

**CITY OF BAYPORT**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

**CITY OF BAYPORT  
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**INTRODUCTORY  
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**CITY OF BAYPORT  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**CITY COUNCIL**

Term Expires

Jon Nowaczek	Mayor	December 31, 2010
Connie Carlson	Council Member	December 31, 2012
Michele Hanson	Council Member	December 31, 2010
Torry Kraftson	Council Member	December 31, 2010
Judith Seeberger	Council Member	December 31, 2012

**CITY OFFICIALS**

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

**FINANCIAL  
SECTION**

**INDEPENDENT AUDITORS' REPORT**

June 30, 2011

Honorable Mayor and City Council  
City of Bayport  
Bayport, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bayport, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information City of Bayport, Minnesota, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison information, and schedule of funding progress for post employment benefit plan on pages three through nine and forty-six through forty-nine are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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

*An Independently Owned Member, McGladrey Alliance*

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Monticello, MN 55362  
763.295.5070

**CITY OF BAYPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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, 2010. Please read it in conjunction with the transmittal letter on page one and the City's financial statements, which begin on page ten.

**FINANCIAL HIGHLIGHTS**

- The City's net assets increased approximately \$52,000 compared to the prior year as a result of this year's operations.
- The City completed the Perro Creek Project in 2010.
- In the City's business-type activities, revenues increased approximately \$16,000 (or 1.8 percent) while operating expenses decreased approximately \$79,000.
- Total cost of all of the City's programs decreased approximately \$150,000 (or 4.1 percent).
- The City of Bayport was certified at \$460,074 with \$38,480 in market value credits expected. However, the City actually received in local government aid and market value credits approximately \$335,000. In addition, there were other revenues and expenditures that changed from 2010 to 2009, which forced the City to adopt an amended budget of an approximately 9% decrease (in both revenues and expenditures) from what was adopted in December of 2009 for 2010.
- The City's general fund generated more revenue than budgeted of approximately \$160,000 excluding transfers in from other funds primarily due to increased investments and related income. Expenditures were more than budgeted by approximately \$240,000 excluding transfers to other funds due to capital outlay expended in the current year but not budgeted for. Increased revenues and expenditures over budget in the current year are also due to the closing of several funds to the general fund in the current year.

**USING THIS ANNUAL REPORT**

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

**Reporting the City as a Whole**

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

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

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

- Governmental Activities-Most of the City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes, special assessments, licenses, permits and fees, and state aids finance most of these activities.

**CITY OF BAYPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

- Business-type Activities-The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here.

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

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

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

**THE CITY AS A WHOLE**

The City's combined net assets increased approximately \$52,000 from a year ago. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

**Table 1  
Net Assets**

	Governmental Activities		Business-Type Activities		Total Government	
	2010	2009	2010	2009	2010	2009
Current & Other Assets	\$11,031,066	\$10,675,172	\$ 2,850,118	\$ 2,930,227	\$13,881,184	\$13,605,399
Net Capital Assets	<u>14,696,100</u>	<u>14,841,388</u>	<u>7,066,238</u>	<u>7,222,894</u>	<u>21,762,338</u>	<u>22,064,282</u>
Total Assets	25,727,166	25,516,560	9,916,356	10,153,121	35,643,522	35,669,681
Long-Term Debt Outstanding	795,000	895,000	-	-	795,000	895,000
Other Liabilities	<u>248,672</u>	<u>194,038</u>	<u>45,781</u>	<u>78,537</u>	<u>294,453</u>	<u>272,575</u>
Total Liabilities	1,043,672	1,089,038	45,781	78,537	1,089,453	1,167,575
Net Assets:						
Invested in Capital Assets,						
Net of Debt	13,901,100	13,946,388	7,066,238	7,222,894	20,967,338	21,169,282
Restricted	2,960,373	929,860	-	-	2,960,373	929,860
Unrestricted	<u>7,822,021</u>	<u>9,551,274</u>	<u>2,804,337</u>	<u>2,851,690</u>	<u>10,626,358</u>	<u>12,402,964</u>
Total Net Assets	<u>\$24,683,494</u>	<u>\$24,427,522</u>	<u>\$ 9,870,575</u>	<u>\$10,074,584</u>	<u>\$34,554,069</u>	<u>\$34,502,106</u>

**CITY OF BAYPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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

Net assets of the City's governmental activities increased by 0.2 percent (approximately \$52,000). Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements-decreased by approximately \$1,776,000 compared to the prior year.

The net assets of the City's business-type activities decreased by approximately \$204,000. Operations were comparable to the prior year.

**Table 2  
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Government	
	2010	2009	2010	2009	2010	2009
<b>REVENUE</b>						
Charges for Services	\$ 577,009	\$ 530,000	\$ 859,512	\$ 789,541	\$ 1,436,521	\$ 1,319,541
Grants and Contributions	273,452	1,559,721	-	21,454	273,452	1,581,175
Taxes	1,164,485	1,101,443	-	-	1,164,485	1,101,443
Intergovernmental	343,980	455,930	-	-	343,980	455,930
Unrestricted Investment Income	290,658	267,960	39,442	71,567	330,100	339,527
Other	39,598	-	-	-	39,598	-
<b>Total Revenues</b>	<b>2,689,182</b>	<b>3,915,054</b>	<b>898,954</b>	<b>882,562</b>	<b>3,588,136</b>	<b>4,797,616</b>
<b>PROGRAM EXPENSES</b>						
General Government	586,491	648,353	-	-	586,491	648,353
Public Safety	1,093,126	1,050,185	-	-	1,093,126	1,050,185
Public Works	402,031	451,706	-	-	402,031	451,706
Parks and Recreation	418,251	419,352	-	-	418,251	419,352
Debt Service	40,111	41,652	-	-	40,111	41,652
Water	-	-	401,716	440,877	401,716	440,877
Sewer	-	-	592,167	631,978	592,167	631,978
<b>Total Expenses</b>	<b>2,540,010</b>	<b>2,611,248</b>	<b>993,883</b>	<b>1,072,855</b>	<b>3,533,893</b>	<b>3,684,103</b>
Gain (Loss) on Disposal of Assets	(1,803)	650	(477)	-	(2,280)	650
Transfers	108,603	122,950	(108,603)	(122,950)	-	-
<b>Change in Net Assets</b>	<b>\$ 255,972</b>	<b>\$ 1,427,406</b>	<b>\$ (204,009)</b>	<b>\$ (313,243)</b>	<b>\$ 51,963</b>	<b>\$ 1,114,163</b>

The City's total revenues decreased by 25.2 percent (approximately \$1,209,000) largely due to decreased grants and contributions. Approximately a \$1,100,000 grant was received in the prior year for the Perro Creek Project. The total cost of all programs and services decreased by approximately \$150,000 or 4.1 percent. Our analysis below separately considers the operations of governmental and business-type activities.

**CITY OF BAYPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

**Governmental Activities**

Revenue for the City's governmental activities decreased by 31.3 percent (approximately \$1,226,000), while total expenses decreased 2.7 percent (approximately \$71,000). Revenues were consistent with the prior year other than a grant that was received in the prior year for approximately \$1,100,000 that was not received in the current year. Expenses were generally consistent year to year.

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

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
General Government	\$ 586,491	\$ 648,353	\$ (424,160)	\$ (518,249)
Public Safety	1,093,126	1,050,185	(641,796)	(688,903)
Public Works	402,031	451,706	(319,989)	971,484
Parks and Recreation	418,251	419,352	(263,493)	(244,207)
Debt Service	40,111	41,652	(40,111)	(41,652)
Totals	<u>\$ 2,540,010</u>	<u>\$ 2,611,248</u>	<u>\$ (1,689,549)</u>	<u>\$ (521,527)</u>

**Business-type Activities**

Revenues of the City's business-type activities (see Table 2) increased by 1.8 percent (approximately \$16,000) and expenses decreased by approximately \$79,000. Revenues and expenses are comparable to prior year.

**THE CITY'S FUNDS**

**Governmental Funds**

As the City completed the year, its governmental funds (as presented in the balance sheet on page twelve) reported a combined fund balance of approximately \$10,516,000. This is an increase of \$360,000 from the prior year. Operations were comparable to the prior year with the exception of \$1,100,000 grant received and related \$1,000,000 expenditures and overall decreased expenditures during the current year. Financial information specific to the governmental funds is detailed in table 4. Such information was derived from the fund financials at pages twelve through twenty.

