

CITY OF BAYPORT, MINNESOTA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2012

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

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**INTRODUCTORY
SECTION**

**CITY OF BAYPORT, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2012**

CITY COUNCIL

Term Expires

Susan St. Ores	Mayor	December 31, 2012
Connie Carlson	Council Member	December 31, 2012
Michele Hanson	Council Member	December 31, 2014
Mark Ostertag	Council Member	December 31, 2014
Dan Goldston	Council Member	December 31, 2012

CITY OFFICIALS

Mitch Berg	City Administrator
Wanda Madsen	Finance Officer
Sara Taylor	Assistant City Administrator

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

May 20, 2013.

Honorable Mayor and City Council
City of Bayport
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 of the City of Bayport, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

St. Cloud

630 Roosevelt Rd. Ste. 201
P.O. Box 1496
St. Cloud, MN 56302
320.251.0286

Little Falls

109 E. Broadway
P.O. Box 365
Little Falls, MN 56345
320.632.6311

Albany

115 6th St.
P.O. Box 268
Albany, MN 56307
320.845.2940

Maple Lake

220 Hwy. 55 North, Ste. 4
P.O. Box 385
Maple Lake, MN 55358
320.963.5414

Monticello

202 W. 3rd St.
P.O. Box 755
Monticello, MN 55362
763.295.5070

Emphasis of Matter

Change in Accounting Estimate

As discussed in I.G. to the financial statements, the City of Bayport, Minnesota has adopted Government Accounting Standards Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*, Government Accounting Standards Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Government Accounting Standards Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as shown in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and combining and individual nonmajor fund financial statements have not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated May 20, 2013, on our consideration of City of Bayport's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF BAYPORT, MINNESTOA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

Our discussion and analysis of the City of Bayport's financial performance provides an overview of the City's financial activities for the year ended December 31, 2012. Please read it in conjunction with the transmittal letter on page one and the City's financial statements, which begin on page twelve.

FINANCIAL HIGHLIGHTS

- The City's net position increased \$678,365 compared to the prior year as a result of this year's operations.
- In the City's business-type activities, revenues increased approximately \$144,558 (or 13.28 percent) while operating expenses decreased \$35,508.
- Total cost of all of the City's programs increased \$137,279 (or 3.81 percent).
- The City of Bayport was certified at \$338,228 with no market value credits expected. However, the City actually received local government aid of \$335,228 and no market value credits were received.
- The City's general fund generated more revenue than budgeted of \$323,572 excluding transfers. Expenditures were more than budgeted by \$276,901 including transfers to other funds that were budgeted for but did not occur.

USING THIS ANNUAL REPORT

This annual report consists of series of financial statements. The Statement of Net Position and the Statement of Activities (on pages twelve and thirteen) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page fourteen. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page twelve. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. You can think of the City's net position-the difference between assets and liabilities-as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

**CITY OF BAYPORT, MINNESTOA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

USING THIS ANNUAL REPORT (Continued)

Reporting the City as a Whole (Continued)

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes, special assessments, licenses, permits and fees, and state aids finance most of these activities.
- **Business-type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page fourteen. The fund financial statements begin on page fourteen and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

- **Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.
- **Proprietary Funds** – When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**CITY OF BAYPORT, MINNESTOA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

THE CITY AS A WHOLE

The City's combined net position increased \$678,365 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2012	2011	2012	2011	2012	2011
Current & Other Assets	\$ 12,141,334	\$ 11,412,828	\$ 3,098,762	\$ 2,852,881	\$ 15,240,096	\$ 14,265,709
Net Capital Assets	<u>14,244,476</u>	<u>14,486,703</u>	<u>7,041,888</u>	<u>7,096,641</u>	<u>21,286,364</u>	<u>21,583,344</u>
Total Assets	26,385,810	25,899,531	10,140,650	9,949,522	36,526,460	35,849,053
Long-Term Debt Outstanding	565,000	690,000	-	-	565,000	690,000
Other Liabilities	<u>216,603</u>	<u>182,372</u>	<u>133,610</u>	<u>43,799</u>	<u>350,213</u>	<u>226,171</u>
Total Liabilities	781,603	872,372	133,610	43,799	915,213	916,171
Net Position:						
Net Investment in						
Capital Assets	13,679,476	13,796,703	7,041,888	7,096,641	20,721,364	20,893,344
Restricted	2,403,215	2,368,590	-	-	2,403,215	2,368,590
Unrestricted	<u>9,521,516</u>	<u>8,861,866</u>	<u>2,965,152</u>	<u>2,809,082</u>	<u>12,486,668</u>	<u>11,670,948</u>
Total Net Position	<u>\$ 25,604,207</u>	<u>\$ 25,027,159</u>	<u>\$ 10,007,040</u>	<u>\$ 9,905,723</u>	<u>\$ 35,611,247</u>	<u>\$ 34,932,882</u>

Net assets of the City's governmental activities increased by 2.31 percent (\$577,048). Unrestricted net position-the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements-increased by \$659,650 compared to the prior year.

The net position of the City's business-type activities increased by \$101,317. Operations were comparable to the prior year.

**CITY OF BAYPORT, MINNESTOA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

THE CITY AS A WHOLE (Continued)

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2012	2011	2012	2011	2012	2011
REVENUE						
Charges for Services	\$ 605,821	\$ 576,550	\$ 1,065,793	\$ 943,681	\$ 1,671,614	\$ 1,520,231
Grants and Contributions	249,293	254,846	9,527	56,587	258,820	311,433
Taxes	1,284,941	1,295,725	-	-	1,284,941	1,295,725
Intergovernmental	342,651	340,913	-	-	342,651	340,913
Unrestricted Investment Income	610,056	340,665	157,404	87,898	767,460	428,563
Other	96,400	88,190	-	-	96,400	88,190
Total Revenues	3,189,162	2,896,889	1,232,724	1,088,166	4,421,886	3,985,055
PROGRAM EXPENSES						
General Government	612,654	574,756	-	-	612,654	574,756
Public Safety	1,171,517	1,088,335	-	-	1,171,517	1,088,335
Public Works	427,578	418,205	-	-	427,578	418,205
Parks and Recreation	474,873	428,278	-	-	474,873	428,278
Debt Service	29,796	34,057	-	-	29,796	34,057
Water	-	-	450,375	436,609	450,375	436,609
Sewer	-	-	576,728	626,002	576,728	626,002
Total Expenses	2,716,418	2,543,631	1,027,103	1,062,611	3,743,521	3,606,242
Transfers	104,304	(9,593)	(104,304)	9,593	-	-
Change in Net Position	\$ 577,048	\$ 343,665	\$ 101,317	\$ 35,148	\$ 678,365	\$ 378,813

The City's total revenues increased by 10.96 percent (\$436,831), largely due to increased investment income and an increase in revenues from charges for services. The total cost of all programs and services increased by \$137,279 or 3.81 percent. Our analysis below separately considers the operations of governmental and business-type activities.

**CITY OF BAYPORT, MINNESTOA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

THE CITY AS A WHOLE (Continued)

Governmental Activities

Revenue for the City's governmental activities increased by 10.09 percent (\$292,273), while total expenses increased \$172,787. Revenues and expenses were generally consistent year to year.

Table 3 presents the cost of each of the City's programs-general government, public safety, public works, parks and recreation and debt service-as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. Activities, net of capital outlay which is excluded from Table 3, were generally comparable to the prior year as operations remained fairly consistent with the prior year with the exception of public works where the aforementioned grant is included.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
General Government	\$ 612,654	\$ 574,756	\$ (430,171)	\$ (414,088)
Public Safety	1,171,517	1,088,335	(756,975)	(667,789)
Public Works	427,578	418,205	(339,912)	(331,202)
Parks and Recreation	474,873	428,278	(304,450)	(265,099)
Debt Service	29,796	34,057	(29,796)	(34,057)
Totals	<u>\$ 2,716,418</u>	<u>\$ 2,543,631</u>	<u>\$ (1,861,304)</u>	<u>\$ (1,712,235)</u>

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by 13.28 percent (\$144,558) due to increased revenues from investment income and charges for services. Expenses decreased by \$35,508, primarily due to decreased state fees for sewer and decreased repairs and maintenance costs.

