<u>\$ 11,374</u>	<u>\$ 31,586</u>	<u>\$ 62,012</u>

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CITY OF LUVERNE, MINNESOTA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<b>706</b>		Totals	
	Vacation / Sick			
	2012	2011	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received (paid) from interfund services provided	\$ (26,385)	\$ 16,780	\$ 615,395	\$ 745,679
Cash paid to suppliers	-	-	(353,462)	(307,589)
Cash paid to and on behalf of employees	-	-	(315,557)	(369,605)
Other receipts	-	-	50,335	38,677
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(26,385)</b>	<b>16,780</b>	<b>(3,289)</b>	<b>107,162</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	-	-	(50,569)	(8,368)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	-	-	32,376	39,221
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(26,385)</b>	<b>16,780</b>	<b>(21,482)</b>	<b>138,015</b>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<b>209,814</b>	<b>193,034</b>	<b>1,984,239</b>	<b>1,846,224</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>\$ 183,429</b>	<b>\$ 209,814</b>	<b>\$ 1,962,757</b>	<b>\$ 1,984,239</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ -	\$ -	\$ 74,983	\$ 90,116
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	-	-	32,317	39,355
Increase (decrease) in assets and liabilities				
Accounts receivable	-	-	(98,954)	138
Inventories	-	-	2,706	254
Prepaid items	-	-	(136)	1,024
Accounts payable	-	-	4,038	(2,346)
Due to other governments	-	-	(26)	16
Wages and related benefits payable	-	-	1,594	(2,059)
Other postemployment benefits liability	-	-	1,583	(7,638)
Compensated absences payable	(26,385)	16,780	(21,394)	(11,698)
<b>Total adjustments</b>	<b>(26,385)</b>	<b>16,780</b>	<b>(78,272)</b>	<b>17,046</b>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (26,385)</b>	<b>\$ 16,780</b>	<b>\$ (3,289)</b>	<b>\$ 107,162</b>

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## Agency Funds

**Lewis and Clark Fund:** This fund was established pursuant to a fiscal agent agreement executed by the Lewis and Clark Rural Water System Minnesota Systems Joint Powers Board and the City of Luverne. This fund accounts for payments made by Board members and expenses associated with approved activities of the joint powers board.

CITY OF LUVERNE, MINNESOTA  
 AGENCY FUNDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Balance January 1, 2012	Additions	Deductions	Balance December 31, 2012
Lewis and Clark				
ASSETS				
Cash and investments	\$ 544	\$ 9	\$ -	\$ 553
Receivables:				
Accrued interest	2	-	-	2
TOTAL ASSETS	<u>\$ 546</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 555</u>
LIABILITIES				
Amounts held for others	<u>\$ 546</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 555</u>

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

	Total 2012	Total 2011	Percent Increase (Decrease)
<b>REVENUES</b>			
Taxes	\$ 1,769,446	\$ 1,476,982	19.80 %
Special assessments	36,450	78,422	(53.52)
Licenses and permits	190,435	90,228	111.06
Intergovernmental	1,267,456	1,527,790	(17.04)
Charges for services	674,013	679,870	(0.86)
Investment earnings	125,033	140,776	(11.18)
Miscellaneous	945,409	307,698	207.25
<b>TOTAL REVENUES</b>	<b>\$ 5,008,242</b>	<b>\$ 4,301,766</b>	16.42 %
Per Capita	\$ 1,068	\$ 907	17.79 %
<b>EXPENDITURES</b>			
Current			
General government	\$ 544,639	\$ 506,873	7.45 %
Public safety	1,095,648	1,049,164	4.43
Public works	857,251	812,308	5.53
Culture and recreation	774,622	779,066	(0.57)
Conservation and development	76,464	316,435	(75.84)
Capital outlay			
General government	576,816	56,551	919.99
Public safety	120,432	-	100.00
Public works	182,288	26,661	583.73
Culture and recreation	861,013	40,147	2,044.65
Conservation and development	-	179,358	(100.00)
Debt service			
Principal	476,592	287,059	66.03
Interest and other charges	108,821	117,222	(7.17)
Bond issuance costs	32,008	-	100.00
<b>TOTAL EXPENDITURES</b>	<b>\$ 5,706,594</b>	<b>\$ 4,170,844</b>	36.82 %
Per Capita	\$ 1,217	\$ 879	38.43 %
Total Long-term Indebtedness	\$ 4,878,815	\$ 3,290,407	48.27 %
Per Capita	1,040	693	50.01
General Fund Balance - December 31	\$ 2,639,022	\$ 2,404,066	9.77 %
Per Capita	563	507	11.06

The purpose of this report is to provide a summary of financial information concerning the City of Luverne to interested citizens. The complete financial statements may be examined at City Offices, 305 East Luverne Street, Luverne, MN, 56156. Questions about this report should be directed to Barbara Berghorst at (507) 449-9900.

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## **STATISTICAL SECTION - (UNAUDITED)**

This part of the City of Luverne's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

### **Financial Trends**

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

### **Revenue Capacity**

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

### **Debt Capacity**

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

### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

### **Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

CITY OF LUVERNE, MINNESOTA  
NET POSITION BY COMPONENT  
2004 - 2012  
(accrual basis of accounting)

	Fiscal Year			
	2012	2011	2010	2009
<b>Governmental activities</b>				
Net investment in capital assets	\$ 9,974,182	\$ 9,126,886	\$ 9,512,985	\$ 9,054,791
Restricted	628,498	529,057	238,855	303,330
Unrestricted	4,602,307	4,531,553	4,255,703	4,188,264
Total governmental activities net position	<u>15,204,987</u>	<u>14,187,496</u>	<u>14,007,543</u>	<u>13,546,385</u>
<b>Business-type activities</b>				
Net investment in capital assets	14,204,393	13,721,426	13,334,878	13,836,826
Restricted	347,944	304,281	360,405	330,653
Unrestricted	16,134,235	15,178,390	14,030,207	12,459,832
Total business-type activities net position	<u>30,686,572</u>	<u>29,204,097</u>	<u>27,725,490</u>	<u>26,627,311</u>
<b>Primary government</b>				
Net investment in capital assets	24,178,575	22,848,312	22,847,863	22,891,617
Restricted	976,442	833,338	599,260	633,983
Unrestricted	20,736,542	19,709,943	18,285,910	16,648,096
Total primary government net position	<u>\$ 45,891,559</u>	<u>\$ 43,391,593</u>	<u>\$ 41,733,033</u>	<u>\$ 40,173,696</u>

Note: Net position are not available for years prior to 2004.

Table 1

Fiscal Year				
2008	2007	2006	2005	2004
\$ 7,046,069	\$ 5,856,980	\$ 5,544,453	\$ 5,825,841	\$ 4,432,161
-	-	-	-	-
3,830,245	3,951,808	4,314,168	3,945,495	5,200,252
10,876,314	9,808,788	9,858,621	9,771,336	9,632,413
13,567,002	13,901,572	13,134,678	13,848,382	13,889,609
327,878	329,838	281,405	239,394	171,203
12,017,572	10,907,412	10,366,212	9,219,514	9,033,060
25,912,452	25,138,822	23,782,295	23,307,290	23,093,872
20,613,071	19,758,552	18,679,131	19,674,223	18,321,770
327,878	329,838	281,405	239,394	171,203
15,847,817	14,859,220	14,680,380	13,165,009	14,233,312
<u>\$ 36,788,766</u>	<u>\$ 34,947,610</u>	<u>\$ 33,640,916</u>	<u>\$ 33,078,626</u>	<u>\$ 32,726,285</u>

CITY OF LUVERNE, MINNESOTA  
 CHANGES IN NET POSITION  
 2004 - 2012  
 (accrual basis of accounting)

