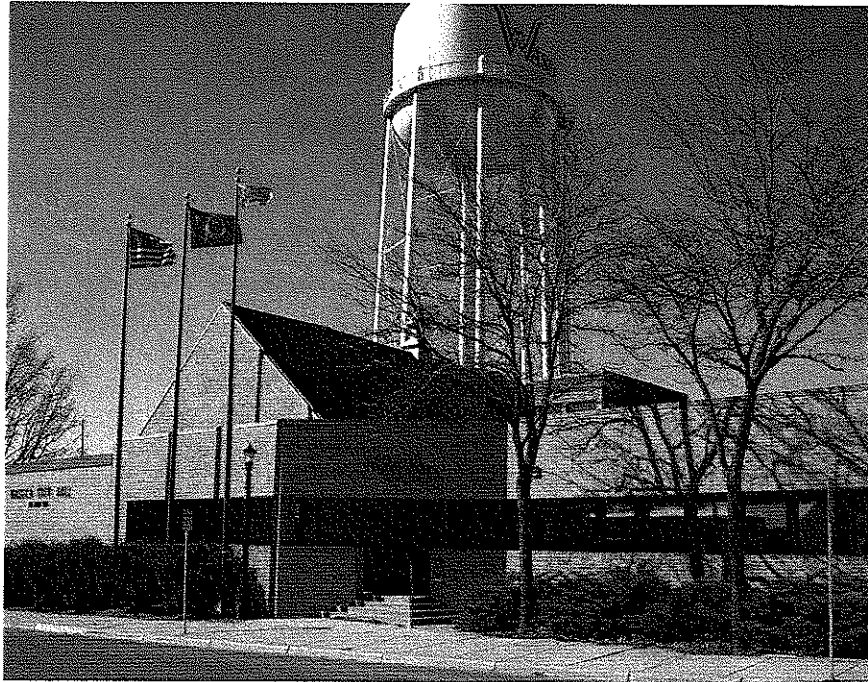


CITY OF WASECA, MINNESOTA

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2007



**Member of the Government Finance Officer's
Association of the United States**

CITY OF WASECA, MINNESOTA
Comprehensive Annual Financial Report
Year Ended December 31, 2007

TABLE OF CONTENTS

INTRODUCTORY SECTION	PAGE
Table of Contents	i-ii
Letter of Transmittal	1-7
GFOA Certificate of Achievement	8
City Officials	9
Organization Chart	10
FINANCIAL SECTION	
Independent Auditors' Report	11-12
Management's Discussion and Analysis	13-25
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	27
Statement of Activities	28
Major Governmental Funds:	
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	31
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	32
Statement of Revenues, Expenditures and Changes in Fund Balances	33
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	34
Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund	35
Proprietary Funds:	
Statement of Net Assets	36
Statement of Revenues, Expenses and Changes in Net Assets	37
Statement of Cash Flows	38
Notes to the Financial Statement	39-74

Combining Statements

Nonmajor Governmental Funds

Combining Balance Sheet	78
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	79

Nonmajor Governmental Funds: Special Revenue Funds

Combining Balance Sheet	80-81
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	82-83
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
EDPG Clear Lake Press	84
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
TIF Funds	85
Statement of Revenues; Expenditures and Changes in Fund Balances - Budget and Actual	
Water Park Fund	86
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Waseca Housing Fund	87
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Police Separation Fund	88
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Police Reserve Fund	89
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Fire Relief Fund	90

Nonmajor Governmental Funds: Debt Service Funds

Combining Balance Sheet	92-93
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	94-95

Nonmajor Governmental Funds: Capital Projects Funds

Combining Balance Sheet	96-97
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	98-99
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Municipal State Aid Maintenance	100
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Capital Improvement Project	101
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Annexation and Growth	102

Internal Service Funds:

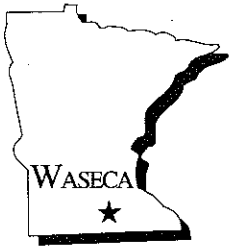
Combining Statement of Net Assets	105
Combining Statement of Revenues, Expenses and Changes in Net Assets	106
Combining Statement of Cash Flows	107

Capital Assets Used in the Operation of Governmental Funds

Schedule by Function and Activity	109
Schedule of Changes by Function and Activity	110

STATISTICAL SECTION

112-127



City of Waseca, Minnesota

508 South State Street • Waseca, Minnesota 56093-3097
(507) 835-9700 • FAX (507) 835-8871 • www.ci.waseca.mn.us

June 24, 2008

To the City Council and Citizens of the City of Waseca

The City of Waseca annually issues a report on the financial position and activities of the community, prepared in accordance with the Generally Accepted Accounting Principles (GAAP) in the United States of America and audited in accordance with generally accepted auditing standards in the United States of America by an independent certified public accounting firm pursuant to the state requirements. We hereby issue the comprehensive annual financial report of the City of Waseca for the fiscal year ended December 31, 2007.

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

The City of Waseca's financial statements have been audited by LarsonAllen LLP. The goal of an independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year end 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 of Waseca's financial statements for the fiscal year ended December 31, 2007, 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 requires that management also provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The City of Waseca's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Waseca is organized under a home rule charter in accordance with applicable Minnesota State Statutes. The charter prescribes a Council/Manager form of organization. The City provides a full range of services, including police and fire, construction and maintenance of highways, streets and infrastructure, economic development, parks, lakes and recreational activities. In addition, the City provides water, electric, sanitary sewer, and airport enterprise services. The City also contributes to the regional library system, senior center operations, limited community transportation services, and several other important community based events and projects.

The City of Waseca is located in the south central region of the state and covers approximately 6.8 square miles. The community is fortunate to be the home of several large manufacturing operations and varied commercial activity, yet is located in the midst of an aesthetically appealing lake and recreation area that is popular to tourists in a multi-state area.

The annual budget serves as the foundation for the City of Waseca's financial planning control. All departments of the City of Waseca submit budget requests for the appropriations for the following year to the City Manager in the summer of each year. These requests serve as a starting point for the development of a proposed budget. These requests are then presented to Council for review by the end of August. Under the requirements of the state law, Council is required to hold hearings and obtain input on the proposed budget and then proceeds to adopt a final budget and property tax levy no later than December 31 of the close of the fiscal year. The budget of the City of Waseca is prepared by fund and function, (i.e., public safety and police department). Departments may request transfers of appropriations within line items in the department; however, special approval may be required of the City Council. The City had very few amendments to the original 2007 budget.

Financial Condition

2007 was an active and positive year for local, regional and state economies. The 2006 and 2007 legislative session actions had a positive impact on the Local Government Aid revenue source. Consequently, the City was able to maintain its' planned operations as budgeted. The 2007 tax levy provided the City with the resources needed to fund on-going projects related to the planning of retail, commercial, and residential growth.

Over the past two years, the City has benefited from a Small Cities Development Grant (SCDG) program, which provides matching funds for homeowners, rental property and commercial sites to improve and upgrade their buildings and facilities. A strong emphasis of this program is to re-create and maintain the original historic perspective of the buildings and the surrounding areas. Funds from Federal and State grant sources have been utilized to undertake this major downtown project. This grant program, initiated in 2002, was completed in early 2006. The visible downtown enhancements have created interest and participation in related building and site improvements. The grant program has also sparked interest in further downtown improvements, which included a major streetscaping project in 2006 and 2007, funded by Tax Increment Financing (TIF) District #23 increment revenues. The Streetscaping project is a revitalization of the downtown area. It includes improvements such as gutters, paver accent strips, obelisks, trees and landscaping. This project, initiated in 2006, is set for completion in 2008.

The community passed a referendum to fund a water park in 2005. In 2006, the City issued debt for the Waseca Aquatic Center. This facility, which was completed in 2007, is located near the Northeast Park and will enhance the commercial and residential growth of the community. The City Council has worked with local businesses and citizen groups to develop plans for growth and expansion of the community, including several newly annexed areas at the edge of the city limits. The City purchased acreage near the Junior High /Senior High campus area to assist in the commercial development of Market Place. The long term plan for this property is to provide additional housing and commercial options in the northwest quadrant of the community.

Staff and Council have worked to address the accompanying infrastructure needs of planned developments. During 2008, the City will continue to address the funding needs and coordination of construction for the projects related to residential and commercial development.

Cash Management Policy and Practice

Idle cash during the year was invested in Certificates of Deposits. Although the City experienced a decrease in overall interest rates, Investment income for 2007 was slightly higher than previous years due a more diligent practice of determining the length of investment vs. the interest rate available. The amount of available funds for investment was maintained at the previous historical level, as there has been no significant increase or decrease in investment cash.

The slow, but steady reduction in interest rates will affect the interest earnings of the City. Available funds continue to be invested to the full extent possible, and the City anticipates maintaining interest revenues based on the consistent investment practices of available City funds.

Risk Management

The City has actively worked to limit both liability risk and insurance costs for many years. The City is a member of the League of Minnesota Cities Insurance Trust (LMCIT) for both workers compensation and property and liability issues.

The City has increased the deductible to \$50,000 for property and liability coverage, as a method of reducing up-front costs to governmental departments. The City has placed a strong emphasis on the implementation and utilization of an active Safety Committee as a means to reduce the increasing costs of workers compensation coverage. This committee meets to plan for proactive training, discuss report of injury, and study areas of risk and potential loss on a departmental level. The City hopes to find ways to reduce the incidence of injury among workers and adjust work place environments to better meet the mandates of safety criteria.

Funding for the insurance programs has historically been provided through departmental charges and has built an available fund balance for the Property and Liability Insurance fund to provide flexibility in dealing with the unique or unplanned circumstances that can impact cities.

The Property and Liability Insurance fund continues to utilize available fund balance to absorb premium charges; therefore General fund departments were not charged in 2007.

Major Initiatives

The City continues to place a high priority on planning for the community needs as growth and expansion issues impact the City operations. In 2007, a rate increase allowed for consistent application of revenue collection, as well as the basis for variance identification as the operation of costs (fuel, chemicals, purchased power) drive and alter planned expense estimates.

The availability of land, infrastructure and services continue to drive the community development focus of the City. As the northwest/northeast areas of the City experience growth in commercial/residential/recreational sectors, funding for project work is a priority of planning and budgeting.

A community that helps grow value has a positive impact on the net worth of all its property owners. As an organization, the city has worked diligently to build a variety of services, facilities, infrastructure and secure a financial foundation for its residents and stakeholders. Maintaining high quality services plays a key role in favorable appreciation of the communities' property values. The city's substantial investments in its infrastructure has aided not only in the improvement of quality of services but it has also spurred additional community investment.

Investment in homes and businesses represents the most important assets in America's personal portfolio; therefore the continued enhancement of that value is extremely important. The City of Waseca's market value has almost doubled to nearly \$420 million over the last ten years. The city needs to continue to progress forward by building and renewing its community. The community and organizational strength, both financial and operational, allows the city to create even greater opportunities. One such opportunity is the expansion and maintenance of infrastructure that will enable the city to strategically plan toward growth. The City Council has placed the goal of assisting and encouraging growth as a high priority in 2007 and beyond.

The city is planning for a \$16.4 million wastewater treatment facility improvements project scheduled to start in 2008. The City of Waseca, with the assistance of an engineering firm, have developed a Wastewater Treatment Facilities Plan that will improve the hydraulic capacity of the existing plant, as well as implement phosphorous removal, expand capacity for additional growth within the community, enhance bio-solids treatment and storage, and make general repairs and replacements to the existing facility.

The estimated capital cost to the improvements to the City's wastewater treatment facilities is as follows:

Hydraulic Capacity	\$ 7,700,000
Phosphorous Removal	500,000
Capacity for growth	3,000,000
Biosolids	3,700,000
Repair and Replacement	<u>1,500,000</u>
Total	\$ <u>16,400,000</u>

The City will also need to plan for the future completion of the Highway 14 Bypass construction, which will establish prime commercial sites in the southern portion of the community. Construction will begin on segment C (Waseca County portion) in July 2008 and on segment D (Steele County) in the summer of 2009. MN/DOT plans to finish the corridor to I-35 in 2011, 2012 at the latest. The construction funding consists of \$65 million from the statewide corridor fund being dedicated to this project. The remaining \$65 million will be paid from the MN/DOT District 7 Construction fund.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Waseca for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2006. This is the twenty-third consecutive year that the City has received this prestigious award. In order to be awarded this Certificate of Achievement, the government published an easily readable and efficiently organized CAFR and has satisfied both GAAP and applicable legal requirements. The Certificate of Achievement is valid for a period of only one year and we believe that our current CAFR continues to meet the Certificate of Achievement program requirements. We are submitting this report to the GFOA to determine eligibility for another certificate.

I wish to express my appreciation to the Finance Department staff, in particular Lorene Worke and Nancy Bennett for their diligent work in preparing this report. I appreciate the cooperation and support from other City departments both in preparation of this report and in budget

management throughout the year. I would also like to thank our auditors, LarsonAllen, LLP, for the very professional manner in which they handled their duty as the City's Auditors. Credit is also given to the Mayor, members of the City Council, and the City Manager for their support in maintaining the highest standards of professionalism in the management of the City of Waseca's financial future.

