

**CITY OF ALBERT LEA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2006**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. 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.

The City has implemented GASB Statement 44 Economic Condition Reporting: The Statistical Section. This statement is intended to improve consistency and comparability in the information provided in the statistical section. The objectives of statistical section information are to provide financial statement users with additional historical perspective, context, and detail to assist in understanding and assessing a government's economic condition.

**A. Reporting Entity**

The City of Albert Lea was incorporated by passage of an act by the Legislature of the State of Minnesota and ratified by an election of the voters of the City. The incorporation of the City was effective April 1, 1878 with the adoption of the first Charter. The area of the City on incorporation was 1.2 square miles and the first census of 1880 showed a population of 3,365. 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 Port Authority of the City of Albert Lea), an entity for which the government is considered financially accountable.

**Individual Component Unit Disclosures**

*Discretely Presented Component Units* – The Port Authority of the City of Albert Lea is governed by seven commissioners who are appointed by the Albert Lea City Council. The City is considered financially accountable for the Port Authority because the City Council approves their annual budget. The Port Authority is comprised of two funds, the general fund and the real estate fund. Separately issued financial statements are available upon request from the Finance Director of the City at 221 East Clark Street, Albert Lea, MN.

**B. Basic Financial Statements**

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. 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.

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The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity are 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. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into 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 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible with 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 after 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 payment is due.

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

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 reported in another fund.

*TIF 5-13 Larson Manufacturing fund*

This fund was established to account for tax increment financing activities relative to property acquisition, public improvements, and site improvements to assist with development within the district.

*TIF 5-15 Broadway Ridge Redevelopment fund*

This fund was established to account for tax increment financing activities relative to the redevelopment of the downtown area.

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*PIR assessments debt service fund*

This is used to accumulate PIR assessment revenues collected for payment of PIR bonds 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.

*PIR assessments fund*

This accounts for the revenues and expenditures used in PIR assessment capital projects.

*Capital projects fund*

This accounts for the construction of capital assets which are financed from various sources other than special assessment debt.

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.

*Sewage disposal fund*

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

Additionally, the City reports the following fund types:

Internal service funds account for services and/or commodities provided to other departments of the City on a cost reimbursement basis. The City has three internal service funds. The central garage fund provides for the operation and maintenance of motor vehicle equipment of the City. The administrative services fund provides for services such as data processing, photocopying, telecommunications, and postage to other departments of the City. The insurance fund provides for risk management activities for workers compensation insurance and the activities of our group health plan.

Fiduciary funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, and other governmental units and funds. The city has custodial responsibilities for one agency fund. The local sales tax fund accounts for the additional half percent sales tax collected for the Shell Rock River Watershed District. The state collects and remits the sales tax to the City who in turn remits it to the watershed district.

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues 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 nonoperating 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.

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**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, SEC registered money market funds consisting of investments authorized by Minnesota State Statute, or in obligations of the Federal Government and its agencies 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 are stated at fair value as of the end of the year, except for non-negotiable certificates of deposit, which are stated at cost and the 4M Fund which is valued at amortized cost. Also, investment in real property is valued at its estimated market value on the date that it was received.

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 Freeborn 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 July and December. Adjustments are made to delinquent taxes based on the records of the County Auditor.

Delinquent taxes represent unpaid taxes for the past six years. The City does not realize prior year delinquencies in the following year soon enough to make them available to meet current year expenditures. Provisions are made in the annual budgets to recognize delinquent taxes as revenue and are used for expenditures in the year received.

**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.

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**4. Advances for Future Assessment**

Long-term assessments receivable, as reported in the fund financial statements, are offset equally by a deferred revenue account which indicates that they are not considered to be available to liquidate liabilities of the current period.

**5. Inventories**

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

**6. Restricted Assets**

Certain assets of the general fund are classified as restricted assets because their use is completely restricted according to the plan of expenditure the City was required to file with the state auditor. The state auditor will be auditing these assets periodically. These funds are offset by a reserve of fund balance in the fund financial statements to indicate that they are not available for appropriation and are not expendable available financial resources.

**7. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, street lights, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$500 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 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. A composite depreciation rate is used for infrastructure assets. Depreciation on the remaining capital assets is provided on the straight-line basis over the following estimated useful lives:

|                                   |             |
|-----------------------------------|-------------|
| Buildings                         | 25-50 years |
| Improvements Other than Buildings | 15-50 years |
| Water Distribution System         | 40-75 years |
| Sewer Collection System           | 40-75 years |
| Machinery and Equipment           | 3-20 years  |
| Vehicles                          | 3-15 years  |
| Infrastructure                    | 20-80 years |

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**8. Patronage Equity**

The enterprise funds purchase electrical power from a cooperative which grants yearly patronage capital credit allocations to its customers. Capital credits represent the customer's share of ownership in the cooperative. They are held by the cooperative until retired by action of the cooperative's board of directors, at which time the customer will receive a capital credit refund check. Capital credit allocations are recognized in the year that they are received.