	Fiscal Year			
	2012	2011	2010	2009
<b>EXPENSES</b>				
<b>Governmental activities</b>				
General government	\$ 635,951	\$ 637,217	\$ 621,043	\$ 636,689
Public safety	1,166,584	1,121,294	1,157,952	1,068,857
Public works	1,263,739	1,255,146	1,221,999	1,092,130
Culture and recreation	932,997	901,766	879,739	934,358
Conservation and development	86,198	318,480	90,220	59,119
Interest on long-term debt	159,403	122,743	156,189	203,159
Total governmental activities expenses	<u>4,244,872</u>	<u>4,356,646</u>	<u>4,127,142</u>	<u>3,994,312</u>
<b>Business-type activities</b>				
Water	949,208	834,782	988,222	1,855,956
Sewer	875,392	835,648	897,768	878,326
Refuse and recycling	437,194	420,554	417,189	392,343
Electric	5,769,226	5,923,359	5,962,493	5,550,824
Storm sewer	76,250	82,298	79,293	60,026
Liquor	1,077,729	1,016,858	987,460	965,470
Total business-type activities expenses	<u>9,184,999</u>	<u>9,113,499</u>	<u>9,332,425</u>	<u>9,702,945</u>
Total primary government expenses	<u>\$ 13,429,871</u>	<u>\$ 13,470,145</u>	<u>\$ 13,459,567</u>	<u>\$ 13,697,257</u>
<b>PROGRAM REVENUES</b>				
<b>Governmental activities</b>				
Charges for services				
General government	\$ 47,492	\$ 49,317	\$ 54,073	\$ 38,069
Public safety	384,318	263,000	260,206	237,608
Public works/streets	316,630	321,368	244,489	153,865
Culture and recreation	196,480	216,383	227,713	224,637
Conservation and development	24,442	24,442	17,854	17,657
Miscellaneous	-	-	-	-
Operating grants and contributions	35,506	34,568	38,862	39,290
Capital grants and contributions	781,163	226,957	564,245	1,980,096
Total governmental activities program revenues	<u>1,786,031</u>	<u>1,136,035</u>	<u>1,407,442</u>	<u>2,691,222</u>
<b>Business-type activities</b>				
Charges for services				
Water	1,227,239	1,250,747	1,204,587	1,160,826
Sewer	1,263,396	1,212,028	1,135,984	1,072,722
Refuse and recycling	543,122	541,011	516,125	500,956
Electric	6,318,544	6,415,879	6,356,768	6,067,045
Storm sewer	87,038	86,745	86,861	88,809
Liquor	1,186,644	1,103,616	1,064,495	1,029,748
Operating grants and contributions	-	-	-	-
Capital grants and contributions	150,540	7,882	7,580	366,994
Total business-type activities program revenues	<u>10,776,523</u>	<u>10,617,908</u>	<u>10,372,400</u>	<u>10,287,100</u>
Total primary government program revenues	<u>\$ 12,562,554</u>	<u>\$ 11,753,943</u>	<u>\$ 11,779,842</u>	<u>\$ 12,978,322</u>

Table 2

Fiscal Year				
2008	2007	2006	2005	2004
\$ 634,193	\$ 294,379	\$ 410,305	\$ 444,463	\$ 385,693
1,078,790	1,032,340	1,017,933	1,016,442	988,303
1,047,566	1,321,735	1,129,163	1,101,681	1,118,254
1,575,747	1,135,804	1,057,981	1,006,696	1,003,852
289,590	627,427	254,499	171,901	1,339,747
234,153	219,301	204,348	213,396	216,648
<u>4,860,039</u>	<u>4,630,986</u>	<u>4,074,229</u>	<u>3,954,579</u>	<u>5,052,497</u>
1,721,554	857,826	752,875	795,781	745,309
871,325	813,265	856,432	732,383	723,562
543,640	392,639	362,091	398,174	380,572
5,071,016	4,944,833	4,869,545	4,404,896	3,791,428
77,398	61,746	38,740	39,721	36,742
908,574	815,535	751,977	739,448	714,635
<u>9,193,507</u>	<u>7,885,844</u>	<u>7,631,660</u>	<u>7,110,403</u>	<u>6,392,248</u>
<u>\$ 14,053,546</u>	<u>\$ 12,516,830</u>	<u>\$ 11,705,889</u>	<u>\$ 11,064,982</u>	<u>\$ 11,444,745</u>
\$ 26,265	\$ 7,173	\$ 9,985	\$ 35,641	\$ 22,970
246,744	250,049	250,965	204,609	269,499
175,655	132,862	123,872	127,322	275,543
229,545	229,665	227,130	234,283	238,081
14,613	-	-	-	-
-	-	-	48,021	51,559
712,075	229,941	232,720	231,804	226,476
1,470,636	202,179	171,929	245,923	847,809
<u>2,875,533</u>	<u>1,051,869</u>	<u>1,016,601</u>	<u>1,127,603</u>	<u>1,931,937</u>
1,110,832	1,103,663	1,036,532	990,510	937,884
954,163	889,890	809,005	742,330	677,439
486,419	457,880	431,624	391,065	335,951
6,157,909	5,575,623	4,828,497	4,370,352	4,026,157
88,914	84,065	81,836	81,803	69,864
972,412	882,122	792,814	773,561	756,038
-	-	1,316	-	-
777	2,849	2,479	15,990	505,810
<u>9,771,426</u>	<u>8,996,092</u>	<u>7,984,103</u>	<u>7,365,611</u>	<u>7,309,143</u>
<u>\$ 12,646,959</u>	<u>\$ 10,047,961</u>	<u>\$ 9,000,704</u>	<u>\$ 8,493,214</u>	<u>\$ 9,241,080</u>

CITY OF LUVERNE, MINNESOTA  
 CHANGES IN NET POSITION - CONTINUED  
 2004 - 2012  
 (accrual basis of accounting)

	Fiscal Year			
	2012	2011	2010	2009
<b>PROGRAM REVENUES - CONTINUED</b>				
Net (expense)/revenue				
Governmental activities	\$ (2,458,841)	\$ (3,218,111)	\$ (2,719,700)	\$ (1,303,090)
Business-type activities	1,591,524	1,504,409	1,039,975	584,155
Total primary government net expense	<u>\$ (867,317)</u>	<u>\$ (1,713,702)</u>	<u>\$ (1,679,725)</u>	<u>\$ (718,935)</u>
<b>GENERAL REVENUES AND OTHER</b>				
<b>CHANGES IN NET POSITION</b>				
Governmental activities				
Taxes				
Property taxes, levied for general purposes	\$ 906,331	\$ 743,688	\$ 630,953	\$ 527,783
Property taxes, levied for debt service	406,876	316,141	297,383	264,863
Tax increments	34,335	34,107	54,927	582,235
Franchise and other taxes	405,670	388,611	386,493	385,254
Grants and contributions not restricted to specific programs	1,280,652	1,420,670	1,310,452	1,726,083
Unrestricted investment earnings	143,948	162,832	193,500	212,134
Other	-	15	150	20
Gain on sale of capital assets	-	-	-	-
Transfers	337,000	332,000	307,000	274,789
Total governmental activities	<u>3,514,812</u>	<u>3,398,064</u>	<u>3,180,858</u>	<u>3,973,161</u>
Business-type activities				
Taxes				
Property taxes, levied for debt service	24,976	21,276	20,793	41,077
Grants and contributions not restricted to specific programs	1,500	4,225	4,508	8,748
Unrestricted investment earnings	236,262	280,084	329,144	355,025
Other	809	613	754	643
Gain on sale of capital assets	1,000	-	10,005	-
Transfers	(337,000)	(332,000)	(307,000)	(274,789)
Total business-type activities	<u>(72,453)</u>	<u>(25,802)</u>	<u>58,204</u>	<u>130,704</u>
Total primary government	<u>\$ 3,442,359</u>	<u>\$ 3,372,262</u>	<u>\$ 3,239,062</u>	<u>\$ 4,103,865</u>
<b>CHANGES IN NET POSITION</b>				
Governmental activities	\$ 1,055,971	\$ 179,953	\$ 461,158	\$ 2,670,071
Business-type activities	1,519,071	1,478,607	1,098,179	714,859
Total primary government	<u>\$ 2,575,042</u>	<u>\$ 1,658,560</u>	<u>\$ 1,559,337</u>	<u>\$ 3,384,930</u>

Note: Changes in net position are not available for years prior to 2004.