Respectively Submitted,

A handwritten signature in cursive script that reads "Teresa Walters". The signature is written in dark ink and is positioned above a horizontal line.

Teresa Walters, Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Waseca
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

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.



Chloe S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF WASECA, MINNESOTA
OFFICIALS

December 31, 2007

CITY COUNCIL

Roy Srp	Mayor
John Clemons	Council-First Ward
Matt Johansen	Council-First Ward
Robin Terrell	Council-Second Ward
Allan Rose	Council-Second Ward
Mike Parry	Council-Third Ward
Cindy Coy	Council-Third Ward

Kris M. Busse, City Manager

ORGANIZATIONAL CHART- 2007

City of Waseca

CITIZENS

City Council

City Manager

Administration

Administrative Assistant

- (1)
- (1) Records Secretary
- (1) Secretary

Community Development Director

- (1)
- (1) Secretary

Director of Engineering

Maintenance Superintendent
Street & Sewer Supervisor

- (1)
- (1) Assistant City Engineer
- (1) GIS Coordinator
- (2) Engineering Technician
- (1)
- (1) Mechanic
- (8) Public Works Maintenance Worker
- (1)
- (3) Public Works Maintenance Worker
- Seasonal Workers

Park Director

Building Official

- (1)

Water Park Manager

- (1)

Finance Director

- (1)
- (2) Finance Assistant
- (3) Utility Clerk

Fire Chief (Part-time)

- (1)
- (3) Firefighter/Motor Operator
- (36) Part-time Firefighter

Chief of Police

Captain
Sergeant

- (1)
- (1)
- (1)
- (2) Investigators
- (8) Patrol Officer
- (1) School Liaison Patrol Officer
- (3) Part-time Patrol Officer
- (2) Records Clerk
- (6) Crossing Guards

Director of Utilities

- (1)
- (1) Utility Project Coordinator
- (2) Water Distribution Operator
- (3) Water/Wastewater Treatment Plant Operator
- (1) Utility Person
- (1) Line Foreperson
- (4) Lineworker



CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Waseca, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waseca, Minnesota as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Waseca's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waseca, Minnesota as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 23, 2008, on our consideration of the City of Waseca, Minnesota's internal control over financial reporting and 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.



LarsonAllen LLP is a member of Nexia International, a worldwide network of independent accounting and consulting firms.

The management's discussion and analysis on pages 13 through 25 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Waseca, Minnesota's basic financial statements. The introductory section, combining statements, capital assets used in the operation of the governmental funds and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and capital assets used in the operation of the governmental funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on them.

LarsonAllen LLP
LarsonAllen LLP

Austin, Minnesota
June 23, 2008

Management's Discussion and Analysis

As management of the City of Waseca, we offer readers of the City of Waseca's financial statements this narrative overview and analysis of the financial activities of the City of Waseca for the fiscal year ended December 31, 2007. 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 on pages 1-7 of this report, and the City's financial statements following this section.

Financial Highlights

- The assets of the City of Waseca exceeded its liabilities at the close of the most recent fiscal year by \$48,351,621 (net assets). Of this amount, \$14,468,266 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and vendors in accordance with the City's fiscal policies.
- Capital assets less depreciation, total \$45,779,058 representing a broad base of city-wide infrastructure.
- As of the close of the current fiscal year, the City of Waseca's governmental funds reported combined ending fund balances of \$8,545,464. Approximately 82 percent of this total amount, \$7,037,475 is available for use within the City's designations.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,548,931 or 42.7 percent of total general fund expenditures.

Overview of the Financial Statements

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

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

The *Statement of Net Assets* presents information on all of the City of Waseca's assets

and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Waseca is improving or deteriorating. The 2007 statement provides for an increase in net assets, as the investment in capital assets in both the Governmental and Business-Type Activities increased.

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

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

The government-wide financial statements distinguish functions of the City of Waseca that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Waseca include general government, public safety, highways and streets, economic development and culture and recreation. The business-type activities of the City of Waseca include the water, sewer, electric utilities and airport services.

The government wide financial statements can be found on pages 27-28 of this report.

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

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

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

The City of Waseca maintains thirty-one individual Governmental Funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund, and Water Park Construction Fund, all of which are considered to be major funds. Data from the other twenty-eight 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 of Waseca adopts an annual appropriated budget for its General Fund, certain Special Revenue Funds and certain Capital Project Funds. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 31-35 of this report.

Proprietary Funds. The City of Waseca maintains two different types of Proprietary Funds, Enterprise and Internal Service Funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Waseca uses Enterprise Funds to account for its water, sewer, electric and airport operations. *Internal Service Funds* are accounting devices used to accumulate and allocate costs internally among the City of Waseca's various functions. The City of Waseca uses Internal Service Funds to account for its workers' compensation insurance, property and liability insurance, central garage services, and equipment replacement needs. Because these funds predominantly serve to benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The Proprietary Funds financial statements provide separate information for the enterprise funds, all of which are considered to be major funds of the City of Waseca. Conversely, the 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 on pages 36-38 of this report.

Notes to the Financial Statements. The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 39-74 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds and Internal Service Funds are presented herewith. Combining and individual fund statements and schedules can be found on pages 78-107 of this report.

Government-Wide Financial Analysis

An analysis of the City's financial position begins with a review of the Statement of Net Assets and the Statement of Activities. These two statements report the City's net assets and changes in Net assets. It should be noted that the financial position can also be affected by non-financial factors, including economic conditions, population growth, and new regulations.

The City has committed significant time and funding toward the development of the necessary infrastructure for community growth. The financial statements reflect the trend of funding for not only operational functions of City operations, but also funding needed for growth projects. Waseca has the available land for growth of both commercial and residential sites, and the City Council has placed the goal of assisting and encouraging growth as a high priority in 2007 and beyond. As infrastructure programs are reviewed, meeting growth needs is a critical component of the planning process.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Waseca, assets exceeded liabilities by \$48,351,621 at December 31, 2007. This is an increase over the 2006 amount, as capital assets were increased by capital purchases and construction.

A condensed version of the Statement of Net Assets at December 31, 2007 follows:

CITY OF WASECA'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total
	2007	2006	2007	2006	2007
Current and other assets	\$ 10,328,619	\$ 10,998,656	\$ 5,923,109	\$ 5,325,781	\$ 16,251,728
Capital assets	<u>25,366,096</u>	<u>24,417,144</u>	<u>20,412,962</u>	<u>20,433,195</u>	<u>45,779,058</u>
Total assets	<u>35,694,715</u>	<u>35,415,800</u>	<u>26,336,071</u>	<u>25,758,976</u>	<u>62,030,786</u>
Long-term liabilities outstanding	7,775,584	8,578,919	4,483,168	4,905,264	12,258,752
Other liabilities	<u>513,570</u>	<u>569,968</u>	<u>906,843</u>	<u>841,789</u>	<u>1,420,413</u>
Total liabilities	<u>8,289,154</u>	<u>9,148,887</u>	<u>5,390,011</u>	<u>5,747,053</u>	<u>13,679,165</u>
Net assets:					
Invested in capital assets, net of related debt	17,881,298	16,236,644	16,002,097	15,675,302	33,883,395
Unrestricted	<u>9,524,263</u>	<u>10,030,269</u>	<u>4,943,963</u>	<u>4,336,621</u>	<u>14,468,226</u>
Total Net Assets	<u>\$ 27,405,561</u>	<u>\$ 26,266,913</u>	<u>\$ 20,946,060</u>	<u>\$ 20,011,923</u>	<u>\$ 48,351,621</u>

By far the largest portion of the City of Waseca's net assets \$33,883,395 (approximately 70%), reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Waseca uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Waseca'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. The remaining balance of the net assets is unrestricted \$14,468,226 (approximately 30%) and may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Waseca is able to report positive balances in both categories of net assets as the City establishes the groundwork for community expansion. The net assets of the City, specifically in the business type activities, will continue to grow as the fundamental infrastructure of the City is increased and extended into existing rural areas.

Governmental Activities

Governmental activities increased the City of Waseca's net assets by \$707,882.

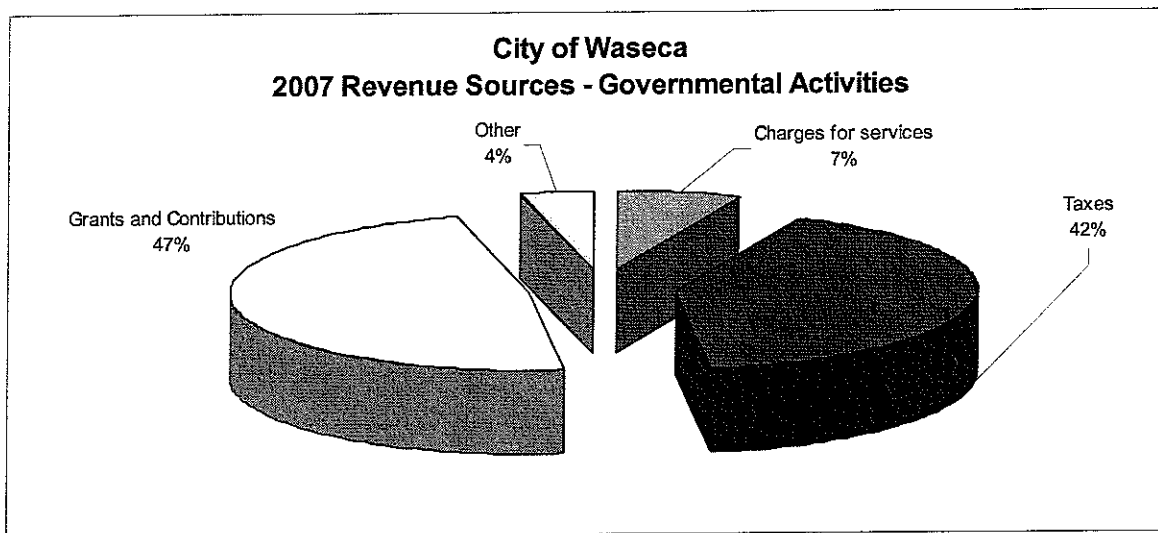
Key elements of this increase are as follows:

CITY OF WASECA'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total
	2007	2006	2007	2006	2007
Revenues:					
Program revenues					
Charges for services	\$ 522,308	\$ 360,411	\$ 9,884,766	\$ 9,039,033	\$ 10,407,074
Operating grants and contributions	768,514	1,313,662	335,933	355,861	1,104,447
Capital grants and contributions	187,414	359,661	81,132	649,171	268,546
General revenues					
Taxes	3,298,468	2,874,387	-	-	3,298,468
Grants and contributions not restricted to specific programs	2,848,079	2,331,377	-	-	2,848,079
Unrestricted investment earnings	310,848	383,959	202,739	164,697	513,587
Total revenues	7,935,631	7,623,457	10,504,570	10,208,762	18,440,201
Expenses:					
General government	2,280,264	1,159,811	-	-	2,280,264
Public safety	2,088,838	2,010,994	-	-	2,088,838
Streets and highways	2,075,077	1,421,344	-	-	2,075,077
Economic Development	-	539,282	-	-	-
Sanitation	47,005	44,022	-	-	47,005
Culture and recreation	1,024,144	1,221,345	-	-	1,024,144
Other	319,465	312,347	-	-	319,465
Water	-	-	904,267	922,119	904,267
Sewer	-	-	1,760,499	1,688,033	1,760,499
Electric	-	-	6,176,515	5,552,176	6,176,515
Airport	-	-	122,108	94,060	122,108
Total expenses	7,834,793	6,709,145	8,963,389	8,256,388	16,798,182
Excess before transfers	100,838	914,312	1,541,181	1,952,374	1,642,019
Transfers	607,044	(77,176)	(607,044)	77,176	-
Change in net assets	707,882	837,136	934,137	2,029,550	1,642,019
Net Assets – January 1, 2007	26,266,913	25,429,777	20,011,923	17,982,373	46,278,836
Prior Period Adjustment – See Note IV	430,766	-	-	-	430,766
Net Assets – January 1, 2007 as restated	26,697,679	25,429,777	20,011,923	17,982,373	46,709,602
Net Assets – December 31, 2007	\$ 27,405,561	\$ 26,266,913	\$ 20,946,060	\$ 20,011,923	\$ 48,351,621

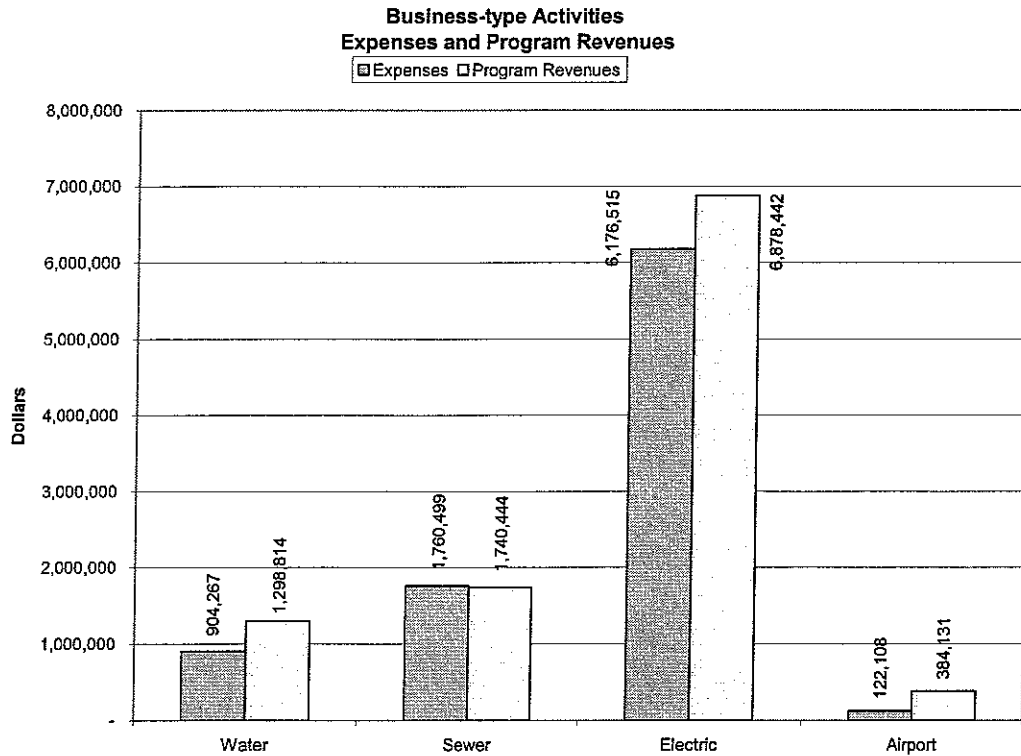
Property tax revenues include \$65,390 of delinquent tax collections for governmental activities; the City has earned these revenues and there is a high likelihood of collection. Expenses include \$1,182,543 of depreciation expense for governmental activities under the full accrual basis of accounting.

