

CITY OF BAYPORT  
BAYPORT, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2009

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**INTRODUCTORY SECTION**

**CITY OF BAYPORT  
BAYPORT, MINNESOTA**

**YEAR ENDED  
DECEMBER 31, 2009**

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CITY OF BAYPORT, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
YEAR ENDED DECEMBER 31, 2009

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Nowaczek	Mayor	12/31/10
Dan Johnson	Council Member	12/31/10
Torry Kraftson	Council Member	12/31/10
Connie Carlson	Council Member	12/31/12
Judy Seberger	Council Member	12/31/12

**APPOINTED**

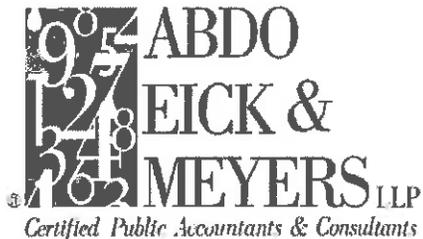
<u>Name</u>	<u>Title</u>
Mitchell Berg	Administrator
Wanda Madsen	Finance Officer

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**FINANCIAL SECTION**  
**CITY OF BAYPORT**  
**BAYPORT, MINNESOTA**

**YEAR ENDED**  
**DECEMBER 31, 2009**

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5201 Eden Avenue  
Suite 370  
Edina, MN 55436

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Bayport, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information the City of Bayport, Minnesota (the City), as of and for the year ended December 31, 2009 which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2008 financial statements and, in our report dated March 24, 2009, we expressed unqualified opinions on the respective proprietary fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2009 and the respective changes in financial position and cash flows and budgetary comparisons for the General fund, where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the year ended December 31, 2009.

The Management's Discussion and Analysis on starting on page 13 and the Schedule of Funding Progress on page 75 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and supplementary information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining and individual and fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

April 19, 2010  
Minneapolis, Minnesota

*Abdo Eick & Meyers, LLP*

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

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## **Management's Discussion and Analysis**

As management of the City of Bayport (the City), Minnesota, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2009.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$34,518,725 (net assets). Of this amount, \$12,944,583 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,012,090. This increase can be attributed to general revenues such as property taxes, unrestricted grants and contributions, investment earnings and interfund transfers for the governmental activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,169,495, a decrease of \$416,491 in comparison with the prior year.
- At the end of the current fiscal year, the unreserved fund balance for the General fund was \$2,604,170, or 132 percent of 2009 fund expenditures. The remaining fund balance of the General fund has been reserved for prepaid items in the amount of \$21,031.
- The City Local Government Aid (LGA) of \$461,616 was unallotted by \$49,166 in 2009.

### **Overview of the Financial Statements**

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

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

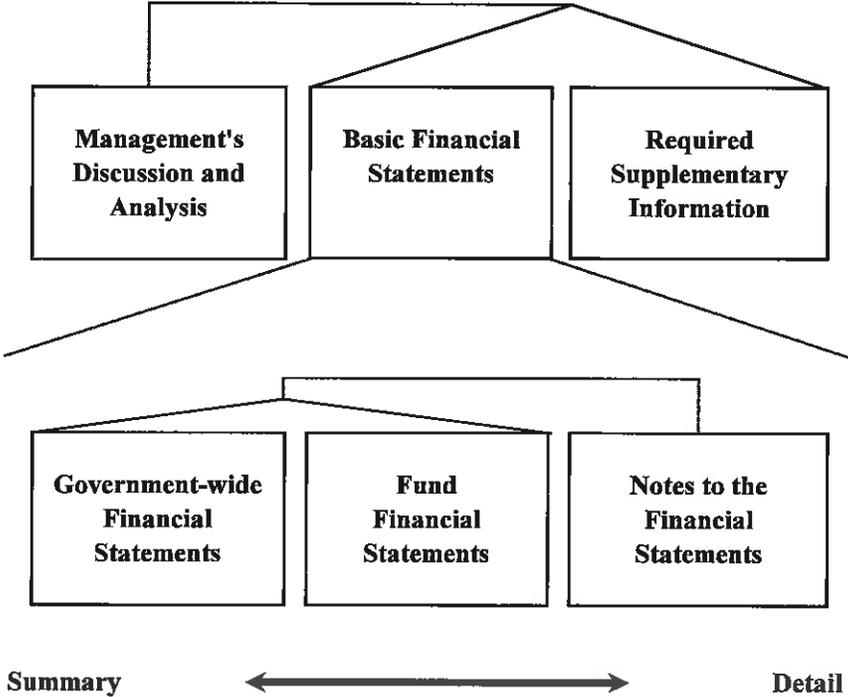


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

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

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

**Government-wide Financial Statements**

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and interest on long-term debt. The business-type activities of the City include water and sewer utilities.

The government-wide financial statements start on page 27 of this report.

## Fund Financial Statements

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

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

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

The City maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Debt Service fund, the Park Improvement fund, the Street Reconstruction fund, the Water & Sewer Improvements fund and the Perro Creek Outlet fund, all of which are considered to be major funds. Data from the other 16 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

The basic governmental fund financial statements start on page 32 of this report.

**Proprietary funds.** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utility operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements start on page 40 of this report.

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

The basic fiduciary fund financial statements start on page 48 of this report.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 49 of this report.

## Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules start on page 78 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities \$34,518,725 at the close of the most recent fiscal year.

The largest portion of the City's net assets (61 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Summary of Net Assets**

	Governmental Activities			Business-type Activities		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
<b>Assets</b>						
Current and other assets	\$ 10,770,037	\$ 11,145,043	\$ (375,006)	\$ 2,930,227	\$ 3,052,595	\$ (122,368)
Capital assets (net of depreciation)	14,841,388	13,302,545	1,538,843	7,222,894	7,395,576	(172,682)
<b>Total assets</b>	<b>25,611,425</b>	<b>24,447,588</b>	<b>1,163,837</b>	<b>10,153,121</b>	<b>10,448,171</b>	<b>(295,050)</b>
<b>Liabilities</b>						
Long-term liabilities outstanding	924,480	1,035,041	(110,561)	24,764	10,075	14,689
Other liabilities	242,804	293,739	(50,935)	53,773	50,269	3,504
<b>Total liabilities</b>	<b>1,167,284</b>	<b>1,328,780</b>	<b>(161,496)</b>	<b>78,537</b>	<b>60,344</b>	<b>18,193</b>
<b>Net assets</b>						
Invested in capital assets net of related debt	13,946,388	12,307,545	1,638,843	7,222,894	7,395,576	(172,682)
Restricted	404,860	407,898	(3,038)	-	-	-
Unrestricted	10,092,893	10,403,365	(310,472)	2,851,690	2,992,251	(140,561)
<b>Total net assets</b>	<b>\$ 24,444,141</b>	<b>\$ 23,118,808</b>	<b>\$ 1,325,333</b>	<b>\$ 10,074,584</b>	<b>\$ 10,387,827</b>	<b>\$ (313,243)</b>

An additional portion of the City's net assets (\$404,860 or 1 percent) represents resources that are subject to external restrictions on how they may be used. These restrictions are basically obligation for future debt service. The remaining balance of *unrestricted net assets* (\$12,944,583) may be used to meet the City's ongoing obligations to citizens and creditors.

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

The City's net assets increased \$1,012,090 during the current fiscal year.

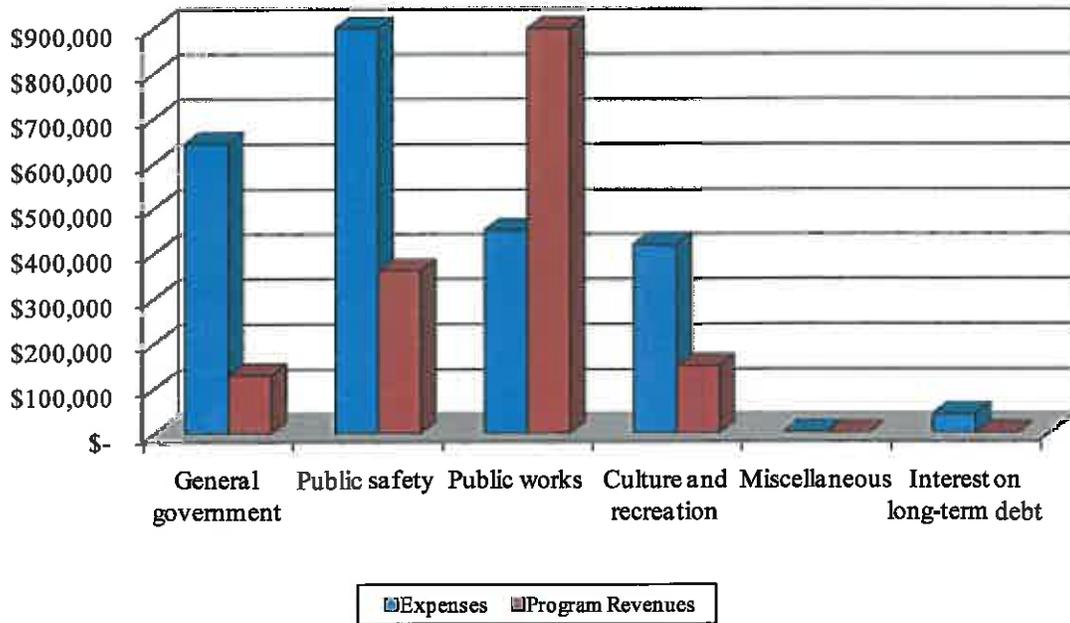
**Governmental activities.** Governmental activities increased the City's net assets \$1,325,333 thereby accounting for all of the growth in the net assets of the City. Key elements of this increase are as follows:

### Changes in Net Assets

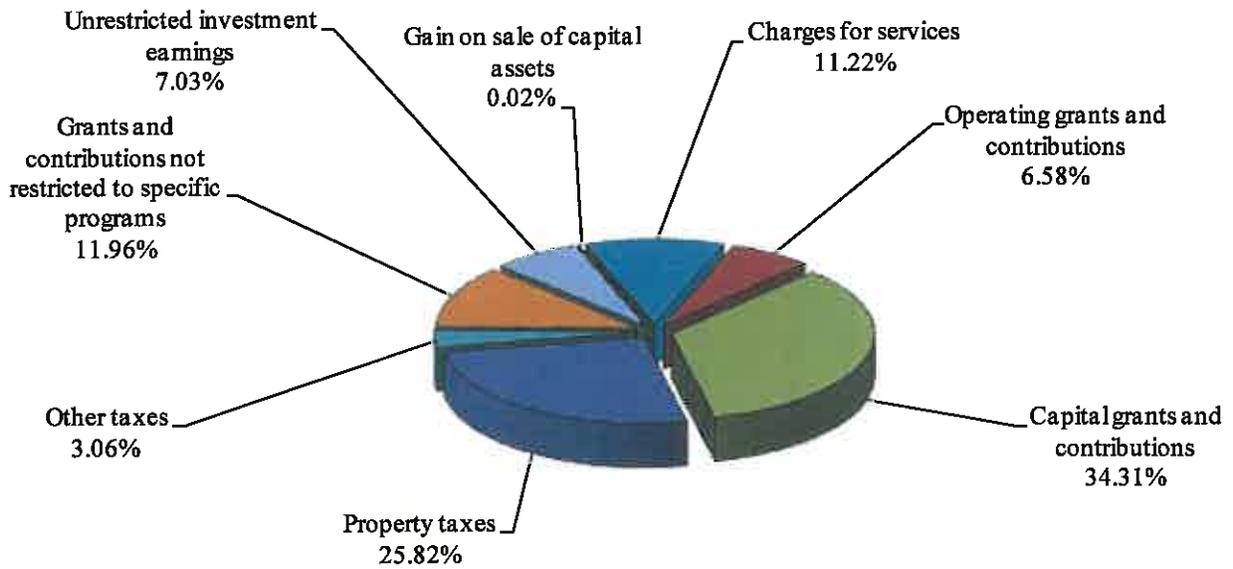
	Governmental Activities			Business-type Activities		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 427,927	\$ 461,136	\$ (33,209)	\$ 789,541	\$ 722,362	\$ 67,179
Operating grants and contributions	250,901	295,435	(44,534)	-	-	-
Capital grants and contributions	1,308,820	116,217	1,192,603	21,454	275,690	(254,236)
General revenues						
Property taxes	984,676	946,957	37,719	-	-	-
Tax increments	116,766	115,500	1,266	-	-	-
Gravel taxes	1	389	(388)	-	-	-
Grants and contributions not restricted to specific programs	455,930	428,487	27,443	-	-	-
Unrestricted investment earnings	267,960	455,712	(187,752)	71,567	124,655	(53,088)
Gain on sale of capital assets	650	11,000	(10,350)	-	-	-
Total revenues	3,813,631	2,830,833	982,798	882,562	1,122,707	(240,145)
Expenses						
General government	645,466	635,717	9,749	-	-	-
Public safety	1,050,185	974,397	75,788	-	-	-
Public works	451,706	339,612	112,094	-	-	-
Culture and recreation	419,352	424,373	(5,021)	-	-	-
Miscellaneous	2,887	5,211	(2,324)	-	-	-
Interest on long-term debt	41,652	44,641	(2,989)	-	-	-
Water	-	-	-	440,877	390,680	50,197
Sewer	-	-	-	631,978	566,881	65,097
Total expenses	2,611,248	2,423,951	187,297	1,072,855	957,561	115,294
Increase (decrease) in net assets before transfers	1,202,383	406,882	795,501	(190,293)	165,146	(355,439)
Capital transfers	-	(15,616)	15,616	-	15,616	(15,616)
Transfers	122,950	120,000	2,950	(122,950)	(120,000)	(2,950)
Change in net assets	1,325,333	511,266	814,067	(313,243)	60,762	(374,005)
Net assets, January 1	23,118,808	22,607,542	511,266	10,387,827	10,327,065	60,762
Net assets, December 31	\$ 24,444,141	\$ 23,118,808	\$ 1,325,333	\$ 10,074,584	\$ 10,387,827	\$ (313,243)