Table 2 (continued)

Fiscal Year				
2008	2007	2006	2005	2004
\$ (1,984,506)	\$ (3,579,117)	\$ (3,057,628)	\$ (2,826,976)	\$ (3,120,560)
<u>577,919</u>	<u>1,110,248</u>	<u>352,443</u>	<u>255,208</u>	<u>916,895</u>
<u>\$ (1,406,587)</u>	<u>\$ (2,468,869)</u>	<u>\$ (2,705,185)</u>	<u>\$ (2,571,768)</u>	<u>\$ (2,203,665)</u>
\$ 476,338	\$ 549,975	\$ 411,806	\$ 394,573	\$ 364,344
257,244	190,364	185,217	198,031	207,639
83,523	298,583	295,121	307,782	304,155
368,586	331,415	326,889	322,474	306,666
1,347,398	1,512,055	1,426,291	1,320,217	1,318,604
253,153	324,057	243,764	166,822	237,493
40	-	-	-	-
1,750	8,900	1,825	-	-
<u>264,000</u>	<u>313,935</u>	<u>254,000</u>	<u>256,000</u>	<u>216,685</u>
<u>3,052,032</u>	<u>3,529,284</u>	<u>3,144,913</u>	<u>2,965,899</u>	<u>2,955,586</u>
41,115	40,519	40,478	42,039	13
9,070	9,654	9,875	9,912	-
391,504	509,217	302,532	162,259	242,634
450	324	80	-	-
17,572	500	23,597	-	60,436
<u>(264,000)</u>	<u>(313,935)</u>	<u>(254,000)</u>	<u>(256,000)</u>	<u>(216,685)</u>
<u>195,711</u>	<u>246,279</u>	<u>122,562</u>	<u>(41,790)</u>	<u>86,398</u>
<u>\$ 3,247,743</u>	<u>\$ 3,775,563</u>	<u>\$ 3,267,475</u>	<u>\$ 2,924,109</u>	<u>\$ 3,041,984</u>
\$ 1,067,526	\$ (49,833)	\$ 87,285	\$ 138,923	\$ (164,974)
<u>773,630</u>	<u>1,356,527</u>	<u>475,005</u>	<u>213,418</u>	<u>1,003,293</u>
<u>\$ 1,841,156</u>	<u>\$ 1,306,694</u>	<u>\$ 562,290</u>	<u>\$ 352,341</u>	<u>\$ 838,319</u>

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CITY OF LUVERNE, MINNESOTA  
 GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE  
 2004 - 2012  
 (accrual basis of accounting)

Table 3

Fiscal Year	Property Taxes		Tax Increments	Hotel/motel Tax	Franchise Tax	Total
	Levied for General Purposes	Levied for Debt Service				
2004	\$ 364,344	\$ 207,639	\$ 304,155	\$ 1,235	\$ 305,431	\$ 1,182,804
2005	394,573	198,031	307,782	1,182	321,292	1,222,860
2006	411,806	185,217	295,121	1,098	325,791	1,219,033
2007	549,975	190,364	298,583	1,102	330,313	1,370,337
2008	476,338	257,244	83,523	1,516	367,070	1,185,691
2009	527,783	264,863	582,235	1,411	383,843	1,760,135
2010	630,953	297,383	54,927	1,382	385,111	1,369,756
2011	743,688	316,141	34,107	887	387,724	1,482,547
2012	906,331	406,876	34,335	1,675	403,995	1,753,212

Note: Accrual based tax information was not available for years prior to 2004.

CITY OF LUVERNE, MINNESOTA  
 FUND BALANCES OF GOVERNMENTAL FUNDS  
 LAST TEN FISCAL YEARS  
 (modified accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
General fund					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted (Reserved 2003 - 2010)	38,920	32,723	235,397	206,590	115,834
Assigned	-	-	-	-	-
Unassigned (Unreserved 2003 - 2010)	<u>1,169,303</u>	<u>1,457,181</u>	<u>1,313,646</u>	<u>1,537,935</u>	<u>1,647,475</u>
Total General fund	<u>\$ 1,208,223</u>	<u>\$ 1,489,904</u>	<u>\$ 1,549,043</u>	<u>\$ 1,744,525</u>	<u>\$ 1,763,309</u>
All other governmental funds					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted (Reserved 2003 - 2010)	6,258,489	5,161,460	3,601,802	4,030,201	4,173,832
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned (Unreserved 2003 - 2010)	<u>(81,334)</u>	<u>(44,039)</u>	<u>82,058</u>	<u>945</u>	<u>(89,529)</u>
Total all other governmental funds	<u>\$ 6,177,155</u>	<u>\$ 5,117,421</u>	<u>\$ 3,683,860</u>	<u>\$ 4,031,146</u>	<u>\$ 4,084,303</u>

Table 4

Fiscal Year				
2008	2009	2010	2011	2012
\$ -	\$ -	\$ -	\$ 369,411	\$ 562,938
124,158	111,289	98,993	12,475	12,475
-	-	-	1,198,528	1,092,661
1,719,558	1,807,922	2,045,119	823,652	970,948
<u>\$ 1,843,716</u>	<u>\$ 1,919,211</u>	<u>\$ 2,144,112</u>	<u>\$ 2,404,066</u>	<u>\$ 2,639,022</u>
\$ -	\$ -	\$ -	\$ 10,600	\$ 15,703
2,804,471	3,309,341	2,744,408	1,040,741	2,702,629
-	-	-	593,502	588,008
-	-	-	1,175,513	954,094
(77,393)	(12,074)	(291,564)	(141,160)	(112,546)
<u>\$ 2,727,078</u>	<u>\$ 3,297,267</u>	<u>\$ 2,452,844</u>	<u>\$ 2,679,196</u>	<u>\$ 4,147,888</u>

CITY OF LUVERNE, MINNESOTA  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 LAST TEN FISCAL YEARS  
 (modified accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>REVENUES</b>					
Taxes	\$ 678,151	\$ 877,990	\$ 914,572	\$ 927,969	\$ 1,069,838
Tax increments	411,414	304,155	307,782	295,121	298,583
Licenses and permits	93,586	122,465	65,030	93,878	93,379
Intergovernmental revenue	1,605,304	2,316,399	1,640,022	1,758,668	1,880,230
Charges for services	371,258	496,703	520,789	490,011	498,282
Fines and forfeits	4,015	7,976	3,799	3,880	4,231
Lease revenue	51,554	51,559	38,670	-	-
Special assessments	207,283	188,726	177,062	133,546	122,951
Investment income	177,811	226,487	159,061	217,184	291,435
Miscellaneous	27,664	190,351	132,683	37,345	71,675
<b>TOTAL REVENUES</b>	<b>3,628,040</b>	<b>4,782,811</b>	<b>3,959,470</b>	<b>3,957,602</b>	<b>4,330,604</b>
<b>EXPENDITURES</b>					
General government	397,491	350,469	431,156	388,582	532,040
Public safety	854,967	915,294	946,248	911,794	919,894
Public works	554,962	1,447,054	632,727	648,154	705,603
Culture and recreation	889,263	825,194	806,667	857,007	953,373
Conservation and development	264,161	1,338,949	160,270	153,559	291,330
Miscellaneous	20,564	-	-	-	-
Capital outlay	162,997	237,223	1,651,262	1,756,680	1,561,826
Debt service					
Principal	2,134,837	463,190	840,157	437,289	437,419
Interest and other charges	268,552	221,703	219,405	166,705	238,748
<b>TOTAL EXPENDITURES</b>	<b>5,547,794</b>	<b>5,799,076</b>	<b>5,687,892</b>	<b>5,319,770</b>	<b>5,640,233</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,919,754)</b>	<b>(1,016,265)</b>	<b>(1,728,422)</b>	<b>(1,362,168)</b>	<b>(1,309,629)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of capital assets	-	-	-	25,200	95,800
Transfers in	514,740	453,815	1,254,722	732,977	756,449
Debt issued	-	21,527	98,000	1,639,600	996,498
Payment to refunded bonds escrow agent	-	-	-	-	-
Discount on debt issued	-	-	-	(13,864)	(6,728)
Transfers out	(284,383)	(237,130)	(998,722)	(478,977)	(460,449)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>230,357</b>	<b>238,212</b>	<b>354,000</b>	<b>1,904,936</b>	<b>1,381,570</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (1,689,397)</b>	<b>\$ (778,053)</b>	<b>\$ (1,374,422)</b>	<b>\$ 542,768</b>	<b>\$ 71,941</b>
Debt service as a percentage of noncapital expenditures	44.63%	14.56%	26.25%	16.67%	15.96%

