

**CITY OF BAYPORT, MINNESOTA**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**SCHLENNER WENNER & CO.**  
**Certified Public Accountants**  
**& Business Consultants**

**CITY OF BAYPORT, MINNESOTA  
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**INTRODUCTORY  
SECTION**

**CITY OF BAYPORT, MINNESOTA  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**CITY COUNCIL**

Term Expires

|                |                |                   |
|----------------|----------------|-------------------|
| Susan St. Ores | Mayor          | December 31, 2014 |
| Connie Carlson | Council Member | December 31, 2016 |
| Dan Goldston   | Council Member | December 31, 2016 |
| Michele Hanson | Council Member | December 31, 2014 |
| Patrick McGann | Council Member | December 31, 2014 |

**CITY OFFICIALS**

|              |                              |
|--------------|------------------------------|
| Logan Martin | City Administrator           |
| Wanda Madsen | Finance Officer              |
| Sara Taylor  | Assistant City Administrator |

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITORS' REPORT

April 28, 2014

Honorable Mayor and City Council  
City of Bayport  
Bayport, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bayport, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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Little Falls, MN 56345  
320.632.6311

**Albany**

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**Maple Lake**

220 Hwy. 55 North, Ste. 4  
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**Monticello**

202 W. 3rd St.  
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763.295.5070

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bayport, Minnesota, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

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

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

## Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated April 28, 2014, on our consideration of the City of Bayport's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

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, 2013. Please read it in conjunction with the transmittal letter on page two and the City's financial statements, which begin on page eleven.

**FINANCIAL HIGHLIGHTS**

- The City's net position decreased \$917,250 compared to the prior year as a result of this year's operations.
- In the City's business-type activities, revenues decreased \$154,134 (or 12.50 percent) while operating expenses increased \$97,402.
- Total cost of all of the City's programs increased \$273,239 (or 7.30 percent).
- The City received local government aid of \$335,228, and no market value credits were received.
- The City's general fund generated less revenue than budgeted by \$473,688, excluding transfers. Expenditures were more than budgeted by \$330,117, excluding transfers to other funds that were budgeted for but did not occur.

**USING THIS ANNUAL REPORT**

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

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

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

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

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

**USING THIS ANNUAL REPORT** (Continued)

**Reporting the City's Most Significant Funds**

Our analysis of the City's major funds begins on page seven. The fund financial statements begin on page thirteen 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 three kinds of funds (governmental, proprietary, and fiduciary) use different accounting approaches.

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

**THE CITY AS A WHOLE**

The City's combined net position decreased \$917,250 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1  
Net Position**

|                        | Governmental<br>Activities |                      | Business-Type<br>Activities |                      | Total<br>Government  |                      |
|------------------------|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
|                        | 2013                       | 2012                 | 2013                        | 2012                 | 2013                 | 2012                 |
| Current & Other Assets | \$ 11,219,183              | \$ 12,141,334        | \$ 2,978,734                | \$ 3,098,762         | \$ 14,197,917        | \$ 15,240,096        |
| Net Capital Assets     | <u>14,266,231</u>          | <u>14,244,476</u>    | <u>7,015,463</u>            | <u>7,041,888</u>     | <u>21,281,694</u>    | <u>21,286,364</u>    |
| Total Assets           | 25,485,414                 | 26,385,810           | 9,994,197                   | 10,140,650           | 35,479,611           | 36,526,460           |
| Long-Term Debt         | 440,000                    | 565,000              | -                           | -                    | 440,000              | 565,000              |
| Other Liabilities      | <u>224,592</u>             | <u>216,603</u>       | <u>121,022</u>              | <u>133,610</u>       | <u>345,614</u>       | <u>350,213</u>       |
| Total Liabilities      | 664,592                    | 781,603              | 121,022                     | 133,610              | 785,614              | 915,213              |
| Net Position:          |                            |                      |                             |                      |                      |                      |
| Net Investment in      |                            |                      |                             |                      |                      |                      |
| Capital Assets         | 13,826,231                 | 13,679,476           | 7,015,463                   | 7,041,888            | 20,841,694           | 20,721,364           |
| Restricted             | 2,025,851                  | 2,403,215            | -                           | -                    | 2,025,851            | 2,403,215            |
| Unrestricted           | <u>8,968,740</u>           | <u>9,521,516</u>     | <u>2,857,712</u>            | <u>2,965,152</u>     | <u>11,826,452</u>    | <u>12,486,668</u>    |
| Total Net Position     | <u>\$ 24,820,822</u>       | <u>\$ 25,604,207</u> | <u>\$ 9,873,175</u>         | <u>\$ 10,007,040</u> | <u>\$ 34,693,997</u> | <u>\$ 35,611,247</u> |

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

**THE CITY AS A WHOLE (Continued)**

Net position of the City's governmental activities decreased by 3.06 percent (\$783,385). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) decreased by \$552,776 compared to the prior year.

The net position of the City's business-type activities decreased by \$133,865. Operations were comparable to the prior year.

**Table 2  
Changes in Net Position**

|  | Governmental<br>Activities |                   | Business-Type<br>Activities |                   | Total<br>Government |                   |
|--|----------------------------|-------------------|-----------------------------|-------------------|---------------------|-------------------|
|  | 2013                       | 2012              | 2013                        | 2012              | 2013                | 2012              |
| <b>REVENUE</b>                           |                            |                   |                             |                   |                     |                   |
| Charges for Services                     | \$ 773,443                 | \$ 605,821        | \$ 1,180,692                | \$ 1,063,428      | \$ 1,954,135        | \$ 1,669,249      |
| Grants and Contributions                 | 390,708                    | 256,134           | 83,412                      | 11,892            | 474,120             | 268,026           |
| Taxes                                    | 1,101,024                  | 1,278,100         | -                           | -                 | 1,101,024           | 1,278,100         |
| Intergovernmental                        | 345,508                    | 342,651           | -                           | -                 | 345,508             | 342,651           |
| Unrestricted Investment<br>Income (Loss) | (683,799)                  | 610,056           | (185,514)                   | 157,404           | (869,313)           | 767,460           |
| Other                                    | 83,968                     | 96,400            | -                           | -                 | 83,968              | 96,400            |
| <b>Total Revenues</b>                    | <b>2,010,852</b>           | <b>3,189,162</b>  | <b>1,078,590</b>            | <b>1,232,724</b>  | <b>3,089,442</b>    | <b>4,421,886</b>  |
| <b>PROGRAM EXPENSES</b>                  |                            |                   |                             |                   |                     |                   |
| General Government                       | 662,604                    | 612,654           | -                           | -                 | 662,604             | 612,654           |
| Public Safety                            | 1,297,519                  | 1,171,517         | -                           | -                 | 1,297,519           | 1,171,517         |
| Public Works                             | 460,107                    | 427,578           | -                           | -                 | 460,107             | 427,578           |
| Parks and Recreation                     | 447,226                    | 474,873           | -                           | -                 | 447,226             | 474,873           |
| Debt Service                             | 24,799                     | 29,796            | -                           | -                 | 24,799              | 29,796            |
| Water                                    | -                          | -                 | 533,532                     | 450,375           | 533,532             | 450,375           |
| Sewer                                    | -                          | -                 | 590,973                     | 576,728           | 590,973             | 576,728           |
| <b>Total Expenses</b>                    | <b>2,892,255</b>           | <b>2,716,418</b>  | <b>1,124,505</b>            | <b>1,027,103</b>  | <b>4,016,760</b>    | <b>3,743,521</b>  |
| Loss on Disposal of Assets               | 10,068                     | -                 | -                           | -                 | 10,068              | -                 |
| Transfers                                | 87,950                     | 104,304           | (87,950)                    | (104,304)         | -                   | -                 |
| <b>Change in Net Position</b>            | <b>\$ (783,385)</b>        | <b>\$ 577,048</b> | <b>\$ (133,865)</b>         | <b>\$ 101,317</b> | <b>\$ (917,250)</b> | <b>\$ 678,365</b> |

The City's total revenues decreased \$1,322,376 (29.91 percent) from the prior year, largely due to a significant decrease in investment earnings resulting from unrealized losses experienced in the current year. Such losses are the result of a significant portion of the City's investments in fixed income securities maturing during the 2013 and being reinvested in new securities. Upon maturity of these fixed income securities, the City receives the face value of the security. If this face value is less than the fair market value at which the City is required to carry the securities, a loss results from the maturity of the security. For this reason, the City's investments must be analyzed over a number of years to provide a more accurate picture of the performance of the City's investments.

The total cost of all programs and services increased by \$273,239 or 7.30 percent. Our analysis on the following page separately considers the operations of governmental and business-type activities.

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

**THE CITY AS A WHOLE** (Continued)

**Governmental Activities**

Revenue for the City's governmental activities decreased by 36.63 percent (\$1,168,242), while total expenses increased \$175,837. Revenues and expenses were generally consistent year to year, with the exception of the investment losses previously discussed.

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<br>of Services |                     | Net Cost<br>of Services |                       |
|----------------------|---------------------------|---------------------|-------------------------|-----------------------|
|                      | 2013                      | 2012                | 2013                    | 2012                  |
| General Government   | \$ 662,604                | \$ 612,654          | \$ (376,105)            | \$ (430,171)          |
| Public Safety        | 1,297,519                 | 1,171,517           | (798,977)               | (756,975)             |
| Public Works         | 460,107                   | 427,578             | (359,045)               | (333,071)             |
| Parks and Recreation | 447,226                   | 474,873             | (169,178)               | (304,450)             |
| Debt Service         | 24,799                    | 29,796              | (24,799)                | (29,796)              |
| Totals               | <u>\$ 2,892,255</u>       | <u>\$ 2,716,418</u> | <u>\$ (1,728,104)</u>   | <u>\$ (1,854,463)</u> |

**Business-type Activities**

Revenues of the City's business-type activities (see Table 2) decreased by 12.50 percent (\$154,134) due to investment losses. Expenses increased by \$97,402, primarily due to increased expenses for water testing and engineering 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 \$10,990,868. This is a decrease of \$685,594 from the prior year. Operations were comparable to the prior year, with the exception of additional capital outlay in the current year for equipment and park improvements. Financial information specific to the governmental funds is detailed in Table 4. Such information was derived from the fund financials at pages thirteen, fifteen, forty-three, and forty-four.