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

Expenses and Program Revenues - Governmental Activities

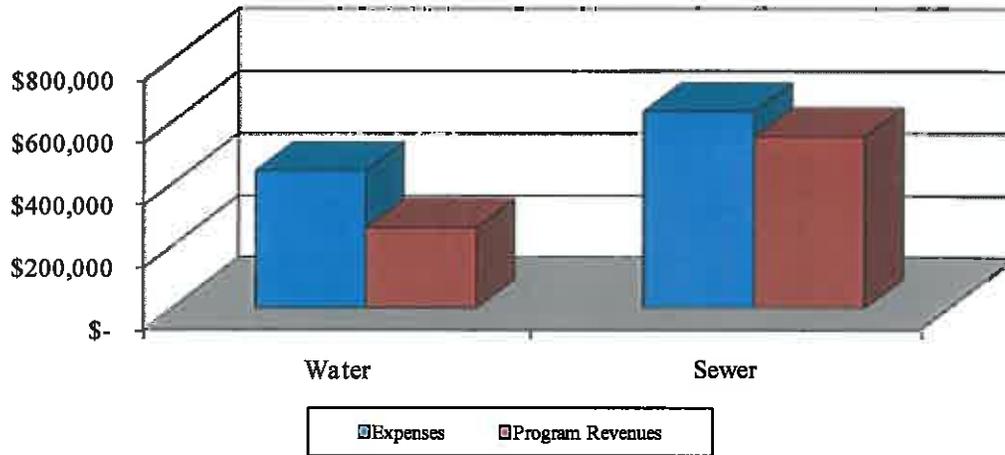


Revenues by Source - Governmental Activities

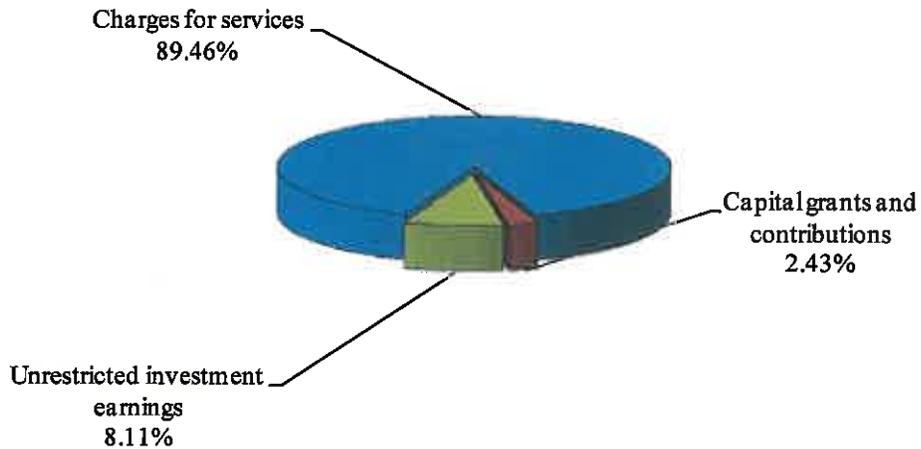


**Business-type activities.** Business-type activities decreased the City's net assets by \$313,243, accounting for none of the growth of the City's net assets. Key elements of this increase are as follows:

### Expenses and Program Revenues - Business-type Activities



### Revenues by Source - Business-type Activities



**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,169,495 a decrease of \$416,491 in comparison with the prior year. Approximately 91 percent of this total amount \$9,213,221 constitutes *unreserved fund balance*, however \$5,914,601 has been targeted for specific projects. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for prepaid items (\$23,230), to pay debt service (\$408,044) and for City Council restricted investments (\$525,000).

Major funds	Fund Balance (Deficits)		Increase (Decrease)
	2009	2008	
<b>General</b>	\$ 2,625,201	\$ 2,880,220	\$ (255,019)

During 2009, General fund revenues were less than budget by over \$230 thousand and were also less than expenditures by over \$69 thousand. Along with transfers to other funds of over \$192 thousand, the General fund balance decreased significantly.

<b>Debt Service</b>	\$ 408,044	\$ 411,395	\$ (3,351)
---------------------	------------	------------	------------

The decrease in fund balance was the result of debt service payments exceeding revenues. All of the fund balance has been reserved for future debt service requirements.

<b>Park Improvement</b>	\$ (689,954)	\$ (28,120)	\$ (661,834)
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The fund balance decreased significantly from the prior year due to construction expenditures for Barker's Alps Park. The fund currently has a significant deficit balance to which the City is currently developing a financing plan to eliminate this deficit.

<b>Street Reconstruction</b>	\$ 3,044,473	\$ 2,941,789	\$ 102,684
------------------------------	--------------	--------------	------------

The fund incurred no expenditures during the year. The increase in fund balance was due to interest on investments and collections of special assessment levies.

<b>Water &amp; Sewer Improvements</b>	\$ 849,611	\$ 758,449	\$ 91,162
---------------------------------------	------------	------------	-----------

The fund incurred no expenditures during the year. The increase in fund balance was due to interest on investments and trunk water and sewer charges.

<b>Perro Creek Outlet</b>	\$ (2,316)	\$ -	\$ (2,316)
---------------------------	------------	------	------------

The fund balance decreased from the prior year as construction began on the storm water project. While the fund incurred over \$1 million of expenditures during the year, the project has been fully financed with a grant from the Public Facilities Authority.

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$2,851,690. The total decrease in net assets for the funds was \$313,243. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

**Budgetary Highlights**

The City's General fund budget was not amended during the year. Actual change in fund balance was a decrease of \$255,019. This decrease was due to revenues falling short of budgeted figures by \$231,393. The largest revenue variances were interest on investments and intergovernmental. Those sources were under budget by \$80,090 and \$70,660 respectively.

The expenditures also provided a negative variance, and exceeded appropriations by \$71,679. The two largest variances occurred in the capital outlay and public safety departments. Those departments were under budget \$57,060 and over budget by \$50,339 respectively.

**Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of December 31, 2009, amounts to \$22,064,282 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, and streets.

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

- The Perro Creek Outlet project began the construction phase and accumulated over \$1 million of expenditures. Although major construction phases are complete, the improvements are not functional, and the asset is included as construction in process below.
- The Barker's Alps Park Improvements project began during the year, and accumulated over \$666 thousand of expenditures. The project is not yet complete, and is included as construction in process below.
- The public safety department replaced two squad cars and added a grass fire fighting unit.

Additional information on the City's capital assets can be found in Note 3E starts on page 60 of this report.

**Capital Assets Net of Depreciation**

	Governmental Activities			Business-type Activities		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Land	\$ 6,198,024	\$ 6,198,024	\$ -	\$ -	\$ -	\$ -
Buildings and improvements	2,896,099	2,992,110	(96,011)	2,884	3,224	(340)
Machinery and equipment	1,992,559	2,078,798	(86,239)	49,988	55,341	(5,353)
Library books	54,622	52,900	1,722	-	-	-
Infrastructure	1,893,014	1,980,713	(87,699)	7,170,022	7,337,011	(166,989)
Construction in process	1,807,070	-	1,807,070	-	-	-
<b>Total</b>	<b>\$ 14,841,388</b>	<b>\$ 13,302,545</b>	<b>\$ 1,538,843</b>	<b>\$ 7,222,894</b>	<b>\$ 7,395,576</b>	<b>\$ (172,682)</b>

### Outstanding Debt

	Governmental Activities			Business-type Activities		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Compensated absences	\$ 27,040	\$ 40,041	\$ (13,001)	\$ 24,198	\$ 10,075	\$ 14,123
Other postemployment benefits payable	2,440	-	2,440	566	-	566
G.O. Tax Increment bonds	895,000	995,000	(100,000)	-	-	-
<b>Total</b>	<b>\$ 924,480</b>	<b>\$ 1,035,041</b>	<b>\$ (110,561)</b>	<b>\$ 24,764</b>	<b>\$ 10,075</b>	<b>\$ 14,689</b>

The City's outstanding debt was reduced \$100,000 during 2009, due to debt service payments.

Minnesota statutes limit the amount of net general obligation debt a City may issue to three percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The City currently has no debt applicable to this limit.

Additional information on the City's long-term debt can be found in Note 3E starts on pages 63 of this report.

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

- The City of Bayport completed a rate study at the end of 2009, in which the City Council approved a new rate increase, which will result in both commercial and residential water and sewer rate increases for the next four years.
- The City saw an 18% increase in health care premiums for 2010, but was able to reduce its liability to 11% by shifting a portion of the amount of money the employer contributes to each individual employee's Health Savings Account to the employee.
- In addition to the approximate \$111,000 in cut to LGA during 2009, the City will see another \$55,000 cut in 2010
- The City also anticipates other revenues to fall by approximately \$190,000, mostly in the form of lower investment earnings, rental income, permit and license fees, and fines and forfeitures.
- The City has adopted an amended 2010 budget which will result in a reduction of approximately \$57,000 in the amount of transfers made from the General fund to the City's capital replacement funds and approximately \$121,000 in cuts to the General fund, including but not limited to a mandatory furlough among the non-union staff.
- The City does not plan on making any major capital expenditures on infrastructure improvements for 2010. Nevertheless, the City has budgeted, in the 2010 CIP, \$270,000 for water/sewer improvements, \$130,000 for the acquisition of new Public Works Vehicles, and \$100,000 for various street projects.

#### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Wanda Madsen, Finance Director, City of Bayport, 294 North 3<sup>rd</sup> Street, Bayport MN, 55003.

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**BASIC FINANCIAL STATEMENTS**

**CITY OF BAYPORT  
BAYPORT, MINNESOTA**

**YEAR ENDED  
DECEMBER 31, 2009**

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CITY OF BAYPORT, MINNESOTA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2009

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and temporary investments	\$ 9,964,764	\$ 2,769,483	\$ 12,734,247
Receivables			
Accrued interest	65,078	-	65,078
Delinquent taxes	66,477	-	66,477
Accounts	225,598	154,269	379,867
Special assessments	325,589	4,067	329,656
Due from other governments	99,301	-	99,301
Prepaid items	23,230	2,408	25,638
Capital assets			
Land and construction in progress	8,005,094	-	8,005,094
Depreciable assets (net of accumulated depreciation)	6,836,294	7,222,894	14,059,188
<b>TOTAL ASSETS</b>	<b>25,611,425</b>	<b>10,153,121</b>	<b>35,764,546</b>
<b>LIABILITIES</b>			
Accounts payable	149,825	45,478	195,303
Accrued salaries payable	23,163	-	23,163
Accrued interest payable	3,184	-	3,184
Due to other governments	22,989	8,295	31,284
Unearned revenue	43,643	-	43,643
Noncurrent liabilities			
Due within one year			
Bonds payable	100,000	-	100,000
Compensated absences payable	5,890	5,271	11,161
Due in more than one year			
Bonds payable	795,000	-	795,000
Other postemployment benefits payable	2,440	566	3,006
Compensated absences payable	21,150	18,927	40,077
<b>TOTAL LIABILITIES</b>	<b>1,167,284</b>	<b>78,537</b>	<b>1,245,821</b>
<b>NET ASSETS</b>			
Invested in capital assets net of related debt	13,946,388	7,222,894	21,169,282
Restricted for			
Debt service	404,860	-	404,860
Unrestricted	10,092,893	2,851,690	12,944,583
<b>TOTAL NET ASSETS</b>	<b>\$ 24,444,141</b>	<b>\$ 10,074,584</b>	<b>\$ 34,518,725</b>

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

CITY OF BAYPORT, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities</b>				
General government	\$ 645,466	\$ 93,299	\$ 36,805	\$ -
Public safety	1,050,185	274,626	86,656	-
Public works	451,706	25,853	11,866	1,308,820
Culture and recreation	419,352	34,149	115,574	-
Miscellaneous	2,887	-	-	-
Interest on long-term debt	41,652	-	-	-
<b>Total governmental activities</b>	<b>2,611,248</b>	<b>427,927</b>	<b>250,901</b>	<b>1,308,820</b>
<b>Business-type activities</b>				
Water	440,877	241,420	-	17,354
Sewer	631,978	548,121	-	4,100
<b>Total business-type activities</b>	<b>1,072,855</b>	<b>789,541</b>	<b>-</b>	<b>21,454</b>
<b>Total</b>	<b>\$ 3,684,103</b>	<b>\$ 1,217,468</b>	<b>\$ 250,901</b>	<b>\$ 1,330,274</b>