Table 5

		Fiscal Year					
		2008	2009	2010	2011	2012	
\$	1,100,367	\$	1,172,406	1,314,969	1,443,061	\$	1,732,568
	82,339		580,734	55,063	33,921		36,878
	83,811		74,615	86,731	90,228		190,435
	3,026,344		2,896,500	1,856,285	1,530,290		1,267,456
	547,458		519,666	646,568	679,870		674,013
	3,998		-	125	-		-
	-		-	-	-		-
	120,824		90,642	92,247	78,422		36,450
	223,953		186,006	170,990	140,776		125,033
	99,652		447,415	109,113	305,198		945,409
	<u>5,288,746</u>		<u>5,967,984</u>	<u>4,332,091</u>	<u>4,301,766</u>		<u>5,008,242</u>
	524,751		506,956	492,799	506,873		544,639
	1,004,243		999,236	1,081,976	1,049,164		1,095,648
	929,518		853,957	757,228	812,308		857,251
	973,238		755,843	690,957	779,066		774,622
	158,537		58,321	89,471	316,435		76,464
	-		-	-	-		-
	2,468,972		1,719,849	1,095,426	302,717		1,740,549
	554,123		643,208	839,212	287,059		476,592
	217,932		208,482	190,205	117,222		140,829
	<u>6,831,314</u>		<u>5,745,852</u>	<u>5,237,274</u>	<u>4,170,844</u>		<u>5,706,594</u>
	<u>(1,542,568)</u>		<u>222,132</u>	<u>(905,183)</u>	<u>130,922</u>		<u>(698,352)</u>
	1,750		-	-	-		-
	579,780		837,407	1,265,757	694,250		-
	-		136,552	758,106	23,384		770,391
	-		-	(775,000)	-		2,065,000
	-		-	(4,445)	-		-
	<u>(315,780)</u>		<u>(550,407)</u>	<u>(958,757)</u>	<u>(362,250)</u>		<u>(433,391)</u>
	<u>265,750</u>		<u>423,552</u>	<u>285,661</u>	<u>355,384</u>		<u>2,402,000</u>
\$	<u>(1,276,818)</u>	\$	<u>645,684</u>	<u>(619,522)</u>	<u>486,306</u>	\$	<u>1,703,648</u>
	18.16%		21.90%	24.61%	10.38%		15.57%

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CITY OF LUVERNE, MINNESOTA  
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE  
LAST TEN FISCAL YEARS  
(modified accrual basis of accounting)

Table 6

Fiscal Year	Property Tax	Tax Increments	Lodging Tax	Franchise Tax	Total
2003	\$ 372,990	\$ 411,414	\$ 1,190	\$ 303,971	\$ 1,089,565
2004	571,324	304,155	1,235	305,431	1,182,145
2005	592,098	307,782	1,182	321,292	1,222,354
2006	601,080	295,121	1,098	325,791	1,223,090
2007	738,423	298,583	1,102	330,313	1,368,421
2008	731,781	82,339	1,516	367,070	1,182,706
2009	787,152	580,734	1,411	383,843	1,753,140
2010	928,476	55,063	1,382	385,111	1,370,032
2011	1,054,450	33,921	887	387,724	1,476,982
2012	1,326,898	36,878	1,675	403,995	1,769,446

CITY OF LUVERNE, MINNESOTA  
ESTIMATED MARKET VALUE AND TAX CAPACITY VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS

Fiscal Year Ended <u>December 31,</u>	Real Property (1)		Total Real Property	Personal Property
	Residential Property	Commercial Property		
2003	\$ -	\$ -	\$ 158,660,400	\$ 1,008,200
2004	-	-	164,971,800	1,186,400
2005	-	-	172,231,300	1,241,900
2006	140,643,100	43,509,000	184,152,100	942,800
2007	147,434,000	45,013,700	192,447,700	967,200
2008	153,483,600	47,989,700	201,473,300	1,280,800
2009	163,085,500	51,206,100	214,291,600	1,389,800
2010	164,819,700	53,222,700	218,042,400	1,594,400
2011	170,174,100	52,878,800	223,052,900	1,661,500
2012	172,954,500	55,081,900	228,036,400	2,095,500

Source: Rock County Assessor

(1) Estimated market value for real property by classification for prior years was not available at the time this report was prepared.

Table 7

<u>Total Estimated Market Value</u>	<u>Total Direct Tax Rate</u>	<u>Tax Capacity Value</u>	<u>Tax Capacity Value as a Percentage of Estimated Actual Value</u>
\$ 159,668,600	34.500	\$ 1,825,736	1.14 %
166,158,200	44.121	1,894,020	1.14
173,473,200	44.220	1,980,151	1.14
185,094,900	43.076	2,074,112	1.12
193,414,900	43.652	2,193,676	1.13
202,754,100	44.548	2,304,913	1.14
215,681,400	45.697	2,465,847	1.14
219,636,800	47.736	2,509,154	1.14
224,714,400	62.705	2,195,236	0.98
230,131,900	63.367	2,267,619	0.99

CITY OF LUVERNE, MINNESOTA  
PROPERTY TAX RATES  
DIRECT AND OVERLAPPING GOVERNMENTS  
LAST TEN FISCAL YEARS

Fiscal Year	City of Luverne			Overlapping Rates Rock County		
	Operating Millage	Debt Service Millage	Total City Millage	Operating Millage	Debt Service Millage	Total County Millage
2003	18.867	15.633	34.500	43.345	-	43.345
2004	27.409	16.712	44.121	42.307	-	42.307
2005	27.504	16.716	44.220	41.020	-	41.020
2006	27.888	15.188	43.076	37.095	0.617	37.712
2007	28.342	15.310	43.652	34.161	1.143	35.304
2008	26.960	17.588	44.548	32.564	1.056	33.620
2009	27.908	17.789	45.697	31.389	0.965	32.354
2010	31.109	16.627	47.736	27.586	0.839	28.425
2011	42.870	19.835	62.705	28.310	0.834	29.144
2012	47.921	15.446	63.367	23.001	1.638	24.639

Source: Rock County Auditor/Treasurer

Table 8

Overlapping Rates				
Independent School District No. 2184				
Operating Millage	Debt Service Millage	Total School Millage	Special Districts	Total Direct and Overlapping Rates
32.127	-	32.127	0.603	110.575
29.101	-	29.101	0.571	116.100
23.880	-	23.880	0.560	109.680
3.977	18.025	22.002	0.505	103.295
5.325	16.194	21.519	0.464	100.939
5.105	14.875	19.980	0.425	98.573
5.339	13.488	18.827	0.387	97.265
4.654	10.783	15.437	0.324	91.922
4.971	11.031	16.002	0.182	108.033
4.203	9.503	13.706	0.155	101.867