Governmental Activities: Governmental Revenue totaled \$7,935,631. As part of GASB Statement No. 34 reporting changes, Internal Service Fund expenses (\$484,334) and Internal Service Fund revenues of (\$410,141) were allocated to all the governmental and business-type activities. General revenues increased by nearly \$867,672 in 2007 due a \$424,081 increase in taxes, a \$516,702 increase in grants and contributions, and a \$73,111 decrease in unrestricted investment earnings. Below is a graph showing the sources of revenues.



Business-type Activities: Business-type activities increased by \$934,137. Business type expenses increased by \$707,001 or 8.6% from 2006 to 2007 due mostly to increased costs of purchased power in the electric utility. Business-type activities had an increase of approximately \$257,766 in programs revenues due to planned water, sanitary sewer, and electric rate increases.

Below are graphs showing the business-type activities revenue and expense comparisons:



Financial Analysis of the Government's Funds

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

At the end of the current fiscal year, the City of Waseca's governmental funds reported combined ending fund balances of \$8,545,464. The unreserved fund balance constitutes approximately \$7,037,475 of the total combined ending fund balance. The remainder of the fund balance is reserved, and is not available for new spending because it has already been committed to loans in the amount of \$3,000, land held for resale in the amount of \$1,145,882, advances to a component unit in the amount of \$29,107 and advances to other funds in the amount of \$330,000.

The following is a discussion of the major governmental funds that had large increases or decreases in net assets:

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, designated fund balance in the General Fund was \$2,548,931, while

total fund balance reached \$2,728,931. As a measure of the General Fund's liquidity it may be useful to compare both unreserved, designated fund balance and total fund balance to total General Fund expenditures. Unreserved fund balance represents 42.7% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$294,762 during the current fiscal year. The key factor of this decrease can be attributed to an increase in public safety expenditures due to the purchase of a Fire Truck. No bonds or equipment notes were issued to finance this purchase; consequently, fund balance was utilized.

The fund balance of the City's Debt Service Fund increased by \$485,148 due to mainly to higher assessment revenue and a decrease in the bond principal payment.

Proprietary Funds. The City of Waseca's Proprietary Funds have unrestricted net assets as follows:

Water Fund	\$ 2,001,635
Sanitary Sewer Fund	\$ 2,071,801
Electric Fund	\$ 951,288
Airport Fund	\$ 30,596

The net assets of the proprietary funds increased by \$950,780 during the current fiscal year. Key factors in growth include:

- The Water Fund had an increase in net assets of \$395,961 due mostly to an increase in charges for services.
- The Electric Fund had an increase in net assets of \$285,583 due also to an increase in charges for services. The Electric Utilities unreserved fund balance is only 15.6% of operating expenditures; therefore it is necessary to build up the fund balance in order to fund operations and pay for purchased power prior to the receipt of utility payments.
- The Airport Fund had an increase in net assets of \$265,241 due to an increase in grant revenue for the construction of an Airport arrival and departure building.

The net assets of the Internal Service Funds decreased by \$65,689 due mainly to higher insurance premiums in the property and liability insurance fund. The fund currently has a fund balance of \$138,278; therefore it will be funded as needed.

General Fund Budgetary Highlights

The 2007 City budget allowed for the increase in property tax revenue and Local Government Aid (LGA) to undertake several important community projects; The General

Fund transfer to the Capital Improvement Fund provided funding for street maintenance, the NE Park and Land Improvements project, Four-in-one tennis court project, sidewalk maintenance, the City's portion of the Water Park Construction, and a joint project with Waseca County to develop a walking trail around Clear Lake. The City also utilized funds from the Equipment Replacement Fund, the CIP Fund, and the levy to fund the purchase of a Fire Truck in 2007, resulting in an increase to the General Fund budget.

The City continued to fund the Capital Improvement Fund with a \$1,000,000 allocation. Some of the projects were not completed in 2007 or came in below budget, therefore, funding was higher than the requested project costs, resulting in a \$130,548 increase in fund balance within the CIP Fund. To meet the needs of the street plan and comply with a Pavement Condition Index (PCI) report, future budget years may require the City to more fully fund the CIP fund, and increase the property tax levy and accompanying transfer to the CIP to allow for the increased costs of infrastructure. This will allow the City to address the growth needs of the community. Continuing increases in budget projections for Public Safety will be a competing need for resources, as occurred during the 2007 fiscal year.

Capital Asset and Debt Administration

Capital Assets. The City of Waseca's investment in capital assets for its governmental and business type activities as of December 31, 2007, amounts to \$45,779,058 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

More detailed information on the City's capital assets is presented in the Notes to the Financial Statements at Note IV, C.

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

- > Complete construction of the Water Park.
- > Construction related to the Waseca County/City Clear Lake bike trail joint project.
- > Northeast Park enhancements.
- > Fire Truck Purchase
- > Airport arrival and departure building

Long-Term Debt. At the end of the fiscal year, the City of Waseca had total long-term debt of \$12,258,752. This debt has been issued to finance the special assessment construction of the City's street and pavement program. Debt has also been issued for

revenue bonds, which are in place to finance water main and sewer line infrastructure construction and improvements. The City has also issued General Obligation Equipment Certificates to finance the acquisition of capital equipment. In addition, debt has been issued for the construction of the Waseca Aquatic Park.

The City of Waseca has received a bond rating of A2 from Moody's on its general obligation debt. State statutes limits the amount of general obligation debt a Minnesota city may issue to 2% (percent) of the total estimated market value. The current debt limitation for the City of Waseca is \$8,409,880 and \$5,390,000 of the City's outstanding debt is counted within the statutory limitation, as the balance of the City's debt is either wholly or partially financed by revenues other than a general tax levy.

More detailed information on the City's long-term debt is presented in the Notes to the Financial Statements at Note IV, F.

Economic Factors and Budget Information.

The year 2007 was a year of economic distress at the national and the regional levels as the housing crisis expanded into the mortgage market. The country experienced tightening capital markets, real inflation, a weakening dollar and gas prices at record high levels. The economic slowdown extended into the City of Waseca as well, as troubles in the housing sector spread to other sectors of the local economy. Owner occupied housing sales and building permits for new homes were down drastically from the previous year. In Waseca, the number of individuals that were employed by the city's top 28 businesses dropped by nearly sixty workers. In addition, the number of commercial building permits also declined. The strong agricultural sector, fueled by record high crop prices and a growing interest in new industrial facilities in the last few months of 2007, are two positive areas of the local economy. These two bright spots may assist in shortening this period of economic uncertainty and assist the speed of the recovery of the local economy.

As a result of the economic slowdown, the City of Waseca continued to work on debt reduction and existing projects in 2007 and plans to market the community in 2008. Although the City of Waseca closed out the Small Cities Development Program (SCDP) grant for the downtown and areas to the southwest of the central core, a strong interest in continuing the renovation efforts downtown continues. The SCDP grant funded many commercial and rental rehabilitation sites in the grant-defined area in and around downtown. In 2007, these efforts were continued through the use of Tax Increment dollars of the Tax Increment District No. 23. The community's efforts to rehabilitate buildings on

"Main Street" utilizing Tax Increment District No. 23 funding will continue into 2008.

The City of Waseca is experiencing an unemployment rate of approximately 5.4 percent, which is somewhat higher than the state's unemployment rate of approximately 4.9 percent.

The City commenced work on a new Tax Increment District in 2007 that was certified in 2008. As stated above, this new tax increment district, known as Tax Increment District No. 26, includes parcels on the southerly and easterly sides of downtown Waseca and the western corridor of Highway 14 near Loon Lake. Two new projects in this district will request new building permits in 2008. The projects include the renovation of a portion of the former Austin Mutual building into Office space to be rented to Waseca's largest employer, Brown Printing and the expansion of a warehouse facility for the Wills Company.

The City started work on marketing the community in 2007. In 2008, the City will provide \$50,000 to fund a portion of the marketing effort underway through a joint effort with the Economic Development Authority, the Waseca Tourism and Visitor's Bureau, and the Chamber of Commerce. A total of \$80,000 has been committed to market Waseca more effectively.

The 2007 budget-year presented challenges as the City attempted to provide general governmental services, as well as providing the needed infrastructure required for community growth. The primary concern and focus of the 2007 fiscal year was high prioritization of cash flow management required to fund infrastructure and capital project planning. The Council and Staff will continue to prioritize the needs of the community, and yet, stay within the limitations of state aid and property tax revenues. The water, sanitary sewer, and electric funds had utility rates increases in 2007 to strategically move these funds towards meeting working capital goals and future operational needs. The City has reviewed integration of utility projects with other City needs, specifically in the area of capital planning and debt structure.

The City sustained steep increases in employee health insurance premium costs in 2007. To minimize the impact of rate increases on both the City and employees, a new option will be added in 2008. The new option is a Health Reimbursement Account. This option, a consumer driven health plan, encourages participants to play an active role in their own health care. The City is part of a pool that helps keep costs lower than if they were to apply for insurance on their own.

The City of Waseca is continuing to pursue new joint ventures and inter-governmental

cooperative actions that will provide the citizens of Waseca with a different and unique way to address governmental needs and meet the mandate of effective services at less cost. This may require re-allocation of funding from traditional community groups, or the development of new revenue sources and fees to cover costs of site-specific projects or programs.

Requests for Information

This financial report is designed to provide a general overview of the City of Waseca's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Waseca, 508 South State Street, Waseca, MN, 56093.