General revenues

Taxes

  Property taxes

  Gravel taxes

  Tax increments

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net assets

Net assets, January 1

Net assets, December 31

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

Net Revenues (Expenses)  
and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (515,362)	\$ -	\$ (515,362)
(688,903)	-	(688,903)
894,833	-	894,833
(269,629)	-	(269,629)
(2,887)	-	(2,887)
(41,652)	-	(41,652)
<u>(623,600)</u>	<u>-</u>	<u>(623,600)</u>
-	(182,103)	(182,103)
-	(79,757)	(79,757)
<u>-</u>	<u>(261,860)</u>	<u>(261,860)</u>
<u>(623,600)</u>	<u>(261,860)</u>	<u>(885,460)</u>
984,676	-	984,676
1	-	1
116,766	-	116,766
455,930	-	455,930
267,960	71,567	339,527
650	-	650
122,950	(122,950)	-
<u>1,948,933</u>	<u>(51,383)</u>	<u>1,897,550</u>
1,325,333	(313,243)	1,012,090
<u>23,118,808</u>	<u>10,387,827</u>	<u>33,506,635</u>
<u>\$ 24,444,141</u>	<u>\$ 10,074,584</u>	<u>\$ 34,518,725</u>

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**FUND FINANCIAL STATEMENTS**

**CITY OF BAYPORT  
BAYPORT, MINNESOTA**

**YEAR ENDED  
DECEMBER 31, 2009**

CITY OF BAYPORT, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009

	General	Debt Service	Park Improvement	Street Reconstruction
<b>ASSETS</b>				
Cash and temporary investments (deficits)	\$ 2,682,243	\$ 380,573	\$ -	\$ 3,044,473
Receivables				
Accounts	-	-	-	-
Accrued interest	65,078	-	-	-
Delinquent taxes	23,693	27,471	-	-
Special assessments				
Delinquent	974	-	-	2,299
Deferred	12,803	-	92,648	39,591
Due from other funds	1,678	-	-	-
Due from other governments	-	-	-	-
Prepaid items	21,031	-	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 2,807,500</u></b>	<b><u>\$ 408,044</u></b>	<b><u>\$ 92,648</u></b>	<b><u>\$ 3,086,363</u></b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 43,394	\$ -	\$ 10,929	\$ -
Accrued salaries payable	23,163	-	-	-
Due to other funds	-	-	679,025	-
Due to other governments	22,989	-	-	-
Deferred revenue	92,753	-	92,648	41,890
<b>TOTAL LIABILITIES</b>	<b><u>182,299</u></b>	<b><u>-</u></b>	<b><u>782,602</u></b>	<b><u>41,890</u></b>
<b>FUND BALANCES (DEFICITS)</b>				
Reserved for				
Prepaid items	21,031	-	-	-
Debt service	-	408,044	-	-
City Council restricted investments	-	-	-	-
Unreserved				
Designated for, reported in				
Special revenue fund	-	-	-	-
Capital projects funds	-	-	-	3,044,473
Undesignated, reported in				
General fund	2,604,170	-	-	-
Capital projects funds	-	-	-	-
Special revenue fund	-	-	(689,954)	-
Permanent fund	-	-	-	-
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<b><u>2,625,201</u></b>	<b><u>408,044</u></b>	<b><u>(689,954)</u></b>	<b><u>3,044,473</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)</b>	<b><u>\$ 2,807,500</u></b>	<b><u>\$ 408,044</u></b>	<b><u>\$ 92,648</u></b>	<b><u>\$ 3,086,363</u></b>

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

Water & Sewer Improvements	Perro Creek Outlet	Nonmajor Governmental Funds	Total Governmental Funds
\$ 833,842	\$ (87,972)	\$ 3,111,605	\$ 9,964,764
15,769	-	209,829	225,598
-	-	-	65,078
-	-	15,313	66,477
-	-	-	3,273
177,274	-	-	322,316
-	-	679,025	680,703
-	87,435	11,866	99,301
-	-	2,199	23,230
<u>\$ 1,026,885</u>	<u>\$ (537)</u>	<u>\$ 4,029,837</u>	<u>\$ 11,450,740</u>
\$ -	\$ 1,779	\$ 93,723	\$ 149,825
-	-	-	23,163
-	-	1,678	680,703
-	-	-	22,989
177,274	-	-	404,565
<u>177,274</u>	<u>1,779</u>	<u>95,401</u>	<u>1,281,245</u>
-	-	2,199	23,230
-	-	-	408,044
-	-	525,000	525,000
-	-	1,270,937	1,270,937
849,611	-	749,580	4,643,664
-	-	-	2,604,170
-	(2,316)	-	(2,316)
-	-	1,318,384	628,430
-	-	68,336	68,336
<u>849,611</u>	<u>(2,316)</u>	<u>3,934,436</u>	<u>10,169,495</u>
<u>\$ 1,026,885</u>	<u>\$ (537)</u>	<u>\$ 4,029,837</u>	<u>\$ 11,450,740</u>

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CITY OF BAYPORT, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009

Total fund balances - governmental funds	\$ 10,169,495
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	19,022,356
Less: accumulated depreciation	(4,180,968)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(895,000)
Compensated absences payable	(27,040)
Other postemployment benefits payable	(2,440)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	
Delinquent taxes	35,334
Special assessments	325,588
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(3,184)</u>
Total net assets - governmental activities	<u><u>\$ 24,444,141</u></u>

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

CITY OF BAYPORT, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	General	Debt Service	Park Improvement	Street Reconstruction
<b>REVENUES</b>				
Taxes				
Property	\$ 774,542	\$ 41,965	\$ -	\$ -
Tax increments	-	86,140	-	-
Gambling	-	-	-	-
Licenses and permits	76,463	-	-	-
Intergovernmental	574,323	1,496	-	-
Charges for services	287,418	-	5,000	-
Fines and forfeitures	21,337	-	-	-
Special assessments	4,177	-	-	16,407
Interest on investments	69,910	9,013	-	76,177
Miscellaneous	95,815	-	-	-
<b>TOTAL REVENUES</b>	<b>1,903,985</b>	<b>138,614</b>	<b>5,000</b>	<b>92,584</b>
<b>EXPENDITURES</b>				
Current				
General government	598,290	-	-	-
Public safety	995,986	-	-	-
Public works	292,980	-	-	-
Culture and recreation	82,940	-	29,211	-
Miscellaneous	2,887	-	-	-
Capital outlay				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	637,623	-
Debt service				
Principal	-	100,000	-	-
Interest and other	-	41,965	-	-
<b>TOTAL EXPENDITURES</b>	<b>1,973,083</b>	<b>141,965</b>	<b>666,834</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(69,098)</b>	<b>(3,351)</b>	<b>(661,834)</b>	<b>92,584</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	5,938	-	-	10,100
Sale of capital assets	650	-	-	-
Transfers out	(192,509)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(185,921)</b>	<b>-</b>	<b>-</b>	<b>10,100</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(255,019)</b>	<b>(3,351)</b>	<b>(661,834)</b>	<b>102,684</b>
<b>FUND BALANCES (DEFICITS), JANUARY 1</b>	<b>2,880,220</b>	<b>411,395</b>	<b>(28,120)</b>	<b>2,941,789</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES (DEFICITS), DECEMBER 31</b>	<b>\$ 2,625,201</b>	<b>\$ 408,044</b>	<b>\$ (689,954)</b>	<b>\$ 3,044,473</b>

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

<u>Water &amp; Sewer Improvements</u>	<u>Perro Creek Outlet</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 156,105	\$ 972,612
-	-	30,626	116,766
-	-	3,483	3,483
-	-	-	76,463
-	1,137,920	11,866	1,725,605
66,757	-	2,625	361,800
-	-	1,769	23,106
3,517	-	-	24,101
19,975	-	92,885	267,960
-	-	116,017	211,832
<u>90,249</u>	<u>1,137,920</u>	<u>415,376</u>	<u>3,783,728</u>
-	-	-	598,290
-	-	11,726	1,007,712
-	-	43,661	336,641
-	-	244,196	356,347
-	-	-	2,887
-	-	68,103	68,103
-	1,008,528	24,266	1,032,794
-	-	10,399	648,022
-	-	-	100,000
-	-	-	41,965
<u>-</u>	<u>1,008,528</u>	<u>402,351</u>	<u>4,192,761</u>
<u>90,249</u>	<u>129,392</u>	<u>13,025</u>	<u>(409,033)</u>
913	-	305,359	322,310
-	-	650	1,300
-	-	(6,851)	(199,360)
<u>913</u>	<u>-</u>	<u>299,158</u>	<u>124,250</u>
91,162	129,392	312,183	(284,783)
758,449	-	3,622,253	10,585,986
<u>-</u>	<u>(131,708)</u>	<u>-</u>	<u>(131,708)</u>
<u>\$ 849,611</u>	<u>\$ (2,316)</u>	<u>\$ 3,934,436</u>	<u>\$ 10,169,495</u>

CITY OF BAYPORT, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES (DEFICITS) TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009

Total net change in fund balances - governmental funds \$ (284,783)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	1,791,496
Depreciation expense	(384,361)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amount are deferred and amortized in the statement of activities.

Principal repayments	100,000
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

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Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.

Property taxes	12,065
Special assessments	80,042

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	10,561
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Change in net assets - governmental activities	\$ 1,325,333
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The notes to the financial statements are an integral part of this statement.

CITY OF BAYPORT, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 828,634	\$ 828,634	\$ 774,542	\$ (54,092)
Licenses and permits	146,350	146,350	76,463	(69,887)
Intergovernmental	644,983	644,983	574,323	(70,660)
Charges for services	282,811	282,811	287,418	4,607
Fines and forfeitures	35,000	35,000	21,337	(13,663)
Special assessments	10,100	10,100	4,177	(5,923)
Interest on investments	150,000	150,000	69,910	(80,090)
Miscellaneous	37,500	37,500	95,815	58,315
<b>TOTAL REVENUES</b>	<u>2,135,378</u>	<u>2,135,378</u>	<u>1,903,985</u>	<u>(231,393)</u>
<b>EXPENDITURES</b>				
Current				
General government	555,299	555,299	598,290	(42,991)
Public safety	945,647	945,647	995,986	(50,339)
Public works	249,597	249,597	292,980	(43,383)
Culture and recreation	88,201	88,201	82,940	5,261
Miscellaneous	5,600	5,600	2,887	2,713
Capital outlay	57,060	57,060	-	57,060
<b>TOTAL EXPENDITURES</b>	<u>1,901,404</u>	<u>1,901,404</u>	<u>1,973,083</u>	<u>(71,679)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>233,974</u>	<u>233,974</u>	<u>(69,098)</u>	<u>(303,072)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	5,938	5,938
Sale of capital assets	500	500	650	150
Transfers out	(192,509)	(192,509)	(192,509)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(192,009)</u>	<u>(192,009)</u>	<u>(185,921)</u>	<u>6,088</u>
<b>NET CHANGE IN FUND BALANCES</b>	41,965	41,965	(255,019)	(296,984)
<b>FUND BALANCES, JANUARY 1</b>	<u>2,880,220</u>	<u>2,880,220</u>	<u>2,880,220</u>	<u>-</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u>\$ 2,922,185</u>	<u>\$ 2,922,185</u>	<u>\$ 2,625,201</u>	<u>\$ (296,984)</u>

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

CITY OF BAYPORT, MINNESOTA  
STATEMENTS OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds			
	Water		Sewer	
	2009	2008	2009	2008
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and temporary investments	\$ 1,543,075	\$ 1,566,329	\$ 1,226,408	\$ 1,265,668
Receivables				
Accounts	53,819	49,043	100,450	162,852
Special assessments	353	723	3,714	4,920
Prepaid items	1,627	1,979	781	1,081
<b>TOTAL CURRENT ASSETS</b>	<u>1,598,874</u>	<u>1,618,074</u>	<u>1,331,353</u>	<u>1,434,521</u>
<b>NONCURRENT ASSETS</b>				
Capital assets				
Buildings	52,408	52,408	-	-
Machinery and equipment	195,626	195,626	98,625	98,625
Improvements other than buildings	5,830,168	5,830,168	2,436,734	2,436,734
Less: accumulated depreciation	<u>(878,706)</u>	<u>(757,803)</u>	<u>(511,961)</u>	<u>(460,182)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>5,199,496</u>	<u>5,320,399</u>	<u>2,023,398</u>	<u>2,075,177</u>
<b>TOTAL ASSETS</b>	<u>6,798,370</u>	<u>6,938,473</u>	<u>3,354,751</u>	<u>3,509,698</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	7,382	11,626	38,096	32,027
Accrued salaries payable	-	2,885	-	3,731
Due to other governments	8,295	-	-	-
Compensated absences payable - current	2,459	978	2,812	1,513
<b>TOTAL CURRENT LIABILITIES</b>	<u>18,136</u>	<u>15,489</u>	<u>40,908</u>	<u>37,271</u>
<b>NONCURRENT LIABILITIES</b>				
Other postemployment benefits payable	258	-	308	-
Compensated absences payable	8,830	2,978	10,097	4,606
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>9,088</u>	<u>2,978</u>	<u>10,405</u>	<u>4,606</u>
<b>TOTAL LIABILITIES</b>	<u>27,224</u>	<u>18,467</u>	<u>51,313</u>	<u>41,877</u>
<b>NET ASSETS</b>				
Invested in capital assets	5,199,496	5,320,399	2,023,398	2,075,177
Unrestricted	1,571,650	1,599,607	1,280,040	1,392,644
<b>TOTAL NET ASSETS</b>	<u>\$ 6,771,146</u>	<u>\$ 6,920,006</u>	<u>\$ 3,303,438</u>	<u>\$ 3,467,821</u>