THE CITY'S FUNDS

Governmental Funds

As the City completed the year, its governmental funds (as presented in the balance sheet on page fourteen) reported a combined fund balance of \$11,676,462. This is an increase of \$717,318 from the prior year. Operations were comparable to the prior year. Financial information specific to the governmental funds is detailed in Table 4. Such information was derived from the fund financials at pages twelve through twenty-two.

**CITY OF BAYPORT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

THE CITY'S FUNDS (Continued)

Governmental Funds (Continued)

**Table 4
General, Debt Service, Special Revenue, Capital Projects and Permanent Funds
Information Based on Fund Financials**

	General Fund		Debt Service Fund	
	2012	2011	2012	2011
Total Assets	\$ 8,806,800	\$ 8,251,181	\$ 342,282	\$ 372,692
Total Liabilities	\$ 146,665	\$ 107,764	\$ -	\$ -
Deferred Inflow of Resources	\$ 206,705	\$ 213,385	\$ -	\$ -
Total Revenues	\$ 2,502,485	\$ 2,253,942	\$ 124,795	\$ 109,543
Total Expenditures	\$ 2,120,845	\$ 1,896,890	\$ 155,205	\$ 139,401
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ 155,205	\$ 139,401
Capital Outlay Included in Total Expenditures	\$ 201,838	\$ 166,323	\$ -	\$ -
Net Transfers	\$ 141,758	\$ 91,732	\$ -	\$ -
	Special Revenue Funds		Capital Projects Funds	
	2012	2011	2012	2011
Total Assets	\$ 2,621,769	\$ 2,457,867	\$ 393,466	\$ 390,515
Total Liabilities	\$ 687,915	\$ 701,321	\$ -	\$ 19,269
Deferred Inflow of Resources	\$ 102,612	\$ 92,648	\$ -	\$ -
Total Revenues	\$ 477,926	\$ 453,816	\$ 58,180	\$ 77,860
Total Expenditures	\$ 273,128	\$ 388,672	\$ 35,960	\$ 36,758
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ -	\$ -
Capital Outlay Included in Total Expenditures	\$ -	\$ 42,154	\$ -	\$ -
Net Transfers	\$ (37,454)	\$ (99,830)	\$ -	\$ (1,495)
	Permanent Fund		Total Governmental Funds	
	2012	2011	2012	2011
Total Assets	\$ 656,042	\$ 621,276	\$ 12,820,359	\$ 12,093,531
Total Liabilities	\$ -	\$ -	\$ 834,580	\$ 828,354
Deferred Inflow of Resources	\$ -	\$ -	\$ 309,317	\$ 306,033
Total Revenues	\$ 34,766	\$ 19,414	\$ 3,198,152	\$ 2,914,575
Total Expenditures	\$ -	\$ -	\$ 2,585,138	\$ 2,461,721
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ 155,205	\$ 139,401
Capital Outlay Included in Total Expenditures	\$ -	\$ -	\$ 201,838	\$ 208,477
Net Transfers	\$ -	\$ -	\$ 104,304	\$ (9,593)

**CITY OF BAYPORT, MINNESTOA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

THE CITY'S FUNDS (Continued)

General Fund Budgetary Highlights

The City's general fund generated more revenue than budgeted of \$323,572 excluding transfers in from other funds which is comparable to prior year. Expenditures were less than those budgeted by \$276,901 including transfers to other funds that were budgeted but did not occur. Increased revenues over budget in the current year are primarily due to increased revenue from investments.

Proprietary Funds

Financial information specific to the proprietary funds is detailed in Table 5. Such information was derived from the fund financials at pages nineteen and twenty.

**Table 5
Proprietary Fund Information Based on Fund Financials**

	Water Fund		Sewer Fund	
	2012	2011	2012	2011
Total Assets	\$ 6,785,142	\$ 6,666,970	\$ 3,355,508	\$ 3,282,552
Total Liabilities	\$ 35,388	\$ 27,690	\$ 98,222	\$ 16,109
Total Revenues	\$ 553,678	\$ 406,912	\$ 679,046	\$ 681,254
Total Expenditures	\$ 450,375	\$ 436,609	\$ 576,728	\$ 626,002
Net Transfers	\$ 7,171	\$ (6,000)	\$ (111,475)	\$ 15,593
Change in Net Position	\$ 110,474	\$ (35,697)	\$ (9,157)	\$ 70,845

	Total Proprietary Funds	
	2012	2011
Total Assets	\$ 10,140,650	\$ 9,949,522
Total Liabilities	\$ 133,610	\$ 43,799
Total Revenues	\$ 1,232,724	\$ 1,088,166
Total Expenditures	\$ 1,027,103	\$ 1,062,611
Net Transfers	\$ (104,304)	\$ 9,593
Change in Net Position	\$ 101,317	\$ 35,148

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had \$28,359,758 invested in a broad range of capital assets, including machinery and equipment, buildings, improvements, infrastructure and water and sewer infrastructure. This amount represents a net increase of approximately \$175,134 or 0.62 percent, over last year.

**CITY OF BAYPORT, MINNESTOA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

**Table 6
Capital Assets at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 6,194,442	\$ 6,194,442	\$ -	\$ -	\$ 6,194,442	\$ 6,194,442
Buildings & Structures	4,577,240	4,577,240	51,548	51,548	4,628,788	4,628,788
Improvements	839,689	839,689	-	-	839,689	839,689
Machinery & Equipment	4,361,853	4,289,599	240,745	275,865	4,602,598	4,565,464
Infrastructure	3,213,120	3,198,371	8,504,107	8,484,829	11,717,227	11,683,200
Library Books	273,041	273,041	-	-	273,041	273,041
Construction in Progress	-	-	103,973	-	103,973	-
Totals	\$ 19,459,385	\$ 19,372,382	\$ 8,900,373	\$ 8,812,242	\$ 28,359,758	\$ 28,184,624

The City's fiscal year 2013 capital budget is similar to the current year. At this time, estimates are not available as to water related future capital improvement outlay. More detailed information about the City's capital assets is presented in Note 1 to the financial statements.

Debt

At year-end, the City had \$565,000 in debt versus \$690,000 last year, a decrease of 18.12 percent, as shown in Table 7.

**Table 7
Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
GO Bonds	\$ 565,000	\$ 690,000	\$ -	\$ -	\$ 565,000	\$ 690,000

The City did not issue any debt in 2012.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the year 2013 budget, such as tax rates and fees that will be charged for the business-type activities. The Council elected to increase the 2013 tax levy by 2.15% from the 2012 amount. Also, the Council elected to increase water and sewer rates by approximately 11.0% over 2012. The Council expects operations in 2013 to remain fairly consistent with those of 2012. Overall budget amounts for 2013 are consistent with 2012's budget and operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Wanda Madsen, Finance Director at City of Bayport, 294 North 3rd Street, Bayport, MN 55003.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
 - Governmental funds
 - Proprietary (enterprise) funds
- Fiduciary fund financial statements