**CITY OF BAYPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

**Governmental Funds (Continued)**

**Table 4 (Continued)**

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

	General Fund		Debt Service Fund	
	2010	2009	2010	2009
Total Assets	\$ 7,796,065	\$ 7,594,762	\$ 402,550	\$ 408,044
Total Liabilities	\$ 314,817	\$ 224,189	\$ -	\$ -
Total Revenues	\$ 2,046,435	\$ 2,051,462	\$ 135,201	\$ 138,614
Total Expenditures	\$ 1,997,151	\$ 2,065,137	\$ 140,695	\$ 141,965
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ 140,695	\$ 141,965
Capital Outlay Included in Total Expenditures	\$ 226,731	\$ 92,054	\$ -	\$ -
	Special Revenue Funds		Capital Projects Funds	
	2010	2009	2010	2009
Total Assets	\$ 2,546,013	\$ 2,410,723	\$ 365,279	\$ 349,010
Total Liabilities	\$ 847,429	\$ 905,061	\$ 33,640	\$ 73,749
Total Revenues	\$ 448,208	\$ 428,054	\$ 76,839	\$ 1,252,726
Total Expenditures	\$ 289,868	\$ 933,470	\$ 42,721	\$ 1,052,189
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ -	\$ -
Capital Outlay Included in Total Expenditures	\$ 37,312	\$ 648,337	\$ 11,606	\$ 1,008,528
	Permanent Fund		Total Governmental Funds	
	2010	2009	2010	2009
Total Assets	\$ 601,862	\$ 593,336	\$ 11,711,769	\$ 11,355,875
Total Liabilities	\$ -	\$ -	\$ 1,195,886	\$ 1,202,999
Total Revenues	\$ 8,526	\$ 14,945	\$ 2,715,209	\$ 3,885,801
Total Expenditures	\$ -	\$ -	\$ 2,470,435	\$ 4,192,761
Debt Service Included in Total Expenditures	\$ -	\$ -	\$ 140,695	\$ 141,965
Capital Outlay Included in Total Expenditures	\$ -	\$ -	\$ 275,649	\$ 1,748,919

**CITY OF BAYPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

**General Fund Budgetary Highlights**

The City's general fund generated more revenue than budgeted of approximately \$164,000 excluding transfers in from other funds which is comparable to prior year. Expenditures were more than those budgeted by approximately \$240,000 excluding transfers to other funds due to capital outlay expended in excess of budget. Increased revenues and expenditures over budget in the current year are also due to the closing of several funds to the general fund in the current year.

**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	
	2010	2009	2010	2009
Total Assets	\$ 6,695,717	\$ 6,798,370	\$ 3,220,639	\$ 3,354,751
Total Liabilities	\$ 20,740	\$ 27,224	\$ 25,041	\$ 51,313
Total Revenues	\$ 298,152	\$ 298,492	\$ 600,802	\$ 584,070
Total Expenditures	\$ 401,716	\$ 440,877	\$ 592,167	\$ 631,978
Loss on Disposal of Asset	\$ 477	\$ -	\$ -	\$ -
Net Transfers	\$ 7,872	\$ (6,475)	\$ (116,475)	\$ (116,475)
Change in Net Assets	\$ (96,169)	\$ (148,860)	\$ (107,840)	\$ (164,383)

  

	Total Proprietary Funds	
	2010	2009
Total Assets	\$ 9,916,356	\$ 10,153,121
Total Liabilities	\$ 45,781	\$ 78,537
Total Revenues	\$ 898,954	\$ 882,562
Total Expenditures	\$ 993,883	\$ 1,072,855
Loss on Disposal of Asset	\$ 477	\$ -
Net Transfers	\$ (108,603)	\$ (122,950)
Change in Net Assets	\$ (204,009)	\$ (313,243)

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2010, the City had approximately \$27,771,000 invested in a broad range of capital assets, including machinery and equipment, buildings, improvements, infrastructure and water and sewer infrastructure. This amount represents a net increase of approximately \$135,400 or 0.5 percent, over last year.

**CITY OF BAYPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 6,194,442	\$ 6,198,024	\$ -	\$ -	\$ 6,194,442	\$ 6,198,024
Buildings & Structures	4,577,240	4,565,680	51,548	52,408	4,628,788	4,618,088
Improvements	15,123	-	-	-	15,123	-
Machinery & Equipment	4,227,438	4,132,013	275,865	294,251	4,503,303	4,426,264
Infrastructure	3,198,371	2,046,528	8,263,974	8,266,902	11,462,345	10,313,430
Library Books	273,041	273,041	-	-	273,041	273,041
Construction in Progress	678,250	1,807,070	16,022	-	694,272	1,807,070
<b>Totals</b>	<b><u>\$ 19,163,905</u></b>	<b><u>\$ 19,022,356</u></b>	<b><u>\$ 8,607,409</u></b>	<b><u>\$ 8,613,561</u></b>	<b><u>\$ 27,771,314</u></b>	<b><u>\$ 27,635,917</u></b>

The City's fiscal year 2011 capital budget is similar to the current year. At this time, estimates are not available as to water related future capital improvement outlay. More detailed information about the City's capital assets is presented in Note 1 to the financial statements.

**Debt**

At year-end, the City had \$795,000 in debt versus \$895,000 last year-a decrease of 11.2 percent-as shown in Table 7.

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

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
GO Bonds	<u>\$ 795,000</u>	<u>\$ 895,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 795,000</u>	<u>\$ 895,000</u>

The City did not issue any debt in 2010.

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

The City's elected and appointed officials considered many factors when setting the year 2011 budget, tax rates, and fees that will be charged for the business-type activities. The Council elected to increase the 2011 tax levy by 6.89% from the 2010 amount. Also, the Council elected to increase water and sewer rates by 10.0% over 2010. The Council expects operations to remain fairly consistent with 2010 for 2011. Overall budget amounts for 2011 are consistent with 2010'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 financial statements

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

**CITY OF BAYPORT, MINNESOTA**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2010**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash, Cash Equivalents, and Investments	\$ 10,564,615	\$ 2,725,295	\$ 13,289,910
Property Taxes Receivable	127,766	-	127,766
Accounts Receivable	51,950	121,116	173,066
Interest Receivable	46,862	-	46,862
Prepays	18,813	3,289	22,102
Current Portion of Assessments Receivable	19,067	418	19,485
Total Current Assets	10,829,073	2,850,118	13,679,191
Noncurrent Assets			
Capital Assets not Being Depreciated	6,872,692	16,022	6,888,714
Capital Assets Being Depreciated (Net)	7,823,408	7,050,216	14,873,624
Long-Term Portion of Assessments Receivable	201,993	-	201,993
Total Noncurrent Assets	14,898,093	7,066,238	21,964,331
<b>TOTAL ASSETS</b>	<b>25,727,166</b>	<b>9,916,356</b>	<b>35,643,522</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	108,216	14,627	122,843
Accrued Salaries	28,989	-	28,989
Due to Other Governments	877	-	877
Accrued Interest	2,600	-	2,600
Deferred Revenue	42,207	-	42,207
Total Current Liabilities	182,889	14,627	197,516
Noncurrent Liabilities			
Other Postemployment Benefits Payable	3,207	754	3,961
Compensated Absences Due Within One Year	43,737	11,012	54,749
Compensated Absences Due After One Year	18,839	19,388	38,227
Bonds Due Within One Year	105,000	-	105,000
Bonds Due After One Year	690,000	-	690,000
Total Noncurrent Liabilities	860,783	31,154	891,937
<b>TOTAL LIABILITIES</b>	<b>1,043,672</b>	<b>45,781</b>	<b>1,089,453</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	13,901,100	7,066,238	20,967,338
Restricted for:			
Restricted Investments	525,000	-	525,000
Debt Service	405,150	-	405,150
Special Revenue Activities	1,698,584	-	1,698,584
Capital Projects	331,639	-	331,639
Unrestricted	7,822,021	2,804,337	10,626,358
<b>TOTAL NET ASSETS</b>	<b>\$ 24,683,494</b>	<b>\$ 9,870,575</b>	<b>\$ 34,554,069</b>