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

Business-type Activities -  
Enterprise Funds - Continued

Totals	
2009	2008
\$ 2,769,483	\$ 2,831,997
154,269	211,895
4,067	5,643
2,408	3,060
<u>2,930,227</u>	<u>3,052,595</u>
52,408	52,408
294,251	294,251
8,266,902	8,266,902
<u>(1,390,667)</u>	<u>(1,217,985)</u>
<u>7,222,894</u>	<u>7,395,576</u>
<u>10,153,121</u>	<u>10,448,171</u>
45,478	43,653
-	6,616
8,295	-
<u>5,271</u>	<u>2,491</u>
<u>59,044</u>	<u>52,760</u>
566	-
<u>18,927</u>	<u>7,584</u>
<u>19,493</u>	<u>7,584</u>
<u>78,537</u>	<u>60,344</u>
7,222,894	7,395,576
<u>2,851,690</u>	<u>2,992,251</u>
<u>\$ 10,074,584</u>	<u>\$ 10,387,827</u>

CITY OF BAYPORT, MINNESOTA  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds			
	Water		Sewer	
	2009	2008	2009	2008
<b>OPERATING REVENUES</b>				
Charges for services	\$ 241,420	\$ 226,983	\$ 548,121	\$ 495,379
<b>OPERATING EXPENSES</b>				
Personal services	129,394	108,456	156,225	145,271
Supplies	31,177	22,922	6,668	6,658
Insurance	5,722	6,029	2,317	2,394
Utilities	45,940	47,207	-	-
Repair and maintenance	60,338	37,854	9,390	10,023
Other services and charges	47,403	47,388	89,108	40,477
MCES charges	-	-	316,491	310,472
Depreciation	120,903	120,824	51,779	51,586
<b>TOTAL OPERATING EXPENSES</b>	<b>440,877</b>	<b>390,680</b>	<b>631,978</b>	<b>566,881</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(199,457)</b>	<b>(163,697)</b>	<b>(83,857)</b>	<b>(71,502)</b>
<b>NONOPERATING REVENUES</b>				
Connection fees	17,354	161,090	4,100	114,600
Interest on investments	39,718	67,331	31,849	57,324
<b>TOTAL NONOPERATING REVENUES</b>	<b>57,072</b>	<b>228,421</b>	<b>35,949</b>	<b>171,924</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	<b>(142,385)</b>	<b>64,724</b>	<b>(47,908)</b>	<b>100,422</b>
<b>TRANSFERS AND CONTRIBUTIONS</b>				
Capital contributions from other funds	-	7,808	-	7,808
Transfers out	(6,475)	(5,000)	(116,475)	(115,000)
<b>CHANGE IN NET ASSETS</b>	<b>(148,860)</b>	<b>67,532</b>	<b>(164,383)</b>	<b>(6,770)</b>
<b>NET ASSETS, JANUARY 1</b>	<b>6,920,006</b>	<b>6,852,474</b>	<b>3,467,821</b>	<b>3,474,591</b>
<b>NET ASSETS, DECEMBER 31</b>	<b>\$ 6,771,146</b>	<b>\$ 6,920,006</b>	<b>\$ 3,303,438</b>	<b>\$ 3,467,821</b>

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

Business-type Activities -  
Enterprise Funds - Continued

Totals	
2009	2008
<u>\$ 789,541</u>	<u>\$ 722,362</u>
285,619	253,727
37,845	29,580
8,039	8,423
45,940	47,207
69,728	47,877
136,511	87,865
316,491	310,472
<u>172,682</u>	<u>172,410</u>
<u>1,072,855</u>	<u>957,561</u>
<u>(283,314)</u>	<u>(235,199)</u>
21,454	275,690
<u>71,567</u>	<u>124,655</u>
<u>93,021</u>	<u>400,345</u>
(190,293)	165,146
-	15,616
<u>(122,950)</u>	<u>(120,000)</u>
(313,243)	60,762
<u>10,387,827</u>	<u>10,327,065</u>
<u>\$ 10,074,584</u>	<u>\$ 10,387,827</u>

CITY OF BAYPORT, MINNESOTA  
 STATEMENTS OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds			
	Water		Sewer	
	2009	2008	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 237,014	\$ 243,343	\$ 611,729	\$ 449,501
Payments to suppliers	(186,177)	(174,893)	(417,605)	(345,535)
Payments to employees	(124,688)	(107,755)	(152,858)	(145,697)
<b>NET CASH PROVIDED (USED)     BY OPERATING ACTIVITIES</b>	<u>(73,851)</u>	<u>(39,305)</u>	<u>41,266</u>	<u>(41,731)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Transfers out	<u>(6,475)</u>	<u>(5,000)</u>	<u>(116,475)</u>	<u>(115,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Connection fees received	<u>17,354</u>	<u>161,090</u>	<u>4,100</u>	<u>114,600</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	<u>39,718</u>	<u>67,331</u>	<u>31,849</u>	<u>57,324</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(23,254)	184,116	(39,260)	15,193
<b>CASH AND CASH EQUIVALENTS JANUARY 1</b>	<u>1,566,329</u>	<u>1,382,213</u>	<u>1,265,668</u>	<u>1,250,475</u>
<b>CASH AND CASH EQUIVALENTS DECEMBER 31</b>	<u>\$ 1,543,075</u>	<u>\$ 1,566,329</u>	<u>\$ 1,226,408</u>	<u>\$ 1,265,668</u>

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

**Business-type Activities -  
Enterprise Funds - Continued**

Totals	
2009	2008
\$ 848,743 (603,782) <u>(277,546)</u>	\$ 692,844 (520,428) <u>(253,452)</u>
 <u>(32,585)</u>	 <u>(81,036)</u>
 <u>(122,950)</u>	 <u>(120,000)</u>
 <u>21,454</u>	 <u>275,690</u>
 <u>71,567</u>	 <u>124,655</u>
 (62,514)	 199,309
 <u>2,831,997</u>	 <u>2,632,688</u>
 <u><u>\$ 2,769,483</u></u>	 <u><u>\$ 2,831,997</u></u>

CITY OF BAYPORT, MINNESOTA  
 STATEMENTS OF CASH FLOWS - CONTINUED  
 PROPRIETARY FUNDS  
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds - Continued			
	Water		Sewer	
	2009	2008	2009	2008
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (199,457)	\$ (163,697)	\$ (83,857)	\$ (71,502)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	120,903	120,824	51,779	51,586
(Increase) decrease in assets:				
Accounts receivable	(4,776)	12,715	62,402	(45,323)
Special assessments receivable	370	3,645	1,206	(555)
Prepaid items	352	123	300	78
Increase (decrease) in liabilities:				
Accounts payable	(4,244)	(11,510)	6,069	24,640
Accrued salaries payable	(2,885)	(469)	(3,731)	(850)
Due to other governments	8,295	(2,106)	-	(229)
Other postemployment benefits payable	258	-	308	-
Compensated absences payable	7,333	1,170	6,790	424
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>\$ (73,851)</u>	 <u>\$ (39,305)</u>	 <u>\$ 41,266</u>	 <u>\$ (41,731)</u>
 NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions from developers and other funds	 <u>\$ -</u>	 <u>\$ 7,808</u>	 <u>\$ -</u>	 <u>\$ 7,808</u>

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

Business-type Activities -  
Enterprise Funds - Continued

<u>Totals</u>	
<u>2009</u>	<u>2008</u>
\$ (283,314)	\$ (235,199)
172,682	172,410
57,626	(32,608)
1,576	3,090
652	201
1,825	13,130
(6,616)	(1,319)
8,295	(2,335)
566	-
<u>14,123</u>	<u>1,594</u>
<u>\$ (32,585)</u>	<u>\$ (81,036)</u>
<u>\$ -</u>	<u>\$ 15,616</u>

CITY OF BAYPORT, MINNESOTA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2009

	<u>Agency</u>
	<b>803</b>
	<u>Escrow</u>
<b>ASSETS</b>	
Cash and temporary investments	<u>\$    19,971</u>
<b>LIABILITIES</b>	
Accounts payable	<u>\$    19,971</u>

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

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

**A. Reporting Entity**

The City of Bayport (the City), Minnesota, operates under "Optional Plan A" as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental and proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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

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

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

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

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue in the fund financial statements.

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

The City reports the following major governmental funds:

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

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

The *Park Improvement fund* accounts for the accumulation of resources and payments made for improvements to the City's park system.

The *Street Reconstruction fund* accounts for the resources collected and the funds disbursed for portions of street improvement projects.

The *Water and Sewer Improvements fund* accounts for the resources accumulated for future improvements to the enterprise operations of the City.

The *Perro Creek Outlet fund* accounts for the resources accumulated and payments made for the storm water improvements at Perro Creek.

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

The City reports the following major proprietary funds:

The *Water fund* accounts for the water service charges that are used to finance the water system operations.

The *Sewer fund* accounts for the sewer service charges that are used to finance the sanitary sewer operations.

Additionally, the City reports the following fund types:

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

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. The agency fund is accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the City holds for others in an agency capacity. It accounts for deposits refundable to developers.

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 GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

**D. Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments**

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

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments for the City are reported at fair value. The Minnesota Municipal Money Market Fund and broker money market investment pools operate in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool share.

It is the policy of the City to invest funds in those investments authorized for Minnesota public sector entities under state statutes. There are no further restrictions outside of the statutes.

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

**Due To/From other Funds**

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

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

**Property Taxes**

The Council annually adopts a tax levy in December and certifies it to the County for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, July and December each year.

Taxes payable on homestead property, as defined by Minnesota statutes, were partially reduced by a market value credit aid. The credit is paid to the City by the State in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred revenue liability for taxes not received within 60 days after year end in the fund financial statements.

**Accounts Receivable**

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2009. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

**Special Assessments**

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

**Prepaid Items**

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

CITY OF BAYPORT, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2009

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

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition on infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34, the City has elected to only record and depreciate general infrastructure assets acquired after the implementation date set forth in GASB Statement No. 34. General infrastructure acquired before January 1, 2004 is, therefore, not reported within these financial statements. General infrastructure assets include streets, street lighting, sidewalks and trails, etc. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Buildings and structures	20 - 50
Equipment and machinery	3 - 15
Distribution and collection systems	50
Library books	5

**Compensated Absences**

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick leave. All vacation pay, compensatory pay and vested sick pay are accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as the result of an employee's resignation or retirement. In the event a liability is recorded in the governmental funds, the General fund would be used to liquidate the compensated absences payable.

**Postemployment Benefits Other Than Pensions**

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement No. 45, at December 31, 2009.

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund 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.

**Net Assets**

In the government-wide and proprietary fund financial statements, net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

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

**Comparative Data/Reclassifications**

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

CITY OF BAYPORT, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2009

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

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund and certain nonmajor special revenue fund. All annual appropriations lapse at fiscal year end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 15<sup>th</sup>, the proposed budget is presented to the Council for review. The Council adopts a preliminary maximum budget. Truth-in-taxation notices are mailed out to residents by Washington County. The Council holds public hearings and adopts a budget and tax levy in December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. No budget amendments were made during the year.

**B. Excess of Expenditures over Appropriations**

The following funds had expenditures in excess of appropriations:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
Major			
General	\$ 1,901,404	\$ 1,973,083	\$ 71,679

The expenditures in excess of budget were funded by available fund balances.

**C. Deficit Fund Equity**

The following funds had fund balance deficits as of December 31, 2009:

Fund	Amount
Major	
Park Improvement	\$ 689,954
Perro Creek Outlet	2,316

The deficit in the Park Improvement fund will be eliminated with future special assessment collections and either through interfund transfers or borrowed debt. The deficit in the Perro Creek Outlet fund will be eliminated with grant receipts from the State of Minnesota.

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

**A. Deposits and Investments**

**Deposits**

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was \$1,787,559 and the bank balance was \$1,981,391. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was covered by collateral held in the City's name.

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

A reconciliation of cash and investments as shown on the Statement of Net Assets for the City follows:

Carrying amount of deposits	\$ 1,787,559
Investments	10,966,409
Petty cash	<u>250</u>
Total	<u><u>\$ 12,754,218</u></u>

The following reconciles the total cash and temporary investments to the basic financial statements.

Statement of Net Assets	\$ 12,734,247
Statement of Fiduciary Net Assets	<u>19,971</u>
Total	<u><u>\$ 12,754,218</u></u>

**Investments**

The Minnesota Municipal Money Market Fund (the 4M Fund) is a customized cash management and investment program for Minnesota public funds. Sponsored and governed by the League of Minnesota Cities since 1987, the 4M Fund is a unique investment alternative designed to address the daily and long term investment needs of Minnesota cities and other municipal entities. Allowable under Minnesota statutes, the 4M Fund is comprised of top quality, rated investments.

