

CITY OF ARLINGTON, MINNESOTA  
**CITY OFFICIALS**  
 YEAR ENDED DECEMBER 31, 2006

David Czech	Mayor	12/31/06
David L. Krueger	City Clerk, Treasurer	12/31/06
Ross Arneson	City Attorney	12/31/06
Dean Bergersen, M.D.	Health Officer	12/31/06
Calvin Roberts	City Assessor	12/31/06
Douglas Reker	Hospital Administrator	Indefinite

**CITY COUNCIL**

Curtis Reetz	Alderman	12/31/06
Greggory Borchert	Alderman	12/31/08
Ruth Voight	Alderman	12/31/06
Galen Wills	Alderman	12/31/08
John Griep	Alderman	12/31/08

**HOSPITAL BOARD**

Ruth Voight	Member (Council)	12/31/06
Dennis Van Moorlehem	Member	09/30/09
Kevin Lindstrand	Member	09/30/06
Tom Noack	Chair	09/30/07
Eleanor Trocke	Member	09/30/08

**CITY PLANNING AGENCY**

Lowell Nagel	Chairman	12/31/08
Wayne Kramer	Member	12/31/08
Arden Kreft	Member	12/31/08
Michael Battcher	Member	12/31/06
Dan Hislop	Member	12/31/08
Curtis Reetz	Member (Council)	12/31/06
Dwight Grabitske	Member	12/31/07
Mike Scharping	Member	12/31/07

**ECONOMIC DEVELOPMENT AUTHORITY**

Jim Kreft	Chair	12/31/07
Larry Sorenson	Member	12/31/06
H. Mike Noack	Member	12/31/06
Mike Vrklan	Member	12/31/07
Trisha Rosenfeld	Member	12/31/08
Ruth Voight	Member (Council)	12/31/06
Greggory Borchert	Member (Council)	12/31/06

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**Babcock, Langbein and Company**

Certified Public Accountants  
A Professional Association  
Minneapolis, Minnesota 55421  
(612) 781-9354

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

**INDEPENDENT AUDITOR'S REPORT**

We have audited the general-purpose financial statements of the City of Arlington as of and for the year ended December 31, 2006, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. The statements do not include the financial statements of the Sibley Medical Center as required by generally accepted accounting standards. Also, we did not audit enterprise fund fixed assets or the General Fixed Asset Account Group.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The City does not maintain a record fixed assets. The amounts presented in the financial statements are unaudited amounts. The General fixed asset account group and the Enterprise funds are affected by undetermined amounts.

The general purpose financial statements referred to above do not include the financial activities of the Sibley Medical Center which should be included in order to conform to generally accepted accounting principles. Also, the City has not implemented Governmental Accounting Standards Board Statement Number 34 (GASB 34) as required by accounting principles generally accepted in the United States of America.

In our opinion, except for the fixed assets issue and the omission of the municipal hospital financial statements, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Arlington, Minnesota, as of December 31, 2006, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America prior to the required implementation of GASB 34.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole and on the combining and individual fund financial statements. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements of the City of Arlington. The information has been subjected to the auditing procedures applied in the examination of the combined, combining, and individual fund financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Babcock, Langbein and Company  
April 28, 2007

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
**COMBINED BALANCE SHEET**  
 ALL FUND TYPES AND ACCOUNT GROUPS  
 DECEMBER 31, 2006

**GOVERNMENTAL FUND TYPES**

ASSETS	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>
Cash and Investments	\$ 455,475	\$ 376,725	\$ 1,774,698	\$ 578,161
Accounts Receivable	84,028	57,574	0	633
Interest Receivable	11,769	10,733	45,856	14,938
Notes Receivable	0	349,549	0	0
Inventory	0	0	0	0
Fixed Assets:				
Land and Improvements	0	0	0	0
Buildings and Improvements	0	0	0	0
Utility Plant and System	0	0	0	0
Furniture and Equipment	0	0	0	0
Less: Accumulated Depreciation	0	0	0	0
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided for Debt Retirement	0	0	0	0
<b>TOTAL ASSETS</b>	<b>\$ <u>551,272</u></b>	<b>\$ <u>794,581</u></b>	<b>\$ <u>1,820,554</u></b>	<b>\$ <u>593,732</u></b>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts Payable	\$ 54,279	\$ 11,851	0	\$ 8,254
Deferred Revenue		349,549		
Bonds Payable	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b><u>54,279</u></b>	<b><u>361,400</u></b>	<b><u>0</u></b>	<b><u>8,254</u></b>
Fund Equity:				
Investment in General Fixed Assets	0	0	0	0
Contributed Surplus	0	0	0	0
Retained Earnings :				
Reserved				
Short-term Capital Outlay	0	0	0	0
Long-term Capital Outlay	0	0	0	0
Bond Retirement	0	0	0	0
Unreserved	0	0	0	0
Fund Balance:				
Designated	496,993	0	1,820,554	585,478
Unreserved - Undesignated	0	433,181	0	0
<b>TOTAL FUND EQUITY</b>	<b><u>496,993</u></b>	<b><u>433,181</u></b>	<b><u>1,820,554</u></b>	<b><u>585,478</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>551,272</u></b>	<b>\$ <u>794,581</u></b>	<b><u>1,820,554</u></b>	<b>\$ <u>593,732</u></b>

PROPRIETARY FUND TYPES	ACCOUNT GROUPS			(Memorandum Only) TOTAL December 31,	
	Enterprise	General Fixed Assets (Unaudited)	General Long- Term Debt	2006	2005
\$ 700,905	\$ 0	\$ 0	\$ 3,885,964	\$ 3,853,709	
265,463	0	0	407,698	344,082	
18,121			101,417	67,104	
0	0	0	349,549	359,009	
128,340	0	0	128,340	128,221	
	1,273,499	0	1,273,499	1,273,499	
0	2,055,432	0	2,055,432	2,055,432	
6,129,406	0	0	6,129,406	6,049,799	
0	1,671,674	0	1,671,674	1,737,537	
(2,677,045)	0	0	(2,677,045)	(2,472,731)	
0	0	585,478	585,478	620,306	
0	0	4,001,522	4,001,522	4,438,694	
\$ <u>4,565,190</u>	\$ <u>5,000,605</u>	\$ <u>4,587,000</u>	\$ <u>17,912,934</u>	\$ <u>18,454,661</u>	
\$ 124,665	\$ 0	\$ 0	\$ 199,049	\$ 213,322	
0	0	4,587,000	4,587,000	5,059,000	
<u>124,665</u>	<u>0</u>	<u>4,587,000</u>	<u>5,135,598</u>	<u>5,631,331</u>	
0	5,000,605	0	5,000,605	5,066,468	
2,603,402	0	0	2,603,402	2,603,402	
260,000	0	0	260,000	260,000	
500,000	0	0	500,000	500,000	
0	0	0	0	0	
(1,526,279)	0	0	(1,526,279)	(1,526,130)	
0	0	0	2,903,025	2,894,373	
0	0	0	433,181	421,815	
<u>1,837,123</u>	<u>5,000,605</u>	<u>0</u>	<u>10,173,934</u>	<u>10,219,928</u>	
\$ <u>4,565,190</u>	\$ <u>5,000,605</u>	\$ <u>4,587,000</u>	\$ <u>17,912,934</u>	\$ <u>18,454,661</u>	

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES**  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	(MEMORANDUM ONLY) TOTAL December 31, 2006
Revenue					
Taxes and Assessments	\$ 404,693	\$ 0	\$ 0	\$ 254,508	\$ 659,201
Licenses and Permits	47,903	0	0	0	47,903
Intergovernmental	800,390	6,611	0	19,638	826,639
Charges for Services	12,276	103,958	0	0	116,234
Other Revenue	72,539	186,387	0	21,346	280,272
Other Interest	0	0	69,347	23,896	93,243
Total Revenue	<u>1,337,801</u>	<u>296,956</u>	<u>69,347</u>	<u>319,388</u>	<u>2,023,492</u>
Expenditures					
General Government	326,941	0	0	0	326,941
Public Safety	284,369	171,925	0	0	456,294
Streets	311,093	0	0	0	311,093
Library	11,290	0	0	0	11,290
Parks	29,930	0	0	0	29,930
Recreation	38,047	87,358	0	0	125,405
Capital Outlay	0	0	0	0	0
Other	15,271	17,423	0	13,045	45,739
Economic Development	25,029	109,884	0	0	134,913
Public Works	153,563	0	0	0	153,563
Debt Service:					
Bond Principal	0	0	0	472,000	472,000
Bond Interest	0	0	0	181,482	181,482
Other	0	0	0	0	0
Street Lighting	17,135	0	0	0	17,135
Total Expenditures	<u>1,212,668</u>	<u>386,590</u>	<u>0</u>	<u>666,527</u>	<u>2,265,785</u>
Excess (Deficiency) of Revenues over Expenditures	125,133	(89,634)	69,347	(347,139)	(242,293)
Bond Proceeds	0	0	0	0	0
Transfers	<u>(111,000)</u>	<u>101,000</u>	<u>(40,000)</u>	<u>312,311</u>	<u>262,311</u>
Fund Balance, January 1	482,860	421,815	1,791,207	620,306	3,316,187
Fund Balance, December 31	<u>\$ 496,993</u>	<u>\$ 433,181</u>	<u>\$ 1,820,554</u>	<u>\$ 585,478</u>	<u>\$ 3,336,206</u>