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**CITY OF BAYPORT, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash, Cash Equivalents, and Investments	\$ 11,714,772	\$ 2,893,299	\$ 14,608,071
Property Taxes Receivable	167,183	-	167,183
Accounts Receivable	65,278	202,233	267,511
Prepays	19,875	3,230	23,105
Current Portion of Assessments Receivable	109,334	-	109,334
Total Current Assets	12,076,442	3,098,762	15,175,204
Noncurrent Assets			
Capital Assets not Being Depreciated	6,194,442	103,973	6,298,415
Capital Assets Being Depreciated (Net)	8,050,034	6,937,915	14,987,949
Long-Term Portion of Assessments Receivable	64,892	-	64,892
Total Noncurrent Assets	14,309,368	7,041,888	21,351,256
TOTAL ASSETS	26,385,810	10,140,650	36,526,460
LIABILITIES			
Current Liabilities			
Accounts Payable	113,207	93,241	206,448
Due to Other Governments	851	7,169	8,020
Accrued Interest	1,847	-	1,847
Deferred Revenue	41,497	-	41,497
Total Current Liabilities	157,402	100,410	257,812
Noncurrent Liabilities			
Compensated Absences Due Within One Year	42,638	10,632	53,270
Compensated Absences Due After One Year	16,563	22,568	39,131
Bonds Due Within One Year	125,000	-	125,000
Bonds Due After One Year	440,000	-	440,000
Total Noncurrent Liabilities	624,201	33,200	657,401
TOTAL LIABILITIES	781,603	133,610	915,213
NET POSITION			
Net Investment in Capital Assets	13,679,476	7,041,888	20,721,364
Restricted	2,403,215	-	2,403,215
Unrestricted	9,521,516	2,965,152	12,486,668
TOTAL NET POSITION	\$ 25,604,207	\$ 10,007,040	\$ 35,611,247

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating	Capital	Primary Government		Total
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government:							
Administration	\$ 133,915	\$ -	\$ -	\$ -	\$ (133,915)	\$ -	\$ (133,915)
Council	154,697	-	-	-	(154,697)	-	(154,697)
Building and Zoning	214,976	146,716	105	-	(68,155)	-	(68,155)
Elections	4,746	-	-	-	(4,746)	-	(4,746)
General Government	104,320	31,530	4,132	-	(68,658)	-	(68,658)
Total General Government	612,654	178,246	4,237	-	(430,171)	-	(430,171)
Public Safety	1,171,517	298,779	115,763	-	(756,975)	-	(756,975)
Public Works	427,578	75,068	-	12,598	(339,912)	-	(339,912)
Parks and Recreation	474,873	53,728	116,695	-	(304,450)	-	(304,450)
Debt Service	29,796	-	-	-	(29,796)	-	(29,796)
Total Governmental Activities	2,716,418	605,821	236,695	12,598	(1,861,304)	-	(1,861,304)
Business-Type Activities:							
Water	450,375	453,361	-	9,527	-	12,513	12,513
Sewer	576,728	612,432	-	-	-	35,704	35,704
Total Business-Type Activities	1,027,103	1,065,793	-	9,527	-	48,217	48,217
TOTALS	\$ 3,743,521	\$ 1,671,614	\$ 236,695	\$ 22,125	(1,861,304)	48,217	(1,813,087)
General Revenues (Expenses):							
Taxes					1,284,941	-	1,284,941
Intergovernmental					342,651	-	342,651
Investment Income					610,056	157,404	767,460
Miscellaneous					96,400	-	96,400
Transfers					104,304	(104,304)	-
Total General Revenues and Transfers					2,438,352	53,100	2,491,452
CHANGE IN NET POSITION					577,048	101,317	678,365
NET POSITION-BEGINNING OF YEAR					25,027,159	9,905,723	34,932,882
NET POSITION-END OF YEAR					<u>\$ 25,604,207</u>	<u>\$ 10,007,040</u>	<u>\$ 35,611,247</u>

**CITY OF BAYPORT, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General Fund	Park Improvement Fund	Library Fund	Nonmajor Debt Service Fund	Nonmajor Permanent Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Governmental Funds
ASSETS								
Cash, Cash Equivalents, and Investments	\$ 8,538,412	\$ 61,006	\$ 333,719	\$ 342,282	\$ 656,042	\$ 1,389,845	\$ 393,466	\$ 11,714,772
Property Taxes Receivable	167,183	-	-	-	-	-	-	167,183
Assessments Receivable	39,522	92,648	-	-	-	42,056	-	174,226
Accounts Receivable	43,825	5,000	-	-	-	16,453	-	65,278
Prepays	17,858	-	2,017	-	-	-	-	19,875
Due from Other Fund	-	-	-	-	-	679,025	-	679,025
TOTAL ASSETS	\$ 8,806,800	\$ 158,654	\$ 335,736	\$ 342,282	\$ 656,042	\$ 2,127,379	\$ 393,466	\$ 12,820,359
LIABILITIES								
Accounts Payable	\$ 104,317	\$ -	\$ 2,221	\$ -	\$ -	\$ 6,669	\$ -	\$ 113,207
Due to Other Governments	851	-	-	-	-	-	-	851
Unearned Revenue	41,497	-	-	-	-	-	-	41,497
Due to Other Funds	-	679,025	-	-	-	-	-	679,025
Total Liabilities	146,665	679,025	2,221	-	-	6,669	-	834,580
DEFERRED INFLOW OF RESOURCES								
Unavailable Revenue:								
Property Taxes	167,183	-	-	-	-	-	-	167,183
Special Assessments	39,522	92,648	-	-	-	9,964	-	142,134
TOTAL DEFERRED INFLOW OF RESOURCES	206,705	92,648	-	-	-	9,964	-	309,317
FUND BALANCES								
Nonspendable	17,858	-	2,017	-	-	-	-	19,875
Restricted	-	-	247,897	342,282	656,042	763,528	393,466	2,403,215
Committed	239,000	-	31,763	-	-	-	-	270,763
Assigned	-	-	51,838	-	-	1,347,218	-	1,399,056
Unassigned	8,196,572	(613,019)	-	-	-	-	-	7,583,553
Total Fund Balance	8,453,430	(613,019)	333,515	342,282	656,042	2,110,746	393,466	11,676,462
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 8,806,800	\$ 158,654	\$ 335,736	\$ 342,282	\$ 656,042	\$ 2,127,379	\$ 393,466	\$ 12,820,359

See accompanying notes.

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

Total Fund Balance for Governmental Funds	\$	11,676,462
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets (net of accumulated depreciation of \$5,214,909) used in governmental activities are not financial resources and, therefore are not reported in the funds.		14,244,476
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: Deferred Inflows		309,317
Interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the governmental funds balance sheet.		(1,847)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet. Compensated absences Bonds due within one year Bonds due in more than one year		(59,201) (125,000) <u>(440,000)</u>
TOTAL NET POSITION OF GOVERNMENTAL FUNDS	\$	<u>25,604,207</u>

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

	General Fund	Park Improvement Fund	Library Fund	Nonmajor Debt Service Fund	Nonmajor Permanent Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Governmental Funds
REVENUES								
Taxes	\$ 995,120	\$ -	\$ 155,965	\$ 101,541	\$ -	\$ 2,310	\$ -	\$ 1,254,936
Tax Increment	-	-	-	-	-	-	38,995	38,995
Licenses, Permits and Fees	139,649	-	-	-	-	-	-	139,649
Intergovernmental	473,157	-	-	-	-	-	-	473,157
Charges for Services	317,912	24,000	3,460	-	-	75,068	-	420,440
Fines	33,122	-	-	-	-	6,986	-	40,108
Investment Income	436,378	3,148	18,265	23,254	34,766	75,060	19,185	610,056
Miscellaneous	107,147	-	113,303	-	-	361	-	220,811
TOTAL REVENUES	2,502,485	27,148	290,993	124,795	34,766	159,785	58,180	3,198,152
EXPENDITURES								
General Government:								
Administration	133,915	-	-	-	-	-	-	133,915
Mayor and Council	154,697	-	-	-	-	-	-	154,697
Building and Zoning	214,976	-	-	-	-	-	-	214,976
Elections	4,746	-	-	-	-	-	-	4,746
General Government	52,014	-	-	-	-	-	-	52,014
Total General Government	560,348	-	-	-	-	-	-	560,348
Public Safety:								
Police	677,571	-	-	-	-	5,233	-	682,804
Fire	346,017	-	-	-	-	-	-	346,017
Public Works	262,156	-	-	-	-	2,371	35,960	300,487
Parks and Recreation	72,915	4,879	260,645	-	-	-	-	338,439
Debt Service:								
Principal	-	-	-	125,000	-	-	-	125,000
Interest and Other Charges	-	-	-	30,205	-	-	-	30,205
Capital Outlay	201,838	-	-	-	-	-	-	201,838
TOTAL EXPENDITURES	2,120,845	4,879	260,645	155,205	-	7,604	35,960	2,585,138
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	381,640	22,269	30,348	(30,410)	34,766	152,181	22,220	613,014

See accompanying notes.