**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**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. 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 fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost, 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 generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

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**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. 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 fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “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 (\$9,593,172) difference are as follows:

|                          |                               |
|--------------------------|-------------------------------|
| Bonds and notes payable  | \$8,448,919                   |
| Accrued severance pay    | 1,015,707                     |
| Accrued interest payable | <u>128,546</u>                |
| <br>Total difference     | <br><u><u>\$9,593,172</u></u> |

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Revenues on the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$1,233,863 difference are as follows:

|   |                               |
|---|-------------------------------|
| Delinquent taxes rec. deferred revenue:   |                               |
| At December 31, 2005                      | \$(82,914)                    |
| At December 31, 2006                      | 115,605                       |
| <br>Special assessments deferred revenue: |                               |
| At December 31, 2005                      | (4,220,798)                   |
| At December 31, 2006                      | <u>5,421,970</u>              |
|   | <br><u><u>\$1,233,863</u></u> |

Another element of that reconciliation states that “Some expenses reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.” The details of this \$(15,186) difference are as follows:

|                                     |                              |
|-------------------------------------|------------------------------|
| Amortization of bond issuance costs | \$(4,078)                    |
| Amortization of bond premium        | 2,174                        |
| Accrued interest                    | (11,438)                     |
| Accrued severance pay               | <u>(1,844)</u>               |
|                                     | <br><u><u>\$(15,186)</u></u> |

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**III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Legal Compliance – Budgets**

The City's budget is prepared for the general fund on the modified accrual basis of accounting with one exception. Wages are reported on a cash basis. Annual appropriated budgets are adopted for the general fund only. Any modification in the adopted budget can be made upon request of and approval by the City Council. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

On or before July 1 of each year, all agencies of the City submit requests for appropriation to the City Manager so that a budget may be presented. The budget is prepared for the general fund by function and activity and also includes information on the preceding two fiscal years, current year estimates of expenditures and requested appropriations for the next fiscal year.

The proposed budget is presented to the City Council for review at their last meeting in August. 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 28 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. During 2006, changes in appropriations were approved by the City Council in the amount of \$426,185. The following is a list of departments that had changes to their original appropriations:

| Department                  | Explanation                        | Amount   |
|-----------------------------|------------------------------------|----------|
| Police                      | Mobile data system                 | \$98,850 |
| Inspection                  | Wages (offset by revenue increase) | 12,000   |
| Engineering                 | Aerial photography savings         | (40,000) |
| Airport                     | Runway relocation (grant funds)    | 175,000  |
| Senior Citizens Center      | Wages                              | 2,000    |
| Arena                       | Wages, repairs & utilities         | 20,000   |
| Theater                     | Wages                              | 2,000    |
| Park                        | H.S. tennis courts, transportation | 80,000   |
| Library                     | Transfer bequests to foundation    | 62,335   |
| Tourism & Convention Bureau | Increase in lodging tax revenue    | 6,600    |
| Note Payments               | Additional note payable            | 6,900    |
| Interest Payments           | Additional note payable            | 500      |

**B. Deficit Fund Equity**

At year end 2006, there were seven Special Revenue Funds that carried deficit fund balances. These funds are tax increment financing funds that were funded by the City through interfund loans rather than through the issuance of bonds. These deficit fund balances will be reduced and eliminated over time as the increment from the levies is used to retire the various loans.

The following funds carried deficit fund balances at the end of 2006 in the amounts indicated:

|  |           |
|--|-----------|
| TIF 5-7 East Main Redevelopment Fund       | \$377,496 |
| TIF 5-8 Northside Redevelopment Fund       | 43,814    |
| TIF 5-12 Mrs. Gerry's Fund                 | 38,919    |
| TIF 5-13 Larson Mfg Fund                   | 1,753,842 |
| TIF 5-15 Broadway Ridge Redevelopment Fund | 834,213   |
| TIF 5-16 Albert Lea Warehouse Fund         | 7,744     |
| TIF 6-1 Newbury Development Fund           | 80,421    |

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**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 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, 2006. At year-end, the carrying amount of the City's deposits was \$10,614,505 and the bank balance was \$10,611,809. Of the total bank balance, the FDIC covered \$10,184,000. The remainder was covered by collateral with a value of \$531,487.