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
**COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND  
 BALANCES - BUDGET AND ACTUAL**  
 GENERAL AND SPECIAL REVENUE FUNDS  
 YEAR ENDED DECEMBER 31, 2006

Revenue	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Taxes and Assessments	\$ 463,159	\$ 404,693	\$ (58,466)	\$ 0	\$ 0	\$ 0
Licenses and Permits	70,000	47,903	(22,097)	0	0	0
Intergovernmental	666,270	800,390	134,120	50	6,611	6,561
Police and Courts	17,500	12,270	(5,230)	0	0	0
Charges for Services	10,600	12,276	1,676	92,904	103,958	11,054
Other Revenue	28,750	60,269	31,519	52,000	186,387	134,387
Total Revenue	<u>1,256,279</u>	<u>1,337,801</u>	<u>81,522</u>	<u>144,954</u>	<u>296,956</u>	<u>152,002</u>
Expenditures						
General Government	362,303	326,941	35,362	0	0	0
Public Safety	291,504	284,369	7,135	147,054	171,925	(24,871)
Streets	166,736	311,093	(144,357)	0	0	0
Library	14,550	11,290	3,260	0	0	0
Public Works	179,985	153,563	26,422	0	0	0
Parks	30,000	29,930	70	0	0	0
Recreation	37,595	38,047	(452)	0	87,358	(87,358)
Capital Outlay	2,500	0	2,500	18,100	10,457	7,643
Economic Development	31,646	25,029	6,617	0	6,966	(6,966)
Other	10,460	15,271	(4,811)	90,800	109,884	(19,084)
Street Lighting	18,000	17,135	865	0	0	0
Total Expenditures	<u>1,145,279</u>	<u>1,212,668</u>	<u>(67,389)</u>	<u>255,954</u>	<u>386,590</u>	<u>(130,636)</u>
Excess (Deficiency) of Revenues over Expenditures	111,000	125,133	14,133	(111,000)	(89,634)	21,366
Other Financing Sources (Uses)						
Transfers In	0	0	0	111,000	101,000	(10,000)
Transfers Out	(111,000)	(111,000)	0	0	0	0
Total Other Financing Sources (Uses)	<u>(111,000)</u>	<u>(111,000)</u>	<u>0</u>	<u>111,000</u>	<u>101,000</u>	<u>(10,000)</u>
Net Increase (Decrease) in Fund Balance	0	14,133	14,133	0	11,366	11,366
Fund Balance, January 1	482,860	482,860	0	421,815	421,815	0
Fund Balance, December 31	<u>\$ 482,860</u>	<u>\$ 496,993</u>	<u>\$ 14,133</u>	<u>\$ 421,815</u>	<u>\$ 433,181</u>	<u>\$ 11,366</u>

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
 ENTERPRISE FUNDS  
**COMBINED STATEMENT OF OPERATIONS  
 AND CHANGES IN RETAINED EARNINGS**  
 YEAR ENDED DECEMBER 31, 2006

Revenue:	<b>Year Ended December 31,</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
Service Charge	\$	\$
Sales	2,207,066	2,014,523
Late Fees	11,665	9,214
Interest	29,009	18,255
Other Revenues	66,738	41,644
Total Revenue	<u>2,314,478</u>	<u>2,083,636</u>
 Operating Expenses	 2,052,316	 2,058,618
Operating Income	262,162	25,018
Add: Transfers In	50,000	375,000
Less: Transfers Out	(312,311)	(268,240)
Total Other Income (Expense)	<u>(262,311)</u>	<u>106,760</u>
Net Income	(149)	131,778
 Retained Earnings, January 1	 <u>1,837,270</u>	 <u>1,705,492</u>
Retained Earnings, December 31	\$ <u><u>1,837,121</u></u>	\$ <u><u>1,837,270</u></u>

CITY OF ARLINGTON, MINNESOTA  
ENTERPRISE FUNDS  
**COMBINED STATEMENT OF CASH FLOWS**  
YEAR ENDED DECEMBER 31, 2006

EXHIBIT 5

	<b>Year Ended December 31,</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
Cash Received From Operations		
Cash Received from Customers and Users	\$ 2,089,412	\$ 1,968,068
Cash Paid to Suppliers and Employees	<u>(1,829,169)</u>	<u>(1,591,533)</u>
Net Cash (used) by Operating Activities	<u>260,243</u>	<u>376,535</u>
 Cash Flows from Investing Activities		
Investment Income	<u>29,009</u>	<u>18,255</u>
Net Cash (Used) by Investing Activities	<u>29,009</u>	<u>18,255</u>
 Cash Flows from Capital and Related Financing Activities		
Purchase of Fixed Assets	(79,607)	(281,250)
Transfers to Other Funds	<u>(312,311)</u>	<u>(268,240)</u>
Total Cash flow from Capital and Related Financing Activities	<u>(391,918)</u>	<u>(549,490)</u>
 Net Increase in Unrestricted Cash	(102,666)	(154,700)
 Unrestricted Cash January 1	<u>803,571</u>	<u>803,571</u>
 Unrestricted Cash December 31	<u>\$ 700,905</u>	<u>\$ 648,871</u>
 Reconciliation of operating income(loss) to net cash flow from operating activities:		
Operating income(loss)	\$ 262,162	\$ 25,018
Depreciation	204,314	201,660
Changes in noncash current assets	(174,339)	187,367
Changes in Current Liabilities	<u>(31,894)</u>	<u>(37,510)</u>
 Net cash flow from operating activities	<u>\$ 260,243</u>	<u>\$ 376,535</u>

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

(1) **Summary of Significant Accounting Policies**

The City of Arlington was incorporated on May 18, 1883. The City operates under a Home Rule Charter form of Government (mayor, five council members and appointed clerk) and provides the following services as authorized by its charter: public safety, highways and streets, library, parks, recreation and general administrative services.

**Municipal Hospital**

Generally accepted accounting principles requires the Municipal Hospital to be included in the City's financial statements. However, the City has elected not to include them.

The financial statements of the City of Arlington (the City) have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies are described below.

**A. Reporting Entity**

The City operates pursuant to applicable Minnesota laws and statutes under the council—manager plan as defined by state statutes. For financial reporting purposes, the City's general purpose financial statements present the primary government, component organizations for which the primary government is financially accountable for and other organizations over which the City exercises significant influence. Significant influence or accountability is based primarily on operational and financial relationships with the City.

Based on the application of the reporting entity criteria, the Municipal Hospital considered a component unit of the City, however, the City has elected not to include that component unit in these financial statements.

In addition, the City is required to disclose its relationship with related organizations. The Arlington Firefighters Relief Association, a nonprofit organization, is organized to provide pension and other benefits to its members in accordance with Minnesota Statutes. The Board of Directors is elected by membership of the Association. All funding is conducted in accordance with Minnesota Statutes; state aids and other revenues flow directly to the Association. Additionally, the Association pays benefits directly to its members. Because the City is not financially accountable for the Relief Association, (the Association is able to fund itself independently of the City), and the City makes only certain appointments to the Board of Directors, it is excluded from the reporting entity of the City.

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

B. Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self—balancing set of accounts. Funds are arranged in the accompanying financial statements into governmental and proprietary categories. Each category, in turn, is divided into separate 'fund types'.

Governmental Funds

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

**Special Revenue Funds** — Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

**Debt Service Funds** — Debt Service Funds are used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs.

**Capital Project Funds** — Capital Project Funds are used to account for the acquisition or construction of capital facilities and equipment other than those financed by Proprietary Funds.

Proprietary Funds

**Enterprise Funds** — Enterprise Funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that determination of net income (revenues less expenses) is necessary or useful for financial management, capital maintenance, public policy or other purposes.

An account group, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in funds because they do not directly affect net expendable available financial resources.

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

C. Measurement Focus

All governmental funds are accounted for on a spending or current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet of each fund. Reported fund balance (net current assets) is considered a measure of 'available spendable resources. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Proprietary funds are accounted for on a cost of services or flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are included on the balance sheet. Reported fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations.

The accounting and reporting treatment applied to fixed assets and long-term liabilities associated with a fund are determined by its measurement focus.

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group, rather than in individual governmental funds. Fixed assets are valued at historical cost, except for donated fixed assets, which are valued at their estimated fair value on the date received. No depreciation has been provided on general fixed assets. The City has not maintained a detailed record.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General long-term Debt Account Group, rather than in governmental funds. Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, Long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-term Debt Account Group.

These two account groups are not funds and are concerned only with the measurement of financial position; they are not involved with measurement of results of operations.

Special reporting treatment is also applied to prepaid expenses of governmental funds to indicate that prepaid expenses do not represent "available spendable resources," even though they are a component of net current assets.

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements regardless of the measurement focus.

Governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available as net current assets. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay current liabilities. Major revenues that are susceptible to accrual include property taxes, special assessments, intergovernmental revenues, charges for services and investment income. Revenue sources not susceptible to accrual include licenses and permits, fees and other revenues; such revenues are recorded only when received because they are not measurable until collected.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general Long-term debt which are recognized when due. The liability for accumulated compensated absences (vacation, sick and severance pay) are transferred to the Internal Service Fund as earned by the employee.

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Compensated absences are considered expenses when they are incurred. In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the City applies all applicable GASB pronouncements and any applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 in accounting for the operations of its proprietary funds.

E. Budgets and Budgetary Accounting

A plan of financial operation for the City is established in the budget adopted by the City Council. The budget outlines proposed expenditures and the means of financing them. Budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Special Revenue Funds. Budgeted amounts shown in the accompanying financial statements are as originally adopted or as amended. No budget revisions were made during the year. Budgeted expenditure appropriations lapse at year-end.

Budgetary control for Debt Service Funds is achieved through general obligation bond indenture provisions. For Capital Project Funds, budgetary control is accomplished through the adoption of project—length financial budgets.

F. Cash and Investments

Cash balances from all funds are maintained separately and invested to the extent available in authorized investments. State statutes authorize the City to invest in (1) certificates of deposit, (2) direct, guaranteed or insured obligations of the US Treasury or other federal agencies, (3) registered investment companies, (4) bankers acceptances, (5) commercial paper, (6) guaranteed investment contracts, (7) repurchase agreements.

Investments are stated at fair market value. Investment income is recognized as earned and is recorded in the participating funds on the basis of ownership throughout the year. The change in fair values is reflected as net increase (decrease) in fair value of investments.

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

**Note 1. Significant Accounting Policies, continued**

F. Cash and Investments, continued

For purposes of the statement of cash flows of the Proprietary Funds, the City considers cash and investments in the cash management pool to be cash and cash equivalents, since all amounts in the pool are deemed cash on demand.

G. Property Taxes

Property tax levies are approved and certified to the county by the City in December of each year for collection in the following year. The county spreads all levies over taxable property and acts as collection agent (responsible for billing and collecting) for such taxes. Property taxes become a lien on the property on the first day of the year collectible. Property taxes are payable in two equal installments by property owners, usually in May and October. The county remits tax collections to the City and other taxing authorities three times during the year. The City has no authority or ability to enforce payment of property taxes by property owners; this authority is possessed by the county.

The City recognizes property taxes as revenue when it becomes both measurable and available to finance current period expenditures. Revenue is recognized in the year of anticipated collection, with amounts due from the county and received early in the following year recorded as unremitted taxes receivable. Taxes which remain unpaid at year-end are classified as delinquent taxes receivable. An allowance is provided for the full amount of delinquent taxes because of the uncertainty of collection and availability of the delinquent amounts.

Taxes payable on homesteaded property (as defined by state statutes) are partially reduced by a homestead credit. This credit is paid by the State to the City in lieu of taxes levied against homesteaded property in two equal installments.

H.. Special Assessments .

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with state statutes. The City usually adopts the assessment rolls when individual projects are complete or substantially complete. The assessments are collectible over a period of years generally consistent with the duration of the related bond issue or as set by Council action.

Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
 DECEMBER 31, 2006

**Note 1. Significant Accounting Policies, continued**

H. Special Assessments, continued

Special assessments receivable include the following components:

- Unremitted — Amounts collected by the County but not remitted to the City by year-end.
- Delinquent — Amounts billed to property owners but not paid.
- Deferred — Annual installments which will be billed to property owners in future years.

The City recognizes special assessment revenues when it becomes both measurable and available to finance bonded debt or improvement costs. Revenues are recognized over the term of the assessment as it becomes currently available. Delinquent and deferred assessments do not satisfy revenue recognition criteria and, therefore these components of assessment receivables are offset by recording deferred revenue because it is not known when these amounts will be available to finance current expenditures.

I. Interfund Receivables and Payables/Transfers

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as 'due from other funds' and 'due to other funds' on the balance sheet.

Interfund transfers for the year were as follows:

<b><u>Fund</u></b>	<b><u>Transfer In</u></b>	<b><u>Transfer Out</u></b>
General	\$ 0	\$ (111,000)
Special Revenue	101,000	0
Capital Projects	19,482	(59,482)
Debt Service	312,311	0
Enterprise	50,000	(312,311)
Total	<u>\$ 482,793</u>	<u>\$ (482,793)</u>

J. Inventories

Inventory of expendable supplies held by governmental fund types is recorded as expenditures when purchased (purchase method).

Inventories are maintained only in the Enterprise funds and are valued at the lower of cost or market using the first-in, first-out method. A summary of inventories at December 31, 2006 follows:

Electric Fund	\$ 108,585
Water Fund	18,203
Sewer Fund	1,552
Total	<u>\$ 128,340</u>

For governmental funds, bond premiums or discounts associated with debt issued are recognized in the current period. Issuance costs are recorded as expenditures by the fund receiving the bond proceeds; these costs are not amortized.

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

**Note 1. Significant Accounting Policies, continued**

J. Property, Plant and Equipment

Property, plant and equipment of all funds are stated at historical cost or estimated cost if actual cost not available. Donated fixed assets are valued at their estimated fair value on the date received.

Fixed assets acquired or constructed by governmental funds are recorded as expenditures in these funds. These general fixed assets are not capitalized in individual governmental funds but rather are reported in the General Fixed Assets Account Group. No depreciation has been provided for on general fixed assets. The City has elected not to report public domain, or infrastructure, fixed assets consisting of streets, roads, bridges, curbs and gutters, sidewalks and similar items as general fixed assets, since such assets are immovable and of value only to the City.

Fixed assets of proprietary funds are recorded at cost in their respective funds. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives of such assets are:

Land Improvements	10—20Years
Buildings and Structures	15—40Years
Distribution and Collection System	15—50 Years
Furniture, Fixtures and Equipment	5—10 Years

The City has not maintained a detailed record of fixed assets.

K. Compensated Absences

City employees are entitled to vacation pay based upon length of employment. Vested vacation for all City employees is recorded as an expenditure or expense as benefits accrue to employees. The accrued liability related to proprietary funds is recorded in the related fund; however, the corresponding expense is recorded in each of the enterprise funds as incurred.

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

**Note 1. Significant Accounting Policies, continued**

L. Bonded Indebtedness

The City has general obligation and revenue bonds outstanding. General obligation bonds consist of the following types; improvement, refunding tax increment, and tax increment bonds. Bonds payable associated with these issues are recorded as liabilities in the General Long-term Debt Account Group. Principal and interest payments related to these bonds, including payments due January 1, are recorded as expenditures when paid; interest is not accrued unless fully matured and not paid. Revenue bonds are recorded as a liability in the proprietary funds. For these bonds, interest is accrued and recorded as an expense as incurred.

M. Fund Equity

Contributed capital is recorded in proprietary fund types that have received capital grants or contributions from other sources. A substantial portion of the City's utility system was financed by special assessments, grants and other contributions. When such assets are acquired they are credited to the contributed capital account. Depreciation on these assets is charged as an expense against current income.

Investment in general fixed assets represents the City's equity in fixed assets owned by the City and not recorded in its proprietary funds.

Reserves represent portions of fund equity not available for expenditure or legally segregated for a specific future use. Designated fund balances are tentative plans for future use of current financial resources. Unreserved and undesignated fund equity represents amounts available to finance future expenditures or operations.

N. Interfund Transactions

Quasi—external transactions are accounted for as revenues and expenditures, as applicable to each fund. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed.

All other interfund transactions are reported as transfers. Nonrecurring or non—routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

O. Use of Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

**Note 1. Significant Accounting Policies, continued**

P. Total Columns — Memorandum Only

Total columns on the general purpose financial statements are captioned memorandum only" to indicate that they are presented only to facilitate financial analysis.. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to consolidation since interfund transactions have not been eliminated in the aggregation of this data.

Q. Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative totals have not been presented for all statements because their inclusion would make certain statements unduly complex and difficult to understand.

**Note 2. Stewardship, Accountability and Compliance**

No funds have deficit fund balances or retained earnings at year end. Actual Special Revenue Fund Expenditures exceeded budget amounts by \$270,097. These excesses were made up through excess revenues or decrease in fund balance. No funds were in a deficit position.

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
 DECEMBER 31, 2006

**Note 3. Cash and Investments**

Cash and investments at December 31, 2005 consist of:

Cash in Banks — Demand deposits	\$	165,109
Investments - Certificates of Deposit, Investment Pools		<u>3,720,855</u>
 Total Cash and Investments	 \$	 <u>3,885,964</u>

Bank Deposits:

In accordance with Minnesota Statutes, the City maintains deposits at those deposit banks authorized by the City Council, all of which are members of the Federal Reserve System. Statutes require that City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds, 140% in the case of mortgage notes pledged.. Securities pledged are to be held In safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral. Bank deposits are summarized by the categories of credit risk shown below: ...