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

	General Fund	Park Improvement Fund	Library Fund	Nonmajor Debt Service Fund	Nonmajor Permanent Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)								
Operating Transfers In	\$ 141,758	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 141,758
Operating Transfers Out	-	(14,749)	-	-	-	(22,705)	-	(37,454)
TOTAL OTHER FINANCING SOURCES (USES)	<u>141,758</u>	<u>(14,749)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,705)</u>	<u>-</u>	<u>104,304</u>
NET CHANGE IN FUND BALANCES	523,398	7,520	30,348	(30,410)	34,766	129,476	22,220	717,318
FUND BALANCES - BEGINNING	<u>7,930,032</u>	<u>(620,539)</u>	<u>303,167</u>	<u>372,692</u>	<u>621,276</u>	<u>1,981,270</u>	<u>371,246</u>	<u>10,959,144</u>
FUND BALANCES - ENDING	<u>\$ 8,453,430</u>	<u>\$ (613,019)</u>	<u>\$ 333,515</u>	<u>\$ 342,282</u>	<u>\$ 656,042</u>	<u>\$ 2,110,746</u>	<u>\$ 393,466</u>	<u>\$ 11,676,462</u>

**CITY OF BAYPORT, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Reconciliation of the change in fund balances - total governmental funds to the change in Net Position of governmental activities:

Net Change in fund balances - total governmental funds \$ 717,318

Amounts reported for governmental activities in the Statement of Activities are different due to the following:

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

Cash paid for capital asset purchases capitalized	201,838	
Depreciation expense	<u>(444,065)</u>	(242,227)

Revenues in Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Long-term receivables, net of deferred revenue	(8,990)
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Repayment of debt principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position:

Bond payments	125,000
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Net change in accrued interest on bonds is not reported as expenses in the funds:

	409
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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:

Change in accrued compensated absences	<u>(14,462)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 577,048</u>
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**CITY OF BAYPORT, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012**

	Water Fund	Sewer Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash, Cash Equivalents, and Investments	\$ 1,838,966	\$ 1,054,333	\$ 2,893,299
Accounts Receivable	85,586	116,647	202,233
Prepays	2,000	1,230	3,230
Total Current Assets	1,926,552	1,172,210	3,098,762
LONG TERM ASSETS			
Capital Assets not Depreciated	-	103,973	103,973
Capital Assets Being Depreciated (Net)	4,858,590	2,079,325	6,937,915
Total Long Term Assets	4,858,590	2,183,298	7,041,888
TOTAL ASSETS	\$ 6,785,142	\$ 3,355,508	\$ 10,140,650
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$ 11,619	\$ 81,622	\$ 93,241
Due to Other Governments	7,169	-	7,169
Compensated Absences	5,316	5,316	10,632
Total Current Liabilities	24,104	86,938	111,042
LONG-TERM LIABILITIES			
Compensated Absences	11,284	11,284	22,568
NET POSITION			
Invested in Capital Assets	4,858,590	2,183,298	7,041,888
Unrestricted	1,891,164	1,073,988	2,965,152
Total Net Position	6,749,754	3,257,286	10,007,040
TOTAL LIABILITIES AND NET POSITION	\$ 6,785,142	\$ 3,355,508	\$ 10,140,650

CITY OF BAYPORT, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for Services	\$ 388,361	\$ 596,982	\$ 985,343
OPERATING EXPENSES			
Personal Services	167,634	162,844	330,478
Materials, Supplies, Services and Charges	163,161	16,308	179,469
MCES Charges	-	339,152	339,152
Depreciation	<u>119,580</u>	<u>58,424</u>	<u>178,004</u>
TOTAL OPERATING EXPENSES	<u>450,375</u>	<u>576,728</u>	<u>1,027,103</u>
NET OPERATING INCOME (LOSS)	(62,014)	20,254	(41,760)
NONOPERATING INCOME			
Connection Fees	65,000	15,450	80,450
Intergovernmental	9,527	-	9,527
Investment Income	<u>90,790</u>	<u>66,614</u>	<u>157,404</u>
TOTAL NONOPERATING INCOME	<u>165,317</u>	<u>82,064</u>	<u>247,381</u>
CHANGE IN NET POSITION PRIOR TO TRANSFERS	103,303	102,318	205,621
TRANSFERS			
Operating Transfers In	13,646	-	13,646
Operating Transfers Out	<u>(6,475)</u>	<u>(111,475)</u>	<u>(117,950)</u>
NET TRANSFERS	<u>7,171</u>	<u>(111,475)</u>	<u>(104,304)</u>
CHANGE IN NET POSITION	110,474	(9,157)	101,317
NET POSITION-BEGINNING OF YEAR	<u>6,639,280</u>	<u>3,266,443</u>	<u>9,905,723</u>
NET POSITION-END OF YEAR	<u>\$ 6,749,754</u>	<u>\$ 3,257,286</u>	<u>\$ 10,007,040</u>

**CITY OF BAYPORT, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 437,223	\$ 582,464	\$ 1,019,687
Cash Paid to Suppliers	(161,996)	(345,941)	(507,937)
Cash Paid to Employees	(166,997)	(162,207)	(329,204)
	<u>108,230</u>	<u>74,316</u>	<u>182,546</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Cash Receipts	9,527	-	9,527
Operating Subsidies and Transfers to Other Funds	(6,475)	(111,475)	(117,950)
Operating Subsidies and Transfers from Other Funds	13,646	-	13,646
	<u>16,698</u>	<u>(111,475)</u>	<u>(94,777)</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of Capital Assets	(19,278)	(31,992)	(51,270)
Net Increase (Decrease) in Cash and Cash Equivalents	105,650	(69,151)	36,499
Cash and Cash Equivalents-Beginning of Year	<u>163,329</u>	<u>(28,459)</u>	<u>134,870</u>
Cash and Cash Equivalents-End of Year	268,979	(97,610)	171,369
Investments	<u>1,569,987</u>	<u>1,151,943</u>	<u>2,721,930</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 1,838,966</u>	<u>\$ 1,054,333</u>	<u>\$ 2,893,299</u>
NON-CASH CAPITAL FINANCING ACTIVITIES:			
Construction in Progress included as an Account Payable at Year End	<u>\$ -</u>	<u>\$ 71,981</u>	<u>\$ 71,981</u>
Disposal of Fully Depreciated Capital Assets	<u>\$ 4,324</u>	<u>\$ 30,796</u>	<u>\$ 35,120</u>

CITY OF BAYPORT, MINNESOTA
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Water Fund	Sewer Fund	Totals
RECONCILIATION OF NET OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	\$ (62,014)	\$ 20,254	\$ (41,760)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Cash Flows Reported in Other Categories:			
Depreciation Expense	119,580	58,424	178,004
Nonoperating Revenue from Customers	65,000	15,450	80,450
Change in Assets and Liabilities:			
Receivables	(22,838)	(29,968)	(52,806)
Prepays	805	26	831
Accounts Payable	360	9,493	9,853
Due to Other Governments	6,700	-	6,700
Compensated Absences	637	637	1,274
	<u>108,230</u>	<u>74,316</u>	<u>182,546</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 108,230</u>	<u>\$ 74,316</u>	<u>\$ 182,546</u>

**CITY OF BAYPORT, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2012**

	<u>Agency Fund</u>
ASSETS	
Cash, Cash Equivalents, and Investments	\$ <u>14,807</u>
LIABILITIES	
Accounts Payable	\$ <u>14,807</u>

CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS

INDEX

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- B. Basis of Presentation
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CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Bayport (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: sanitation, recreation, public improvements, public safety, planning and zoning, and general administrative services.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity is comprised of the primary governmental unit of the City of Bayport, Minnesota.