*Investments.* State statutes and city resolutions authorize the City's investments. The City is authorized by state statute to invest 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, insured or collateralized certificates of deposit, and SEC registered money market funds consisting of investments authorized by Minnesota state statute. The City's investments as of December 31, 2006 are as follows:

|                                    | Fair Value   | Weighted Average<br>Maturity (in Years) |
|------------------------------------|--------------|---|
| <u>INVESTMENTS :</u>               |              |   |
| United States Treasury Obligations | \$1,236,930  | 6.53                                    |
| United States Government Agencies  | 13,434,515   | 15.34                                   |
| MN Municipal Money Market          | 11,273,064   | .10                                     |
| Total investments                  | \$25,944,509 |   |
| Weighted Average Maturity          |              | 8.30                                    |

Reconciliation of deposits and investments to Statement of Net Assets:

|   |              |
|---|--------------|
| Deposits  | \$10,614,505 |
| Investments                                     | 25,944,509   |
| Total deposits and investments                  | \$36,559,014 |
| <u>Per Statement of Net Assets:</u>             |              |
| Cash and cash equivalents                       | \$11,767,759 |
| Investments                                     | 14,220,808   |
| Restricted cash and cash equivalents            | 35,811       |
| Restricted investments                          | 10,534,636   |
| Total cash and cash equivalents and investments | \$36,559,014 |

*Interest rate risk.* The City's investment policy states that not more than twenty percent of the City's unrestricted unreserved funds may be invested in obligations with maturities in excess of one year. The City's investment policy does not address a method of computation to be used. The City's investments include callable investments. For the weighted average maturity calculations, the city assumes that its callable investments will not be called.

*Credit risk.* Credit risk is the risk that an issuer to an investment will not fulfill its obligation. State law limits investments in state and local securities and commercial paper to those with specified rating by nationally recognized rating agencies. The City of Albert Lea further limits its investments to not allow any investments in state and local securities and commercial paper. U.S. Treasury Obligations are not considered to have credit risk. U.S. Government Agencies all carry the following credit ratings:

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| <b>Rating</b>                                | <b>Market Value</b> |
|--|---------------------|
| AAA  | \$11,872,168        |
| Unrated with AAA rated underlying securities | <u>1,562,347</u>    |
| <b>Total</b>                                 | <u>\$13,434,515</u> |

The U.S. Government Agencies which are unrated are comprised of “stripped” securities for which the underlying agency notes are all AAA rated. The underlying agency’s rating is considered to pass through to the “stripped” bond.

The Minnesota Municipal Money Market Trust Fund (4M Fund) is a common law trust organized in accordance with the Minnesota Joint Powers Act, which invests only in investment instruments allowable under Minnesota statutes as described above. Its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments. The 4M Fund does not have its own credit rating. MBIA, who administers the 4M Fund holds an organization credit rating of AA by Standard & Poor’s.

*Concentration risk.* The City does not hold five percent or more in securities of a single issuer and therefore has no concentration risk.

**B. Receivables**

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

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 two components of deferred revenue reported in the governmental funds were for delinquent taxes receivable not yet available (general, special revenue and debt service funds) and special assessments not yet available (debt service fund) for the amounts of \$115,605 and \$5,421,970 respectively.

**C. Loans Receivable**

The City operates an economic revolving loan fund. The purpose of this fund is to issue loans that serve as gap financing to projects whose purpose it is to create economic development within the city. The funds that are available for these loans originated as grants from the state or federal government. The total balance of these loans at December 31, 2006 was \$1,393,216 which consists of loans maturing in two to twenty-nine years with interest ranging from zero to 5 percent. There were three new loans in 2006 as follows:

The City provided \$200,000 in financing to Lou-Rich for an expansion project. This loan is to be repaid over a seven year period at an interest rate of 4%.

The City provided \$160,000 to Church Offset Printing for a production expansion project. This loan is to be repaid over a five year period at an interest rate of 5%.

The City provided \$26,000 to Marketing Plus for a production expansion project. This loan is to be repaid over a five year period at an interest rate of 5%.