CITY OF LUVERNE, MINNESOTA  
 PRINCIPAL PROPERTY TAXPAYERS  
 DECEMBER 31, 2012

Taxpayer	Type of Business	2012		
		Tax Capacity Value	Rank	Percentage of Total Tax Capacity Value
Agri-Energy, LLC	Ethanol production	\$ 140,980	1	6.1 %
Good Samaritan Society - Oak Apartments	Congregate care facility	34,600	2	1.5
Midwest Fire	Fire truck manufacturer	33,376	3	1.5
Sioux Valley Medical Center	Hospital	30,550	4	1.3
Luverne Economic Development Authority	Commercial property	28,538	5	1.3
Glen's Food Center	Groceries	26,462	6	1.2
SARPLLC	2 motels	24,094	7	1.1
Pamida	Retail	23,986	8	1.1
Total Card, Inc.	Credit card processing	17,692	9	0.8
SWMN Farmers Coop	Grain elevator	16,774	10	0.7
Papik Motors	Auto sales	-		-
Tri-State Insurance Company	Insurance	-		-
Planned Investments	Apartment building	-		-
Jubilee Foods	Groceries	-		-
Rock Creek Townhomes	Rental Property	-		-
Total		<u>\$ 377,052</u>		<u>16.6 %</u>

Source: Rock County Assessor

Table 9

2003		
Tax Capacity Value	Rank	Percentage of Total Tax Capacity Value
\$ 93,706	1	5.2 %
12,683	8	0.7
-		-
-		-
30,423	2	1.7
-		-
-		-
22,430	4	1.2
-		-
13,121	7	0.7
12,174	9	0.7
20,011	5	1.1
11,790	10	0.6
26,286	3	1.4
<u>13,425</u>	6	<u>0.7</u>
<u>\$ 256,049</u>		<u>14.0 %</u>

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CITY OF LUVERNE, MINNESOTA  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

Table 10

Fiscal Year Ended December 31,	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$ 534,818	\$ 525,464	98.3 %	\$ 9,354	\$ 534,818	100.0 %
2004	718,031	708,018	98.6	10,013	718,031	100.0
2005	744,697	733,732	98.5	10,965	744,697	100.0
2006	789,077	784,483	99.4	4,594	789,077	100.0
2007	841,545	826,511	98.2	15,034	841,545	100.0
2008	944,746	934,084	98.9	10,441	944,525	100.0
2009	1,016,155	1,002,671	98.7	12,560	1,015,231	99.9
2010	1,144,019	1,132,487	99.0	9,911	1,142,398	99.9
2011	1,284,454	1,267,946 <sup>(1)</sup>	98.7	14,615	1,282,561	99.9
2012	1,348,740	1,345,837	99.8	-	1,345,837	99.8

(1) Includes market rate homestead credit unallotment of \$85,904.

Source: Finance Department, City of Luverne

CITY OF LUVERNE, MINNESOTA  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities					
	General Obligation Bonds	G.O. Improvement Bonds	G.O. Revenue Bonds	G.O. Tax Increment Bonds	G.O. Equipment Certificates	Capital Leases and Notes
2003	\$ 560,000	\$ 1,975,000	\$ 437,400	\$ 1,858,500	\$ -	\$ 59,497
2004	560,000	1,745,000	379,000	1,705,000	-	62,734
2005	510,000	1,500,000	-	1,551,000	98,000	50,577
2006	1,955,000	1,315,000	-	1,367,000	98,000	176,888
2007	1,900,000	2,105,000	-	1,182,500	91,000	192,467
2008	1,770,000	1,910,000	-	982,500	83,000	171,344
2009	1,635,000	1,475,000	-	942,500	74,000	283,688
2010	1,490,000	1,235,000	-	387,500	65,000	376,582
2011	1,340,000	1,150,000	-	382,500	55,000	362,907
2012	2,620,000	1,555,000	-	345,000	45,000	313,815

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Table 11

Business-type Activities				
G.O. Revenue Bonds	Total Primary Government	Percentage of Personal Income	Per Capita	
\$ 138,600	\$ 5,028,997	4.09 %	\$ 1,093	
2,755,000	7,206,734	5.52	1,571	
2,755,000	6,464,577	4.70	1,407	
3,605,000	8,516,888	6.20	1,845	
3,455,000	8,925,967	5.96	1,942	
3,260,000	8,176,844	4.62	1,780	
3,060,000	7,470,188	4.39	1,631	
4,735,000	8,289,082	4.33	1,747	
2,660,000	5,950,407	2.79	1,269	
5,125,000	10,003,815	NA	2,133	

CITY OF LUVERNE, MINNESOTA  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS

Table 12

Fiscal Year	General Obligation Debt	Less: Amounts Available in Debt Service Funds	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
2003	\$ 560,000	\$ 16,814	\$ 543,186	0.30 %	\$ 118
2004	560,000	69,813	490,187	0.26	107
2005	608,000	77,823	530,177	0.27	115
2006	2,053,000	127,396	1,925,604	0.93	417
2007	1,991,000	145,042	1,845,958	0.84	402
2008	1,853,000	166,775	1,686,225	0.73	367
2009	1,709,000	183,491	1,525,509	0.62	333
2010	1,555,000	200,207	1,354,793	0.54	286
2011	1,395,000	223,822	1,171,178	0.53	250
2012	2,665,000	1,240,027	1,424,973	0.63	304

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

CITY OF LUVERNE, MINNESOTA  
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
 DECEMBER 31, 2012

Table 13

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Direct debt			
City of Luverne	<u>\$ 4,878,815</u>	100.00 %	<u>\$ 4,878,815</u>
Overlapping debt			
Rock County	5,270,000	13.87	730,949
Independent School District #2184	<u>5,305,000</u>	25.49	<u>1,352,245</u>
Total overlapping debt	<u>10,575,000</u>		<u>2,083,194</u>
Total direct and overlapping debt	<u>\$ 15,453,815</u>		<u>\$ 6,962,009</u>

Sources: Assessed value data used to estimate applicable percentages provided by the County Board of Equalization and Assessment. Debt outstanding data provided by the county.

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

CITY OF LUVERNE, MINNESOTA  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Debt limit	\$ 3,193,372	\$ 3,275,708	\$ 3,469,464	\$ 3,701,898	\$ 3,868,298
Total net debt applicable to limit	<u>560,000</u>	<u>560,000</u>	<u>608,000</u>	<u>2,053,000</u>	<u>1,991,000</u>
Legal debt margin	<u>\$ 2,633,372</u>	<u>\$ 2,715,708</u>	<u>\$ 2,861,464</u>	<u>\$ 1,648,898</u>	<u>\$ 1,877,298</u>
Total net debt applicable to the limit as a percentage of debt limit	17.54%	17.10%	17.52%	55.46%	51.47%

Note: Under state finance law, the City of Luverne's outstanding general obligation debt should not exceed 3 percent of total estimated market value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

The method of computation of legal debt margin is that which is used by our bond consultants.

Table 14

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 6,082,623	\$ 6,470,442	\$ 6,589,104	\$ 6,741,432	\$ 6,903,957
<u>1,853,000</u>	<u>1,709,000</u>	<u>1,555,000</u>	<u>1,395,000</u>	<u>2,665,000</u>
<u>\$ 4,229,623</u>	<u>\$ 4,761,442</u>	<u>\$ 5,034,104</u>	<u>\$ 5,346,432</u>	<u>\$ 4,238,957</u>
30.46%	26.41%	23.60%	20.69%	38.60%

**Legal Debt Margin Calculation for Fiscal Year 2012**

Estimated Market Value (2011/2012)	\$ 230,131,900
A) Debt Limit 3.0% of estimated market value	6,903,957
Total Bonded Debt	<u>9,690,000</u>
B) Deductions:	
General obligation improvement bonds	1,555,000
General obligation tax increment bonds	345,000
General obligation revenue bonds	<u>5,125,000</u>
Total Deductions	<u>7,025,000</u>
Net Debt applicable to debt limit:	
General obligation debt	2,620,000
General obligation equipment certificates	<u>45,000</u>
Total Net Debt applicable to debt limit	<u>2,665,000</u>
Legal Debt Margin	<u>\$ 4,238,957</u>
Percent of Debt Margin not used	61.40%

e.