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
General Government:					
Administration	\$ 119,334	\$ -	\$ -	\$ -	\$ (119,334)
Council	147,066	-	-	-	(147,066)
Planning and Zoning	201,235	103,213	10,000	-	(88,022)
Elections	3,875	-	-	-	(3,875)
General Government	<u>114,981</u>	<u>33,986</u>	<u>5,132</u>	<u>10,000</u>	<u>(65,863)</u>
Total General Government	586,491	137,199	15,132	10,000	(424,160)
Public Safety:	1,093,126	328,982	122,348	-	(641,796)
Public Works:	402,031	66,625	-	15,417	(319,989)
Parks and Recreation:	418,251	44,203	110,555	-	(263,493)
Debt Service:	<u>40,111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,111)</u>
Total Governmental Activities	2,540,010	577,009	248,035	25,417	(1,689,549)
<b>Business-Type Activities:</b>					
Water	401,716	275,928	-	-	(125,788)
Sewer	<u>592,167</u>	<u>583,584</u>	<u>-</u>	<u>-</u>	<u>(8,583)</u>
Total Business-Type Activities	993,883	859,512	-	-	(134,371)
<b>TOTALS</b>	<u>\$ 3,533,893</u>	<u>\$ 1,436,521</u>	<u>\$ 248,035</u>	<u>\$ 25,417</u>	<u>\$ (1,823,920)</u>
			Governmental Activities	Business-Type Activities	Total
Net (Expense)/Revenue			\$ (1,689,549)	\$ (134,371)	\$ (1,823,920)
<b>General Revenues (Expenses):</b>					
Taxes:			1,164,485	-	1,164,485
Intergovernmental			343,980	-	343,980
Investment Income			290,658	39,442	330,100
Miscellaneous			39,598	-	39,598
Loss on Disposal of Assets			(1,803)	(477)	(2,280)
Transfers			<u>108,603</u>	<u>(108,603)</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>			255,972	(204,009)	51,963
<b>NET ASSETS-BEGINNING OF YEAR</b>			24,444,141	10,074,584	34,518,725
<b>PRIOR PERIOD ADJUSTMENTS</b>			<u>(16,619)</u>	<u>-</u>	<u>(16,619)</u>
<b>NET ASSETS-END OF YEAR</b>			<u>\$ 24,683,494</u>	<u>\$ 9,870,575</u>	<u>\$ 34,554,069</u>

**CITY OF BAYPORT, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010**

	General Fund	Park Improvement Fund	Library Fund	Nonmajor Debt Service Fund	Nonmajor Permanent Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash, Cash Equivalents, and Investments	\$ 7,555,159	\$ 54,649	\$ 316,777	\$ 402,550	\$ 601,862	\$ 1,300,301	\$ 333,317	\$ 10,564,615
Property Taxes Receivable	127,766	-	-	-	-	-	-	127,766
Assessments Receivable	44,792	92,648	-	-	-	51,658	31,962	221,060
Accounts Receivable	2,687	-	220	-	-	49,043	-	51,950
Accrued Interest	46,862	-	-	-	-	-	-	46,862
Prepays	17,121	-	1,692	-	-	-	-	18,813
Due from Other Fund	1,678	-	-	-	-	679,025	-	680,703
<b>TOTAL ASSETS</b>	<b>\$ 7,796,065</b>	<b>\$ 147,297</b>	<b>\$ 318,689</b>	<b>\$ 402,550</b>	<b>\$ 601,862</b>	<b>\$ 2,080,027</b>	<b>\$ 365,279</b>	<b>\$ 11,711,769</b>
<b>LIABILITIES</b>								
Accounts Payable	\$ 84,116	\$ 3,419	\$ 7,017	\$ -	\$ -	\$ 13,664	\$ -	\$ 108,216
Accrued Salaries	28,989	-	-	-	-	-	-	28,989
Due to Other Governments	877	-	-	-	-	-	-	877
Deferred Revenue	200,835	92,648	-	-	-	51,656	31,962	377,101
Due to Other Funds	-	679,025	-	-	-	-	1,678	680,703
Total Liabilities	314,817	775,092	7,017	-	-	65,320	33,640	1,195,886
<b>FUND BALANCES</b>								
Reserved for Debt Service	-	-	-	402,550	-	-	-	402,550
Reserved for City Council	-	-	-	-	525,000	-	-	525,000
Restricted Investments	-	-	-	-	-	-	-	-
Reserved for Special Revenue	-	(627,795)	311,672	-	-	2,014,707	-	1,698,584
Reserved for Capital Projects	-	-	-	-	-	-	331,639	331,639
Unreserved, Undesignated	7,481,248	-	-	-	76,862	-	-	7,558,110
Total Fund Balance	7,481,248	(627,795)	311,672	402,550	601,862	2,014,707	331,639	10,515,883
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 7,796,065</b>	<b>\$ 147,297</b>	<b>\$ 318,689</b>	<b>\$ 402,550</b>	<b>\$ 601,862</b>	<b>\$ 2,080,027</b>	<b>\$ 365,279</b>	<b>\$ 11,711,769</b>

**CITY OF BAYPORT, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2010**

Total Fund Balance for Governmental Funds	\$	10,515,883
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets (net of accumulated depreciation of \$4,467,805) used in governmental activities are not financial resources and, therefore are not reported in the funds.		14,696,100
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: Taxes receivable		334,894
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Interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the governmental funds balance sheet.		(2,600)
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Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet. Other postemployment benefits payable Compensated absences Bonds due within one year Bonds due in more than one year		(3,207) (62,576) (105,000) <u>(690,000)</u>
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<b>TOTAL NET ASSETS OF GOVERNMENTAL FUNDS</b>	<b>\$</b>	<b><u>24,683,494</u></b>
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**CITY OF BAYPORT, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	General Fund	Park Improvement Fund	Library Fund	Nonmajor Debt Service Fund	Nonmajor Permanent Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Governmental Funds
<b>REVENUES</b>								
Taxes	\$ 794,483	\$ -	\$ 148,025	\$ 38,215	\$ -	\$ 60,876	\$ 57,406	\$ 1,099,005
Tax Increment	-	-	-	91,507	-	-	-	91,507
Licenses, Permits & Fees	104,820	-	-	-	-	-	-	104,820
Intergovernmental	484,109	-	-	-	-	-	15,417	499,526
Charges for Services	328,977	13,000	2,264	-	-	66,625	-	410,866
Fines	41,165	-	-	-	-	20,158	-	61,323
Investment Income	249,184	-	5,005	5,479	8,526	18,448	4,016	290,658
Miscellaneous	43,697	-	113,143	-	-	664	-	157,504
<b>TOTAL REVENUES</b>	<b>2,046,435</b>	<b>13,000</b>	<b>268,437</b>	<b>135,201</b>	<b>8,526</b>	<b>166,771</b>	<b>76,839</b>	<b>2,715,209</b>
<b>EXPENDITURES</b>								
General Government:								
Administration	119,334	-	-	-	-	-	-	119,334
Mayor and Council	147,066	-	-	-	-	-	-	147,066
Boards and Commissions	201,235	-	-	-	-	-	-	201,235
Elections	3,875	-	-	-	-	-	-	3,875
General Government	52,602	-	-	-	-	-	-	52,602
Total General Government	524,112	-	-	-	-	-	-	524,112
Public Safety:								
Police	650,349	-	-	-	-	3,134	-	653,483
Fire	291,069	-	-	-	-	-	-	291,069
Public Works	245,734	-	-	-	-	-	31,115	276,849
Parks and Recreation	59,156	1,280	248,142	-	-	-	-	308,578
Debt Service:								
Principal	-	-	-	100,000	-	-	-	100,000
Interest and Other Charges	-	-	-	40,695	-	-	-	40,695
Capital Outlay	226,731	12,916	-	-	-	24,396	11,606	275,649
<b>TOTAL EXPENDITURES</b>	<b>1,997,151</b>	<b>14,196</b>	<b>248,142</b>	<b>140,695</b>	<b>-</b>	<b>27,530</b>	<b>42,721</b>	<b>2,470,435</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>49,284</b>	<b>(1,196)</b>	<b>20,295</b>	<b>(5,494)</b>	<b>8,526</b>	<b>139,241</b>	<b>34,118</b>	<b>244,774</b>

**CITY OF BAYPORT, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	General Fund	Park Improvement Fund	Library Fund	Nonmajor Debt Service Fund	Nonmajor Permanent Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Governmental Funds
<b>OTHER FINANCING SOURCES (USES)</b>								
Proceeds on Sale of Assets	\$ 9,630	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,630
Operating Transfers In	137,376	8,710	-	-	-	-	76,905	222,991
Operating Transfers Out	(85,615)	-	-	-	-	(28,773)	-	(114,388)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>61,391</u>	<u>8,710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,773)</u>	<u>76,905</u>	<u>118,233</u>
<b>NET CHANGE IN FUND BALANCES</b>	110,675	7,514	20,295	(5,494)	8,526	110,468	111,023	363,007
<b>FUND BALANCES - BEGINNING</b>	7,279,436	(689,954)	291,377	408,044	593,336	1,878,817	408,439	10,169,495
<b>PRIOR PERIOD ADJUSTMENT</b>	91,137	54,645	-	-	-	25,422	(187,823)	(16,619)
<b>FUND BALANCES - ENDING</b>	<u>\$ 7,481,248</u>	<u>\$ (627,795)</u>	<u>\$ 311,672</u>	<u>\$ 402,550</u>	<u>\$ 601,862</u>	<u>\$ 2,014,707</u>	<u>\$ 331,639</u>	<u>\$ 10,515,883</u>

**CITY OF BAYPORT, MINNESOTA  
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

Net Change in fund balances - total governmental funds \$ 363,007

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

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

Cash paid for capital asset purchases capitalized	275,649	
Proceeds from sale of assets	(9,630)	
Loss on the sale of assets	(1,803)	
Depreciation expense	<u>(409,504)</u>	(145,288)

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

Long-term receivables, net of deferred revenue	(26,028)
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Repayment of debt principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Assets:

Bond payments	100,000
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OPEB costs are recognized as expenditures in the fund statements, but are deferred and amortized in the government-wide statements, resulting in a net difference.