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**D. Capital Assets**

Capital asset activity for governmental activities for the year ended December 31, 2006 was as follows:

|   | Beginning<br>Balances | Transfer from<br>Other funds | Increases          | Decreases      | Ending<br>Balances  |
|---|-----------------------|------------------------------|--------------------|----------------|---------------------|
| Land  | \$2,509,353           | \$66,145                     | \$919,095          |                | \$3,494,593         |
| Depreciable capital assets:                 |                       |                              |                    |                |                     |
| Buildings                                   | 10,697,625            | 327,978                      | 1,005,392          | \$51,432       | 11,979,563          |
| Improvements Other than Bldgs               | 2,753,804             | 240,141                      | 274,288            | 5,250          | 3,262,983           |
| Equipment                                   | 10,750,004            | 19,095                       | 1,565,390          | 826,651        | 11,507,838          |
| Infrastructure                              | 24,404,086            | 2,990,404                    | 1,232,300          | 19,487         | 28,607,303          |
| Total depreciable                           | <u>48,605,519</u>     | <u>3,577,618</u>             | <u>4,077,370</u>   | <u>902,820</u> | <u>55,357,687</u>   |
| Accumulated Depreciation                    |                       |                              |                    |                |                     |
| Buildings                                   | 5,572,104             | 187,931                      | 324,773            | 50,233         | 6,034,575           |
| Improvements Other than Bldgs               | 1,599,446             | 31,396                       | 137,731            | 5,250          | 1,763,323           |
| Equipment                                   | 7,052,651             | 16,745                       | 1,125,879          | 823,487        | 7,371,788           |
| Infrastructure                              | 17,936,668            | 1,138,354                    | 450,838            | 19,487         | 19,506,373          |
| Total accumulated depreciation              | <u>32,160,869</u>     | <u>1,374,426</u>             | <u>2,039,221</u>   | <u>898,457</u> | <u>34,676,059</u>   |
| Governmental activities capital assets, net | <u>\$18,954,003</u>   | <u>\$2,269,337</u>           | <u>\$2,957,244</u> | <u>\$4,363</u> | <u>\$24,176,221</u> |

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

|  |                    |
|--|--------------------|
| General government                             | \$89,849           |
| Police   | 113,640            |
| Fire and inspection                            | 26,452             |
| Public works                                   | 597,371            |
| Parks and recreation                           | 370,656            |
| Library  | 122,888            |
| Community development                          | 1,557              |
| Internal service funds                         | 716,808            |
| Total depreciation for governmental activities | <u>\$2,039,221</u> |

Capital asset activity for business-type activities for the year ended December 31, 2006 was as follows:

|  | Beginning<br>Balances | Transfer to<br>Other funds | Increases         | Decreases     | Ending<br>Balances  |
|--|-----------------------|----------------------------|-------------------|---------------|---------------------|
| Land   | \$959,244             | \$66,145                   |                   |               | \$893,099           |
| Depreciable capital assets:                  |                       |                            |                   |               |                     |
| Buildings                                    | 34,015,303            | 327,978                    | \$291,500         |               | 33,978,825          |
| Improvements Other than Bldgs                | 25,829,577            | 240,141                    | 828,458           | \$8,508       | 26,409,386          |
| Equipment                                    | 2,259,464             | 19,095                     | 37,964            | 18,835        | 2,259,498           |
| Infrastructure                               | 2,990,404             | 2,990,404                  |                   |               | 5,980,808           |
| Total non-depreciable                        | <u>65,094,748</u>     | <u>3,517,618</u>           | <u>1,157,922</u>  | <u>27,343</u> | <u>62,597,982</u>   |
| Accumulated Depreciation                     |                       |                            |                   |               |                     |
| Buildings                                    | 8,191,366             | 187,931                    | 719,204           |               | 8,722,639           |
| Improvements Other than Bldgs                | 12,179,821            | 31,396                     | 292,010           | 8,508         | 12,431,927          |
| Equipment                                    | 1,758,079             | 16,745                     | 157,418           | 15,108        | 1,883,644           |
| Infrastructure                               | 1,138,354             | 1,138,354                  |                   |               | 2,276,708           |
| Total accumulated depreciation               | <u>23,267,620</u>     | <u>1,334,426</u>           | <u>1,168,632</u>  | <u>23,616</u> | <u>23,038,210</u>   |
| Business-type activities capital assets, net | <u>\$42,786,372</u>   | <u>\$2,269,337</u>         | <u>\$(10,710)</u> | <u>3,727</u>  | <u>\$40,502,598</u> |

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

|   |                           |
|---|---------------------------|
| Water   | \$194,873                 |
| Sewer   | 969,257                   |
| Solid waste management                          | 1,146                     |
| Parking   | <u>3,356</u>              |
| Total depreciation for business-type activities | <u><u>\$1,168,632</u></u> |

**E. Interfund Balances and Transfers**

The composition of interfund balances as of December 31, 2006 is as follows:

***Advances to/from other funds***

| Receivable Fund | Payable Fund                       | Amount                    |
|-----------------|------------------------------------|---------------------------|
| General Fund    | PIR Assessments Fund               | \$1,022,509               |
| General Fund    | TIF 5-13 Larson Mfg Fund           | 6,500                     |
| General Fund    | TIF 5-15 Broadway Ridge Redev Fund | 1,665,740                 |
| General Fund    | Nonmajor Govtl. Funds              | 1,602,231                 |
| General Fund    | Nonmajor Enterprise Fund           | <u>134,260</u>            |
| Total           |                                    | <u><u>\$4,431,240</u></u> |

The general fund made advances to several tax increment financing funds rather than have those funds issue bonds. These advances will be repaid over time through increment from the tax levies. The general fund is holding deferred assessments for the capital projects funds. These are treated as advances to the capital projects funds. When these assessments are no longer deferred these advances will be repaid by the capital projects funds.

***Interfund transfers***

|                       | Transfers Out             |                         |                             |                          | Total                     |
|-----------------------|---------------------------|-------------------------|-----------------------------|--------------------------|---------------------------|
|                       | General Fund              | Capital Projects Fund   | Nonmajor Governmental Funds | Nonmajor Enterprise Fund |                           |
| Transfers In:         |                           |                         |                             |                          |                           |
| General Fund          |                           |                         | \$15                        |                          | \$15                      |
| PIR Assess Fund       |                           | \$759,162               |                             | \$61,077                 | 820,239                   |
| Capital Projects Fund | \$1,040,000               |                         |                             | 92,123                   | 1,132,123                 |
| Nonmajor Govtl        |                           |                         | \$65,182                    |                          | 65,182                    |
| Nonmajor Enterprise   | 100,000                   |                         |                             |                          | 100,000                   |
| Internal Serv Fund    | <u>240,000</u>            |                         |                             |                          | <u>240,000</u>            |
|                       | <u><u>\$1,380,000</u></u> | <u><u>\$759,162</u></u> | <u><u>\$48,178</u></u>      | <u><u>\$153,200</u></u>  | <u><u>\$2,357,559</u></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 City made a transfer of \$1,040,000 from the general fund to the capital projects fund in order to complete several pending projects.

In the year ended December 31, 2006, the City had a one-time transfer of capital assets from two of their enterprise funds to the general fund in the amount of \$2,269,337. The operations of these two enterprise funds were returned to the general fund beginning January 1, 2006.

**CITY OF ALBERT LEA, MINNESOTA**  
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Additionally, payments in lieu of taxes paid by the Water, Sewer, Solid Waste Management, and Parking Funds have been reclassified on the Government-Wide Statement of Activities as transfers from these funds to the General Fund as follows:

|                        |                             |
|------------------------|-----------------------------|
| Water                  | \$33,790                    |
| Sewer                  | 87,020                      |
| Solid Waste Management | 690                         |
| Parking                | <u>2,900</u>                |
| <br>Total              | <br><u><u>\$124,400</u></u> |

**F. Long-term Debt**

**Advance from Component Unit**

In October 2006, the City of Albert Lea received an advance from the Albert Lea Port Authority, a component unit, in the amount of \$1,750,000. This advance was in exchange for the purchase of land from the Albert Lea Port Authority in the amount of \$1,750,000 for immediate resale to Larson Manufacturing for \$1. Repayment of this advance will be made solely from available tax increment. Tax increment is expected to be received beginning in 2016. This is a zero percent interest advance. To the extent available tax increment is insufficient to repay the principal amount outstanding, the outstanding balance shall be forgiven by the Albert Lea Port Authority.

**PIR Assessment Bonds**

PIR 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. Three PIR assessment bond issues with a total original issue amount of \$6,380,000 are currently outstanding as follows:

|                                    |           |            |                           |
|------------------------------------|-----------|------------|---------------------------|
| Permanent Improvement Series 2000A | 2007-2016 | 4.65-5.20% | \$1,250,000               |
| Permanent Improvement Series 2001A | 2007-2017 | 3.75-5.00% | 1,835,000                 |
| Permanent Improvement Series 2004A | 2007-2014 | 2.50-4.00% | <u>1,080,000</u>          |
|                                    |           |            | <u><u>\$4,165,000</u></u> |

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

| Year      | Governmental Activities   |                         |
|-----------|---------------------------|-------------------------|
|           | Principal                 | Interest                |
| 2007      | \$685,000                 | \$160,614               |
| 2008      | 520,000                   | 138,174                 |
| 2009      | 505,000                   | 118,698                 |
| 2010      | 490,000                   | 99,098                  |
| 2011      | 470,000                   | 82,634                  |
| 2012-2016 | 1,395,000                 | 171,171                 |
| 2017      | <u>100,000</u>            | <u>2,500</u>            |
|           | <u><u>\$4,165,000</u></u> | <u><u>\$772,889</u></u> |