CITY OF LUVERNE, MINNESOTA  
 PLEDGED-REVENUE COVERAGE  
 LAST TEN FISCAL YEARS

Table 15A

Year	Utility Revenue Bonds						Coverage
	Gross Revenue	Direct Operating Expenses <sup>(2)</sup>	Net Revenue Available for Debt Service	Debt Service Requirements <sup>(1)</sup>			
				Principal	Interest	Total	
2003	\$ 680,206 <sup>(3)</sup>	\$ 428,478	\$ 251,728	\$ 8,400	\$ 8,736	\$ 17,136	14.69
2004	1,036,379 <sup>(3)</sup>	476,606	559,773	138,600	8,245	146,845	3.81
2005	1,881,718 <sup>(4)</sup>	864,391	1,017,327	-	119,088	119,088	8.54
2006	2,053,438 <sup>(4)</sup>	968,972	1,084,466	125,000	107,740	232,740	4.66
2007	2,305,965 <sup>(4)</sup>	1,071,943	1,234,022	150,000	131,405	281,405	4.39
2008	2,302,534 <sup>(4)</sup>	1,123,343	1,179,191	195,000	134,838	329,838	3.58
2009	2,714,686 <sup>(4)</sup>	1,204,639	1,510,047	200,000	127,877	327,877	4.61
2010	2,524,189 <sup>(4)</sup>	1,190,867	1,333,322	210,000	120,563	330,563	4.03
2011	2,618,747 <sup>(4)</sup>	1,158,072	1,460,675	225,000	96,448	321,448	4.54
2012	2,781,250 <sup>(4)</sup>	1,231,918	1,549,332	245,000	59,280	304,280	5.09

Source: City of Luverne Financial Records

Note: Details regarding the government's outstanding debt can be found in the notes to the financial statements.

(1) The revenues of the utility are pledged to payment of debt service but bonds are backed by the full faith and credit of the City.

(2) Does not include depreciation.

(3) Includes Sewer.

(4) Includes Water and Sewer.

CITY OF LUVERNE, MINNESOTA  
 PLEDGED-REVENUE COVERAGE  
 LAST TEN FISCAL YEARS

Table 15B

Year	Other Bonds and Equipment Certificates						Coverage
	Tax Revenue	Debt Service Revenues	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	
2003	\$ 195,121	\$ 669,109	\$ 864,230	\$ 441,900	\$ 217,941	\$ 659,841	1.31
2004	205,239	621,547	826,786	485,000 <sup>(1)</sup>	195,893	680,893	1.21
2005	192,406	580,199	772,605	424,000	160,546	584,546	1.32
2006	154,342	519,868	674,210	431,500	216,172	647,672	1.04
2007	297,441	484,654	782,095	533,000	188,839	721,839	1.08
2008	263,636	262,825	526,461	384,000	205,345	589,345	0.89
2009	271,767	740,052	1,011,819	389,000	189,392	578,392	1.75
2010	297,971	211,723	509,694	250,000	108,811	358,811	1.42
2011	415,458	199,590	615,048	427,500	99,511	527,011	1.17
2012	459,985	110,605	570,590	427,500	101,816	529,316	1.08

Source: City of Luverne Financial Records

(1) Does not include bond principal paid by escrow.

CITY OF LUVERNE, MINNESOTA  
 DEMOGRAPHIC AND ECONOMIC STATISTICS  
 LAST TEN FISCAL YEARS

Table 16

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>Educational Attainment - College Graduate or Better</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2003	4,600	\$ 122,981,000	\$ 26,735	42.6	19.6 %	1,266	3.3 %
2004	4,588	130,560,716	28,457	42.6	19.6	1,288	3.4
2005	4,596	137,484,744	29,914	42.6	19.6	1,234	3.2
2006	4,617	137,378,835	29,755	42.6	19.6	1,233	2.8
2007	4,597	149,807,036	32,588	42.6	19.6	1,195	3.2
2008	4,593	177,014,220	38,540	42.6	19.6	1,193	3.9
2009	4,579	170,059,481	37,139	42.6	19.6	1,187	5.5
2010	4,745	191,223,500	40,300	41.7	19.6	1,191	5.2
2011	4,690	213,193,330	45,457	41.7	28.0	1,216	4.6
2012	4,690	NA	NA	41.7	28.0	1,177	3.9

Source: Southwest Regional Development Commission.

Note: Median age and education level information is collected during the decennial census. Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

CITY OF LUVERNE, MINNESOTA  
 PRINCIPAL EMPLOYERS  
 CURRENT YEAR AND NINE YEARS AGO

Table 17

	2012			2003		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Sanford Hospital - Luverne	249	1	11.21 %	190	2	7.47 %
Independent School District No. 2184	205	2	9.23	245	1	9.63
Minnesota Veterans Home	171	3	7.70	166	3	6.52
Mary Jane Brown Good Samaritan Home	105	4	4.72	107	5	4.20
Rock County	104	5	4.68	105	7	4.13
Gold 'N Plump	100	6	4.50	130	4	5.11
Continental Western Group	93	7	4.19	104	8	4.09
City of Luverne	62	8	2.79	106	6	4.16
Papik Motors	51	9	2.30	40	10	1.57
Berkley Information Services	39	10	1.76	-	-	-
Sanford Clinic Luverne	-	-	-	50	9	1.96
Total	<u>1,179</u>		<u>53.08 %</u>	<u>1,243</u>		<u>48.84 %</u>

Source: State Department of Commerce.

CITY OF LUVERNE, MINNESOTA  
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION  
 LAST TEN FISCAL YEARS

Function	Full-time Equivalent Employees as of December 31				
	2003	2004	2005	2006	2007
General government	2.28	2.55	2.29	2.75	3.53
Public safety					
Fire					
Firefighters and officers	1.64	1.85	2.19	2.37	2.26
Building official	1.02	0.81	1.00	1.01	1.01
Streets and highways	4.14	3.38	3.71	4.16	3.45
Sanitation	2.66	3.05	3.04	2.49	2.89
Culture and recreation					
Parks	3.46	3.66	3.16	3.37	3.54
Library	3.42	3.22	3.31	3.34	3.34
Swimming pool	6.45	7.26	6.76	7.06	6.78
Housing and economic development	1.00	0.61	0.86	0.79	0.70
Water	3.51	2.66	2.64	2.99	3.13
Sewer	3.62	4.46	3.54	4.11	4.26
Electric	6.32	3.90	2.66	2.98	2.68
Liquor - off sale	2.26	2.39	2.38	2.45	2.47
Central garage	1.10	1.07	1.01	1.00	1.02
Central store	0.50	0.52	0.50	0.50	0.51
Data processing	2.83	2.58	2.57	2.58	2.58
<b>Total</b>	<b>46.21</b>	<b>43.97</b>	<b>41.62</b>	<b>43.95</b>	<b>44.15</b>

Source: Finance Department

Table 18

Full-time Equivalent Employees as of December 31				
2008	2009	2010	2011	2012
3.95	2.83	3.14	2.81	3.23
2.26	1.85	2.76	2.09	2.47
1.00	1.00	1.00	1.00	1.00
3.44	3.29	3.27	3.10	3.05
2.84	2.73	2.90	2.90	2.93
3.18	3.37	3.25	3.05	3.05
3.12	-	-	-	-
6.47	6.35	6.31	6.75	7.02
0.82	0.52	1.00	0.84	0.77
3.40	3.49	3.18	3.13	3.10
3.77	3.56	4.35	4.28	4.26
2.57	2.77	2.57	2.57	2.77
2.33	2.44	2.49	2.46	2.82
1.01	0.95	1.16	1.16	0.99
0.50	0.50	0.50	0.50	0.50
2.58	2.61	2.62	2.96	2.66
<u>43.24</u>	<u>38.26</u>	<u>40.50</u>	<u>39.60</u>	<u>40.62</u>