In determining the financial reporting entity, the City complies with the provisions of GASB No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria describe above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City's does not have any blended component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The Fiduciary Funds are only reported in the Statement of Fiduciary Net Position at the fund financial statement level. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, deferred inflows, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued)

- a. Total assets, liabilities, deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by enterprise funds. Ad valorem taxes are used for the payment of principal and interest on the City's judgment.

Special Revenue Funds

The Special Revenue Funds account for funds received by the City with a specific purpose.

Capital Projects Improvements Fund

The Capital Projects Improvement Funds are used to account for financial resources to be used for the acquisition or construction of capital projects (other than funds financed by proprietary funds.)

Permanent Fund

The Permanent Fund accounts for resources that are legally restricted by the City to the extent that only earnings, and not principal, may be used to support the government's programs without citizen approval.

Proprietary Fund

Enterprise Funds

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains Water and Sewer Enterprise Funds.

Fiduciary Fund

This fund accounts for assets held by the City as an agent for other parties. These assets cannot be used to finance the City's own operating programs.

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued)

Major and Nonmajor Funds

The funds are further classified as major and nonmajor as follows:

Fund	Brief Description
Major:	
General	See description above.
Special Revenue Funds	See description above.
Proprietary Funds:	
Water and Sewer	Accounts for the activities of the City for providing water, sewer, and street utility services to the public.
Nonmajor:	
Debt Service	See description above.
Special Revenue Funds	See description above.
Capital Project Funds	See description above.
Permanent Fund	See description above.
Fiduciary Fund	See description above.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below. This measurement focus is also utilized for presenting the City’s Statement of Fiduciary Net Position.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The government-wide financial statements utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the *accrual basis of accounting*, which is also used to present the City's Statement of Fiduciary Net Position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the *modified accrual basis of accounting*. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting.

1.D. USE OF ESTIMATES

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY

Cash and Cash Equivalents

For purposes of the Statement of Net Position, "cash, cash equivalents" includes all demand, savings, and money market accounts for the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand, savings, and money market accounts with an original maturity of three months or less.

Investments

Investments are stated at their fair value as determined by quoted market prices. Short-term investments are reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. Certificates of deposit are stated at cost, plus accrued interest, which approximates fair market value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses. Purchases and sales of securities are recorded on a trade-date basis.

See Note 3.A. for additional information related to Cash, Cash Equivalents, and Investments.

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Continued)

Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to good and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "due to/from other fund." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note 3.D. for details of interfund transactions, including receivables and payables at year-end.

Prepays

Prepays represent costs paid that relate to future periods.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and are not deemed necessary at year end. Major receivable balances for the governmental activities include police fines, fire services, franchise fees, taxes, special assessments and charges for water and sewer improvements. Business-type activities report utility charges as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, franchise fees, fines and charges for service since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred inflows in the fund financial statements in accordance with modified accrual, but not deferred inflows in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

Capital Assets

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund 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.

Government-wide Statements

In the government-wide financial statements, capital assets are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Prior to January 1, 2004, governmental funds' infrastructure assets were not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Continued)

Capital Assets (Continued)

Government-wide Statements (Continued)

The range of estimated useful lives by type of asset is as follows:

Buildings and Structures	10-50 years
Machinery and Equipment	3-20 years
Distribution and Collection Systems	30-50 years
Library Books	5 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Accounts Payable

Payables in the governmental and enterprise funds are composed almost entirely of payables to vendors.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Deferred Inflow of Resources

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This element represents an acquisition of net position that applies to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The City reports only one type of transaction, property taxes and special assessments, as deferred inflows of resources and accordingly, these amounts are deferred and recognized as inflows of resources in the period that they become available. Because this type of unavailable revenue is only reported under a modified accrual basis of accounting, deferred inflows of resources are only reported in the governmental funds balance sheet.

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, General Fund resources would be used to liquidate the compensated absences.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Continued)

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

Governmental Fund Financial Statements – In the fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2012 consist of prepaid expenditures.

Restricted – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The City has formally adopted a policy under which it strives to maintain a minimum unassigned general fund balance equal to approximately 40% of annual budgeted operating expenses.

See Note 3.E. for additional disclosures.

Proprietary Fund Financial Statements – Proprietary fund equity is classified the same as in the government-wide statements, as described above.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of October. County of Washington is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable after the 60-day period, no additional accrual is made in the government-wide financial statements.

December 31 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The County Auditor makes up the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City. The County Auditor remits a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year. The County Treasurer collects all taxes and assessments, except as noted above. The County Treasurer mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

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 inflow for taxes not received within 60 days after year end in the fund financial statements.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related to financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character	Current (further classified by Function)
	Debt Service
	Capital Outlay

Proprietary Fund - By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated. See additional information at Note 3.D.

1.G. RECENTLY ISSUED ACCOUNTING STANDARDS

Effective December 31, 2012, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. This statement incorporates Financial Accounting Standards (FAS), Accounting Principles Board (APB) and Accounting Research Bulletins (ARB) that were issued on or before November 30, 1989 into GASB literature.

The City also adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position.

The City has elected to early adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement reclassifies certain items that were previously reported as assets and liabilities and deferred outflows resources, deferred inflows of resources or current-period outflows and inflows.

1.H. RECLASSIFICATIONS

Certain amounts in 2011 have been reclassified to conform with the 2012 presentation in the Management's Discussion and Analysis section.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2.A. FUND ACCOUNTING REQUIREMENTS AND DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

By its nature as a local government unit, the City and its component unit is subject to various federal, state, and local laws and contractual regulations. The City complies with all state and local laws and regulations requiring the use of separate funds.

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC or FSLIC insurance (100% if collateral pledged is irrevocable standard letters of credit issued by the Federal Home Loan Bank).

2.B. 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 funds. 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 15th, 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.

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

2.B. BUDGETARY INFORMATION (Continued)

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. See original and final General Fund and major Special Revenue Fund budgets presented as Required Supplementary Information.

2.C. EXPENDITURES IN EXCESS OF BUDGET

Actual expenditures exceeded total budgeted expenditures for the current year end as follows:

Fund	Budgeted Expenditures	Actual Expenditures	Transfers Included in Actual
Park Improvements Fund	\$ -	\$ 19,628	\$ 14,749

The expenditures in excess of budget were due to City expenditures for capital outlay. The expenditures in excess of budget were funded by available fund balances and current year revenues.

2.D. DEFICIT FUND EQUITY

A fund balance deficit of \$613,019 exists in the Park Improvement Fund resulting from park improvements expenditures which have been paid for with monies borrowed from another fund. This results in a \$679,025 liability due to the Tax Stabilization Fund. The funds are expected to pay back with future park dedication fees. It is expected that park dedication fees will provide a positive fund balance in the future.

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, deferred inflows, equity, revenues, and expenditures/expenses.

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

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

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

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Deposits (Continued)

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;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits 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.

At December 31, 2012, the City’s deposits, including certificates of deposit, were exposed to custodial credit risk in that the City’s deposits, although sufficiently covered by federal depository insurance, were not sufficiently covered by collateral held by the government’s agent in the government’s name.

As of December 31, 2012, the City had the following deposits:

Cash in Checking	\$	1,867,985
Certificates of Deposit		<u>4,468,204</u>
 Total Deposits	 \$	 <u>6,336,189</u>

The City’s time deposits consist of several certificates of deposit at a local bank and within investment funds with interest rates ranging from .20% to 3.27% at December 31, 2012. Such time deposits mature from March 2013 through 2024.

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

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase 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. The City does not have any investment policies that would further limit investment choices.