As of December 31, 2009, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name:

Type of Investment	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
<b>Pooled investments</b>			
Broker Money Markets	N/A	less than 6 months	\$ 630,153
Minnesota Municipal Money Market	P-1	less than 6 months	<u>1,081,669</u>
Total pooled investments			<u>1,711,822</u>
<b>Non-pooled investments</b>			
Brokered Certificates of Deposit	N/A	less than 1 year	1,880,943
Brokered Certificates of Deposit	N/A	1 to 3 years	2,093,258
Brokered Certificates of Deposit	N/A	more than 3 years	1,050,986
U.S. Government Securities	AAA	1 to 3 years	301,545
U.S. Government Securities	AAA	more than 3 years	2,307,972
Municipal Government Securities	AA1, AAA	less than 1 year	120,835
Municipal Government Securities	AA2, AAA	1 to 3 years	<u>1,499,048</u>
Total non-pooled investments			<u>9,254,587</u>
Total investments			<u><u>\$ 10,966,409</u></u>

- (1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.  
(2) Interest rate risk is disclosed using the segmented time distribution method.  
N/A Indicates not applicable or available.

CITY OF BAYPORT, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2009

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

The investments of the City are subject to the following risks:

- *Credit Risk.* Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes and the City's investment policy limit the City's investments to the list on page 27 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with the City's investment policy, the City diversifies its investment portfolio to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities.
- *Interest rate risk.* Is the risk that changes in interest rates will adversely affect the fair value of an investment. The maturities selected shall provide for stability of income and reasonable liquidity.

**B. Deferred Revenue**

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. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Fund	Unavailable	Unearned
<b>General</b>		
Delinquent taxes	\$ 35,333	\$ -
Special assessments		
Delinquent	974	-
Deferred	12,803	-
Fire contract fees received but unearned	-	40,343
License fees received but unearned	-	3,300
<b>Park Improvement</b>		
Special assessments		
Deferred	92,648	-
<b>Street Reconstruction</b>		
Special assessments		
Delinquent	2,299	-
Deferred	39,591	-
<b>Water &amp; Sewer Improvements</b>		
Special assessments		
Deferred	177,274	-
<b>Total</b>	<u>\$ 360,922</u>	<u>\$ 43,643</u>

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

**C. Capital Assets**

Capital asset activity for the governmental activities for year ended December 31, 2009 was as follows:

	Restated Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 6,198,024	\$ -	\$ -	\$ 6,198,024
Construction in progress	131,708	1,675,362	-	1,807,070
<b>Total capital assets not being depreciated</b>	<b>6,329,732</b>	<b>1,675,362</b>	<b>-</b>	<b>8,005,094</b>
<b>Capital assets, being depreciated</b>				
Buildings	4,565,680	-	-	4,565,680
Machinery and equipment	4,037,090	94,923	-	4,132,013
Infrastructure	2,046,528	-	-	2,046,528
Library books	251,830	21,211	-	273,041
<b>Total capital assets being depreciated</b>	<b>10,901,128</b>	<b>116,134</b>	<b>-</b>	<b>11,017,262</b>
<b>Less accumulated depreciation for</b>				
Buildings	(1,573,570)	(96,011)	-	(1,669,581)
Machinery and equipment	(1,958,292)	(181,162)	-	(2,139,454)
Infrastructure	(65,815)	(87,699)	-	(153,514)
Library books	(198,930)	(19,489)	-	(218,419)
<b>Total accumulated depreciation</b>	<b>(3,796,607)</b>	<b>(384,361)</b>	<b>-</b>	<b>(4,180,968)</b>
<b>Total capital assets being depreciated, net</b>	<b>7,104,521</b>	<b>(268,227)</b>	<b>-</b>	<b>6,836,294</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 13,434,253</b>	<b>\$ 1,407,135</b>	<b>\$ -</b>	<b>\$ 14,841,388</b>

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

Capital asset activity for the business-type activities for year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets being depreciated				
Water mains and lines	\$ 5,830,168	\$ -	\$ -	\$ 5,830,168
Sewer mains and lines	2,436,734	-	-	2,436,734
Structures	52,408	-	-	52,408
Machinery and equipment	<u>294,251</u>	<u>-</u>	<u>-</u>	<u>294,251</u>
 Total capital assets being depreciated	 <u>8,613,561</u>	 <u>-</u>	 <u>-</u>	 <u>8,613,561</u>
 Less accumulated depreciation for				
Water mains and lines	(521,355)	(118,952)	-	(640,307)
Sewer mains and lines	(408,536)	(48,037)	-	(456,573)
Structures	(49,184)	(340)	-	(49,524)
Machinery and equipment	<u>(238,910)</u>	<u>(5,353)</u>	<u>-</u>	<u>(244,263)</u>
 Total accumulated depreciation	 <u>(1,217,985)</u>	 <u>(172,682)</u>	 <u>-</u>	 <u>(1,390,667)</u>
 Business-type activities capital assets, net	 <u>\$ 7,395,576</u>	 <u>\$ (172,682)</u>	 <u>\$ -</u>	 <u>\$ 7,222,894</u>

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

<b>Governmental activities</b>		
General government		\$ 47,427
Public safety		124,145
Public works		103,588
Culture and recreation		<u>109,201</u>
 Total depreciation expense - governmental activities		 <u>\$ 384,361</u>
<b>Business-type activities</b>		
Water		\$ 120,903
Sewer		<u>51,779</u>
 Total depreciation expense - business-type activities		 <u>\$ 172,682</u>

CITY OF BAYPORT, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2009

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

**D. Interfund Receivables, Payables and Transfers**

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Governmental activities	Governmental activities	
General	Nonmajor governmental	\$ 1,678
Nonmajor governmental	Park Improvement	<u>679,025</u>
	Total	<u>\$ 680,703</u>

The General fund provided this amount to supplement cash flow needs of the nonmajor Developer Reimbursed Projects fund. This amount will be repaid as cash flows become available. The amount provided by the nonmajor Tax Stabilization fund was to finance improvements to the City's park system. The loan will be repaid as future park dedication fees are collected.

**Interfund transfers**

Fund	Transfers out		
	General Fund	Nonmajor governmental Funds	Water Enterprise Fund
Transfers in			
General	\$ -	\$ 5,938	\$ -
Street Reconstruction	10,100	-	-
Water and sewer improvements	-	913	-
Nonmajor governmental funds	<u>182,409</u>	<u>-</u>	<u>6,475</u>
Total	<u>\$ 192,509</u>	<u>\$ 6,851</u>	<u>\$ 6,475</u>
Fund	Sewer Enterprise Fund	Total	
Transfers in			
General	\$ -	\$ 5,938	
Street Reconstruction	-	10,100	
Water and sewer improvements	-	913	
Nonmajor governmental funds	<u>116,475</u>	<u>305,359</u>	
Total	<u>\$ 116,475</u>	<u>\$ 322,310</u>	

The City annually budgets for interfund transfers to set funds aside for future capital improvements.

The following transfers were made as a onetime interfund transfer:

- The Prison Sewer Project has been completed and the remaining \$913 has been transferred to the Water and Sewer Improvement fund.

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

**E. Long-term Debt**

**General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation tax increment bonds have been issued for redevelopment purposes. They will be repaid from future tax increment collections. General obligation tax increment bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Governmental Activities					
General Obligation Bonds					
Tax Increment Refunding					
Bonds of 2001	\$ 1,535,000	4.09 %	09/30/97	11/30/16	<u>\$ 895,000</u>

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

Year Ending December 31,	G.O. Tax Increment Refunding Bonds		
	Principal	Interest	Total
2010	\$ 100,000	\$ 38,215	\$ 138,215
2011	105,000	34,365	139,365
2012	125,000	30,165	155,165
2013	125,000	25,039	150,039
2014	150,000	19,789	169,789
2015 - 2016	290,000	19,778	309,778
Total	<u>\$ 895,000</u>	<u>\$ 167,351</u>	<u>\$ 1,062,351</u>

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

**Changes in Long-term Liabilities**

Long-term liability activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
G.O. Tax Increment Refunding Bonds	\$ 995,000	\$ -	\$ (100,000)	\$ 895,000	\$ 100,000
Compensated absences payable	40,041	9,900	(22,901)	27,040	5,890
Other postemployment benefits payable	-	2,440	-	2,440	-
<b>Total governmental activities</b>	<b><u>\$ 1,035,041</u></b>	<b><u>\$ 12,340</u></b>	<b><u>\$ (122,901)</u></b>	<b><u>\$ 924,480</u></b>	<b><u>\$ 105,890</u></b>
<b>Business-type activities</b>					
Compensated absences payable	\$ 10,075	\$ 19,866	\$ (5,743)	\$ 24,198	\$ 5,271
Other postemployment benefits payable	-	566	-	566	-
<b>Total business-type activities</b>	<b><u>\$ 10,075</u></b>	<b><u>\$ 20,432</u></b>	<b><u>\$ (5,743)</u></b>	<b><u>\$ 24,764</u></b>	<b><u>\$ 5,271</u></b>

**F. Reserved / Designated Fund Balance**

Fund balances in the various funds have been reserved and designated for the following purposes as of December 31, 2009:

Fund	Purpose	Amount
<b>Reserved</b>		
General	Prepaid items	\$ 21,031
Debt Service	Debt service	408,044
Nonmajor governmental	Prepaid items	2,199
Nonmajor governmental	Restricted investments	525,000
<b>Total reserved fund balance</b>		<b><u>\$ 956,274</u></b>
<b>Unreserved - Designated</b>		
Street Reconstruction	Capital expenditures	\$ 3,044,473
Water & Sewer Improvements	Capital expenditures	849,611
Nonmajor governmental	Equipment replacement	1,270,937
	Capital expenditures	470,291
	Economic development	279,289
<b>Total designated fund balance</b>		<b><u>\$ 5,914,601</u></b>

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
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**Note 4: DEFINED PENSION PLANS - STATEWIDE**

**A. Plan Description**

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). 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 and fire-fighters who qualify for membership by statute are covered by the PEPFF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of the 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 is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan for each year of service.

For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For PERF and PEPFF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at age 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

**Note 4: DEFINED PENSION PLANS - STATEWIDE - CONTINUED**

**B. Funding Policy**

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State legislature. The City makes annual contributions to the pension plans equal to the amount required by Minnesota statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.00 percent, respectively, of their annual covered salary in 2009. PEPFF members were required to contribute 9.40 percent of their annual covered salary in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members, 6.75 percent for Coordinated Plan PERF members and 14.10 percent for PEPFF members. Employer contribution rates for the Coordinated Plan will increase to 7.00 percent, effective January 1, 2010. The City's contributions to the PERF for the years ending December 31, 2009, 2008, and 2007 were \$39,074, \$36,324, and \$31,328, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2009, 2008, and 2007 were \$49,270, \$47,985, and \$40,773, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**C. Defined Contribution Plan**

One council member of the City is covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer defined 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.

For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. 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 during fiscal year 2009, 2008, and 2007 were \$25, \$135, and \$135 respectively.

CITY OF BAYPORT, MINNESOTA  
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**Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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

**A. Plan Description**

The City administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides healthcare insurance for eligible retirees and their spouses through the City’s group health insurance plan until Medicare age, which covers both active and retired members. There are 18 active participants. Benefit provisions are established by the Administrative office as part of the annual budget each year which is approved by the City Council. The Retiree Health Plan does not issue a publicly available financial report.

**B. Funding Policy**

The City has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are also negotiated between the City and union representatives. At the present time, the allowance to continue health insurance that is mandated by Minnesota law is provided to retirees. Also, employees that are disabled while on duty are permitted to continue on health insurance. The City does not contribute any of the cost of current year premiums for eligible retired plans members and their spouses; however, the City contributes \$5,674 towards premiums for eligible disabled plan members. For fiscal year 2009, the City contributed \$7,959 to the plan. Retired plan members receiving benefits contributed approximately 12 percent of their premium costs.

**C. Annual Other Postemployment Benefit Cost and Net Other Postemployment Benefit Obligation**

The City’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period no to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

Annual required contribution	\$ 10,965
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
	10,965
Annual OPEB cost (expense)	10,965
Contributions made	(7,959)
	3,006
Increase in net OPEB obligation	3,006
Net OPEB obligation - January 1, 2009	-
	3,006
Net OPEB obligation - December 31, 2009	\$ 3,006

CITY OF BAYPORT, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2009

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 follows:

<u>Year Ending</u>	<u>Trend Information</u>		
	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Contributed</u>	<u>Net OPEB Obligation</u>
12/31/09	\$ 10,965	0.7 %	\$ 3,006

**D. Funded Status and Funding Progress**

As of December 31, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$152,655, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,039,879, and the ratio of unfunded actuarial accrued liability to the covered payroll was 14.7 percent.

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

**E. Actuarial Methods and Assumptions**

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

The following simplifying assumptions were made:

*Retirement age for active employees* - The retirement age for active employees was determined on an individual level although the majority of employees are expected to retire at age 65.