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF WASECA, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2007

	Primary Government			Component Unit EDA
	Governmental Activities	Business - type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 963,716	\$ 268,983	\$ 1,232,699	\$ 178,494
Investments	6,500,000	3,450,000	9,950,000	-
Receivables				
Taxes	97,471	-	97,471	1,515
Accounts	207,975	1,542,361	1,750,336	-
Utility	-	9,107	9,107	-
Mobile home taxes	3,562	-	3,562	-
Computer program receivable	4,848	-	4,848	-
Assessments	835,372	334,802	1,170,174	-
Interest	50,047	50,017	100,064	38
Loans	91,326	-	91,326	-
Advance to component unit	29,107	-	29,107	-
Internal balances	291,357	(291,357)	-	-
Inventory		19,782	19,782	-
Land held for resale	1,145,882	-	1,145,882	327,479
Restricted assets:				
Customer deposits	-	153,789	153,789	-
Capital assets				
Land	1,107,104	285,995	1,393,099	-
Infrastructure	28,548,189	-	28,548,189	-
Buildings	2,557,240	3,869,190	6,426,430	-
Improvements other than buildings	6,000,142	27,634,946	33,635,088	-
Machinery and equipment	4,245,256	6,935,356	11,180,612	-
Accumulated depreciation	(17,091,835)	(18,312,525)	(35,404,360)	-
Service territory (net of amortization)	-	330,563	330,563	-
Other assets	107,956	55,062	163,018	-
Total assets	<u>35,694,715</u>	<u>26,336,071</u>	<u>62,030,786</u>	<u>507,526</u>
LIABILITIES				
Current liabilities				
Accounts payable	287,948	636,355	924,303	57,138
Customer deposits	-	153,789	153,789	-
Accrued wages	108,781	37,415	146,196	-
Accrued interest	115,264	70,177	185,441	-
Advance from primary government	-	-	-	29,107
Noncurrent liabilities:				
Due within one year	1,140,000	487,303	1,627,303	-
Due in more than one year	6,635,584	3,995,865	10,631,449	-
Unearned revenue-utility	1,577	9,107	10,684	-
Total liabilities	<u>8,289,154</u>	<u>5,390,011</u>	<u>13,679,165</u>	<u>86,245</u>
NET ASSETS				
Invested in capital assets, net of related debt	17,881,298	16,002,097	33,883,395	-
Unrestricted	9,524,263	4,943,963	14,468,226	421,281
Total net assets	\$ <u>27,405,561</u>	\$ <u>20,946,060</u>	\$ <u>48,351,621</u>	\$ <u>421,281</u>

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

CITY OF WASECA, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Unit	
					Governmental Activities	Business-type Activities	Total	EDA
Governmental Activities:								
General government	\$ 2,280,264	\$ 135,046	\$ 42,536	\$ 2,000	\$ (2,100,682)	\$ -	\$ (2,100,682)	\$ -
Public safety	2,088,838	168,311	354,999	7,500	(1,558,028)	-	(1,558,028)	-
Streets and highways	2,075,077	2,090	88,963	177,914	(1,806,110)	-	(1,806,110)	-
Sanitation	47,005	-	-	-	(47,005)	-	(47,005)	-
Culture and recreation	1,024,144	216,861	282,016	-	(525,267)	-	(525,267)	-
Interest and fees	319,465	-	-	-	(319,465)	-	(319,465)	-
Total governmental activities	<u>7,834,793</u>	<u>522,308</u>	<u>\$ 768,514</u>	<u>187,414</u>	<u>(6,356,557)</u>	<u>-</u>	<u>(6,356,557)</u>	<u>-</u>
Business-type activities								
Water	904,267	1,248,324	-	50,490	-	394,547	394,547	-
Sewer	1,760,499	1,708,700	4,464	27,280	-	(20,055)	(20,055)	-
Electric	6,176,515	6,878,970	1,472	-	-	701,927	701,927	-
Airport	122,108	50,772	329,997	3,362	-	262,023	262,023	-
Total business-type activities	<u>8,963,389</u>	<u>9,884,766</u>	<u>335,933</u>	<u>81,132</u>	<u>-</u>	<u>1,338,442</u>	<u>1,338,442</u>	<u>-</u>
Total primary government	<u>\$ 16,798,182</u>	<u>\$ 10,407,074</u>	<u>\$ 1,104,447</u>	<u>\$ 268,546</u>	<u>\$ (6,356,557)</u>	<u>\$ 1,338,442</u>	<u>\$ (5,018,115)</u>	<u>\$ -</u>
Total component unit	<u>\$ 12,404</u>	<u>\$ 1,365</u>	<u>\$ 50,000</u>	<u>\$ -</u>				<u>\$ 38,961</u>
General revenues:								
					2,868,243	-	2,868,243	40,828
					25,925	-	25,925	-
					173,836	-	173,836	-
					230,464	-	230,464	-
					2,848,079	-	2,848,079	4,331
					310,848	202,739	513,587	6,349
Transfers								
					607,044	(607,044)	-	-
					<u>7,064,439</u>	<u>(404,305)</u>	<u>6,660,134</u>	<u>51,508</u>
					707,882	934,137	1,642,019	90,469
					26,266,913	20,011,923	46,278,836	330,812
					<u>430,766</u>	<u>-</u>	<u>430,766</u>	<u>-</u>
					<u>26,697,679</u>	<u>20,011,923</u>	<u>46,709,602</u>	<u>330,812</u>
					<u>\$ 27,405,561</u>	<u>\$ 20,946,060</u>	<u>\$ 48,351,621</u>	<u>\$ 421,281</u>

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

MAJOR FUNDS

Major Funds

Governmental

General Fund

This fund accounts for the financial operations of the City that are not accounted for in any other fund. Principal sources of revenue are state aid and county-shared revenue and property taxes.

Debt Service Fund

This fund accounts for the payment of interest and principal on the special assessment bond issues.

Water Park Construction Fund

This fund accounts for the construction costs of the Water Park.

Proprietary

The City's Enterprise Funds are used to account for self-supporting activities that render services to the general public on a user charge basis.

Water Fund

This fund accounts for the municipal water system.

Sanitary Sewer Fund

This fund accounts for the operation of the wastewater treatment plant and the sanitary sewer system.

Electric Fund

This fund accounts for the municipal electric utility operation. The City owns and operates the electric distribution system and buys all of its power requirements on a wholesale basis.

Airport Fund

This fund accounts for the municipal airport operations.

CITY OF WASECA, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
December 31, 2007

	General	Debt Service	Water Park Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 111,299	\$ 42,631	\$ 4,499	\$ 718,879	\$ 877,308
Investments	2,200,000	1,700,000	-	2,500,000	6,400,000
Receivables					
Taxes	87,545	-	-	9,926	97,471
Accounts	121,216	20,113	42,861	23,785	207,975
Mobile home taxes	3,562	-	-	-	3,562
Computer program receivable	4,848	-	-	-	4,848
Assessments					
Current	-	829,806	-	-	829,806
Delinquent	-	3,989	-	-	3,989
Deferred	-	1,577	-	-	1,577
Interest	8,121	11,650	-	30,225	49,996
Land Held for Resale	-	-	-	1,145,882	1,145,882
Loans	-	-	-	91,326	91,326
Advance to component units	-	-	-	29,107	29,107
Advance to other funds	180,000	150,000	-	-	330,000
Due from other funds	298,681	-	-	47,360	346,041
Total assets	<u>\$ 3,015,272</u>	<u>\$ 2,759,766</u>	<u>\$ 47,360</u>	<u>\$ 4,596,490</u>	<u>\$ 10,418,888</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 120,164	\$ -	\$ -	\$ 158,702	\$ 278,866
Accrued wages payable	103,841	-	-	1,824	105,665
Advance from other funds	-	-	-	150,000	150,000
Due to other funds	-	-	47,360	298,681	346,041
Deferred revenue	62,336	835,372	-	95,144	992,852
Total liabilities	<u>286,341</u>	<u>835,372</u>	<u>47,360</u>	<u>704,351</u>	<u>1,873,424</u>
Fund balances:					
Reserved for:					
Loans	-	-	-	3,000	3,000
Advance to other funds	180,000	150,000	-	-	330,000
Advance to component unit	-	-	-	29,107	29,107
Land held for resale	-	-	-	1,145,882	1,145,882
Unreserved, designated, reported in:					
General fund	2,548,931	-	-	-	2,548,931
Unreserved, undesignated, reported in:					
Special revenue funds	-	-	-	569,543	569,543
Debt service funds	-	1,774,394	-	82,893	1,857,287
Capital projects funds	-	-	-	2,061,714	2,061,714
Total fund balances	<u>2,728,931</u>	<u>1,924,394</u>	<u>-</u>	<u>3,892,139</u>	<u>8,545,464</u>
Total liabilities and fund balances	<u>\$ 3,015,272</u>	<u>\$ 2,759,766</u>	<u>\$ 47,360</u>	<u>\$ 4,596,490</u>	<u>\$ 10,418,888</u>

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

**CITY OF WASECA, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

DECEMBER 31, 2007

FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$	8,545,464
---	----	-----------

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

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

Cost of capital assets	42,457,931	
Less accumulated depreciation	<u>(17,091,835)</u>	25,366,096

Governmental funds do not report a liability for accrued interest until due and payable.	(115,264)
--	-----------

Internal service funds are used by management to charge the costs of various services provided to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.

Internal service fund net assets per statements	174,260	
Add allocation to business-type activities	<u>111,357</u>	285,617

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(7,800,786)
--	-------------

Issuance costs are reported as expenditures in the governmental funds at the time of issuance. In the Statement of Net Assets, these costs are amortized over the life of the debt issue. Bond premiums and discounts are reported as other financing sources in the governmental funds at the time of issuance. In the Statement of Net Assets, these costs are amortized over the life of the debt issue.

133,158

Other long-term assets related to delinquent property taxes, special assessments, and loans are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

991,276

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>27,405,561</u>
--	-----------	--------------------------

CITY OF WASECA, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2007

	General	Debt Service	Water Park Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 2,682,339	\$ -	\$ -	\$ 576,019	\$ 3,258,358
Licenses	53,470	-	-	-	53,470
Permits and fees	79,324	-	-	-	79,324
Intergovernmental	3,084,830	-	-	287,692	3,372,522
Charges for services	62,238	-	-	-	62,238
Program income	-	-	-	210,116	210,116
Fines and forfeitures	35,973	-	-	10,046	46,019
Assessments	-	235,363	-	-	235,363
Interest on assessments	-	58,803	-	-	58,803
Contributions	18,507	-	269,611	9,565	297,683
Miscellaneous	152,235	65,317	318	212,333	430,203
Total revenues	<u>6,168,916</u>	<u>359,483</u>	<u>269,929</u>	<u>1,305,771</u>	<u>8,104,099</u>
EXPENDITURES					
Current:					
General government	1,178,699	-	-	-	1,178,699
Public safety	2,478,926	-	-	-	2,478,926
Streets and highways	1,316,224	-	-	-	1,316,224
Sanitation	47,005	-	-	-	47,005
Cultural and recreation	690,852	-	-	-	690,852
Personal services	-	-	-	133,806	133,806
Materials and supplies	-	-	-	99,368	99,368
Separation and contribution	-	-	-	1,000	1,000
Services and charges	-	-	47,658	432,920	480,578
Other services	253,972	-	-	-	253,972
Debt service:					
Bond principal	-	365,000	-	455,000	820,000
Interest and fiscal charges	-	96,478	-	230,317	326,795
Capital outlay	-	-	899,596	381,879	1,281,475
Total expenditures	<u>5,965,678</u>	<u>461,478</u>	<u>947,254</u>	<u>1,734,290</u>	<u>9,108,700</u>
Excess (deficiency) of revenues over (under) expenditures	<u>203,238</u>	<u>(101,995)</u>	<u>(677,325)</u>	<u>(428,519)</u>	<u>(1,004,601)</u>
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	-	1,118	1,118
Transfers in	741,500	623,036	731,433	1,523,014	3,618,983
Transfers out	(1,239,500)	(35,893)	-	(1,736,546)	(3,011,939)
Total other financing sources (uses)	<u>(498,000)</u>	<u>587,143</u>	<u>731,433</u>	<u>(212,414)</u>	<u>608,162</u>
Net change in fund balances	<u>(294,762)</u>	<u>485,148</u>	<u>54,108</u>	<u>(640,933)</u>	<u>(396,439)</u>
Fund balances - beginning	3,023,693	1,439,246	(54,108)	4,533,072	8,941,903
Fund balances - ending	<u>\$ 2,728,931</u>	<u>\$ 1,924,394</u>	<u>\$ -</u>	<u>\$ 3,892,139</u>	<u>\$ 8,545,464</u>

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

**CITY OF WASECA, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2007

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (396,439)**

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the asset.

Capital outlay	1,712,111	
Depreciation expense	<u>(1,182,543)</u>	529,568

In the Statement of Activities, the loss on disposition of capital assets is reported. The loss is not a use of current resources and thus, is not reported in the funds.	(10,263)
---	----------

The net affect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.	(1,118)
---	---------

Revenues (special assessment and loan receivable deferred revenue) in the Statements of Activities that do not provide current financial resources are not reported as revenues in the funds.	(178,088)
---	-----------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount of repayments in the current period.	820,000
---	---------

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the amount issuance costs (\$13,738) and discounts (\$3,112) are greater than premiums (\$508).	(16,342)
--	----------

Some expenses (changes in accrued interest and compensated absences) 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.	9,611
--	-------

The net loss of the Internal Service funds reported with governmental activities	<u>(49,047)</u>
--	-----------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>707,882</u></u>
--	-----------	------------------------------

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

CITY OF WASECA, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
REVENUES				
Taxes	\$ 2,921,666	\$ 2,921,666	\$ 2,682,339	\$ (239,327)
Licenses	47,600	47,600	53,470	5,870
Permits and fees	156,600	156,600	79,324	(77,276)
Intergovernmental	2,759,388	2,759,388	3,084,830	325,442
Charges for services	46,450	46,450	62,238	15,788
Fines	26,000	26,000	35,973	9,973
Contributions	10,000	10,000	18,507	8,507
Miscellaneous	161,500	161,500	152,235	(9,265)
Total revenues	<u>6,129,204</u>	<u>6,129,204</u>	<u>6,168,916</u>	<u>39,712</u>
EXPENDITURES				
Current:				
General government	1,215,816	1,215,816	1,178,699	37,117
Public safety	2,402,905	2,402,905	2,478,926	(76,021)
Streets and highways	1,291,718	1,291,718	1,316,224	(24,506)
Sanitation	47,420	47,420	47,005	415
Cultural and recreation	684,202	684,202	690,852	(6,650)
Other services	237,500	237,500	253,972	(16,472)
Total expenditures	<u>5,879,561</u>	<u>5,879,561</u>	<u>5,965,678</u>	<u>(86,117)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>249,643</u>	<u>249,643</u>	<u>203,238</u>	<u>(46,405)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	646,500	741,500	741,500	-
Proceeds from equipment notes	275,000	-	-	-
Transfers out	(1,239,500)	(1,239,500)	(1,239,500)	-
Total other financing sources (uses)	<u>(318,000)</u>	<u>(498,000)</u>	<u>(498,000)</u>	<u>-</u>
Net change in fund balances	<u>(68,357)</u>	<u>(248,357)</u>	<u>(294,762)</u>	<u>(46,405)</u>
Fund balances - beginning	3,023,693	3,023,693	3,023,693	-
Fund balances - ending	<u>\$ 2,955,336</u>	<u>\$ 2,775,336</u>	<u>\$ 2,728,931</u>	<u>\$ (46,405)</u>

