

CITY OF BAYPORT
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2011

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

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**INTRODUCTORY
SECTION**

**CITY OF BAYPORT
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2011**

CITY COUNCIL

		<u>Term Expires</u>
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 1, 2012

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bayport, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information City of Bayport, Minnesota, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.G. to the financial statements, the entity has adopted Government Accounting Standards Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54).

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, listed in the table of contents as required supplementary information, 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.

An Independently Owned Member, McGladrey Alliance

www.sweocpas.com

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

201 Division St. W.
P.O. Box 385
Maple Lake, MN 56358
320.983.5414

Monticello

202 W. 3rd St.
P.O. Box 755
Monticello, MN 56362
763.295.5070

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as other supplementary information, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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.

Schlenner Wenner & Co

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF BAYPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

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, 2011. Please read it in conjunction with the transmittal letter on page one and the City's financial statements, which begin on page ten.

FINANCIAL HIGHLIGHTS

- The City's net assets increased approximately \$379,000 compared to the prior year as a result of this year's operations.
- The City closed the Perro Creek Fund in 2011.
- In the City's business-type activities, revenues increased approximately \$189,000 (or 21.0 percent) while operating expenses increased approximately \$69,000.
- Total cost of all of the City's programs increased approximately \$72,000 (or 2.0 percent).
- The City of Bayport was certified at \$439,964 with \$38,480 in market value credits expected. However, the City actually received in local government aid approximately \$337,000 and no market value credits were received.
- The City's general fund generated more revenue than budgeted of approximately \$199,000 excluding transfers resulting from the closure of the Perro Creek Fund. Expenditures were less than budgeted by approximately \$158,000 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 Assets 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 Assets 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 assets and changes in them. You can think of the City's net assets-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 assets 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

USING THIS ANNUAL REPORT (Continued)

Reporting the City as a Whole (Continued)

In the Statement of Net Assets 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 Assets 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 Assets 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

THE CITY AS A WHOLE

The City's combined net assets increased approximately \$379,000 from a year ago. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Current & Other Assets	\$ 11,412,828	\$ 11,031,066	\$ 2,852,881	\$ 2,850,118	\$ 14,265,709	\$ 13,881,184
Net Capital Assets	<u>14,486,703</u>	<u>14,696,100</u>	<u>7,096,641</u>	<u>7,066,238</u>	<u>21,583,344</u>	<u>21,762,338</u>
Total Assets	25,899,531	25,727,166	9,949,522	9,916,356	35,849,053	35,643,522
Long-Term Debt Outstanding	690,000	795,000	-	-	690,000	795,000
Other Liabilities	<u>182,372</u>	<u>248,672</u>	<u>43,799</u>	<u>45,781</u>	<u>226,171</u>	<u>294,453</u>
Total Liabilities	872,372	1,043,672	43,799	45,781	916,171	1,089,453
Net Assets:						
Invested in Capital Assets, Net of Debt	13,796,703	13,901,100	7,096,641	7,066,238	20,893,344	20,967,338
Restricted	2,368,590	2,960,373	-	-	2,368,590	2,960,373
Unrestricted	<u>8,861,866</u>	<u>7,822,021</u>	<u>2,809,082</u>	<u>2,804,337</u>	<u>11,670,948</u>	<u>10,626,358</u>
Total Net Assets	<u>\$ 25,027,159</u>	<u>\$ 24,683,494</u>	<u>\$ 9,905,723</u>	<u>\$ 9,870,575</u>	<u>\$ 34,932,882</u>	<u>\$ 34,554,069</u>

Net assets of the City's governmental activities increased by 1.4 percent (approximately \$353,000). Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—increased by approximately \$918,000 compared to the prior year.

The net assets of the City's business-type activities increased by approximately \$26,000. Operations were comparable to the prior year.

**CITY OF BAYPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

THE CITY AS A WHOLE (Continued)

**Table 2
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
REVENUE						
Charges for Services	\$ 576,550	\$ 579,504	\$ 943,681	\$ 859,512	\$ 1,520,231	\$ 1,439,016
Grants and Contributions	254,846	273,452	56,587	-	311,433	273,452
Taxes	1,295,725	1,164,485	-	-	1,295,725	1,164,485
Intergovernmental	340,913	343,980	-	-	340,913	343,980
Unrestricted Investment						
Income	340,665	290,658	87,898	39,442	428,563	330,100
Other	88,190	37,103	-	-	88,190	37,103
Total Revenues	2,896,889	2,689,182	1,088,166	898,954	3,985,055	3,588,136
PROGRAM EXPENSES						
General Government	574,756	586,491	-	-	574,756	586,491
Public Safety	1,088,335	1,093,126	-	-	1,088,335	1,093,126
Public Works	418,205	402,031	-	-	418,205	402,031
Parks and Recreation	428,278	418,251	-	-	428,278	418,251
Debt Service	34,057	40,111	-	-	34,057	40,111
Water	-	-	436,609	401,716	436,609	401,716
Sewer	-	-	626,002	592,167	626,002	592,167
Total Expenses	2,543,631	2,540,010	1,062,611	993,883	3,606,242	3,533,893
Loss on Disposal of Assets	-	(1,803)	-	(477)	-	(2,280)
Transfers	(9,593)	108,603	9,593	(108,603)	-	-
Change in Net Assets	\$ 343,665	\$ 255,972	\$ 35,148	\$ (204,009)	\$ 378,813	\$ 51,963

The City's total revenues increased by 11.1 percent (approximately \$397,000), largely due to increased grants and charges for services. The total cost of all programs and services increased by approximately \$72,000 or 2.0 percent. Our analysis below separately considers the operations of governmental and business-type activities.

**CITY OF BAYPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

THE CITY AS A WHOLE (Continued)

Governmental Activities

Revenue for the City's governmental activities increased by 7.7 percent (approximately \$208,000), while total expenses increased approximately \$2,000. 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	
	2011	2010	2011	2010
General Government	\$ 574,756	\$ 586,491	\$ (414,088)	\$ (424,160)
Public Safety	1,088,335	1,093,126	(667,789)	(641,796)
Public Works	418,205	402,031	(331,202)	(319,989)
Parks and Recreation	428,278	418,251	(265,099)	(260,998)
Debt Service	34,057	40,111	(34,057)	(40,111)
Totals	\$ 2,543,631	\$ 2,540,010	\$ (1,712,235)	\$ (1,687,054)

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by 21.0 percent (approximately \$189,000) due to increased revenues from grants and charges for services. Expenses increased by approximately \$69,000, primarily due to increased state fees.