	Bank Balances	Carrying Amount
(1) Insured or collateralized with securities held by the City or its agent in the City's name	4,008,359	3,885,964
(2) Collateralized with securities held by the pledging institution's trust department in the City's name		
(3) Uncollateralized or collateralized with securities held by the pledging institution, but not in the City' name		
	<u>4,008,359</u>	<u>3,885,964</u>

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

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

Minnesota Statutes require that all deposits be protected by insurance, surety bond or collateral. If collateral is pledged as protection for the deposits, the market value of the collateral must at a minimum be 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage backed collateral). Repurchase agreements are intentionally over collateralized at 105% to insure that the safety of investment principal is attained and losses do not occur from rapid overnight deterioration.

The City's investments are categorized above to give an indication of the level of risk assumed at year end. The level of risk is defined by the following criteria set out by the Governmental Accounting Standards Board within Statement No. 3. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the City's name.

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
 DECEMBER 31, 2006

**Note 4. Fixed Assets and Accumulated Depreciation (Unaudited)**

	<b>Balance 12-31-05</b>	<b>2006 Additions</b>	<b>2006 Removals</b>	<b>Balance 12-31-06</b>
Land and Land Improvements	\$ 1,273,499	\$ 0	\$ 0	\$ 1,273,499
Buildings	2,055,432	0	0	2,055,432
Furniture and Equipment	1,639,540	32,134	0	1,671,674
Total	<u>\$ 4,913,156</u>	<u>\$ 32,134</u>	<u>\$ 0</u>	<u>\$ 4,945,290</u>

A summary of proprietary fund type property, plant, and equipment at December 31, 2006 follows:

**Fixed Assets (Unaudited)**

	<b>Balance 12-31-05</b>	<b>2006 Additions</b>	<b>2006 Removals</b>	<b>Balance 12-31-06</b>
Electric Fund	\$ 2,013,968	\$ 0	\$ 0	\$ 2,013,968
Water Fund	3,425,535	0	0	3,425,535
Sewer Fund	610,296	79,607	0	689,903
Total	<u>\$ 6,049,799</u>	<u>\$ 79,607</u>	<u>\$ 0</u>	<u>\$ 6,129,406</u>

**Accumulated Depreciation**

	<b>Balance 12-31-05</b>	<b>2006 Expense</b>	<b>2006 Removals</b>	<b>Balance 12-31-06</b>
Electric Fund	\$ 1,187,669	\$ 67,132	\$ 0	\$ 1,254,801
Water Fund	946,100	114,185	0	1,060,285
Sewer Fund	338,962	22,997	0	361,959
Total	<u>\$ 2,472,731</u>	<u>\$ 204,314</u>	<u>\$ 0</u>	<u>\$ 2,677,045</u>

**The City has not maintain detailed cost records of fixed assets.**

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
 DECEMBER 31, 2006

**Note 5 Long Term Debt**

The following is a summary of bond transactions of the City for the year ended December 31, 2006.

	<b>Balance</b>				<b>Balance</b>
	<b><u>12-31-05</u></b>	<b><u>Issued in</u></b>	<b><u>2006</u></b>	<b><u>Paid in</u></b>	<b><u>12-31-06</u></b>
General Obligation	\$ 3,114,000	\$	0	\$ 277,000	\$ 2,837,000
Special Assessment	1,200,000		0	130,000	1,070,000
Public Project Lease Revenue Bond	645,000		0	35,000	610,000
Loans	100,000		0	30,000	70,000
Total	<u>\$ 5,059,000</u>	<u>\$</u>	<u>0</u>	<u>\$ 472,000</u>	<u>\$ 4,587,000</u>

Bonds payable at December 31, 2006 are comprised of the following individual issues:

	<b><u>Interest</u></b>	<b><u>Issue</u></b>	<b><u>Final</u></b>	<b>Balance</b>
	<b><u>Rate</u></b>	<b><u>Date</u></b>	<b><u>Maturity</u></b>	<b><u>12-31-06</u></b>
			<b><u>Date</u></b>	
General Obligation Bonds				
Fire Certificates	2.00-2.90	11/01/04	12/01/08	145,000
MN Drinking Water Revolving Loan	2.99	02/20/03	08/20/17	87,000
Water and Sewer Refunding	1.75-4.30	01/15/04	12/01/17	2,290,000
Sewer Refunding	1.60-4.70	12/01/03	01/01/19	315,000
Total General Obligation				<u>2,837,000</u>

ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
 DECEMBER 31, 2006

**Note 5 Long Term Debt**

Special Assessment

Improvement Projects 2004	2.30-4.25	11/01/04	12/01/15	670,000
Improvement Projects 2000	4.70-5.40	12/01/00	12/01/11	255,000
Improvement Projects 2001	3.40-4.70	09/01/01	12/01/11	145,000
Total Special Assessment				<u>1,070,000</u>

Public Project Lease Revenue Bond

Community Center Crossover Refundin	2.50-4.75	12/01/04	12/01/19	<u>610,000</u>
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Loans

Rural Utility Service Loan	0.00	12/11/00	05/01/09	70,000
Total Loans				<u>70,000</u>

Total Indebtedness				<u><u>4,587,000</u></u>
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**Annual Requirements to Amortize Long-term Debt**

<u>Year Ending</u> <u>December 31</u>	<u>General</u> <u>Obligation</u>	<u>Special</u> <u>Assessment</u>	<u>Project</u> <u>Lease</u> <u>Revenue</u> <u>Bond</u>	<u>Loans</u>	<u>Total</u>
2007	292,000	135,000	40,000	30,000	497,000
2008	307,000	145,000	40,000	30,000	522,000
2009	232,000	150,000	40,000	10,000	432,000
2010	247,000	155,000	40,000	0	442,000
2011	268,000	160,000	40,000	0	468,000
2012-2016	1,272,000	325,000	240,000	0	1,837,000
2017-2021	219,000	0	170,000	0	389,000
Totals	<u>2,837,000</u>	<u>1,070,000</u>	<u>610,000</u>	<u>70,000</u>	<u>4,587,000</u>

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
 DECEMBER 31, 2006

**Note 6. Fund Equity**

Contributed Capital — This amount represents the value of assets contributed to the enterprise funds.

Investment in General Fixed Assets — The equity of the City in its general fixed assets is reflected in this amount.

Reserved Retained Earnings — This amount reflects the portion of retained earnings segregated for specific purposes.

Reserved Fund Balances — These amounts represent portions of fund balances not available for future expenditures. Reserved fund balances are:

General Fund — Working Capital	\$	496,993
Debt Service Funds — Debt Service Retirement		585,478
Capital Project Funds — Improvement Projects		<u>1,820,554</u>
	\$	<u><u>2,903,025</u></u>

**Note 7. Segment information - Enterprise Funds**

Segment information for each of the enterprise funds maintained by the City for the year ended December 31, 2006 is as follows:

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>
Operating Income	\$ 1,706,360	\$ 308,606	\$ 299,512
Operating Expense	<u>1,587,984</u>	<u>264,763</u>	<u>199,569</u>
Operating Income	118,376	43,843	99,943
Other Income (Expense)			
Net Income	\$ <u>118,376</u>	\$ <u>(153,968)</u>	\$ <u>35,443</u>
Transfers (to) From Other Funds	<u>0</u>	<u>(197,811)</u>	<u>(64,500)</u>
Change in Retained Earnings	<u>118,376</u>	<u>(153,968)</u>	<u>35,443</u>
Total Assets	1,712,674	2,440,476	412,040
Total Liabilities	<u>98,969</u>	<u>5,817</u>	<u>19,879</u>
Total Equity	1,613,705	2,434,659	392,161
Working Capital	854,538	69,409	64,217
Fixed Asset Additions	0	0	79,607
Depreciation	67,132	114,185	22,997

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

**Note 8. Defined Benefit Pension Plans — Statewide**

For the year ended December 31, 2006, the City adopted GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, for the Public Employees Retirement Association. This implementation establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures in the financial reports of state and local government employers. Adoption of this statement had no financial impact on the City. Note disclosures for other pension plans are in accordance with GASB Statement No. 5, Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Government Employers.

A. Plan Description

All full-time and certain part-time employees of the City of Arlington are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund (LGCSRF), 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. Members who are employed in county-administered jails or regional correctional facilities administered by multiple counties are members of the LGCSRF.

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.

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.57% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. For all PEPFF members and for PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

There are different types of annuities available to members upon retirement. A normal 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 reduce the monthly normal annuity amount, because the annuity is payable over joint lives.

A reduced retirement annuity is also available to eligible members seeking early retirement. 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 by writing to PERA at 514 St. Peter Street — Suite 200, St. Paul, Minnesota, 55102 or by calling (651) 296-7460 or 1-800-652-9026.

#### B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 8.75% and 5.1%, respectively, of their annual covered salary. PEPFF members were required to contribute 7.60% of their annual covered salary through June 30, 2001 and 6.20% of their annual covered salary after that. The City of Arlington is required to contribute the following percentages of annual covered salary: 11.43% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members, and 9.30% for PEPFF members (the PEPFF rate was 11.40% before July 1, 1999).

The City's contribution to the Public Employees Retirement Fund for the year ending December 31, 2006 was \$21,288. Wages were \$355,820  
The City contributions to the Public Employees Police and Fire Fund for the year ending December 31, 2006 was \$13,911. Wages were \$ 132,950.  
The City's contributions were equal to the contractually required contributions for each year as set by state statute.