(767)

Net change in accrued interest on bonds is not reported as expenses in the funds:

584

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in accrued compensated absences	<u>(35,536)</u>
----------------------------------------	-----------------

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES**

**\$ 255,972**

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2010**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 1,572,194	\$ 1,153,101	\$ 2,725,295
Accounts Receivable	42,968	78,148	121,116
Prepays	1,977	1,312	3,289
Assessments Receivable	209	209	418
Total Current Assets	<u>1,617,348</u>	<u>1,232,770</u>	<u>2,850,118</u>
<b>LONG TERM ASSETS</b>			
Capital Assets not Depreciated	-	16,022	16,022
Capital Assets Depreciated (Net)	5,078,369	1,971,847	7,050,216
Total Long Term Assets	<u>5,078,369</u>	<u>1,987,869</u>	<u>7,066,238</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,695,717</u>	<u>\$ 3,220,639</u>	<u>\$ 9,916,356</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 5,183	\$ 9,444	\$ 14,627
Compensated Absences	5,506	5,506	11,012
Total Current Liabilities	<u>10,689</u>	<u>14,950</u>	<u>25,639</u>
<b>LONG-TERM LIABILITIES</b>			
Other Postemployment Benefits Payable	357	397	754
Compensated Absences	9,694	9,694	19,388
Total Long-Term Liabilities	<u>10,051</u>	<u>10,091</u>	<u>20,142</u>
<b>NET ASSETS</b>			
Invested in Capital Assets	5,078,369	1,987,869	7,066,238
Unrestricted	1,596,608	1,207,729	2,804,337
Total Net Assets	<u>6,674,977</u>	<u>3,195,598</u>	<u>9,870,575</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 6,695,717</u>	<u>\$ 3,220,639</u>	<u>\$ 9,916,356</u>

**CITY OF BAYPORT, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 253,628	\$ 572,334	\$ 825,962
<b>OPERATING EXPENSES</b>			
Personal Services	151,033	180,907	331,940
Materials, Supplies, Services and Charges	130,034	36,010	166,044
MCES Charges	-	323,699	323,699
Depreciation	<u>120,649</u>	<u>51,551</u>	<u>172,200</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>401,716</u>	<u>592,167</u>	<u>993,883</u>
<b>NET OPERATING LOSS</b>	(148,088)	(19,833)	(167,921)
<b>NONOPERATING INCOME (EXPENSE)</b>			
Loss on Disposal of Capital Assets	(477)	-	(477)
Connection Fees	22,300	11,250	33,550
Investment Income	<u>22,224</u>	<u>17,218</u>	<u>39,442</u>
<b>TOTAL NONOPERATING INCOME (EXPENSE)</b>	<u>44,047</u>	<u>28,468</u>	<u>72,515</u>
<b>CHANGE IN NET ASSETS PRIOR TO TRANSFERS</b>	(104,041)	8,635	(95,406)
<b>TRANSFERS</b>			
Operating Transfers In	14,347	-	14,347
Operating Transfers Out	<u>(6,475)</u>	<u>(116,475)</u>	<u>(122,950)</u>
<b>NET TRANSFERS</b>	<u>7,872</u>	<u>(116,475)</u>	<u>(108,603)</u>
<b>CHANGE IN NET ASSETS</b>	(96,169)	(107,840)	(204,009)
<b>NET ASSETS-BEGINNING OF YEAR</b>	<u>6,771,146</u>	<u>3,303,438</u>	<u>10,074,584</u>
<b>NET ASSETS-END OF YEAR</b>	<u>\$ 6,674,977</u>	<u>\$ 3,195,598</u>	<u>\$ 9,870,575</u>

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Water Fund	Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 278,628	\$ 609,391	\$ 888,019
Cash Paid to Suppliers	(132,582)	(388,892)	(521,474)
Cash Paid to Employees	(147,023)	(178,527)	(325,550)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	(977)	41,972	40,995
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating Subsidies and Transfers to Other Funds	(6,475)	(116,475)	(122,950)
Operating Subsidies and Transfers from Other Funds	14,347	-	14,347
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	7,872	(116,475)	(108,603)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of Capital Assets	-	(16,022)	(16,022)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investment Income	22,224	17,218	39,442
Net Increase (Decrease) in Cash and Cash Equivalents	29,119	(73,307)	(44,188)
Cash and Cash Equivalents-Beginning of Year	1,543,075	1,226,408	2,769,483
Cash and Cash Equivalents-End of Year	<u>\$ 1,572,194</u>	<u>\$ 1,153,101</u>	<u>\$ 2,725,295</u>

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Net Operating Loss	\$ (148,088)	\$ (19,833)	\$ (167,921)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided (Used) by Operating Activities			
Cash Flows Reported in Other Categories:			
Depreciation Expense	120,649	51,551	172,200
Nonoperating Revenue	22,300	11,250	33,550
Change in Assets and Liabilities:			
Receivables	10,995	25,807	36,802
Prepays	(350)	(531)	(881)
Accounts Payable	(2,198)	(28,652)	(30,850)
Due to Other Governments	(8,295)	-	(8,295)
Other postemployment benefits Payable	99	89	188
Compensated Absences	3,911	2,291	6,202
	<u>3,911</u>	<u>2,291</u>	<u>6,202</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (977)</u>	<u>\$ 41,972</u>	<u>\$ 40,995</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Disposal of Fully Depreciated Capital Assets	<u>\$ 14,409</u>	<u>\$ 7,287</u>	<u>\$ 21,696</u>

**CITY OF BAYPORT, MINNESOTA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2010**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash, Cash Equivalents, and Investments	\$ <u>15,228</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ <u>15,228</u>

**CITY OF BAYPORT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**1.A. FINANCIAL REPORTING ENTITY**

The City's financial reporting entity comprises the following:

Primary Government

City of Bayport

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

*Blended Component Units*

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

*Discretely Presented Component Units*

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

*Government-wide Financial Statements:*

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

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

**1.B. BASIS OF PRESENTATION**

*Fund Financial Statements:*

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

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**Governmental Funds**

General Fund

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

Debt Service Fund

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

Special Revenue Funds

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

Capital Projects Improvements Fund

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

Permanent Fund

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

**Proprietary Fund**

Enterprise Funds

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

**Fiduciary Fund**

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

**CITY OF BAYPORT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

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

*Fund Financial Statements: (Continued)*

**Major Funds**

The funds are further classified as major as follows:

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

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

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

**Measurement Focus**

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

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

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

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

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

**Basis of Accounting**

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

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

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**1.D. USE OF ESTIMATES**

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

**1.E. ASSETS, LIABILITIES, AND EQUITY**

**Cash and Cash Equivalents**

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

**Investments**

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

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

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

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

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

**Interfund Receivables and Payables**

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

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. Major receivable balances for the governmental activities include police fines, fire services, taxes and loans to area businesses to promote development. Business-type activities report utility charges as their major receivables and a note receivable from one significant utility customer.

**Prepays**

Prepays represent costs paid that relate to future periods.

**Receivables**

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

**Capital Assets**

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

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year.

*Government-wide Statements*

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

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

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

**Capital Assets (Continued)**

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

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

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

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

*Fund Financial Statements*

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

**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.

**Postemployment Benefits Other Than Pensions**

Under Minnesota statutes 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions; 1) retirees must be receiving (or eligible to receive) and annuity for an Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and the 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement no. 45, at December 31, 2010.

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

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

**Compensated Absences**

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

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

**Equity Classifications**

*Government-wide Statements*

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

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note 3.G. for additional disclosures.

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

**Property Tax**

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

**CITY OF BAYPORT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

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

**Property Tax**

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

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

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

**Operating Revenues and Expenses**

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

**Expenditures/Expenses**

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

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

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

Proprietary Fund - By Operating and Nonoperating

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

**Interfund Transfers**

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

**1.G. RECLASSIFICATIONS**

Certain amounts from 2009 have been reclassified to conform with the 2010 presentation.

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

**1.G. RECLASSIFICATIONS**

Certain amounts from 2009 have been reclassified to conform with the 2010 presentation.

**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 (140% if collateralized with notes secured by first mortgages). At December 31, 2010, the City was not in compliance with such laws. See Note 3.A.