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 approximately \$10,969,000. This is an increase of \$453,000 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.

**CITY OF BAYPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

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**

	<u>General Fund</u>		<u>Debt Service Fund</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Total Assets	\$ 8,251,181	\$ 7,796,065	\$ 372,692	\$ 402,550
Total Liabilities	\$ 321,149	\$ 314,817	\$ -	\$ -
Total Revenues	\$ 2,253,942	\$ 2,046,435	\$ 109,543	\$ 135,201
Total Expenditures	\$ 1,896,890	\$ 1,997,151	\$ 139,401	\$ 140,695
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ 139,401	\$ 140,695
Capital Outlay Included in Total Expenditures	\$ 166,323	\$ 226,731	\$ -	\$ -
Proceeds on Sale of Asset	\$ -	\$ 9,630	\$ -	\$ -
Net Transfers	\$ 91,732	\$ 51,761	\$ -	\$ -
	<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Total Assets	\$ 2,457,867	\$ 2,546,013	\$ 390,515	\$ 365,279
Total Liabilities	\$ 793,969	\$ 847,429	\$ 19,269	\$ 33,640
Total Revenues	\$ 453,816	\$ 448,208	\$ 77,860	\$ 76,839
Total Expenditures	\$ 388,672	\$ 289,868	\$ 36,758	\$ 42,721
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ -	\$ -
Capital Outlay Included in Total Expenditures	\$ 42,154	\$ 37,312	\$ -	\$ 11,606
Net Transfers	\$ (99,830)	\$ (20,063)	\$ (1,495)	\$ 76,905
	<u>Permanent Fund</u>		<u>Total Governmental Funds</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Total Assets	\$ 621,276	\$ 601,862	\$ 12,093,531	\$ 11,711,769
Total Liabilities	\$ -	\$ -	\$ 1,134,387	\$ 1,195,886
Total Revenues	\$ 19,414	\$ 8,526	\$ 2,914,575	\$ 2,715,209
Total Expenditures	\$ -	\$ -	\$ 2,461,721	\$ 2,470,435
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ 139,401	\$ 140,695
Capital Outlay Included in Total Expenditures	\$ -	\$ -	\$ 208,477	\$ 275,649
Proceeds on Sale of Asset	\$ -	\$ -	\$ -	\$ 9,630
Net Transfers	\$ -	\$ -	\$ (9,593)	\$ 108,603

**CITY OF BAYPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

THE CITY'S FUNDS (Continued)

General Fund Budgetary Highlights

The City's general fund generated more revenue than budgeted of approximately \$199,000 excluding transfers in from other funds which is comparable to prior year. Expenditures were more than those budgeted by approximately \$113,000 excluding transfers from other funds that were budgeted but did not occur. Increased revenues and expenditures over budget in the current year are also due to increased revenue from investments and expenditures for capital outlay in excess of amounts budgeted.

Proprietary Funds

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

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

	Water Fund		Sewer Fund	
	2011	2010	2011	2010
Total Assets	\$ 6,666,970	\$ 6,695,717	\$ 3,282,552	\$ 3,220,639
Total Liabilities	\$ 27,690	\$ 20,740	\$ 16,109	\$ 25,041
Total Revenues	\$ 406,912	\$ 298,152	\$ 681,254	\$ 600,802
Total Expenditures	\$ 436,609	\$ 401,716	\$ 626,002	\$ 592,167
Loss on Disposal of Asset	\$ -	\$ 477	\$ -	\$ -
Net Transfers	\$ (6,000)	\$ 7,872	\$ 15,593	\$ (116,475)
Change in Net Assets	\$ (35,697)	\$ (96,169)	\$ 70,845	\$ (107,840)

	Total Proprietary Funds	
	2011	2010
Total Assets	\$ 9,949,522	\$ 9,916,356
Total Liabilities	\$ 43,799	\$ 45,781
Total Revenues	\$ 1,088,166	\$ 898,954
Total Expenditures	\$ 1,062,611	\$ 993,883
Loss on Disposal of Asset	\$ -	\$ 477
Net Transfers	\$ 9,593	\$ (108,603)
Change in Net Assets	\$ 35,148	\$ (204,009)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the City had approximately \$28,185,000 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 \$413,000 or 1.5 percent, over last year.

**CITY OF BAYPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

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

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
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	15,123	-	-	839,689	15,123
Machinery & Equipment	4,289,599	4,227,438	275,865	275,865	4,565,464	4,503,303
Infrastructure	3,198,371	3,198,371	8,484,829	8,263,974	11,683,200	11,462,345
Library Books	273,041	273,041	-	-	273,041	273,041
Construction in Progress	-	678,250	-	16,022	-	694,272
Totals	\$ 19,372,382	\$ 19,163,905	\$ 8,812,242	\$ 8,607,409	\$ 28,184,624	\$ 27,771,314

The City's fiscal year 2012 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 \$690,000 in debt versus \$795,000 last year, a decrease of 13.2 percent, as shown in Table 7.

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

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
GO Bonds	\$ 690,000	\$ 795,000	\$ -	\$ -	\$ 690,000	\$ 795,000

The City did not issue any debt in 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the year 2012 budget, such as tax rates and fees that will be charged for the business-type activities. The Council elected to increase the 2012 tax levy by 1.95% from the 2011 amount. Also, the Council elected to increase water and sewer rates by approximately 11.0% over 2011. The Council expects operations in 2012 to remain fairly consistent with those of 2011. Overall budget amounts for 2012 are consistent with 2011'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 ASSETS
DECEMBER 31, 2011**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash, Cash Equivalents, and Investments	\$ 11,011,391	\$ 2,699,393	\$ 13,710,784
Property Taxes Receivable	163,613	-	163,613
Accounts Receivable	31,008	149,427	180,435
Prepays	20,030	4,061	24,091
Current Portion of Assessments Receivable	110,290	-	110,290
Total Current Assets	<u>11,336,332</u>	<u>2,852,881</u>	<u>14,189,213</u>
Noncurrent Assets			
Capital Assets not Being Depreciated	6,194,442	-	6,194,442
Capital Assets Being Depreciated (Net)	8,292,261	7,096,641	15,388,902
Long-Term Portion of Assessments Receivable	76,496	-	76,496
Total Noncurrent Assets	<u>14,563,199</u>	<u>7,096,641</u>	<u>21,659,840</u>
TOTAL ASSETS	25,899,531	9,949,522	35,849,053
LIABILITIES			
Current Liabilities			
Accounts Payable	69,534	11,404	80,938
Accrued Salaries	24,765	-	24,765
Due to Other Governments	832	469	1,301
Accrued Interest	2,256	-	2,256
Deferred Revenue	40,246	-	40,246
Total Current Liabilities	<u>137,633</u>	<u>11,873</u>	<u>149,506</u>
Noncurrent Liabilities			
Compensated Absences Due Within One Year	37,496	9,674	47,170
Compensated Absences Due After One Year	7,243	22,252	29,495
Bonds Due Within One Year	125,000	-	125,000
Bonds Due After One Year	565,000	-	565,000
Total Noncurrent Liabilities	<u>734,739</u>	<u>31,926</u>	<u>766,665</u>
TOTAL LIABILITIES	872,372	43,799	916,171
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	13,796,703	7,096,641	20,893,344
Restricted	2,368,590	-	2,368,590
Unrestricted	8,861,866	2,809,082	11,670,948
TOTAL NET ASSETS	<u>\$ 25,027,159</u>	<u>\$ 9,905,723</u>	<u>\$ 34,932,882</u>