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2006

**Note 9. Defined Benefit Pension Plan — Firefighters Relief Association**

The Arlington Firefighters Relief Association is the administrator of a single employer retirement system established to provide pension and other benefits to its membership in accordance with Minnesota Statutes. The Association maintains a separate Special Fund to accumulate assets to fund retirement benefits earned by its members. Funding of the Association is derived primarily from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (Chapter 261 as amended by Chapter 509 of Minnesota Statutes).

The financial requirements of the Special Fund are determined in accordance with Section 69.772 of the Minnesota Statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. Benefits are payable after age 50 with 20 years of service and 10 years of membership, or upon death. Benefits are accumulated at \$800 per year of active service in the fire department. The accrued liability for these accumulated benefits is computed using increasing percentages based on years of service. At 20 years of service, the liability is equal to the number of years of service times benefits per year. Association members are fully vested after 10 years.

As of December 31, 2006, assets of the Special Fund totaled approximately \$308,271.

**Note 10. Litigation**

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

**Note 12. Use of Estimates**

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

**Note 13. Risk Management**

The City is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental coverage; workers' compensation claims; and natural disasters. Property and casualty and worker's compensation liabilities are insured. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the general purpose financial statements.

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
 GENERAL FUND  
**COMPARATIVE BALANCE SHEET**  
 DECEMBER 31, 2006

	<b>December 31,</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Assets</b>		
Cash and Investments	\$ 455,475	\$ 482,178
Accounts Receivable	84,028	58,889
Interest Receivable	11,769	8,396
Total Assets	<u>\$ 551,272</u>	<u>\$ 549,463</u>
 <b>Liabilities</b>		
Accounts Payable	\$ 54,279	\$ 66,603
Total Liabilities	<u>54,279</u>	<u>66,603</u>
 <b>Fund Balance</b>		
Reserved For Working Capital	<u>496,993</u>	<u>482,860</u>
Total Fund Balance	<u>496,993</u>	<u>482,860</u>
Total Liabilities, Reserves and Fund Balance	<u>\$ 551,272</u>	<u>\$ 549,463</u>

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA  
GENERAL FUND  
STATEMENT OF CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2006

Statement A-2

	Year Ended December 31,	
	<u>2006</u>	<u>2005</u>
Revenue and Other Sources	\$ 1,337,801	\$ 1,272,484
Expenditures and Other Uses	1,323,668	1,161,527
Increase (Decrease) in Fund Balance	14,133	110,957
Fund Balance January 1	482,860	371,903
Fund Balance, December 31	<u>\$ 496,993</u>	<u>\$ 482,860</u>

ARLINGTON, MINNESOTA  
GENERAL FUND  
STATEMENT OF REVENUE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Taxes			
General Property Tax	\$ 463,159	\$ 404,693	\$ (58,466)
TOTAL	<u>463,159</u>	<u>404,693</u>	<u>(58,466)</u>
Licenses and Permits	<u>70,000</u>	<u>47,903</u>	<u>(22,097)</u>
Intergovernmental Revenue			
State Aids			
Local Government Aid	620,542	620,542	0
2% State Fire Aid	12,648	20,106	7,458
2% State Police Aid	14,280	13,018	(1,262)
Street Aid	15,000	75,251	60,251
Other	3,800	71,473	67,673
TOTAL	<u>666,270</u>	<u>800,390</u>	<u>134,120</u>
Fines and Forfeitures			
Fines and Forfeitures	17,500	12,270	(5,230)
TOTAL	<u>17,500</u>	<u>12,270</u>	<u>(5,230)</u>
Charges for Services			
Charges for services	1,000	997	(3)
Rent	5,100	7,505	2,405
Special Police	4,500	3,774	(726)
TOTAL	<u>10,600</u>	<u>12,276</u>	<u>1,676</u>
Other Revenue			
Interest	5,000	10,941	5,941
Donations	0	3,775	3,775
Community Sign	500	513	13
Prepaid Assessments	6,850	16,077	9,227
Recycling Subsidy	6,050	6,070	20

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
 GENERAL FUND

Statement A-3  
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STATEMENT OF REVENUE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Other Revenue (Continued)			
Recharge Fire Extinguisher	\$ 0	\$ 0	\$ 0
NSF Charge	0	90	90
Rent-Senior Center	0	0	0
Insurance Dividend	6,500	5,038	(1,462)
Other	3,850	17,765	13,915
TOTAL	<u>28,750</u>	<u>60,269</u>	<u>31,519</u>
Other Sources			
Transfers in	0	0	0
TOTAL	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL REVENUE and Other Sourc	<u>\$ 1,256,279</u>	<u>\$ 1,337,801</u>	<u>\$ 81,522</u>

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
 GENERAL FUND

Statement A-4  
 Page 1 of 4

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
General Government			
Mayor and Council			
Salaries	\$ 17,000	\$ 17,532	\$ (532)
Other	1,300	1,333	(33)
TOTAL	<u>18,300</u>	<u>18,865</u>	<u>(565)</u>
Administration			
Salaries	59,000	62,173	(3,173)
PERA	3,300	3,655	(355)
FICA	4,000	4,396	(396)
Hospital Insurance	7,400	9,674	(2,274)
Insurance	50,000	45,941	4,059
Dues and Subscriptions	3,000	2,043	957
Professional Services	6,630	2,243	4,387
Conferences	6,660	1,753	4,907
Telephone	7,000	6,810	190
Legal Notices	5,100	7,855	(2,755)
Capital Outlay	9,500	1,585	7,915
Office Supplies and Expense	18,750	20,291	(1,541)
Other	24,763	29,035	(4,272)
TOTAL	<u>205,103</u>	<u>197,454</u>	<u>7,649</u>
Planning and Zoning	<u>56,500</u>	<u>54,465</u>	<u>2,035</u>
Assessor	<u>7,500</u>	<u>7,650</u>	<u>(150)</u>
Attorney	<u>15,000</u>	<u>9,037</u>	<u>5,963</u>
Government Buildings			
Taxes	75	640	(565)
Utilities	26,500	22,443	4,057
Repair Supplies	6,000	2,636	3,364
Miscellaneous	4,625	1,652	2,973
Capital Outlay	20,500	9,926	10,574
TOTAL	<u>57,700</u>	<u>37,297</u>	<u>20,403</u>
Elections	<u>2,200</u>	<u>2,173</u>	<u>27</u>
TOTAL GENERAL GOVERNMENT	<u>362,303</u>	<u>326,941</u>	<u>33,450</u>
Public Safety			
Salaries - Regular	145,000	152,901	(7,901)
PERA, FICA	18,200	17,268	932

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
 GENERAL FUND

Statement A-4  
 Page 2 of 4

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Public Safety (Continued)			
Utilities	\$ 3,700	\$ 4,422	\$ (722)
Health and Life Insurance	36,000	32,243	3,757
Radio Maintenance	1,000	915	85
Legal Fees	20,000	24,799	(4,799)
Training	1,750	1,411	339
Animal Control	1,000	482	518
Clothing Allowance, Laundry, Uniforms	2,700	2,086	614
Supplies and Repairs	3,120	2,321	799
Seminars and Programs	750	666	84
Professional Services	0	284	(284)
Telephone	3,700	3,657	43
Miscellaneous	4,880	4,430	450
2% State Fire Aid	12,750	20,106	(7,356)
Capital Outlay	20,000	0	20,000
Fire Pension Contributions	2,900	3,000	(100)
Motor Fuels	10,000	12,344	(2,344)
TOTAL	<u>287,450</u>	<u>283,335</u>	<u>4,115</u>
Civil Defense			
Salaries	1,944	0	1,944
Capital Outlay	1,400	325	1,075
Communications	710	709	1
TOTAL	<u>4,054</u>	<u>1,034</u>	<u>3,020</u>
TOTAL PUBLIC SAFETY	<u>291,504</u>	<u>284,369</u>	<u>7,135</u>
Streets			
Repair, Maintenance and Fuel	2,500	8,895	(6,395)
Grading	2,700	4,293	(1,593)
Snow Removal	26,000	18,013	7,987
Utilities	0	2,155	(2,155)
Street Maintenance Materials	100,000	210,020	(110,020)
Capital Outlay	6,000	21,677	(15,677)
Tree Removals	2,000	0	2,000
Storm Sewer Repair	3,500	0	3,500
Engineering	20,000	43,445	(23,445)
Other	4,036	2,595	1,441
TOTAL	<u>166,736</u>	<u>311,093</u>	<u>(144,357)</u>