Investment balances at December 31, 2012 are as follows:

<u>Deposit/Investment</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Percent of Total</u>
Money Market Funds	0.00-0.14	N/A	\$ 85,118	N/A	1.03
US Government Bonds and Securities	2.00-2.53	<1 year	4,325,495	N/A	52.20
US Government Bonds and Securities	2.70	6-10 years	202,365	N/A	2.44
Municipal Bonds	1.64-4.75	1-5 years	1,514,413	AA- AA+ AA AAA	18.27
Municipal Bonds	2.13-4.65	6-10 years	1,512,837	AA- AA+ AAA	18.26
Municipal Bonds	2.88-5.05	11-15 years	<u>646,461</u>	AA-	<u>7.80</u>
Totals			<u>\$ 8,286,689</u>		<u>100.00</u>

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments (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 as indicated in the table above. Minnesota Statutes limit the City's investments.
- Custodial credit risk is the risk that in the event of a 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. The City does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments. At December 31, 2012, none of the underlying securities held by the City are subject to custodial credit risk because they are insured by the Securities Investor Protection Corporation (SIPC).
- Concentration risk is the risk associated with investing a significant portion of the City's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City has no formal policy limiting the amounts that may be invested in any one issuer.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment and is disclosed above by presenting maturity information. The City has no formal policy to address interest rate risk.

Deposits and Investments

The following is a summary of total deposits and investments:

Deposits	\$ 6,336,189
Investments (see Investments section)	<u>8,286,689</u>
 Total Cash, Cash Equivalents, and Investments	 <u>\$ 14,622,878</u>

Cash, cash equivalents, and investments are included on the basic financial statements as follows:

Cash, Cash Equivalents, and Investments - Statement of Net Assets	\$ 14,608,071
Cash, Cash Equivalents, and Investments - Statement of Fiduciary Net Assets	<u>14,807</u>
 Total Cash, Cash Equivalents, and Investments	 <u>\$ 14,622,878</u>

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

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. CAPITAL ASSETS

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

	Balance at Jan. 01, 2012	Additions	Disposals	Balance at Dec. 31, 2012
Governmental Activities:				
Capital Assets not Being Depreciated				
Land	\$ 6,194,442	\$ -	\$ -	\$ 6,194,442
Capital Assets Being Depreciated				
Buildings	4,577,240	-	-	4,577,240
Improvements	839,689	-	-	839,689
Machinery and Equipment	4,289,599	187,089	114,835	4,361,853
Infrastructure	3,198,371	14,749	-	3,213,120
Library	273,041	-	-	273,041
Total Capital Assets Being Depreciated	13,177,940	201,838	114,835	13,264,943
Less: Accumulated Depreciation				
Buildings	1,857,714	94,671	-	1,952,385
Improvements	5,145	29,302	-	34,447
Machinery and Equipment	2,408,668	198,175	114,835	2,492,008
Infrastructure	367,306	110,940	-	478,246
Library	246,846	10,977	-	257,823
Total Accumulated Depreciation	4,885,679	444,065	114,835	5,214,909
Total Capital Assets Being Depreciated, Net	8,292,261	(242,227)	-	8,050,034
Capital Assets, Net	\$ 14,486,703	\$ (242,227)	\$ -	\$ 14,244,476

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

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. CAPITAL ASSETS (Continued)

	Balance at Jan. 01, 2012	Additions	Disposals	Balance at Dec. 31, 2012
Business-Type Activities:				
Capital Assets not Being Depreciated				
Construction In Progress	\$ -	\$ 103,973	\$ -	\$ 103,973
Capital Assets Being Depreciated				
Water Mains and Lines	5,828,030	19,278	-	5,847,308
Sewer Mains and Lines	2,656,799	-	-	2,656,799
Structures	51,548	-	-	51,548
Machinery and Equipment	275,865	-	35,120	240,745
Total Capital Assets Being Depreciated	8,812,242	19,278	35,120	8,796,400
Less: Accumulated Depreciation				
Water Mains and Lines	875,815	118,702	-	994,517
Sewer Mains and Lines	554,968	54,764	-	609,732
Structures	49,530	311	-	49,841
Machinery and Equipment	235,288	4,227	35,120	204,395
Total Accumulated Depreciation	1,715,601	178,004	35,120	1,858,485
Total Capital Assets Being Depreciated, Net	7,096,641	(158,726)	-	6,937,915
Business-Type Activities	\$ 7,096,641	\$ (54,753)	\$ -	\$ 7,041,888

Depreciation is charged to governmental activities as follows:

General Government	\$ 51,027
Public Safety	131,107
Public Works	136,782
Culture and Recreation	125,149
Total Depreciation Expense	\$ 444,065

3.C. LONG-TERM DEBT

The reporting the City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities (none).

As of December 31, 2012, the long-term debt of the financial reporting entity consists of the following:

2001 General Obligation Tax Increment Refunding Bonds. Original principal of \$1,535,000 due in annual installments of \$125,000 to \$150,000 through December 2016. Interest at 4.10% to 4.60%.	\$ 565,000
Less: Current Portion	125,000
Noncurrent Portion	\$ 440,000

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. LONG-TERM DEBT (Continued)

All bonds are direct obligations of the City and pledge the full faith and credit of the City.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2012:

Type of Debt	Balance Jan. 1, 2012	Additions	Deductions	Balance Dec. 31, 2012	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds					
Tax Increment Refunding Bonds of 2001	\$ 690,000	\$ -	\$ (125,000)	\$ 565,000	\$ 125,000

Governmental Activity debt is typically funded through Debt Service Funds.

There are a number of limitations and restrictions contained in the general obligation bond indentures.

Annual Debt Service Requirements

At December 31, 2012, the estimated annual debt service requirements to maturity, including principal and interest, are as follows for the City's governmental activities:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2013	\$ 125,000	\$ 25,040	\$ 150,040
2014	150,000	19,790	169,790
2015	150,000	13,340	163,340
2016	140,000	6,440	146,440
Totals	\$ 565,000	\$ 64,610	\$ 629,610

Interest expense totals \$29,796 in the Statement of Activities (included in Debt Service line). Interest expense totals \$30,205 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2012:

	Transfers In	Transfers Out
General Fund:		
Park Improvement Fund	\$ 14,749	\$ -
Drug Forfeiture Fund	9,059	-
Water Fund	6,475	
Sewer Fund	111,475	-
Total General Fund	141,758	-
Park Improvement Fund:		
General Fund	-	14,749
Drug Forefiture Fund:		
General Fund	-	9,059
Water and Sewer Improvement Fund:		
Water Fund	-	13,646
Water Fund:		
General Fund	-	6,475
Water and Sewer Improvement Fund	13,646	-
Total Water Fund	13,646	6,475
Sewer Fund:		
General Fund	-	111,475
Total Transfers	\$ 155,404	\$ 155,404

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The interfund balances are as follows:

Due From Fund	Due To Fund	Amount
Tax Stabilization	Park Improvement	\$ 679,025

The General Fund monies owed to the Developer Reimbursed Projects Fund will be repaid as cash flows become available. The Park Improvement Fund monies owed to the Tax Stabilization Fund will be repaid as future park dedication fees are collected.

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. FUND EQUITY

At December 31, 2012, governmental fund equity consists of the following:

General Fund	
Nonspendable - Prepaids	\$ 17,858
Committed for Equipment Replacement	235,000
Committed for Buildings Maintenance	4,000
Unassigned	<u>8,196,572</u>
Total General Fund Balance	<u>\$ 8,453,430</u>
Park Improvement Fund	
Unassigned	<u>\$ (613,019)</u>
Library Fund	
Nonspendable - Prepaids	\$ 2,017
Restricted for Library	247,897
Committed for Buildings Maintenance	31,763
Assigned for Library	<u>51,838</u>
Total Library Fund Balance	<u>\$ 333,515</u>
Other Governmental Funds	
Restricted for Debt Service	\$ 342,282
Restricted for Permanent Fund	656,042
Restricted for TIF District 1	296,118
Restricted for TIF District 2-1	19,078
Restricted for Developer Reimbursed Projects	78,270
Restricted for Water and Sewer Improvement	763,528
Assigned for Water and Sewer Improvement	298,191
Assigned for Drug Forfeiture	3,493
Assigned for Tax Stabilization	1,044,184
Assigned for K-9 Unit	<u>1,350</u>
Total Other Governmental Funds Balance	<u>\$ 3,502,536</u>

Any deficits can be eliminated by future tax levies, state aids, and park dedication fees.