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

CITY OF WASECA, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
December 31, 2007

	Business-type Activities-Enterprise Funds					Governmental Activities-Internal Service Funds
	Water Fund	Sanitary Sewer Fund	Electric	Airport	Totals	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 82,022	\$ 186,161	\$ 800	\$ -	\$ 268,983	\$ 86,408
Investments	1,500,000	1,550,000	400,000	-	3,450,000	100,000
Restricted cash and cash equivalents:						
Customer Deposits	-	-	153,789	-	153,789	-
Accounts receivable	163,936	239,308	939,403	199,714	1,542,361	-
Utility receivable	5,464	3,643	-	-	9,107	-
Interest receivable	19,248	25,082	5,687	-	50,017	51
Assessments receivable	163,881	170,921	-	-	334,802	-
Due from other funds	119,476	-	-	-	119,476	-
Inventories	-	-	19,782	-	19,782	-
Total current assets	2,054,027	2,175,115	1,519,461	199,714	5,948,317	186,459
Noncurrent assets:						
Capital assets:						
Land	10,585	12,700	88,130	174,580	285,995	-
Buildings	148,634	2,656,198	476,243	588,115	3,869,190	-
Improvements	8,817,681	9,918,120	8,111,827	787,318	27,634,946	-
Machinery and equipment	495,092	5,242,159	1,191,105	7,000	6,935,356	-
Less accumulated depreciation	(4,675,928)	(7,361,030)	(5,948,366)	(327,201)	(18,312,525)	-
Total capital assets (net of accumulated depreciation)	4,796,064	10,468,147	3,918,939	1,229,812	20,412,962	-
Other assets:						
Service territory (net of amortization)	-	-	330,563	-	330,563	-
Deferred bond issuance costs	6,577	48,485	-	-	55,062	-
Total other assets	6,577	48,485	330,563	-	385,625	-
Total noncurrent assets	4,802,641	10,516,632	4,249,502	1,229,812	20,798,587	-
Total assets	\$ 6,856,668	\$ 12,691,747	\$ 5,768,963	\$ 1,429,526	\$ 26,746,904	\$ 186,459
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 10,367	\$ 83,237	\$ 459,902	\$ 82,849	\$ 636,355	\$ 9,083
Accrued wages payable	7,084	12,131	18,200	-	37,415	3,116
Accrued interest payable	24,360	45,817	-	-	70,177	-
Due to other funds	-	-	33,207	86,269	119,476	-
Customer deposits payable	-	-	153,789	-	153,789	-
Revenue bonds payable	200,000	215,000	-	-	415,000	-
Unearned revenue - utility	5,464	3,643	-	-	9,107	-
Total current liabilities	247,275	359,828	665,098	169,118	1,441,319	12,199
Noncurrent liabilities:						
Revenue bonds payable	1,213,331	2,782,534	-	-	3,995,865	-
Compensated absences payable	11,694	6,971	53,638	-	72,303	-
Advance from other funds	-	-	180,000	-	180,000	-
Total noncurrent liabilities	1,225,025	2,789,505	233,638	-	4,248,168	-
Total liabilities	1,472,300	3,149,333	898,736	169,118	5,689,487	12,199
NET ASSETS						
Invested in capital assets, net of related debt	3,382,733	7,470,613	3,918,939	1,229,812	16,002,097	-
Unrestricted	2,001,635	2,071,801	951,288	30,596	5,055,320	174,260
Total net assets	\$ 5,384,368	\$ 9,542,414	\$ 4,870,227	\$ 1,260,408	21,057,417	\$ 174,260
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(111,357)	
Net assets of business-type activities					\$ 20,946,060	

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

CITY OF WASECA, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities-Enterprise Funds					Governmental Activities-Internal Service Funds
	Water Fund	Sanitary Sewer Fund	Electric	Airport	Totals	
Operating revenues:						
Charges for services	\$ 1,236,850	\$ 1,708,700	\$ 6,830,340	\$ 50,072	\$ 9,825,962	\$ 385,400
Insurance reimbursement	-	-	-	-	-	24,741
Miscellaneous	11,474	-	46,630	700	58,804	-
Total operating revenues	<u>1,248,324</u>	<u>1,708,700</u>	<u>6,876,970</u>	<u>50,772</u>	<u>9,884,766</u>	<u>410,141</u>
Operating expenses:						
Power purchased	97,706	15,268	4,662,424	-	4,775,398	-
Personnel services	241,738	399,823	601,519	-	1,243,080	107,473
Supplies	106,732	145,971	374,290	6,263	633,256	133,966
Services and charges	76,369	597,609	127,716	53,020	854,714	6,648
Depreciation	305,860	465,950	342,408	40,634	1,154,852	-
Insurance payment	-	-	-	-	-	12,813
Insurance premium	-	-	-	-	-	223,434
Total operating expenses	<u>828,405</u>	<u>1,624,621</u>	<u>6,108,357</u>	<u>99,917</u>	<u>8,661,300</u>	<u>484,334</u>
Operating income (loss)	<u>419,919</u>	<u>84,079</u>	<u>768,613</u>	<u>(49,145)</u>	<u>1,223,466</u>	<u>(74,193)</u>
Nonoperating revenues (expenses):						
Federal grant	-	-	-	283,647	283,647	-
State aid maintenance	-	-	-	15,943	15,943	-
State aid construction	-	-	-	30,407	30,407	-
Loss on disposal of capital assets	(3,224)	(15,149)	(474)	(19,361)	(38,208)	-
Interest income	84,323	102,764	15,264	388	202,739	8,504
Interest expense	(63,803)	(110,627)	(15,735)	-	(190,165)	-
Refunds and reimbursements	-	4,464	1,472	-	5,936	-
Agent fee	(1,130)	(633)	-	-	(1,763)	-
Amortization expense	(2,826)	(5,083)	(47,401)	-	(55,310)	-
Total nonoperating revenues (expenses)	<u>13,340</u>	<u>(24,264)</u>	<u>(46,874)</u>	<u>311,024</u>	<u>253,226</u>	<u>8,504</u>
Income (loss) before contributions and transfers	<u>433,259</u>	<u>59,815</u>	<u>721,739</u>	<u>261,879</u>	<u>1,476,692</u>	<u>(65,689)</u>
Capital contributions	50,490	27,280	-	3,362	81,132	-
Transfers out	(87,788)	(83,100)	(436,156)	-	(607,044)	-
Change in net assets	<u>395,961</u>	<u>3,995</u>	<u>285,583</u>	<u>265,241</u>	<u>950,780</u>	<u>(65,689)</u>
Total net assets-beginning	<u>4,988,407</u>	<u>9,538,419</u>	<u>4,584,644</u>	<u>995,167</u>		<u>239,949</u>
Total net assets-ending	<u>\$ 5,384,368</u>	<u>\$ 9,542,414</u>	<u>\$ 4,870,227</u>	<u>\$ 1,260,408</u>		<u>\$ 174,260</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(16,643)	
Net assets of business-type activities					<u>\$ 934,137</u>	

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

CITY OF WASECA, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities-Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Fund	Sanitary Sewer Fund	Electric	Airport	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 1,208,617	\$ 1,862,792	\$ 6,517,009	\$ (84,123)	\$ 9,304,295	\$ -
Cash received from other funds and reimbursements	-	-	-	-	-	410,572
Cash payments to suppliers	(285,266)	(754,727)	(4,957,062)	(45,946)	(6,043,001)	-
Cash payments to employees	(241,179)	(411,249)	(606,504)	-	(1,258,932)	(107,195)
Cash payments for interfund services used	-	-	-	-	-	(388,132)
Net cash provided (used) by operating activities	682,172	496,816	953,443	(130,069)	2,002,362	(84,755)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Due from other funds	(119,476)	-	-	-	(119,476)	-
Due to other funds	-	-	33,207	86,269	119,476	(1,561)
Refunds and reimbursements	-	4,466	1,472	-	5,938	-
State aid-maintenance	-	-	-	15,943	15,943	-
Federal grant	-	-	-	283,647	283,647	-
Transfers to other funds	(87,788)	(83,100)	(436,156)	-	(607,044)	-
Net cash provided (used) by noncapital financing activities	(207,264)	(78,634)	(401,477)	385,859	(301,516)	(1,561)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
State aid-construction	-	-	-	30,407	30,407	-
Principal paid on bonds	(195,000)	(215,000)	-	-	(410,000)	-
Acquisition of capital assets	(119,657)	(421,686)	(153,076)	(397,277)	(1,091,696)	-
Agent fee	(1,130)	(633)	-	-	(1,763)	-
Advance from other funds	-	-	(20,000)	-	(20,000)	-
Interest expense	(66,565)	(112,727)	(15,735)	-	(195,027)	-
Net cash provided (used) by capital and related financing activities	(382,352)	(750,046)	(188,811)	(366,870)	(1,688,079)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(200,000)	-	(400,000)	-	(600,000)	-
Proceeds from sale of investments	-	150,000	-	-	150,000	-
Interest on investments	68,856	82,256	9,577	388	161,077	8,529
Net cash provided (used) by investing activities	(131,144)	232,256	(390,423)	388	(288,923)	8,529
Net increase (decrease) in cash and cash equivalents	(38,588)	(99,608)	(27,268)	(110,692)	(276,156)	(77,787)
Cash and cash equivalents, January 1	120,610	285,769	28,068	110,692	545,139	164,195
Cash and cash equivalents, December 31	\$ 82,022	\$ 186,161	\$ 800	\$ -	\$ 268,983	\$ 86,408
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 419,919	\$ 84,079	\$ 768,613	\$ (49,145)	\$ 1,223,466	\$ (74,193)
Adjustments to reconcile operating income to net cash provided (used) by operating activities						
Depreciation	305,860	465,950	342,408	40,634	1,154,852	-
Change in assets and liabilities						
(Increase) decrease in accounts receivable	(70,783)	(78,564)	(359,961)	(134,895)	(644,203)	431
Increase in utility receivable	(294)	(196)	-	-	(490)	-
Decrease in assessment receivable	31,076	32,656	-	-	63,732	-
(Increase) decrease in Inventory	-	-	153,398	-	153,398	-
Increase (decrease) in accounts payable	(4,459)	4,121	53,970	13,337	66,969	(11,271)
Increase (decrease) in accrued wages payable	488	(2,423)	1,432	-	(503)	278
Increase (decrease) in compensated absences payable	71	(9,003)	(6,417)	-	(15,349)	-
Increase in unearned revenue - utility	294	196	-	-	490	-
Total adjustments	262,253	412,737	184,830	(80,924)	778,896	(10,562)
Net cash provided (used) by operating activities	\$ 682,172	\$ 496,816	\$ 953,443	\$ (130,069)	\$ 2,002,362	\$ (84,755)
Noncash investing, capital, and financing activities:						
Amortization of bond issuance costs	\$ 2,826	\$ 5,083	\$ -	\$ -	\$ 7,909	\$ -
Amortization of service territory	-	-	47,401	-	47,401	-
Capital Contributions	50,490	27,280	-	3,362	81,132	-
Loss on disposal of capital assets	(3,224)	(15,149)	(474)	(19,361)	(38,208)	-

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

CITY OF WASECA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Waseca have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the City's policies are described below.

A. Reporting Entity

The City of Waseca, incorporated in 1868 and under Article XII, Section 4, of the Minnesota Constitution, is chartered as a Home Rule City. The Charter established a Mayor-Council form of government. The governing body consists of six elected council members and a mayor. The City Manager administers policies and coordinates the activities of the City. The heads of the various departments, formed to provide various services, are under the direct supervision of the City Manager.

The accompanying financial statements present the City and its component unit (The Economic Development Authority of the City of Waseca), an entity for which the government is considered financially accountable. The discretely presented component unit is reported in a separate column in the basic financial statements to emphasize that it is legally separate from the government. The discretely presented component unit has a December 31 year-end.

Individual Component Unit Disclosures

Discretely Presented Component Unit – The Economic Development Authority of the City of Waseca is governed by five members who are appointed by the Waseca City Council. The City is considered financially accountable for The Economic Development Authority because the City can impose its will and because financial assistance is made by the City. The Economic Development

Authority of the City of Waseca is comprised of two funds, the general Fund and the land development Fund. Separately issued financial statements are available upon request from The Economic Development Authority of the City of Waseca at 508 South State Street, Waseca, MN.

B. Government-wide and Fund Accounting

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally 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.