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

*Mortality* - Life expectancies were based on the mortality tables from the National Center for Health Statistics. The 2004 United States Life Tables for Males and for Females were used.

*Turnover* - Non-group-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 31.6 percent initially, increased to a rate of 6.0 percent after six years, was used.

CITY OF BAYPORT, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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

*Health insurance premiums* - 2008 and 2009 health insurance premiums for retirees were used as the basis for the calculation of the present value of total benefits to be paid.

*Inflation rate* - The expected long-term inflation assumption of 4.09 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

*Payroll growth rate* - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 3.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009, was fifteen years.

**Note 6: OTHER INFORMATION**

**A. Legal Debt Margin**

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. As of December 31, 2009, the City has no debt applicable to this limit.

**B. 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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

**C. Economic Dependency**

The property owned by the Andersen Corporation represents approximately 21 percent of the net tax capacity of the City. The Corporation challenged their taxable valuation and received a reduction during 1998. Andersen Corporation had agreed to contribute an amount equal to the estimated reduced City taxes to the City of Bayport, Minnesota until 2004.

CITY OF BAYPORT, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2009

**Note 6: OTHER INFORMATION - CONTINUED**

**D. Conduit Debt**

From time to time, the City has issued Qualified Tax Exempt Obligations to provide financial assistance to private-sector entities for the acquisition and construction of rental housing deemed to be in the public interest. The notes are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the notes, ownership of the acquired facilities transfers to the private-sector entity served by the note issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the notes. Accordingly, the notes are not reported as liabilities in the accompanying financial statements.

As of December 31, 2009, the amount of conduit debt issues outstanding as follows:

Series	Amount Issued	Balance Outstanding
Senior Housing Revenue Note, Series 2003	\$ 10,000,000	\$ 8,411,927

**E. Concentrations**

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA) and Market Value Homestead Credit (MVHC) programs. The amount received in 2009 was \$412,450 and \$38,594 for LGA and MVHC, respectively. This accounted for 24 percent of General fund revenue. The State of Minnesota has proposed unallotments calculated as a percent of the total pay 2009 revenue base. For cities, the revenue base is equal to the certified levy plus certified local government aid (LGA) plus taconite aid. Cities with populations under 1,000 are exempt if their adjusted net tax capacity per capita is below the statewide average. The proposed unallotments for cities has been limited to \$22 per capita in pay 2009 and \$55 per capita in pay 2010. The proposed unallotment percentages for 2010 are equal to 7.644 percent of the 2009 revenue base for cities.

**F. Tax Increment Districts**

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

The City has entered into "pay as you go" Tax Increment Financing notes within its TIF districts. These notes are payable only to the extent of the increment received. As a result they are a commitment within the district but they have not met the criteria to be reported as a liability on the Statement of Net Assets.

**G. Related Party Transactions**

During 2009, the City used River City Services to provide grading services as well as the equipment needed to do such work. River City Services is owned by an employee of the City. During the year, \$3,618 was paid to River City Services for the work performed and equipment rented.

**H. Prior Period Adjustment**

During audit procedures, it was noted that a prior period adjustment was necessary relating to the Perro Creek Outlet project. In the prior year, the activity was accounted for in the Agency fund. During 2009, a prior period adjustment was made in the governmental fund financial statements to reclassify the prior year activity from the Agency fund into a capital project fund.

CITY OF BAYPORT, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2009

**Note 7: BAYPORT VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION**

**A. Plan Description**

All members of the Bayport Fire Department (Department) are covered by a defined benefit plan administered by the Bayport Firemen's Relief Association (Association). The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived 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 1980). Funds are also derived from investment income.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Bayport Firefighter's Relief Association, 3800 Laverne Avenue North, Bayport, Minnesota 55042.

**B. Funding Policy**

The financial requirements of the Special fund are determined in accordance with Minnesota statutes, section 69.772, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 20 years of service, and 10 years of Association membership or upon death. The City's annual pension cost for the current year and related information for the plan is as follows:

Annual pension cost	\$	63,504
Contributions made		
State aid	\$	63,504
Actuarial valuation date		12/31/09
Actuarial cost method		Entry age normal
Amortization method		Level dollar closed
Remaining amortization period		
Normal cost		20 years
Prior service cost		10 years
Asset valuation method		Fair value
Actuarial assumptions		
Investment rate of return		5%
Projected salary increases		N/A
Inflation rate		N/A
Cost of living adjustments		None

Year Ending	Three Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/09	\$ 63,504	100 %	\$ -
12/31/08	71,060	100	-
12/31/07	85,720	100	-

CITY OF BAYPORT, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2009

**Note 7: BAYPORT VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION - CONTINUED**

Required Supplementary Information					
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/09	\$ 1,352,206	\$ 1,230,919	\$ 121,287	109.9 %	\$ 5,200
12/31/08	1,210,738	1,208,266	2,472	100.2	5,200
12/31/07	1,765,345	1,476,505	288,840	119.6	5,200

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF BAYPORT  
BAYPORT, MINNESOTA**

**YEAR ENDED  
DECEMBER 31, 2009**

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CITY OF BAYPORT, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 DECEMBER 31, 2009

Schedule of Funding Progress for the Postemployment Benefit Plan

Actuarial Valuation Date	Required Supplementary Information				Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)				
12/31/09	\$	\$ 152,655	\$ 152,655		- %	\$ 1,039,879	14.7%

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**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

**CITY OF BAYPORT  
BAYPORT, MINNESOTA**

**YEAR ENDED  
DECEMBER 31, 2009**

CITY OF BAYPORT, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2009

	Special Revenue	Capital Project	Permanent Restricted Investments	Total
<b>ASSETS</b>				
Cash and temporary investments	\$ 1,901,686	\$ 616,583	\$ 593,336	\$ 3,111,605
Receivables				
Accounts	-	209,829	-	209,829
Delinquent taxes	-	15,313	-	15,313
Due from other funds	679,025	-	-	679,025
Due from other governments	11,866	-	-	11,866
Prepaid items	2,199	-	-	2,199
<b>TOTAL ASSETS</b>	<b>\$ 2,594,776</b>	<b>\$ 841,725</b>	<b>\$ 593,336</b>	<b>\$ 4,029,837</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 3,256	\$ 90,467	\$ -	\$ 93,723
<b>FUND BALANCES</b>				
Reserved for:				
Prepaid items	2,199	-	-	2,199
City Council restricted investments	-	-	525,000	525,000
Unreserved				
Designated for equipment replacement	1,270,937	-	-	1,270,937
Designated for capital expenditures	-	470,291	-	470,291
Designated for economic development	-	279,289	-	279,289
Undesignated	1,318,384	-	68,336	1,386,720
<b>TOTAL FUND BALANCES</b>	<b>2,591,520</b>	<b>749,580</b>	<b>593,336</b>	<b>3,934,436</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,594,776</b>	<b>\$ 841,725</b>	<b>\$ 593,336</b>	<b>\$ 4,029,837</b>

CITY OF BAYPORT, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2009

	Special Revenue	Capital Project	Permanent Restricted Investments	Total
<b>REVENUES</b>				
Taxes				
Property	\$ 156,105	\$ -	\$ -	\$ 156,105
Tax increments	-	30,626	-	30,626
Gambling	3,483	-	-	3,483
Intergovernmental	11,866	-	-	11,866
Charges for services	2,625	-	-	2,625
Fines and forfeitures	1,769	-	-	1,769
Interest of investments	62,371	15,569	14,945	92,885
Miscellaneous	114,167	1,850	-	116,017
<b>TOTAL REVENUES</b>	<b>352,386</b>	<b>48,045</b>	<b>14,945</b>	<b>415,376</b>
<b>EXPENDITURES</b>				
Current				
Public safety	11,726	-	-	11,726
Public works	-	43,661	-	43,661
Culture and recreation	244,196	-	-	244,196
Capital outlay				
Public safety	39,937	28,166	-	68,103
Public works	24,266	-	-	24,266
Culture and recreation	10,399	-	-	10,399
<b>TOTAL EXPENDITURES</b>	<b>330,524</b>	<b>71,827</b>	<b>-</b>	<b>402,351</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>21,862</b>	<b>(23,782)</b>	<b>14,945</b>	<b>13,025</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	270,400	34,959	-	305,359
Sale of capital assets	650	-	-	650
Transfers out	(5,938)	(913)	-	(6,851)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>265,112</b>	<b>34,046</b>	<b>-</b>	<b>299,158</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>286,974</b>	<b>10,264</b>	<b>14,945</b>	<b>312,183</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>2,304,546</b>	<b>739,316</b>	<b>578,391</b>	<b>3,622,253</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 2,591,520</b>	<b>\$ 749,580</b>	<b>\$ 593,336</b>	<b>\$ 3,934,436</b>

CITY OF BAYPORT, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2009

	200	202	203
	Fire Equipment Replacement	Drug Forfeiture	Public Works Equipment Replacement
<b>ASSETS</b>			
Cash and temporary investments	\$ 349,356	\$ 18,922	\$ 845,548
Due from other funds	-	-	-
Due from other governments	-	-	11,866
Prepaid items	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 349,356</u>	<u>\$ 18,922</u>	<u>\$ 857,414</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ -	\$ -
<b>FUND BALANCES</b>			
Reserved for prepaid items	-	-	-
Unreserved			
Designated for equipment replacement	349,356	-	857,414
Undesignated	-	18,922	-
<b>TOTAL FUND BALANCES</b>	<u>349,356</u>	<u>18,922</u>	<u>857,414</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 349,356</u>	<u>\$ 18,922</u>	<u>\$ 857,414</u>

204 Recreation Capital Equipment Maintenance	205 Tax Stabilization	210 K-9 Unit	211 Library	Total
\$ 64,167	\$ 330,273	\$ 986	\$ 292,434	\$ 1,901,686
-	679,025	-	-	679,025
-	-	-	-	11,866
-	-	-	2,199	2,199
<u>\$ 64,167</u>	<u>\$ 1,009,298</u>	<u>\$ 986</u>	<u>\$ 294,633</u>	<u>\$ 2,594,776</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,256</u>	<u>\$ 3,256</u>
-	-	-	2,199	2,199
64,167	-	-	-	1,270,937
-	1,009,298	986	289,178	1,318,384
<u>64,167</u>	<u>1,009,298</u>	<u>986</u>	<u>291,377</u>	<u>2,591,520</u>
<u>\$ 64,167</u>	<u>\$ 1,009,298</u>	<u>\$ 986</u>	<u>\$ 294,633</u>	<u>\$ 2,594,776</u>

CITY OF BAYPORT, MINNESOTA  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2009

	200	202	203
	Fire Equipment Replacement	Drug Forfeiture	Public Works Equipment Replacement
<b>REVENUES</b>			
Taxes			
Property	\$ -	\$ -	\$ -
Gambling	-	-	-
Intergovernmental	-	-	11,866
Charges for services	-	-	-
Fines and forfeits	-	1,769	-
Interest on investments	8,640	473	19,450
Miscellaneous	-	-	-
<b>TOTAL REVENUES</b>	<b>8,640</b>	<b>2,242</b>	<b>31,316</b>
<b>EXPENDITURES</b>			
Current			
Public safety	-	1,499	-
Culture and recreation	-	-	-
Capital outlay			
Public safety	39,622	-	-
Public works	-	-	24,266
Culture and recreation	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>39,622</b>	<b>1,499</b>	<b>24,266</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(30,982)</b>	<b>743</b>	<b>7,050</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	90,000	-	180,400
Sale of capital assets	650	-	-
Transfers out	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>90,650</b>	<b>-</b>	<b>180,400</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>59,668</b>	<b>743</b>	<b>187,450</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>289,688</b>	<b>18,179</b>	<b>669,964</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 349,356</b>	<b>\$ 18,922</b>	<b>\$ 857,414</b>

204 Recreation Capital Equipment Maintenance	205 Tax Stabilization	210 K-9 Unit	211 Library	Total
\$ -	\$ -	\$ -	\$ 156,105	\$ 156,105
3,483	-	-	-	3,483
-	-	-	-	11,866
-	-	-	2,625	2,625
-	-	-	-	1,769
1,564	25,422	144	6,678	62,371
-	-	1,109	113,058	114,167
<u>5,047</u>	<u>25,422</u>	<u>1,253</u>	<u>278,466</u>	<u>352,386</u>
-	-	10,227	-	11,726
-	-	-	244,196	244,196
-	-	315	-	39,937
-	-	-	-	24,266
-	-	-	10,399	10,399
<u>-</u>	<u>-</u>	<u>10,542</u>	<u>254,595</u>	<u>330,524</u>
<u>5,047</u>	<u>25,422</u>	<u>(9,289)</u>	<u>23,871</u>	<u>21,862</u>
-	-	-	-	270,400
-	-	-	-	650
-	-	-	(5,938)	(5,938)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,938)</u>	<u>265,112</u>
<u>5,047</u>	<u>25,422</u>	<u>(9,289)</u>	<u>17,933</u>	<u>286,974</u>
<u>59,120</u>	<u>983,876</u>	<u>10,275</u>	<u>273,444</u>	<u>2,304,546</u>
<u>\$ 64,167</u>	<u>\$ 1,009,298</u>	<u>\$ 986</u>	<u>\$ 291,377</u>	<u>\$ 2,591,520</u>