See accompanying notes.

**CITY OF BAYPORT, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government:					
Administration	\$ 130,383	\$ -	\$ -	\$ -	\$ (130,383)
Council	120,765	-	-	-	(120,765)
Building and Zoning	213,446	122,089	65	-	(91,292)
Elections	470	-	-	-	(470)
General Government	109,692	34,382	4,132	-	(71,178)
Total General Government	574,756	156,471	4,197	-	(414,088)
Public Safety	1,088,335	301,616	118,930	-	(667,789)
Public Works	418,205	71,044	-	15,959	(331,202)
Parks and Recreation	428,278	47,419	115,760	-	(265,099)
Debt Service	34,057	-	-	-	(34,057)
Total Governmental Activities	2,543,631	576,550	238,887	15,959	(1,712,235)
Business-Type Activities:					
Water	436,609	352,960	-	3,253	(80,396)
Sewer	626,002	590,721	-	53,334	18,053
Total Business-Type Activities	1,062,611	943,681	-	56,587	(62,343)
TOTALS	\$ 3,606,242	\$ 1,520,231	\$ 238,887	\$ 72,546	\$ (1,774,578)
			Governmental Activities	Business-Type Activities	Total
Net (Expense)/Revenue			\$ (1,712,235)	\$ (62,343)	\$ (1,774,578)
General Revenues (Expenses):					
Taxes			1,295,725	-	1,295,725
Intergovernmental			340,913	-	340,913
Investment Income			340,665	87,898	428,563
Miscellaneous			88,190	-	88,190
Transfers			(9,593)	9,593	-
CHANGE IN NET ASSETS			343,665	35,148	378,813
NET ASSETS-BEGINNING OF YEAR			24,683,494	9,870,575	34,554,069
NET ASSETS-END OF YEAR			\$ 25,027,159	\$ 9,905,723	\$ 34,932,882

CITY OF BAYPORT, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	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	\$ 8,000,009	\$ 58,486	\$ 304,087	\$ 372,692	\$ 621,276	\$ 1,264,326	\$ 390,515	\$ 11,011,391
Property Taxes Receivable	163,613	-	-	-	-	-	-	163,613
Assessments Receivable	49,772	92,648	-	-	-	44,366	-	186,786
Accounts Receivable	18,176	-	-	-	-	12,832	-	31,008
Prepays	17,933	-	2,097	-	-	-	-	20,030
Due from Other Fund	1,678	-	-	-	-	679,025	-	680,703
TOTAL ASSETS	\$ 8,251,181	\$ 151,134	\$ 306,184	\$ 372,692	\$ 621,276	\$ 2,000,549	\$ 390,515	\$ 12,093,531
LIABILITIES								
Accounts Payable	\$ 41,921	\$ -	\$ 3,017	\$ -	\$ -	\$ 7,005	\$ 17,591	\$ 69,534
Accrued Salaries	24,765	-	-	-	-	-	-	24,765
Due to Other Governments	832	-	-	-	-	-	-	832
Deferred Revenue	253,631	92,648	-	-	-	12,274	-	358,553
Due to Other Funds	-	679,025	-	-	-	-	1,678	680,703
Total Liabilities	321,149	771,673	3,017	-	-	19,279	19,269	1,134,387
FUND BALANCES								
Nonspendable	17,933	-	2,097	-	-	-	-	20,030
Restricted	-	-	239,787	372,692	621,276	763,589	371,246	2,368,590
Committed	122,000	-	31,763	-	-	-	-	153,763
Assigned	-	-	29,520	-	-	1,217,681	-	1,247,201
Unassigned	7,790,099	(620,539)	-	-	-	-	-	7,169,560
Total Fund Balance	7,930,032	(620,539)	303,167	372,692	621,276	1,981,270	371,246	10,959,144
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,251,181	\$ 151,134	\$ 306,184	\$ 372,692	\$ 621,276	\$ 2,000,549	\$ 390,515	\$ 12,093,531

See accompanying notes.

**CITY OF BAYPORT, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Total Fund Balance for Governmental Funds	\$	10,959,144
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets (net of accumulated depreciation of \$4,885,679) used in governmental activities are not financial resources and, therefore are not reported in the funds.		14,486,703
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Taxes receivable		318,307
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.		(2,256)
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		(44,739)
Bonds due within one year		(125,000)
Bonds due in more than one year		<u>(565,000)</u>
TOTAL NET ASSETS OF GOVERNMENTAL FUNDS	\$	<u>25,027,159</u>