CITY OF LUVERNE, MINNESOTA  
OPERATING INDICATORS BY FUNCTION  
LAST TEN FISCAL YEARS

Function	Fiscal Year				
	2003	2004	2005	2006	2007
Police					
Physical arrests	84	142	94	75	160
Parking violations	66	73	102	33	71
Traffic violations	242	169	175	212	142
Fire					
Number of calls answered	57	52	72	53	60
Building/zoning					
Permits issued	362	416	308	241	292
Inspections	1,796	2,004	1,713	1,499	1,331
Sanitation					
Refuse collected annually	1,355	1,397	1,417	1,397	1,496
Recyclables collected annually	312	312	312	312	312
Airport					
Aviation fuel sales (gallons)	14,723	8,261	9,811	9,993	7,877
Jet fuel (gallons)	-	-	-	-	-
Culture and recreation					
Library circulation	81,224	83,866	86,943	87,065	96,945
Pool and fitness center					
Attendance	78,508	79,996	79,973	80,750	80,513
Memberships	840	996	1,174	1,214	1,179
Water					
Average daily consumption	836,210	825,000	831,578	804,029	902,749
Wastewater					
Average daily sewage treatment	763,000	832,000	865,000	1,034,000	1,099,000
Electric					
Kilowatt hours sold	70,254,121	69,742,257	74,594,504	76,973,893	79,688,930
Liquor					
Annual sales	\$ 701,218	\$ 753,587	\$ 771,767	\$ 790,166	\$ 878,367

Sources: Various government departments

Table 19

Fiscal Year					
2008	2009	2010	2011	2012	
137	107	168	140	68	
144	43	27	52	-	
201	93	257	191	46	
86	59	89	92	84	
211	228	242	241	245	
1,300	1,135	1,103	1,124	1,082	
1,526	1,560	1,483	1,458	1,273	
312	312	312	312	338	
7,770	10,120	15,789	16,183	16,978	
-	-	11,867	18,632	13,284	
99,004	-	-	-	-	
82,556	81,867	79,218	78,296	76,043	
1,142	1,300	968	917	800	
1,110,155	1,053,119	984,170	900,218	673,306	
1,137,000	942,000	1,162,917	1,337,000	913,000	
74,785,319	74,411,632	77,318,682	76,389,496	73,454,715	
\$ 968,556	\$ 1,025,544	\$ 1,058,949	\$ 1,097,579	\$ 1,182,830	

CITY OF LUVERNE, MINNESOTA  
CAPITAL ASSET STATISTICS BY FUNCTION  
LAST TEN FISCAL YEARS

Function	Fiscal Year				
	2003	2004	2005	2006	2007
Public Safety					
Fire:					
Stations	1	1	1	1	1
Part-time paid	36	35	36	36	36
Hydrants	-	220	220	220	220
I.S.O. Rating	5	5	5	5	5
Public Works					
Street division:					
Miles of street	43	43	43	43	43
Percent of paved streets	95	95	95	95	95
Miles of alleys	4.99	4.99	4.99	4.99	4.99
Street lights	652	652	697	697	697
Signalized intersections	2	2	2	2	2
Parks division:					
Neighborhood parks	10	11	11	11	11
Area in acres	18	20	20	20	20
Regional parks	2	2	2	2	2
Area in acres	50	60	60	60	60
Baseball diamonds	1	1	1	1	1
Basketball courts	2	2	2	2	2
Bike trails	1	1	1	1	1
Hockey rinks/outdoor	1	1	1	1	1
Softball diamonds	3	3	3	3	3
Swimming areas	1	1	1	1	1
Tennis courts	2	2	2	2	2
Volleyball courts	3	3	3	3	3
Utilities					
Municipal water:					
Type of treatment					
Consumers	1,974	1,978	1,990	1,988	2,015
Average daily consumption	836,210	825,000	831,578	905,005	902,749
Total gallons sold	262,547,000	243,966,000	267,137,000	259,122,000	275,533,250
Total gallons pumped	301,318,000	273,703,000	303,526,000	330,326,906	353,916,660
Storage capacity	2,300,000	2,700,000	2,700,000	2,700,000	2,700,000
Miles of water main	30	34	34	34	34
Municipal water treatment:					
Type of treatment					
Users	1,951	1,948	1,960	1,970	1,983
Average daily use	763,000	832,000	865,000	1,034,000	1,099,000
Peak demand	1,311,000	1,232,000	1,127,000	2,836,000	1,740,000
Maximum design capacity	2,970,000	3,000,000	3,000,000	3,000,000	3,000,000
Total volume	278,717,000	303,676,000	315,683,000	377,392,000	401,550,000
Miles of sanitary sewer	30	34	34	34	34
Storm Drains:					
Miles of storm sewer	11.1	11.1	11.1	11.1	11.1
Parking system					
Off-street parking lots	2	2	2	2	2
Employees					
Full-time	35	32	32	32	33
Part-time	64	48	54	52	55
Volunteer Firemen	36	35	36	36	36
Election judges	-	23	-	33	-
Total employees	135	138	122	153	124

Source: City of Luverne Financial Records.

Note: No capital asset indicators are available for the general government function.

Table 20

Fiscal Year				
2008	2009	2010	2011	2012
1	1	1	1	1
38	35	37	36	36
215	221	222	222	222
5	5	5	5	5
43	43	43	43	43
95	95	95	95	95
4.99	4.99	4.99	4.99	4.99
709	715	715	715	715
2	2	2	2	2
11	11	11	11	11
20	20	20	20	20
2	2	2	2	2
60	60	60	60	60
1	1	1	1	1
2	2	2	2	2
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
1	1	1	1	1
2	2	2	2	2
3	3	3	3	3
2,019	2,026	2,019	2,016	2,027
1,110,155	1,053,119	984,170	900,218	673,306
273,746,750	282,381,000	277,651,250	245,908,500	220,937,250
405,206,416	384,388,552	359,222,119	328,579,720	246,430,043
2,700,000	2,700,000	2,700,000	2,700,000	2,700,000
35	35	35	35	35
1,988	1,996	1,989	1,990	1,992
1,137,000	942,000	1,162,917	1,337,000	913,000
1,782,000	1,419,000	2,413,000	3,315,000	1,309,000
3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
416,314,000	343,402,000	425,067,000	488,573,000	334,096,000
35	35	35	35	35
11.1	11.1	11.1	11.1	11.1
2	2	2	2	2
30	29	28	26	27
44	41	46	38	44
38	35	37	36	36
32	-	32	-	29
144	105	143	100	136

CITY OF LUVERNE, MINNESOTA  
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR (LARSON), A TAX INCREMENT FINANCING DISTRICT  
(Unaudited)  
FOR THE YEAR ENDED DECEMBER 31, 2012

Table 21

	Budget	Accounted For in Prior Years	Current Year	Amount Remaining
<b>Sources of funds:</b>				
Bond proceeds	\$ 80,000	\$ 80,000	\$ -	\$ -
Tax increments	153,020	85,660	2,596	(64,764)
Interest on invested funds	-	1,989	65	2,054
Property tax receipts	-	22,270	2,634	24,904
<b>Total sources of funds</b>	<b>233,020</b>	<b>189,919</b>	<b>5,295</b>	<b>(37,806)</b>
<b>Uses of funds:</b>				
Land acquisitions	80,000	80,635	-	(635)
<b>Bond payments:</b>				
Principal	80,000	72,500	7,500	-
Interest	73,020	72,892	450	(322)
Administrative costs/fiscal agent fees	-	363	-	(363)
<b>Total uses of funds</b>	<b>233,020</b>	<b>226,390</b>	<b>7,950</b>	<b>(1,320)</b>
District balance (deficiency)	-	(36,471)	(2,655)	(39,126)
Transfers from other funds	-	2,855	-	2,855
Transfers to other districts	-	(767)	-	(767)
Transfers from other districts	-	37,649	-	37,649
<b>Funds remaining</b>	<b>\$ -</b>	<b>\$ 3,266</b>	<b>\$ (2,655)</b>	<b>\$ 611</b>