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
 GENERAL FUND

Statement A-4  
 Page 3 of 4

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Library			
Salaries	\$ 3,900	\$ 4,476	\$ (576)
FICA	350	342	8
Supplies	750	209	541
Utilities	2,250	1,431	819
Repair and Maintenance	1,750	761	989
Miscellaneous	3,150	3,298	(148)
Capital Outlay	1,600	0	1,600
Communications	800	773	27
TOTAL	<u>14,550</u>	<u>11,290</u>	<u>3,260</u>
Public Works			
Salaries	63,710	64,389	(679)
FICA and PERA	8,900	8,477	423
Health and Life Insurance	27,875	27,312	563
Mosquito Control	3,000	1,518	1,482
Utilities	4,000	3,021	979
Recycling	5,100	6,534	(1,434)
Christmas Lighting	1,836	163	1,673
Safety Program	1,000	463	537
Miscellaneous	12,064	10,285	1,779
Gas & Repair of Equipment/supplies	17,500	20,763	(3,263)
Capital Outlay	35,000	10,638	24,362
TOTAL	<u>179,985</u>	<u>153,563</u>	<u>26,422</u>

CITY OF ARLINGTON  
 ARLINGTON, MINNESOTA  
 GENERAL FUND

Statement A-4  
 Page 4 of 4

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2006

Recreation			
Salaries	9,285	8,807	478
FICA, PERA	710	635	75
Supplies and Expense	670	2,130	(1,460)
Miscellaneous	350	1,385	(1,035)
Capital Outlay	2,500	0	2,500
Community Band	4,080	5,090	(1,010)
Pool Deficit	20,000	20,000	0
TOTAL	<u>37,595</u>	<u>38,047</u>	<u>(452)</u>
Parks			
Salaries	6,500	9,208	(2,708)
FICA	500	704	(204)
Repair, Maintenance, Supplies	1,000	747	253
Utilities	7,000	7,346	(346)
Miscellaneous	5,000	3,171	1,829
Capital Outlay	10,000	8,754	1,246
TOTAL	<u>30,000</u>	<u>29,930</u>	<u>70</u>
Street Lighting			
Utilities	18,000	17,135	865
TOTAL	<u>18,000</u>	<u>17,135</u>	<u>865</u>
Other			
Health Services	260	258	2
Economic Development	31,646	25,029	6,617
Miscellaneous	10,200	15,013	(4,813)
Miscellaneous Capital Outlay	2,500	0	2,500
TOTAL	<u>44,606</u>	<u>40,300</u>	<u>4,306</u>
Total Expenditures	1,145,279	1,212,668	(67,389)
Transfers	\$ 111,000	\$ 111,000	\$ 0
TOTAL	<u>111,000</u>	<u>111,000</u>	<u>0</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 1,256,279</u>	<u>\$ 1,323,668</u>	<u>\$ (67,389)</u>

CITY OF ARLINGTON, MINNESOTA  
**SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
 DECEMBER 31, 2006

	201	202	203	205
	<u>Fire Fund</u>	<u>Ambulance Fund</u>	<u>Community Hall Fund</u>	<u>Revolving Loan Fund</u>
<b>ASSETS</b>				
Cash and Investments	\$ 9,800	\$ 69,590	\$ 7,822	\$ 113,376
Interest Receivable	253	1,798	202	2,930
Accounts Receivable	10,250	46,343	981	0
Notes Receivable	0	0	0	259,549
TOTAL ASSETS	<u>\$ 20,303</u>	<u>\$ 117,731</u>	<u>\$ 9,005</u>	<u>\$ 375,855</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 4,550	\$ 1,284	\$ 6,017	\$ 0
Deferred Revenue	0	0	0	259,549
TOTAL LIABILITIES	<u>4,550</u>	<u>1,284</u>	<u>6,017</u>	<u>259,549</u>
<b>FUND BALANCE</b>				
Unreserved	<u>15,753</u>	<u>116,447</u>	<u>2,988</u>	<u>116,306</u>
TOTAL FUND BALANCE	<u>15,753</u>	<u>116,447</u>	<u>2,988</u>	<u>116,306</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 20,303</u>	<u>\$ 117,731</u>	<u>\$ 9,005</u>	<u>\$ 375,855</u>

Statement B-1

-208- Cemetery Perpetual Care Fund	204 Margaret Major Estate Fund	-410- EDA Fund	-207- Cemetery Fund	TOTALS December 31,	
				2006	2005
\$ 84,573	\$ 4,035	\$ 78,039	\$ 9,490	\$ 376,725	\$ 366,182
0	104	2,016	3,430	10,733	6,375
0	0	0	0	57,574	67,161
0	0	90,000	0	349,549	359,009
<u>\$ 84,573</u>	<u>\$ 4,139</u>	<u>\$ 170,055</u>	<u>\$ 12,920</u>	<u>\$ 794,581</u>	<u>\$ 798,727</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 11,851	\$ 17,903
0	0	90,000	0	349,549	359,009
<u>0</u>	<u>0</u>	<u>90,000</u>	<u>0</u>	<u>361,400</u>	<u>376,912</u>
84,573	4,139	80,055	\$ 12,920	433,181	421,815
<u>84,573</u>	<u>4,139</u>	<u>80,055</u>	<u>12,920</u>	<u>433,181</u>	<u>421,815</u>
<u>\$ 84,573</u>	<u>\$ 4,139</u>	<u>\$ 170,055</u>	<u>\$ 12,920</u>	<u>\$ 794,581</u>	<u>\$ 798,727</u>

CITY OF ARLINGTON, MINNESOTA  
**SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND FUND BALANCES**  
FOR THE YEAR ENDED DECEMBER 31, 2006

	-201-	-202-	-203-	205
Revenue	<u>Fire Fund</u>	<u>Ambulance Fund</u>	<u>Community Hall Fund</u>	<u>Revolving Loan Fund</u>
Intergovernmental Revenue	\$ 4,973	\$ 1,575	\$ 63	\$ 0
Charges for Services	17,870	24,953	58,985	0
Other Revenue	1,117	64,409	565	15,418
Total Revenue	<u>23,960</u>	<u>90,937</u>	<u>59,613</u>	<u>15,418</u>
 Expenditures				
Public Safety	71,681	100,244	0	0
Culture and Recreation	0	0	87,358	0
Economic Development	0	0	0	0
Miscellaneous	0	0	0	0
Capital Outlay	0	314	3,410	0
Total Expenditures	<u>71,681</u>	<u>100,558</u>	<u>90,768</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	(47,721)	(9,621)	(31,155)	15,418
 Other Financing Sources (Uses)				
Transfers (out)		0	0	
Transfers In	50,000	0	40,000	0
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>0</u>	<u>40,000</u>	<u>0</u>
 Increase (Decrease) in Fund Balance	 2,279	 (9,621)	 8,845	 15,418
Fund Balance, January 1	13,474	126,068	(5,857)	100,888
Fund Balance, December 31	<u>\$ 15,753</u>	<u>\$ 116,447</u>	<u>\$ 2,988</u>	<u>\$ 116,306</u>

-208- Cemetery Perpetual Care Fund	204 Margaret Major Estate Fund	-410- EDA Fund	-207- Cemetery Fund	TOTALS December 31, 2006	TOTALS December 31, 2005
\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,611	\$ 1,769
0	0	0	2,150	103,958	162,154
<u>2,100</u>	<u>157</u>	<u>97,807</u>	<u>4,814</u>	<u>186,387</u>	<u>193,667</u>
<u>2,100</u>	<u>157</u>	<u>97,807</u>	<u>6,964</u>	<u>296,956</u>	<u>357,590</u>
0	0	0	0	171,925	138,402
0	0	0	0	87,358	89,007
0	0	109,884	0	109,884	227,523
0	0	0	6,966	6,966	35,628
0	0	0	6,733	10,457	16,311
<u>0</u>	<u>0</u>	<u>109,884</u>	<u>13,699</u>	<u>386,590</u>	<u>506,871</u>
2,100	157	(12,077)	(6,735)	(89,634)	(149,281)
0	0	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>11,000</u>	<u>101,000</u>	<u>100,000</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>11,000</u>	<u>101,000</u>	<u>100,000</u>
2,100	157	(12,077)	4,265	11,366	(49,281)
82,473	3,982	92,132	8,655	421,815	471,096
<u>\$ 84,573</u>	<u>\$ 4,139</u>	<u>\$ 80,055</u>	<u>\$ 12,920</u>	<u>\$ 433,181</u>	<u>\$ 421,815</u>

CITY OF ARLINGTON, MINNESOTA  
DEBT SERVICE FUNDS  
**COMBINING BALANCE SHEET**  
DECEMBER 31, 2006

	-312-	-303-	-313-	-317-	-300- -301-
	<b>2001 Sinking Fund</b>	<b>Ambulance Retirement</b>	<b>2004 Sinking Improvement</b>	<b>2004 W &amp; S Refunding</b>	<b>Tax Increment</b>
<b>Assets</b>					
Cash and Investments	\$ 44,319	\$ 37,738	\$ 62,163	\$ 2,484	\$ 123,206
Accounts Receivable	69		114		188
Interest Receivable	1,145	975	1,606	64	3,183
Total Assets	<u>\$ 45,533</u>	<u>\$ 38,713</u>	<u>\$ 63,883</u>	<u>\$ 2,548</u>	<u>\$ 126,577</u>
<b>Liabilities</b>					
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,254
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,254</u>
<b>Fund Balance</b>					
Reserved for Bond Retirement	45,533	38,713	63,883	2,548	118,323
Fund Balance	<u>\$ 45,533</u>	<u>\$ 38,713</u>	<u>\$ 63,883</u>	<u>\$ 2,548</u>	<u>\$ 126,577</u>