CITY OF BAYPORT, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	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	\$ 955,429	\$ -	\$ 153,798	\$ 96,558	\$ -	\$ 39,382	\$ 31,962	\$ 1,277,129
Tax Increment	-	-	-	-	-	-	35,183	35,183
Licenses, Permits & Fees	123,460	-	-	-	-	-	-	123,460
Intergovernmental	470,401	-	-	-	-	-	-	470,401
Charges for Services	312,203	13,000	5,802	-	-	71,044	-	402,049
Fines	39,353	-	-	-	-	2,554	-	41,907
Investment Income	243,680	1,757	10,200	12,985	19,414	41,914	10,715	340,665
Miscellaneous	109,416	-	114,171	-	-	194	-	223,781
TOTAL REVENUES	2,253,942	14,757	283,971	109,543	19,414	155,088	77,860	2,914,575
EXPENDITURES								
General Government:								
Administration	130,383	-	-	-	-	-	-	130,383
Mayor and Council	120,765	-	-	-	-	-	-	120,765
Building and Zoning	213,446	-	-	-	-	-	-	213,446
Elections	470	-	-	-	-	-	-	470
General Government	56,976	-	-	-	-	-	-	56,976
Total General Government	522,040	-	-	-	-	-	-	522,040
Public Safety:								
Police	666,132	-	-	-	-	5,596	-	671,728
Fire	291,848	-	-	-	-	-	-	291,848
Public Works	199,439	-	-	-	-	51,336	36,758	287,533
Parks and Recreation	51,108	-	289,586	-	-	-	-	340,694
Debt Service:								
Principal	-	-	-	105,000	-	-	-	105,000
Interest and Other Charges	-	-	-	34,401	-	-	-	34,401
Capital Outlay	166,323	7,501	34,653	-	-	-	-	208,477
TOTAL EXPENDITURES	1,896,890	7,501	324,239	139,401	-	56,932	36,758	2,461,721
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	357,052	7,256	(40,268)	(29,858)	19,414	98,156	41,102	452,854

See accompanying notes.

CITY OF BAYPORT, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	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	\$ 123,495	\$ -	\$ 31,763	\$ -	\$ -	\$ -	\$ -	\$ 155,258
Operating Transfers Out	(31,763)	-	-	-	-	(131,593)	(1,495)	(164,851)
TOTAL OTHER FINANCING SOURCES (USES)	<u>91,732</u>	<u>-</u>	<u>31,763</u>	<u>-</u>	<u>-</u>	<u>(131,593)</u>	<u>(1,495)</u>	<u>(9,593)</u>
NET CHANGE IN FUND BALANCES	448,784	7,256	(8,505)	(29,858)	19,414	(33,437)	39,607	443,261
FUND BALANCES - BEGINNING	<u>7,481,248</u>	<u>(627,795)</u>	<u>311,672</u>	<u>402,550</u>	<u>601,862</u>	<u>2,014,707</u>	<u>331,639</u>	<u>10,515,883</u>
FUND BALANCES - ENDING	<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>

**CITY OF BAYPORT, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net Change in fund balances - total governmental funds \$ 443,261

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	208,477	
Depreciation expense	<u>(417,874)</u>	(209,397)

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	(16,587)
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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 Assets:

Bond payments	105,000
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Net change in liability for Other Postemployment Benefits costs:	3,207
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Net change in accrued interest on bonds is not reported as expenses in the funds:	344
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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>17,837</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 343,665</u>
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**CITY OF BAYPORT, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS			
Cash, Cash Equivalents, and Investments	\$ 1,642,525	\$ 1,056,868	\$ 2,699,393
Accounts Receivable	62,748	86,679	149,427
Prepays	2,805	1,256	4,061
Total Current Assets	<u>1,708,078</u>	<u>1,144,803</u>	<u>2,852,881</u>
LONG TERM ASSETS			
Capital Assets Being Depreciated (Net)	<u>4,958,892</u>	<u>2,137,749</u>	<u>7,096,641</u>
TOTAL ASSETS	<u>\$ 6,666,970</u>	<u>\$ 3,282,552</u>	<u>\$ 9,949,522</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable	\$ 11,258	\$ 146	\$ 11,404
Due to Other Governments	469	-	469
Compensated Absences	4,837	4,837	9,674
Total Current Liabilities	<u>16,564</u>	<u>4,983</u>	<u>21,547</u>
LONG-TERM LIABILITIES			
Compensated Absences	<u>11,126</u>	<u>11,126</u>	<u>22,252</u>
Total Long-Term Liabilities	11,126	11,126	22,252
NET ASSETS			
Invested in Capital Assets	4,958,892	2,137,749	7,096,641
Unrestricted	1,680,388	1,128,694	2,809,082
Total Net Assets	<u>6,639,280</u>	<u>3,266,443</u>	<u>9,905,723</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,666,970</u>	<u>\$ 3,282,552</u>	<u>\$ 9,949,522</u>

See accompanying notes.

CITY OF BAYPORT, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for Services	\$ 320,610	\$ 580,271	\$ 900,881
OPERATING EXPENSES			
Personal Services	160,800	151,277	312,077
Materials, Supplies, Services and Charges	156,332	25,125	181,457
MCES Charges	-	394,647	394,647
Depreciation	119,477	54,953	174,430
TOTAL OPERATING EXPENSES	<u>436,609</u>	<u>626,002</u>	<u>1,062,611</u>
NET OPERATING LOSS	(115,999)	(45,731)	(161,730)
NONOPERATING INCOME			
Connection Fees	32,350	10,450	42,800
Intergovernmental	3,253	53,334	56,587
Investment Income	50,699	37,199	87,898
TOTAL NONOPERATING INCOME	<u>86,302</u>	<u>100,983</u>	<u>187,285</u>
CHANGE IN NET ASSETS PRIOR TO TRANSFERS	(29,697)	55,252	25,555
TRANSFERS			
Operating Transfers In	-	131,593	131,593
Operating Transfers Out	(6,000)	(116,000)	(122,000)
NET TRANSFERS	<u>(6,000)</u>	<u>15,593</u>	<u>9,593</u>
CHANGE IN NET ASSETS	(35,697)	70,845	35,148
NET ASSETS-BEGINNING OF YEAR	<u>6,674,977</u>	<u>3,195,598</u>	<u>9,870,575</u>
NET ASSETS-END OF YEAR	<u>\$ 6,639,280</u>	<u>\$ 3,266,443</u>	<u>\$ 9,905,723</u>

**CITY OF BAYPORT, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 333,858	\$ 582,399	\$ 916,257
Cash Paid to Suppliers	(151,085)	(429,014)	(580,099)
Cash Paid to Employees	(160,394)	(150,911)	(311,305)
NET CASH PROVIDED BY OPERATING ACTIVITIES	22,379	2,474	24,853
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Cash Receipts	3,253	-	3,253
Operating Subsidies and Transfers to Other Funds	(6,000)	(116,000)	(122,000)
Operating Subsidies and Transfers from Other Funds	-	131,593	131,593
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(2,747)	15,593	12,846
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of Capital Assets	-	(204,833)	(204,833)
Cash Received for Capital Acquisitions	-	53,334	53,334
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(151,499)	(151,499)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment Income	50,699	37,199	87,898
Net Increase (Decrease) in Cash and Cash Equivalents	70,331	(96,233)	(25,902)
Cash and Cash Equivalents-Beginning of Year	1,572,194	1,153,101	2,725,295
Cash and Cash Equivalents-End of Year	<u>\$ 1,642,525</u>	<u>\$ 1,056,868</u>	<u>\$ 2,699,393</u>

See accompanying notes.