**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 budget in other Required Supplementary Information.

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

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

Fund	Budgeted Expenditures	Actual Expenditures	Transfers Included in Actual
General fund	\$ 1,892,354	\$ 2,082,766	\$ 85,615
Park improvements fund	\$ 5,600	\$ 14,196	\$ -

The expenditures in excess of budget were due to the City closing capital project and special revenue funds to the general fund in the current year, as well as capital outlay not budgeted for in the park improvements fund. This resulted in increased capital outlay expenditures. The expenditures in excess of budget were funded by available fund balances.

**CITY OF BAYPORT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

**2.D. DEFICIT FUND EQUITY**

A fund balance deficit of \$627,795 exists in the park improvement fund resulting from park improvements expenditures which have been paid for with monies borrowed from another fund. This results in a \$679,025 liability due to the tax stabilization fund. The funds are expected to pay back with future park dedication fees. It is expected that future park dedication fees will provide positive fund balance in the future.

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

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

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

**Deposits**

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

Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% if collateralized with notes secured by first mortgages.) Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. governmental agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City does not have any deposit policies that would further limit deposit choices.

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

At December 31, 2010, the City's deposits, including certificates of deposit, were exposed to custodial credit risk. The City's deposits were not sufficiently covered by federal depository insurance or by collateral held by the government's agent in the government's name.

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**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.

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

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

Investment balances at December 31, 2010 are as follows:

Deposit/Investment	Interest Rate	Maturity	Fair Value	Credit Rating	Percent of Total
Money Market	0.06-2.00	N/A	\$ 1,685,633	N/A	13.67
Certificates of Deposit	0.65-4.50	Less than 1 year	2,528,212	N/A	20.50
Certificates of Deposit	1.15-6.20	1-5 years	3,021,271	N/A	24.49
US Government Bonds	2.00-4.50	6-10 years	2,502,114	AAA	20.28
Municipal Bonds	3.75-4.15	1-5 years	214,208	AA- AA	1.74
Municipal Bonds	3.35-4.75	6-10 years	2,093,436	AA- AA AAA	16.97
Federal Home MTG Corp	1.50	6-10 years	290,271	AAA	2.35
Totals			<u>\$ 12,335,145</u>		<u>100.00</u>

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

**CITY OF BAYPORT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

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

**Investments (Continued)**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment and is disclosed above by presenting maturity information.

Concentration risk is the risk associated with investing a significant portion of the City's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City's investment policies do not address concentration risk. At December 31, 2010, the concentrations of investments are provided above.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. At December 31, 2010, all of the underlying securities held by the City are subject to custodial credit risk.

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

**Deposits and Investments**

The following is a summary of total cash, cash equivalents and investments:

Cash in Checking	\$     969,743
Petty Cash	250
Investments (see Investments section)	<u>12,335,145</u>
Total Cash, Cash Equivalents, and Investments	<u>\$ 13,305,138</u>

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

Cash, Cash Equivalents, and Investments - Statement of Net Assets	\$ 13,289,910
Cash, Cash Equivalents, and Investments - Statement of Fiduciary Net Assets	<u>15,228</u>
Total Cash, Cash Equivalents, and Investments	<u>\$ 13,305,138</u>

**3.B.   ACCOUNTS RECEIVABLE**

Accounts receivable of the business-type activities consists of entirely of utility service receivables. Accounts receivable of the governmental activities consists of delinquent taxes, reimbursements and fees. No allowance for uncollectible accounts is deemed necessary at year-end.

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

**3.C. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2010 is as follows:

	Balance at Jan. 01, 2010	Additions	Disposals	Balance at Dec. 31, 2010
Governmental Activities:				
Capital Assets not Being Depreciated				
Land	\$ 6,198,024	\$ -	\$ 3,582	\$ 6,194,442
Construction In Progress	1,807,070	11,416	1,140,236	678,250
Total Capital Assets not Being Depreciated	8,005,094	11,416	1,143,818	6,872,692
Capital Assets Being Depreciated				
Buildings	4,565,680	21,560	10,000	4,577,240
Improvements	-	15,123	-	15,123
Machinery and Equipment	4,132,013	215,943	120,518	4,227,438
Infrastructure	2,046,528	1,151,843	-	3,198,371
Library	273,041	-	-	273,041
Total Capital Assets Being Depreciated	11,017,262	1,404,469	130,518	12,291,213
Less: Accumulated Depreciation				
Buildings	1,669,581	96,158	4,050	1,761,689
Improvements	-	588	-	588
Machinery and Equipment	2,139,454	192,249	118,617	2,213,086
Infrastructure	153,514	103,058	-	256,572
Library	218,419	17,451	-	235,870
Total Accumulated Depreciation	4,180,968	409,504	122,667	4,467,805
Total Capital Assets Being Depreciated, Net	6,836,294	994,965	7,851	7,823,408
Capital Assets, Net	\$ 14,841,388	\$ 1,006,381	\$ 1,151,669	\$ 14,696,100

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

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

	Balance at Jan. 01, 2010	Additions	Disposals	Balance at Dec. 31, 2010
Business-Type Activities:				
Capital Assets not Being Depreciated				
Construction In Progress	\$ -	\$ 16,022	\$ -	\$ 16,022
Capital Assets Being Depreciated				
Water Mains and Lines	5,830,168	-	2,138	5,828,030
Sewer Mains and Lines	2,436,734	-	790	2,435,944
Structures	52,408	-	860	51,548
Machinery and Equipment	294,251	-	18,386	275,865
Total Capital Assets Being Depreciated	8,613,561	-	22,174	8,591,387
Less: Accumulated Depreciation				
Water Mains and Lines	640,307	118,785	1,876	757,216
Sewer Mains and Lines	456,573	47,891	790	503,674
Structures	49,524	339	644	49,219
Machinery and Equipment	244,263	5,185	18,386	231,062
Total Accumulated Depreciation	1,390,667	172,200	21,696	1,541,171
Total Capital Assets Being Depreciated, Net	7,222,894	(172,200)	478	7,050,216
Business-Type Activities	<u>\$ 7,222,894</u>	<u>\$ (156,178)</u>	<u>\$ 478</u>	<u>\$ 7,066,238</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 50,628
Public Safety	128,412
Public Works	124,969
Culture and Recreation	105,495
Total Depreciation Expense	<u>\$ 409,504</u>

**3.D.    ACCOUNTS PAYABLE**

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

**3.E.    LONG-TERM DEBT**

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

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

**3.E.    LONG-TERM DEBT (Continued)**

As of December 31, 2010, 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 \$100,000 to \$150,000 through December 2016. Interest at 3.85% to 4.60%.	\$        795,000
Less: Current Portion	<u>105,000</u>
Noncurrent Portion	<u><u>\$        690,000</u></u>

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

**Changes in Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended December 31, 2010:

Type of Debt	Balance Jan. 1, 2010	Additions	Deductions	Balance Dec. 31, 2010	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds					
Tax Increment Refunding Bonds of 2001	\$    895,000	\$            -	\$    (100,000)	\$    795,000	\$    105,000

Governmental Activity debt is typically funded through Debt Service Funds.

**Annual Debt Service Requirements**

At December 31, 2010, the estimated annual debt service requirements to maturity, including principal and interest, are as follows for the City's governmental activities:

Years Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2011	\$    105,000	\$     34,365	\$    139,365
2012	125,000	30,165	155,165
2013	125,000	25,040	150,040
2014	150,000	19,790	169,790
2015	150,000	13,340	163,340
2016	140,000	6,440	146,440
Totals	\$    795,000	\$    129,140	\$    924,140

Interest expense totals \$40,111 in the Statement of Activities (included in Debt Service line). Interest expense totals \$40,695 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges).

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

**3.F.    INTERFUND TRANSACTIONS AND BALANCES**

Operating transfers consist of the following for the year ended December 31, 2010:

	Transfers In	Transfers Out
General Fund:		
Special Revenue Funds	\$       14,426	\$        8,710
Enterprise Funds	122,950	-
Capital Project Funds	-	76,905
General Fund Totals	137,376	85,615
Special Revenue Funds:		
General Fund	8,710	14,426
Enterprise Fund	-	14,347
Special Revenue Funds Totals	8,710	28,773
Capital Project Funds:		
General Fund	76,905	-
Enterprise Funds:		
General Fund	-	122,950
Special Revenue Funds	14,347	-
Enterprise Funds Totals	14,347	122,950
Total Transfers	\$       237,338	\$       237,338

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

The interfund balances are as follows:

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

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

**CITY OF BAYPORT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

**3.G.    FUND EQUITY**

At December 31, 2010, restricted fund equity consists of the following:

Permanent Fund:	
Restricted for City Council Restricted Investments	
Nonmajor Fund-Permanent Fund	
Cash, Cash Equivalents, and Investments	\$       525,000
Debt Service Fund:	
Restricted for Debt Service:	
Nonmajor Fund-Debt Service	
Cash, Cash Equivalents, and Investments	402,550
Special Revenue Funds:	
Restricted for Special Revenue:	
Major Fund-Park Improvements Fund	
Cash, Cash Equivalents, and Investments	(627,795)
Major Fund-Library Fund	
Cash, Cash Equivalents, and Investments	311,672
Nonmajor Fund-Debt Service	
Cash, Cash Equivalents, and Investments	<u>2,014,707</u>
Total Special Revenue Funds	1,698,584
Capital Project Funds:	
Restricted for Capital Projects:	
Nonmajor Fund-Capital Project	
Cash, Cash Equivalents, and Investments	<u>331,639</u>
Total Restricted Fund Equity	<u><u>\$       2,957,773</u></u>

**NOTE 4    OTHER NOTES**

**4.A.    OTHER POSTEMPLOYMENT BENEFIT PLAN**

At December 31, 2009, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The City engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of December 31, 2009.