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

**THE CITY'S FUNDS (Continued)**

**Governmental Funds (Continued)**

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

|  | General Fund          |              | Debt Service Fund        |               |
|--|-----------------------|--------------|--------------------------|---------------|
|  | 2013                  | 2012         | 2013                     | 2012          |
| Total Assets                                     | \$ 8,137,410          | \$ 8,806,800 | \$ 272,396               | \$ 342,282    |
| Total Liabilities                                | \$ 87,858             | \$ 146,665   | \$ -                     | \$ -          |
| Deferred Inflow of Resources                     | \$ 52,876             | \$ 206,705   | \$ -                     | \$ -          |
| Total Revenues                                   | \$ 2,290,569          | \$ 2,502,485 | \$ 107,596               | \$ 124,795    |
| Total Expenditures                               | \$ 2,835,273          | \$ 2,120,845 | \$ 177,482               | \$ 155,205    |
| Debt Service Included in<br>Total Expenditures   | \$ -                  | \$ -         | \$ 150,076               | \$ 155,205    |
| Capital Outlay Included in<br>Total Expenditures | \$ 258,927            | \$ 201,838   | \$ -                     | \$ -          |
| Net Transfers                                    | \$ 87,950             | \$ 141,758   | \$ -                     | \$ -          |
|  |                       |              |                          |               |
|  | Special Revenue Funds |              | Capital Projects Funds   |               |
|  | 2013                  | 2012         | 2013                     | 2012          |
| Total Assets                                     | \$ 2,499,215          | \$ 2,621,769 | \$ 374,119               | \$ 393,466    |
| Total Liabilities                                | \$ 759,674            | \$ 687,915   | \$ -                     | \$ -          |
| Deferred Inflow of Resources                     | \$ 6,932              | \$ 102,612   | \$ -                     | \$ -          |
| Total Revenues                                   | \$ 505,769            | \$ 477,926   | \$ 40,226                | \$ 58,180     |
| Total Expenditures                               | \$ 604,402            | \$ 273,128   | \$ 59,573                | \$ 35,960     |
| Capital Outlay Included in<br>Total Expenditures | \$ 226,405            | \$ -         | \$ -                     | \$ -          |
| Net Transfers                                    | \$ -                  | \$ (37,454)  | \$ -                     | \$ -          |
|  |                       |              |                          |               |
|  | Permanent Fund        |              | Total Governmental Funds |               |
|  | 2013                  | 2012         | 2013                     | 2012          |
| Total Assets                                     | \$ 615,068            | \$ 656,042   | \$ 11,898,208            | \$ 12,820,359 |
| Total Liabilities                                | \$ -                  | \$ -         | \$ 847,532               | \$ 834,580    |
| Deferred Inflow of Resources                     | \$ -                  | \$ -         | \$ 59,808                | \$ 309,317    |
| Total Revenues                                   | \$ -                  | \$ 34,766    | \$ 2,944,160             | \$ 3,198,152  |
| Total Expenditures                               | \$ 40,974             | \$ -         | \$ 3,717,704             | \$ 2,585,138  |
| Debt Service Included in<br>Total Expenditures   | \$ -                  | \$ -         | \$ 150,076               | \$ 155,205    |
| Capital Outlay Included in<br>Total Expenditures | \$ -                  | \$ -         | \$ 485,332               | \$ 201,838    |
| Net Transfers                                    | \$ -                  | \$ -         | \$ 87,950                | \$ 104,304    |

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

**THE CITY'S FUNDS** (Continued)

**General Fund Budgetary Highlights**

The City's general fund generated less revenue than budgeted of \$473,688 excluding transfers in from other funds. Expenditures exceeded those budgeted by \$330,117, excluding transfers to other funds that were budgeted but did not occur. Deficiency of revenues under budgeted amounts is primarily due to unanticipated investment losses.

**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   |              |
|------------------------|--------------|--------------|--------------|--------------|
|                        | 2013         | 2012         | 2013         | 2012         |
| Total Assets           | \$ 6,739,128 | \$ 6,785,142 | \$ 3,255,069 | \$ 3,355,508 |
| Total Liabilities      | \$ 101,139   | \$ 35,388    | \$ 19,883    | \$ 98,222    |
| Total Revenues         | \$ 535,245   | \$ 553,678   | \$ 728,859   | \$ 679,046   |
| Total Expenditures     | \$ 640,535   | \$ 450,375   | \$ 669,484   | \$ 576,728   |
| Net Transfers          | \$ (6,475)   | \$ 7,171     | \$ (81,475)  | \$ (111,475) |
| Change in Net Position | \$ (111,765) | \$ 110,474   | \$ (22,100)  | \$ (9,157)   |

  

|                        | Total<br>Proprietary Funds |               |
|------------------------|----------------------------|---------------|
|                        | 2013                       | 2012          |
| Total Assets           | \$ 9,994,197               | \$ 10,140,650 |
| Total Liabilities      | \$ 121,022                 | \$ 133,610    |
| Total Revenues         | \$ 1,264,104               | \$ 1,232,724  |
| Total Expenditures     | \$ 1,310,019               | \$ 1,027,103  |
| Net Transfers          | \$ (87,950)                | \$ (104,304)  |
| Change in Net Position | \$ (133,865)               | \$ 101,317    |

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2013, the City had \$28,960,149 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 \$600,391 or 2.07 percent, over last year.

**CITY OF BAYPORT, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**Capital Assets (Continued)**

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

|                          | Governmental<br>Activities |                      | Business-Type<br>Activities |                     | Totals               |                      |
|--------------------------|----------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|
|                          | 2013                       | 2012                 | 2013                        | 2012                | 2013                 | 2012                 |
| 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             | 852,694                    | 839,689              | -                           | -                   | 852,694              | 839,689              |
| Machinery & Equipment    | 4,665,958                  | 4,361,853            | 240,745                     | 240,745             | 4,906,703            | 4,602,598            |
| Infrastructure           | 3,213,120                  | 3,213,120            | 8,761,668                   | 8,504,107           | 11,974,788           | 11,717,227           |
| Library Books            | 273,041                    | 273,041              | -                           | -                   | 273,041              | 273,041              |
| Construction in Progress | 129,693                    | -                    | -                           | 103,973             | 129,693              | 103,973              |
| <b>Totals</b>            | <b>\$ 19,906,188</b>       | <b>\$ 19,459,385</b> | <b>\$ 9,053,961</b>         | <b>\$ 8,900,373</b> | <b>\$ 28,960,149</b> | <b>\$ 28,359,758</b> |

The City's fiscal year 2014 capital budget is similar to the current year. 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 \$440,000 in debt versus \$565,000 last year, a decrease of 22.12 percent, as shown in Table 7.

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

|          | Governmental<br>Activities |                   | Business-Type<br>Activities |             | Totals            |                   |
|----------|----------------------------|-------------------|-----------------------------|-------------|-------------------|-------------------|
|          | 2013                       | 2012              | 2013                        | 2012        | 2013              | 2012              |
| GO Bonds | <u>\$ 440,000</u>          | <u>\$ 565,000</u> | <u>\$ -</u>                 | <u>\$ -</u> | <u>\$ 440,000</u> | <u>\$ 565,000</u> |

The City did not issue any debt in 2013.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the year 2014 budget, such as tax rates and fees that will be charged for the business-type activities. The Council elected to neither increase nor decrease the 2014 tax levy from the 2013 amount. The Council expects operations in 2014 to remain fairly consistent with those of 2013. Overall budget amounts for 2014 are consistent with 2013'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 3<sup>rd</sup> 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

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

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

|   | Governmental<br>Activities | Business-Type<br>Activities | Total         |
|---|----------------------------|-----------------------------|---------------|
| <b>ASSETS</b>                           |                            |                             |               |
| Cash, Cash Equivalents, and Investments | \$ 10,862,223              | \$ 2,701,886                | \$ 13,564,109 |
| Property Taxes Receivable               | 31,604                     | -                           | 31,604        |
| Assessments Receivable                  | 36,191                     | 6,348                       | 42,539        |
| Accounts Receivable                     | 64,406                     | 193,586                     | 257,992       |
| Due from Other Governments              | -                          | 73,570                      | 73,570        |
| Prepays                                 | 20,001                     | 3,344                       | 23,345        |
| Deposit on Asset                        | 204,758                    | -                           | 204,758       |
| Noncurrent Assets:                      |                            |                             |               |
| Capital Assets not Being Depreciated    | 6,324,135                  | -                           | 6,324,135     |
| Capital Assets Being Depreciated (Net)  | 7,942,096                  | 7,015,463                   | 14,957,559    |
| <b>TOTAL ASSETS</b>                     | 25,485,414                 | 9,994,197                   | 35,479,611    |
| <b>LIABILITIES</b>                      |                            |                             |               |
| Accounts Payable                        | 116,448                    | 74,016                      | 190,464       |
| Due to Other Governments                | 2,328                      | 8,619                       | 10,947        |
| Unearned Revenue                        | 49,731                     | -                           | 49,731        |
| Accrued Interest                        | 1,570                      | -                           | 1,570         |
| Compensated Absences                    | 39,983                     | 17,281                      | 57,264        |
| Noncurrent Liabilities:                 |                            |                             |               |
| Bonds Due Within One Year               | 150,000                    | -                           | 150,000       |
| Bonds Due After One Year                | 290,000                    | -                           | 290,000       |
| Accrued Severance                       | 14,532                     | 21,106                      | 35,638        |
| <b>TOTAL LIABILITIES</b>                | 664,592                    | 121,022                     | 785,614       |
| <b>NET POSITION</b>                     |                            |                             |               |
| Net Investment in Capital Assets        | 13,826,231                 | 7,015,463                   | 20,841,694    |
| Restricted                              | 2,025,851                  | -                           | 2,025,851     |
| Unrestricted                            | 8,968,740                  | 2,857,712                   | 11,826,452    |
| <b>TOTAL NET POSITION</b>               | \$ 24,820,822              | \$ 9,873,175                | \$ 34,693,997 |