CITY OF LUVERNE, MINNESOTA  
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR (CONNELL/KLOSTERBUER VAGJRT), A TAX INCREMENT FINANCING DISTRICT  
(Unaudited)  
FOR THE YEAR ENDED DECEMBER 31, 2012

Table 22

	<u>Budget</u>	<u>Accounted For in Prior Years</u>	<u>Current Year</u>	<u>Amount Remaining</u>
Sources of funds:				
Bond proceeds	\$ 95,000	\$ 95,000	\$ -	\$ -
Tax increments	150,000	72,865	4,215	(72,920)
Property taxes	-	18,537	6,042	24,579
Residential market value credit	-	1,690	-	1,690
Interest on invested funds	-	334	-	334
Real estate sales	6,000	6,000	-	-
	<u>251,000</u>	<u>194,426</u>	<u>10,257</u>	<u>(46,317)</u>
Total sources of funds				
Uses of funds:				
Site improvements or preparation costs	65,600	115,180	-	(49,580)
Bond payments:				
Principal	95,000	95,000	-	-
Interest	49,556	49,611	-	(55)
Administrative costs	-	6,334	-	(6,334)
	<u>210,156</u>	<u>266,125</u>	<u>-</u>	<u>(55,969)</u>
Total uses of funds				
District balance (deficiency)	40,844	(71,699)	10,257	(102,286)
Transfers from other districts	-	23,806	-	23,806
	<u>40,844</u>	<u>(47,893)</u>	<u>10,257</u>	<u>(78,480)</u>
Funds remaining (deficient)				

CITY OF LUVERNE, MINNESOTA  
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR (PAMIDA), A TAX INCREMENT FINANCING DISTRICT  
(Unaudited)  
FOR THE YEAR ENDED DECEMBER 31, 2012

Table 23

	Original Budget	Accounted For in Prior Years	Current Year	Amount Remaining
Sources of funds:				
Bond proceeds	\$ 525,000	\$ 1,391,375	\$ -	\$ 866,375
Tax increments	1,220,000	389,737	25,383	(804,880)
Interest on invested funds	-	9,676	586	10,262
Market value homestead credit	-	3,553	-	3,553
Property taxes/state aids	-	95,461	13,611	109,072
	<u>1,745,000</u>	<u>1,889,802</u>	<u>39,580</u>	<u>184,382</u>
Total sources of funds				
Uses of funds:				
Installation of public utilities and improvements	525,000	554,556	-	(29,556)
Bond payments:				
Principal	525,000	1,025,000	30,000	(530,000)
Interest	544,000	345,101	7,903	190,996
Administrative costs	-	26,152	-	(26,152)
	<u>1,594,000</u>	<u>1,950,809</u>	<u>37,903</u>	<u>(394,712)</u>
Total uses of funds				
District balance (deficiency)	151,000	(61,007)	1,677	(210,330)
Transfers to other districts	-	(13,962)	-	(13,962)
Transfers from other funds	-	139,346	-	139,346
	<u>-</u>	<u>139,346</u>	<u>-</u>	<u>139,346</u>
Funds remaining (deficient)	<u>\$ 151,000</u>	<u>\$ 64,377</u>	<u>\$ 1,677</u>	<u>\$ (84,946)</u>

CITY OF LUVERNE, MINNESOTA  
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR (MINNWEST), A TAX INCREMENT FINANCING DISTRICT  
(Unaudited)  
FOR THE YEAR ENDED DECEMBER 31, 2012

Table 24

	Original Budget	Accounted For in Prior Years	Current Year	Amount Remaining
<b>Sources of funds:</b>				
Loan proceeds	\$ 47,000	\$ 47,000	\$ -	\$ -
Tax increments	53,000	19,486	1,315	(32,199)
Interest on invested funds	-	32	78	110
Other - up front contribution	4,500	-	-	(4,500)
Market value homestead credit	-	3,856	-	3,856
Property taxes/state aid	-	21,189	6,718	27,907
<b>Total sources of funds</b>	<b>104,500</b>	<b>91,563</b>	<b>8,111</b>	<b>(4,826)</b>
<b>Uses of funds:</b>				
Site improvements or preparation costs	47,000	50,329	-	(3,329)
<b>Bond payments:</b>				
Principal	47,000	15,573	1,844	29,583
Interest	51,300	37,973	1,882	11,445
<b>Total uses of funds</b>	<b>145,300</b>	<b>103,875</b>	<b>3,726</b>	<b>37,699</b>
District balance (deficiency)	(40,800)	(12,312)	4,385	32,873
Transfers from other districts	-	13,857	-	13,857
<b>Funds remaining (deficient)</b>	<b>\$ (40,800)</b>	<b>\$ 1,545</b>	<b>\$ 4,385</b>	<b>\$ 46,730</b>

CITY OF LUVERNE, MINNESOTA  
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR (LUVERNE FAMILY HOUSING), A TAX INCREMENT FINANCING DISTRICT  
(Unaudited)  
FOR THE YEAR ENDED DECEMBER 31, 2012

Table 25

	<u>Budget</u>	<u>Accounted For in Prior Years</u>	<u>Current Year</u>	<u>Amount Remaining</u>
Sources of funds:				
Tax increments	\$ 300,000	\$ 135,660	\$ 8,899	\$ (155,441)
Interest on invested funds	-	721	23	744
 Total sources of funds	 <u>300,000</u>	 <u>136,381</u>	 <u>8,922</u>	 <u>(154,697)</u>
Uses of funds:				
Site improvements or preparation costs	300,000	130,676	8,539	160,785
Bond payments:				
Principal	300,000	-	-	300,000
Interest	314,815	-	-	314,815
Administrative costs/fiscal agent fees	30,000	-	-	30,000
 Total uses of funds	 <u>944,815</u>	 <u>130,676</u>	 <u>8,539</u>	 <u>805,600</u>
District balance (deficiency)	(644,815)	5,705	383	650,903
Transfers to other districts	-	(896)	-	(896)
Funds remaining (deficient)	<u>\$ (644,815)</u>	<u>\$ 4,809</u>	<u>\$ 383</u>	<u>\$ 650,007</u>



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11 Civic Center Plaza  
Suite 300  
P.O. Box 3166  
Mankato, MN 56002-3166

## AUDITOR'S REPORT ON LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Luverne  
Luverne, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Luverne, Minnesota (the City) as of and for the year ended December 31, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 17, 2013.

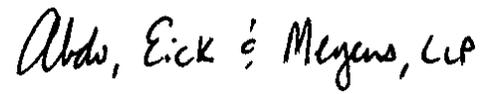
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute 6.65. Accordingly,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

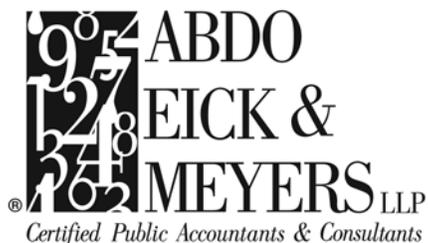
The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. 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 is solely to describe the scope of our testing of compliance with certain provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, and the result of that testing, and not to provide an opinion on the City's compliance with those provisions. Accordingly, this report is not suitable for any other purpose.

May 17, 2013  
Mankato, Minnesota

  
ABDO, EICK & MEYERS, LLP  
Certified Public Accountants



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11 Civic Center Plaza  
Suite 300  
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Mankato, MN 56002-3166

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

Honorable Mayor and City Council  
City of Luverne  
Luverne, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Luverne, Minnesota (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 17, 2013.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated May 17, 2013.

## 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.

May 17, 2013  
Mankato, Minnesota

ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*