**Plan Description**

The City operates a single-employer retiree benefit plan ("the Plan") that provides health insurance to eligible employees and their spouses through the City's health insurance plan. There are 17 active participants and one retired participant. Benefit and eligibility provisions are established by the Administrative office as part of the annual budget each year which is approved by the City Council. The Plan does not issue a publicly available financial report.

**CITY OF BAYPORT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. OTHER POSTEMPLOYMENT BENEFIT PLAN (Continued)**

**Funding Policy**

The City has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are also negotiated between the City and union representatives. At the present time, the allowance to continue health insurance that is mandated by Minnesota law is provided to retirees. Also, employees that are disabled while on duty are permitted to continue on health insurance. The City does not contribute any of the cost of current year premiums for eligible retired plans members and their spouses; however, the City contributed \$9,713 towards premiums for eligible disabled plan members. For fiscal year 2010, the City contributed \$10,000 to the plan. Retired plan members receiving benefits contributed approximately 100 percent of their premium costs.

**Annual OPEB Cost and Net OPEB Obligation**

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years. The following table details the components of the City's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution	\$	10,594
Interest on Net OPEB Obligation		371
Annual OPEB Cost (Expense)		10,965
Direct Subsidy		10,000
Change in Net OPEB Obligation		965
OPEB Obligation at Beginning of Year		3,006
OPEB Obligation at End of Year	\$	3,971

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2010 and 2009 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	\$ 10,965	72.6%	\$ 3,006
12/31/2010	\$ 10,965	63.8%	\$ 3,971

**Funded Status and Funding Progress**

As of December 31, 2009, the most recent actuarial valuation date, the City's unfunded actuarial accrued liability (UAAL) was \$152,655. The annual payroll for active employees covered by the plan in the actuarial valuation was \$1,039,879 for a ratio of UAAL to covered payroll of 14.7%.

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 4 OTHER NOTES (Continued)**

**4.A. OTHER POSTEMPLOYMENT BENEFIT PLAN (Continued)**

**Funded Status and Funding Progress (Continued)**

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

**Actuarial Methods and Assumptions**

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

The following simplifying assumptions were made:

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

*Marital status* – Marital status of members at the calculation ate was assumed to continue through retirement.

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

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

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

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

*Inflation rate* – The expected long-term inflation assumption of 40.96 percent was based on the projected changes in the Consumer Price Index for Urban Wage Earners and clerical Workers (CPI-W) in the *The 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Funds* for an intermediate growth scenario.

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

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 3.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, was fourteen years.

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 4 OTHER NOTES (Continued)**

**4.B. 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.

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.

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 4 OTHER NOTES (Continued)**

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

**Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. PECF members are required to contribute 5.83% of their annual covered salary. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERP members, 7.00% for Coordinated Plan GERP members, 14.1% for PEPFF members, and 8.75% for PECF members. The City's contributions to the General Employees Retirement Fund for the year ending December 31, 2010 total \$37,383. The City's contributions to the Public Employees Police & Fire Fund for the year ended December 31, 2010 total \$51,392. The City's contributions are equal to the contractually required contributions for each year as set by state statute.

**4.C. 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.D. RELATED PARTY TRANSACTIONS**

During 2010, the City used River City Services to provide grading services as well as the equipment needed to complete related work. River City Services is owned by an employee of the City. During the year, \$2,445 was paid to River City Services for the work performed.

The City has a joint powers agreement to extend municipal water mains, laterals, storage facilities and related water services to Baytown, Minnesota. Total receipts from Baytown during the year were \$113,739, \$83,080 relates to prior year receivables and \$30,659 were for fire services.

**4.E. 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, 2010, outstanding Pay-As-You-Go debt approximates \$940,000 including accrued interest. Amounts carry interest rates of 6.50% and are due over various payment terms. All payments are contingent upon collection of tax increment and are not due if such collections are not made by the City.

**CITY OF BAYPORT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 4 OTHER NOTES (Continued)**

**4.E. COMMITMENTS (Continued)**

**Contracts (Continued)**

Legal Services Contract

The City has contracted with Eckberg, Lammers, Briggs, Wolff & Vierling, PLLP to provide legal services for 2011 at varying hourly rates depending on the services provided.

Union Contracts

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

Construction Contracts

At current year end, the City has open construction contracts related to one open project with remaining commitments of approximately \$173,000.

**4.F. CONDUIT DEBT OBLIGATIONS**

From time to time, the City has issued Qualified Tax Exempt Obligations to provide financial assistance to private-sector entities for the acquisition and construction of rental housing deemed to be in public interest. The notes are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the notes, ownership of the acquired facilities transfers to the private-sector entity served by the note issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the note. Accordingly, the note is not reported as a liability in the accompanying financial statements. As of December 31, 2010, the conduit debt issued outstanding principal payable is \$8,173,717 for the Senior Housing Revenue Note, Series 2003.

**4.G. CONCENTRATION**

Approximately 45.42% of sewer revenue is received from one local business. Approximately 37.90% of sewer revenue is received from the State of Minnesota Correction Facility.

**4.H. 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:	\$ 29,008
Current Net Tax Capacity:	<u>\$ 143,624</u>
Captured Net Tax Capacity:	
Retained by City	<u>\$ 114,615</u>
Shared with Other Taxing Districts	<u>\$ -</u>

**CITY OF BAYPORT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 4 OTHER NOTES (Continued)**

**4.H. TAX INCREMENT DISTRICTS (Continued)**

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

**4.I. PRIOR PERIOD ADJUSTMENT**

During the year ended December 31, 2010, the City determined that prior period adjustments were necessary to correct errors in the City's prior year financial statements. Prior period adjustments made were related to a certificate of deposit which was omitted from investments in prior years, revenues received in the prior year that were not recorded, and a receivable balance which was duplicated when recorded. During 2010, adjustments were made to properly adjust for the previously stated items. The following tables show the impact of the prior period adjustments to the December 31, 2009 financial statements:

<u>Government Wide</u>	
December 31, 2009 Net Assets, as Previously Stated	\$ 24,444,141
Omitted Certificate of Deposit	91,137
Unrecorded Revenues	102,073
Duplicated Receivable Balance	<u>(209,829)</u>
December 31, 2009 Net Assets, as Restated	<u>\$ 24,427,522</u>
Change in Net Assets for the Year Ended	
December 31, 2009, as Previously Stated	\$ 1,325,333
Unrecorded Revenues	<u>102,073</u>
Change in Net Assets for the Year Ended	
December 31, 2009, as Restated	<u>\$ 1,427,406</u>

**CITY OF BAYPORT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE 4 OTHER NOTES (Continued)**

**4.I. PRIOR PERIOD ADJUSTMENT (Continued)**

<u>Governmental Funds</u>	<u>General Fund</u>	<u>Park Improvement Fund</u>	<u>Water and Sewer Improvement Fund</u>	<u>Developer Reimbursed Project Fund</u>
December 31, 2009 Fund Balances, as Previously Stated	\$ 7,279,436	\$ (689,954)	\$ 849,611	\$ 131,466
Omitted Certificate of Deposit	91,137	-	-	-
Unrecorded Revenues	-	54,645	25,422	22,006
Duplicated Receivable Balance	-	-	-	(209,829)
December 31, 2009 Fund Balances, as Restated	<u>\$ 7,370,573</u>	<u>\$ (635,309)</u>	<u>\$ 875,033</u>	<u>\$ (56,357)</u>
Change in Fund Balances for the Year Ended December 31, 2009, as Previously Stated	\$ 115,600	\$ (661,834)	\$ 758,449	\$ (575)
Unrecorded Revenues	-	54,645	25,422	22,006
Change in Fund Balances for the Year Ended December 31, 2009, as Restated	<u>\$ 115,600</u>	<u>\$ (607,189)</u>	<u>\$ 783,871</u>	<u>\$ 21,431</u>