**CITY OF BAYPORT, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

| Functions/Programs                                     | Program Revenues    |                      |                                    |                                  | Net (Expense) Revenue and Changes in Net Position |                          |                      |
|--|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------------|
|  | Expenses            | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                           | Primary Government       |                      |
|  |                     |                      |                                    |                                  |   | Business-Type Activities | Total                |
| <b>Governmental Activities:</b>                        |                     |                      |                                    |                                  |   |                          |                      |
| General Government                                     | \$ 662,604          | \$ 282,307           | \$ 4,192                           | \$ -                             | \$ (376,105)                                      | \$ -                     | \$ (376,105)         |
| Public Safety  | 1,297,519           | 346,231              | 152,311                            | -                                | (798,977)   | -                        | (798,977)            |
| Public Works   | 460,107             | 79,699               | 14,866                             | 6,497                            | (359,045)   | -                        | (359,045)            |
| Parks and Recreation                                   | 447,226             | 65,206               | 114,756                            | 98,086                           | (169,178)   | -                        | (169,178)            |
| Debt Service   | 24,799              | -                    | -                                  | -                                | (24,799)  | -                        | (24,799)             |
| <b>Total Governmental Activities</b>                   | <b>2,892,255</b>    | <b>773,443</b>       | <b>286,125</b>                     | <b>104,583</b>                   | <b>(1,728,104)</b>                                | <b>-</b>                 | <b>(1,728,104)</b>   |
| <b>Business-Type Activities:</b>                       |                     |                      |                                    |                                  |   |                          |                      |
| Water  | 533,532             | 526,243              | -                                  | 9,002                            | -   | 1,713                    | 1,713                |
| Sewer  | 590,973             | 654,449              | -                                  | 74,410                           | -   | 137,886                  | 137,886              |
| <b>Total Business-Type Activities</b>                  | <b>1,124,505</b>    | <b>1,180,692</b>     | <b>-</b>                           | <b>83,412</b>                    | <b>-</b>  | <b>139,599</b>           | <b>139,599</b>       |
| <b>TOTALS</b>  | <b>\$ 4,016,760</b> | <b>\$ 1,954,135</b>  | <b>\$ 286,125</b>                  | <b>\$ 187,995</b>                | <b>(1,728,104)</b>                                | <b>139,599</b>           | <b>(1,588,505)</b>   |
| <b>General Revenues (Expenses):</b>                    |                     |                      |                                    |                                  |   |                          |                      |
| Taxes  |                     |                      |                                    |                                  | 1,101,024   | -                        | 1,101,024            |
| Intergovernmental                                      |                     |                      |                                    |                                  | 345,508   | -                        | 345,508              |
| Net Investments Loss                                   |                     |                      |                                    |                                  | (683,799)   | (185,514)                | (869,313)            |
| Miscellaneous  |                     |                      |                                    |                                  | 83,968  | -                        | 83,968               |
| Gain on Disposal of Assets                             |                     |                      |                                    |                                  | 10,068  | -                        | 10,068               |
| Transfers  |                     |                      |                                    |                                  | 87,950  | (87,950)                 | -                    |
| <b>Total General Revenues (Expenses) and Transfers</b> |                     |                      |                                    |                                  | <b>944,719</b>                                    | <b>(273,464)</b>         | <b>671,255</b>       |
| <b>CHANGE IN NET POSITION</b>                          |                     |                      |                                    |                                  | <b>(783,385)</b>                                  | <b>(133,865)</b>         | <b>(917,250)</b>     |
| <b>NET POSITION-BEGINNING OF YEAR</b>                  |                     |                      |                                    |                                  | <b>25,604,207</b>                                 | <b>10,007,040</b>        | <b>35,611,247</b>    |
| <b>NET POSITION-END OF YEAR</b>                        |                     |                      |                                    |                                  | <b>\$ 24,820,822</b>                              | <b>\$ 9,873,175</b>      | <b>\$ 34,693,997</b> |

**CITY OF BAYPORT, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

|  | General<br>Fund     | Park<br>Improvement<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------------|--|--------------------------------|
| <b>ASSETS</b>  |                     |                             |  |                                |
| Cash, Cash Equivalents,<br>and Investments   | \$ 7,837,860        | \$ 52,460                   | \$ 2,971,903                               | \$ 10,862,223                  |
| Property Taxes Receivable  | 31,604              | -                           | -  | 31,604                         |
| Assessments Receivable   | 29,259              | -                           | 6,932                                      | 36,191                         |
| Accounts Receivable  | 15,897              | -                           | 48,509                                     | 64,406                         |
| Advances to Other Funds  | -                   | -                           | 679,025                                    | 679,025                        |
| Prepays  | 18,032              | -                           | 1,969                                      | 20,001                         |
| Deposit on Asset   | 204,758             | -                           | -  | 204,758                        |
| <b>TOTAL ASSETS</b>  | <b>\$ 8,137,410</b> | <b>\$ 52,460</b>            | <b>\$ 3,708,338</b>                        | <b>\$ 11,898,208</b>           |
| <b>LIABILITIES</b>   |                     |                             |  |                                |
| Accounts Payable   | \$ 35,799           | \$ 77,538                   | \$ 3,111                                   | \$ 116,448                     |
| Due to Other Governments   | 2,328               | -                           | -  | 2,328                          |
| Unearned Revenue   | 49,731              | -                           | -  | 49,731                         |
| Advances from Other Funds  | -                   | 679,025                     | -  | 679,025                        |
| <b>Total Liabilities</b>   | <b>87,858</b>       | <b>756,563</b>              | <b>3,111</b>                               | <b>847,532</b>                 |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |                     |                             |  |                                |
| Unavailable Revenue:   |                     |                             |  |                                |
| Property Taxes   | 23,617              | -                           | -  | 23,617                         |
| Special Assessments  | 29,259              | -                           | 6,932                                      | 36,191                         |
| <b>Total Deferred Inflows of Resources</b>   | <b>52,876</b>       | <b>-</b>                    | <b>6,932</b>                               | <b>59,808</b>                  |
| <b>FUND BALANCES</b>   |                     |                             |  |                                |
| Nonspendable   | 222,790             | -                           | 680,994                                    | 903,784                        |
| Restricted   | -                   | -                           | 2,027,421                                  | 2,027,421                      |
| Committed  | 30,242              | -                           | 266,610                                    | 296,852                        |
| Assigned   | -                   | -                           | 723,270                                    | 723,270                        |
| Unassigned   | 7,743,644           | (704,103)                   | -  | 7,039,541                      |
| <b>Total Fund Balances</b>   | <b>7,996,676</b>    | <b>(704,103)</b>            | <b>3,698,295</b>                           | <b>10,990,868</b>              |
| <b>TOTAL LIABILITIES, DEFERRED<br/>INFLOWS OF RESOURCES,<br/>AND FUND BALANCES</b> | <b>\$ 8,137,410</b> | <b>\$ 52,460</b>            | <b>\$ 3,708,338</b>                        | <b>\$ 11,898,208</b>           |

**CITY OF BAYPORT, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

|   |           |                          |
|---|-----------|--------------------------|
| Total Fund Balance for Governmental Funds   | \$        | 10,990,868               |
| Amounts reported for governmental activities in the statement of net position are different because:  |           |                          |
| Capital assets (net of accumulated depreciation of \$5,639,957) used in governmental activities are not financial resources and, therefore are not reported in the funds. |           | 14,266,231               |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:  |           |                          |
| Taxes Receivable  |           | 23,617                   |
| Special Assessments Receivable  |           | 36,191                   |
| Interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the governmental funds balance sheet.     |           | (1,570)                  |
| 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  |           | (39,983)                 |
| Accrued Severance   |           | (14,532)                 |
| Bonds Due Within One Year   |           | (150,000)                |
| Bonds Due In More Than One Year   |           | (290,000)                |
| <b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>  | <b>\$</b> | <b><u>24,820,822</u></b> |

**CITY OF BAYPORT, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

|  | General<br>Fund     | Park<br>Improvement<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------------|--|--------------------------------|
| <b>REVENUES</b>                                      |                     |                             |  |                                |
| Taxes  | \$ 936,768          | \$ -                        | \$ 160,000                                 | \$ 1,096,768                   |
| Special Assessments                                  | 109,376             | -                           | 2,310                                      | 111,686                        |
| Tax Increment  | -                   | -                           | 147,822                                    | 147,822                        |
| Licenses, Permits, and Fees                          | 218,250             | -                           | -  | 218,250                        |
| Intergovernmental                                    | 515,115             | -                           | -  | 515,115                        |
| Charges for Services                                 | 381,933             | 40,943                      | 83,880                                     | 506,756                        |
| Fines  | 40,307              | -                           | 6,930                                      | 47,237                         |
| Private Grants                                       | -                   | 98,086                      | 111,350                                    | 209,436                        |
| Miscellaneous  | 88,820              | -                           | 2,270                                      | 91,090                         |
| <b>TOTAL REVENUES</b>                                | <u>2,290,569</u>    | <u>139,029</u>              | <u>514,562</u>                             | <u>2,944,160</u>               |
| <b>EXPENDITURES</b>                                  |                     |                             |  |                                |
| Current:   |                     |                             |  |                                |
| General Government                                   | 613,171             | -                           | -  | 613,171                        |
| Public Safety  | 1,138,901           | -                           | 1,190                                      | 1,140,091                      |
| Public Works   | 287,248             | -                           | 36,960                                     | 324,208                        |
| Parks and Recreation                                 | 57,916              | -                           | 263,111                                    | 321,027                        |
| Net Investments Loss                                 | 479,110             | 3,708                       | 200,981                                    | 683,799                        |
| Debt Service:  |                     |                             |  |                                |
| Principal  | -                   | -                           | 125,000                                    | 125,000                        |
| Interest and Other Charges                           | -                   | -                           | 25,076                                     | 25,076                         |
| Capital Outlay                                       | 258,927             | 226,405                     | -  | 485,332                        |
| <b>TOTAL EXPENDITURES</b>                            | <u>2,835,273</u>    | <u>230,113</u>              | <u>652,318</u>                             | <u>3,717,704</u>               |
| <b>DEFICIENCY OF REVENUES<br/>UNDER EXPENDITURES</b> | (544,704)           | (91,084)                    | (137,756)                                  | (773,544)                      |
| <b>OTHER FINANCING SOURCES</b>                       |                     |                             |  |                                |
| Operating Transfers In                               | 87,950              | -                           | -  | 87,950                         |
| <b>NET CHANGE IN FUND BALANCES</b>                   | (456,754)           | (91,084)                    | (137,756)                                  | (685,594)                      |
| <b>FUND BALANCES - BEGINNING</b>                     | <u>8,453,430</u>    | <u>(613,019)</u>            | <u>3,836,051</u>                           | <u>11,676,462</u>              |
| <b>FUND BALANCES - ENDING</b>                        | <u>\$ 7,996,676</u> | <u>\$ (704,103)</u>         | <u>\$ 3,698,295</u>                        | <u>\$ 10,990,868</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, 2013**

|   |           |                         |
|---|-----------|-------------------------|
| Net change in fund balances - total governmental funds  | \$        | (685,594)               |
| 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:   |           |                         |
| Capital Outlay Capitalized  | 485,332   |                         |
| Gain on the Sale of Assets  | 10,068    |                         |
| Depreciation Expense  | (473,645) | 21,755                  |
| Revenues in Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:  |           |                         |
| Change in Long-term Receivables   |           | (249,509)               |
| Repayment of debt principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position:                         |           |                         |
| Bond Payments   |           | 125,000                 |
| Net change in accrued interest on bonds is not reported as expenses in the funds:   |           |                         |
|   |           | 277                     |
| 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  |           | 2,655                   |
| Change in Accrued Severance   |           | 2,031                   |
| <b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>  | <b>\$</b> | <b><u>(783,385)</u></b> |