**Capital Improvement Assessment Bonds**

Capital Improvement 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. One capital improvement assessment bond issue with an original issue amount of \$3,715,000 is currently outstanding as follows:

|                                    |           |            |                           |
|------------------------------------|-----------|------------|---------------------------|
| Permanent Improvement Series 2005A | 2007-2021 | 3.50-3.80% | <u><u>\$3,715,000</u></u> |
|------------------------------------|-----------|------------|---------------------------|

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

| Year      | Governmental Activities |             |
|-----------|-------------------------|-------------|
|           | Principal               | Interest    |
| 2007      | \$205,000               | \$130,640   |
| 2008      | 230,000                 | 123,028     |
| 2009      | 230,000                 | 114,977     |
| 2010      | 230,000                 | 106,927     |
| 2011      | 250,000                 | 98,528      |
| 2012-2016 | 1,255,000               | 359,203     |
| 2017-2021 | 1,315,000               | 117,943     |
|           | \$3,715,000             | \$1,051,246 |

**Minnesota State Armory Building Commission Bonds**

During 1989 the City entered into an agreement for joint financing with the State of Minnesota and the County of Freeborn for a new armory building in the City. The Agreement provided that the City levy an irrevocable levy not to exceed one-third mill to provide \$18,500 to be paid to the State of Minnesota as the City share of financing. The agreement requires a tax levy by the City through 2007 at which time the debt will be paid.

The City is required to remit to the State, annually, its share of the debt service retirement for the following year. The bonds carry an interest rate of 8.50%. The original issue amount was \$178,500. The principal balance outstanding on the bonds at December 31, 2006 is \$16,800.

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

| Year | Governmental Activities |          |
|------|-------------------------|----------|
|      | Principal               | Interest |
| 2007 | \$16,800                | \$1,700  |

**Notes Payable**

The City received financing from the local utility company for the second sheet of ice project in the amount of \$636,870 payable over a ten-year period of time at an interest rate of one percent. The payments are appropriated annually in the General Fund. The energy savings of the project are considered to be at least equal to the City's annual payments.

The City received financing from the local utility company for LED light replacement and purchase of a rotary drum thickener at the waste treatment plant in the amount of \$185,000 payable over a five-year period of time at an interest rate of one percent. The payments are appropriated annually in the General Fund. The energy savings of the project are considered to be at least equal to the City's annual payments.

The City received financing from the local utility company for a light replacement project at the city arena in the amount of \$36,000 payable over a five year period of time at an interest rate of two percent. The energy savings of the project are considered to be at least equal to the City's annual payments.

The City received financing from the local rural electric cooperative for a capital project to extend city water and sewer services to the East Main area of town in the amount of \$360,000, without interest, payable over a ten year period of time.

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The notes currently outstanding are as follows:

| Governmental Activities                     |           |       |         |
|---|-----------|-------|---------|
| Alliant Energy – Arena project              | 2007-2008 | 1.00% | 116,122 |
| Alliant Energy – LED light replacement      | 2007-2008 | 1.00% | 68,884  |
| Alliant Energy – Arena lighting replacement | 2007-2010 | 2.00% | 29,085  |
| Freeborn-Mower Electric – utility extension | 2007-2015 | 0.00% | 315,000 |
|   |           |       | 529,091 |

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

| Year      | Governmental Activities |          |
|-----------|-------------------------|----------|
|           | Principal               | Interest |
| 2007      | \$149,582               | \$1,894  |
| 2008      | 124,676                 | 769      |
| 2009      | 43,342                  | 230      |
| 2010      | 43,491                  | 81       |
| 2011      | 36,000                  |          |
| 2012-2015 | 132,000                 |          |
| Total     | \$529,091               | \$2,974  |

**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 Sewage Disposal Fund is currently carrying bonds payable for the construction of the Sewage Treatment Plant. These bonds had an original issue amount of \$1,445,000. The Water fund is currently carrying bonds for the construction of the South Water Treatment Plant. These bonds had an original issue amount of \$1,600,000. The bonds from both of 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:

| Business-type Activities             |           |            |             |
|--------------------------------------|-----------|------------|-------------|
| Revenue Bonds Series 2001            | 2007-2021 | 4.00-5.00% | \$1,320,000 |
| Revenue Refunding Bonds Series 1996A | 2007-2010 | 4.55-4.90% | 665,000     |
|                                      |           |            | \$1,985,000 |