Government-wide financial statements report information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's enterprise funds and various other functions of government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or business-type activity. 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 business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental, proprietary, and fiduciary. Currently, the City has only governmental and proprietary type funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated in a single column in the financial section of the basic financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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. Internal service fund activity is eliminated to avoid "doubling up" of revenues and expenses, however, interfund services provided and used are not eliminated in the process of consolidation.

Governmental fund financial statements are reported using the current financial resources management focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are 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. All other revenue

items are considered to be measurable and available only when cash is received by the City.

Since the governmental fund statements are presented using a different measurement focus and basis of accounting than the government-wide statements' governmental column, reconciliations are presented which briefly explain the adjustments necessary to reconcile both the ending net assets and the change in net assets.

Major governmental funds - The City reports the following major governmental funds:

General Fund

This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Most of the current day-to-day operations of the governmental units are financed from this fund.

Debt Service Fund

This is used to accumulate special assessment revenues collected for payment of special assessment principal and interest. These debt issues were sold to finance construction of various projects that were deemed to benefit only those residents in the immediate area of the projects and are paid for by those residents through assessments against their property.

Water Park Construction Fund

This accounts for the construction of the water park, which was financed from external contributions and bond proceeds.

Major proprietary funds - The City reports the following major proprietary funds:

Water Fund

This accounts for the water service charges, which are used to finance the water system operating expenses.

Sanitary Sewer Fund

This accounts for the sanitary sewer service charges, which are used to finance the sanitary sewer system operating expenses.

Electric Fund

This accounts for the electric service charges, which are used to finance the electric system operating expenses.

Airport Fund

This accounts for the income and expenses of the municipal airport operations.

Additionally, the City reports the following fund type:

Internal Service funds account for services and/or commodities provided to other departments of the City on a cost reimbursement basis. The City has four Internal Service funds. The property and liability insurance fund provides for risk management activities for property and liability insurance. The workers compensation insurance fund provides for risk management activities for workers compensation insurance. The equipment replacement fund provides for purchases of capital equipment, and a central garage fund, which accounts for all activity of the servicing of City vehicles and equipment.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The City has elected to follow subsequent private-sector guidance except those that conflict with or contradict GASB guidance.

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

Proprietary Funds distinguish operating revenues and expenses from non-operating 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 and expenses of the City's Enterprise Funds and Internal Service Funds are charges to customers for sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Cash balances from all funds are pooled and invested to the extent available in certificates of deposit as authorized by resolution of the City Council. Earnings from investments are allocated monthly to each fund based on month end balances of cash and investments.

Investments consisted of non-negotiable certificates of deposit. Investments are stated at fair value as of the end of the year, except for non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, the enterprise and internal service funds consider cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased to be cash and cash equivalents.

2. Property Tax Receivables

The City levies its property tax for the subsequent year in October. This levy is certified to the County of Waseca, as they are the collection agency for taxes within the County. Taxes are recognized as receivables in the current year when the City is notified by the County of

the amounts. They become a lien against the property on the date of levy. Taxes are due and payable at the County on May 15 and October 15, and collections are remitted to the City in June and November. Adjustments are made to delinquent taxes based on the records of the County Auditor.

3. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds". All short-term interfund receivables and payables at year-end are planned to be eliminated in the subsequent year. Long-term interfund loans are classified as "advances to/from other funds. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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

4. Accounts Receivables – Utilities

The utilities provide an allowance for bad debts using the allowance method, based on management's judgment. Services are sold on an unsecured basis. Payment is generally required within 15 days of the date of billing. Accounts past due are individually analyzed for collectibility. The amount of uncollectible accounts is not considered significant.

5. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of inventories is recorded as an expenditure/expense when consumed rather than when purchased.

6. Land Held for Resale

Land held for resale is valued at cost which approximates fair value.

7. Restricted Assets

Customer Deposits – The City of Waseca electric utility collects a deposit fee from residential rental and commercial customers upon application for utility service. This deposit is a safeguard against higher risk delinquent accounts, and is returned to the customer upon cancellation of service by the customer or maintenance of adequate credit history for a one-year period. These deposits are restricted to the extent of the customer deposits payable.

8. 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. Infrastructure assets acquired prior to the implementation of GASB 34 have been reported. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value as of the date of the donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation of property, plant, and

equipment is provided on the straight line basis over the following estimated useful lives:

Buildings	20-50 years
Improvements Other than Buildings	5-50 years
Water Distribution System	30-70 years
Sewer Collection System	30-70 years
Electric Distribution System	20-50 years
Machinery and Equipment	4-50 years
Infrastructure	30-70 years

9. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and the portion of sick pay allowable as severance pay is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion for these amounts is calculated based on historical trends.

10. Long-Term Obligations

Long-term obligations are recorded in the City's government-wide statement of net assets when they become a liability to the City. Long-term obligations are recognized as a liability of a governmental fund only when due or when resources have been accumulated in the debt service fund for payment early in the following year. Long-term obligations expected to be financed from proprietary funds are accounted for in those funds. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, 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.

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

12. Use of Estimates

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

13. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) recently approved the following statements which were not implemented for these financial statements:

Statement No. 45, *Accounting for Financial Reporting by Employers for Post-employment Benefit Plans other than Pension Plans*. This statement, which the City will be required to adopt in 2008, provides that post-employment benefits offered to employees are to be measured and recognized on a full accrual basis of accounting over a period that approximates an employee's years of service. The City has not yet assessed the impact of the adoption of Statement No. 45 on its financial statements.

Statement No. 49, *Accounting for Financial Reporting for Pollution Remediation Obligation*. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2007.

The effect these standards may have on future financial statements is not determinable at this time.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The following is an explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes a reconciliation between the fund balance in the governmental funds and net assets in the governmental activities as reported in the government-wide statement of net assets.

Some of the elements of the reconciliation include:

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this difference are as follows:

Bonds and capital equipment notes	\$ (7,510,000)
Compensated absences payable	(290,786)
Total difference	\$ <u>(7,800,786)</u>
 Bond issuance costs	 \$ 107,956
Bond discounts	27,025
Bond Premiums	(1,823)
	\$ <u>133,158</u>
 Accrued interest payable	 \$ (115,264)

Other long-term assets related to delinquent property taxes, special assessments, and loans are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Def Rev - Special Assessments	\$ 833,795
Def Rev - Delinquent taxes	69,155
Def Rev - Loans receivable	88,326
	<u>\$ 991,276</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General and the following special revenue funds: Economic Development Public Grant (EDPG) Clear Lake Press, Tax Increment Financing (TIF) Funds, Water Park Operations, Waseca Housing Fund, Police Separation, Police Reserve, and Fire Relief. A budget is also adopted for the following Capital Project Funds: Municipal State Aid Maintenance Fund, Capital Improvement Fund, and Annexation and Growth Fund. Any modifications in the adopted budget can be made upon request of and approval by the City Council. All annual appropriations lapse at fiscal year-end. Defined project financial plans are adopted on a 5-year capital improvement plan.

On or before mid-July each year, all agencies of the City submit requests for appropriations to the City Manager so that a budget may be prepared. The budget is prepared by function and activity and includes information on the preceding two fiscal years, current year estimates of expenditures, budget and requested, recommended and adopted appropriations for the next fiscal year.

The proposed budget is presented to the City Council for review at their first meeting in September. The City Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues as estimated by the City Manager. The City Council must adopt the annual budget by December 28th of each year.

Expenditures may not legally exceed budgeted appropriations at the total level for each function or activity. Management cannot amend the adopted budget, but must request the City Council to transfer funds between functions or activities or adopt supplemental appropriations when the need arises. There were no supplemental appropriations in 2007.

B. Excess of Expenditures Over Appropriations

The funds listed below had an excess of expenditures over appropriations in the following amounts:

	<u>Budget</u>	<u>Actual</u>
General Fund	\$ 5,879,561	\$ 5,965,678
Special Revenue Funds		
TIF Funds	\$ 167,666	\$ 243,938
Water Park	210,000	266,230
Police Reserve	500	5,081

The General Fund experienced an excess of expenditures over appropriations due to additional charges related to the purchase of a fire truck. A budget amendment was approved by council to transfer funds from the Capital Improvement Fund to the General Fund to cover the additional expenditures. The fire department also had additional expenditures related to a new ventilation system. The fire department applied for and received a grant to cover this additional expenditure.

The Water Park opened in the summer of 2007. The Water Park experienced higher than anticipated expenditures due to higher costs for materials and supplies. The excess expenditures were off-set by higher than anticipated concession and admissions revenue.

As TIF revenue is received for the TIF Funds, payments are made to the developer equal to the amount of the tax increment less a 10% administrative fee. These TIF districts are budgeted based on the previous year's taxes. Actual revenues and expenditures received and incurred for 2007 exceeded budgeted amounts.

The Police Reserve Fund was utilized for many community events, allowing for unbudgeted costs of service.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits. State Statutes require that all deposits in financial institutions in excess of the \$100,000 insured by the Federal Depository Insurance Corporation (FDIC) be collateralized at 110% by U.S. Government obligations or its agencies and instrumentalities or direct obligations of any state or local government with taxing powers which is rated "A" or better by a national bond rating service. Collateral pledged by the various banks is held in safekeeping departments of banks other than the pledging bank or the Federal Reserve Bank and held in the name of the City. It is required that the City sign authorizations releasing collateral once it is pledged. The City's deposits, including certificates of deposit, were fully insured or collateralized as required by State Statutes at December 31, 2007. At year end, the carrying amount of the City's deposits was \$11,336,488 and the bank balance was \$11,829,992. Of the total bank balance, the FDIC covered \$205,293. The remainder was covered by collateral with a value of \$15,966,367.

Investments. State statutes and city resolutions authorize the City's investments. The City is authorized by state statutes to invest in U.S. Government obligations and its agencies or instrumentalities, state, or local securities meeting certain rating guidelines, commercial paper, insured or collateralized certificates of deposit, and certain high-risk mortgage backed securities. The City is authorized by council resolution to invest in U.S. Government obligations and its agencies or instrumentalities, state or local securities meeting certain rating guidelines, commercial paper, and insured or collateralized certificates of deposit in various financial institutions. This policy is the same for all fund types reported herein. The City held no investments at December 31, 2007.

The deposits and investments of the City are presented in the financial statements as follows:

Deposits	\$ 11,336,488
Total cash, cash equivalents, and investments	<u>11,336,488</u>
Cash and cash equivalents - governmental activities	\$ 963,716
Investments - governmental activities	6,500,000
Cash and cash equivalents - business-type activities	268,983
Investments - business-type activities	3,450,000
Customer deposits	153,789
	<u>\$ 11,336,488</u>

Interest Rate Risk: The City's investment policy states that the City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by structuring the investment portfolio so that the securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

B. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include franchise fees and miscellaneous rental charges. Business-type activities report utility earnings as their major receivables.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the three components of deferred revenue reported in the governmental funds were for delinquent taxes receivable not yet available (General, Special Revenue and Debt Service funds) special assessments not yet available (Debt Service fund) and loans receivable not yet due (Special Revenue fund) for the amounts of \$69,155, \$833,795 and \$88,326, respectively.

C. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2007 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated				
Land	\$ 1,099,848	\$ 8,374	\$ 1,118	\$ 1,107,104
Construction in progress	<u>2,375,985</u>	<u>-</u>	<u>2,375,985</u>	<u>-</u>
Total capital assets not being depreciated	<u>3,475,833</u>	<u>8,374</u>	<u>2,377,103</u>	<u>1,107,104</u>
Depreciable capital assets:				
Buildings	1,595,017	965,675	3,452	2,557,240
Improvements other than buildings	3,297,834	2,704,500	2,192	6,000,142
Equipment	3,761,289	553,247	69,280	4,245,256
Infrastructure	<u>28,266,873</u>	<u>287,066</u>	<u>5,750</u>	<u>28,548,189</u>
Total depreciable	<u>36,921,013</u>	<u>4,510,488</u>	<u>80,674</u>	<u>41,350,827</u>
Accumulated depreciation:				
Buildings	1,192,333	56,087	3,106	1,245,314
Improvements other than buildings	1,661,946	186,650	2,193	1,846,403
Equipment	2,151,804	274,836	62,480	2,364,160
Infrastructure	<u>10,973,619</u>	<u>664,970</u>	<u>2,631</u>	<u>11,635,958</u>
Total accumulated depreciation	<u>15,979,702</u>	<u>1,182,543</u>	<u>70,410</u>	<u>17,091,835</u>
Total capital assets being depreciated, net	<u>20,941,311</u>	<u>3,327,945</u>	<u>10,264</u>	<u>24,258,992</u>
Governmental activities capital assets, net	<u>\$ 24,417,144</u>	<u>\$ 3,336,319</u>	<u>\$ 2,387,367</u>	<u>\$ 25,366,096</u>

Depreciation expense for governmental activities is charged to functions as follows:

General Government	\$ 44,195
Public Safety	119,291
Streets and Highways	789,032
Culture and Recreation	<u>230,025</u>
Total depreciation for governmental activities	<u>\$ 1,182,543</u>

Capital asset activity for business-type activities for the year ended December 31, 2007 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated				
Land	\$ 285,995	\$ -	\$ -	\$ 285,995
Construction in progress	50,824	-	50,824	-
Total capital assets not being depreciated	336,819	-	50,824	285,995
Depreciable capital assets:				
Buildings	3,437,621	451,463	19,894	3,869,190
Improvements other than buildings	27,181,759	733,333	280,146	27,634,946
Equipment	6,951,533	38,858	55,035	6,935,356
Total depreciable	37,570,913	1,223,654	355,075	38,439,492
Accumulated depreciation:				
Buildings	1,208,593	68,902	19,893	1,257,602
Improvements other than buildings	12,988,073	824,134	248,036	13,564,171
Equipment	3,277,871	261,816	48,935	3,490,752
Total accumulated depreciation	17,474,537	1,154,852	316,864	18,312,525
Total capital assets being depreciated, net	20,096,376	68,802	38,211	20,126,967
Business type activities capital assets, net	\$ 20,433,195	\$ 68,802	\$ 89,035	\$ 20,412,962

Depreciation expense for business-type activities is charged to functions as follows:

Water	\$ 305,860
Sewer	465,950
Electric	342,408
Airport	40,634
Total depreciation for business-type activities	\$ 1,154,852

D. Interfund Balances and Transfers

The composition of interfund balances as of December 31, 2007 is as follows:

Due to/from Other Funds		
Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 298,681
Nonmajor Governmental Fund	Water Park Construction Fund	47,360
Water Fund	Airport Fund	86,269
Water Fund	Electric Fund	33,207
Total		\$ 465,517

Interfund receivables and payables represent lending/borrowing arrangements to cover deficit cash balances at the end of the fiscal year until the 2008 revenue flow provides for costs.