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2013**

|   | Water<br>Fund       | Sewer<br>Fund       | Totals              |
|---|---------------------|---------------------|---------------------|
| <b>ASSETS</b>                           |                     |                     |                     |
| Current Assets                          |                     |                     |                     |
| Cash, Cash Equivalents, and Investments | \$ 1,828,846        | \$ 873,040          | \$ 2,701,886        |
| Accounts Receivable                     | 101,374             | 92,212              | 193,586             |
| Due from Other Governments              | -                   | 73,570              | 73,570              |
| Assessments Receivable                  | 6,348               | -                   | 6,348               |
| Prepays                                 | 2,035               | 1,309               | 3,344               |
| Total Current Assets                    | 1,938,603           | 1,040,131           | 2,978,734           |
| Noncurrent Assets                       |                     |                     |                     |
| Capital Assets Being Depreciated (Net)  | 4,800,525           | 2,214,938           | 7,015,463           |
| <b>TOTAL ASSETS</b>                     | <b>6,739,128</b>    | <b>3,255,069</b>    | <b>9,994,197</b>    |
| <b>LIABILITIES</b>                      |                     |                     |                     |
| Current Liabilities                     |                     |                     |                     |
| Accounts Payable                        | 73,326              | 690                 | 74,016              |
| Due to Other Governments                | 8,619               | -                   | 8,619               |
| Compensated Absences                    | 8,641               | 8,640               | 17,281              |
| Total Current Liabilities               | 90,586              | 9,330               | 99,916              |
| Noncurrent Liabilities                  |                     |                     |                     |
| Accrued Severance                       | 10,553              | 10,553              | 21,106              |
| <b>TOTAL LIABILITIES</b>                | <b>101,139</b>      | <b>19,883</b>       | <b>121,022</b>      |
| <b>NET POSITION</b>                     |                     |                     |                     |
| Investment in Capital Assets            | 4,800,525           | 2,214,938           | 7,015,463           |
| Unrestricted                            | 1,837,464           | 1,020,248           | 2,857,712           |
| <b>TOTAL NET POSITION</b>               | <b>\$ 6,637,989</b> | <b>\$ 3,235,186</b> | <b>\$ 9,873,175</b> |

**CITY OF BAYPORT, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

|   | <u>Water<br/>Fund</u> | <u>Sewer<br/>Fund</u> | <u>Totals</u>       |
|---|-----------------------|-----------------------|---------------------|
| <b>OPERATING REVENUES</b>                           |                       |                       |                     |
| Charges for Services                                | \$ 451,293            | \$ 631,239            | \$ 1,082,532        |
| <b>OPERATING EXPENSES</b>                           |                       |                       |                     |
| Personal Services                                   | 166,483               | 157,992               | 324,475             |
| Materials, Supplies, Services and Charges           | 247,039               | 40,053                | 287,092             |
| Metropolitan Council Environmental Services Charges | -                     | 332,925               | 332,925             |
| Depreciation  | <u>120,010</u>        | <u>60,003</u>         | <u>180,013</u>      |
| <b>TOTAL OPERATING EXPENSES</b>                     | <u>533,532</u>        | <u>590,973</u>        | <u>1,124,505</u>    |
| <b>NET OPERATING INCOME (LOSS)</b>                  | (82,239)              | 40,266                | (41,973)            |
| <b>NONOPERATING INCOME (EXPENSE)</b>                |                       |                       |                     |
| Connection Fees                                     | 74,950                | 24,050                | 99,000              |
| Intergovernmental                                   | 9,002                 | 73,570                | 82,572              |
| Net Investments Loss                                | <u>(107,003)</u>      | <u>(78,511)</u>       | <u>(185,514)</u>    |
| <b>TOTAL NONOPERATING (EXPENSE)</b>                 | <u>(23,051)</u>       | <u>19,109</u>         | <u>(3,942)</u>      |
| <b>CHANGE IN NET POSITION PRIOR TO TRANSFERS</b>    | (105,290)             | 59,375                | (45,915)            |
| <b>TRANSFERS</b>                                    |                       |                       |                     |
| Operating Transfers Out                             | <u>(6,475)</u>        | <u>(81,475)</u>       | <u>(87,950)</u>     |
| <b>CHANGE IN NET POSITION</b>                       | (111,765)             | (22,100)              | (133,865)           |
| <b>NET POSITION-BEGINNING OF YEAR</b>               | <u>6,749,754</u>      | <u>3,257,286</u>      | <u>10,007,040</u>   |
| <b>NET POSITION-END OF YEAR</b>                     | <u>\$ 6,637,989</u>   | <u>\$ 3,235,186</u>   | <u>\$ 9,873,175</u> |

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

|   | Water<br>Fund       | Sewer<br>Fund     | Totals              |
|---|---------------------|-------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                   |                     |
| Cash Received from Customers  | \$ 505,557          | \$ 679,724        | \$ 1,185,281        |
| Cash Paid to Suppliers  | (185,367)           | (453,989)         | (639,356)           |
| Cash Paid to Employees  | (163,889)           | (155,399)         | (319,288)           |
|   | <u>156,301</u>      | <u>70,336</u>     | <u>226,637</u>      |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  |                     |                   |                     |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING<br/>ACTIVITIES</b>  |                     |                   |                     |
| Intergovernmental Cash Receipts   | 9,002               | -                 | 9,002               |
| Net Operating Subsidies and<br>Transfers to Other Funds   | (6,475)             | (81,475)          | (87,950)            |
|   | <u>2,527</u>        | <u>(81,475)</u>   | <u>(78,948)</u>     |
| <b>NET CASH PROVIDED (USED) BY NONCAPITAL<br/>FINANCING ACTIVITIES</b>                                |                     |                   |                     |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>                                   |                     |                   |                     |
| Purchases of Capital Assets   | (61,945)            | (91,643)          | (153,588)           |
|   | <u>96,883</u>       | <u>(102,782)</u>  | <u>(5,899)</u>      |
| Net Increase (Decrease) in Cash and Cash Equivalents  |                     |                   |                     |
|   | <u>268,979</u>      | <u>(97,610)</u>   | <u>171,369</u>      |
| Cash and Cash Equivalents-Beginning of Year   |                     |                   |                     |
|   | 365,862             | (200,392)         | 165,470             |
| Cash and Cash Equivalents-End of Year   |                     |                   |                     |
|   | <u>1,462,984</u>    | <u>1,073,432</u>  | <u>2,536,416</u>    |
| Investments   |                     |                   |                     |
|   | <u>\$ 1,828,846</u> | <u>\$ 873,040</u> | <u>\$ 2,701,886</u> |
| Total Cash, Cash Equivalents, and Investments   |                     |                   |                     |
|   |                     |                   |                     |
| <b>RECONCILIATION OF NET OPERATING INCOME (LOSS)<br/>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b> |                     |                   |                     |
| Net Operating Income (Loss)   | \$ (82,239)         | \$ 40,266         | \$ (41,973)         |
| Adjustments to Reconcile Net Operating Income (Loss)<br>to Net Cash Provided by Operating Activities  |                     |                   |                     |
| Depreciation Expense  | 120,010             | 60,003            | 180,013             |
| Nonoperating Revenue from Customers   | 74,950              | 24,050            | 99,000              |
| Change in Assets and Liabilities:   |                     |                   |                     |
| Receivables   | (22,136)            | 24,435            | 2,299               |
| Prepays   | (35)                | (79)              | (114)               |
| Accounts Payable  | 61,707              | (80,932)          | (19,225)            |
| Due to Other Governments  | 1,450               | -                 | 1,450               |
| Compensated Absences  | 3,325               | 3,324             | 6,649               |
| Accrued Severance   | (731)               | (731)             | (1,462)             |
|   | <u>156,301</u>      | <u>70,336</u>     | <u>226,637</u>      |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  |                     |                   |                     |

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
DECEMBER 31, 2013**

|                           | <u>Agency<br/>Fund</u> |
|---------------------------|------------------------|
| <b>ASSETS</b>             |                        |
| Cash and Cash Equivalents | \$ (17,833)            |
| Due from Developer        | <u>17,833</u>          |
| <b>TOTAL ASSETS</b>       | <u><u>\$ -</u></u>     |

**CITY OF BAYPORT, MINNESOTA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**CITY OF BAYPORT, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**1.A. FINANCIAL REPORTING ENTITY**

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

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

**Blended Component Units**

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

**Discretely Presented Component Units**

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

**1.B. BASIS OF PRESENTATION**

**Government-wide Financial Statements**

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

**Fund Financial Statements**

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

- Total assets, liabilities and deferred inflows, 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
- Total assets, liabilities and deferred inflows, 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.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.B. BASIS OF PRESENTATION (Continued)**

**Fund Financial Statements (Continued)**

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.

*Special Revenue Funds*

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

*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.