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

| Year      | Business-type Activities |           |
|-----------|--------------------------|-----------|
|           | Principal                | Interest  |
| 2007      | \$215,000                | \$89,496  |
| 2008      | 225,000                  | 79,810    |
| 2009      | 240,000                  | 69,370    |
| 2010      | 250,000                  | 58,010    |
| 2011      | 75,000                   | 50,660    |
| 2012-2016 | 430,000                  | 199,836   |
| 2017-2021 | 550,000                  | 84,900    |
| Total     | \$1,985,000              | \$632,082 |

**CITY OF ALBERT LEA, MINNESOTA**  
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**Change in Long-term Liabilities**

Long-term liability activity for the year ended December 31, 2006 was as follows:

|   | Beginning<br>Balance | Increase           | Decrease           | Ending<br>Balance   | Due Within<br>One Year |
|---|----------------------|--------------------|--------------------|---------------------|------------------------|
| <b>Governmental Activities</b>                  |                      |                    |                    |                     |                        |
| Advance from Component Unit Bonds Payable       |                      | \$1,750,000        |                    | \$1,750,000         |                        |
| G.O. Tax Increment Bonds                        | \$125,000            |                    | \$125,000          |                     |                        |
| PIR Assessment Bonds                            | 4,855,000            |                    | 690,000            | 4,165,000           | \$685,000              |
| Plus: bond premium                              | 8,463                |                    | 1,058              | 7,405               | 1,058                  |
| Cap Imp Assessment Bonds                        | 3,715,000            |                    |                    | 3,715,000           | 205,000                |
| Plus: bond premium                              | 16,739               |                    | 1,116              | 15,623              | 1,116                  |
| MN State Armory Bonds(City Share)               | 31,500               |                    | 14,700             | 16,800              | 16,800                 |
| Note Payable                                    | 671,504              |                    | 142,413            | 529,091             | 149,582                |
| Accrued Severance Pay                           | 1,013,863            | 707,071            | 705,227            | 1,015,707           | 61,821                 |
| Governmental Activity<br>Long-term liabilities  | <u>\$10,437,069</u>  | <u>\$2,457,071</u> | <u>\$1,679,514</u> | <u>\$11,214,626</u> | <u>\$1,120,377</u>     |
| <b>Business-type Activities</b>                 |                      |                    |                    |                     |                        |
| Bonds Payable                                   |                      |                    |                    |                     |                        |
| Revenue Bonds                                   | \$1,380,000          |                    | \$60,000           | \$1,320,000         | \$60,000               |
| Revenue Refunding Bonds                         | 815,000              |                    | 150,000            | 665,000             | 155,000                |
| Less: bond discounts                            | (10,851)             |                    | (1,492)            | (9,359)             | (1,347)                |
| Notes Payable                                   | 17,851               |                    | 17,851             |                     |                        |
| Total notes & bonds payable                     | <u>2,202,000</u>     |                    | <u>226,359</u>     | <u>1,975,641</u>    | <u>213,653</u>         |
| Accrued Severance Pay                           | 203,931              | 111,435            | 124,057            | 191,309             | 14,559                 |
| Business-type Activity<br>Long-term liabilities | <u>\$2,405,931</u>   | <u>\$111,435</u>   | <u>\$350,416</u>   | <u>\$2,166,950</u>  | <u>\$228,212</u>       |

For the governmental activities, accrued severance pay is generally liquidated by the general fund.

**Conduit Debt Obligations**

From time to time, the City has issued Industrial Development Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from revenues of the industries to which the bonds were remitted. The City is not obligated in any matter for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2006, there were two outstanding bond issues with an original issue amount of \$5,960,000 and a balance of \$5,750,000.

**G. Leases**

OPERATING

As Lessor:

The City entered into an agreement with Western Star Lodge #26, A.F. & A.M. of Minnesota on May 2, 1980 whereby Western Star Lodge sold to the City of Albert Lea their building in exchange for a 50 year lease on the third floor of the building for their exclusive use as compensation for the building. This lease expires April 30, 2030.

The City leases to Midwest Wireless space on a water tower for an antenna. The City receives \$10,800 annually as per the terms of the lease agreement which expires on July 31, 2007. This lease provides for two five-year options to extend the lease.

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The City leases to U.S. Cellular space on a water tower for an antenna. The City receives \$12,000 annually as per the terms of the lease agreement which expires on February 29, 2008. This lease provides for five five-year options to extend the lease.