Advances to/from Other Funds		
Receivable Fund	Payable Fund	Amount
General Fund	Electric Fund	\$ 180,000
Debt Service Fund	Nonmajor Governmental Fund	150,000
	Total	<u>\$ 330,000</u>

The General Fund made an advance to the Electric Fund to fund the purchase of service territory. This advance will be repaid over time from charges for services. The Debt Service Fund made an advance to the Central TIF Fund to finance the remaining project costs related to the downtown streetscaping project. This advance will be repaid over time through tax increments received in future years.

Advances to/from Primary Government and Component Unit		
Receivable Entity	Payable Entity	Amount
Primary Government	Component Unit	
	Economic Development Authority	
Nonmajor Governmental Fund	Land Development	<u>\$ 29,107</u>

The following is a schedule of interfund transfers for the year ended December 31, 2007:

	Transfers Out						Total
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Water Fund	Sewer Fund	Electric Fund	
Transfers In:							
Governmental Fund Type							
General Fund	\$ -	\$ -	\$ 295,000	\$ 48,000	\$ 48,000	\$ 350,500	\$ 741,500
Debt Service Fund	-	-	623,036	-	-	-	623,036
Water Park Construction Fund	-	-	731,433	-	-	-	731,433
Nonmajor Governmental Funds	<u>1,239,500</u>	<u>35,893</u>	<u>87,077</u>	<u>39,788</u>	<u>35,100</u>	<u>85,656</u>	<u>1,523,014</u>
	<u>\$ 1,239,500</u>	<u>\$ 35,893</u>	<u>\$ 1,736,546</u>	<u>\$ 87,788</u>	<u>\$ 83,100</u>	<u>\$ 436,156</u>	<u>\$ 3,618,983</u>

Throughout the course of the year, the City has to make occasional interfund transfers. These transfers are usually approved so that the fund receiving the money can continue to operate. The following is an explanation of some of the major transfers.

The General Fund transferred \$200,000 to the Waseca Water Park Fund to provide initial start-up funding for operations. The Water Park opened in June of 2007.

The Special Assessment Capital 2004 Fund transferred \$623,036 to the Debt Service Fund to fund debt payments.

The Capital Improvement Fund transferred \$300,000 to the Water Park Construction Fund to fund the City's portion of the Water Park Construction.

The Blandin Partnership Grant transferred \$431,433 to the Water Park Construction Fund to enable the fund to expend the grant revenue received for construction of the Water Park. The Blandin Partnership Grant was closed out in 2007.

The General Fund transferred \$1,000,000 to the Capital Improvement Fund to provide funding for street maintenance, the Northeast Park and Land Improvements project, Four-in-one tennis court project, sidewalk maintenance, the City's portion of the Water Park Construction, and a joint project with Waseca County to develop a walking trail around Clear Lake.

E. Other Assets

Other assets within the Governmental and Enterprise funds for December 31, 2007 are as follows:

	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Total</u>
Deferred Bond Issuance Costs (Net of amortization)	\$ 107,956	\$ 6,577	\$ 48,485	\$ -	\$ 163,018
Service Territory (Net of amortization)	-	-	-	330,563	330,563
Total Other Assets	<u>\$ 107,956</u>	<u>\$ 6,577</u>	<u>\$ 48,485</u>	<u>\$ 330,563</u>	<u>\$ 493,581</u>

The City acquired service territory in 2002 in the original amount of \$139,512. This resulted from long-term negotiations with Xcel Energy, as the City acquired adjoining property in various fringe areas of the community that had not previously been served by the Waseca Utility. The agreements between the City and Xcel Energy establish the criteria for future territory acquisition and

exchange for residential and commercial properties, as the City boundaries continue to grow and change.

The City is obligated to remit payment to Xcel Energy by January 31 of each year for the years 2004 through 2012 equal to \$788 per building permit issued within properties acquired as part of the service territory. The charge of \$788 per building permit increases 3% (percent) per year beginning in 2003. The service territory is being amortized over the ten-year term of the agreement.

In 2006, the City acquired additional service territory in the amount of \$264,740. This additional service territory resulted from negotiations with Xcel Energy, as the City acquired property known as the Pondview of Waseca Subdivision and the Tower Industrial Park Second Addition. This service territory is being amortized over a period of ten years.

F. Long-Term Debt

General Obligation Bonds

General Obligations Bonds are issued to provide financing for the acquisition, improvement, and construction of major capital facilities having a relatively long life. They are payable from taxes levied upon all taxable property in the City and tax abatement revenues from certain parcels of property in the City and are backed by the full faith and credit of the City. One general obligation bond issue with an original issue amount of \$1,035,000 is currently outstanding as follows:

	<u>Original Amount</u>	<u>Maturities</u>	<u>Rate</u>	<u>Balance at December 31, 2007</u>
General Obligation Series 2005D	\$ 1,035,000	2005-2016	3.71%	\$ 995,000

Annual debt service requirements to maturity for the general obligation bond is as follows:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 100,000	\$ 34,283
2009	115,000	30,520
2010	115,000	26,495
2011	120,000	22,382
2012	125,000	18,095
2013 - 2016	420,000	28,076
	<u>\$ 995,000</u>	<u>\$ 159,851</u>

General Obligation Tax Increment Financing Bonds

General Obligation Tax Increment Financing Bonds are issued to provide financing for tax increment financing districts. They are payable from tax increments which are calculated to be the difference between the current amounts levied for taxes less the amount which was levied prior to the time of redevelopment and are backed by the full faith and credit of the City. One general obligation tax increment financing bond with an original issue amount of \$1,100,000 is currently outstanding as follows:

	<u>Original Amount</u>	<u>Maturities</u>	<u>Rate</u>	<u>Balance at December 31, 2007</u>
General Obligation Tax Increment Series 2005E	\$ 1,100,000	2005-2026	4.25%	\$ 1,100,000

Annual debt service requirements to maturity for the general obligation tax increment financing bond is as follows:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 25,000	\$ 44,993
2009	30,000	43,892
2010	30,000	42,692
2011	35,000	41,393
2012	35,000	39,993
2013-2017	250,000	172,262
2018-2022	340,000	114,757
2023-2026	355,000	31,754
	<u>\$ 1,100,000</u>	<u>\$ 531,736</u>

General Obligation State-Aid Street Bonds

General Obligation State-Aid Street Bonds are issued to provide financing for the construction and improvement of various state-aid streets within the City. They are payable from taxes levied upon all taxable property in the City and municipal state-aid highway allotments and are backed by the full faith and credit of the City. One general obligation state-aid street bond with an original issue amount of \$805,000 is currently outstanding as follows:

	<u>Original Amount</u>	<u>Maturities</u>	<u>Rate</u>	<u>Balance at December 31, 2007</u>
General Obligation State Aid Street Bonds Series 2005B	\$ 805,000	2005-2015	3.65%	\$ 640,000

Annual debt service requirements to maturity for the general obligation state-aid street bond is as follows:

Year	Governmental Activities	
	Principal	Interest
2008	\$ 80,000	\$ 20,420
2009	80,000	18,020
2010	80,000	15,540
2011	80,000	12,960
2012	80,000	10,260
2013-2015	240,000	13,480
	<u>\$ 640,000</u>	<u>\$ 90,680</u>

General Obligation Aquatic Center Bonds

General Obligation Aquatic Center Bonds are issued for the construction of a new water park in the City. They are payable from taxes levied upon all taxable property in the City and are backed the full faith and credit of the City. One general obligation aquatic center bond with an original issue amount of \$2,040,000 is currently outstanding as follows:

	Original Amount	Maturities	Rate	Balance at December 31, 2007
General Obligation Aquatic Center Bonds Series 2006A	\$ 2,040,000	2006-2027	4.34%	\$ 2,040,000

Annual debt service requirements to maturity for the general obligation aquatic center bond is as follows:

Year	Governmental Activities	
	Principal	Interest
2008	\$ 30,000	\$ 85,085
2009	75,000	82,985
2010	75,000	79,985
2011	80,000	76,885
2012	80,000	73,685
2013-2017	455,000	316,107
2018-2022	555,000	211,289
2023-2027	690,000	78,666
	<u>\$ 2,040,000</u>	<u>\$ 1,004,687</u>

Special Assessment Bonds

Special assessment bonds are issued for the construction of major capital improvements having a relatively long life. They are payable from special assessments levied and collected on local improvements to property and are

backed by the full faith and credit of the City. Four special assessment bond issues with a total original issue amount of \$3,960,000 are currently outstanding as follows:

Permanent Improvement Bonds	Original Amount	Maturities	Rates	Balance at December 31, 2007
Series 1994A	\$ 860,000	1994-2010	5.39%	\$ 140,000
Series 2000A	750,000	2000-2011	4.97%	315,000
Series 2001A	935,000	2001-2013	4.68%	570,000
Series 2004C	1,415,000	2004-2015	5.08%	1,095,000
	<u>\$ 3,960,000</u>			<u>\$ 2,120,000</u>

Annual debt service requirements to maturity for the special assessment bonds are as follows:

Year	Governmental Activities	
	Principal	Interest
2008	\$ 360,000	\$ 80,689
2009	355,000	66,262
2010	360,000	51,710
2011	315,000	37,835
2012	235,000	26,762
2013-2015	495,000	32,793
	<u>\$ 2,120,000</u>	<u>\$ 296,051</u>

Revenue Bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. These bonds are recorded in the fund according to the purpose for which they were issued. The Sanitary Sewer fund is currently carrying bonds payable for the construction of the ATAD facility and sanitary sewer infrastructure. These bonds had an original issue amount of \$3,225,000. The Water Fund is currently carrying bonds for the construction of the water main and water system infrastructure. These had an original issue amount of \$2,660,000. The bonds from these funds are payable from the net revenues of their respective funds for which they were issued and not from an ad valorem tax, but are backed by the full faith and credit of the City.