### **REQUIRED SUPPLEMENTARY INFORMATION**

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

Budgetary Comparison Schedules

General Fund

Library Fund

Park Improvements Fund

Schedule of Funding Progress for Post-Employment Benefit Plan

**CITY OF BAYPORT, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budget Amounts- Original	Budget Amounts- Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
<b>RESOURCES (INFLOWS):</b>				
Taxes	\$ 904,050	\$ 865,450	\$ 794,483	\$ (70,967)
Licenses, Permits & Fees	126,975	124,090	104,820	(19,270)
Intergovernmental	515,398	441,045	484,109	43,064
Charges for Services	331,318	313,472	328,977	15,505
Fines	35,000	20,000	41,165	21,165
Investment Income	120,000	108,400	249,184	140,784
Miscellaneous	37,000	19,897	43,697	23,800
Proceeds on Sale of Assets	-	-	9,630	9,630
Transfers In	-	-	137,376	137,376
<b>AMOUNTS AVAILABLE</b>	<u>2,069,741</u>	<u>1,892,354</u>	<u>2,193,441</u>	<u>301,087</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General Government:				
Administration	137,854	126,038	119,334	(6,704)
Mayor and Council	139,920	132,270	147,066	14,796
Boards and Commissions	203,777	192,915	201,235	8,320
Elections	5,040	5,040	3,875	(1,165)
General Government	45,425	42,289	52,602	10,313
Public Safety:				
Police	630,527	641,138	650,349	9,211
Fire	289,867	277,917	291,069	13,152
Public Works	246,199	212,735	245,734	32,999
Parks and Recreation	87,208	63,308	59,156	(4,152)
Capital Outlay	3,500	3,000	226,731	223,731
Debt Service	38,215	38,215	-	(38,215)
Contingency	50,000	22,089	-	(22,089)
Transfers Out	192,209	135,400	85,615	(49,785)
<b>TOTAL CHARGES</b>	<u>2,069,741</u>	<u>1,892,354</u>	<u>2,082,766</u>	<u>190,412</u>
<b>ENDING BUDGETARY FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,675</u>	<u>\$ 110,675</u>

**CITY OF BAYPORT, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE-LIBRARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budget Amounts- Original	Budget Amounts- Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
<b>RESOURCES (INFLOWS):</b>				
Taxes	\$ 148,025	\$ 131,696	\$ 148,025	\$ 16,329
Charges for Services	1,000	1,000	2,264	1,264
Investment Income	9,000	9,000	5,005	(3,995)
Miscellaneous	114,100	114,100	113,143	(957)
<b>AMOUNTS AVAILABLE</b>	<u>272,125</u>	<u>255,796</u>	<u>268,437</u>	<u>12,641</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Salaries and Benefits	171,291	160,942	166,675	5,733
Contract Services	22,425	19,125	22,800	3,675
Administrative Services	5,938	5,938	-	(5,938)
Material and Supplies	23,165	23,165	23,069	(96)
Telephone	2,568	2,568	2,914	346
Insurance	10,207	10,207	7,710	(2,497)
Utilities	18,759	18,759	13,041	(5,718)
Repairs and Maintenance	9,787	7,107	10,041	2,934
Shared Automation	6,800	6,800	1,145	(5,655)
Miscellaneous	1,185	1,185	747	(438)
<b>TOTAL CHARGES</b>	<u>272,125</u>	<u>255,796</u>	<u>248,142</u>	<u>(11,124)</u>
<b>ENDING BUDGETARY FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,295</u>	<u>\$ 23,765</u>

**CITY OF BAYPORT, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE-PARK IMPROVEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>RESOURCES (INFLOWS):</b>			
Charges for Services	\$ 3,000	\$ 13,000	10,000
Transfers In	-	8,710	8,710
<b>AMOUNTS AVAILABLE</b>	<u>3,000</u>	<u>21,710</u>	<u>18,710</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>			
Park and Recreation	5,600	1,280	(4,320)
Capital Outlay	-	12,916	12,916
<b>TOTAL CHARGES</b>	<u>5,600</u>	<u>14,196</u>	<u>8,596</u>
 <b>ENDING BUDGETARY FUND BALANCE</b>	 <u>\$ (2,600)</u>	 <u>\$ 7,514</u>	 <u>\$ 10,114</u>

**CITY OF BAYPORT, MINNESOTA  
 SCHEDULE OF FUNDING PROGRESS FOR  
 POST EMPLOYMENT BENEFIT PLAN  
 DECEMBER 31, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	\$ -	\$ 152,655	\$ 152,655	0.0%	\$ 1,039,879	14.7%

### **OTHER SUPPLEMENTARY INFORMATION**

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

Such statements and schedules include:

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

**CITY OF BAYPORT, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 DECEMBER 31, 2010**

	<u>Drug Forfeiture Fund</u>	<u>Tax Stabilization Fund</u>	<u>K-9 Unit Fund</u>	<u>Water and Sewer Improvement Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
<b>ASSETS</b>					
Cash, Cash Equivalents, and Investments	\$ 12,036	\$ 335,019	\$ 1,402	\$ 951,844	\$ 1,300,301
Assessments Receivable	-	-	-	51,658	51,658
Accounts Receivable	-	-	-	49,043	49,043
Due from Other Fund	-	679,025	-	-	679,025
<b>TOTAL ASSETS</b>	<u>\$ 12,036</u>	<u>\$ 1,014,044</u>	<u>\$ 1,402</u>	<u>\$ 1,052,545</u>	<u>\$ 2,080,027</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ -	\$ -	\$ 13,664	\$ 13,664
Deferred Revenue	-	-	-	51,656	51,656
Total Liabilities	-	-	-	65,320	65,320
<b>FUND BALANCES</b>					
Reserved for Special Revenue	<u>12,036</u>	<u>1,014,044</u>	<u>1,402</u>	<u>987,225</u>	<u>2,014,707</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 12,036</u>	<u>\$ 1,014,044</u>	<u>\$ 1,402</u>	<u>\$ 1,052,545</u>	<u>\$ 2,080,027</u>

**CITY OF BAYPORT, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Drug Forfeiture Fund</u>	<u>Tax Stabilization Fund</u>	<u>K-9 Unit Fund</u>	<u>Water and Sewer Improvement Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
<b>REVENUES</b>					
Taxes	\$ -	\$ -	\$ -	\$ 60,876	\$ 60,876
Charges for Services	-	-	-	66,625	66,625
Fines	20,158	-	-	-	20,158
Investment Income	221	4,746	17	13,464	18,448
Miscellaneous	-	-	664	-	664
<b>TOTAL REVENUES</b>	<u>20,379</u>	<u>4,746</u>	<u>681</u>	<u>140,965</u>	<u>166,771</u>
<b>EXPENDITURES</b>					
Public Safety:					
Police	2,869	-	265	-	3,134
Capital Outlay	24,396	-	-	-	24,396
<b>TOTAL EXPENDITURES</b>	<u>27,265</u>	<u>-</u>	<u>265</u>	<u>-</u>	<u>27,530</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(6,886)	4,746	416	140,965	139,241
<b>OTHER FINANCING USES</b>					
Operating Transfers Out	-	-	-	(28,773)	(28,773)
<b>NET CHANGE IN FUND BALANCES</b>	(6,886)	4,746	416	112,192	110,468
<b>FUND BALANCES - BEGINNING</b>	18,922	1,009,298	986	849,611	1,878,817
<b>PRIOR PERIOD ADJUSTMENT</b>	-	-	-	25,422	25,422
<b>FUND BALANCES - ENDING</b>	<u>\$ 12,036</u>	<u>\$ 1,014,044</u>	<u>\$ 1,402</u>	<u>\$ 987,225</u>	<u>\$ 2,014,707</u>

**CITY OF BAYPORT, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS  
 DECEMBER 31, 2010**

	TIF District 1 Fund	TIF District 2-1 Fund	Perro Creek Outlet Fund	Developer Reimbursed Projects Fund	Total Nonmajor Capital Project Funds
<b>ASSETS</b>					
Cash, Cash Equivalents, and Investments	\$ 272,559	\$ 12,740	\$ 1,495	\$ 46,523	\$ 333,317
Assessments Receivable	-	-	-	31,962	31,962
<b>TOTAL ASSETS</b>	<u>\$ 272,559</u>	<u>\$ 12,740</u>	<u>\$ 1,495</u>	<u>\$ 78,485</u>	<u>\$ 365,279</u>
<b>LIABILITIES</b>					
Deferred Revenue	\$ -	\$ -	\$ -	\$ 31,962	\$ 31,962
Due to Other Funds	-	-	-	1,678	1,678
Total Liabilities	-	-	-	33,640	33,640
<b>FUND BALANCES</b>					
Reserved for Capital Projects	<u>272,559</u>	<u>12,740</u>	<u>1,495</u>	<u>44,845</u>	<u>331,639</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 272,559</u>	<u>\$ 12,740</u>	<u>\$ 1,495</u>	<u>\$ 78,485</u>	<u>\$ 365,279</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, 2010**