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CITY OF BAYPORT, MINNESOTA  
LIBRARY FUND  
BUDGETED SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 156,105	\$ 156,105	\$ 156,105	\$ -	\$ 150,130
Charges for services	1,000	1,000	2,625	1,625	1,665
Interest on investments	9,000	9,000	6,678	(2,322)	14,068
Miscellaneous					
Rents	3,000	3,000	2,304	(696)	3,055
Contributions and donations	111,100	111,100	110,516	(584)	110,773
Refunds and reimbursements	6,242	6,242	238	(6,004)	-
TOTAL REVENUES	286,447	286,447	278,466	(7,981)	279,691
EXPENDITURES					
Current					
Culture and recreation	256,399	256,399	244,196	12,203	248,267
Capital outlay					
Culture and recreation	9,787	9,787	10,399	(612)	72,120
TOTAL EXPENDITURES	266,186	266,186	254,595	11,591	320,387
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	20,261	20,261	23,871	3,610	(40,696)
OTHER FINANCING USES					
Transfers out	(5,938)	(5,938)	(5,938)	-	(5,938)
NET CHANGE IN FUND BALANCES	14,323	14,323	17,933	3,610	(46,634)
FUND BALANCES, JANUARY 1	273,444	273,444	273,444	-	320,078
FUND BALANCES, DECEMBER 31	\$ 287,767	\$ 287,767	\$ 291,377	\$ 3,610	\$ 273,444

CITY OF BAYPORT, MINNESOTA  
NONMAJOR CAPITAL PROJECT FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2009

	103 Tax Increment District 1	107 Tax Increment District 2-1	208 Prison Sewer Project
<b>ASSETS</b>			
Cash and temporary investments	\$ 269,308	\$ 8,450	\$ -
Receivables			
Accounts	-	-	-
Delinquent taxes	-	15,313	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 269,308</u></u>	<u><u>\$ 23,763</u></u>	<u><u>\$ -</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 13,782	\$ -
Due to other funds	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES</b>	<u>          </u>	<u>13,782</u>	<u>          </u>
<b>FUND BALANCES</b>			
Unreserved			
Designated for capital expenditures	-	-	-
Designated for economic development	269,308	9,981	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL FUND BALANCES</b>	<u>269,308</u>	<u>9,981</u>	<u>          </u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 269,308</u></u>	<u><u>\$ 23,763</u></u>	<u><u>\$ -</u></u>

<b>209</b> Developer Reimbursed Projects	<b>412</b> Cemetery Capital Improvements	<b>413</b> Police Equipment	<b>414</b> Office Automation	<b>415</b> Municipal Buildings Maintenance	<b>Total</b>
\$ -	\$ 52,458	\$ 56,316	\$ 62,546	\$ 167,505	\$ 616,583
209,829	-	-	-	-	209,829
-	-	-	-	-	15,313
<u>\$ 209,829</u>	<u>\$ 52,458</u>	<u>\$ 56,316</u>	<u>\$ 62,546</u>	<u>\$ 167,505</u>	<u>\$ 841,725</u>
\$ 76,685	\$ -	\$ -	\$ -	\$ -	\$ 90,467
1,678	-	-	-	-	1,678
<u>78,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,145</u>
131,466	52,458	56,316	62,546	167,505	470,291
-	-	-	-	-	279,289
<u>131,466</u>	<u>52,458</u>	<u>56,316</u>	<u>62,546</u>	<u>167,505</u>	<u>749,580</u>
<u>\$ 209,829</u>	<u>\$ 52,458</u>	<u>\$ 56,316</u>	<u>\$ 62,546</u>	<u>\$ 167,505</u>	<u>\$ 841,725</u>

CITY OF BAYPORT, MINNESOTA  
NONMAJOR CAPITAL PROJECT FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2009

	103 Tax Increment District 1	107 Tax Increment District 2-1	208 Prison Sewer Project
<b>REVENUES</b>			
Tax increments	\$ -	\$ 30,626	\$ -
Interest on investments	6,804	725	23
Miscellaneous	-	-	-
<b>TOTAL REVENUES</b>	<b>6,804</b>	<b>31,351</b>	<b>23</b>
<b>EXPENDITURES</b>			
Current			
Public works	1,680	41,406	-
Capital outlay			
Public safety	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>1,680</b>	<b>41,406</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>5,124</b>	<b>(10,055)</b>	<b>23</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	-	-	(913)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>(913)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>5,124</b>	<b>(10,055)</b>	<b>(890)</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>264,184</b>	<b>20,036</b>	<b>890</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 269,308</b>	<b>\$ 9,981</b>	<b>\$ -</b>

<b>209</b> Developer Reimbursed Projects	<b>412</b> Cemetery Capital Improvements	<b>413</b> Police Equipment	<b>414</b> Office Automation	<b>415</b> Municipal Buildings Maintenance	<b>Total</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,626
-	1,321	1,153	1,450	4,093	15,569
-	-	1,850	-	-	1,850
-	1,321	3,003	1,450	4,093	48,045
575	-	-	-	-	43,661
-	-	28,166	-	-	28,166
575	-	28,166	-	-	71,827
(575)	1,321	(25,163)	1,450	4,093	(23,782)
-	-	15,000	9,959	10,000	34,959
-	-	-	-	-	(913)
-	-	15,000	9,959	10,000	34,046
(575)	1,321	(10,163)	11,409	14,093	10,264
132,041	51,137	66,479	51,137	153,412	739,316
<u>\$ 131,466</u>	<u>\$ 52,458</u>	<u>\$ 56,316</u>	<u>\$ 62,546</u>	<u>\$ 167,505</u>	<u>\$ 749,580</u>

CITY OF BAYPORT, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance With Final Budget Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES</b>					
<b>Taxes</b>					
Property	\$ 827,834	\$ 827,834	\$ 774,541	\$ (53,293)	\$ 807,623
Gravel	800	800	1	(799)	389
Total	<u>828,634</u>	<u>828,634</u>	<u>774,542</u>	<u>(54,092)</u>	<u>808,012</u>
<b>Licenses and permits</b>					
Business	20,650	20,650	15,995	(4,655)	19,290
Nonbusiness	125,700	125,700	60,468	(65,232)	57,735
Total	<u>146,350</u>	<u>146,350</u>	<u>76,463</u>	<u>(69,887)</u>	<u>77,025</u>
<b>Intergovernmental</b>					
<b>State</b>					
Local government aid	461,633	461,633	412,450	(49,183)	385,726
Property tax credits	38,594	38,594	38,594	-	38,595
Fire state aid	96,000	96,000	63,504	(32,496)	71,060
Police aid	33,012	33,012	47,249	14,237	34,985
PERA aid	2,660	2,660	2,660	-	2,660
Other	1,000	1,000	1,000	-	6,000
<b>County</b>					
Compost grant	4,084	4,084	4,084	-	4,084
<b>Local</b>					
Other grants and aids	8,000	8,000	4,782	(3,218)	44,800
Total	<u>644,983</u>	<u>644,983</u>	<u>574,323</u>	<u>(70,660)</u>	<u>587,910</u>
<b>Charges for services</b>					
General government	3,150	3,150	2,971	(179)	3,137
Public safety	239,661	239,661	243,532	3,871	234,774
Public works	20,000	20,000	16,733	(3,267)	42,726
Culture and recreation	12,000	12,000	16,032	4,032	13,041
Other	8,000	8,000	8,150	150	18,450
Total	<u>282,811</u>	<u>282,811</u>	<u>287,418</u>	<u>4,607</u>	<u>312,128</u>
Fines and forfeitures	<u>35,000</u>	<u>35,000</u>	<u>21,337</u>	<u>(13,663)</u>	<u>34,741</u>
Special assessments	<u>10,100</u>	<u>10,100</u>	<u>4,177</u>	<u>(5,923)</u>	<u>3,974</u>
Interest on investments	<u>150,000</u>	<u>150,000</u>	<u>69,910</u>	<u>(80,090)</u>	<u>118,876</u>

CITY OF BAYPORT, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance With Final Budget Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>REVENUES - CONTINUED</b>					
Miscellaneous					
Rental income	\$ 27,000	\$ 27,000	\$ 15,100	\$ (11,900)	\$ 16,000
Contributions and donations	5,500	5,500	4,509	(991)	22,242
Refunds and reimbursements	5,000	5,000	76,206	71,206	16,795
Total	<u>37,500</u>	<u>37,500</u>	<u>95,815</u>	<u>58,315</u>	<u>55,037</u>
<b>TOTAL REVENUES</b>	<u>2,135,378</u>	<u>2,135,378</u>	<u>1,903,985</u>	<u>(231,393)</u>	<u>1,997,703</u>
<b>EXPENDITURES</b>					
Current					
General government					
Mayor and Council					
Personal services	15,781	15,781	17,026	(1,245)	16,039
Supplies	300	300	307	(7)	295
Other services and charges	127,790	127,790	172,991	(45,201)	135,589
Total	<u>143,871</u>	<u>143,871</u>	<u>190,324</u>	<u>(46,453)</u>	<u>151,923</u>
Election					
Personal services	500	500	-	500	2,957
Supplies	200	200	-	200	482
Other services and charges	300	300	856	(556)	966
Total	<u>1,000</u>	<u>1,000</u>	<u>856</u>	<u>144</u>	<u>4,405</u>
Administration					
Personal services	86,494	86,494	93,577	(7,083)	88,230
Supplies	1,800	1,800	1,419	381	1,839
Other services and charges	58,250	58,250	56,003	2,247	67,079
Total	<u>146,544</u>	<u>146,544</u>	<u>150,999</u>	<u>(4,455)</u>	<u>157,148</u>
Building					
Supplies	1,000	1,000	-	1,000	1,677
Other services and charges	45,591	45,591	41,427	4,164	47,103
Total	<u>46,591</u>	<u>46,591</u>	<u>41,427</u>	<u>5,164</u>	<u>48,780</u>

CITY OF BAYPORT, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance With Final Budget Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>EXPENDITURES - CONTINUED</b>					
Current - Continued					
General government - continued					
Recycling					
Personal services	\$ -	\$ -	\$ 553	\$ (553)	\$ -
Other services and charges	9,495	9,495	4,779	4,716	11,366
Total	9,495	9,495	5,332	4,163	11,366
Planning and zoning					
Personal services	158,388	158,388	158,886	(498)	151,296
Supplies	3,000	3,000	2,379	621	2,934
Other services and charges	46,410	46,410	48,087	(1,677)	52,836
Total	207,798	207,798	209,352	(1,554)	207,066
Total general government	555,299	555,299	598,290	(42,991)	580,688
Public safety					
Police					
Personal services	508,880	508,880	531,591	(22,711)	503,270
Supplies	39,350	39,350	58,978	(19,628)	38,480
Other services and charges	103,084	103,084	129,194	(26,110)	92,298
Total	651,314	651,314	719,763	(68,449)	634,048
Fire protection					
Personal services	115,555	115,555	118,107	(2,552)	120,409
Supplies	20,450	20,450	22,847	(2,397)	18,638
Other services and charges	158,328	158,328	135,269	23,059	131,266
Total	294,333	294,333	276,223	18,110	270,313
Total public safety	945,647	945,647	995,986	(50,339)	904,361
Public works					
Streets					
Personal services	80,241	80,241	98,697	(18,456)	83,804
Supplies	26,090	26,090	18,677	7,413	23,625
Other services and charges	120,866	120,866	148,309	(27,443)	53,316
Total	227,197	227,197	265,683	(38,486)	160,745

CITY OF BAYPORT, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance With Final Budget Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>EXPENDITURES - CONTINUED</b>					
Current - Continued					
Public works - continued					
Street lighting	\$ 22,400	\$ 22,400	\$ 27,297	\$ (4,897)	\$ 26,995
Total public works	249,597	249,597	292,980	(43,383)	187,740
Culture and recreation					
Parks					
Personal services	52,719	52,719	52,569	150	57,110
Supplies	9,120	9,120	6,329	2,791	6,531
Other services and charges	26,362	26,362	24,042	2,320	29,956
Total culture and recreation	88,201	88,201	82,940	5,261	93,597
Miscellaneous					
Cemetery					
Supplies	1,100	1,100	830	270	2,112
Other services and charges	4,500	4,500	2,057	2,443	3,099
Total miscellaneous	5,600	5,600	2,887	2,713	5,211
Total current expenditures	1,844,344	1,844,344	1,973,083	(128,739)	1,771,597
Capital outlay					
General government	50,000	50,000	-	50,000	6,484
Public safety	7,060	7,060	-	7,060	2,911
Public works	-	-	-	-	58,857
Total capital outlay	57,060	57,060	-	57,060	68,252
<b>TOTAL EXPENDITURES</b>	<b>1,901,404</b>	<b>1,901,404</b>	<b>1,973,083</b>	<b>(71,679)</b>	<b>1,839,849</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>					
	233,974	233,974	(69,098)	(303,072)	157,854

CITY OF BAYPORT, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(With comparative actual amounts for the year ended December 31, 2008)