**CITY OF BAYPORT, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Water Fund	Sewer Fund	Totals
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Loss	\$ (115,999)	\$ (45,731)	\$ (161,730)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided (Used) by Operating Activities			
Cash Flows Reported in Other Categories:			
Depreciation Expense	119,477	54,953	174,430
Nonoperating Revenue from Customers	32,350	10,450	42,800
Change in Assets and Liabilities:			
Receivables	(19,571)	(8,322)	(27,893)
Prepays	(828)	56	(772)
Accounts Payable	6,075	(9,298)	(3,223)
Due to Other Governments	469	-	469
Other Postemployment Benefits Payable	(357)	(397)	(754)
Compensated Absences	763	763	1,526
	<u>22,379</u>	<u>2,474</u>	<u>24,853</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 22,379	\$ 2,474	\$ 24,853

**CITY OF BAYPORT, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2011**

	<u>Agency Fund</u>
ASSETS	
Cash, Cash Equivalents, and Investments	\$ <u>15,278</u>
LIABILITIES	
Accounts Payable	\$ <u>15,278</u>

CITY OF BAYPORT

NOTES TO THE BASIC FINANCIAL STATEMENTS

INDEX

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**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bayport (the City), complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

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: parks and recreation, public works, public safety, planning and zoning, library, water, sewer, and general administrative services.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

Primary Government

City of Bayport

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.

Government-wide Financial Statements:

The Statement of Net Assets 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 Assets 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.

**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION

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, 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:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5 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 from 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
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements: (Continued)

Major Funds

The funds are further classified as major 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 Assets 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 Assets.

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 proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 Assets 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 Assets. 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 reasonable 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. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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, AND EQUITY

Cash and Cash Equivalents

For purposes of the Statement of Net Assets, "cash and 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
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, 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 Assets. 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, 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 in the fund financial statements in accordance with modified accrual, but not deferred 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 Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, 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.

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
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, AND EQUITY (Continued)

Equity Classifications

Government-wide Statements

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

Invested in capital assets, net of related debt – 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 net assets – Consists of net assets 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 net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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, 2011 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.

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the City’s financial position and operations. 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
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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. Such tax may only be levied to repay principal and interest on general obligation bonded debt. 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 revenue liability 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
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011, the City adopted the Governmental Accounting Standards Board Statement no. 54, *Fund Balance reporting and Governmental Fund Type Definitions* (GASB 54). This statement defines the different classification of governmental fund balances that an entity subject to *Governmental Accounting Standards* must use to present the balance of its governmental funds. Detailed descriptions of these classifications can be found above, under Note 1.F.

1.H. RECLASSIFICATIONS

Certain amounts in 2010 have been reclassified to conform with the 2011 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.

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 budget in the Required Supplementary Information.

**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

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
Library Fund	\$ 297,248	\$ 324,239	\$ 31,763
Park Improvements Fund	\$ -	\$ 7,501	\$ -

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 \$620,539 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, 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% of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standard letters of credit issued by the Federal Home Loan Bank). Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. governmental agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City does not have any deposit policies that would further limit deposit choices.

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may be returned to the City. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law. In compliance with this policy, the City maintains deposits at depository banks authorized by the City's Council.

At December 31, 2011, the City's deposits, including certificates of deposit, were not exposed to custodial credit risk. The City's deposits were sufficiently covered by federal depository insurance or by collateral held by the government's agent in the government's name at one bank.

**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

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

Deposits (Continued)

As of December 31, 2011, the City had the following deposits:

Cash in Checking		\$	1,222,302
Certificates of Deposit			<u>4,152,008</u>
 Total Deposits		 \$	 <u>5,374,310</u>

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, 2011 are as follows:

Deposit/Investment	Interest Rate	Maturity	Fair Value	Credit Rating	Percent of Total
Money Market Funds	0.00-0.14	N/A	\$ 2,146,975	N/A	25.71
US Government Bonds and Securities	1.50-2.00	1-5 years	383,681	N/A	4.59
US Government Bonds and Securities	1.50-3.00	6-10 years	3,119,546	AA+	37.35
				A+	
				AA-	
				AA	
Municipal Bonds	2.06-4.15	1-5 years	1,371,358	AAA	16.42
				AA- AA	
Municipal Bonds	3.35-4.75	6-10 years	<u>1,330,192</u>	AAA	<u>15.93</u>
Totals			<u>\$ 8,351,752</u>		<u>100.00</u>

**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

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

Investments (Continued)

The Minnesota Municipal Money Market Fund is a customized cash management and investment program for Minnesota public funds sponsored by the League of Minnesota Cities. This external investment is not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy is to diversify its investments among securities with various maturities.

Credit risk on the City's investments is presented in the table above. The Money Market and Certificates of Deposit are unrated due to those types of investments not being subject to credit risk.

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.

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's investment policies do not address concentration risk. At December 31, 2011, the concentrations of investments are provided above.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. The City's exposure to custodial credit risk at December 31, 2011 has been disclosed below.

The City invests in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

Deposits and Investments

The following is a summary of total deposits and investments:

Deposits	\$ 5,374,310
Investments (see Investments section)	<u>8,351,752</u>
 Total Cash, Cash Equivalents, and Investments	 \$ <u>13,726,062</u>

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

Cash, Cash Equivalents, and Investments - Statement of Net Assets	\$ 13,710,784
Cash, Cash Equivalents, and Investments - Statement of Fiduciary Net Assets	<u>15,278</u>
 Total Cash, Cash Equivalents, and Investments	 \$ <u>13,726,062</u>

CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

3.B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 is as follows:

	Balance at Jan. 01, 2011	Additions	Disposals	Balance at Dec. 31, 2011
Governmental Activities:				
Capital Assets not Being Depreciated				
Land	\$ 6,194,442	\$ -	\$ -	\$ 6,194,442
Construction In Progress	678,250	-	678,250	-
Total Capital Assets not Being Depreciated	6,872,692	-	678,250	6,194,442
Capital Assets Being Depreciated				
Buildings	4,577,240	-	-	4,577,240
Improvements	15,123	824,566	-	839,689
Machinery and Equipment	4,227,438	62,161	-	4,289,599
Infrastructure	3,198,371	-	-	3,198,371
Library	273,041	-	-	273,041
Total Capital Assets Being Depreciated	12,291,213	886,727	-	13,177,940
Less: Accumulated Depreciation				
Buildings	1,761,689	96,025	-	1,857,714
Improvements	588	4,557	-	5,145
Machinery and Equipment	2,213,086	195,582	-	2,408,668
Infrastructure	256,572	110,734	-	367,306
Library	235,870	10,976	-	246,846
Total Accumulated Depreciation	4,467,805	417,874	-	4,885,679
Total Capital Assets Being Depreciated, Net	7,823,408	468,853	-	8,292,261
Capital Assets, Net	<u>\$ 14,696,100</u>	<u>\$ 468,853</u>	<u>\$ 678,250</u>	<u>\$ 14,486,703</u>

CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

3.B. CAPITAL ASSETS (Continued)

	Balance at Jan. 01, 2011	Additions	Disposals	Balance at Dec. 31, 2011
Business-Type Activities:				
Capital Assets not Being Depreciated				
Construction In Progress	\$ 16,022	\$ -	\$ 16,022	\$ -
Capital Assets Being Depreciated				
Water Mains and Lines	5,828,030	-	-	5,828,030
Sewer Mains and Lines	2,435,944	220,855	-	2,656,799
Structures	51,548	-	-	51,548
Machinery and Equipment	275,865	-	-	275,865
Total Capital Assets Being Depreciated	8,591,387	220,855	-	8,812,242
Less: Accumulated Depreciation				
Water Mains and Lines	757,216	118,599	-	875,815
Sewer Mains and Lines	503,674	51,294	-	554,968
Structures	49,219	311	-	49,530
Machinery and Equipment	231,062	4,226	-	235,288
Total Accumulated Depreciation	1,541,171	174,430	-	1,715,601
Total Capital Assets Being Depreciated, Net	7,050,216	46,425	-	7,096,641
Business-Type Activities	\$ 7,066,238	\$ 46,425	\$ 16,022	\$ 7,096,641

Depreciation is charged to governmental activities as follows:

General Government	\$ 51,032
Public Safety	131,912
Public Works	132,772
Culture and Recreation	102,158
Total Depreciation Expense	\$ 417,874

3.C. LONG-TERM DEBT

The reporting entity'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, 2011, 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%.	\$ 690,000
Less: Current Portion	125,000
Noncurrent Portion	\$ 565,000

**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011:

<u>Type of Debt</u>	<u>Balance Jan. 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2011</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds					
Tax Increment Refunding Bonds of 2001	\$ 795,000	\$ -	\$ (105,000)	\$ 690,000	\$ 125,000

Governmental Activity debt is typically funded through Debt Service Funds.

Annual Debt Service Requirements

At December 31, 2011, the estimated annual debt service requirements to maturity, including principal and interest, are as follows for the City's governmental activities:

<u>Years Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 125,000	\$ 30,165	\$ 155,165
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	\$ 690,000	\$ 94,775	\$ 784,775

Interest expense totals \$34,057 in the Statement of Activities (included in Debt Service line). Interest expense totals \$34,401 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Capital Project Funds	\$ 1,495	\$ -
Special Revenue Funds	-	31,763
Proprietary Funds	122,000	-
Special Revenue Funds:		
General Fund	31,763	-
Proprietary Funds	-	131,593
Capital Project Funds:		
General Fund	-	1,495
Proprietary Funds:		
General Fund	-	122,000
Special Revenue Funds	131,593	-
Total Transfers	\$ 286,851	\$ 286,851

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:

<u>Due From Fund</u>	<u>Due To Fund</u>	<u>Amount</u>
General	Developer Reimbursed Projects	\$ 1,678
Tax Stabilization	Park Improvement	679,025
Totals		\$ 680,703

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.

3.E. FUND EQUITY

At December 31, 2011, governmental fund equity consists of the following:

General Fund	
Nonspendable - Prepays	\$ 17,933
Committed for Equipment Replacement	120,000
Committed for Buildings Maintenance	2,000
Unassigned	7,790,099
Total General Fund Balance	\$ 7,930,032
Park Improvement Fund	
Unassigned	\$ (620,539)

**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

3.E. FUND EQUITY (Continued)

Library Fund	
Nonspendable - Prepaids	\$ 2,097
Restricted for Library	239,787
Committed for Buildings Maintenance	31,763
Assigned for Library	<u>29,520</u>
Total Library Fund Balance	\$ 303,167
Other Governmental Funds	
Restricted for Debt Service	\$ 372,692
Restricted for Permanent Fund	621,276
Restricted for TIF District 1	280,865
Restricted for TIF District 2-1	14,652
Restricted for Developer Reimbursed Projects	75,729
Restricted for Water and Sewer Improvement	763,589
Assigned for Water and Sewer Improvement	181,818
Assigned for Drug Forfeiture	10,007
Assigned for Tax Stabilization	1,024,844
Assigned for K-9 Unit	<u>1,012</u>
Total Other Governmental Funds Balance	\$ 3,346,484

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.

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.

**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 OTHER NOTES (Continued)

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

Plan Description (Continued)

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.

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. GERF 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 2011, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF 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, 2011, 2010, and 2009 were \$42,383, \$37,383, and \$39,074, respectively. The City's contributions to the Public Employees Police & Fire Fund for the year ended December 31, 2011, 2010, and 2009 were \$59,860, \$51,392, and \$49,270, respectively. The City's contributions are equal to the contractually required contributions for each year as set by state statute.

CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 4 OTHER NOTES (Continued)

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

During 2011, the City used River City Services to provide grading services as well as the equipment needed to complete related work. River City Services is owned by an employee of the City. During the year, \$1,810 was paid to River City Services for the work performed.

The City has a joint powers agreement to extend municipal water mains, laterals, storage facilities and related water services to Baytown, Minnesota. Total receipts from Baytown during the year were \$103,178; \$73,446 relates to prior year receivables and \$29,732 were for fire services.

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, 2011, outstanding Pay-As-You-Go debt approximates \$973,000 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.