*Capital Projects Funds*

The Capital Projects 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

*Agency Fund*

An Agency Fund is used to account for cash and other assets held by the City as the agent for outside organizations.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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               | Accounts for the current day-to-day operations of the City.   |
| Special Revenue Fund: | Accounts for resources received and activities related to park  |
| Park Improvement      | development and improvements.   |
| Proprietary Funds:    |   |
| Water and Sewer       | Accounts for the activities of the City for providing water and sewer utility services to the public. |

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

**Measurement Focus**

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the “economic resources” measurement focus as defined in the second bullet point below.

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

- 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.
- The proprietary and fiduciary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), 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 position.

**Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the “accrual basis” of accounting. 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.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Basis of Accounting (Continued)**

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

All proprietary and fiduciary funds utilize the accrual basis of accounting.

**1.D. USE OF ESTIMATES**

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

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

**Cash and Cash Equivalents**

For purposes of the Statement of Net Position, “cash 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.

**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, as well as interfund receivables and payables between funds within business-type activities, are eliminated in the Statement of Net Position. See Note 3.D. for details of interfund transactions, including receivables and payables at year-end.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Prepays**

Prepays represent expenses paid during the current year to be recognized in future periods.

**Receivables**

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

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, franchise fees, fines and charges for service since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred 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 \$5,000 and must have an estimated useful life in excess of one year.

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     |

Government-wide Statements

In the government-wide financial statements, capital outlay expenditures 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.

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

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.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Accounts Payable**

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

**Long-Term Debt**

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

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

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

**Deferred Inflow of Resources**

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

**Compensated Absences / Severance**

Vacation Pay – The City compensates all employees upon termination for unused vacation. Employees may not carry forward to the subsequent calendar year any more vacation than they earn in one calendar year. Such pay is not accrued as an expense in the governmental fund financial statements since it does not require current available resources. Such pay has been accrued in the government-wide and proprietary fund financial statements as compensated absences.

Sick Pay – The City compensates employees with 10 consecutive years of uninterrupted service upon termination for unused sick leave. Such employees are compensated for 50 percent of up to 800 hours of accrued sick leave. Such pay is not accrued as an expense in the governmental fund financial statements since it does not require current available resources. Such pay has been accrued in the government-wide and proprietary fund financial statements as accrued severance.

**Equity Classifications**

Government-wide Statements

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

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

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

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Equity Classifications (Continued)**

Government-wide Statements (Continued)

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

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

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2013 consist of prepaid expenditures and a deposit on an asset.

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

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

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

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

See Note 3.E. for additional disclosures.

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

**1.F. REVENUES, EXPENDITURES, AND EXPENSES**

**Property Tax**

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

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Property Tax (Continued)**

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.

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

**Operating Revenues and Expenses**

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

**Interfund Transfers**

Permanent reallocations 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, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 3.D.

**1.G. RECLASSIFICATIONS**

Certain amounts from 2012 have been reclassified to conform to the 2013 presentation.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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). The City complies with such laws.

**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 15<sup>th</sup>, the proposed budget is presented to the Council for review. The Council adopts a preliminary maximum budget. Truth-in-taxation notices are mailed out to residents by Washington County. The Council holds public hearings and adopts a budget and tax levy in December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. See original and final General Fund and major Special Revenue Fund budgets presented as Required Supplementary Information.

**2.C. EXPENDITURES IN EXCESS OF BUDGET**

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

| Fund                   | Budgeted<br>Expenditures | Actual<br>Expenditures | Transfers<br>Included in<br>Actual |
|------------------------|--------------------------|------------------------|------------------------------------|
| General Fund           | \$ 2,151,346             | \$ 2,356,163           | \$ -                               |
| Park Improvements Fund | \$ -                     | \$ 226,405             | \$ -                               |

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 transfers from proprietary funds.

**2.D. DEFICIT FUND EQUITY**

A fund balance deficit of \$704,103 exists in the Park Improvement Fund, resulting from park improvement 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.

**CITY OF BAYPORT, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 3    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

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

**3.A.   CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Deposits**

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standard letters of credit issued by the Federal Home Loan Bank).

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

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

At December 31, 2013, 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.

As of December 31, 2013, the City had the following deposits:

|                         |                         |
|-------------------------|-------------------------|
| Cash in Checking        | \$ 1,560,697            |
| Certificates of Deposit | <u>1,262,920</u>        |
| <br>Total Deposits      | <br><u>\$ 2,823,617</u> |

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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

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

**Investments**

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City does not have any investment policies that would further limit investment choices.

Investment balances at December 31, 2013 are as follows:

| <u>Deposit/Investment</u>          | <u>Interest<br/>Rate</u> | <u>Maturity</u> | <u>Fair<br/>Value</u> | <u>Credit<br/>Rating</u> | <u>Percent of<br/>Total</u> |
|------------------------------------|--------------------------|-----------------|-----------------------|--------------------------|-----------------------------|
| Money Market Funds                 | 0.00-0.02                | N/A             | \$    61,158          | N/A                      | 0.59                        |
| Brokered Certificates of Deposit   | 1.31-3.60                | <1 year         | 386,477               | N/A                      | 3.60                        |
|                                    | 1.05-3.15                | 1-5 years       | 1,694,182             | N/A                      | 15.80                       |
|                                    | 2.00                     | 6-10 years      | 455,313               | N/A                      | 4.25                        |
|                                    | 2.00                     | 11-15 years     | 193,228               | N/A                      | 1.80                        |
| US Government Bonds and Securities | 2.00-2.53                | 6-10 years      | 4,324,655             | AAA<br>AA+               | 40.33                       |
| Municipal Bonds                    | 2.06                     | <1 year         | 101,341               | AA-                      | 0.94                        |
|                                    | 1.64-4.65                | 1-5 years       | 1,372,414             | AA-<br>to<br>AAA         | 12.79                       |
|                                    | 2.13-4.75                | 6-10 years      | 1,558,932             | AA-<br>to<br>AAA         | 14.54                       |
|                                    | 2.88-5.05                | 11-15 years     | <u>574,959</u>        | AA                       | <u>5.36</u>                 |
| Totals                             |                          |                 | <u>\$ 10,722,659</u>  |                          | <u>100.00</u>               |

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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

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

**Investments (Continued)**

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

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk as indicated in the table above. Minnesota Statutes limit the City's investments.
- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments. At December 31, 2013, none of the underlying securities held by the City are subject to custodial credit risk because they are insured by the Securities Investor Protection Corporation (SIPC).
- Concentration risk is the risk associated with investing a significant portion of the City's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City has no formal policy limiting the amounts that may be invested in any one issuer.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment and is disclosed above by presenting maturity information. The City has no formal policy to address interest rate risk.

**Deposits and Investments Summary**

The following is a summary of total deposits and investments:

|   |                          |
|---|--------------------------|
| Deposits  | \$ 2,823,617             |
| Investments (see Investments section)             | <u>10,722,659</u>        |
| <br>Total Cash, Cash Equivalents, and Investments | <br><u>\$ 13,546,276</u> |

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

|  |                          |
|--|--------------------------|
| Cash, Cash Equivalents, and Investments -<br>Statement of Net Position           | \$ 13,564,109            |
| Cash, Cash Equivalents, and Investments -<br>Statement of Fiduciary Net Position | <u>(17,833)</u>          |
| <br>Total Cash, Cash Equivalents, and Investments                                | <br><u>\$ 13,546,276</u> |

**CITY OF BAYPORT, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

**3.B. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013 is as follows:

|                                | Balance at<br>Jan. 01, 2013 | Additions        | Disposals          | Balance at<br>Dec. 31, 2013 |
|--------------------------------|-----------------------------|------------------|--------------------|-----------------------------|
| Governmental Activities:       |                             |                  |                    |                             |
| Capital Assets not Being       |                             |                  |                    |                             |
| Depreciated                    |                             |                  |                    |                             |
| Land                           | \$ 6,194,442                | \$ -             | \$ -               | \$ 6,194,442                |
| Construction In Progress       | -                           | 129,693          | -                  | 129,693                     |
| Total Capital Assets not Being |                             |                  |                    |                             |
| Depreciated                    | 6,194,442                   | 129,693          | -                  | 6,324,135                   |
| Capital Assets Being           |                             |                  |                    |                             |
| Depreciated                    |                             |                  |                    |                             |
| Buildings                      | 4,577,240                   | -                | -                  | 4,577,240                   |
| Improvements                   | 839,689                     | 13,005           | -                  | 852,694                     |
| Machinery and Equipment        | 4,361,853                   | 369,684          | (65,579)           | 4,665,958                   |
| Infrastructure                 | 3,213,120                   | -                | -                  | 3,213,120                   |
| Library                        | 273,041                     | -                | -                  | 273,041                     |
| Total Capital Assets Being     |                             |                  |                    |                             |
| Depreciated                    | 13,264,943                  | 382,689          | (65,579)           | 13,582,053                  |
| Less: Accumulated Depreciation |                             |                  |                    |                             |
| Buildings                      | 1,952,385                   | 94,671           | -                  | 2,047,056                   |
| Improvements                   | 34,447                      | 29,447           | -                  | 63,894                      |
| Machinery and Equipment        | 2,492,008                   | 227,325          | (48,597)           | 2,670,736                   |
| Infrastructure                 | 478,246                     | 111,226          | -                  | 589,472                     |
| Library                        | 257,823                     | 10,976           | -                  | 268,799                     |
| Total Accumulated              |                             |                  |                    |                             |
| Depreciation                   | 5,214,909                   | 473,645          | (48,597)           | 5,639,957                   |
| Total Capital Assets Being     |                             |                  |                    |                             |
| Depreciated, Net               | 8,050,034                   | (90,956)         | (16,982)           | 7,942,096                   |
| Capital Assets, Net            | <u>\$ 14,244,476</u>        | <u>\$ 38,737</u> | <u>\$ (16,982)</u> | <u>\$ 14,266,231</u>        |