	TIF District 1 Fund	TIF District 2-1 Fund	Perro Creek Outlet Fund	Developer Reimbursed Project Fund	Total Nonmajor Capital Project Funds
<b>REVENUES</b>					
Taxes	\$ -	\$ 32,892	\$ -	\$ 24,514	\$ 57,406
Intergovernmental	-	-	15,417	-	15,417
Investment Income	3,865	151	-	-	4,016
<b>TOTAL REVENUES</b>	<u>3,865</u>	<u>33,043</u>	<u>15,417</u>	<u>24,514</u>	<u>76,839</u>
<b>EXPENDITURES</b>					
Public Works	614	30,284	-	217	31,115
Capital Outlay	-	-	11,606	-	11,606
<b>TOTAL EXPENDITURES</b>	<u>614</u>	<u>30,284</u>	<u>11,606</u>	<u>217</u>	<u>42,721</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	3,251	2,759	3,811	24,297	34,118
<b>OTHER FINANCING SOURCES</b>					
Operating Transfers In	-	-	-	76,905	76,905
<b>NET CHANGE IN FUND BALANCES</b>	3,251	2,759	3,811	101,202	111,023
<b>FUND BALANCES - BEGINNING</b>	269,308	9,981	(2,316)	131,466	408,439
<b>PRIOR PERIOD ADJUSTMENT</b>	-	-	-	(187,823)	(187,823)
<b>FUND BALANCES - ENDING</b>	<u>\$ 272,559</u>	<u>\$ 12,740</u>	<u>\$ 1,495</u>	<u>\$ 44,845</u>	<u>\$ 331,639</u>

**CITY OF BAYPORT, MINNESOTA  
WATER FUND  
SCHEDULES OF WATER FUND REVENUES AND EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CHARGES</b>	\$ 253,628	\$ 241,420
<b>OPERATING EXPENSES</b>		
Personal Services	151,033	129,394
Supplies	21,553	31,177
Insurance	5,562	5,722
Utilities	42,787	45,940
Repairs and Maintenance	39,149	60,338
Other Service and Charges	20,983	47,403
Depreciation	<u>120,649</u>	<u>120,903</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>401,716</u>	<u>440,877</u>
<b>NET OPERATING LOSS</b>	(148,088)	(199,457)
<b>NONOPERATING INCOME (EXPENSE)</b>		
Loss on Disposal of Capital Assets	(477)	-
Connection Fees	22,300	17,354
Investment Income	<u>22,224</u>	<u>39,718</u>
<b>TOTAL NONOPERATING INCOME (EXPENSE)</b>	<u>44,047</u>	<u>57,072</u>
<b>CHANGE IN NET ASSETS PRIOR TO TRANSFERS</b>	(104,041)	(142,385)
<b>TRANSFERS</b>		
Operating Transfers In	14,347	-
Operating Transfers Out	<u>(6,475)</u>	<u>(6,475)</u>
<b>NET TRANSFERS</b>	<u>7,872</u>	<u>(6,475)</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (96,169)</u>	<u>\$ (148,860)</u>

**CITY OF BAYPORT, MINNESOTA  
SEWER FUND  
SCHEDULES OF SEWER FUND REVENUES AND EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CHARGES</b>	\$ 572,334	\$ 548,121
<b>OPERATING EXPENSES</b>		
Personal Services	180,907	156,225
Supplies	4,855	6,668
Insurance	2,114	2,317
Repairs and Maintenance	13,114	9,390
Other Service and Charges	15,927	89,108
MCES Charges	323,699	316,491
Depreciation	<u>51,551</u>	<u>51,779</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>592,167</u>	<u>631,978</u>
<b>NET OPERATING LOSS</b>	(19,833)	(83,857)
<b>NONOPERATING INCOME</b>		
Connection Fees	11,250	4,100
Investment Income	<u>17,218</u>	<u>31,849</u>
<b>TOTAL NONOPERATING INCOME</b>	<u>28,468</u>	<u>35,949</u>
<b>CHANGE IN NET ASSETS PRIOR TO TRANSFERS</b>	8,635	(47,908)
<b>TRANSFERS</b>		
Operating Transfers Out	<u>(116,475)</u>	<u>(116,475)</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (107,840)</u>	<u>\$ (164,383)</u>

**CITY OF BAYPORT, MINNESOTA  
SCHEDULE OF CAPITAL OUTLAY  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**CAPITAL OUTLAY**

Administration	\$ 1,431
General Government	73,135
Police	34,522
Fire	43,465
Public Works	59,055
Cemetary	15,123
Drug Forefitures	24,396
Park Improvements	12,916
Perro Creek	<u>11,606</u>

**TOTAL CAPITAL OUTLAY**

**\$ 275,649**

**OTHER REPORT**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON MINNESOTA LEGAL COMPLIANCE**

June 30, 2011

Honorable Mayor and City Council  
City of Bayport  
Bayport, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bayport, Minnesota (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be material weaknesses, as defined above, in internal control over financial reporting: item 2010-03.

As discussed below, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies in internal control over financial reporting: items 2010-01, 2010-02. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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### Minnesota Legal Compliance

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

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

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

- Insufficient collateral, and
- The City invested in money market accounts with a broker which is not allowed under Minnesota Statute 118A.04,

Certain immaterial instances of noncompliance have been reported to management of the City in a separate letter dated June 30, 2011.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City's responses and, accordingly, we express no opinion on it.

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



**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

**CITY OF BAYPORT  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2010**

**Audit Finding 2010-01 (finding since 2007 by prior auditor)**

*Criteria or Specific Requirement:* Internal control that supports the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate controls over the access of such financial data.

*Condition:* The City does not have adequate segregation of accounting duties.

*Context:* This finding impacts the internal control for all significant accounting functions.

*Effect:* The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

*Cause:* There are a limited number of employees.

*Recommendation:* Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

*Management's Response:* Management agrees with our recommendation.

*Corrective Action Plan:* There is no corrective action in place as due to the nature and size of the City management does not feel that this finding can be corrected in a cost effective manner.

**Audit Finding 2010-02 (finding since 2007 by prior auditor)**

*Criteria or Specific Requirement:* The City is required to report accurate financial information.

*Condition:* Schlenner Wenner & Co. drafts the financial statements for the Organization and certain cash to accrual adjustments are required. These financial statements, including disclosures and adjustments, were reviewed by management and management has taken responsibility for them. However, we believe that management would require additional training in accounting principles generally accepted in the United States of America to adequately apply such standards internally.

*Context:* This finding impacts the financial statements and disclosures of the City.

*Effect:* The inability to properly prepare the City's financial statements would result in improper financial reporting.

*Cause:* We believe management would require additional training in order to prepare their financial statements internally.

*Recommendation:* While the City may not have adequate controls in place to eliminate this finding, the City should adopt an internal control policy to document its annual review of the financial statements.

*Management's Response:* The City will continue to have Schlenner Wenner & Co. prepare the financial statements, however, the City plans on establishing a written internal control policy to document the annual review of the financial statements, disclosures, and schedules.

*Corrective Action Plan:* There is no corrective action in place as due to the nature and size of the City management does not feel that this finding can be corrected in a cost effective manner.

**CITY OF BAYPORT  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2010**

**Audit Finding 2010-03 (finding since 2008 by prior auditor)**

*Criteria or Specific Requirement:* The City is required to report accurate financial information.

*Condition:* The City's prior year financial statements contained a material misstatement, which resulted in the need to restate beginning net assets of the current year.

*Context:* This finding impacts the internal control for all significant accounting functions.

*Effect:* The material misstatement in prior year audited financial statements resulted in the need to restate beginning net assets of the current year.

*Cause:* During the year ended December 31, 2010, the City determined the December 31, 2009 financial statements that the following restatements:

- An omitted the a certificate of deposit from the prior year cash balance,
- Unrecorded revenues in the prior year, and
- Overstatement of receivables due to double booked receivables.

*Recommendation:* We recommend management monitor cash and investments closely and reconcile cash and investments monthly, monitor revenue receipts and properly record all revenue received, and review receivables routinely and adjust for amounts received. We also recommend management create an accounting policy and procedure manual to assist with eliminating issues such as these.

*Management's Response:* Management agrees with our recommendation.

*Corrective Action Plan:* There is no corrective action in place as due to the nature and size of the City management does not feel that this finding can be corrected in a cost effective manner.