Contracts

Legal Services Contract

The City has contracted with Eckberg, Lammers, Briggs, Wolff & Vierling, PLLP to provide legal services through 2014 at an annual rate of \$28,347 for criminal prosecution services and varying rates ranging from \$120-\$200 for civil legal services.

Union Contracts

The City has entered into union contracts for Law Enforcement and Public Works employees through 2012. These contracts define the terms of benefits and pay for law enforcement and public works employees.

**CITY OF BAYPORT
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 OTHER NOTES (Continued)

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, 2011, the conduit debt issued outstanding principal payable is \$7,929,897 for the Senior Housing Revenue Note, Series 2003.

4.F. CONCENTRATION

For the year ended December 31, 2011, 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	55.34%	\$ 40,309	19.08%	\$ 2,149
State of Minnesota Correctional Facility	0.00%	\$ -	34.41%	\$ 19,537

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:	\$ 28,946
Current Net Tax Capacity:	\$ 142,241
Captured Net Tax Capacity:	
Retained by City	\$ 113,296
Shared with Other Taxing Districts	\$ -
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:	\$ 76,117
Current Net Tax Capacity:	\$ 116,597
Captured Net Tax Capacity:	
Retained by City	\$ 40,480
Shared with Other Taxing Districts	\$ -

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, 2011**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
RESOURCES (INFLOWS):			
Taxes	\$ 960,000	\$ 955,429	\$ (4,571)
Licenses, Permits & Fees	73,975	123,460	49,485
Intergovernmental	549,708	470,401	(79,307)
Charges for Services	286,882	312,203	25,321
Fines	20,000	39,353	19,353
Investment Income	115,000	243,680	128,680
Miscellaneous	49,000	109,416	60,416
Transfers In	-	123,495	123,495
AMOUNTS AVAILABLE	<u>2,054,565</u>	<u>2,377,437</u>	<u>322,872</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
General Government:			
Administration	136,247	130,383	(5,864)
Mayor and Council	143,476	120,765	(22,711)
Boards and Commissions	205,073	213,446	8,373
Elections	470	470	-
General Government	41,110	56,976	15,866
Public Safety:			
Police	649,392	666,132	16,740
Fire	280,137	291,848	11,711
Public Works	211,767	199,439	(12,328)
Parks and Recreation	63,373	51,108	(12,265)
Capital Outlay	3,000	166,323	163,323
Contingency	50,000	-	(50,000)
Transfers Out	270,520	31,763	(238,757)
TOTAL CHARGES	<u>2,054,565</u>	<u>1,928,653</u>	<u>(125,912)</u>
ENDING BUDGETARY FUND BALANCE	<u>\$ -</u>	<u>\$ 448,784</u>	<u>\$ 448,784</u>

**CITY OF BAYPORT, MINNESOTA
BUDGETARY COMPARISON SCHEDULE-LIBRARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
RESOURCES (INFLOWS):			
Taxes	\$ 153,798	\$ 153,798	\$ -
Charges for Services	1,000	5,802	4,802
Investment Income	9,000	10,200	1,200
Miscellaneous	133,450	114,171	(19,279)
Transfers In	-	31,763	31,763
AMOUNTS AVAILABLE	<u>297,248</u>	<u>315,734</u>	<u>18,486</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
Salaries and Benefits	189,614	211,357	21,743
Contract Services	23,025	20,400	(2,625)
Administrative Services	5,938	-	(5,938)
Material and Supplies	24,580	22,180	(2,400)
Telephone	3,000	3,068	68
Insurance	11,024	7,305	(3,719)
Utilities	20,495	15,942	(4,553)
Repairs and Maintenance	11,587	7,447	(4,140)
Shared Automation	6,800	751	(6,049)
Capital Outlay	-	34,653	34,653
Miscellaneous	1,185	1,136	(49)
TOTAL CHARGES	<u>297,248</u>	<u>324,239</u>	<u>26,991</u>
ENDING BUDGETARY FUND BALANCE	<u>\$ -</u>	<u>\$ (8,505)</u>	<u>\$ (8,505)</u>

**CITY OF BAYPORT, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE-PARK IMPROVEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
RESOURCES (INFLOWS):			
Charges for Services	\$ 5,000	\$ 13,000	8,000
Investment Income	-	1,757	1,757
AMOUNTS AVAILABLE	<u>5,000</u>	<u>14,757</u>	<u>9,757</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):			
Capital Outlay	-	7,501	7,501
ENDING BUDGETARY FUND BALANCE	<u>\$ 5,000</u>	<u>\$ 7,256</u>	<u>\$ 2,256</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, 2011**

	<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	\$ 10,007	\$ 345,819	\$ 1,012	\$ 907,488	\$ 1,264,326
Assessments Receivable	-	-	-	44,366	44,366
Accounts Receivable	-	-	-	12,832	12,832
Due from Other Fund	-	679,025	-	-	679,025
TOTAL ASSETS	<u>\$ 10,007</u>	<u>\$ 1,024,844</u>	<u>\$ 1,012</u>	<u>\$ 964,686</u>	<u>\$ 2,000,549</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ 7,005	\$ 7,005
Deferred Revenue	-	-	-	12,274	12,274
Total Liabilities	-	-	-	19,279	19,279
FUND BALANCES					
Restricted	-	-	-	763,589	763,589
Assigned	10,007	1,024,844	1,012	181,818	1,217,681
Total Fund Balance	<u>10,007</u>	<u>1,024,844</u>	<u>1,012</u>	<u>945,407</u>	<u>1,981,270</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,007</u>	<u>\$ 1,024,844</u>	<u>\$ 1,012</u>	<u>\$ 964,686</u>	<u>\$ 2,000,549</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, 2011

	Drug Forfeiture Fund	Tax Stabilization Fund	K-9 Unit Fund	Water and Sewer Improvement Fund	Total Nonmajor Special Revenue Funds
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 39,382	\$ 39,382
Charges for Services	-	-	-	71,044	71,044
Fines	2,554	-	-	-	2,554
Investment Income	386	10,800	43	30,685	41,914
Miscellaneous	-	-	194	-	194
TOTAL REVENUES	<u>2,940</u>	<u>10,800</u>	<u>237</u>	<u>141,111</u>	<u>155,088</u>
EXPENDITURES					
Public Safety:					
Police	4,969	-	627	-	5,596
Public Works	-	-	-	51,336	51,336
TOTAL EXPENDITURES	<u>4,969</u>	<u>-</u>	<u>627</u>	<u>51,336</u>	<u>56,932</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,029)	10,800	(390)	89,775	98,156
OTHER FINANCING USES					
Operating Transfers Out	-	-	-	(131,593)	(131,593)
NET CHANGE IN FUND BALANCES	(2,029)	10,800	(390)	(41,818)	(33,437)
FUND BALANCES - BEGINNING	<u>12,036</u>	<u>1,014,044</u>	<u>1,402</u>	<u>987,225</u>	<u>2,014,707</u>
FUND BALANCES - ENDING	<u>\$ 10,007</u>	<u>\$ 1,024,844</u>	<u>\$ 1,012</u>	<u>\$ 945,407</u>	<u>\$ 1,981,270</u>