**CITY OF BAYPORT, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

**3.B.    CAPITAL ASSETS (Continued)**

|   | Balance at<br>Jan. 01, 2013 | Transfers    | Additions          | Disposals   | Balance at<br>Dec. 31, 2013 |
|---|-----------------------------|--------------|--------------------|-------------|-----------------------------|
| Business-Type Activities:                   |                             |              |                    |             |                             |
| Capital Assets not Being Depreciated        |                             |              |                    |             |                             |
| Construction In Progress                    | \$ 103,973                  | \$ (195,616) | \$ 91,643          | \$ -        | \$ -                        |
| Capital Assets Being Depreciated            |                             |              |                    |             |                             |
| Water Mains and Lines                       | 5,847,308                   | -            | 61,945             | -           | 5,909,253                   |
| Sewer Mains and Lines                       | 2,656,799                   | 195,616      | -                  | -           | 2,852,415                   |
| Structures                                  | 51,548                      | -            | -                  | -           | 51,548                      |
| Machinery and Equipment                     | 240,745                     | -            | -                  | -           | 240,745                     |
| Total Capital Assets Being Depreciated      | 8,796,400                   | 195,616      | 61,945             | -           | 9,053,961                   |
| Less: Accumulated Depreciation              |                             |              |                    |             |                             |
| Water Mains and Lines                       | 994,517                     | -            | 119,133            | -           | 1,113,650                   |
| Sewer Mains and Lines                       | 609,732                     | -            | 56,345             | -           | 666,077                     |
| Structures                                  | 49,841                      | -            | 310                | -           | 50,151                      |
| Machinery and Equipment                     | 204,395                     | -            | 4,225              | -           | 208,620                     |
| Total Accumulated Depreciation              | 1,858,485                   | -            | 180,013            | -           | 2,038,498                   |
| Total Capital Assets Being Depreciated, Net | 6,937,915                   | 195,616      | (118,068)          | -           | 7,015,463                   |
| Capital Assets, Net                         | <u>\$ 7,041,888</u>         | <u>\$ -</u>  | <u>\$ (26,425)</u> | <u>\$ -</u> | <u>\$ 7,015,463</u>         |

Depreciation is charged to governmental activities as follows:

|                            |                   |
|----------------------------|-------------------|
| General Government         | \$ 51,517         |
| Public Safety              | 160,224           |
| Public Works               | 136,320           |
| Culture and Recreation     | <u>125,584</u>    |
| Total Depreciation Expense | <u>\$ 473,645</u> |

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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

**3.C.    LONG-TERM DEBT**

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities (none). All bonds set forth below are direct obligations of the City and pledge the full faith and credit of the City.

As of December 31, 2013, 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 \$60,000 to \$150,000 through December 2016. Interest at 2.10% to 4.60%. | \$ | 440,000          |
| Less: Current Portion   |    | <u>(150,000)</u> |
| Noncurrent Portion  | \$ | <u>290,000</u>   |

**Changes in Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended December 31, 2013:

| Type of Debt                     | Balance<br>Jan. 1, 2013 | Additions   | Deductions          | Balance<br>Dec. 31, 2013 | Amounts Due<br>Within<br>One Year |
|----------------------------------|-------------------------|-------------|---------------------|--------------------------|-----------------------------------|
| <b>Governmental Activities:</b>  |                         |             |                     |                          |                                   |
| G.O. TIF Refunding Bonds         | \$ 565,000              | \$ -        | \$ (125,000)        | \$ 440,000               | \$ 150,000                        |
| Severance Pay                    | <u>16,563</u>           | <u>-</u>    | <u>(2,031)</u>      | <u>14,532</u>            | <u>-</u>                          |
| <b>Total</b>                     | <u>\$ 581,563</u>       | <u>\$ -</u> | <u>\$ (127,031)</u> | <u>\$ 454,532</u>        | <u>\$ 150,000</u>                 |
| <b>Business-Type Activities:</b> |                         |             |                     |                          |                                   |
| Severance Pay                    | <u>\$ 22,568</u>        | <u>\$ -</u> | <u>\$ (1,462)</u>   | <u>\$ 21,106</u>         | <u>\$ -</u>                       |

Interest expense totals \$24,799 in the Statement of Activities (included in Debt Service line). Interest expense totals \$25,076 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

**Annual Debt Service Requirements**

At December 31, 2013, the estimated annual debt service requirements to maturity, including principal and interest, and excluding severance are as follows:

| Years Ending<br>December 31, | Governmental Activities |                  |                   |
|------------------------------|-------------------------|------------------|-------------------|
|                              | Principal               | Interest         | Total             |
| 2014                         | \$ 150,000              | \$ 19,790        | \$ 169,790        |
| 2015                         | 150,000                 | 13,340           | 163,340           |
| 2016                         | <u>140,000</u>          | <u>6,440</u>     | <u>146,440</u>    |
| <b>Totals</b>                | <u>\$ 440,000</u>       | <u>\$ 39,570</u> | <u>\$ 479,570</u> |

Governmental Activity debt is typically funded through Debt Service Funds.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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, 2013:

| Major Funds | Transfers<br>Out | Transfers In<br>General |
|-------------|------------------|-------------------------|
| Water       | \$       6,475   | \$       6,475          |
| Sewer       | 81,475           | 81,475                  |
|             | \$       87,950  | \$       87,950         |

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:

| Long-Term Advances                |                  | Amount         | Reason                     |
|-----------------------------------|------------------|----------------|----------------------------|
| Due To Fund                       | Due From Fund    |                |                            |
| Tax Stabilization                 | Park Improvement | \$    679,025  | Finance park improvements. |
| Governmental fund elimination     |                  | (679,025)      |                            |
| Government-wide internal balances |                  | \$           - |                            |

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, 2013, governmental fund equity consists of the following:

|                                     |  |                    |
|-------------------------------------|--|--------------------|
| General Fund                        |  |                    |
| Nonspendable - Prepays              |  | \$       18,032    |
| Nonspendable - Deposit on Asset     |  | 204,758            |
| Committed for Equipment Replacement |  | 30,242             |
| Unassigned                          |  | 7,743,644          |
| Total General Fund Balance          |  | \$    7,996,676    |
| Park Improvement Fund               |  |                    |
| Unassigned                          |  | \$       (704,103) |

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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

**3.E.    FUND EQUITY (Continued)**

|  |                        |
|--|------------------------|
| Other Governmental Funds                     |                        |
| Nonspendable - Prepays                       | \$       1,969         |
| Nonspendable - Advance to Other Funds        | 679,025                |
| Restricted for Debt Service                  | 272,396                |
| Restricted for Permanent Fund                | 615,068                |
| Restricted for TIF District 1                | 277,096                |
| Restricted for TIF District 2-1              | 21,919                 |
| Restricted for Developer Reimbursed Projects | 75,104                 |
| Restricted for Water and Sewer Improvement   | 765,838                |
| Committed for Library                        | 242,821                |
| Committed for Library Building Maintenance   | 23,789                 |
| Assigned for Library                         | 58,099                 |
| Assigned for Water and Sewer Improvement     | 313,128                |
| Assigned for Drug Forfeiture                 | 8,419                  |
| Assigned for Tax Stabilization               | 342,365                |
| Assigned for K-9 Unit                        | <u>1,259</u>           |
| Total Other Governmental Funds Balance       | <u>\$    3,698,295</u> |

**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, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**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 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. PECF members are required to contribute 5.83% of their annual covered salary. In 2013, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan 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, 2013, 2012, and 2011 total \$41,701, \$41,893, and \$42,383, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ended December 31, 2013, 2012, and 2011 total \$58,840, \$59,268, and \$59,860, respectively. The City's contributions are equal to the contractually required contributions for each year as set by state statute.

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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. 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, 2013, outstanding Pay-As-You-Go debt approximates \$1,031,000 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.

**4.D. CONDUIT DEBT OBLIGATIONS**

In December 2003, the City issued a Qualified Tax Exempt Obligation to provide financial assistance to a private-sector entity for the acquisition and construction of rental housing deemed to be in public interest. The note is secured by the property financed and is payable solely from payments received on the underlying mortgage loan. Upon repayment of the note, ownership of the acquired facility 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, 2013, the conduit debt issued outstanding principal payable is \$7,425,421 for the Senior Housing Revenue Note, Series 2003.

**4.E. CONCENTRATION**

For the year ended December 31, 2013, 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                           | 14.42%              | \$ 21,253          | 25.32%              | \$ 52,741          |
| State of Minnesota Correctional Facility | 0.00%               | \$ -               | 31.34%              | \$ -               |

**CITY OF BAYPORT, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 4 OTHER NOTES (Continued)**

**4.F. TAX INCREMENT DISTRICTS**

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

|                                    |                              |
|------------------------------------|------------------------------|
| Name of District:                  | Redevelopment District #1    |
| Type of District:                  | Redevelopment                |
| Authorizing Law:                   | MN Statutes Sections 469.174 |
| Year Established:                  | 1990                         |
| Duration of District:              | 25 Years                     |
| Original Base Net Tax Capacity:    | <u>\$ 28,768</u>             |
| Current Net Tax Capacity:          | <u>\$ 136,089</u>            |
| Captured Net Tax Capacity:         |                              |
| Retained by City                   | <u>\$ 107,321</u>            |
| Shared with Other Taxing Districts | <u>\$ -</u>                  |
| Name of District:                  | Redevelopment District #2-1  |
| Type of District:                  | Redevelopment                |
| Authorizing Law:                   | MN Statutes Sections 469.174 |
| Year Established:                  | 2003                         |
| Duration of District:              | 29 Years                     |
| Original Base Net Tax Capacity:    | <u>\$ 76,117</u>             |
| Current Net Tax Capacity:          | <u>\$ 116,597</u>            |
| Captured Net Tax Capacity:         |                              |
| Retained by City                   | <u>\$ 40,480</u>             |
| Shared with Other Taxing Districts | <u>\$ -</u>                  |