<b>-302-</b>	<b>-606-</b>	<b>-350-</b>	<b>-318-</b>	<b>-311-</b>	<b>-352-</b>	<b>December 31,</b>	
<b>Water Bond Sinking Fund</b>	<b>Community Center Bond Fund</b>	<b>Ambulance Certificate Fund</b>	<b>Wastewater Treatment Sinking Fund</b>	<b>2000 Sinking</b>	<b>Fire Certificate Fund</b>	<b>2006</b>	<b>2005</b>
\$ 0	\$ 141,482	\$ 5,767	\$ 3,819	\$ 118,908	\$ 38,275	\$ 578,161	\$ 586,323
	57		9	103	93	633	23,768
0	3,656	149	99	3,072	989	14,938	10,215
<u>\$ 0</u>	<u>\$ 145,195</u>	<u>\$ 5,916</u>	<u>\$ 3,927</u>	<u>\$ 122,083</u>	<u>\$ 39,357</u>	<u>\$ 593,732</u>	<u>\$ 620,306</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,254	\$ 0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,254</u>	<u>0</u>
0	145,195	5,916	3,927	122,083	39,357	585,478	620,306
<u>\$ 0</u>	<u>\$ 145,195</u>	<u>\$ 5,916</u>	<u>\$ 3,927</u>	<u>\$ 122,083</u>	<u>\$ 39,357</u>	<u>\$ 593,732</u>	<u>\$ 620,306</u>

CITY OF ARLINGTON, MINNESOTA  
DEBT SERVICE FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
DECEMBER 31, 2006

	-312-	-303-	-313-	-317-	-300- -301-
Revenue	<b>2001 Sinking Fund</b>	<b>Ambulance Retirement</b>	<b>2004 Sinking Improvement</b>	<b>2004 W &amp; S Refunding</b>	<b>Tax Increment</b>
Special Assessments	10,787	\$ 0	\$ 47,071	\$ 0	\$ 0
Tax levy	21,217	0	34,410	0	44,486
Market Value Credit	3,123	0	5,141	0	0
Interest	1,899	1,464	2,939	118	4,556
Other	0	0	0	0	0
Disparity Aid	0	0	0	0	0
Total Revenue	<u>37,026</u>	<u>1,464</u>	<u>89,561</u>	<u>118</u>	<u>49,042</u>
<b>Expenditures</b>					
<b>Payments on Bonds:</b>					
Principal	25,000	0	60,000	180,000	0
Interest	7,513	0	25,214	86,031	0
Fiscal Agent Fees	0	0	0	0	0
Returned Funds	0	0	0	0	0
Well and Warehouse Payment	0	0	0	0	8,254
Other	0	0	0	0	4,791
Total Expenditures	<u>32,513</u>	<u>0</u>	<u>85,214</u>	<u>266,031</u>	<u>13,045</u>
Excess (Deficiency) of Revenues Over Expenditures	4,513	1,464	4,347	(265,913)	35,997
<b>Other Financing Sources (Uses)</b>					
Transfers In	0	0	0	267,500	0
Transfers Out	0	0	0	0	0
Bond Sale/loan proceeds	0	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>267,500</u>	<u>0</u>
Increase (Decrease) in Fund Balance	4,513	1,464	4,347	1,587	35,997
Fund Balance, January 1,	<u>41,020</u>	<u>37,249</u>	<u>59,536</u>	<u>961</u>	<u>82,326</u>
Fund Balance, December 31,	<u><u>45,533</u></u>	<u><u>\$ 38,713</u></u>	<u><u>\$ 63,883</u></u>	<u><u>\$ 2,548</u></u>	<u><u>\$ 118,323</u></u>

<b>-302- Water Bond Sinking Fund</b>	<b>-606- Community Center Bond Fund</b>	<b>-350- Ambulance Certificate Fund</b>	<b>-318- Wastewater Treatment Sinking Fund</b>	<b>-311- 2000 Sinking</b>	<b>-352- Fire Certificate Fund</b>	<b>December 31, 2006      2005</b>	
\$ 0	\$ 0	\$ 0	\$ 0	\$ 19,026	\$ 0	\$ 76,884	\$ 97,275
0	17,205	0	539	31,426	28,341	177,624	170,713
0	2,570	0	0	4,627	4,177	19,638	18,629
0	5,715	224	179	4,853	1,949	23,896	65,205
0	0	0	0	0	21,346	21,346	51,039
0	0	0	0	0	0	0	0
<u>0</u>	<u>25,490</u>	<u>224</u>	<u>718</u>	<u>59,932</u>	<u>55,813</u>	<u>319,388</u>	<u>402,861</u>
7,000	52,500	0	37,500	45,000	65,000	472,000	1,936,967
2,811	25,648	0	13,097	15,678	5,490	181,482	279,910
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	8,254	15,765
0	0	0	0	0	0	4,791	4,790
<u>9,811</u>	<u>78,148</u>	<u>0</u>	<u>50,597</u>	<u>60,678</u>	<u>70,490</u>	<u>666,527</u>	<u>2,237,432</u>
(9,811)	(52,658)	224	(49,879)	(746)	(14,677)	(347,139)	(1,834,571)
9,811	0	0	35,000	0	0	312,311	268,240
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
<u>9,811</u>	<u>0</u>	<u>0</u>	<u>35,000</u>	<u>0</u>	<u>0</u>	<u>312,311</u>	<u>268,240</u>
0	(52,658)	224	(14,879)	(746)	(14,677)	(34,828)	(1,566,331)
0	197,853	5,692	18,806	122,829	54,034	620,306	2,186,637
<u>\$ 0</u>	<u>\$ 145,195</u>	<u>\$ 5,916</u>	<u>\$ 3,927</u>	<u>\$ 122,083</u>	<u>\$ 39,357</u>	<u>\$ 585,478</u>	<u>\$ 620,306</u>

CITY OF ARLINGTON, MINNESOTA  
 CAPITAL PROJECT FUNDS  
**COMBINING BALANCE SHEET**  
 DECEMBER 31, 2006

	<b>323</b>	<b>415</b>	<b>420</b>	<b>425</b>	<b>430</b>	<b>401</b>	<b>Totals</b>	
	<b>2004</b>	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>	<b>Other</b>	<b>Capital</b>	<b>December 31,</b>	
	<b>Improvement</b>	<b>Improvement</b>	<b>Improvement</b>	<b>Improvement</b>	<b>Improvement</b>	<b>Equipment</b>	<b>2006</b>	<b>2005</b>
	<b>Constructior</b>	<b>Fund</b>	<b>Fund</b>	<b>Fund</b>	<b>Fund</b>	<b>Fund</b>		
<b>Assets</b>								
Cash and Investments	0	100,994	206,840	1,287,144	145,380	34,340	1,774,698	1,770,155
Interest Receivable	0	2,610	5,345	33,258	3,756	887	45,856	30,819
Total Assets	<u>0</u>	<u>103,604</u>	<u>212,185</u>	<u>1,320,402</u>	<u>149,136</u>	<u>35,227</u>	<u>1,820,554</u>	<u>1,800,974</u>
<b>Liabilities</b>								
Accounts Payable	0	0	0	0	0	0	0	9,767
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,767</u>
<b>Fund Balance</b>								
Reserved for Construction Costs	0	103,604	212,185	1,320,402	149,136	35,227	1,820,554	1,791,207
Total Liabilities and Fund Balance	<u>0</u>	<u>103,604</u>	<u>212,185</u>	<u>1,320,402</u>	<u>149,136</u>	<u>35,227</u>	<u>1,820,554</u>	<u>1,800,974</u>

CITY OF ARLINGTON, MINNESOTA  
**CAPITAL PROJECT FUNDS**  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 YEAR ENDED DECEMBER 31, 2006

Statement D-2

	<b>323</b>	<b>415</b>	<b>420</b>	<b>425</b>	<b>430</b>	<b>401</b>	<u>Totals December 31,</u>	
	<b>2004</b>	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>	<b>Other</b>	<b>Capital</b>	<b>2006</b>	<b>2005</b>
Revenue	<u>Improvement</u> <u>Fund</u>	<u>Improvement</u> <u>Fund</u>	<u>Improvement</u> <u>Fund</u>	<u>Improvement</u> <u>Fund</u>	<u>Improvement</u> <u>Fund</u>	<u>Equipment</u> <u>Fund</u>		
Interest	0	3,920	8,505	49,954	5,732	1,236	69,347	57,421
Other Income	0	0	0	0	0	0	0	2,665
Total Revenue	<u>0</u>	<u>3,920</u>	<u>8,505</u>	<u>49,954</u>	<u>5,732</u>	<u>1,236</u>	<u>69,347</u>	<u>60,086</u>
 Expenditures								
Capital Outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>80,100</u>
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>80,100</u>
Excess (Deficiency) of Revenues Over Expenditures	0	3,920	8,505	49,954	5,732	1,236	69,347	(20,014)
 )								
Transfers In	9,482	0	0	0	0	10,000	19,482	15,500
Transfers Out	0	0	(50,000)	0	(9,482)	0	(59,482)	(395,500)
Bond Sale	0	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	<u>9,482</u>	<u>0</u>	<u>(50,000)</u>	<u>0</u>	<u>(9,482)</u>	<u>10,000</u>	<u>(40,000)</u>	<u>(380,000)</u>
Increase (Decrease) in Fund Balance	9,482	3,920	(41,495)	49,954	(3,750)	11,236	29,347	(400,014)
Fund Balance, January 1,	<u>(9,482)</u>	<u>99,684</u>	<u>253,680</u>	<u>1,270,448</u>	<u>152,886</u>	<u>23,991</u>	<u>1,791,207</u>	<u>2,191,221</u>
Fund Balance, December 31,	<u>0</u>	<u>103,604</u>	<u>212,185</u>	<u>1,320,402</u>	<u>149,136</u>	<u>35,227</u>	<u>1,820,554</u>	<u>1,791,207</u>