NOTE 4 OTHER NOTES

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

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

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 4 OTHER NOTES (Continued)

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Plan Description (Continued)

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or joint jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the PECF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

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

NOTE 4 OTHER NOTES (Continued)

4.A. EMPLOYEE DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. PECF members are required to contribute 5.83% of their annual covered salary. In 2012, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members, 7.25% for Coordinated Plan GERS members, 14.4% for PEPFF members, and 8.75% for PECF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 total \$41,893, \$42,383, and \$37,383, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ended December 31, 2012, 2011, and 2010 total \$59,268, \$59,860, and \$51,392, respectively. The City's contributions are equal to the contractually required contributions for each year as set by state statute.

4.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. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two 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. The City's management is not aware of any incurred but no reported claims.

4.C. RELATED PARTY TRANSACTIONS

The City has a joint powers agreement to extend municipal water mains, laterals, storage facilities and related water services to Baytown, Minnesota no amounts were received during the current year for such services.

The City also provides fire services to Baytown. During the current year, receipts for such services total \$29,618.

4.D. COMMITMENTS

Pay-as-You-Go-Debt

The City issues Pay-as-You-Go Revenue Notes to finance various tax increment projects. Such projects are financed with loans from participating banks. The notes through these participating banks are not general obligations of the City as they are payable only to the extent of future tax increments received. As such, these obligations do not appear on the City's financial statements. At December 31, 2012, outstanding Pay-As-You-Go debt approximates \$1,001,000 including accrued interest. Amounts carry interest rates of 6.50% and are due over various payment terms. All payments are contingent upon collection of tax increment and are not due if such collections are not made by the City.

**CITY OF BAYPORT, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 4 OTHER NOTES (Continued)

4.D. COMMITMENTS (Continued)

Contracts

The City has contracted with a vendor in the amount of \$190,725 related to the I/I Improvements Manhole Rehab Project. An estimated \$103,973 has been expensed in the current year which includes \$71,981 of payables at December 31, 2012.

The City has contracted with Payment Service Network, Inc. to process electronic payments for utilities, police, and library charges through May 2015. Costs are based on a fee per charged item.

The City has approved union contracts for Law Enforcement and Public Works employees through 2015. These contracts define the terms of benefits and pay for law enforcement and public works employees.

4.E. CONDUIT DEBT OBLIGATIONS

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 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 note. Accordingly, the note is not reported as a liability in the accompanying financial statements. As of December 31, 2012, the conduit debt issued outstanding principal payable is \$7,680,848 for the Senior Housing Revenue Note, Series 2003.

4.F. CONCENTRATION

For the year ended December 31, 2012, significant sources of water and sewer revenues for the City are as follows:

Customer	Water Fund		Sewer Fund	
	Percent of Revenues	Receivable Balance	Percent of Revenues	Receivable Balance
Local Business	13.94%	\$ 16,362	27.74%	\$ 55,724
State of Minnesota Correctional Facility	0.00%	\$ -	34.33%	\$ 19,424

**CITY OF BAYPORT, MINNESOTA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2012**

NOTE 4 OTHER NOTES (Continued)

4.G. TAX INCREMENT DISTRICTS

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

Name of District:	Redevelopment District #1	
Type of District:	Redevelopment	
Authorizing Law:	MN Statutes Sections 469.174	
Year Established:	1990	
Duration of District:	25 Years	
Original Base Net Tax Capacity:		\$ <u>28,946</u>
Current Net Tax Capacity:		\$ <u>135,814</u>
Captured Net Tax Capacity:		
Retained by City		\$ <u>106,868</u>
Shared with Other Taxing Districts		\$ <u>-</u>
Name of District:	Redevelopment District #2-1	
Type of District:	Redevelopment	
Authorizing Law:	MN Statutes Sections 469.174	
Year Established:	2003	
Duration of District:	29 Years	
Original Base Net Tax Capacity:		\$ <u>76,117</u>
Current Net Tax Capacity:		\$ <u>116,597</u>
Captured Net Tax Capacity:		
Retained by City		\$ <u>40,480</u>
Shared with Other Taxing Districts		\$ <u>-</u>

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedules
 - General Fund
 - Library Fund
 - Park Improvements Fund

**CITY OF BAYPORT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
RESOURCES (INFLOWS):			
Taxes	\$ 989,594	\$ 995,120	\$ 5,526
Licenses, Permits & Fees	88,050	139,649	51,599
Intergovernmental	448,888	473,157	24,269
Charges for Services	301,881	317,912	16,031
Fines	35,000	33,122	(1,878)
Investment Income	244,500	436,378	191,878
Miscellaneous	71,000	107,147	36,147
Transfers In	-	141,758	141,758
AMOUNTS AVAILABLE	2,178,913	2,644,243	465,330
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
General Government:			
Administration	141,206	133,915	(7,291)
Mayor and Council	136,026	154,697	18,671
Boards and Commissions	221,184	214,976	(6,208)
Elections	4,670	4,746	76
General Government	46,014	52,014	6,000
Public Safety:			
Police	691,456	677,571	(13,885)
Fire	288,966	346,017	57,051
Public Works	257,559	262,156	4,597
Parks and Recreation	63,199	72,915	9,716
Capital Outlay	420,200	201,838	(218,362)
Transfers Out	111,550	-	(111,550)
TOTAL CHARGES	2,382,030	2,120,845	(261,185)
ENDING BUDGETARY FUND BALANCE	\$ (203,117)	\$ 523,398	\$ 726,515

**CITY OF BAYPORT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE-LIBRARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
RESOURCES (INFLOWS):			
Taxes	\$ 155,965	\$ 155,965	\$ -
Charges for Services	4,000	3,460	(540)
Investment Income	9,000	18,265	9,265
Miscellaneous	111,100	113,303	2,203
AMOUNTS AVAILABLE	<u>280,065</u>	<u>290,993</u>	<u>10,928</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
Salaries and Benefits	171,923	170,711	(1,212)
Contract Services	23,025	28,042	5,017
Administrative Services	5,938	-	(5,938)
Material and Supplies	24,555	25,563	1,008
Telephone	3,000	2,712	(288)
Insurance	11,152	7,279	(3,873)
Utilities	21,800	15,376	(6,424)
Repairs and Maintenance	10,587	8,032	(2,555)
Shared Automation	6,800	1,411	(5,389)
Miscellaneous	1,285	1,519	234
TOTAL CHARGES	<u>280,065</u>	<u>260,645</u>	<u>(19,420)</u>
ENDING BUDGETARY FUND BALANCE	<u>\$ -</u>	<u>\$ 30,348</u>	<u>\$ 30,348</u>

**CITY OF BAYPORT, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE-PARK IMPROVEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
RESOURCES (INFLOWS):			
Charges for Services	\$ -	\$ 24,000	24,000
Investment Income	-	3,148	3,148
AMOUNTS AVAILABLE	-	27,148	27,148
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
Park and Recreation	-	4,879	4,879
Transfer Out	-	14,749	14,749
TOTAL CHARGES	-	19,628	19,628
ENDING BUDGETARY FUND BALANCE	<u>\$ -</u>	<u>\$ 7,520</u>	<u>\$ 7,520</u>

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial statements and schedules not required by GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Combining Statements - Nonmajor Governmental Funds – Special Revenue Funds
- Combining Statements – Nonmajor Governmental Funds – Capital Project Funds
- Schedules of Revenues and Expenses – Proprietary Funds
- Schedule of Capital Outlay