**CITY OF BAYPORT, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
 DECEMBER 31, 2011**

	<u>TIF District 1 Fund</u>	<u>TIF District 2-1 Fund</u>	<u>Perro Creek Outlet Fund</u>	<u>Developer Reimbursed Projects Fund</u>	<u>Total Nonmajor Capital Project Funds</u>
ASSETS					
Cash, Cash Equivalents, and Investments	\$ 280,865	\$ 32,243	\$ -	\$ 77,407	\$ 390,515
LIABILITIES					
Accounts Payable	\$ -	\$ 17,591	\$ -	\$ -	\$ 17,591
Due to Other Funds	-	-	-	1,678	1,678
Total Liabilities	-	17,591	-	1,678	19,269
FUND BALANCES					
Restricted	<u>280,865</u>	<u>14,652</u>	<u>-</u>	<u>75,729</u>	<u>371,246</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 280,865</u>	<u>\$ 32,243</u>	<u>\$ -</u>	<u>\$ 77,407</u>	<u>\$ 390,515</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, 2011

	TIF District 1 Fund	TIF District 2-1 Fund	Perro Creek Outlet Fund	Developer Reimbursed Project Fund	Total Nonmajor Capital Project Funds
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 31,962	\$ 31,962
Tax Increment	-	35,183	-	-	35,183
Investment Income	8,786	429	-	1,500	10,715
TOTAL REVENUES	<u>8,786</u>	<u>35,612</u>	<u>-</u>	<u>33,462</u>	<u>77,860</u>
EXPENDITURES					
Public Works	480	33,700	-	2,578	36,758
EXCESS OF REVENUES OVER EXPENDITURES	8,306	1,912	-	30,884	41,102
OTHER FINANCING USES					
Operating Transfers Out	-	-	(1,495)	-	(1,495)
NET CHANGE IN FUND BALANCES	8,306	1,912	(1,495)	30,884	39,607
FUND BALANCES - BEGINNING	<u>272,559</u>	<u>12,740</u>	<u>1,495</u>	<u>44,845</u>	<u>331,639</u>
FUND BALANCES - ENDING	<u>\$ 280,865</u>	<u>\$ 14,652</u>	<u>\$ -</u>	<u>\$ 75,729</u>	<u>\$ 371,246</u>

**CITY OF BAYPORT, MINNESOTA
WATER FUND
SCHEDULES OF WATER FUND REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CHARGES	\$ 320,610	\$ 253,628
OPERATING EXPENSES		
Personal Services	160,800	151,033
Supplies	30,511	21,553
Insurance	5,614	5,562
Utilities	49,061	42,787
Repairs and Maintenance	56,288	39,149
Other Service and Charges	14,858	20,983
Depreciation	<u>119,477</u>	<u>120,649</u>
TOTAL OPERATING EXPENSES	<u>436,609</u>	<u>401,716</u>
NET OPERATING LOSS	(115,999)	(148,088)
NONOPERATING INCOME (EXPENSE)		
Loss on Disposal of Capital Assets	-	(477)
Connection Fees	32,350	22,300
Intergovernmental	3,253	-
Investment Income	<u>50,699</u>	<u>22,224</u>
TOTAL NONOPERATING INCOME (EXPENSE)	<u>86,302</u>	<u>44,047</u>
CHANGE IN NET ASSETS PRIOR TO TRANSFERS	(29,697)	(104,041)
TRANSFERS		
Operating Transfers In	-	14,347
Operating Transfers Out	<u>(6,000)</u>	<u>(6,475)</u>
NET TRANSFERS	<u>(6,000)</u>	<u>7,872</u>
CHANGE IN NET ASSETS	<u>\$ (35,697)</u>	<u>\$ (96,169)</u>

**CITY OF BAYPORT, MINNESOTA
SEWER FUND
SCHEDULES OF SEWER FUND REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CHARGES	\$ 580,271	\$ 572,334
OPERATING EXPENSES		
Personal Services	151,277	180,907
Supplies	4,510	4,855
Insurance	2,482	2,114
Repairs and Maintenance	15,196	13,114
Other Service and Charges	2,937	15,927
MCES Charges	394,647	323,699
Depreciation	<u>54,953</u>	<u>51,551</u>
TOTAL OPERATING EXPENSES	<u>626,002</u>	<u>592,167</u>
NET OPERATING LOSS	(45,731)	(19,833)
NONOPERATING INCOME		
Connection Fees	10,450	11,250
Intergovernmental	53,334	-
Investment Income	<u>37,199</u>	<u>17,218</u>
TOTAL NONOPERATING INCOME	<u>100,983</u>	<u>28,468</u>
CHANGE IN NET ASSETS PRIOR TO TRANSFERS	55,252	8,635
TRANSFERS		
Operating Transfers Out	<u>(116,000)</u>	<u>(116,475)</u>
CHANGE IN NET ASSETS	<u>\$ (60,748)</u>	<u>\$ (107,840)</u>

**CITY OF BAYPORT, MINNESOTA
SCHEDULE OF CAPITAL OUTLAY
FOR THE YEAR ENDED DECEMBER 31, 2011**

CAPITAL OUTLAY	
General Government	\$ 29,854
Fire	12,928
Public Works	112,032
Parks and Recreation	11,509
Park Improvements	7,501
Library	<u>34,653</u>
TOTAL CAPITAL OUTLAY	<u>\$ 208,477</u>

OTHER REPORT

**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

May 1, 2012

Honorable Mayor and City Council
City of Bayport
Bayport, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 1, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

Certain immaterial instances of noncompliance have been reported to management of the City in a separate letter dated May 1, 2012.

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



SCHLENNER WENNER & CO.
St. Cloud, Minnesota

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 385
Little Falls, MN 56345
320.632.6311

Albany

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

Maple Lake

201 Division St. W.
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