The revenue bonds currently outstanding are as follows:

	Original Amount	Maturities	Rates	Balance at December 31, 2007
Revenue Bonds Series 1993A	\$ 955,000	1993-2008	4.86%	\$ 85,000
Revenue Bonds Series 2001B	1,270,000	2001-2017	4.46%	945,000
Revenue Refunding Bonds Series 2004B	1,900,000	2004-2016	3.58%	1,735,000
Revenue Bonds Series 2005A	1,760,000	2005-2026	4.18%	1,670,000
	<u>\$ 5,885,000</u>			<u>\$ 4,435,000</u>

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

Year	Business-Type Activities	
	Principal	Interest
2008	\$ 415,000	\$ 165,636
2009	345,000	150,780
2010	355,000	139,265
2011	370,000	126,694
2012	375,000	113,193
2013-2017	1,850,000	329,306
2018-2022	370,000	117,394
2023-2026	355,000	31,997
	<u>\$ 4,435,000</u>	<u>\$ 1,174,265</u>

Capital Equipment Notes

Capital Equipment Notes are issued for the purchase of capital equipment. They are payable from taxes levied upon all taxable property in the City and are backed by the full faith and credit of the City. Three capital equipment notes with a total original issue amount of \$1,350,000 are currently outstanding as follows:

General Obligation Equipment	Original Amount	Maturities	Rates	Balance at December 31, 2007
Certificate Series 2003A	\$ 305,000	2003-2008	3.12%	\$ 80,000
Certificate Series 2004A	620,000	2004-2009	2.18%	315,000
Certificate Series 2005C	425,000	2005-2009	3.12%	220,000
	<u>\$ 1,350,000</u>			<u>\$ 615,000</u>

Annual debt service requirements to maturity for the capital equipment notes are as follows:

Year	Principal	Interest
2008	\$ 345,000	\$ 13,978
2009	270,000	5,495
	<u>\$ 615,000</u>	<u>\$ 19,473</u>

Change in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 1,035,000	\$ -	\$ (40,000)	\$ 995,000	\$ 100,000
Less: bond discount	(1,851)	-	188	(1,663)	
GO Tax Increment bonds	1,100,000	-	-	1,100,000	25,000
Less: bond discount	(9,110)	-	475	(8,635)	
GO State Aid Street bonds	720,000	-	(80,000)	640,000	80,000
Less: bond discount	(7,379)	-	886	(6,493)	
GO Aquatic Center bonds	2,040,000	-	-	2,040,000	30,000
Less: bond discount	(3,417)	-	170	(3,247)	
Special Assessment bonds	2,485,000	-	(365,000)	2,120,000	360,000
Plus: bond premium	1,240	-	(144)	1,096	
Less: bond discount	(7,176)	-	836	(6,340)	
Notes payable					
Capital equipment	950,000	-	(335,000)	615,000	345,000
Plus: bond premium	1,093	-	(364)	729	
Less: bond discount	(1,206)	-	557	(649)	
Compensated absences	276,725	224,521	(210,460)	290,786	200,000
Long term liabilities	<u>\$ 8,578,919</u>	<u>\$ 224,521</u>	<u>\$ (1,027,856)</u>	<u>\$ 7,775,584</u>	<u>\$ 1,140,000</u>
Business-type activities					
Bonds payable					
Revenue bonds	\$ 4,845,000	\$ -	\$ (410,000)	\$ 4,435,000	\$ 415,000
Less: bond discounts	(27,388)	-	3,253	(24,135)	
Compensated absences	87,652	50,631	(65,980)	72,303	72,303
Long term liabilities	<u>\$ 4,905,264</u>	<u>\$ 50,631</u>	<u>\$ (472,727)</u>	<u>\$ 4,483,168</u>	<u>\$ 487,303</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

G. Designated Unreserved Fund Balance

Fund balances of various funds at December 31, 2007 have been designated for the following purposes:

General Fund:

Unreserved and designated for:

Equipment Replacement and Future Operations \$ 2,548,931

V. 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. The City accounts for its risk management activities in internal service funds. Revenue to these funds is derived from premium charges to user departments and other funds of the City. These charges are then available to pay claims, administrative costs, and insurance premiums.

There has been no significant reduction in insurance coverage from the previous year in any of the City's policies. In addition, there have been no settlements in excess of the City's insurance coverage in any of the prior three fiscal years.

The City is a member of the League of Minnesota Cities Insurance Trust (LMCIT) and has currently placed coverage with them for its general liability and personal property claims. Coverage is provided up to a maximum of \$1,000,000. This coverage has a deductible of \$50,000 per occurrence and a general aggregate annual deductible of \$100,000. Management believes that any incidence of liability is remote.

The City participates in the LMCIT for its workers compensation insurance which is administered by Berkley Administrators. This is a retrospectively rated policy with the premium being based primarily on the City's loss experience. The City has experienced very favorable rates for workers compensation by participating in the program.

The City carries commercial insurance for employee health, life and disability. The City contributes approximately 90% of the premiums through the fund from which the employee is compensated. The City has no risk in excess of premiums paid.

B. Related Organizations

The City Council is also responsible for appointing the members of the Waseca Housing and Redevelopment Authority (WHRA), but the City's accountability for

the WHRA does not extend beyond making board appointments. Complete financial statements are available upon request from the WHRA office at 308 2nd Avenue Northwest, Waseca, MN.

C. Library Services/ Joint Venture

The City of Waseca entered into an agreement with the County Commissioners of Waseca and LeSueur Counties on December 11, 1974 under authority provided for in the Minnesota Statutes to establish a regional library service and provide financial support from real estate tax funds. For the year 2007, the amount of support provided to the library system by the City was \$185,000.

The property and equipment owned by the City and used by the library system is reflected in the governmental activities capital assets. The agreement is perpetual or until rescinded by the actions of any one of the joint venture parties. In the event of termination, each party shall receive title to any and all assets, which it may have held at the time of the effective date of the agreement. All other assets, including books and library materials, shall be divided among the parties on the basis of each party's respective proportion of the financial support provided. The City's share of net assets is not determined annually. Library services are administered under a joint powers board, consisting of nine members (three from each governmental unit selected by the county boards and City Council), each member serving three-year terms. The Library Board determines policies, carries out the fiscal administration, and prepares an annual budget of the regional library system. In summary, this board is administering the library service as a single library system.

Upon review and approval of an annual library budget, each governmental unit contributes funding based on the increase or decrease from the previous year base budget. This budget is approved by the entire library board, and reviewed and approved by the individual governmental units.

The financial information for the Waseca LeSueur Regional Library as of and for the year ended December 31, 2007 is presented as follows:

Total Revenues	\$ 800,271
Total Expenditures	<u>846,836</u>
Change in Net Assets	(46,565)
Net Assets, January 1, 2007	<u>924,825</u>
Net Assets, December 31, 2007	\$ <u>878,260</u>
Total Assets	\$ <u>934,650</u>
Total Liabilities	\$ <u>56,390</u>

Financial statements of the Waseca LeSueur Regional Library are available for review at 408 North State Street, Waseca, MN.

D. Utility Power Purchase Commitment

As a municipal electric utility the City of Waseca provides electricity to most residential, commercial, and industrial electric users in the City. The City does not generate electricity and therefore purchases its entire electrical requirements on a wholesale basis. To ensure a long-term supply of electricity, the City became a charter member of the Southern Minnesota Municipal Power Agency (SMMPA), a municipal corporation of the State of Minnesota formed under Statutes Chapter 453. SMMPA, a consortium of 18 cities with municipal electric utilities, was formed to provide total electrical power and energy requirements for each member as economically as possible.

In May 1981, SMMPA entered into a power sales agreement with all of its participating members to contract for the long-term purchase of electricity. The agreement set forth the terms and conditions to "all requirements" purchase commencing May 1, 1985, and extending to May 1, 1999 after which SMMPA is only required to provide the City's peak demand of that year. Since Council action on August 3, 1999, the City has entered into an amended power sales agreement in which the City will be purchasing power up to the cap at a "base rate". If the City's power needs exceed the peak demand amount, the City will pay an "incremental rate". This incremental rate will apply only to the portion of load that is in excess of base rate billing demand cap (in excess of 491 megawatts). The terms and conditions of the agreement other than "all requirements" will continue until March 1, 2030 and thereafter until terminated by SMMPA or the City.

E. Contingent Liabilities

In connection with the normal conduct of its affairs, the City is involved in various claims, litigations, and judgments. It is expected that the final settlement of these matters will not materially affect the financial statements of the City.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be

determined at this time, although the City expects such amounts, if any, to be immaterial.

F. Employee Retirement Systems

Substantially all City employees are members of retirement plans. The following disclosures are made in accordance with requirements of the Governmental Accounting Standards Board:

Public Employees Retirement Association

Cost Sharing Multiple Employer Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of the City of Waseca are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the PEPFF. The payroll for employees covered by PERF and PEPFF for the year ended December 31, 2007 was \$2,481,416 and \$927,077, respectively. The City's total payroll was \$3,408,493.

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

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

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving

them yet are bound by the provisions in effect at the time they last terminated their public service.

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

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.00%. PEPFF members are required to contribute 7.80% of their annual covered salary in 2007. That rate will increase to 8.60% in 2008. The City of Waseca is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.25% for Coordinated Plan PERF members, and 11.70% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.50% and 12.90%, respectively, effective January 1, 2008. The City's contributions to the Public Employees Retirement Fund coordinated and basic plans for the years ending December 31, 2007, 2006, and 2005 were \$157,352, \$149,101, and \$131,585, respectively.

The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2007, 2006, and 2005 were \$108,468, \$89,317, and \$77,755, respectively. The City's contributions were equal to the contractually required contributions for each year, as set by state statute.

Defined Contribution Plan

Six council members of the City of Waseca 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 the employee and employer contribution rates for those qualified personnel who elect to participate. These statutes are established and amended by the state legislature. 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 twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Waseca during fiscal year 2007 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 2,198	\$ 2,198	5.00%	5.00%	5.00%

3. Waseca Fire Relief Association

Plan Description

Firefighters of the City of Waseca are members of the Waseca Firefighter's Relief Association. Public Employee Retirement System (PERS) is a single-employer defined benefit pension plan administered by the Waseca Fire Relief Association. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries.

The plan was established August 11, 1960 and the Association operates under the provisions of Minnesota Statute chapters 69 and 424. It is governed by a Board of Trustees made up of six members elected by the members of the Association for three-year terms; The Mayor, Finance Director and Fire Chief serve as ex-officio nonvoting members of the board of Trustees.

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

The City may levy taxes on behalf of a single-employer public employee retirement plan operated by the Fire Relief Association for volunteer fire fighters.

The City levies property taxes (for fringe benefits and salaries) at the direction of and for the benefit of the Association and passes through expenditures allocated to the plan in accordance with Minnesota Statutes.

The Waseca Fire Relief Association files an annual state reporting form with the Office of the State Auditor. That report may be obtained by contacting the Waseca Fire Relief Association at 177 2nd Avenue Southeast, Waseca, Minnesota.

Funding Policy

The funding policy provides for contributions from the State of Minnesota and the City in amounts sufficient to accumulate sufficient assets to pay benefits when due. The annual contribution is the sum of the normal cost, the state contribution payment, and the provision for administrative expenses.

The City was not required to make any contributions for the years ended December 31, 2007, 2006, and 2005; however, the City did make

voluntary contributions of \$2,500, \$5,000, and \$5,000, respectively. The contributions are recognized as revenues and expenditures in the Fire Relief Association Fund during the period ending December 31, 2007.

Schedule of Contributions and Expenditures Three Year Period				
Year	Minnesota State Aid Contributions	City of Waseca Contributions	Total Contributions	Total Expenditures
2007	\$ 59,032	\$ 2,500	\$ 61,532	\$ 61,532
2006	66,147	5,000	71,147	71,147
2005	65,588	5,000	70,588	70,588

The Waseca Fire Relief Association is comprised of volunteers; therefore, there are no payroll expenditures, nor covered payroll expenditure calculations.

The City of Waseca has a negative pension obligation (NPO) equal to \$31,741. Although the City has contributed more than its annual required contribution (ARC), the City has incurred a liability that exceeds its assets. The NPO was calculated base on the 2007 accrued liability of \$1,445,697 and Net assets of \$1,413,956. See the Schedule of Funding Progress below:

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Funded (Unfunded) Accrued Liability	Annual Benefits Per Year of Service
12/31/2007	\$ 1,413,956	\$ 1,445,697	97.8%	\$ (31,741)	\$ 2,800
12/31/2006	1,271,627	1,338,589	95.0%	(66,962)	2,800
12/31/2005	1,117,559	1,298,979	86.0%	(181,420)	2,800
12/31/2004	1,012,734	980,251	103.3%	32,483	2,200
12/31/2003	909,432	976,424	93.1%	(66,992)	2,200

Below is a disclosure of the Annual Required Contribution and the contributed percentage.

Year	Annual Required Contribution (ARC)	Percent Contributed
2007	\$ 57,032	104.4%
2006	67,147	107.4%
2005	63,884	107.8%
2004	88,708	100.0%
2003	71,946	100.0%

The Association has adopted an investment policy with regard to investing the financial assets of all funds in depositories and securities. The Association's investment rates of return are based on the total investment income as a percentage of the total net assets held in trust for pension benefits. The following shows the investment income or the interest on the NPO for the last five years.

Year	Investment Income	Appreciation of Investments	Total Investment Income	Net Assets Held in Trust for Pension Benefits	Investment Rate of Return
2007	\$ 78,065	\$ 4,732	\$ 82,797	\$ 1,413,956	6.5%
2006	58,828	77,702	136,530	1,271,627	12.2%
2005	29,686	8,875	38,561	1,117,559	3.8%
2004	26,828	42,570	69,398	1,012,734	7.6%
2003	29,611	101,381	130,992	909,432	16.2%

G. Post-Employment Benefits

The City provides no post-employment benefits for health care, life insurance, or other employee assistance programs except for certain public safety employees. The City must bear a substantial portion of health insurance costs for public safety employees who are injured in the line of duty and permanently disabled. The City must pay health insurance premiums for these employees and their dependents, if required, until age 65. The City has two public safety employees presently entitled to these benefits. Expenditures for post employment benefits made in 2007 were \$22,615. Qualified former employees and their dependents

may remain enrolled in benefit plans provided they pay the full premiums, based on the same rates charged for active employees. There are approximately five such participants covered on the City's plan at any given time. The City will contract with an independent consultant to provide GASB 45 actuarial calculations; no amounts are available at this time.

VI. Prior Period Adjustment

In 2007, while reconciling construction in progress in the Water Park Construction Fund, it was discovered that prior year (2005 – 2006) professional and contractual services related to the construction of the water park were not capitalized; therefore, beginning net assets in the government-wide statements were increased by \$430,766.