CITY OF ARLINGTON, MINNESOTA  
ENTERPRISE FUNDS  
**COMBINING BALANCE SHEET**  
DECEMBER 31, 2006

	-604-	-601-	-602-	Totals	
	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>December 31,</u> <u>2006</u> <u>2005</u>	
Assets					
Current Assets:					
Cash and Investments	\$ 658,198	\$ 28,891	\$ 13,816	\$ 700,905	\$ 648,871
Accounts Receivable	169,717	27,385	68,361	265,463	194,264
Interest Receivable	17,007	747	367	18,121	11,299
Inventory	108,585	18,203	1,552	128,340	128,221
Prepaid Expenses	0	0	0	0	0
Total Current Assets	<u>953,507</u>	<u>75,226</u>	<u>84,096</u>	<u>1,112,829</u>	<u>982,655</u>
Fixed Assets:					
Utility System	<u>2,013,968</u>	<u>3,425,535</u>	<u>689,903</u>	<u>6,129,406</u>	<u>6,049,799</u>
Total Fixed Assets	<u>2,013,968</u>	<u>3,425,535</u>	<u>689,903</u>	<u>6,129,406</u>	<u>6,049,799</u>
Less: Accumulated Depreciation	(1,254,801)	(1,060,285)	(361,959)	(2,677,045)	(2,472,731)
Net Fixed Assets	<u>759,167</u>	<u>2,365,250</u>	<u>327,944</u>	<u>3,452,361</u>	<u>3,577,068</u>
Total Assets	<u>\$ 1,712,674</u>	<u>\$ 2,440,476</u>	<u>\$ 412,040</u>	<u>\$ 4,565,190</u>	<u>\$ 4,559,723</u>
Liabilities, Contributions and Retained Earnings					
Current Liabilities:					
Accounts Payable	\$ 98,969	\$ 5,817	\$ 19,879	\$ 124,665	\$ 119,049
Current portion of Bonds Payable	0	0	0	0	0
Total Current Liabilities	<u>98,969</u>	<u>5,817</u>	<u>19,879</u>	<u>124,665</u>	<u>119,049</u>
Total Liabilities	<u>98,969</u>	<u>5,817</u>	<u>19,879</u>	<u>124,665</u>	<u>119,049</u>
Contributions	112,186	2,337,190	154,026	2,603,402	2,603,402
Retained Earnings					
Reserved for Revenue Bond Retirement	0	0	0	0	0
Short-term Capital Outlay	260,000	0	0	260,000	260,000
Long-term Capital Outlay	500,000	0	0	500,000	500,000
Unreserved	<u>741,519</u>	<u>97,469</u>	<u>238,135</u>	<u>1,077,123</u>	<u>1,077,272</u>
Total Retained Earnings	<u>1,501,519</u>	<u>97,469</u>	<u>238,135</u>	<u>1,837,123</u>	<u>1,837,272</u>
Total Liabilities, Contributions and Retained Earnings	<u>\$ 1,712,674</u>	<u>\$ 2,440,476</u>	<u>\$ 412,040</u>	<u>\$ 4,565,190</u>	<u>\$ 4,559,723</u>

CITY OF ARLINGTON, MINNESOTA  
 ENTERPRISE FUNDS  
**COMBINING STATEMENT OF OPERATIONS**  
 YEAR ENDED DECEMBER 31, 2006

	-604-	-601-	-602-	Totals December 31,	
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>2006</b>	<b>2005</b>
Gross Income:					
Sales	\$ 1,659,166	\$ 284,395	\$ 263,505	\$ 2,207,066	\$ 2,014,523
Interest	25,706	2,522	781	29,009	18,255
Penalties - Late Payments	8,287	1,824	1,554	11,665	9,214
State Grants	0	0	0	0	0
Other	13,201	19,865	33,672	66,738	41,644
Total Gross Income	<u>1,706,360</u>	<u>308,606</u>	<u>299,512</u>	<u>2,314,478</u>	<u>2,083,636</u>
Expenses:					
Purchased Power	1,140,587	0	0	1,140,587	1,028,042
Wages and Benefits	106,108	48,960	50,293	205,361	192,589
Professional Services	33,385	960	14,829	49,174	74,363
Insurance	9,322	6,068	5,748	21,138	17,048
Utilities	3,228	28,011	46,282	77,521	80,183
Depreciation	67,132	114,185	22,997	204,314	201,660
Other Operating Expense	228,222	66,579	59,420	354,221	464,733
Total Expense	<u>1,587,984</u>	<u>264,763</u>	<u>199,569</u>	<u>2,052,316</u>	<u>2,058,618</u>
Operating Income	118,376	43,843	99,943	262,162	25,018
Other Income (Expense):					
Transfer In	0	0	50,000	50,000	375,000
Transfer Out	0	(197,811)	(114,500)	(312,311)	(268,240)
Total Other Income	<u>0</u>	<u>(197,811)</u>	<u>(64,500)</u>	<u>(262,311)</u>	<u>106,760</u>
Net Income (Loss)	<u>\$ 118,376</u>	<u>\$ (153,968)</u>	<u>\$ 35,443</u>	<u>\$ (149)</u>	<u>\$ 131,778</u>
Retained Earnings, January 1	\$ 1,383,143	\$ 251,437	\$ 202,692	\$ 1,837,272	\$ 1,705,494
Retained Earnings, December 31	<u>\$ 1,501,519</u>	<u>\$ 97,469</u>	<u>\$ 238,135</u>	<u>\$ 1,837,123</u>	<u>\$ 1,837,272</u>
Contributed Surplus	<u>\$ 112,186</u>	<u>\$ 2,337,190</u>	<u>\$ 154,026</u>	<u>\$ 2,603,402</u>	<u>\$ 2,603,402</u>

CITY OF ARLINGTON, MINNESOTA  
 ENTERPRISE FUNDS  
**COMBINING STATEMENT OF CASH FLOWS**  
 YEAR ENDED DECEMBER 31, 2006

	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Total</b>
Cash Received From Operations				
Cash Received from Customers and Users	\$ 1,596,214	\$ 281,603	\$ 211,595	\$ 2,089,412
Other Cash Received	21,488	21,689	35,226	78,403
Grant funds received	0	0	0	0
Cash Paid to Suppliers and Employees	(1,542,105)	(126,813)	(160,251)	(1,829,169)
Net Cash (used) by Operating Activities	<u>54,109</u>	<u>154,790</u>	<u>51,344</u>	<u>260,243</u>
Cash Flows from Investing Activities				
Investment Income	25,706	2,522	781	29,009
Net Cash (Used) by Investing Activities	<u>25,706</u>	<u>2,522</u>	<u>781</u>	<u>29,009</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of Fixed Assets	0	0	(79,607)	(79,607)
Transfers to Other Funds	0	(197,811)	(114,500)	(312,311)
Total Cash flow from Capital and Related Financing Activities	<u>0</u>	<u>(197,811)</u>	<u>(194,107)</u>	<u>(391,918)</u>
Net Increase in Unrestricted Cash	79,815	(40,499)	(141,982)	(102,666)
Unrestricted Cash January 1	<u>578,383</u>	<u>69,390</u>	<u>155,798</u>	<u>803,571</u>
Unrestricted Cash December 31	<u>\$ 658,198</u>	<u>\$ 28,891</u>	<u>\$ 13,816</u>	<u>\$ 700,905</u>

CITY OF ARLINGTON  
ARLINGTON, MINNESOTA

AUDITOR'S REPORT

**Report on Compliance and on Internal Control over Financial  
Reporting Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

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

We have audited the financial statements of City of Arlington as of and for the years ended December 31, 2006 and have issued our report thereon dated April 28, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City's Board and Management and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than those specified parties.

Babcock, Langbein and Company  
April 28, 2007

Independent Auditor s Report on Compliance With  
Minnesota Legal Compliance Audit Guide to Local Government

To The Honorable Mayor  
and Members of the City Council  
City of Arlington, Minnesota

We have audited the general purpose manual statements of the City of Arlington Minnesota, as of and for the year ended December 31, 2006, and have issued our report thereon dated April 28, 2007.

We conducted our audit in accordance with generally accepted auditing standards, and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Local Government covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the above listed categories.

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

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

Babcock, Langbein and Company  
April 28, 2007