These leases are accounted for as operating leases. Annual commitments on long-term leases are as follows:

|       | As Lessor: |
|-------|------------|
| 2007  | \$18,300   |
| 2008  | 2,000      |
| Total | \$20,300   |

**H. Designated unreserved fund balance**

The City has designated a portion of general fund balance for the following purposes:

|                       |             |
|-----------------------|-------------|
| Capital improvements  | \$2,650,000 |
| Note Payable          | 214,091     |
| Accrued severance pay | 1,015,707   |
| Other                 | 70,000      |
|                       | \$3,949,798 |

**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 an internal service fund. Revenue to this fund is derived from premium charges to user departments, employees, 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 \$50,000 annual deductible. The general fund appropriates \$50,000 annually to cover all claims against this deductible.

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 this program and maintaining an excellent experience modification factor.

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The City maintains a self-insurance program for employee group health coverage. The City bases their premiums on actuarial estimates by Blue Cross Blue Shield of the amount needed to pay claims based on the number of employees and their claims history. The City charges a 125% attachment factor in order to protect itself during an unusually high claims year. The City also carries two stop-loss policies to protect itself from catastrophe losses. The first is for all claims over \$70,000 per employee per year. The second is an annual aggregate for any claims exceeding \$1,538,400 for the year. The City recognizes a liability on individual claims when a claim is probable and the amount can be reasonably estimated. In addition, the City recognizes an estimated liability on claims that have been incurred but have not been reported. The total liability recorded at December 31, 2006 was \$150,000. The City terminated their self-insurance plan as of January 1, 2007. They will be fully insured as of that date.

Changes in the City's claims liability were as follows:

|  | <u>2006</u>        | <u>2005</u>        | <u>2004</u>        |
|--|--------------------|--------------------|--------------------|
| Claims liability at January 1              | \$150,000          | \$225,000          | \$225,000          |
| Current year claims and change in estimate | 1,233,851          | 1,621,119          | 1,283,524          |
| Payments on claims                         | <u>(1,233,851)</u> | <u>(1,696,119)</u> | <u>(1,283,524)</u> |
| Claims liability at December 31            | <u>\$150,000</u>   | <u>\$150,000</u>   | <u>\$225,000</u>   |

**B. Commitments and 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, principally the federal government. 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.

Between the years of 1956 and 1972, the City used an area on the north end of Edgewater Park as a public dump as well as a public burning dump. Preliminary testing by the MPCA has shown ground and storm water contamination. The MPCA has devised a remediation plan for cleanup. The MPCA has been awarded \$3,650,000 in funding through the State's Landfill Clean-up Fund to be used on this Albert Lea dump site. The MPCA is pursuing additional funding of approximately \$2.5 million from the State to complete the remediation. The net cost to the City can not be determined at this time but is not considered to be significant.

During 2006, the City underwent a sales tax audit by the Department of Revenue. The department of Revenue issued a report of their findings indicating the city had a potential liability of \$456,273. The City responded to the state's audit report indicating their liability to be closer to \$66,500. The City has accrued \$66,500 for this liability for the period ended December 31, 2006. The City is confident that their liability will not be in excess of the amount accrued.

During 2005, the City was notified by the Office of the State Auditor (OSA) of their finding of non-compliance regarding TIF District 5-5. The OSA alleges the City improperly spent \$192,945 of tax increment from TIF District 5-5 through December 31, 2003. This amount would be \$282,636 through December 31, 2005. This matter of non-compliance was the result of an interpretive difference on whether the plan budget needed to be modified if tax increments exceeded their original estimate. The funds were all spent on public purpose. This matter has been turned over to the County Attorney's office and the City is confident in a favorable outcome.

**CITY OF ALBERT LEA, MINNESOTA**  
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**C. Deferred Compensation Plan**

The City of Albert Lea offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**D. 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 Albert Lea are covered by defined benefit pension 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, fire fighters 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, 2006 was \$4,196,124 and \$2,543,819, respectively. The City's total payroll was \$7,416,744.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten 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 for 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 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.

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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](http://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 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 9.1% and 5.5%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. PEPFF members are required to contribute 7.0% of the annual covered salary in 2006. That rate will increase to 7.8% in 2007. The City of Albert Lea is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.0% for Coordinated Plan PERF members, and 10.5% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.25% and 11.7% respectively, effective January 1, 2007. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005, and 2004 were \$251,707, \$231,908, and \$225,173, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2006, 2005, and 2004 were \$267,101, \$230,071, and \$227,250, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**Defined Contribution Plan**

One council member of the City of Albert Lea is 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. 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 Albert Lea during fiscal year 2006 were:

| Contribution Amount |          | Percentage of Covered Payroll |          | Required |
|---------------------|----------|-------------------------------|----------|----------|
| Employee            | Employer | Employee                      | Employer | Rates    |
| \$400               | \$400    | 5.0%                          | 5.0%     | 5.0%     |