**CITY OF BAYPORT, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 DECEMBER 31, 2012**

	<u>Drug Forfeiture Fund</u>	<u>Tax Stabilization Fund</u>	<u>K-9 Unit Fund</u>	<u>Water and Sewer Improvement Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
ASSETS					
Cash, Cash Equivalents, and Investments	\$ 3,493	\$ 365,159	\$ 1,350	\$ 1,019,843	\$ 1,389,845
Assessments Receivable	-	-	-	42,056	42,056
Accounts Receivable	-	-	-	16,453	16,453
Due from Other Fund	-	<u>679,025</u>	-	-	<u>679,025</u>
TOTAL ASSETS	<u>\$ 3,493</u>	<u>\$ 1,044,184</u>	<u>\$ 1,350</u>	<u>\$ 1,078,352</u>	<u>\$ 2,127,379</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ 6,669	\$ 6,669
DEFERRED INFLOW OF RESOURCES					
Unavailable Revenue - Property Taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,964</u>	<u>9,964</u>
FUND BALANCES					
Restricted	-	-	-	763,528	763,528
Assigned	<u>3,493</u>	<u>1,044,184</u>	<u>1,350</u>	<u>298,191</u>	<u>1,347,218</u>
Total Fund Balance	<u>3,493</u>	<u>1,044,184</u>	<u>1,350</u>	<u>1,061,719</u>	<u>2,110,746</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 3,493</u>	<u>\$ 1,044,184</u>	<u>\$ 1,350</u>	<u>\$ 1,078,352</u>	<u>\$ 2,127,379</u>

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

	<u>Drug Forfeiture Fund</u>	<u>Tax Stabilization Fund</u>	<u>K-9 Unit Fund</u>	<u>Water and Sewer Improvement Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 2,310	\$ 2,310
Charges for Services	-	-	-	75,068	75,068
Fines	6,986	-	-	-	6,986
Investment Income	692	19,340	77	54,951	75,060
Miscellaneous	-	-	361	-	361
TOTAL REVENUES	<u>7,678</u>	<u>19,340</u>	<u>438</u>	<u>132,329</u>	<u>159,785</u>
EXPENDITURES					
Current:					
Public Safety:					
Police	5,133	-	100	-	5,233
Public Works	-	-	-	2,371	2,371
TOTAL EXPENDITURES	<u>5,133</u>	<u>-</u>	<u>100</u>	<u>2,371</u>	<u>7,604</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,545	19,340	338	129,958	152,181
OTHER FINANCING USES					
Operating Transfers Out	<u>(9,059)</u>	<u>-</u>	<u>-</u>	<u>(13,646)</u>	<u>(22,705)</u>
NET CHANGE IN FUND BALANCES	(6,514)	19,340	338	116,312	129,476
FUND BALANCES - BEGINNING	<u>10,007</u>	<u>1,024,844</u>	<u>1,012</u>	<u>945,407</u>	<u>1,981,270</u>
FUND BALANCES - ENDING	<u>\$ 3,493</u>	<u>\$ 1,044,184</u>	<u>\$ 1,350</u>	<u>\$ 1,061,719</u>	<u>\$ 2,110,746</u>

**CITY OF BAYPORT, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
 DECEMBER 31, 2012**

	<u>TIF District 1 Fund</u>	<u>TIF District 2-1 Fund</u>	<u>Developer Reimbursed Projects Fund</u>	<u>Total Nonmajor Capital Project Funds</u>
ASSETS				
Cash, Cash Equivalents, and Investments	<u>\$ 296,118</u>	<u>\$ 19,078</u>	<u>\$ 78,270</u>	<u>\$ 393,466</u>
 FUND BALANCES				
Restricted	<u>\$ 296,118</u>	<u>\$ 19,078</u>	<u>\$ 78,270</u>	<u>\$ 393,466</u>

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

	TIF District 1 Fund	TIF District 2-1 Fund	Developer Reimbursed Project Fund	Total Nonmajor Capital Project Funds
REVENUES				
Tax Increment	\$ -	\$ 38,995	\$ -	\$ 38,995
Investment Income	<u>15,733</u>	<u>766</u>	<u>2,686</u>	<u>19,185</u>
TOTAL REVENUES	15,733	39,761	2,686	58,180
EXPENDITURES				
Current:				
Public Works	<u>480</u>	<u>35,335</u>	<u>145</u>	<u>35,960</u>
NET CHANGE IN FUND BALANCES	15,253	4,426	2,541	22,220
FUND BALANCES - BEGINNING	<u>280,865</u>	<u>14,652</u>	<u>75,729</u>	<u>371,246</u>
FUND BALANCES - ENDING	<u>\$ 296,118</u>	<u>\$ 19,078</u>	<u>\$ 78,270</u>	<u>\$ 393,466</u>

**CITY OF BAYPORT, MINNESOTA
WATER FUND
SCHEDULES OF WATER FUND REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CHARGES	\$ 388,361	\$ 320,610
OPERATING EXPENSES		
Personal Services	167,634	160,800
Supplies	32,028	30,511
Insurance	5,218	5,614
Utilities	48,734	49,061
Repairs and Maintenance	30,063	56,288
Other Service and Charges	47,118	14,858
Depreciation	<u>119,580</u>	<u>119,477</u>
TOTAL OPERATING EXPENSES	<u>450,375</u>	<u>436,609</u>
NET OPERATING LOSS	(62,014)	(115,999)
NONOPERATING INCOME (EXPENSE)		
Connection Fees	65,000	32,350
Intergovernmental	9,527	3,253
Investment Income	<u>90,790</u>	<u>50,699</u>
TOTAL NONOPERATING INCOME (EXPENSE)	<u>165,317</u>	<u>86,302</u>
CHANGE IN NET POSITION PRIOR TO TRANSFERS	103,303	(29,697)
TRANSFERS		
Operating Transfers In	13,646	-
Operating Transfers Out	<u>(6,475)</u>	<u>(6,000)</u>
NET TRANSFERS	<u>7,171</u>	<u>(6,000)</u>
CHANGE IN NET POSITION	<u>\$ 110,474</u>	<u>\$ (35,697)</u>

**CITY OF BAYPORT, MINNESOTA
SEWER FUND
SCHEDULES OF SEWER FUND REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CHARGES	\$ 596,982	\$ 580,271
OPERATING EXPENSES		
Personal Services	162,844	151,277
Supplies	3,750	4,510
Insurance	2,029	2,482
Repairs and Maintenance	6,763	15,196
Other Service and Charges	3,766	2,937
MCES Charges	339,152	394,647
Depreciation	<u>58,424</u>	<u>54,953</u>
TOTAL OPERATING EXPENSES	<u>576,728</u>	<u>626,002</u>
NET OPERATING LOSS	20,254	(45,731)
NONOPERATING INCOME		
Connection Fees	15,450	10,450
Intergovernmental	-	53,334
Investment Income	<u>66,614</u>	<u>37,199</u>
TOTAL NONOPERATING INCOME	<u>82,064</u>	<u>100,983</u>
CHANGE IN NET POSITION PRIOR TO TRANSFERS	102,318	55,252
TRANSFERS		
Operating Transfers In	-	131,593
Operating Transfers Out	<u>(111,475)</u>	<u>(116,000)</u>
NET TRANSFERS	<u>(111,475)</u>	<u>15,593</u>
CHANGE IN NET POSITION	<u>\$ (9,157)</u>	<u>\$ 70,845</u>

**CITY OF BAYPORT, MINNESOTA
SCHEDULE OF CAPITAL OUTLAY
FOR THE YEAR ENDED DECEMBER 31, 2012**

CAPITAL OUTLAY

General Government	\$ 46,590
Police	9,059
Fire	131,440
Parks and Recreation	<u>14,749</u>

TOTAL CAPITAL OUTLAY

\$ 201,838

OTHER REPORT

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

May 20, 2013

Honorable Mayor and City Council
City of Bayport
Bayport, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, 2012, and the related notes to the financial statements, and have issued our report thereon dated May 20, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing as the City does not have any tax increment districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* except for insufficient collateral in the amount of \$688,689 at one financial institution. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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



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