### **REQUIRED SUPPLEMENTARY INFORMATION**

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

- Budgetary Comparison Schedules
  - General Fund
  - Park Improvements Fund

**CITY OF BAYPORT, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

|  | Budget<br>Amounts-<br>Original and<br>Final | Actual<br>Amounts<br>Budgetary<br>Basis | Variance with<br>Final Budget<br>Over<br>(Under) |
|--|---|---|--|
| <b>RESOURCES (INFLOWS):</b>                  |   |   |  |
| Taxes and Special Assessments                | \$ 999,981                                  | \$ 1,046,144                            | \$ 46,163  |
| Licenses, Permits, and Fees                  | 102,550                                     | 218,250                                 | 115,700  |
| Intergovernmental                            | 466,388                                     | 515,115                                 | 48,727   |
| Charges for Services                         | 353,233                                     | 381,933                                 | 28,700   |
| Fines  | 35,000                                      | 40,307                                  | 5,307  |
| Investment Income (Loss)                     | 250,000                                     | (479,110)                               | (729,110)  |
| Miscellaneous                                | 77,995                                      | 88,820                                  | 10,825   |
| Transfers In                                 | -   | 87,950                                  | 87,950   |
| <b>AMOUNTS AVAILABLE</b>                     | <b>2,285,147</b>                            | <b>1,899,409</b>                        | <b>(385,738)</b>                                 |
| <b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b> |   |   |  |
| Current:                                     |   |   |  |
| General Government:                          |   |   |  |
| Administration                               | 140,662                                     | 124,761                                 | (15,901)   |
| Mayor and Council                            | 141,074                                     | 191,364                                 | 50,290   |
| Boards and Commissions                       | 219,003                                     | 226,386                                 | 7,383  |
| Elections                                    | 470   | 489                                     | 19   |
| General Government                           | 51,525                                      | 70,171                                  | 18,646   |
| Public Safety:                               |   |   |  |
| Police                                       | 702,313                                     | 696,784                                 | (5,529)  |
| Fire   | 366,419                                     | 442,117                                 | 75,698   |
| Public Works                                 | 267,239                                     | 287,248                                 | 20,009   |
| Parks and Recreation                         | 57,741                                      | 57,916                                  | 175  |
| Capital Outlay                               | 79,600                                      | 258,927                                 | 179,327  |
| Transfers Out                                | 125,300                                     | -                                       | (125,300)  |
| <b>TOTAL CHARGES</b>                         | <b>2,151,346</b>                            | <b>2,356,163</b>                        | <b>204,817</b>                                   |
| <b>BUDGETARY CHANGE IN FUND BALANCE</b>      | <b>\$ 133,801</b>                           | <b>\$ (456,754)</b>                     | <b>\$ (590,555)</b>                              |

**CITY OF BAYPORT, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE-PARK IMPROVEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013**

|  | Budget<br>Amounts-<br>Original and<br>Final | Actual<br>Amounts<br>Budgetary<br>Basis | Variance with<br>Final Budget<br>Over<br>(Under) |
|--|---|---|--|
| <b>RESOURCES (INFLOWS):</b>                  |   |   |  |
| Charges for Services                         | \$ -  | \$ 40,943                               | \$ 40,943  |
| Investment Income (Loss)                     | -   | (3,708)                                 | (3,708)  |
| Private Grants                               | -   | 98,086                                  | 98,086   |
| <b>AMOUNTS AVAILABLE</b>                     | -   | 135,321                                 | 135,321  |
| <b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b> |   |   |  |
| Capital Outlay                               | -   | 226,405                                 | 226,405  |
| <b>BUDGETARY CHANGE IN FUND BALANCE</b>      | \$ -  | \$ (91,084)                             | \$ (91,084)                                      |

### **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 – All Nonmajor Governmental Funds
- 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  
ALL NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

|   | Debt<br>Service<br>Fund | Permanent<br>Fund | Nonmajor<br>Special<br>Revenue<br>Funds | Nonmajor<br>Capital<br>Project<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------------|-------------------|---|---|--------------------------------|
| <b>ASSETS</b>   |                         |                   |   |   |                                |
| Cash, Cash Equivalents,<br>and Investments  | \$ 272,396              | \$ 615,068        | \$ 1,710,320                            | \$ 374,119                              | \$ 2,971,903                   |
| Assessments Receivable  | -                       | -                 | 6,932                                   | -                                       | 6,932                          |
| Accounts Receivable   | -                       | -                 | 48,509                                  | -                                       | 48,509                         |
| Advances to Other Funds   | -                       | -                 | 679,025                                 | -                                       | 679,025                        |
| Prepays   | -                       | -                 | 1,969                                   | -                                       | 1,969                          |
| <b>TOTAL ASSETS</b>   | <u>\$ 272,396</u>       | <u>\$ 615,068</u> | <u>\$ 2,446,755</u>                     | <u>\$ 374,119</u>                       | <u>\$ 3,708,338</u>            |
| <b>LIABILITIES</b>  |                         |                   |   |   |                                |
| Accounts Payable  | \$ -                    | \$ -              | 3,111                                   | \$ -                                    | 3,111                          |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                         |                   |   |   |                                |
| Unavailable Revenue:  |                         |                   |   |   |                                |
| Special Assessments   | -                       | -                 | 6,932                                   | -                                       | 6,932                          |
| <b>FUND BALANCES</b>  |                         |                   |   |   |                                |
| Nonspendable  | -                       | -                 | 680,994                                 | -                                       | 680,994                        |
| Restricted  | 272,396                 | 615,068           | 765,838                                 | 374,119                                 | 2,027,421                      |
| Committed   | -                       | -                 | 266,610                                 | -                                       | 266,610                        |
| Assigned  | -                       | -                 | 723,270                                 | -                                       | 723,270                        |
| Total Fund Balances   | <u>272,396</u>          | <u>615,068</u>    | <u>2,436,712</u>                        | <u>374,119</u>                          | <u>3,698,295</u>               |
| <b>TOTAL LIABILITIES, DEFERRED<br/>INFLOWS OF RESOURCES,<br/>AND FUND BALANCE</b> | <u>\$ 272,396</u>       | <u>\$ 615,068</u> | <u>\$ 2,446,755</u>                     | <u>\$ 374,119</u>                       | <u>\$ 3,708,338</u>            |

**CITY OF BAYPORT, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**ALL NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

|                                    | Debt<br>Service<br>Fund | Permanent<br>Fund | Nonmajor<br>Special<br>Revenue<br>Funds | Nonmajor<br>Capital<br>Project<br>Funds | Total<br>Governmental<br>Funds |
|------------------------------------|-------------------------|-------------------|---|---|--------------------------------|
| <b>REVENUES</b>                    |                         |                   |   |   |                                |
| Taxes                              | -                       | -                 | 160,000                                 | -                                       | 160,000                        |
| Special Assessments                | -                       | -                 | 2,310                                   | -                                       | 2,310                          |
| Tax Increment                      | 107,596                 | -                 | -                                       | 40,226                                  | 147,822                        |
| Charges for Services               | -                       | -                 | 83,880                                  | -                                       | 83,880                         |
| Fines                              | -                       | -                 | 6,930                                   | -                                       | 6,930                          |
| Private Grants                     | -                       | -                 | 111,350                                 | -                                       | 111,350                        |
| Miscellaneous                      | -                       | -                 | 2,270                                   | -                                       | 2,270                          |
| <b>TOTAL REVENUES</b>              | <u>107,596</u>          | <u>-</u>          | <u>366,740</u>                          | <u>40,226</u>                           | <u>514,562</u>                 |
| <b>EXPENDITURES</b>                |                         |                   |   |   |                                |
| Current:                           |                         |                   |   |   |                                |
| Public Safety                      | -                       | -                 | 1,190                                   | -                                       | 1,190                          |
| Public Works                       | -                       | -                 | -                                       | 36,960                                  | 36,960                         |
| Parks and Recreation               | -                       | -                 | 263,111                                 | -                                       | 263,111                        |
| Net Investments Loss               | 27,406                  | 40,974            | 109,988                                 | 22,613                                  | 200,981                        |
| Debt Service:                      |                         |                   |   |   |                                |
| Principal                          | 125,000                 | -                 | -                                       | -                                       | 125,000                        |
| Interest and Other Charges         | 25,076                  | -                 | -                                       | -                                       | 25,076                         |
| <b>TOTAL EXPENDITURES</b>          | <u>177,482</u>          | <u>40,974</u>     | <u>374,289</u>                          | <u>59,573</u>                           | <u>652,318</u>                 |
| <b>NET CHANGE IN FUND BALANCES</b> | <u>(69,886)</u>         | <u>(40,974)</u>   | <u>(7,549)</u>                          | <u>(19,347)</u>                         | <u>(137,756)</u>               |
| <b>FUND BALANCES - BEGINNING</b>   | <u>342,282</u>          | <u>656,042</u>    | <u>2,444,261</u>                        | <u>393,466</u>                          | <u>3,836,051</u>               |
| <b>FUND BALANCES - ENDING</b>      | <u>\$ 272,396</u>       | <u>\$ 615,068</u> | <u>\$ 2,436,712</u>                     | <u>\$ 374,119</u>                       | <u>\$ 3,698,295</u>            |

CITY OF BAYPORT, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 DECEMBER 31, 2013

|  |           | Library<br>Fund | Drug<br>Forfeiture<br>Fund | Tax<br>Stabilization<br>Fund | K-9 Unit<br>Fund | Water and<br>Sewer<br>Improvement<br>Fund | Total<br>Nonmajor<br>Special<br>Revenue<br>Funds |
|--|-----------|-----------------|----------------------------|------------------------------|------------------|---|--|
| <b>ASSETS</b>  |           |                 |                            |                              |                  |   |  |
| Cash, Cash Equivalents,<br>and Investments   | \$        | 327,820         | 8,419                      | 342,365                      | 1,259            | 1,030,457                                 | 1,710,320  |
| Assessments Receivable   |           | -               | -                          | -                            | -                | 6,932                                     | 6,932  |
| Accounts Receivable  |           | -               | -                          | -                            | -                | 48,509                                    | 48,509   |
| Prepays  |           | 1,969           | -                          | -                            | -                | -   | 1,969  |
| Advances to Other Funds  |           | -               | -                          | 679,025                      | -                | -   | 679,025  |
| <b>TOTAL ASSETS</b>  | <b>\$</b> | <b>329,789</b>  | <b>8,419</b>               | <b>1,021,390</b>             | <b>1,259</b>     | <b>1,085,898</b>                          | <b>2,446,755</b>                                 |
| <b>LIABILITIES</b>   |           |                 |                            |                              |                  |   |  |
| Accounts Payable   | \$        | 3,111           | -                          | -                            | -                | -   | 3,111  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |           |                 |                            |                              |                  |   |  |
| Unavailable Revenue:   |           |                 |                            |                              |                  |   |  |
| Special Assessments  |           | -               | -                          | -                            | -                | 6,932                                     | 6,932  |
| <b>FUND BALANCES</b>   |           |                 |                            |                              |                  |   |  |
| Nonspendable   |           | 1,969           | -                          | 679,025                      | -                | -   | 680,994  |
| Restricted   |           | -               | -                          | -                            | -                | 765,838                                   | 765,838  |
| Committed  |           | 266,610         | -                          | -                            | -                | -   | 266,610  |
| Assigned   |           | 58,099          | 8,419                      | 342,365                      | 1,259            | 313,128                                   | 723,270  |
| Total Fund Balances  |           | 326,678         | 8,419                      | 1,021,390                    | 1,259            | 1,078,966                                 | 2,436,712  |
| <b>TOTAL LIABILITIES, DEFERRED<br/>INFLOWS OF RESOURCES,<br/>AND FUND BALANCES</b> | <b>\$</b> | <b>329,789</b>  | <b>8,419</b>               | <b>1,021,390</b>             | <b>1,259</b>     | <b>1,085,898</b>                          | <b>2,446,755</b>                                 |