	2009			Variance With Final Budget Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
OTHER FINANCING USES (SOURCES)					
Transfers in	\$ -	\$ -	\$ 5,938	\$ 5,938	\$ 5,938
Sale of capital assets	500	500	650	150	380
Transfers out	(192,509)	(192,509)	(192,509)	-	(175,500)
 TOTAL OTHER FINANCING USES (SOURCES)	 (192,009)	 (192,009)	 (185,921)	 6,088	 (169,182)
NET CHANGE IN FUND BALANCES	41,965	41,965	(255,019)	(296,984)	(11,328)
FUND BALANCES, JANUARY 1	2,880,220	2,880,220	2,880,220	-	2,891,548
FUND BALANCES, DECEMBER 31	<u>\$ 2,922,185</u>	<u>\$ 2,922,185</u>	<u>\$ 2,625,201</u>	<u>\$ (296,984)</u>	<u>\$ 2,880,220</u>

CITY OF BAYPORT, MINNESOTA  
 COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES  
 AGENCY FUNDS  
 DECEMBER 31, 2009

	<u>Restated Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b>Escrow</b>				
<b>ASSETS</b>				
Cash and temporary investments	<u>\$ 22,659</u>	<u>\$ 4,341</u>	<u>\$ (7,029)</u>	<u>\$ 19,971</u>
<b>LIABILITIES</b>				
Accounts payable	<u>\$ 22,659</u>	<u>\$ 4,341</u>	<u>\$ (7,029)</u>	<u>\$ 19,971</u>

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**SUPPLEMENTARY INFORMATION**

**CITY OF BAYPORT  
BAYPORT, MINNESOTA**

**YEAR ENDED  
DECEMBER 31, 2009**

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CITY OF BAYPORT, MINNESOTA  
 SUPPLEMENTARY INFORMATION  
 SUMMARY FINANCIAL REPORT  
 REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS  
 GOVERNMENTAL FUNDS  
 YEARS ENDED DECEMBER 31, 2009 AND 2008

	Total		Percent Increase (Decrease)
	2009	2008	
<b>REVENUES</b>			
Taxes	\$ 976,095	\$ 963,220	1.34 %
Tax increments	116,766	115,500	1.10
Licenses and permits	76,463	77,025	(0.73)
Intergovernmental	1,725,605	589,407	192.77
Charges for services	361,800	387,474	(6.63)
Fines and forfeits	23,106	38,128	(39.40)
Special assessments	24,101	83,969	(71.30)
Interest on investments	267,960	455,712	(41.20)
Miscellaneous	211,832	224,307	(5.56)
<b>TOTAL REVENUES</b>	<b>\$ 3,783,728</b>	<b>\$ 2,934,742</b>	<b>28.93</b>
Per Capita	\$ 1,143	\$ 897	27.49
<b>EXPENDITURES</b>			
Current			
General government	\$ 598,290	\$ 580,688	3.03 %
Public safety	1,007,712	920,694	9.45
Public works	336,641	204,918	64.28
Culture and recreation	356,347	586,541	(39.25)
Miscellaneous	2,887	5,211	(44.60)
Capital outlay			
General government		6,484	(100.00)
Public safety	68,103	2,911	2,239.51
Public works	1,032,794	199,791	416.94
Culture and recreation	648,022	10,468	6,090.50
Debt service			
Principal	100,000	80,000	25.00
Interest and other charges	41,965	44,884	(6.50)
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,192,761</b>	<b>\$ 2,642,590</b>	<b>58.66</b>
Per Capita	\$ 1,267	\$ 807	56.89
Total Long-term Indebtedness	\$ 895,000	\$ 995,000	(10.05) %
Per Capita	\$ 270	\$ 304	(11.06)
General Fund Balance - December 31	\$ 2,625,201	\$ 2,880,220	(8.85) %
Per Capita	\$ 793	\$ 880	(9.87)

The purpose of this report is to provide a summary of financial information concerning the City of Bayport to interested citizens. The complete financial statements may be examined at City Hall, 294 North Third Street, Bayport, MN 55003. Questions about this report should be directed to Wanda Madsen, Finance Officer at (651) 275-4404.

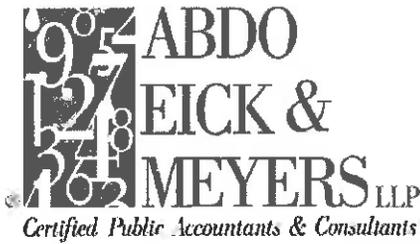
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**OTHER REPORTS**

**CITY OF BAYPORT  
BAYPORT, MINNESOTA**

**YEAR ENDED  
DECEMBER 31, 2009**

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5201 Erlen Avenue  
Suite 370  
Edina, MN 55436

## REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and Council  
City of Bayport, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bayport (the City), Minnesota, as of and for the year ended December 31, 2009 which collectively comprises the basic financial statements as listed in the table of contents and have issued our report thereon dated April 19, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute, 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.

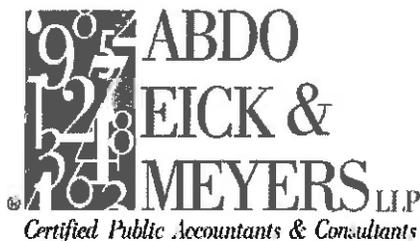
The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous city provisions.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

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions except as noted as finding 2009-6 in the schedule of findings and responses.

This report is intended solely for the information and use of the Council, management and the Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

ABDO, EICK & MEYERS, LLP  
Certified Public Accountants

April 19, 2010  
Minneapolis, Minnesota



5201 Eden Avenue  
Suite 370  
Edina, MN 55436

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS

Honorable Mayor and City Council  
City of Bayport, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bayport, Minnesota, (the City) as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies presented as findings 2009-3, 2009-4 and 2009-5 to be material weaknesses in internal control over financial reporting.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies presented as findings 2009-1 and 2009-2 in the schedule of findings and responses to be significant deficiencies in internal control over financial reporting.



In addition, we noted other matters involving the internal control and its operation that we have reported to management of the City in a separate letter dated April 19, 2010.

The City's written responses to the significant deficiencies and material weaknesses identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, and the Minnesota Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

April 19, 2010  
Minneapolis, Minnesota

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

CITY OF BAYPORT, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2009

<u>Finding</u>	<u>Description</u>
2009-1	<p><b>Limited Segregation of Duties (finding since 2007)</b></p> <p><i>Condition:</i> During our audit, we found that the City has a limited segregation of duties related to many aspects of its accounting systems.</p> <p><i>Criteria:</i> There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.</p> <p><i>Cause:</i> Specific situations include: cash receipts, cash disbursements, payroll and utility billing. The Finance Officer has responsibility over all areas of authorization, custody of assets, recording and reconciling activity. While there is some review of transactions by the Council and City Administrator, there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential could go undetected.</p> <p><i>Effect:</i> The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in segregation of duties and internal controls can result in undetected errors or misappropriation of assets of the City.</p> <p><i>Recommendation:</i> Under these circumstances the most effective controls lie in 1) managements knowledge of the City's financial operations and 2) striving to obtain as much segregation of duties as possible so that no one person has complete control of any type of financial transaction. We recommend the City evaluate its controls and make any changes considered necessary. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. The following are some general ideas to help remedy this deficiency:</p> <ul style="list-style-type: none"><li>• Claims approval is an important control and should be at the front of the meeting to ensure that council reviews the claims closely.</li><li>• A thorough review of budget versus actual reporting and narrative at least quarterly.</li><li>• Monitor progress over the development of documented policies and procedures.</li><li>• The check sequence should be reported in each set of approved minutes. The council should review the order the checks approved to ensure that they move in sequence and any gaps in number are explained.</li><li>• Consider personnel policies that require someone else to fill finance duties for a period of time. A mandatory vacation period of one week for all finance staff and distribution of their duties for that week is often recommended.</li></ul> <p><i>Management Response:</i> There is no disagreement with the audit finding. The City reviews and makes improvements to its internal control structure on an ongoing basis and attempts to maximize the segregation of duties in all areas with the limits of the staff available. However, the City does not consider it cost beneficial at this time to increase the size of its staff in order to further segregate accounting functions.</p>

CITY OF BAYPORT, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
DECEMBER 31, 2009

Finding

Description

2009-2

**Preparation of Financial Statements (finding since 2007)**

*Condition:* We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

*Criteria:* Internal controls should be in place to provide reasonable assurance over financial reporting.

*Cause:* From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.

*Effect:* The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

*Recommendation:* It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.

*Management Response:* For now, the City accepts the degree of risk associated with this deficiency and thoroughly reviews a draft of the financial statements.

CITY OF BAYPORT, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
DECEMBER 31, 2009

<u>Finding</u>	<u>Description</u>
2009-3	<b>Maintenance of Accounting System (finding since 2008)</b>
	<i>Condition:</i> During our audit, it was evident that the City has not developed or practiced appropriate financial reconciliation processes and procedures. All balance sheet accounts should be reconciled on a monthly basis including cash, investments, utility receivable, payroll withholding accounts, and accounts payable. Some specifics follow:  When reviewing payroll withholding accounts, we noted large balances in some accounts. Upon further review, we noted that the City had not been properly expensing the correct amount for healthcare expenses each pay period. The City should be reviewing the set up for the payroll software each time rate change goes into effect to ensure the proper amount is expensed each period.
	<i>Criteria:</i> Internal financial information is vital to effective operations of the City and the financial statements are the responsibility of management.
	<i>Cause:</i> Unknown.
	<i>Effect:</i> The financial information was not accurate throughout the year and many adjustments were required at year-end.
	<i>Recommendation:</i> We recommend the City establish monthly reconciliation procedures to ensure accurate financial reporting throughout the year.
	<i>Management Response:</i> The City will be creating a checklist and a procedure process to verify the monthly reconciliation of accounts.

CITY OF BAYPORT, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
DECEMBER 31, 2009

<u>Finding</u>	<u>Description</u>
2009-4	<p><b>Material Errors (finding since 2008)</b></p> <p><i>Condition:</i> During our audit, we noted a number of errors involved with transactions for payroll and sales tax.</p> <p>We discovered multiple errors relating to payroll as follows:</p> <ul style="list-style-type: none"><li>• There are employees with incorrect Medicare and Social Security wages reported on their W-2's. During 2009, an employee retired and was paid out his sick and vacation balances; however, the City did not withhold taxes on this payment. Also, due to Medicare and Social Security wages being calculated incorrectly, the City has not been paying the correct amount of FICA taxes.</li></ul> <p>Nonresidential water use is applicable to sales tax as well as some general sales. When testing sales tax payable, we noted that quarterly sales tax is being calculated incorrectly. We believe that the City has not been paying enough sales tax each quarter.</p> <p><i>Criteria:</i> Internal financial information is vital to effective operations of the City. Accurate and reliable information is also necessary for outside parties as well. The City is required to submit reports and many times submit payment for payroll and sales taxes.</p> <p><i>Cause:</i> Unknown.</p> <p><i>Effect:</i> There are errors relating to payroll and sales tax payable.</p> <p><i>Recommendation:</i> We recommend the City review and correct the errors noted and implement procedures to ensure accuracy in the future.</p> <p><i>Management Response:</i> Staff has been working with the auditor to correct the payroll errors and has elicited the assistance with the City's health insurance consultant to help ensure the W-2's are being reported accurately. The City has already made some corrections on certain individual employees who receive certain withholdings.</p> <p>City staff has also has been working with Banyon, the City's utility fund accounting system, to identify the issues surrounding why there are errors in the reporting of the quarterly sales tax.</p>

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CITY OF BAYPORT, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
DECEMBER 31, 2009

<u>Finding</u>	<u>Description</u>
<b>2009-5</b>	<b>Material Audit Adjustments (finding since 2007)</b>
<i>Condition:</i>	During our audit, many audit adjustments were needed to correct coding, reclassifying transactions to the appropriate funds, and adjust accounts to the appropriate year-end balances. A prior period adjustment was made to record prior year activity in the correct fund and to record a capital asset.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	The City has not prepared a year end trial balance reflecting all necessary accounting entries.
<i>Effect:</i>	This indicates that it would be likely that a material misstatement may occur and not be detected by the City's system of internal control over financial reporting. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.
<i>Management Response:</i>	Staff will continue to work with the auditor to modify the current procedures to ensure future corrections are not needed.
<b>2009-6</b>	<b>Minnesota Legal Compliance Finding</b>
<i>Condition:</i>	During 2009, an employee's forfeited "flex plan" funds was used to pay for a retirement party. Also, private donations were received by the City for a park bench in honor of the former administrator and were never formally accepted by resolution.
<i>Criteria:</i>	Based upon a letter received from the Attorney at the Office of the State Auditor dated March 30, 2010: <ul style="list-style-type: none"><li>• The City had no authority to use forfeited medical "flex plan" funds to pay for a retirement party.</li><li>• The City had no authority to expend public funds for the retirement party held for the former City Administrator, and independent contractor.</li><li>• The City failed to adopt a resolution for donation received by the City.</li></ul>
<i>Cause:</i>	Unknown
<i>Effect:</i>	The City is out of compliance with Minnesota statute.
<i>Recommendation:</i>	We recommend the City follow the Office of the State Auditor's recommendations to comply with Minnesota law and to adopt resolutions when accepting donations.
<i>Management Response:</i>	The City of Bayport will adopt a policy on the use of tax payer funds for city events.