**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, 2013**

|                                    | Library<br>Fund   | Drug<br>Forfeiture<br>Fund | Tax<br>Stabilization<br>Fund | K-9 Unit<br>Fund | Water and<br>Sewer<br>Improvement<br>Fund | Total<br>Nonmajor<br>Special<br>Revenue<br>Funds |
|------------------------------------|-------------------|----------------------------|------------------------------|------------------|---|--|
| <b>REVENUES</b>                    |                   |                            |                              |                  |   |  |
| Taxes                              | \$ 160,000        | \$ -                       | \$ -                         | \$ -             | \$ -                                      | \$ 160,000                                       |
| Special Assessments                | -                 | -                          | -                            | -                | 2,310                                     | 2,310  |
| Charges for Services               | 4,181             | -                          | -                            | -                | 79,699                                    | 83,880   |
| Fines                              | -                 | 6,930                      | -                            | -                | -   | 6,930  |
| Private Grants                     | 111,350           | -                          | -                            | -                | -   | 111,350  |
| Miscellaneous                      | 2,270             | -                          | -                            | -                | -   | 2,270  |
| <b>TOTAL REVENUES</b>              | <b>277,801</b>    | <b>6,930</b>               | <b>-</b>                     | <b>-</b>         | <b>82,009</b>                             | <b>366,740</b>                                   |
| <b>EXPENDITURES</b>                |                   |                            |                              |                  |   |  |
| Current:                           |                   |                            |                              |                  |   |  |
| Public Safety                      | -                 | 1,190                      | -                            | -                | -   | 1,190  |
| Parks and Recreation               | 263,111           | -                          | -                            | -                | -   | 263,111  |
| Net Investments Loss               | 21,527            | 814                        | 22,794                       | 91               | 64,762                                    | 109,988  |
| <b>TOTAL EXPENDITURES</b>          | <b>284,638</b>    | <b>2,004</b>               | <b>22,794</b>                | <b>91</b>        | <b>64,762</b>                             | <b>374,289</b>                                   |
| <b>NET CHANGE IN FUND BALANCES</b> | <b>(6,837)</b>    | <b>4,926</b>               | <b>(22,794)</b>              | <b>(91)</b>      | <b>17,247</b>                             | <b>(7,549)</b>                                   |
| <b>FUND BALANCES - BEGINNING</b>   | <b>333,515</b>    | <b>3,493</b>               | <b>1,044,184</b>             | <b>1,350</b>     | <b>1,061,719</b>                          | <b>2,444,261</b>                                 |
| <b>FUND BALANCES - ENDING</b>      | <b>\$ 326,678</b> | <b>\$ 8,419</b>            | <b>\$ 1,021,390</b>          | <b>\$ 1,259</b>  | <b>\$ 1,078,966</b>                       | <b>\$ 2,436,712</b>                              |

**CITY OF BAYPORT, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS  
 DECEMBER 31, 2013**

|  | <u>TIF District<br/>1<br/>Fund</u> | <u>TIF District<br/>2-1<br/>Fund</u> | <u>Developer<br/>Reimbursed<br/>Projects<br/>Fund</u> | <u>Total<br/>Nonmajor<br/>Capital<br/>Project<br/>Funds</u> |
|--|------------------------------------|--------------------------------------|---|---|
| <b>ASSETS</b>                              |                                    |                                      |   |   |
| Cash, Cash Equivalents,<br>and Investments | <u>\$ 277,096</u>                  | <u>\$ 21,919</u>                     | <u>\$ 75,104</u>                                      | <u>\$ 374,119</u>   |
| <br><b>FUND BALANCES</b>                   |                                    |                                      |   |   |
| Restricted                                 | <u>\$ 277,096</u>                  | <u>\$ 21,919</u>                     | <u>\$ 75,104</u>                                      | <u>\$ 374,119</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, 2013**

|                                    | TIF District<br>1<br>Fund | TIF District<br>2-1<br>Fund | Developer<br>Reimbursed<br>Project<br>Fund | Total<br>Nonmajor<br>Capital<br>Project<br>Funds |
|------------------------------------|---------------------------|-----------------------------|--|--|
| <b>REVENUES</b>                    |                           |                             |  |  |
| Tax Increment                      | \$ -                      | \$ 40,226                   | \$ -                                       | \$ 40,226  |
| <b>EXPENDITURES</b>                |                           |                             |  |  |
| Current:                           |                           |                             |  |  |
| Public Works                       | 480                       | 36,480                      | -  | 36,960   |
| Net Investments Loss               | 18,542                    | 905                         | 3,166                                      | 22,613   |
| <b>TOTAL EXPENDITURES</b>          | <u>19,022</u>             | <u>37,385</u>               | <u>3,166</u>                               | <u>59,573</u>                                    |
| <b>NET CHANGE IN FUND BALANCES</b> | (19,022)                  | 2,841                       | (3,166)                                    | (19,347)   |
| <b>FUND BALANCES - BEGINNING</b>   | <u>296,118</u>            | <u>19,078</u>               | <u>78,270</u>                              | <u>393,466</u>                                   |
| <b>FUND BALANCES - ENDING</b>      | <u>\$ 277,096</u>         | <u>\$ 21,919</u>            | <u>\$ 75,104</u>                           | <u>\$ 374,119</u>                                |

**CITY OF BAYPORT, MINNESOTA  
WATER FUND  
SCHEDULE OF WATER FUND REVENUES AND EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

|  | <u>2013</u>         | <u>2012</u>       |
|--|---------------------|-------------------|
| <b>CHARGES</b>                                   | \$ 451,293          | \$ 388,361        |
| <b>OPERATING EXPENSES</b>                        |                     |                   |
| Personal Services                                | 166,483             | 167,634           |
| Supplies   | 38,081              | 32,028            |
| Insurance  | 4,945               | 5,218             |
| Utilities  | 64,212              | 48,734            |
| Repairs and Maintenance                          | 69,154              | 30,063            |
| Other Service and Charges                        | 70,647              | 47,118            |
| Depreciation                                     | <u>120,010</u>      | <u>119,580</u>    |
| <b>TOTAL OPERATING EXPENSES</b>                  | <u>533,532</u>      | <u>450,375</u>    |
| <b>NET OPERATING LOSS</b>                        | (82,239)            | (62,014)          |
| <b>NONOPERATING INCOME (EXPENSE)</b>             |                     |                   |
| Connection Fees                                  | 74,950              | 65,000            |
| Intergovernmental                                | 9,002               | 9,527             |
| Investment Income (Loss)                         | <u>(107,003)</u>    | <u>90,790</u>     |
| <b>TOTAL NONOPERATING INCOME (EXPENSE)</b>       | <u>(23,051)</u>     | <u>165,317</u>    |
| <b>CHANGE IN NET POSITION PRIOR TO TRANSFERS</b> | (105,290)           | 103,303           |
| <b>TRANSFERS</b>                                 |                     |                   |
| Operating Transfers In                           | -                   | 13,646            |
| Operating Transfers Out                          | <u>(6,475)</u>      | <u>(6,475)</u>    |
| <b>NET TRANSFERS</b>                             | <u>(6,475)</u>      | <u>7,171</u>      |
| <b>CHANGE IN NET POSITION</b>                    | <u>\$ (111,765)</u> | <u>\$ 110,474</u> |

**CITY OF BAYPORT, MINNESOTA  
SEWER FUND  
SCHEDULE OF SEWER FUND REVENUES AND EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

|  | <u>2013</u>        | <u>2012</u>       |
|--|--------------------|-------------------|
| <b>CHARGES</b>                                   | \$ 631,239         | \$ 596,982        |
| <b>OPERATING EXPENSES</b>                        |                    |                   |
| Personal Services                                | 157,992            | 162,844           |
| Supplies   | 4,219              | 3,750             |
| Insurance  | 1,927              | 2,029             |
| Repairs and Maintenance                          | 2,212              | 6,763             |
| Other Service and Charges                        | 31,695             | 3,766             |
| MCES Charges                                     | 332,925            | 339,152           |
| Depreciation                                     | <u>60,003</u>      | <u>58,424</u>     |
| <b>TOTAL OPERATING EXPENSES</b>                  | <u>590,973</u>     | <u>576,728</u>    |
| <b>NET OPERATING INCOME</b>                      | 40,266             | 20,254            |
| <b>NONOPERATING INCOME (EXPENSE)</b>             |                    |                   |
| Connection Fees                                  | 24,050             | 15,450            |
| Investment Income (Loss)                         | <u>(78,511)</u>    | <u>66,614</u>     |
| <b>TOTAL NONOPERATING INCOME (EXPENSE)</b>       | <u>19,109</u>      | <u>82,064</u>     |
| <b>CHANGE IN NET POSITION PRIOR TO TRANSFERS</b> | 59,375             | 102,318           |
| <b>TRANSFERS</b>                                 |                    |                   |
| Operating Transfers Out                          | <u>(81,475)</u>    | <u>(111,475)</u>  |
| <b>CHANGE IN NET POSITION</b>                    | <u>\$ (22,100)</u> | <u>\$ (9,157)</u> |

**CITY OF BAYPORT, MINNESOTA  
SCHEDULE OF CAPITAL OUTLAY  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**CAPITAL OUTLAY**

|                   |                |
|-------------------|----------------|
| Police            | \$ 26,020      |
| Fire              | 172,908        |
| Public Works      | 59,999         |
| Park Improvements | <u>226,405</u> |

**TOTAL CAPITAL OUTLAY**

**\$ 485,332**

**OTHER REPORT**

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

April 28, 2014

Honorable Mayor and City Council  
City of Bayport  
Bayport, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bayport, Minnesota (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

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

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



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